Balfour Beatty

# Annual Report and Accounts 2014

Build to Last

Lean. Expert. Trusted. Safe.

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COMPANIES HOUSE

## WHO WE ARE

Balfour Beatty provides innovative and efficient infrastructure that underpins our daily lives, supports communities and enables economic growth

We finance, develop, build and maintain complex infrastructure such as transportation, power and utility systems, and social and commercial buildings Our main geographies are the UK, US, Middle East and South East Asia

**2014 overview**

# Balfour Beatty – a leading infrastructure group with more than 100 years' experience

➲ Group at a Glance p2

# 2014: a challenging and redefining year

➲ Chairman's Review p4

# Build to Last: transforming the business

➲ Group Chief Executive's Report p6

# Construction markets are recovering. Long-term drivers for infrastructure remain sound

➲ Market Overview p12

# Very poor performance caused by UK construction contract issues

➲ Construction Services p18

# Depth of capabilities enables us to deliver complex contracts

➲ Support Services p22

# A proven track record of developing and financing projects

➲ Infrastructure Investments p24

# A strong and yielding portfolio

➲ Directors' Valuation of the Investments Portfolio p27

"Balfour Beatty is a global name built on the exceptional engineering skills of its people This strength is evidenced by the continuing flow of landmark contracts across the Group The business model also balances Construction Services and Support Services with a successful Investments business which will continue to create significant value

Over the next two years we should work through the severe legacy of ' problem" construction projects However, in tackling the cultural change required to ensure these issues are behind us we face major short-term challenges The key is that we are determined to address this through self-help Our transformation programme, Build to Last, is gaining rapid traction and we are driving initial improvements of £200 million cash in, £100 million cost out over 24 months In addition, our Investments portfolio will provide the financial flexibility of both reliable income and the sale of maturing assets into a strong market

To maintain balance sheet strength throughout this period, we have already cancelled the share buyback and re-phased our pension fund payments with the support of the Trustee We have also decided not to recommend a final dividend this year, but expect to reinstate the dividend at an appropriate level by March 2016

I remain convinced that all our operations can achieve industry-standard performance as markets improve The real prize is a sustainable return to profitable growth, built on the Group's unique capabilities but underpinned by leaner, stronger processes and flawless execution

Longer term we want to make Balfour Beatty a leader in its core markets, delivering superior returns to the benefit of our customers, employees and shareholders '

**Leo Quinn**
Group Chief Executive

**Financial summary**

| (£m unless otherwise specified) | **2014** | 2013[2] |
|---|---|---|
| **Revenue including joint ventures and associates[1]** | **8,440** | 8,478 |
| **Group revenue[1]** | **6,950** | 7,118 |
| **(Loss)/profit from continuing operations** | | |
| – underlying[1] | **(58)** | 146 |
| – reported | **(281)** | (33) |
| **Pre-tax (loss)/profit from continuing operations** | | |
| – underlying[1] | **(80)** | 131 |
| – reported | **(304)** | (49) |
| **Profit from discontinued operations** | **242** | 18 |
| **Total loss for the year** | **(59)** | (35) |
| **(Loss)/earnings per share** | | |
| – from continuing operations | **(43 9)p** | (7 5)p |
| – basic | **(8 6)p** | (5 1)p |
| **Dividends per share** | **5 6p** | 14 1p |
| **Financing** | | |
| – net cash/(borrowings) before infrastructure concessions (non-recourse) | **219** | (66) |
| – net borrowings of infrastructure concessions (non-recourse) | **(445)** | (354) |

[1] From continuing operations before non-underlying items
[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations to include the results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying items and to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 38)

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**Cover image**
Michael Wright, General Operative, in the London Power Tunnels
Balfour Beatty is installing high-voltage electricity cables for National Grid This project will rewire the capital via deep underground tunnels, in order to ensure London's electricity needs continue to be met

balfourbeatty com/londontunnels

**Read more online**

This Annual Report is available to download in PDF format online

balfourbeatty com/AR2014

## GROUP AT A GLANCE

# Balfour Beatty – a leading infrastructure group with more than 100 years' experience

Infrastructure is the backbone of the economy and society Everyone relies on energy, water, communications, transport and buildings

Balfour Beatty finances develops, builds and maintains the infrastructure that underpins daily life, supports communities and enables economic growth

Together with our partners and supply chain of small and large firms, we know how to deliver innovative, efficient and highly complex infrastructure projects with the highest levels of quality, safety and technical expertise We integrate with customers and local supply chains, and work with local communities

Balfour Beatty's main geographies are the UK and US, and the Group has a significant presence in the Middle East and South East Asia

Our key market sectors are

- infrastructure
- transport (roads, rail and aviation)
- power, energy and water
- buildings
- commercial
- social (health, education, defence, institutional and housing)

Over the last 100 years we have created iconic buildings and infrastructure all over the world including the London Olympics' Aquatic Centre, Hong Kong's first Zero Carbon building, the world's biggest shopping mall in Dubai, the National Museum of the Marine Corps in the US and the Channel Tunnel Rail Link

➲ Business Model p8

**Portfolio valuation December 2014**
The Investments portfolio continues to grow as we diversify into new sectors and expand into new geographical markets We continue to realise value through the investment recycling programme by selling investments that are mature and operationally proven, while preserving interests in strategic projects or sectors that offer opportunities to the Group

➲ Directors Valuation of the Investments Portfolio p27

**Revenue generated this year[1]**

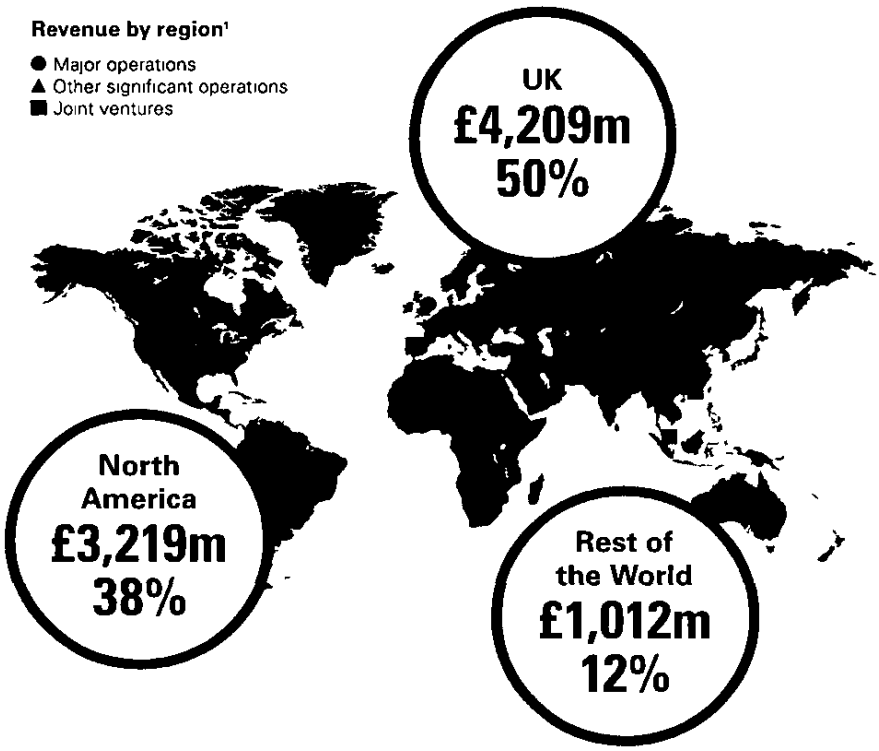
**£8,440 million**

**Employees worldwide**

**36,000**

**Revenue by region[1]**

● Major operations
▲ Other significant operations
■ Joint ventures




**Portfolio valuation by sector**

| Sector | No projects (2013) | 2014 £m | 2013 £m |
|---|---|---|---|
| Roads | 13 (12) | **467** | 253 |
| Hospitals | 4 (5) | **225** | 144 |
| Schools | 8 (9) | **102** | 68 |
| Other | 13 (11) | **149** | 69 |
| UK total | 38 (37) | **943** | 534 |
| US military housing | 21 (21) | **322** | 228 |
| Hospitals | 2 (0) | **4** | – |
| Other | 5 (3) | **11** | 4 |
| North America total | 28 (24) | **337** | 232 |
| BBIP fund | | **20** | – |
| **Total** | 66 (61) | **1,300** | 766 |

## Construction Services

The construction businesses in the UK and US, and joint ventures in the Middle East and South East Asia, are top tier and all operate across the infrastructure and building sectors

**What we do**
- Building
- Civil engineering
- Ground engineering
- Mechanical and electrical services
- Rail engineering
- Refurbishment and fit-out

**Key highlights**
- Performance significantly impacted by operational issues in the UK and Middle East M&E joint venture
- Order book grew 2% during the year to £7 9 billion
- KPMG LLP (KPMG) review an important step in understanding issues faced by the business

**Total revenue**

**Order book**[1]
**£7.9bn**

**Revenue**[1]
**£6,597m**

**(Loss)/profit from operations**[1 2]
**£(209)m**

Construction Services p18

## Support Services

The Support Services division manages, upgrades and maintains critical national infrastructure, and its capabilities complement both our Construction Services and Infrastructure Investments divisions

**What we do**
- Upgrade and maintain water, gas and electricity networks
- Highways network management, operation and maintenance
- Rail renewals

**Key highlights**
- Stable revenues with strong performance in the highways maintenance business in the transportation sector
- Good underlying profit from continuing operations with good operating margins
- Order book reduction in power and transportation, as anticipated

**Total revenue**

**Order book**[1]
**£3.5bn**

**Revenue**[1]
**£1,273m**

**Profit from operations**[1]
**£50m**

Support Services p22

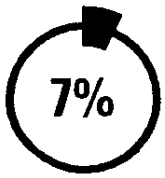
## Infrastructure Investments

The Investments business is a recognised leader in public private partnerships (PPP) and other developments in both the UK and US and its activities generate additional construction and service work for other parts of the Group

**What we do**
- Develop and finance both public and private infrastructure projects around the world
- Operate a portfolio of more than 60 long-term infrastructure projects

**Key highlights**
- Excellent financial performance, including £93 million of disposal gains
- Substantial and diverse portfolio with Directors' valuation at £1 3 billion
- Preferred bidder status achieved on 13 new projects with significant pipeline of new opportunities identified

**Total revenue**




**Directors' valuation**
**£1.3bn**

**Revenue**[1]
**£570m**

**Pre-tax result**[1]
**£162m**

Infrastructure Investments p24

[1] From continuing operations including joint ventures and associates before non-underlying items
[2] Total loss from continuing operations was £394 million (2013 £103 million) including non underlying items

## CHAIRMAN'S REVIEW

# 2014: a challenging and redefining year

Continuing issues within the UK construction business made 2014 a challenging and ultimately redefining year for the Group

Robust judgements and rapid decisions were required gripping, scoping, reviewing and providing for the very significant levels of write-downs that emerged from the UK construction business There were important changes in strategic direction and in executive management, and also the proposed merger with Carillion plc

Such was the pace of events and change that these seem improbable when listed chronologically The Board met 26 times during the year and at every stage the Board remained focused on how best to secure both present and future shareholder value

**UK construction performance**
The performance of parts of our UK construction business during 2014 has undoubtedly been very poor, having a materially negative impact on the results for the whole Group Total loss from operations over the year, including the further provisions now announced, amounted to £281 million This is a matter of considerable regret to all concerned, most especially the Board of Directors and myself as Chairman Problems were mostly confined to the Engineering Services and Regional parts of the business operating in London and the South West of England

KPMG's independent review identified three main dominant causes Firstly, tendering for certain lump sum fixed-price projects at very low margins at the bottom of the market, assuming optimistic buying gains which didn't materialise as costs escalated during the course of the project, leading to losses Secondly, inadequate commercial and contract management processes, and a lack of management supervision, led to poor control over projects and failures to recover genuine contract entitlements Thirdly, poor cost and programme forecasting, leading to insufficient visibility on project deterioration In this part of the Group, we saw failures of risk management, and the control environment, particularly commercial and operational controls, was not effective These were compounded by continuous upheaval, with substantial people changes in the UK construction business

More details of KPMG's independent review and resulting actions are in the operational review on page 19 and the risk management section on page 30

The deterioration in performance started before 2014, as many of the 45 problem projects were tendered or started during 2012 and 2013 The majority of these are expected to be operationally complete by the end of 2015

The Board has considered the need for further provisions in addition to those announced in January 2015, and concluded that a further £118 million write-down is appropriate having reviewed both individual contracts and also the rest of the portfolio by taking a risk-based approach

These issues are localised and fixable but it will take time to work through legacy contracts and uncertainty remains New Group Chief Executive Leo Quinn has a transformation programme for the whole Group, with phase 1 targeting £100 million of cost reductions and £200 million of cash flow improvements versus 2014

**Sale of Parsons Brinckerhoff**
The Board's strategic review concluded during Q1 2014, ahead of any knowledge of further UK construction write-downs, that the Group had become too complex, stretching financial and managerial resources, and diluting strategic focus And whilst the Parsons Brinckerhoff (PB) business was of high quality, it required substantial investment and its Group synergies were modest

The Board announced in May its intention to sell PB, subject to an excellent price being achieved It was Following a highly competitive auction, the sale completed in October for gross proceeds of US$1 35 billion, roughly doubling its value during its five years under Group ownership 93% of voting shareholders supported the Board in approving the sale

**Taking decisive action**
In light of further write-downs, and its desire to accelerate refocusing and simplifying the Group, the Board decided Chief Executive Andrew McNaughton should step down on 3 May 2014 I was asked to step in to progress the following priorities

**1 Recruit an experienced, top-flight Chief Executive from outside the Group with strong turnaround credentials**
Outcome Leo Quinn started as Group Chief Executive on 1 January 2015

**2 Deliver a competitive sale process to enable PB to be sold at compelling shareholder value**
Outcome PB was sold for US$1 35 billion in cash (gross proceeds) in October 2014

**3 Further underpin shareholder value by revaluing the Investments portfolio and enhancing awareness of its intrinsic value**
Outcome the Directors valuation was increased from £766 million at December 2013 to £1,050 million at June 2014, and £1 3 billion at December 2014 This was reviewed and supported independently The value of the future pipeline is estimated by the Board at a further 10–15% of the Directors' valuation, demonstrating how integral this business is to the Group

**4 Progress management actions to stabilise the underperforming parts of the UK construction business**
Outcome despite the recovery plans by new UK operational management, more losses emerged In October the Board appointed KPMG to review the UK construction business and the conclusions were published in January 2015 The Board has made further provisions at 2014 year end of £118 million

**5 Simplify and de-risk the Group's international and rail businesses in territories where it lacked sufficient critical mass or delivery capability**

Outcome concluded disposal of rail businesses in Austria and Germany (track and plant), terminated US$1 5 billion of bids in markets as diverse as Indonesia, Canada and Denmark Group risk management oversight tightened and made more challenging

**Approach by Carillion plc**
The initial approach by Carillion plc was opportunistic, coinciding with the frenetic activity described above, including the PB sale, all at a time when the Group lacked a permanent Chief Executive The Board still concluded it was in shareholders' interests to evaluate the approach, provided key parameters were agreed to by Carillion upfront Critically, these included achieving a significant valuation premium for Balfour Beatty shareholders, and Carillion's explicit support for the PB disposal, with proceeds to be retained within the combined business Key terms were agreed in writing and the Board engaged to jointly evaluate the possible benefits of an all-share merger

Whilst joint working was underway, and despite a joint public announcement a week earlier, Carillion surprisingly withdrew its support for the sale of PB This eroded trust and confidence The Board also concluded that the combined business plan prepared by Carillion management had very significant delivery and financial risks There was also a real risk that any agreed transaction might be aborted before it was consummated, given the uncertainty regarding Balfour Beatty's UK construction business Unfortunately, this proved more than prescient

The Board engaged for the right reasons, recognising the obvious risks It also withdrew for the right reasons, given Directors were unable to recommend the merger transaction as being in shareholders' interests

**Results for the year**
Profitability was materially impacted by the significant UK construction write-downs Conversely, the year end balance sheet benefited from the receipt of the PB sale proceeds

Loss from continuing operations was £281 million (2013 £33 million) The underlying loss per share for total operations was 8 0p (2013 earnings 21 5p) Total loss per share was 8 6p (2013 5 1p)

The Group had year end net cash of £219 million, a strong balance sheet position despite continuing underlying cash outflow in the construction businesses

The performance of the UK construction business is covered in more detail on pages 18 to 20 Profitability in the US construction business increased slightly and order book intake is growing amid signs of market recovery Support Services maintained revenue levels but saw a small decline in profits and margin Infrastructure Investments increased both profits and the value of the portfolio

**Share buyback and dividend**
In order to maintain a strong balance sheet, the Board decided to cancel the proposed £200 million share buyback following the PB disposal, and to rephase pension fund payments Whilst the Board recognises the importance of the dividend, it will not recommend a final dividend but will look to reinstate dividends at an appropriate level by March 2016

**Health and safety**
During the year, six workers lost their lives across the Group There is renewed focus on fatal risks and health and safety targets have been revised The primary KPI for safety has changed to Lost Time Injury Rate, which is a more thorough indicator From 2015, the Group will be redoubling efforts on Zero Harm programmes

**Board and executive management**
Andrew McNaughton stepped down as Chief Executive after a 17-year career with Balfour Beatty and goes with our thanks and best wishes

Belinda Richards and Bill Thomas resigned from the Board in November 2014

The appointment of Leo Quinn as Group Chief Executive from 1 January 2015 is a major step forward He was previously CEO of Qinetiq plc and prior to that at De La Rue plc Leo sets out his initial priorities on pages 6 to 7 His appointment has enabled the intended reshaping and refreshing of the Board to progress rapidly

It is a pleasure to welcome Philip Aiken as Balfour Beatty's new Chairman from 26 March 2015, when I will step down after 10 years on the Board After 34 years with the Company, including 24 years as a Director, Peter Zinkin retires from the Board in March 2015 His commitment to the business has been unparalled and he leaves with our thanks and very best wishes

Duncan Magrath leaves the Group in May 2015, after seven years as Chief Financial Officer He steps down with the Board's best wishes and I add my personal thanks to Duncan for the huge personal commitment he has made to the Group during the last year in particular

We are very pleased to welcome Philip Harrison who will be joining the Board as the new Chief Financial Officer Philip is currently CFO of Hogg Robinson Group, and prior to that was CFO of VT Group

**Balfour Beatty's future**
The Group has been significantly simplified and refocused At its heart is an Anglo-American construction and construction services presence with strong local market positions and deep engineering expertise The Group has further construction capability through its South East Asia and Middle East joint ventures Following the sale of PB, the Group has a strong balance sheet, underpinned by the valuable Investments business and the benefits it provides across the Group

A new executive team and a refreshed Board is now substantially in place and they have the privilege of taking Balfour Beatty forward to its next chapter

**Steve Marshall**
Chairman

## GROUP CHIEF EXECUTIVE'S REPORT

# Build to Last: transforming the business

Balfour Beatty's underlying performance has been declining since 2010, with the sharpest and most noticeable decline occurring over the last 12 months This has been caused not only by the significant operational issues impacting the UK construction business over the last two years, but also because the cost base of the Group is too high There have been significant working capital outflows since 2009 This trajectory has made it imperative to identify and address the key issues rapidly, in order to begin at once to restore the Group to strength

**Understanding the problems**
Over the last few months, independent reviews have been underway on operations that account for 70% of the Group by turnover and the remainder should be underway by the end of the summer Already it is clear from the outputs – as well as from wide-ranging discussions with senior operational leaders – that the root cause lies in the Group's rapid fourfold revenue expansion since 2000, largely by acquisitions which were insufficiently integrated This resulted in an overly complex, devolved organisation with poor controls and weak disciplines in cost control and project bidding

Following a major industry downturn, the UK construction business was extensively restructured in successive waves and began to exhibit serious project issues which, together with other factors, resulted in substantial operating losses for the Group The cost base remains too high, with Group-wide overheads approximately 1% of revenue above industry benchmarks

Importantly, however, the Group retains many core strengths a strong brand and reputation underpinned by market-leading and innovative engineering capability, deep customer relationships as demonstrated by important recent contract awards, geographic span and scale, and the commitment of a talented and dedicated workforce The business model also balances Construction Services and Support Services with a successful Infrastructure Investments business which will continue to create significant value This Investments business provides an important anchor to the Group's balance sheet and profits, while creating real and substantial opportunities for the Construction Services operations in the UK and North America and Support Services in the UK

Although the majority of legacy problem contracts should be completed during the current year, major challenges remain and the cultural transformation will take longer The key is that we have made a good start and our transformation programme, called Build to Last, is gaining rapid traction

**Build to Last**
In mid February 2015 the Group launched its Build to Last programme This is designed to address the Group's performance as it affects all stakeholders – customers and supply chain, employees and subcontractors, investors and communities – by driving continuous, measurable improvement against four goals Lean, Expert, Trusted, Safe

**Lean**
Deliver rapid performance improvement by strengthening operational and financial controls, and transparency and simplifying the organisation with detailed indirect cost reduction plans, plus the launch of the My Contribution productivity initiative across the whole organisation Similarly, apply these processes to lean out delivery for our customers of our value added capability, eliminating waste (Zero Waste) in scheduling and materials Metric operating profit and operating cash generation

**Expert**
Customers value our engineering, design and delivery capability We will attract, retain and develop key employees and subcontractors in an increasingly competitive environment by investing in training and talent to enhance the Group's engineering, design and project management and delivery capability Metric annual engagement survey and employee retention

**Trusted**
Deliver on our promises through strengthening the successful execution of projects and services through disciplined stage-gated bidding, contracting and risk review processes Metric customer satisfaction

**Safe**
Nothing is more important If we are not safe we are not in business Safety is a non-negotiable licence to operate – at all levels and for all employees, subcontractors, customers and communities Metric Zero Harm

Read more on p10

**"The Build to Last programme is designed to ensure that Balfour Beatty can also build to last for itself, starting with the right foundations."**

"The Investments portfolio provides an important anchor to the Group's balance sheet and profits "

Read more on p27

**Initial phase – self-help**
Over the next two years we should work through the severe legacy of "problem" construction projects However, in tackling the cultural change required to ensure these issues are behind us, we face major short-term challenges The key is that we are determined to address this through self-help Our transformation programme, Build to Last, is gaining rapid traction and we are driving initial improvements of £200 million cash in, £100 million cost out over 24 months In addition, our Investments portfolio will provide the financial flexibility of both reliable income and the sale of maturing assets into a strong market

To maintain balance sheet strength throughout this period, we have already cancelled the share buyback and rephased our pension fund payments with the support of the Trustee We have also decided not to recommend a final dividend this year, but expect to reinstate the dividend at an appropriate level by March 2016

Over time the aim is to bring each business unit to sustainable industry-standard performance in what appears to be a beneficial market environment, creating substantial value for the Group's shareholders

**Actions underway**
Successfully delivering the Build to Last goals will require leadership, rigorous implementation and intensive focus on disciplined contracting processes A programme office has been set up with UK and US workstreams and a benefits tracking system Following the announcements of a new Chairman, Group Chief Executive and Chief Financial Officer to strengthen the Board, new senior appointments include global leaders for IT, commercial and project execution, and business process re-engineering In addition, senior leadership within the UK Regional and Engineering Services businesses will be strengthened by the appointment of a new chief operating officer All senior management incentives have been matched to key programme goals The Group-wide cash generation drive has been rolled out with planning and training to project level In the UK, enabling functions – those not related to front-line delivery – are being consolidated to remove duplication and improve efficiency, to deliver significant cost takeout The Group's property portfolio is being streamlined to reduce overheads and detailed procurement initiatives, commencing with key suppliers and areas of direct and indirect spend, will deliver meaningful and growing savings

All of this demonstrates the scale of opportunity to drive major near-term improvements in cash generation and profitability At the same time, Build to Last is also about relentlessly holding course The objective is to shape a Group leading in its core markets and differentiated by best-in-class expertise, a lean innovative supply chain and robust execution For over 100 years – and throughout all of its recent problems – Balfour Beatty has been delivering major projects for its customers and communities – lasting infrastructure that shapes and improves people's daily lives The Build to Last programme is designed to ensure that Balfour Beatty can also build to last for itself, starting with the right foundations

I remain convinced that all our operations can achieve industry-standard performance as markets improve The real prize is a sustainable return to profitable growth, built on the Group's unique capabilities but underpinned by leaner, stronger processes and flawless execution

Longer term we want to make Balfour Beatty a leader in its core markets, delivering superior returns to the benefit of our customers employees and shareholders

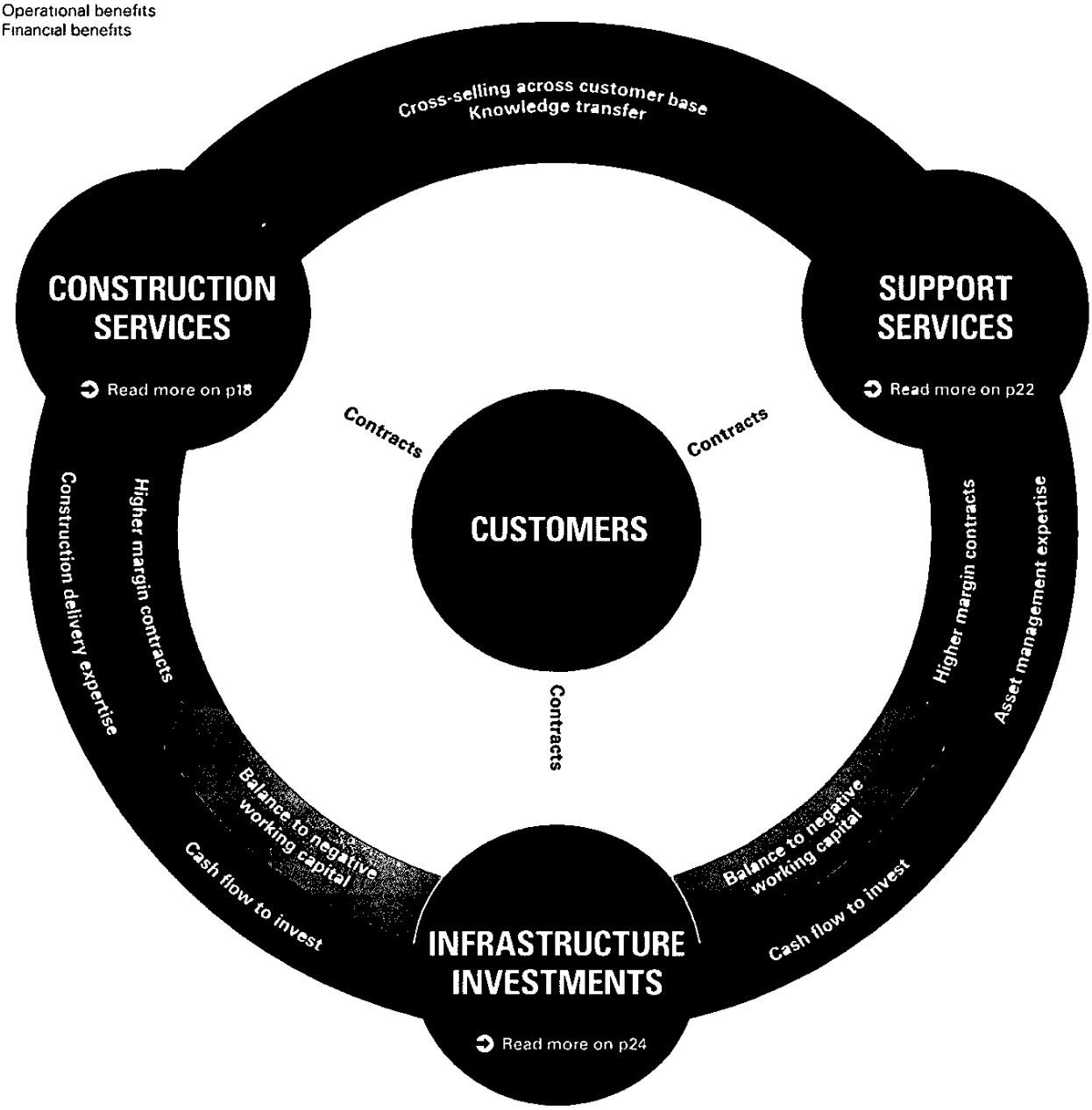
**Leo Quinn**
Group Chief Executive

## BUSINESS MODEL

# Combining engineering expertise with our investments capability

**Key**

- Business divisions
- Operational benefits
- Financial benefits



Our metrics reflect our strategic priorities Lean, Expert, Trusted and Safe

Read more on p10

The contracting businesses and the Infrastructure Investments business derive operational and financial benefits from each other

The strategic value and benefits from owning the Infrastructure Investments business – both the portfolio itself and the skilled team that operates and develops the business – is material to Balfour Beatty as a whole and is how the business generates real long-term value

**Operational benefits**
The Group's Construction Services and Support Services businesses derive real value from the Investments business because the investments projects provide valuable work

Support Services' asset management expertise and the construction businesses' construction delivery expertise optimise lifecycle costs, improve the success rate and mitigate risk within the Investments business

Our Construction Services and Support Services businesses gain from each other's operational knowledge and cross-sell to the same customer base

**Financial benefits**
The Group is able to manage its balance sheet through the business cycle by flexing the level of disposals and investments made by the Investments business We reinvest cash generated by the Construction Services and Support Services businesses to deliver further contract revenues

Furthermore, the Investments portfolio balances negative working capital within the contracting businesses and generates returns in its own right

**The markets we serve**
- We offer services to develop and finance, construct, manage and maintain essential infrastructure assets
- We operate predominantly in the UK and North America, as well as in parts of South East Asia and the Middle East
- Our customers are government departments and agencies, regulated utilities and private sector organisations

**How we compete**
- Our engineering expertise, supported by our scale and balance sheet, allows us to deliver the most complex and large-scale infrastructure projects
- We combine this ability to deliver major projects with our local presence and a strong connection to local customers and suppliers
- The combination of world-class investments capability and leading construction and support services activities gives us a deep understanding of how to develop and maintain essential infrastructure assets
- Safety, sustainability and ethics are the bedrock of our business and our licence to operate

**Our strategic priorities**
- Lean – improve operational performance by increasing productivity and cash generation
- Expert – invest to attract, retain and develop the best employee and subcontractor talent
- Trusted – deliver value to customers through disciplined contracting processes
- Safe – continue to show leadership in safety through Zero Harm for our people, customers and communities

Read more on p10

## OUR PRIORITIES

# Bringing each business unit to industry-standard performance levels

Our vision is to be a world-class infrastructure business with leading positions in the UK, US, Middle East and South East Asia

Poor operational performance, as identified by KPMG and our own analysis, has resulted in poor financial results and demands rapid action

We will seek to deliver value for our shareholders by restoring operational effectiveness and ensuring profit is backed by cash

**Build to Last**
Our business transformation programme, Build to Last, will drive continual improvement across our businesses, and build a global Group which generates substantial shareholder value and maximises returns by optimising the value of an integrated Balfour Beatty In its initial phase, Build to Last will target bringing each business unit to industry-standard performance levels by focusing on four key areas Lean, Expert, Trusted and Safe Our new metrics reflect these priorities

**Our strategic priorities**

## LEAN

### ❶ Improve operational performance and cost efficiency

Deliver rapid performance improvement by

- strengthening financial controls and transparency
- simplifying the organisation
- reducing indirect costs
- ensuring profit is backed by cash
- increasing productivity

## EXPERT

### ❷ To be an employer of choice that attracts and develops top talent

Ensure the attraction, retention and development of key employees and subcontractors by investing in training and talent to enhance engineering, project management and delivery capability

## TRUSTED

### ❸ Deliver value to customers

Strengthen the successful execution of projects and services through disciplined stage-gated bidding, contracting and risk review processes

## SAFE

### ❹ Continue to show leadership in safety

Prioritise safety at all levels and for all employees, subcontractors, customers and communities

**Our performance**

- Embarked on a cost reduction exercise in UK construction This initiative has now been broadened into a Group-wide plan targeting £100 million of overhead and procurement cost savings over the next 24 months
- Took actions to improve gross margins in UK construction through more selective work winning and delivery improvements (recently reinforced through KPMG findings)

- Refer to the Chief Financial Officer's Review on page 16 for information about 2014 cash performance
- Since the end of 2014 we have initiated a programme targeting a £200 million improvement in operating cash flow over the next 24 months

**Mitigating risk**
Common minimum standards ensure the business gains from performance opportunities and cost efficiencies

**Our KPIs**

**3.3%**
Gross margin (2013 6 4%)[1]

**6.2%**
Overhead (2013 6 5%)[2]

**-£327m**
Cumulative operating cash flows[3] (2013–2014)

- Granted £4 4 million of government funding for a Balfour Beatty Academy to further develop the leadership and technical skills of our workforce Over the next three years, over 2,000 of our employees will benefit from the Employer Ownership Skills Funding Scheme

Read more on p37

- We are committed to the 5% Club with an objective that 5% of our UK workforce will be graduates or apprentices in structured training programmes in the next four years

**Mitigating risk**
Appropriate remuneration and incentive policies are in place The business provides structured training and key role succession planning

**72%**
Average employee satisfaction

- There is no overall measure of customer satisfaction, however some areas of the Group do measure this We are looking to introduce standardised customer metrics across all our businesses in the future

**Mitigating risk**
The gateway reviews within the Group's new risk framework are designed to ensure projects are delivered efficiently

**4 out of 5**
Average customer satisfaction rating

- Changed our primary lagging indicator of health and safety performance from Accident Frequency Rate to Lost Time Injury Rate, which is a more thorough indicator

Read more on p36

**Mitigating risk**
All employees and subcontractors work to the challenging safety requirements of our Zero Harm goal The Global Safety Principles define the way we work

**0.27**
Lost Time Injury Rate

1 Gross profit from continuing operations before non-underlying items as a percentage of Group revenue from continuing operations before non-underlying items
2 Other net operating expenses from continuing operations before non-underlying items as a percentage of Group revenue from continuing operations before non underlying items
3 Cash used in continuing operations before non-underlying items and taxation

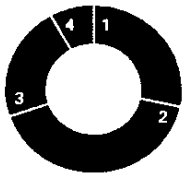
## MARKET OVERVIEW

# Construction markets are recovering. Long term drivers for infrastructure remain sound

The outlook for global growth is improving and the construction sector, a late cycle sector, is seeing growing pipelines However, margins remain under pressure from recessionary order books and rising input prices

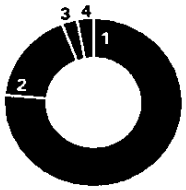
We believe the long-term drivers for infrastructure remain sound – ageing transport, water and energy networks in developed countries, and population and economic growth in the developing world – necessitating ongoing investment

**Revenue split by sector for UK**




1 Buildings
2 Transport
3 Utilities
4 Other

**Revenue split by sector for US**




1 Buildings
2 Transport
3 Utilities
4 Other

### UK

As the UK economy recovers, greater confidence in the private sector is driving a stronger pipeline of commercial and industrial projects Commercial building was up 10% compared to 2013 and other select building segments, such as student accommodation, are increasingly active

In contrast, fiscal austerity continues to weigh heavily on health, education and civic building projects, with volumes declining slightly in 2014 Further, the increased volumes in housing and private building have put pressure on input costs

In infrastructure, UK election uncertainty could limit new large projects in the short term, and competition is keen for smaller projects Nonetheless, the UK Construction Purchasing Managers' Index improved significantly through 2014 (Figure 1), demonstrating long-term industry confidence The Construction Products Association forecasts 9% annualised growth to 2018

In roads and rail, orders across the industry were down year-on-year, as most existing large projects, such as Crossrail, approach completion and new major projects such as HS2 have not yet started However, the Group's position on several Network Rail alliances for the current regulatory period will provide a good baseload of work The business is well placed to benefit from investment on the back of the Highways Agency's investment plan and through large rail projects such as HS2, EWR and Crossrail 2

In local authority roads, despite pressure on revenue budgets, growth will be driven by the need for customers to lower costs and improve service delivery through outsourcing, while investing in economic regeneration

In water, the Group is entering a new AMP cycle with an increased order book, having secured positions on frameworks for existing customers and extended its relationship with Thames Water, and anticipates stable demand In gas, having secured a position on two key framework contracts with National Grid and gained market share, the business anticipates stable conditions over the current regulatory cycle and beyond

In power, the urgent need for new nuclear, thermal and renewable energy capacity, as well as increased levels of wind generation, especially offshore, will drive investment in the transmission network Balfour Beatty is well placed to benefit from both areas and, although the market is currently being held back by political uncertainty, policy should crystallise soon after the election

### US

In the US the building market is making a steady recovery, with output up by 7% in 2014 Indicators such as the ENR Construction Industry Confidence Index and the Architecture Billings Index (Figure 2) show increased confidence and that building pipelines are growing

The private sector has been resurrecting stalled projects and there has been a sharp increase in private building pipelines The industrial and manufacturing sectors are benefiting from the fall in oil prices, although some uncertainty surrounds the potential impact of this on oil-producing regions Public building remains relatively depressed, largely due to low government spending

At the same time, global uncertainty, volatile resource prices and low public spending continue to weigh on confidence and competition remains strong

In infrastructure, highway investment has been flat, and uncertainty over MAP-21 funding is constraining the market, although rail has fared better The US water market declined by 6% in 2014 due to fiscal constraints Despite funding uncertainty, the clear need to invest in US infrastructure is gaining political importance The business continues to see growing use of design-build and PPP and is investing to take advantage of this as a differentiator and means to add more value for its customers

Investments business continues to take advantage of economic and social infrastructure opportunities in the UK and North America

Read more on p24

**South East Asia and the Middle East**
In Hong Kong, the market has been steady, with construction output up over the last year Although delays in the legislative process to approve public projects pose some risk to market volumes in the short to medium term, government investment in roads and rail, and continued private sector confidence, are helping maintain healthy pipelines for Gammon, Balfour Beatty's joint venture in the region The business expects to continue to benefit from economic growth across South East Asia

In the Middle East, the United Arab Emirates felt the impact of the global financial crisis, which depressed developer confidence That confidence has started to return, with a significant increase in the pipeline over the last 12 months, but it is too soon to gauge the potential dampening effect of the recent fall in oil prices

**Infrastructure Investments**
The UK continues to generate a steady stream of economic infrastructure opportunities, primarily in power transmission, energy from waste and transport In social infrastructure, as the pipeline of health and education PPP projects continues to decline, the Group's Investments business is now successfully targeting the growing residential sector, particularly student accommodation

In North America, the US PPP market is highly fragmented with legislation, funding methods and politics unique to each state and municipality Nonetheless there is a strong pipeline of social infrastructure projects in student accommodation and multifamily housing projects, which the US business is well placed to address due to its platform in military housing PPP, as well as growth in transport and other social infrastructure In addition, the business has now successfully entered the Canadian health market, which represents a future growth area

**Figure 1 Markit/CIPS, UK Construction Purchasing Managers' Index (PMI)**
The UK Construction PMI grew strongly through 2014, showing industry confidence

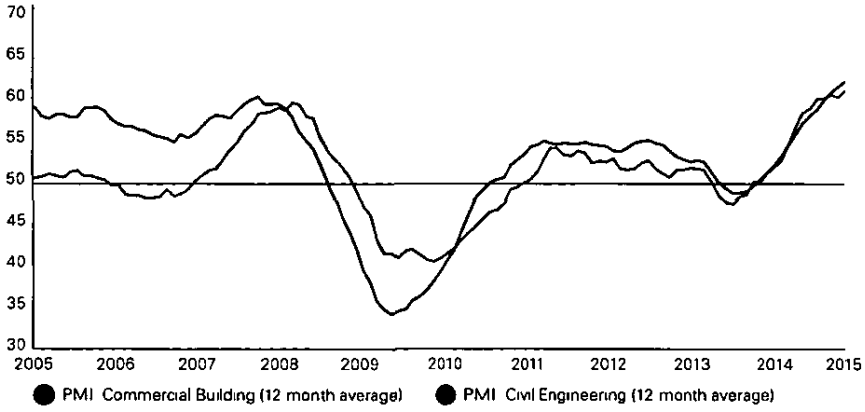
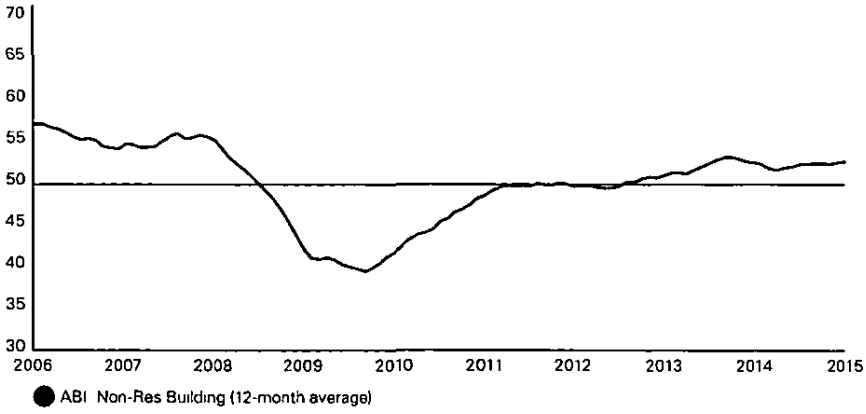



**Figure 2 American Institute of Architects, US Architecture Billings Index (ABI)**
The leading indicator for the US building market remained positive throughout 2014



## CHIEF FINANCIAL OFFICER'S REVIEW

# Disappointing financial performance in 2014

2014 was clearly a very difficult year for the Group with the impact of poor operational and commercial controls in UK construction leading to a very disappointing total loss from continuing operations of £281 million

### FINANCIAL SUMMARY

Given the events that have occurred in the year, the financial statements somewhat inevitably are challenging to interpret, and do take some explanation The key issues to consider when reading the accounts are the treatment of

- discontinued businesses – the disposals of Parsons Brinckerhoff (PB) (completed October 2014), Rail Scandinavia (completed January 2014) and Rail Italy (completed March 2015)
- Rail Germany – partial disposals were agreed in August 2013 and November 2014 While the remaining businesses are in the process of being sold, their trading will be shown in non-underlying items, within continuing operations
- legacy Engineering Services (ES) contracts – certain contracts were bid into the external market in London and the South West where losses are of such a size and nature that they have been separately disclosed in non-underlying items Tendering into these markets has been stopped, and the relevant management has left

The results of a review by KPMG into the losses in UK construction were announced in January 2015 The findings and actions arising from it are dealt with in the Construction Services performance review on page 19 and are not repeated here, although clearly, the write-downs resulting from the failure to apply control processes properly have had a significant impact on the results for the year

Given the scale of the losses incurred in 2014, consideration has been given as to whether any of the losses incurred in 2014 should have been identified and accounted for in previous periods in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors Whilst all available information may have been used in preparing prior period accounts, if there were errors in the information itself, this could lead to an error that requires adjustment This could be a mathematical error in the preparation of the information or indeed an assumption that was so optimistic that another reasonable person would not have arrived at the same figure If this was the case, the outturn margin expectation should have been adjusted at the time, and if the error was of sufficient size, could have resulted in an end loss position being booked at that time On the other hand, you do not simply use hindsight, so events that have subsequently occurred, such as price inflation or subcontractor failure, which could not have been reasonably forecast at the time, do not constitute an error which requires adjustment and are instead changes in estimate at the point in time that the event triggering the change occurred

The projects on which there was a significant deterioration in the end margin from tender were examined to identify the reasons for the change and to identify the time of the root cause for the deterioration

The results of the exercise showed that the vast majority of the losses were due to operational issues in 2014, and appropriately accounted for in that year, and for the year ended 31 December 2013 the aggregate impact of any errors was not material Accordingly, the 2013 accounts have not been restated There were, however, certain contracts at 27 June 2014 where there were errors principally due to unrealistic cost and scope assumptions As a consequence when we publish our half-year accounts for the period ending 26 June 2015 we intend to restate the comparatives for the half-year ended 27 June 2014, to reduce the profits from UK construction by £16 million

**Underlying items**

Underlying revenue from continuing operations including joint ventures and associates was broadly in line with last year at £8,440 million (2013 £8,478 million) At constant exchange rates revenue increased by 2% Revenue was broadly flat across the divisions

In Construction Services, flat revenue at actual exchange rates included a reduction of 5% in the UK offset by a 27% increase in the South East Asia and Middle East joint ventures At constant exchange rates revenue growth in the US was 5%

The Group's share of underlying post-tax profits from continuing joint ventures and associates reduced to £55 million from £71 million in 2013, principally due to a poor performance from the mechanical and electrical engineering business in the Middle East

The loss from continuing operations before non-underlying items was £58 million (2013 profit £146 million), with losses in Construction Services of £209 million (2013 profit £18 million) reflecting a very poor performance from UK construction, offsetting good underlying performances in Support Services of £50 million (2013 £55 million) and Investments of £127 million (2013 £102 million) which included disposal gains of £93 million (2013 £82 million)

Net underlying finance costs of £22 million increased by £7 million (2013 £15 million) due to a £10 million increase in finance charges resulting from the convertible bonds issued in December 2013 and a £7 million increase in pension net interest expense, offset by a £6 million reduction in interest on bank loans and overdrafts and a £4 million increase in subordinated debt interest receivable

Underlying pre-tax loss from continuing operations was £80 million (2013 profit £131 million)

**"Despite the write-downs, the Group ended the year with a strong balance sheet showing net assets up from £1.0bn to £1.2bn."**

**Duncan Magrath**
Chief Financial Officer

**Non-underlying items**
Non-underlying items for continuing operations comprise pre-tax losses of £224 million (2013 £180 million) These include £88 million of losses on certain legacy ES contracts, £23 million of trading losses in Rail Germany and £30 million of non-cash asset impairments in Rail Germany Intangible asset amortisation reduced to £11 million (2013 £17 million) as assets became fully written down, and there were £7 million of costs associated with the aborted merger discussions with Carillion plc Following a decision in January 2015 to focus the rollout of Oracle R12 into UK construction in 2015 and the closing down of the implementation team for Support Services, a non-cash impairment for costs related to continuing Support Services operations of £21 million was incurred Other items totalling £44 million include £23 million restructuring and reorganisation costs and £14 million cost of implementing the UK shared service centre (2013 £7 million)

**Continuing operations**
Operating loss from continuing operations for the year was £281 million (2013 £33 million)

**Taxation**
The underlying tax credit for continuing operations for the year of £2 million (2013 £28 million charge), excluding the Group's share of results of joint ventures and associates, equates to an effective tax rate of 1 5% (2013 46 7%) This represents a tax credit on a loss before tax The rate of credit is lower than the UK statutory rate, principally due to significant non-recognition of deferred tax assets on losses incurred in the year In 2013, the rate of 46 7% (tax charge on a profit) was higher than the UK statutory rate principally due to writing down deferred tax balances following the reduction in the UK corporation tax rate to 20% and the proportion of profits in higher tax jurisdictions, offset by the benefit of the profit from non-taxable investment sales

**Discontinued operations**
Post-tax profit from discontinued operations of £242 million (2013 £18 million) includes a gain on the disposal of PB of £234 million Following shareholder approval on 28 October 2014, completion of the disposal of PB occurred on 31 October 2014 for an agreed cash consideration of £812 million which generated a gain on disposal of £468 million, or £234 million after writing off goodwill and other intangible assets and incurring £24 million of separation costs and £45 million of transaction costs PB contributed £38 million of pre-tax trading profits to the date of disposal £26 million of charges were booked in respect of goodwill and other asset impairments in respect of Rail Italy

**Overall result for the year**
The results, including both underlying and non-underlying items for continuing and discontinued operations show a total reported loss of £59 million (2013 £35 million)

**Earnings per share**
Underlying loss per share from continuing operations was 11 5p (2013 earnings 15 3p), which along with underlying earnings per share from discontinued operations of 3 5p (2013 6 2p), gave an underlying loss per share for total operations of 8 0p (2013 earnings 21 5p) Total loss per ordinary share was 8 6p (2013 5 1p)

**Dividends**
Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme, it will not be recommending a final dividend payable for 2014 This results in a total dividend for the year of 5 6p (2013 14 1p) The Board will look to reinstate the dividend payments at an appropriate level by March 2016

**Goodwill and intangible assets**
The goodwill on the Group's balance sheet at 31 December 2014 decreased by £222 million to £826 million (2013 £1,048 million), with a reduction of £227 million due to the disposal of PB A further £24 million reduction resulted from reviewing the sale proceeds achievable for Rail Italy, and as a consequence writing down its goodwill to £nil

Other intangible assets increased to £216 million (2013 £204 million) Additions in the year included £28 million in Infrastructure Investments from the continuing construction of Edinburgh student accommodation, and £35 million of software Amortisation charges decreased to £25 million (2013 £35 million), however there were impairment charges of £27 million as a result of focusing the Oracle R12 rollout on the UK construction business only, and stopping the rollout to Support Services

| Results for the year | 2014 | 2013 |
|---|---|---|
| **Revenue from continuing operations, including joint ventures and associates** | | |
| – underlying | **£8,440m** | £8,478m |
| – reported | **£8,793m** | £8,852m |
| **Pre-tax (loss)/profit from continuing operations** | | |
| – underlying | **£(80)m** | £131m |
| – reported | **£(304)m** | £(49)m |
| **Post-tax profit from discontinued operations** | | |
| – underlying | **£24m** | £44m |
| – reported | **£242m** | £18m |
| **(Loss)/earnings per share** | | |
| – underlying | **(8 0)p** | 21 5p |
| – basic | **(8 6)p** | (5 1)p |

# CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Impairment reviews have been carried out, and none of the carrying values, other than noted above, have been impaired There is however limited headroom in the US construction business and in Blackpool Airport such that a change in assumptions could result in an impairment

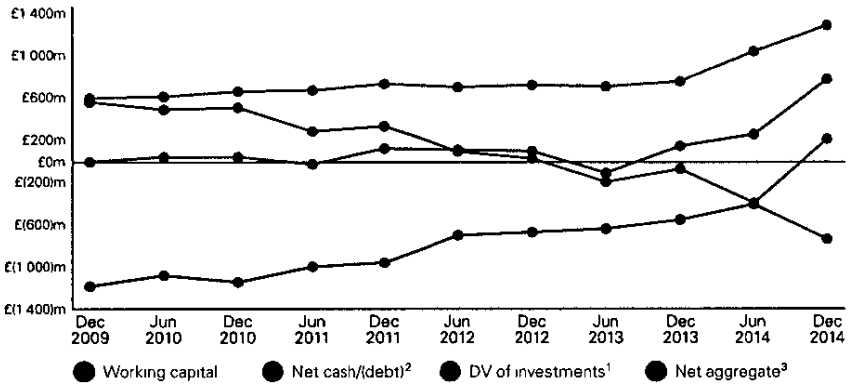
**Pensions – balance sheet movement**
The Group's balance sheet includes aggregate deficits of £128 million (2013 £434 million) for the Group's pension schemes

The Group recorded net actuarial gains on those schemes totalling £237 million (2013 £117 million) There were £337 million (2013 £73 million) of actuarial losses recorded on the present value of the obligations, largely resulting from the effects of lower discount rates However, these losses were more than offset by an excellent performance on the asset portfolio, particularly benefiting from the bonds and gilts and interest rate and inflation hedges, resulting in actuarial gains of £574 million (2013 losses £44 million) A formal triennial funding valuation of the Balfour Beatty Pension Fund (BBPF) was carried out as at 31 March 2013 and showed a funding position of 88%

Agreement has been reached to make two sets of additional deficit contributions to the BBPF Firstly, in respect of the disposal of Balfour Beatty WorkPlace in December 2013, a £15 million contribution payable in monthly instalments during 2015 Secondly, in respect of the sale of PB in October 2014, an £85 million contribution Subject to definitive documentation, this will be payable over the period to 2023, with the first payment of £4 million due in 2016

**Balance sheet and capital structure**
The Group looks to achieve a balance between the favourable/negative working capital, liquid funds and facilities and the Investments portfolio During 2014 there was, as anticipated, a reduction in negative working capital in the first half of the year, with a small improvement before the impact of year end contract write-downs In the second half, there was an increase

**Maintaining strength**




[1] Directors valuation of Investments portfolio
[2] Excluding net debt of infrastructure concessions (non recourse)
[3] Aggregate of Directors valuation of Investments portfolio net cash/(debt) and working capital

in negative working capital in Construction Services Liquid funds were significantly boosted by the sale of PB The Directors' valuation of the Investments portfolio increased to £1,300 million, despite the continuing asset sales Overall the Group finished the year with a strong balance sheet

**Cash flow performance**
Total cash used in operations was £352 million (2013 £162 million), before tax £114 million was due to non-underlying items including the outflows from certain ES legacy contracts and Rail Germany £46 million arose in discontinued businesses which saw a £95 million working capital outflow, principally due to PB's trading flows up to the end of October not benefiting from the usual improvement that is seen by the end of the year Cash used in underlying operations was £192 million, after a working capital inflow of £26 million

Average net borrowings in the second half of the year were £318 million, although with the sale of PB on 31 October, and a strong cash performance at the end of the year, the Group's net cash position at 31 December 2014 was £219 million (2013 net debt £66 million), excluding net cash in discontinued operations of £15 million (2013 £19 million) and £445 million (2013 £354 million) of non-recourse net borrowings held in wholly owned infrastructure concessions The balance sheet also includes £96 million for the liability component of the preference shares

**Working capital**
Including the impact of exchange, favourable/negative working capital increased from £550 million at the end of 2013 to £731 million at the end of 2014 This was impacted by the disposal of PB which had £112 million of unfavourable/positive working capital at the end of 2013, which was effectively crystallised in cash on disposal Construction Services' negative working capital increased by £93 million in the year In the US construction business working capital has remained relatively stable for the last couple of years, and should benefit from revenue growth going forwards In the UK construction business working capital became less favourable, as anticipated, however this was offset at the end of the year by additional cost estimates and risk contingencies on a number of contracts

Total working capital as a percentage of annualised revenue (WCPR) at the end of the year was (9 9)% (2013 (8 5)%) The most significant component of negative working capital relates to Construction Services, which ended the year with WCPR of (12 2)% (2013 (9 7)%)

In 2015, the Group is targeting an improvement in the favourable working capital position from the impact of working capital improvement initiatives under Build to Last, once the impact of the additional cost provisions has flowed through The Group continues to monitor developments in the UK on both project bank accounts, in which it had £17 million of cash at year end, and potential changes in legislation regarding payment terms

**Banking facilities**
The Group's principal committed bank facilities total £760 million and extend through to 2016 They were reduced from £950 million in the year following the receipt of proceeds from the sale of PB The purpose of these facilities, and other small facilities, is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities Over time, as the Group's business has evolved and particularly reflecting the long-term nature of the Investments portfolio, the Group diversified its sources of funds away from the shorter term bank market through the issue of US$350 million of US private placement notes in March 2013 with maturities up to 2025, and £253 million of unsecured convertible bonds in November 2013 with December 2018 maturity

At 31 December 2014, the Group's £760 million of committed bank facilities were undrawn

**Foreign currency risk**
The Group is exposed to foreign currency risk primarily in the US, Asia-Pacific and the Middle East, although this is now significantly reduced following the sale of PB The average exchange rate for 2014 was US$1 65 £1 (2013 US$1 57 £1) Sterling steadily weakened from the middle of the year, and ended the year with a closing rate of US$1 56 £1 (2013 US$1 65 £1)

**Financial risk factors and going concern**
The key financial risk factors for the Group, other than the reduced foreign currency risk noted above, remain largely unchanged, although following the sale of PB, its operations are significantly less diversified Some elements of the Group's markets are recovering, and this can lead to increased risk of subcontractor failures, due to their cash requirements for increased working capital, and also the potential for inflationary pressures in some areas On the other hand this should also reduce pressure on bidding margins

The Group's US private placement and committed bank facilities 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 2014, both these covenant tests were passed as the Group had net cash and net interest income from a covenant test perspective, so the Group's poor trading performance and consequent low level of EBIT had no impact on these tests

The Group is forecasting to remain within its banking covenants during 2015 and has stress-tested these calculations for reasonable possible adverse variances in trading and cash performance The significant losses incurred in the second half of 2014 will be included in the 12-month EBIT for the purpose of the covenant tests at June 2015, which will reduce headroom particularly on the EBITDA to net debt test In considering that forecast, account was taken of the range of mitigating actions to conserve and generate cash and EBIT While recognising that there can be no absolute certainty, the Directors believe that these covenant tests will be met

The Directors have acknowledged the guidance 'Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council in October 2009 In reviewing the future prospects of the Group, the following factors are relevant

- the Group has a strong order backlog
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates
- the Group had net cash balances of £219 million at 31 December 2014 and has committed bank facilities of £760 million lasting until November 2016, which were undrawn at 31 December 2014
- the Group had an Investments portfolio valued at £1,300 million at 31 December 2014

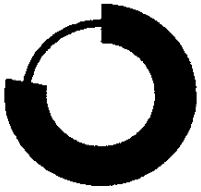
Based on the above, and having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements

To appreciate the prospects for the Group as a whole, the complete Annual Report and Accounts 2014 needs to be read

## CONSTRUCTION SERVICES

# Very poor performance caused by UK construction contract issues

**Highlights**



**Total revenue**
**£6,597m**

- Performance significantly impacted by operational issues in the UK and Middle East M&E joint venture
- Order book grew 2% during the year to £7 9 billion
- KPMG review an important step in understanding issues faced by the business

### FINANCIAL PERFORMANCE

Construction Services' performance reflects the significant impact of project losses, primarily due to poor operational and commercial controls in the UK business, leading to a very disappointing total loss from continuing operations of £391 million (2013 £103 million)

In the UK, certain legacy Engineering Services (ES) contracts, where there has been poor legacy management and in regions, such as London and the South West, where ES has withdrawn from tendering for third-party work due to the problematic delivery of these contracts, contributed £62 million to Group revenue whilst generating losses of £88 million (2013 £nil) The results of these contracts have been classified as non-underlying items as the exceptional size and nature of the losses distort the underlying performance of the Group The prior year comparatives have been restated accordingly and future performance on these contracts (including any claims recovery) will be presented in non-underlying items through to their completion As a result, the 2014 underlying loss from operations for Construction Services was £209 million (2013 profit £18 million) Included within this is an underlying loss from the UK construction business of £229 million (2013 £20 million)

Underlying revenue from continuing operations was flat at £6,597 million (2013 £6,594 million)

The Construction Services order book for continuing operations at the end of the year stood at £7 9 billion (2013 £7 7 billion), up 2% from a year ago, but down 3% at constant currency The order book in the UK ended the period at £2 6 billion, down 5%

### OPERATIONAL REVIEW

#### UK

The UK construction business is organised into three business units consisting of

- Major Projects focused on complex projects in key market sectors such as energy, transportation and heavy infrastructure
- Regional private and public, civil engineering and building, providing customers with locally delivered, flexible and fully integrated civil and building services
- Engineering Services mechanical and electrical engineering

The underlying loss from the UK construction business was £229 million (2013 £20 million) The total loss from the UK construction business after including the results of the non-underlying ES contracts was £317 million (2013 £20 million)

Financial performance was adversely impacted by significant operational issues in Engineering Services and in the Regional business in the London and South West regions The Scottish, and North and Midlands regions performed well In Major Projects profitability was adversely impacted due to cost forecast revisions on two significant projects On one there has been a change of scope, but where the commercial resolution is yet to be concluded On the other, delays in construction and performance of the asset have led to increased costs

The results include the £70 million of contract write-downs announced in January 2015 in respect of these operational issues, as well as a further £118 million of risk provisions subsequently assessed by the Board In line with KPMG's recommendations, this assessment was essentially completed in two parts

Firstly, a detailed review of the most significant individual contracts was performed, including current performance, as part of the normal year end procedures with the objective of achieving an increased level of prudence Adopting a cautious view, this resulted in additional contract risk and other provisions of £67 million Of this, £7 million was recorded against the legacy ES contracts in non-underlying items

Secondly, across the remainder of the portfolio, and generally covering the smaller contracts a risk-based approach was adopted based on recent performance of individual delivery units and market conditions This resulted in an assessment of additional contract risk provisions of £51 million

The KPMG review has been an important step in understanding the problems faced by the business during a period of uncertainty The business is focused on actively pursuing recovery of contractual entitlements and implementing the recommendations in order to return to profitability and peer group margins

Underlying revenue in the UK fell by 6% to £2,350 million as increased revenue in Major Projects was more than offset by reductions of 10% in the Regional business and 15% in Engineering Services

The Regional and Engineering Services order books fell as a result of actions taken to refocus the businesses, but were partially offset by growth in Major Projects Across the business there has been an improvement in the quality of new order intake

## KPMG REVIEW

In September 2014 it was announced that KPMG would undertake an independent review of the contract portfolio of the UK construction business, given the continued inconsistent operational delivery across some parts of that business

### Scope of review

The review focused on bidding and tendering disciplines, commercial controls, "cost to complete", contract value forecasting, reporting at project level, and project reporting and reviewing

KPMG reviewed a sample of 127 projects across the UK construction business as at August 2014 The selection criteria were

- a sample consisting of the majority of the projects that comprised the profit shortfalls announced in September and July 2014,
- a risk-based sample of other projects from across Construction Services UK which did not form part of the profit shortfalls

The sample, measured by August 2014 year to date revenue, covered approximately 74% of Engineering Services and 58% of Major Projects Across the four Regional business units it covered 33% of August 2014 year to date revenue in London and the South East, 19% of the South West, 12% of the North and Midlands and 14% of Scotland Overall the sample comprised 36% of CSUK's August 2014 year to date revenue

The majority of the issues highlighted are contained within delivery units previously identified as having issues Engineering Services, and the London (including Major Projects buildings) and South West regions of the Regional business These contracts account for less than 10% of CSUK's August 2014 year to date revenue

### Key dominant causes

KPMG identified the following dominant causes of poor operational performance

1 **Bidding** – Tendering at very low margins with optimistic assumptions around cost, programme and procurement savings, and inadequate provisions for risk

2 **Commercial and contract management** – Insufficient local management challenge and review of contract performance, failure to recover genuine contract entitlement due to poor contract administration and optimistic assumptions on contract penalties

3 **Accuracy of cost and programme forecasting** – Insufficient visibility control and understanding on actual versus reported contract performance

The Group considers insufficient visibility on project deterioration was compounded by an overly complex reorganisation programme in 2012 and 2013 that led to high levels of employee turnover at a time of extremely challenging market conditions

### Actions taken

The Board is acting on the review's recommendations to strengthen project performance through

1 **More rigour in tender assessments** – Improve tender review processes through improved guidance, operational inputs, early and ongoing risk management assessment, additional independent oversight and appropriate allocation of resource A review of a sample of recently bid contracts shows a tightening up of tender processes but also shows that further standardisation of the bidding process is required

2 **Improve accountability for project performance** – Project managers to have greater financial and commercial accountability with appropriate KPIs More robust challenge and review of contract performance by local management

3 **Accuracy and timeliness of forecasting** – Increased focus on identifying, understanding and reporting risks inherent in projects and the implications on timely financial performance, with enhanced project reporting supported by consistent application of strong commercial management and contract administration processes

4 **Group policies** – Improve and reinforce Group policies to commercial and local financial management ensuring rigorous application across all projects

In addition, KPMG recommended that the Board assess the overall level of contract risk provisions in the UK construction business In light of this the Board has concluded that further contract risk provisions of £118 million be recorded in the underlying result for 2014

# CONSTRUCTION SERVICES CONTINUED

Joint venture awards such as the £160 million Sellafield nuclear facility contract have been won in the power sector In the highways sector new awards included the £184 million smart motorway upgrade scheme for the M60 and M62, the £129 million M3 smart motorway contract and a £55 million junction upgrade scheme on the M25 Furthermore the business was awarded a framework contract to deliver up to £180 million of infrastructure works at Heathrow Airport In December the Investments business reached financial close on the £550 million Aberdeen Western Peripheral Route project in a three-way joint venture that combines the Group's investment and construction capabilities

There is improving confidence in the private sector although increased market volumes in areas such as housing have put pressure on input costs The number of new major infrastructure projects to be awarded in the short term is expected to be low, exacerbated by the upcoming general election uncertainty Over the medium term there is an expectation of significant investment through the Highways Agency investment plan and projects such as HS2 and Crossrail 2

**US**

Profitability in the US increased slightly in the year, but margins remained broadly flat at approximately 1% Reported revenue was flat on the previous year, up 5% at constant currency The increase in the order book in the building business since the beginning of 2013 continues to feed through into revenue growth (at constant currency), and order intake has continued to increase, resulting in an order book at the end of the year which is in line with last year Order intake in the civil and rail business was down on the previous year

In the US approximately 80% of revenues are generated from the general building market, where the business is ranked as the No 3 contractor by revenue according to the 2014 ENR rankings The infrastructure market accounts for the remaining 20%

The growth in the US order book over the last two years has been as a result of significant steps taken to better leverage local capabilities across the entire business and to make the business more customer focused, through improving best practice, driving innovation and sharing knowledge within a more streamlined structure However margins have remained flat, partially due to a mix effect as revenue from higher margin work won before the recession has reduced, but also due to executing on work bid in a competitive environment over the last 12–24 months at lower margins

In 2014 the business continued to work closely with the Investments business, particularly in the student accommodation sector, where the Investments business acts as an equity investor or a fee-based developer New projects included the University of Texas at Dallas, the University of Iowa and Tarleton State University

The business continued to grow in the healthcare sector, with the award of a US$533 million contract to renovate and expand the Texas Medical Center campus in Houston, Texas This complex project for the Memorial Hermann Healthcare System includes building a 17-storey hospital and implementing a building control system A strong reputation in the sector also helped the Investments business win its first project in Canada, with the award of the Children's and Women's Hospital redevelopment project in Vancouver, where the US construction business will provide 50% of the construction services in joint venture

Other significant wins in the period included a US$156 million contract to construct new headquarters for the National Science Foundation in Virginia, US There was strong growth in the education and office sectors, with US$256 million and US$669 million respectively in new awards These awards reflect recovery in both the public education and private building markets

In the infrastructure market the City of Charlotte awarded the business a US$131 million rail contract to build track and systems components to extend the city's light rail system, following a US$106 million civil engineering contract in February 2014 for the same light rail system

**International joint ventures**

The Group also operates in South East Asia and the Middle East

The order book in the Group's Hong Kong and Singapore joint venture, Gammon, remained stable Revenues were up 22% in the year (30% at constant currency) as the long term nature of recent civil project wins means it will take time for these to feed into financial performance A small number of these contracts, which are recorded at break-even, have incorporated significant judgements over contractual entitlements, however the Group's share of joint venture profits for the year decreased by £4 million to £12 million In the year, significant wins included the new S$210 million (£100 million) Havelock Station award for Singapore's Mass Rapid Transit system In July Gammon won two building contracts in Hong Kong with a combined value of HK$3,910 million (£300 million) to build a public rental housing development and a research office

In the Middle East, the market for the construction joint venture in Dubai has continued to improve and order book was significantly up on 2013 Wins included the Dubai Mall extension project However the mechanical and electrical engineering market remains very difficult, with some of the same issues faced by the UK M&E business existing in the Middle East, such as disputes and delays with main contractors who have taken on complex and difficult jobs In particular two significant projects have caused write-downs, even though we believe a significant proportion of these will be ultimately recoverable The joint venture is no longer bidding for M&E work outside the UAE

**Rail**

The performance of the UK rail construction business continued to be impacted by operational issues on a small number of projects Losses from operations totalled £6 million in the year (2013 £12 million)

Since the year end, the Group has completed the sales of the German track and plant and Austrian businesses and the sale of the Italian rail business The Group remains committed to exiting the remaining parts of the German rail business The results of Rail Germany have been re-presented as non-underlying items within continuing operations and those of Rail Italy are classified as discontinued In India, after four years, there has been little progress in establishing a presence, and consequently the office is in the process of being closed In Australia following withdrawal from a major rail PPP due to unacceptable risk levels, it was concluded the Group did not have sufficient critical mass to continue a construction presence

# Using our expertise in flood defence to protect UK homes

In December 2014, we completed a £21 million flood alleviation project for the Environment Agency and Northumberland County Council

The town of Morpeth in Northumberland, UK, has a long history of flooding, being located in the floodplain of the River Wansbeck The Morpeth Flood Alleviation Scheme was designed to protect the town from the level of flooding experienced in 2008 when over 1,000 homes and businesses were flooded

To protect the residents' properties, we built an upstream storage dam and a new earth embankment to store 1 4 million m³ of flood water We also constructed flood defence walls throughout the town centre, installed flood gates and raised roads

Our recent track record in UK coastal protection and flood defence works includes 21 significant projects for local authorities and the Environment Agency, including the £86 million Rossall and Anchorsholme Scheme, the £5 million River Mersey Flood Defence Scheme, the £22 million Humber Flood Prevention Package and the £6 million Lincshore Beach Replenishment five-year scheme

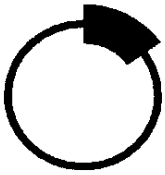
"The work at the dam is really impressive We have exceeded 170,000 hours without a lost time injury – it doesn't get much better than that, especially when you look at the challenging work being completed At the dam for example, we are working 8–9 metres in the air, concreting and installing large steelwork "

**Anthony Myatt**
Environment Agency, Project Manager

## SUPPORT SERVICES

# Depth of capabilities enables us to deliver complex contracts

**Highlights**



**Total revenue**
**£1,273m**

- Stable revenues with strong performance in the highways maintenance business in the transportation sector
- Good underlying profit from continuing operations with good operating margins
- Order book reduction in power and transportation, as anticipated

### FINANCIAL PERFORMANCE

Revenue for the year was up 1% at £1,273 million, with a 35% increase in transportation revenues being largely offset by expected revenue decline in the power sector The Support Services order book ended the year at £3 5 billion, down 14% from a year ago (2013 £4 1 billion) The increase in order book in the water sector has been more than offset by the expected contraction in the power and transportation order books, as the division continues to execute on long term contracts Further awards were made in the water sector after the year end, which will benefit the 2015 order book

Underlying profit from continuing operations was down 9% at £50 million (2013 £55 million), resulting in an underlying operating margin of 3 9% (2013 4 3%) Good performances in the water sector, including the settlement of multi-year commercial issues, and in the transportation sector were offset by lower volumes in power

### OPERATIONAL REVIEW

Support Services is a leading provider of specialist renewal and maintenance services in three key sectors – power, water and transportation

The division continues to provide a wide range of essential services and deliver projects for customers across the regulated and public sectors, all of whom need to manage financial pressures, whilst improving the quality of the infrastructure that facilitates public life This will continue to provide opportunities as customers look to outsource work and seek innovative solutions in the provision of that work, but also presents challenges in an increasingly competitive environment

**Power**
As anticipated, revenues and profitability in the power sector declined, partially due to strong performance in the prior year but also due to other contracts completing in 2014 The transmission part of the business experienced lower volumes after contracted volume targets were completed ahead of schedule in the latter part of 2013, coupled with lower levels of capital replacement programmes in the year

In March 2014 the power business was appointed to two major National Grid power infrastructure frameworks The first is the overhead lines design and build framework, over a four-year contract length with two optional two-year extensions The total work available for panel members is worth up to £2 5 billion The second is for National Grid's onshore underground cable framework, over a four-year contract length with an optional two-year extension, worth a total of up to £800 million

In December, the power business was granted a licence by Ofgem to operate and maintain the Thanet offshore transmission project following its acquisition by the Investments business, work derived directly from the success of the Investments business in that market

Elsewhere on existing power sector contracts there was good progress on the Beauly-Denny replacement electricity transmission line contract for Scottish and Southern Energy, the Gas Distribution Strategic Partnership contracts with National Grid and the joint venture contract in the Republic of Ireland to replace and extend the gas network on behalf of state operator Bord Gáis

Volumes in the power transmission sector are constrained within the UK as current contracts complete and new projects are delayed due to the changeover in regulatory periods New opportunities will continue to be explored as the changing nature of the energy industry will require new sources of power to be connected into the existing infrastructure The division is well placed to take advantage of UK cabling and offshore wind farm opportunities expected in 2015

**Water**
The water business order book benefited from new contracts tendered under the AMP 6 regulatory cycle, which controls capital expenditure across the network from April 2015 through to 2020 In May it was awarded approximately £115 million of work

by Anglian Water as part of its investment programme In addition the business has also won a new contract award from United Utilities valued at £125 million

Following a 23-month early contractor involvement in a three-way joint venture contract with Thames Water, the joint venture was awarded an initial £800 million contract in February 2015, which was therefore not recorded in the year end order book

The major water companies will be focusing on broader and improved solutions for their customers driven primarily by the regulatory environment, which we hope will open opportunities for further innovation and margin growth

**Transport**
The transportation business operates for customers in the road and rail sectors Overall transportation revenues increased by 35% in the period as the business executed on long-term contracts for local authority and highways maintenance customers However this along with exiting from routine renewals work for Network Rail, resulted in a reduction in the order book at the year end

The highways maintenance business continued to perform strongly in the year with a very good performance on the M25 contract, which more than offset continuing cost issues encountered on the Area 10 contract in the North West of England

In the rail renewals market the business continued to work with London Underground to renew and improve service levels across the network and achieved excellent volume and margin growth in the year The remaining elements of the Network Rail contract were completed and handed over to a new contractor in July Associated exit and demobilisation costs incurred were over £2 million and are included in the division's underlying profit from operations for the year

Revenues from local authority work increased as the Herefordshire and Wiltshire contracts, which commenced in 2013, were fully mobilised This more than offset the impact of revenue declines resulting from completed contracts in Westminster, North Yorkshire and Essex The majority of the contracts in the portfolio performed well in the year and more than offset the impact of operational and commercial issues on the Wiltshire contract, the resolution of which is ongoing with the customer

The continuing outsourcing trend by local government will provide additional growth opportunities for the division which increasingly looks to leverage its strong position in the highways and street lighting markets to provide additional complementary services to local authority customers

# Two regional partnerships to renew and improve gas networks

We have been contracted by National Grid to replace ageing metal pipes, service connections and build new gas mains in the North West of England and West Midlands until 2021

Our commitment to efficiency, innovation and customer service is fundamental to our successful delivery of this £1 2 billion contract Project deployment was large in scale, involving over 300 new commercial vehicles, 1,500 pieces of plant and 11,000 metres of site barriers

Use of an innovative new pipe-cutting tool removes our employees from the risks involved in the excavation process Furthermore, we are trialling a new way to create new pipes within the existing pipe, which when approved in 2015 will reduce the number of required excavations, making the work safer and more efficient

"The Gas Distribution Strategic Partnerships contracts will allow National Grid to continue to deliver gas safely and reliably to our customers in the most efficient way during the eight-year period

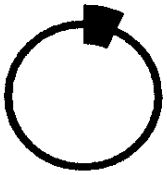
I know based on previous experience that, using the GDSP 'all together, safer, better, leaner and faster' operating model, Balfour Beatty will provide exceptional customer service and deliver the RIIO objectives safely, innovatively and efficiently"

**Stephen Murray**
National Grid, Head of the GDSP contract for the West of England

## INFRASTRUCTURE INVESTMENTS

# A proven track record of developing and financing projects

**Highlights**



**Total revenue**
**£570m**

- Excellent financial performance, including £93 million of disposal gains
- Substantial and diverse portfolio with Directors' valuation at £1 3 billion
- Preferred bidder status on 13 new projects with significant pipeline of new opportunities identified

### FINANCIAL PERFORMANCE

The Investments business delivered another successful year of growth in profits and in the value of the Investments portfolio, as the business continued to break into new markets and expand the number of equity investments within the portfolio

Underlying pre-tax profits increased to £162 million (2013 £132 million), driven by increases in profits on disposal, pre-disposals operating profit and net interest income The pre-disposals operating profit of £34 million was £14 million higher than the previous year This included a gain of £15 million (2013 £nil) resulting from movements in the fair value of PPP financial assets, attributable to non-market related changes in estimated future cash flows, and recognition of bid costs deferred income These more than fully offset the decline in UK income as a result of disposals and approximately £10 million of costs incurred which were reimbursed to the UK construction business to accelerate the completion of construction work and defect resolution on a small number of projects There was reduced income in the US as the military housing construction phases come to an end along with increased bid costs Asset sales generated £159 million of proceeds, with disposal gains increasing to £93 million (2013 £82 million), as the secondary market continued to see increased pricing tension Net interest income, a significant element of total income, also increased to £35 million from £30 million in 2013

The Directors' valuation of the Investments portfolio increased to £1,300 million as at 31 December 2014 (2013 £766 million) The increase in value was principally due to a change in the valuation methodology, in order to bring the valuation closer to the market value The number of investments within the portfolio increased to 66 (2013 61) Recent transactions underline the ongoing ability of this business to create value

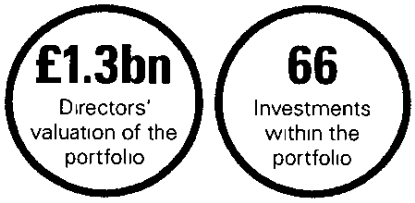
### OPERATIONAL REVIEW

The Investments business continued to grow with its appointment as preferred bidder on 13 new equity projects (including three between January and March 2015) These projects comprise four university student accommodation projects, three hospital projects, three private rental housing projects, one justice facility project, one road project and one energy project

As of March 2015, the business had reached financial close on eight of these projects, as well as reaching financial close on three of the five projects which were already preferred bidder at the start of 2014 Seven projects currently remain at preferred bidder stage

The Investments business was also appointed preferred bidder on five fee-based projects where no equity will be invested, three as developer in the student accommodation sector and two as a third-party manager in the residential sector

The Investments business continues to see significant opportunities for future investment There is an identified global pipeline of opportunities over the next five years that represents £35 billion of capital value, spread across multiple markets in four countries




Over the next five years, the Investments business expects to invest over £300 million in equity, and generate over £2 billion of new work for the Group s Construction Services and Support Services businesses which have historically delivered higher margins when working in conjunction with the Investments business

**UK and Australia – new investment activity**

In June 2014, financial close was reached on the £46 million NHS Ayrshire & Arran Acute Mental Health and Community Hospital project The Group will finance, design and construct the project, and once complete, operate the asset for 25 years

In December 2014, the £550 million Aberdeen Western Peripheral Route project reached financial close The design, build, finance and operate contract will generate a significant amount of work for the UK construction business Balfour Beatty will be working in joint venture to construct the project and will take sole responsibility for the management and maintenance of the road assets for 30 years once construction is complete

Both Thanet and Gwynt y Môr offshore transmission (OFTO) projects reached financial close These are high voltage electricity transmission systems, connecting offshore wind farms to an onshore transmission grid Through February 2015, Balfour Beatty has achieved financial close on three OFTO projects and now maintains investments in OFTO transmission assets worth £833 million, with a combined transmission capacity of 1,380MW

In addition, the Investments business reached financial close on its first project

The Directors' valuation of the Investments portfolio is now closer to the market value

Read more on p27

in Australia, at Wollongong University, for the design and construction of a 1,050 new bed development and a 39-year maintenance licence for the university's entire existing accommodation facilities, of 1,905 beds

In November 2014, Balfour Beatty, including the Investments business, was selected to develop up to 1,500 homes on Queen Elizabeth Olympic Park, in a 50 50 joint venture with People for Places This will result in the creation of two new neighbourhoods of East Wick and Sweetwater, by 2023 The development, in partnership with the Mayor of London and the London Legacy Development Corporation, will include private rental sector and affordable housing Financial close of the first phase is expected in 2016

In January 2015, the business was appointed preferred bidder for the University of Sussex's East Slope Residences project, for the development of 2,000 new bedrooms and other innovative student amenities Balfour Beatty will design, build finance and operate the project under a 50-year contract, in partnership with the university Financial close is expected during 2015

In March 2015, the £52 million Welland Waste Wood power station project reached financial close Once complete, the project will convert 60,000 tonnes of dry waste wood feedstock into 9MW of electricity – powering over 17,000 UK households a year

In the UK, further opportunities are expected in the accommodation sector, for both students and private rental, and in the power sector The business has a strong position in the OFTO market, which has a pipeline of £10 billion, and is also looking at future investment opportunities in the biomass sector

**North America – new investment activity**

In June 2014, financial close was reached on the US Air Force ACC III military housing project, valued at US$60 million In September 2014, financial close was reached on Carmendy Square in Florida, and in February 2015, the business reached financial close on the Ranch at Pinnacle Point in Arkansas, which represented the business s first investments into the US private rental housing sector

In Canada, financial close was reached on two hospital projects in 2014 The C$350 million (£196 million) BC Children's and BC Women's Hospital Redevelopment Phase 2 project covers the design, construction, financing and facilities management for a new children's and women's acute care centre in Vancouver, British Columbia The C$606 million (£338 million) North Island Hospitals project is a 30-year PPP project which includes the financing, design, construction, and facilities management of two new hospitals on Vancouver Island, British Columbia

In the US, the business was appointed preferred bidder for a US$405 million justice complex project for the City of Indianapolis/Marion County in Indiana This represents Balfour Beatty's first investment project in the US justice sector

At the University of Texas at Dallas, the business was appointed preferred bidder on a new mixed-use project for the development of accommodation and retail space on land owned by the University At the University of Iowa, preferred bidder status was awarded for a second phase of development, following the successful first phase development of 270 one- and two-bedroom units and a separate community centre The business also remains preferred bidder for two additional student accommodation projects awarded in 2013

The business continues to leverage its experience in the student accommodation sector, integrating design, construction and investment capabilities, even where direct equity may not be required As a result, the Investments business now works as a fee-based developer alongside the US construction business on a number of projects, providing design and build services In 2014, fee-based agreements were executed for Texas A&M University, a phase II project at Tarleton State University and two third-party management projects located in Florida

In the US, there is a strong pipeline of additional opportunities in the private rental and student housing markets as well as in generating profits through third-party management-fee-based agreements, and the business is continuing to build on its presence in Canada, where there are a number of opportunities

**Asset sales**

The Group successfully sold three assets in 2014, generating total book gains on disposal of £93 million In May, the sale of the Knowsley Building Schools for the Future project and the Group's 50% interest in the University Hospital of North Durham project realised total consideration of £97 million, generating total gains of £51 million The Group also sold its 50% interest in the Pinderfields and Pontefract Hospital project in West Yorkshire in October for £62 million, generating a gain of £42 million As a consequence of the favourable prices achieved on recent sales, the Directors' valuation of the Investments portfolio at December 2014 was updated to bring it closer to the market value

Asset sales are expected to continue as a means of realising the value in mature assets, and recycling equity into new projects

**Investment management business**

Balfour Beatty Infrastructure Partners (BBIP) reached final close on its first fund in 2014, with total commitments of US$618 million, including US$110 million by Balfour Beatty As of February 2015, the fund has acquired Upper Peninsula Power Company, a regulated electric utility business in Michigan, US, a portfolio of 10 operational UK solar projects in the UK, and Wightlink Ferries, a ferry company servicing the Isle of Wight Balfour Beatty has invested £20 million through December 2014 with the expectation that the fund will be fully invested within the next three years

# Environmentally responsible investment in a potential-rich market

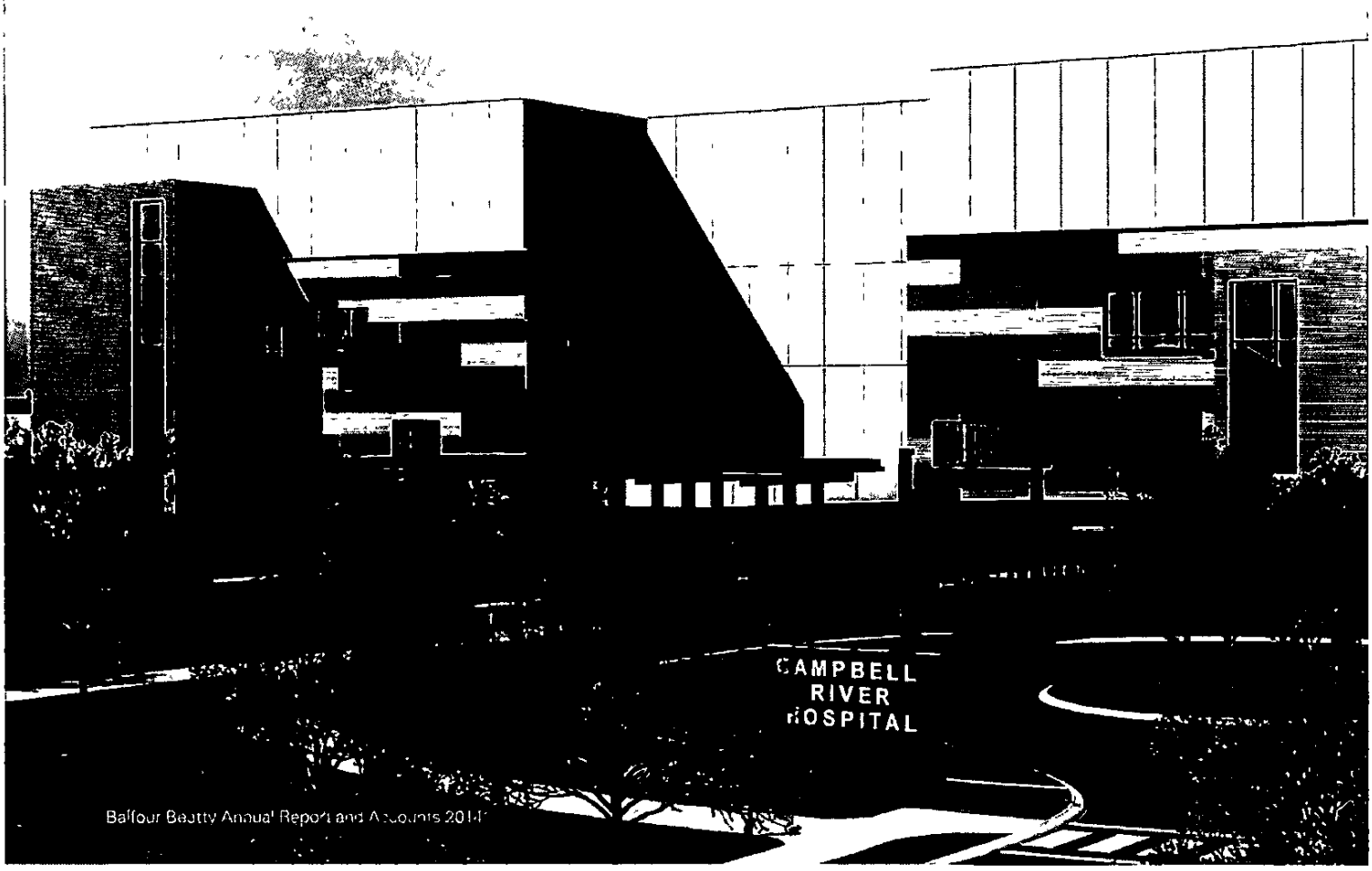
In June 2014, we reached financial close for two new acute care hospitals on Vancouver Island, British Columbia, Canada We will invest C$17 million (£9 million) into the project, which represents 50% of the required equity This is our second project in the Canadian healthcare market

The Tandem Health Partners consortium, of which we are a member, issued a green bond, which was the first public private partnership (PPP) green bond to have been issued to finance a public infrastructure project in Canada, and the first in North America Green bonds are similar to traditional bonds, but the proceeds are used exclusively for projects with environmental benefits

The North Island Hospitals project qualified for a green bond because it achieved Leadership in Energy and Environmental Design (LEED®) Gold Certification, demonstrated commitment to stretching energy and greenhouse gas targets and complied with the British Columbia Wood First Act

The project earned the 2014 National Innovation & Excellence Award from the Canadian Council for Public Private Partnerships

**C$17m**
Equity invested
(£9 million)



## DIRECTORS' VALUATION OF THE INVESTMENTS PORTFOLIO

# A strong and yielding portfolio

### OVERVIEW

The Investments portfolio continues to grow through diversification into new sectors and expansion into new geographical markets Value continues to be realised through the investment recycling programme by selling investments that are mature and operationally proven, whilst preserving interests in strategic projects or sectors that offer opportunities to the wider Group

In 2014 eight new projects were included in the Directors' valuation, in the health, roads, student accommodation, justice, and property development sectors This included winning and closing the Group's first two Canadian P3 hospital projects in British Columbia, its first student accommodation project in Australia at Wollongong University and its first US multifamily residential property project in Florida, and winning its first housing development project at the Queen Elizabeth Olympic Park in the UK This demonstrates the ability of the business to successfully transfer capability and experience from established markets and sectors into new ones

### Revised valuation methodology

The secondary infrastructure market continues to evolve and asset sales over the last few years (including those in 2014) have highlighted a growing difference between the Directors' valuation and the values achievable for the Group's UK investments in the secondary market In the first half of 2014, the Group sold its 100% interest in the Knowsley Building Schools for the Future (BSF) project and its 50% interest in the University Hospital of North Durham project at a premium of 82% above the Directors' valuation at December 2013 This prompted a revision of the valuation methodology and underlying assumptions for the Directors' valuation (which retained some conservative assumptions) at June 2014 Following this, in October 2014, the Group sold its 50% interest in the Pinderfields and Pontefract Hospital project at a premium of 28% above that revised Directors' valuation This demonstrated the strength of demand in the secondary market and has prompted a further review of the assumptions in producing the Directors' valuation at December 2014 The collective effect of these two revisions is described below

In previous years, the Directors' valuation was based on discounting the cash flows in the financial models approved by the senior lenders on each project The investment and return cash flows for each project were discounted using discount rates of 9 5% pre-shareholder tax for the UK portfolio, and 12% pre-shareholder tax for the North American portfolio This approach permitted an assessment of portfolio performance from one year to the next through the application of a set of unchanging assumptions In order to bring the Directors' valuation closer to a market valuation, we have revised the valuation methodology to reflect the knowledge gained from our previous transactions and our understanding of secondary market assumptions and trends

As in previous years, the Directors' valuation being based on a discounted cash flow approach, may differ significantly from the book value of the investments shown in the accounts, which are produced in accordance with International Financial Reporting Standards

### UK portfolio

The changes to the valuation methodology for the UK portfolio fall into three main categories revised discount rates, updated cash flow assumptions, and aligned macroeconomic assumptions

Discount rates have been revised to better reflect current market rates, project risk profiles and the maturity of each project (whether in construction or operational) The resulting discount rates range from 7 0% to 15 0% Operational projects with availability-based income or proven demand have rates towards the bottom end of the range whilst projects in construction or having unproven demand or other significant risks (or some combination of these characteristics) have rates at the top end of the range In overall terms the weighted average discount rate applied to the UK portfolio is 7 8% (2013 9 5%) A 1% change in the discount rate would change the value of the UK portfolio by approximately £107 million

Cash flow assumptions have been updated to better reflect market expectations of future project performance in relation to costs, in particular the lifecycle and insurance costs and the management costs associated with running each project

The capital structure adopted by potential purchasers may result in a lower tax burden under their ownership This can result in higher values being ascribed to assets in competitive situations A significant proportion of this value is now reflected in the Directors' valuation

**Portfolio valuation December 2014**
Value by sector

| Sector | No projects (2013) | 2014 £m | 2013 £m |
|---|---|---|---|
| Roads | 13 (12) | **467** | 253 |
| Hospitals | 4 (5) | **225** | 144 |
| Schools | 8 (9) | **102** | 68 |
| Other | 13 (11) | **149** | 69 |
| UK total | 38 (37) | **943** | 534 |
| US military housing | 21 (21) | **322** | 228 |
| Hospitals | 2 (0) | **4** | – |
| Other | 5 (3) | **11** | 4 |
| North America total | 28 (24) | **337** | 232 |
| BBIP fund | | **20** | – |
| **Total** | 66 (61) | **1,300** | 766 |

**Portfolio valuation December 2014**
Value by phase

| Stage | No projects (2013) | 2014 £m | 2013 £m |
|---|---|---|---|
| 3+ years post construction | 10 (10) | **254** | 113 |
| 0–3 years post construction | 18 (17) | **634** | 385 |
| Construction | 14 (11) | **55** | 28 |
| Preferred bidder | 3 (2) | **15** | 12 |
| US military housing | 21 (21) | **322** | 228 |
| BBIP fund | | **20** | – |
| **Total** | 66 (61) | **1,300** | 766 |

# DIRECTORS' VALUATION OF THE INVESTMENTS PORTFOLIO CONTINUED

The key macroeconomic assumptions which drive value in the portfolio are inflation, interest on cash deposits and UK corporation tax rates The long-term inflation assumption has the most material impact, with the portfolio value being positively correlated to changes in inflation A constant, long-term inflation rate of 3 0% has been used across the UK portfolio A consistent long-term deposit rate of 3 5% and a corporation tax rate of 20% have been applied to all UK projects in line with assumptions currently being made in the secondary market

For assets at preferred bidder or in construction, only macroeconomic assumptions have been updated as these projects are not mature enough to assess if cost savings are likely to materialise

The Group's investment in the fund managed by Balfour Beatty Infrastructure Partners (BBIP) is included for the first time in the Directors' valuation at December 2014 BBIP reached final close on its first fund in July with commitments of US$618 million, of which the Group's share amounts to US$110 million The value of the Group's investment in the fund at 31 December 2014 amounted to £20 million

**North American portfolio**

The North American portfolio has different characteristics to the UK portfolio It is dominated by the US military housing business where value is derived principally from fee income as opposed to investment returns The valuation methodology for the military housing projects has been revised in the light of project maturity and, in the absence of sufficient secondary market transactions in the US, through comparison with similar projects in the UK The main changes to the valuation methodology used for the North American portfolio are in discount rates, cash flow assumptions and inflation

At December 2013 the North American portfolio was valued using a single discount rate of 12% on pre-tax cash flows Given that a large number of investors in the US pay tax, the methodology has been altered to apply discount rates to post-tax cash flows, and the discount rates have been amended accordingly In line with the methodology applied to the UK portfolio, different discount rates are now applied to individual projects to take account of their risk and maturity The range of discount rates used at December 2014 is 7 5% to 11 0% on post-tax cash flows, with a weighted average discount rate of 8 1% (equivalent to 12 2% on the previous pre-tax cash flow basis)

The cash flows for the military housing business have been revised to reflect a lower allocation of corporate overhead costs, bringing it into line with the treatment in the UK portfolio This is based on the assumption that current market participants would incur minimal incremental overhead costs if they were to buy these investments

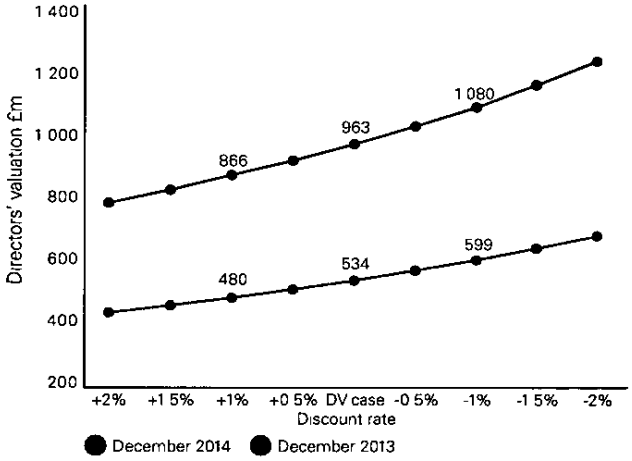
Income inflation assumptions on a number of military housing projects have been revised in the light of experience over a sustained period of time Construction costs (which form the basis on which certain fees are earned) have also been increased in line with historical inflation trends and to reflect the drive for more energy efficient buildings

The other investments in the North American portfolio are more directly comparable to PPP and student accommodation projects in the UK and have been valued on a similar basis, taking into account risk profiles, project stage and also the maturity of the domestic secondary markets

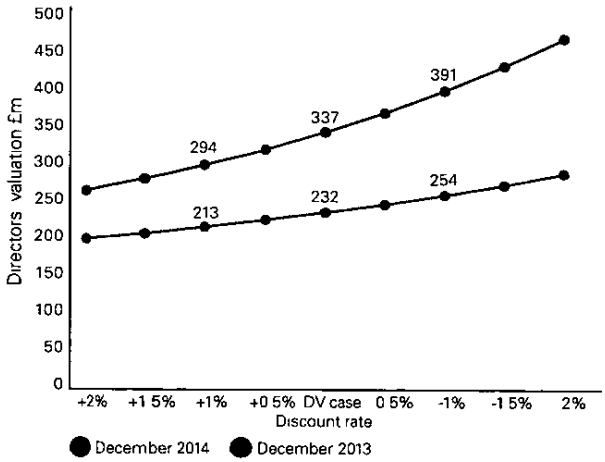
A 1% change in the discount rate would change the value of the North American portfolio by approximately £48 million

**Valuation – The portfolio value at a range of discount rates**

UK portfolio




North American portfolio



**Summary**
The revised methodology together with movements in the period, resulted in a Directors' valuation of £1,300 million at 31 December 2014 The effect of the revised methodology and assumptions is an increase of 69% compared to the 2013 basis KPMG has undertaken an independent valuation in aggregate of the entire portfolio and the Directors' valuation at December 2014 is consistent with KPMG's conclusion

The Directors' valuation is now closer to current market values, albeit values, particularly in the UK, may continue to move up in the future given the ongoing imbalance between the supply of and demand for high-quality investments in the secondary market Future changes in the market could increase or decrease this value

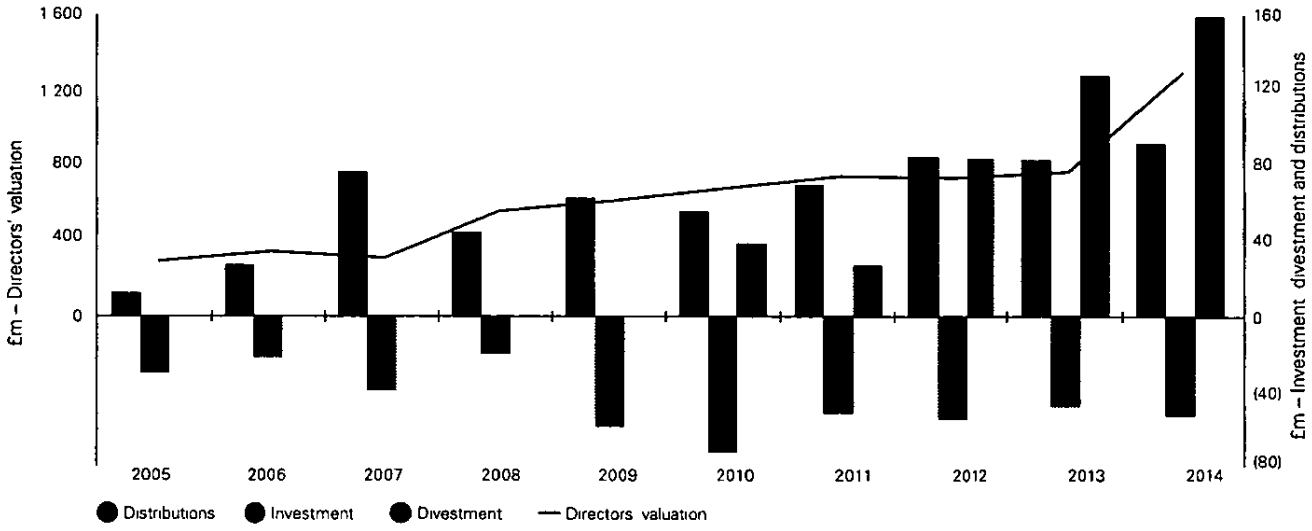
**Movement analysis**
The movement analysis shows changes in value of the portfolio during 2014 on the basis of the 2013 valuation methodology and then shows the impact of moving to the new methodology and assumptions

The Group invests cash into the portfolio in the form of equity investments in individual projects In 2014, significant investments were made in the Thanet OFTO, Birmingham Bio Power, and the student accommodation project at Wollongong University which is also included in the UK portfolio Cash flows are received from the portfolio in the form of distributions from investments or as disposal proceeds when interests in projects are sold (Knowsley BSF, University Hospital of North Durham, and Pinderfields and Pontefract Hospital) The gain on disposals represents the amount by which the proceeds exceeded the Directors' valuation With the passage of time, future distributions come closer which increases the value of the portfolio through an unwinding of the discount Projects that reach preferred bidder during the year are added to the portfolio and are shown as new project wins provided there is sufficient certainty that they will reach financial close For the UK portfolio these were the Aberdeen Western Peripheral Road Ayrshire and Arran Hospital, the Eastwick and Sweetwater housing development on the Queen Elizabeth Olympic Park and the Wollongong University project In North America there were four wins North Island Hospital and Children's and Women's Hospital (both in British Columbia, Canada), Carmendy Square multifamily housing in Florida and the Indianapolis justice facility Operational performance gains represent the changes in the underlying cash flow assumptions before the revised methodology and assumptions are applied – for example actual inflation over the year Adjusting the opening valuation to take into account all of the above items shows the value of the portfolio under the assumptions prevailing at December 2013 This total is then adjusted for changes to the valuation methodology in the three categories noted above discount rate assumptions projected performance improvements (cash flow changes), and macroeconomic assumptions, resulting in the revised Directors' valuation of £1,300 million at 31 December 2014

**Movement in value 2013–2014 £m**

| | 2013 | Equity invested | Distributions received | Disposal proceeds | Gain on disposals | Unwind of discount | New project wins | Inflation FX and operational gains/ losses | BBIP fund investment | 2014 value on 2013 assumptions | Change in discount rates | Projected performance improvements | Macroeconomic assumptions | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| UK | 534 | 48 | (58) | (159) | 58 | 52 | 17 | 9 | 20 | 521 | 111 | 291 | 40 | **963** |
| North America | 232 | 5 | (34) | – | – | 26 | 9 | 10 | – | 248 | 4 | 85 | – | **337** |
| **Total** | 766 | 53 | (92) | (159) | 58 | 78 | 26 | 19 | 20 | 769 | 115 | 376 | 40 | **1,300** |

**Portfolio investment, divestment and distributions since 2005**



# RISK MANAGEMENT FRAMEWORK

There have been failures of risk management disciplines in some parts of the business Managing risk and opportunity in a robust and disciplined way is fundamental to the Board's ability to effectively manage the business and the Group's strategic development

In 2014 the KPMG review (summarised on page 19), together with the Group's own analysis, identified what lay behind the unacceptable performance resulting from poor contracts in the UK construction business

It was clear that the Group's existing risk management framework did not, at times, identify risk early enough to allow for remedial action

As a result, the Group examined its risk and opportunity management activities throughout the business lifecycle, from initial enquiry, tender submission and contract award through to ongoing monitoring, control and project completion

This corroborated the findings from KPMG and showed that the existing internal controls needed to be simplified and that there needed to be one unified approach across the Group

A stronger approach has since been developed and is being rolled out

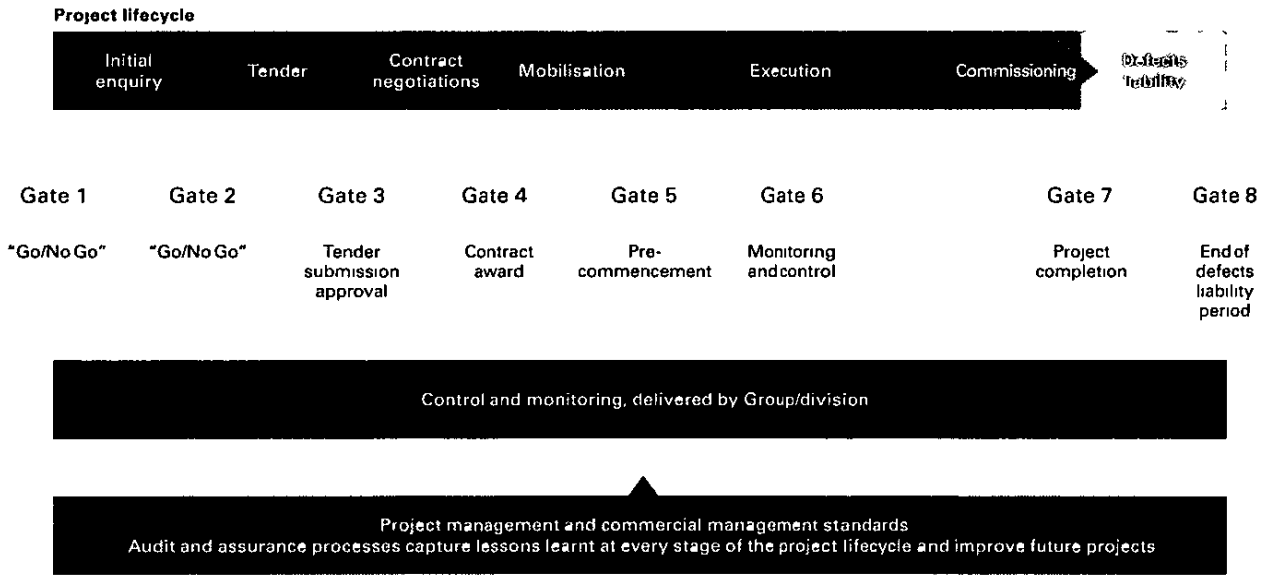
The Group s new risk framework comprises eight approval and review gates, spanning initial project pursuit through to delivery and completion This is a significant extension of the previous monitoring and control process All gates are mandatory and require approval at Group, divisional or business unit level depending upon the nature and complexity of the project

The new risk framework has been further reinforced by the implementation of common minimum standards and policies in project and commercial management across the Group These standards ensure consistent expectations across the Group, and rigorous audit and assurance

The principal risks, detailed overleaf, are

- health and safety
- economic environment
- bidding
- project execution
- supply chain
- people
- business conduct/compliance
- legal and regulatory
- sustainability
- discontinued operations

**Managing risk and opportunity across the project lifecycle**



# PRINCIPAL RISKS

The Group continues to develop risk management and internal control systems and procedures to manage the impact of risks and uncertainties both within and outside its control The Board believes that Balfour Beatty's risk management and internal control systems will help it to identify such risks and respond in a timely manner

The principal risks that could adversely impact the Group's profitability and ability to achieve its strategic objectives are set out below In addition, the Chief Financial Officer's Review on page 17 includes discussion on financial risk factors and going concern

## HEALTH AND SAFETY IS PARAMOUNT TO EVERYTHING WE DO ACROSS OUR BUSINESS

**Health and safety** — No change to risk ▬

**Risk description**
The Group works on significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks

**How the risk may manifest itself**
Some common themes where health and safety risks have arisen are recognised and communicated, including

- risk of poor risk identification/assessment
- risk of not having processes that promote risk elimination or mitigation
- failure to deliver management leadership
- management of subcontractors
- not briefing people properly before setting them to work
- failure to follow procedures
- debarment for safety failures
- ongoing change programme and performance pressures, which may have an effect on our people and their ability to remain focused on health and safety risks

**What impact it might have**
Failure to manage these risks could result in harm to, or even the death of, employees, subcontractor staff and members of the public, as well as potential criminal prosecutions, debarment and reputational damage

**How it is mitigated**
Balfour Beatty has detailed health and safety policies and procedures to minimise such risks These are reviewed and monitored by management and external verification bodies Each division has experienced health and safety professionals who provide advice and support and undertake regular reviews A Safety Executive committee meets regularly throughout the year to develop a consistent approach to health and safety best practice

During 2014, business units continued their work on implementing the Group s Global Safety Principles across all of their operations and projects (see page 36)

## KEY OPERATIONAL BUSINESS RISKS WE FACE AS PART OF OUR PROJECT LIFECYCLE

**Economic environment** — Decreased risk ⬇

**Risk description**
The effects of national or market trends, political change or new developments in infrastructure expenditure or procurement may cause customers to postpone, reduce or change existing or future projects, which may impact the Group's strategy, business model, revenue or profitability in the short or medium term

**How the risk may manifest itself**
The business may fail to anticipate or assess national or market events and developments, their potential negative impact, or the opportunities they present Such events or developments, whether or not anticipated or correctly assessed, could lead to

- cash pressures for customers and suppliers
- wider than expected fluctuations in inflation
- increased competition (eg in the UK from other EU countries)
- supply chain failure risk
- reduced revenue or pressure on margins

These risks may also be triggered or exacerbated by the need, actual or perceived, to pursue work in a declining market

**What impact it might have**
Any significant changes in the level or timing of customer spending or investment plans could adversely impact the future order book Such changes could arise from changes in government policy or customers' failure to secure financing for future projects or for future stages of existing projects

Failure of a customer, including any government or public sector body, could result in not collecting amounts owed

**How it is mitigated**
The Group's strategy to focus on the more resilient and stable infrastructure markets and geographies will help mitigate this risk The effect of spending changes in any one market is mitigated by the Group's broad exposure to infrastructure markets across the globe and the continued need for infrastructure spending It also mitigates the effects of such market conditions by continuing to adapt its business model

It is essential that the financial solvency and strength of counterparties is always considered before contracts are signed and this is a specific focus in the current economic climate During the life of a contract such assessments are updated and reviewed whenever possible The business also seeks to ensure that it is not over-reliant on any one counterparty

# PRINCIPAL RISKS CONTINUED

## Bidding

Increased risk ↑

**Risk description**
Through its different divisions, Balfour Beatty seeks to win profitable work through a large number of bids In some cases it bids in joint venture with carefully selected partners, often to help manage or spread risks, especially where the Group wants to augment its expertise or knowledge of the relevant market

The Group also invests in PPP and infrastructure investments, where success depends on a number of assumptions made, at the time of investment, on future revenues and costs

Balfour Beatty's success depends on its ability to identify, price and execute the right volume and quality of bids to maintain a profitable, sustainable order book This in turn requires that it has a competitive business model and overheads

**How the risk may manifest itself**
- Unrealistic programme
- Incorrect pricing
- Unrealistic assumptions on cost savings
- Overambitious budgets
- Bidding at too low a margin
- Poor partner selection
- Customer credit and late payment risks
- Partner and subcontractor performance and credit risks
- Inability to make profit from non-PPP investments and other new work types
- Failure to ensure the Group's overhead structure remains competitive

**What impact it might have**
Failure to estimate accurately the risks, costs, time to complete, impact of inflation and contractual terms and how best to manage them could cause financial losses

In the event of disagreement with, failure of, or poor delivery performance by a joint venture partner, the Group could face financial and reputational risks

If any of the assumptions behind investment decisions prove incorrect, the profitability of those investments could be reduced

**How it is mitigated**
All bids are subject to rigorous estimating and tendering processes within the risk management framework

This revised framework comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to completion (see page 30)

The Group has defined delegated authority levels for approving all tenders and infrastructure investments

Reviews are conducted following all tenders to ensure lessons are learnt and applied to future tenders

Before entering into a joint venture agreement the Group reviews the relevant skills, experience, resources and values of joint venture partners to understand how they complement its own

Investment appraisals are performed and reviewed by experienced professionals The Group analyses the risks associated with revenues and costs and, where appropriate, establishes contractual and other risk mitigations

## Project execution

Increased risk ↑

**Risk description**
The Group works on complex design, engineering, construction and asset management projects If it fails to deliver them on time, to customers' requirements, and in accordance with its own cost assumptions and reporting, Balfour Beatty faces the risk of financial loss, claims and reputational damage

Successful delivery of many of these projects depends on the successful implementation and maintenance of a range of operational and commercial procedures and controls, backed up by appropriate training clear accountabilities and oversight, accurate, realistic and timely reporting, and regular audit and review It also depends on the combined availability and effective management of subcontractors and other service providers Finally, it relies upon many complex, technical and commercial judgements and estimates regarding cost, value, progress and likely or practicable outcomes

**What impact it might have**
Failure to manage or deliver against contracted customer requirements on time and to an appropriate quality could result in issues such as contract disputes, rejected claims, design issues, liquidated damages, cost overruns or failure to achieve customer savings – which in turn harm Balfour Beatty's profitability and reputation

Execution failure on a high-profile project could result in significant reputational damage and costs

**Project execution** continued

**How the risk may manifest itself**
- Unrealistic progress assessments
- Overestimating the Group's ability to recover claims within the time frame or in the amounts estimated
- Incomplete visibility and appreciation of scale of commercial judgements
- Inaccurate, incomplete cost and value data or failure to analyse and report correctly, which could arise due to poor training, lack of supervision, lack of accountability or a project manager's or project team member's fear of reporting bad news
- Inadequate experienced, independent challenge from support functions such as commercial, operations and finance

**How it is mitigated**
It is essential that each business area has defined operating procedures to address the risks inherent in project delivery In addition, the revision of the Group risk management framework and increased controls aid identification and quantification of specific risks on projects and the mitigating actions required

This has been further reinforced through the implementation of common minimum standards in project and commercial management

Projects are subject to management commercial function and internal audit review at all levels to monitor progress and to review steps put in place to address specific risks identified on those projects The Group also has public indemnity cover to provide further safeguards

Balfour Beatty monitors the performance of joint ventures, joint venture partners, subcontractors and suppliers throughout the lifecycle of a project

**Supply chain** No change to risk —

**Risk description**
The Group is heavily reliant on its supply chain partners for successful operational delivery, which means it is also exposed to a variety of risks in the supply chain, including financial, technical, quality, safety and ethics

**What impact it might have**
Failure of a subcontractor or supplier would result in the Group having to find a replacement or undertaking the task itself This could result in delays and additional costs

The Group will be commercially as well as reputationally responsible for performance shortcomings by suppliers and subcontractors, whether in terms of quality, safety, technical or ethical standards

Mistreatment of suppliers, subcontractors and their staff, or poor ethical standards in the supply chain, could lead to significant reputational harm for Balfour Beatty

**How the risk may manifest itself**
- Supply chain failure risk, exacerbated during, and when emerging from, tough economic conditions
- A subcontractor's failure to perform to an appropriate standard and quality, which could cause project delays, reducing Balfour Beatty's ability to meet contractual commitments and harming its reputation
- Supply chain operating to lower standards (safety, ethics, quality, timber, child labour, forced labour)
- Failure to deliver targeted UK procurement savings
- Failure to comply with Group supply agreements
- Ethical treatment of the supply chain

**How it is mitigated**
The Group aims to develop long-term relationships with key subcontractors working closely with them to understand their operations It develops contingency plans to address subcontractor failure, and also obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency

Balfour Beatty aims to work as much as possible with preferred suppliers and subcontractors who undergo rigorous risk-based prequalification processes and share its values It also aims to avoid becoming over-reliant on any one supplier or subcontractor

# PRINCIPAL RISKS CONTINUED

## IMPORTANT RISKS WE FACE, COMMON TO MANY OTHER BUSINESSES

### People

Increased risk ↑

**Risk description**
Inability to recruit and retain the best management and employees who have the appropriate competencies and also share Company values and behaviours may hamper the Group's growth prospects

**How the risk may manifest itself**
- Failure to attract and retain skilled staff
- Distraction and impact on morale of change programmes and continued operational issues
- Inability to successfully promote the right people through succession planning
- Commercial and project management quality/performance
- New staff unfamiliar with culture and procedures
- Lack of a diverse workforce
- Bullying and harassment
- Loss of former staff with traditional bidding and execution skills

**What impact it might have**
Failure to recruit and retain appropriately skilled people could harm the Group's ability to win or perform specific contracts and grow its business

**How it is mitigated**
All potential recruits for key roles in the organisation are measured against a competency and leadership framework Divisions undertake organisation and people reviews to review the roles, competencies, performance and potential of personnel The Group's succession planning process to identify and develop high-potential personnel is reviewed regularly within the organisation and by the Board Balfour Beatty has appropriate remuneration and incentive packages to help it attract and retain key employees (see page 37)

### Business conduct/compliance

Decreased risk ↓

**Risk description**
The Group operates in various markets that present business conduct-related risks involving fraud, bribery or corruption, whether by its own staff or via third parties such as partners or subcontractors Those risks are higher in some countries and sectors Overall the construction industry has a higher risk profile than other industries

**How the risk may manifest itself**
- Corruption
- Bribery
- Fraud/false claims
- Fair competition
- Human rights abuses, such as child and other labour standards generally, illegal workers and human trafficking
- Unethical treatment of and by the supply chain
- Other emerging ethical risks
- Risk of ethics and values being compromised when times are tough, not just in high-risk markets

**What impact it might have**
Failure by the Group, or employees and third parties acting on its behalf or in partnership, to observe the highest standards of integrity and conduct could result in civil and/or criminal penalties, debarment and reputational damage (see page 38)

**How it is mitigated**
Balfour Beatty has a proactive approach to assessing and addressing corruption risks It promotes compliance with its Code of Conduct and in areas such as competition and false claims fraud Each business area has a compliance officer responsible for the application and monitoring of these programmes

The risk of business conduct/compliance breaches by third parties is harder to control, but the Group has a range of risk assessment, due diligence and procurement controls that are designed to identify and minimise such risks Balfour Beatty works with very few agents, all of whom undergo a rigorous due diligence and approval process

### Legal and regulatory

No change to risk ▬

**Risk description**
The Group operates in diverse territories and its businesses are subject to a variety of complex, demanding and evolving legal, tax and regulatory requirements

**How the risk may manifest itself**
- Data protection and privacy
- Information security lapse
- Cybercrime
- Government/regulatory enquiry and enforcement actions
- Local procurement laws
- Debarment or blacklisting

**What impact it might have**
A breach of local laws and regulations could lead to legal proceedings, investigations or disputes resulting in business disruption ranging from additional project costs to potential debarment and reputational damage Increasingly, businesses are the target of cybercrime, which can result in loss of confidential, personal or commercial data, disruption to operations and associated costs Sometimes Balfour Beatty may be the target of state-sponsored cyber activities purely because of its customer base

**How it is mitigated**
The Group monitors and responds to legal and regulatory developments in the territories in which it operates Local legal and regulatory frameworks are considered as part of any Group decision to conduct business in a new country Data protection and information security programmes are in place across the Group, and cybercrime and other information security risks are assessed on a regular basis

**Sustainability** No change to risk ▬

**Risk description**
The Group's activities can impact the world, and the communities with which it comes into contact, either positively or adversely

**How the risk may manifest itself**
- Environmental incident
- Inaccurate greenhouse gas (GHG) data may mean the Group is unaware of its actual impact
- Inaccurate GHG data and other data in sustainability reporting may leave the Group exposed to unacceptable damage and fines
- Unethical/unsustainable sourcing (eg timber, forced labour, child labour)
- Insufficient management support and monitoring to achieve the Group's agreed KPIs in this area

**What impact it might have**
Failure to address these risks and to execute projects sustainably could result in significant potential liabilities, reputational damage and inability to win future work

**How it is mitigated**
The Group's sustainability strategy provides a framework for its operating businesses to accommodate and embed sustainability into operations Sustainability issues such as climate change are considered in risk management activities at divisional as well as project level

Balfour Beatty's internal audit processes are used to identify potential risks and opportunities for the business These take the form of sustainability audits and internal data assurance audits The Group also has external audits undertaken by third parties against its management systems that are in place to manage some of the aforementioned risks Scope 1 and 2 GHG emissions are also externally assured (see page 39) to ensure that the data is correct

**Discontinued operations** Increased risk ⬆

**Risk description**
The Group continuously reviews the markets and territories in which it operates in order to make the best use of its resources

It is essential that when the Group exits particular markets and territories through disposal or winding down its activities, it complies with all local regulations and laws, and ethical best practices and adheres to Balfour Beatty values

**How the risk may manifest itself**
- In disposing of businesses, the Group typically provides the purchaser with various indemnities which may expose Balfour Beatty to future legal claims and cost as a result of indemnity breaches
- The Group may be required to enter transitional service arrangements with the purchaser Such arrangements and related migration activities could lead to future legal claims and costs
- As the Group winds down activities in a particular market or territory there is the risk of losing business-critical staff and knowledge

**What impact it might have**
A breach of local law and standards could lead to investigations, disputes and prosecution with associated reputational damage and increased costs, which could impact adversely on Balfour Beatty's continuing businesses

**How it is mitigated**
- Experienced professionals, supported by external advisers, manage disposal processes to ensure that the legal documentation covering disposals protects the Group's position as well as can be foreseen
- Use of project management capabilities in managing any transitional service arrangements and migration activities to ensure that risk exposure is tolerable
- Where appropriate ensure there is a wind-down plan in place and that progress against this is appropriately overseen

Balfour Beatty also faces significant risks and uncertainties that are common to many companies – including financial and treasury risks, the management of pension liabilities, information security risks, business continuity and crisis management and hazard risks

## SAFE, INNOVATIVE AND RESPONSIBLE BUSINESS

# Working safely, ethically and responsibly for a positive legacy

### HEALTH AND SAFETY

With operations in the UK, US, Middle East and South East Asia we span many cultures and environments and it is vital that we operate to high professional standards in every location

Only by setting the highest standards for ourselves will we be able to retain the trust of our customers and the people using our infrastructure

We work to the challenging safety requirements set out in our Zero Harm Roadmap 2013–2017 Each business must follow the requirements, and the extent to which they meet them is verified externally Furthermore, we have a set of rules that define the way we work called our Global Safety Principles As a result of our tough stance on eliminating safety risk, our businesses are developing smart and innovative solutions to prevent incidents and keep people safe

Read more about our GSPs online balfourbeatty com/GSP

Despite our unwavering focus on safety, six workers lost their lives across the Group as a result of our work activities in 2014 The incidents occurred in the UK, Germany, US, Hong Kong and the UAE Three of the workers were employed by subcontractors and three workers were direct employees

Every fatal accident is subject to a thorough investigation and a detailed review by the Group Chief Executive and the executive team To ensure improved future performance, in 2014 five Chief Executive reviews were held covering each business area and joint venture business As a result of the reviews, a number of lessons learnt were shared across the Group, including the need to tackle individual behaviour, tighten control of subcontractor operations, and improve driver risk policies

One of the work-related fatalities was the result of a road traffic accident in the US We have taken steps to make road travel safer for our employees, including installing telematics devices to monitor drivers' behaviour in order to intervene and correct All of our UK drivers complete psychometric testing so we can identify and address risks

In 2014, we changed our primary lagging indicator of health and safety performance from Accident Frequency Rate (AFR) to Lost Time Injury Rate (LTIR) The LTIR, a universally recognised measure, is a more thorough indicator and has been selected to help us achieve our Zero Harm goal It recognises all lost time injuries and injuries that result in restricted duty or transfers, and includes direct, indirect and joint venture employees At year end our LTIR for the entire Group was 0 27 For comparison our LTIR in 2013 was 0 23 compared to 0 26 in 2012 and 0 29 in 2011

As a result of workplace injuries, our workers lost 5,792 days during 2014 This is an improvement on 2013 (5,996) According to incident data collated and prepared by ENCORD (European Network of Construction Companies), these figures represent some of the lowest levels of absence due to workplace injuries compared to our competitors across Europe 2,798 total injuries were sustained by our workforce in 2014 which is 15% less than in 2013 (3,273)

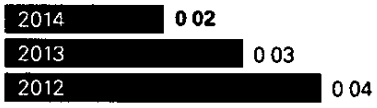
In 2014 our business won a number of awards recognising safety excellence We were named Safe Railroad Contractor of the Year by the National Railroad Construction & Maintenance Association for the third consecutive year in the US, and won six awards, more than any other company, at the annual Heathrow Health and Safety Awards

In 2015 and beyond, we will maintain our Zero Harm goal of zero fatalities, zero disabling injuries, zero injuries to members of the public and zero new cases of long-term harm to health We are renewing our focus on the elimination of fatal risks, increasing the level of personal accountability for safety, and determining revised health and safety targets for each business and the Group as a whole

**The Group Lost Time Incident Rate (LTIR)**
Increased to 0 27 from 0 23 in 2013 39% of our businesses recorded an improved or zero LTIR in 2014

**Major injury rate**
138 major injuries were reported in 2014 compared to 130 in 2013 Four of those major injuries were classified as permanently disabling

**Public injury rate**
There were 70 injuries to members of the public in 2014, an improvement of 36% from 2013



## PEOPLE AND LEADERSHIP

Keeping our people engaged and motivated is critical to ensuring our sustainable growth

2014 saw a significant change in the composition of our global workforce Following the divestment of Balfour Beatty WorkPlace (8,700 employees), to GDF SUEZ in December 2013 and the divestment of Parsons Brinckerhoff (14,500 employees) to WSP in November 2014, the Group has reduced to 25,693 employees in its continuing operations at 31 December 2014 and a further 12,000 employees as a proportional allocation of its joint ventures

We continued to invest in our people in 2014, through the training and development of our existing employees and targeted external recruitment as necessary

These training and development programmes operate within the context of a Group-wide Organisation and People Review, which ensures consistent methodology and visibility of talent, so that succession planning, leadership training and development interventions draw on a global pool

### Emerging talent

In 2014, we joined The 5% Club and are committed to the aim of ensuring that within the next four years 5% of our UK workforce are apprentices, Balfour Beatty graduates or sponsored students on structured programmes The number of graduates and apprentices as a proportion of our UK businesses is consistent with 2013, despite selling Parsons Brinckerhoff with its large graduate pool

| | |
|---|---|
| Apprentices | 326 |
| Graduates | 184 |
| Sponsored students | 17 |
| Total UK workforce | 17,000 |
| % of structured trainees | 3 1% |

Our UK businesses are supporting around 230 people studying part-time at local colleges and universities

In recognition of our work to develop our young employees, in 2014 we received a Partnership Certificate from The Duke of Edinburgh's Award scheme, supported by the Employer Ownership of Skills fund

### Up-skilling the UK's infrastructure workforce

We have received a government grant to further develop the leadership and technical skills of our workforce and to attract people into the industry

Over the next three years over 2,000 employees will benefit from the grant made available by the UK Commission for Employment & Skills/Skills Funding Agency under the Employer Ownership of Skills fund The newly established Balfour Beatty Academy will deliver this programme, which, in partnership with the UK Government, has already developed 10 new apprenticeship qualifications for our industry

Furthermore, we work in partnership with The Prince's Trust, who train unemployed young people through its Get into Construction programme Over the last five years, 400 young people completed this programme, learning while working on our sites About 70% of these people gained employment with us directly or with our supply chain

### Diversity and inclusion

Diversity and inclusion remain central to our people strategy We value diversity and celebrate individual differences, believing that our inclusive culture helps the business continue to grow as a strong, dynamic and innovative organisation

Key interventions are in place to enhance diversity and inclusion in our core business For example, we are supporting the UK Government's Your Life campaign, which is encouraging the study of STEM subjects amongst female students

Further building on our Opportunity Now accreditation, a Connecting Women network forum has been introduced across the UK businesses However, the proportion of female employees has reduced in recent years with the disposals of Balfour Beatty WorkPlace and Parsons Brinckerhoff

Female employees across the workforce

| | |
|---|---|
| 2014 | 17% |
| 2013 | 22% |
| 2012 | 23% |
| 2011 | 25% |

An LGBT network has also been established as part of the Stonewall Diversity Champion programme Balfour Beatty is also the first infrastructure company to become a member of the OUTstanding LGBT professional network and is proud to be represented in the 2014 Financial Times Top 100 LGBT Business Leaders list

We also strive to provide employment, training and development opportunities for disabled people wherever possible We are committed to supporting employees who become disabled during employment and to helping disabled employees make the best use of their skills and potential, consistent with all other employees

We remain committed to investing in industry-leading people throughout a period of considerable change It is this commitment and the continued engagement of our employees that will provide the foundations for our recovery and future growth

| At 31 December 2014 | Male | Female | Total | % Male | % Female |
|---|---|---|---|---|---|
| **Board** | **6** | **1** | **7** | **86** | **14** |
| **Senior management[1]** | **75** | **14** | **89** | **84** | **16** |
| **Directors of subsidiaries** | **286** | **33** | **319** | **90** | **10** |
| **Group[2]** | **21,223** | **4,470** | **25,693** | **83** | **17** |

[1] Members of Group head office and divisional senior leadership teams
[2] Excluding discontinued operations

# SAFE, INNOVATIVE AND RESPONSIBLE BUSINESS CONTINUED

## VALUES AND BEHAVIOUR

We have a well-developed ethics and compliance programme Our focus is on continual improvement and on monitoring the areas where we are most at risk

A primary area of focus during 2014 has been to ensure that our ethics and compliance programme remains fresh in our people's minds and is increasingly embedded throughout the Group

The sale of Parsons Brinckerhoff means that we no longer operate in some jurisdictions which typically pose a high risk of ethics and compliance violations However, we continue to work in a number of higher-risk countries and acknowledge that the construction and engineering sector is a high-risk sector in general Accordingly, we continue to have in place extensive anticorruption measures We are also mindful of the broader ethics risks which exist within the sector

In addition to the traditional areas of ethical risk, new areas of focus include human rights such as children's rights and labour conditions Human rights matters have been addressed by our Code of Conduct for many years

### Key initiatives in 2014

To improve the effectiveness of our ethics and compliance programme, some of our initiatives have included the following

**New training for site-based staff**
To help embed the ethics programme across the business, we developed new training for our site-based staff A key element of the training is a video facilitated by leaders onsite, providing our site staff with practical and relevant guidance on our values and the standards of ethical behaviour we expect of everyone working on our sites

The vast majority of our site-based staff have completed ethics and values training and will receive periodic refresher training

**Review of whistleblowing hotline**
We encourage our staff and wider community to report any concerns about unethical conduct We treat all concerns seriously and investigate all good faith concerns wherever possible

In 2014 we ran a promotional campaign across certain business units for the hotline, which prompted a marked increase in the reporting of incidents in those areas of the business We believe this correlates with an increase in visibility

To ensure we are doing enough to both encourage reporting and investigate allegations to the best of our ability, we conducted an end-to-end review of our hotline and investigations processes in 2014 Several reforms are being implemented In particular we transitioned to a new whistleblowing hotline service in early 2015 The new hotline will improve interaction with whistleblowers, help us collect vital information, and provide us with better case management technology to support investigations

**Number of Ethics Helpline cases**

**Number of Ethics Helpline cases (excluding HR grievances)**

**Number of cases per 1,000 employees (Balfour Beatty)**

**Number of cases per 1,000 employees (global benchmark)**

**Leading the way in business ethics**
We are committed to acting as a leader in business ethics in the construction and engineering sector

**Business Integrity Round Table**
In 2014 we identified a need for the industry to work together to develop business ethics best practice

As a result we spearheaded the formation of an industry-focused Business Integrity Round Table made up of both service providers and our customers The inaugural meeting was held in January 2015 and the meetings are co-chaired by our Group Head of Ethics & Compliance

**Investing in Integrity™**
Investing in Integrity™ is a UK Charter Mark designed to enable an organisation to reassure its key stakeholders that its business can demonstrate a commitment to act with integrity at all times This is assessed by testing its ethical conduct to ensure those values are properly embedded

Several of our divisions have completed the requirements to achieve Investing in Integrity™ accreditation during 2014 We expect to achieve full accreditation for Balfour Beatty in 2015

## INNOVATION, RESEARCH AND DEVELOPMENT

Innovation plays an important role in building long-term relationships and creating additional value for our customers Most of our innovation emanates from collaboration with our customers, joint ventures, supply chain and internal collaboration across our businesses

In 2014, we developed a unique tool to track the amount of money we spend with local small to medium sized businesses (SMEs) in the UK The tool captures valuable data for our customers to demonstrate the value we are adding to the local economy

Some of our innovations are informed by research work at several academic partner organisations, including Salford University (Building Information Modelling (BIM)), Bristol University (systems engineering), Liverpool John Moores University (condition monitoring), Sheffield University (smart buildings), University College London (future leaders in infrastructure), Manchester University (composite cross arms), and Loughborough University (accounting for whole-life carbon emissions from highways maintenance contracts) Other innovations are powered by employee insights which tackle mega trends and existing efficiencies

We are also running two projects funded by Innovate UK One is in collaboration with Queen's University Belfast and the University of West of England to devise a new BIM tool that designers and contractors can use to successfully predict and reduce waste at the design phase The other is working with technology start-up 3DRepo and the Association of Interior Specialists to support the development of a new innovative procurement application called Bid4Free The application reduces the cost of bidding by digitising transactions

In the US, we have taught students and funded research at Penn State University, Stanford University, the University of Colorado at Boulder, Virginia Tech, and the University of Texas at Austin

Other innovations include Gammon's development of a Green Concrete range It is the only supplier in Hong Kong to offer low carbon concrete solutions that are PAS 2050 2011 certified Gammon used 3D printing to develop roof designs at Midfield Concourse at Hong Kong International Airport and new visualisation software solutions in Singapore Balfour Beatty also created an award-winning PPP scheme for a hospital in Canada that will be the first public infrastructure project to be financed with green bonds in North America

We have also developed new smartphone/tablet apps such as a production, reporting and tracking app to accurately track man hours on projects, a Zero Harm app for tracking potential incidents on motorways with our joint venture partners Mott MacDonald, and a 3D game that scores an individual's ability to highlight potential worksite risks

However, our greatest opportunities are on our projects where we are able to deliver savings and benefits for our customers by offering creative solutions Our innovation champions across our businesses capture, share and promote innovation

Our ability to collaborate has been enhanced by the growth in communities of practice, by the deployment of training in collaborative working practices and through our ongoing Group-wide accreditation to the standard BS 11000 Collaborative Business Relationships

## ENVIRONMENTAL PERFORMANCE

Our sustainability strategy, the Blueprint, is customer-focused, embedded in the local community efficient, innovative and responsible As a result, sustainability is at the heart of all of our operations

Optimising our environmental performance is key to driving efficiencies and winning work We are industry leaders in reducing carbon emissions and mitigating business risks of climate change, as one of only two companies in the construction sector earning a grade A position on the global CDP Climate Performance Leadership Index 2014

We have continued to improve the accuracy of measurement techniques, specifically around our Scope 1 and 2 emissions, and are striving to improve the accuracy of other sustainability metrics in the future

### Standards

Sustainability is an integral part of modern infrastructure projects our public sector clients require conformance to standards such as BREEAM, LEED®, BEAM, ESTIDAMA, Green Mark, and CEEQUAL and these are important to planning authorities Meeting these standards has resulted in a £2 3 billion turnover on green infrastructure projects in 2014

Our certifications in this area and our technical knowledge improve the whole life performance of our customers' projects

### Scope 1 and 2 carbon emissions

We have seen a slight increase in carbon emissions intensity in 2014 compared to 2013 Since establishing our baseline in

| | Absolute tonnes of $CO_2e$ | | | | |
|---|---|---|---|---|---|
| | Base year 2010 | 2011 | 2012 | 2013 | **2014** |
| Scope 1 | 327,968 | 348,940 | 320,136 | 287,061 | **295,219**[A] |
| Scope 2 | 116,597 | 133,308 | 131,658 | 125,980 | **120,126**[A] |
| **Total $CO_2e$ emissions** | 444,565 | 482,248 | 451,794 | 413,041 | **415,345** |
| **Total $CO_2e$ emissions per £m revenue** | 43 2 | 44 1 | 41 9 | 35 1 | **36 0** |

Scope 1 emissions include those resulting from the combustion of fuel and operation of facilities Scope 2 emissions result from the purchase of electricity heat steam and cooling for own use
The full description of our definitions can be found in our reporting guidance found at balfourbeatty com/enablon

# SAFE, INNOVATIVE AND RESPONSIBLE BUSINESS CONTINUED

2010, we have reduced our overall Scope 1 and 2 emissions by 29,220 tonnes (7%) of $CO_2$ equivalent ($CO_2e$) Our $CO_2$ emissions/£m turnover has dropped from 43 2 tonnes of $CO_2e$/£m to 36 0 tonnes of $CO_2e$/£m since our 2010 baseline year, which equates to a 17% reduction

Our total Scope 1 and 2 emissions have reduced from 444,565 tonnes of $CO_2e$ in 2010 to 415,345 tonnes of $CO_2e$ in 2014

Our 2015 goal is to achieve a 20% reduction per £ million turnover of our Scope 1 and 2 emissions (against a 2010 baseline)

These targets will mean reduced operating costs for our businesses and therefore improved value to our customers and shareholders Additionally, a number of our customers have expressed an intention to prequalify contractors on the basis of their carbon performance in the future

Gammon, our joint venture in Hong Kong, accounts for approximately 29% of our Scope 1 and 2 emissions In 2014, it became the first construction company in Hong Kong to be awarded the CarbonCare® Label that covers all of its operations in Hong Kong (except joint venture projects) This is in addition to the ISO 14064-1 international standard for quantifying and reporting greenhouse gas (GHG) emissions it holds Its Scope 1 and 2 GHG emissions are independently verified by SGS

Read more at balfourbeatty com/efficient

**GHG reporting and assurance**
Our GHG emissions are reported in accordance with the UK Government's GHG reporting requirements covering all six Kyoto gases

We use the operational control approach under the GHG Protocol Corporate Accounting and Reporting Standard as of 31 December 2014 to report emissions from our operations around the world This includes assets that are otherwise not referred to across the rest of the financial statements as defined in our reporting guidance We have also developed reporting guidance for the calculation of GHG emissions as well as other sustainability metrics

Read our full reporting guidance online at balfourbeatty com/enablon

We have determined and reported the emissions we are responsible for within this boundary and do not believe there are any material omissions We use the UK Government's carbon conversion factors that were updated in 2014 to calculate our emissions into equivalent tonnes of carbon dioxide ($CO_2e$)

We have incorporated landlord emissions data for the properties we rent or lease (where we are not the utility bill payer) to meet the new GHG reporting requirements We have only reported on Parsons Brinckerhoff data up to the point of sale, 31 October 2014 All historical data for Balfour Beatty WorkPlace, which was disposed of in 2013, has been omitted

We engaged KPMG to undertake an independent limited assurance engagement, reporting to Balfour Beatty plc, using the assurance standards ISAE 3000 and ISAE 3410 over the greenhouse gas data that have been highlighted in this report with the symbol Δ Their full statement is available on our website at balfourbeatty com/IIA

The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance agreement In order to reach their opinion they performed a range of procedures over the GHG data including interviewing management responsible for the data, examining reporting processes and documentation, agreeing a selection of the data to the corresponding source documentation at operating company level and performing analytical procedures over the aggregated data at Balfour Beatty Group level A summary of the work they performed is included within their assurance opinion

Non-financial performance information, GHG quantification in particular, is subject to more inherent limitations than financial information It is important to read the GHG data in the context of the full limited assurance statement and the reporting criteria as set out in the Balfour Beatty reporting guidelines available at balfourbeatty com/enablon

**CDP**
We are now included in the A List The CDP Climate Performance Leadership Index 2014, the most widely used global sustainability index which measures carbon performance and environmental governance Our score has increased by 16 points since 2012

**Environmental compliance**
In 2014, 10 environmental incidents (2013 4, 2012 4) resulted in enforcement action and fines totalling £9,917 (2013 £13,260, 2012 £66,800) Six of the violations related to noise, two were for allowing mosquitos to breed, one for an unauthorised discharge and one for soil erosion There were corrective actions for each violation

## COMMUNITY ENGAGEMENT

Wherever we operate, we strive to leave a positive legacy

Despite a challenging year, our employees have continued to support both the communities in which we operate and our core charitable programmes

**Delivering social value**
In many markets our ability to demonstrate the social value of our operations in economic terms is vital To benefit local areas, we use local suppliers, employees and materials wherever possible, and invest in future talent through apprenticeship schemes and work placement opportunities

**Community investment through charitable fundraising**
Through the Balfour Beatty Charitable Trust, we aim to help the most disadvantaged young people in society, with a focus on employment and employability, health, sport and wellbeing

In the UK, we work with three primary charities that we support through our Building Better Futures fundraising and volunteering programme Barnardo's, Coram, and The Prince's Trust

Barnardo's joined as a partner in 2013, while we have supported Coram and The Prince's Trust since 2008 During this time, we have donated almost £2 million to programmes aimed at helping young people, as well as providing support in-kind, such as through employee volunteering In 2014, we donated £19,734 through our Building Better Futures programme

Given the youth unemployment issue affecting communities around the UK, and the skills gap opening up in the UK construction sector, we have focused many of our programmes on improving employment and employability

Our partnership with Barnardo's focuses on four hubs across the UK These provide school leavers with the necessary skills and qualifications to pursue careers in construction, mechanics, office administration, and much more

Working together with The Prince's Trust over the last five years, we have helped transform the lives of 3,458 young people We sponsor several Get Into programmes, which offer young people in the UK the opportunities to work on our sites as apprentices, helping them get onto the employment ladder To date, we have supported over 470 young people with work placements on construction-related Get Into programmes In 2013–2014, 72% of these young people moved into employment, education or training

Our US construction business contributed over US$903,000 to charitable causes in 2014 Examples of the projects include

- Balfour Beatty Construction s central region's Night of Comedy events, which raised US$150,000 for local charities
- Annual Balfour Beatty Sporting Clay Shoot, raising US$60,000 for the Texas Health Resources Foundation
- The Beale Air Force Military Housing team's Tin Cup Charity Fishing Tournament raised US$250,000 for local charities over the five-year project

This year, Balfour Beatty announced it is extending its sponsorship of the London Youth Games to 2016, which will take the total sponsorship to 10 years Since Balfour Beatty started sponsoring the Games, participant numbers have increased fivefold, and the number of our employees volunteering at the Games reached a record number in 2014

For our business it brings multiple benefits, including engaging our employees in volunteering, community engagement, helping customer relationships and supporting communities in and around London where we operate

For the participants, we recognise the value that sport brings to the lives of young people and are committed to helping raise their aspirations, motivation and attainment levels in local communities

## TAXATION

Our tax strategy, approved by the Board, is to sustainably minimise our tax cost whilst complying with the law

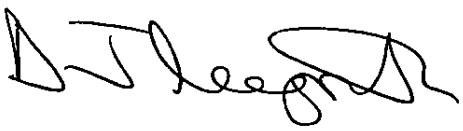
In doing so, we ensure we act in accordance with our ethics, values and compliance programme We always consider the financial and reputational risk arising from our management of tax issues, aiming to maximise long-term shareholder value

We have an open, honest and positive working relationship with HMRC and are committed to prompt disclosure and transparency in all tax matters Where disputes arise with tax authorities with regard to the interpretation and application of tax law, we are committed to addressing the matter promptly and resolving it with the tax authority in an open and constructive manner

The Group makes a major contribution to the tax revenues of governments from its activities in over 80 countries in which it operated in 2014 For example, the Group's UK tax contribution extends significantly beyond corporate tax, as the size of its workforce means it not only collects very large amounts of income tax, but also pays over £100 million in employer's national insurance contributions in a typical year

**Our 2014 Strategic Report, from pages 1 to 41, was approved by the Board on 24 March 2015**

**Duncan Magrath**
**Chief Financial Officer**



## BOARD OF DIRECTORS

# Introducing the Board

**Philip Aiken AM**
**Non-executive Chairman**
**(from 26 March 2015)**
Age 66 Joins the Board as non-executive Chairman with effect from 26 March 2015 He is non-executive chairman of Aveva Group plc and a non-executive director of Newcrest Mining Limited He was a non-executive director of National Grid plc until February 2015, chairman of Robert Walters plc and a non-executive (and senior independent) director of Kazakhmys plc and Essar Energy plc,and a senior adviser at Macquarie Bank Ltd Prior to that he was group president Energy BHP Billiton and president BHP Petroleum, chief executive of BTR Nylex, and held senior roles in BOC Group He has extensive international business experience in the industrials and resources sectors, having worked across the UK, US, Asia and the Middle East

2 3 4

**Leo Quinn**
**Group Chief Executive**
Age 57 Appointed as Group Chief Executive in January 2015 after five years as group chief executive of QinetiQ Group plc and before that five years as CEO of De La Rue plc Prior to these senior roles, he spent almost four years as COO 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 He is a non-executive director of Betfair Group plc and was formerly a non-executive director of Tomkins plc He is a civil engineer, and began his career at Balfour Beatty He is the founder of The 5% Club which encourages industry to increase graduate training and apprenticeships

3 5 6

**Iain Ferguson CBE**
**Senior Independent Director**
Age 59 Appointed a Director in 2010 Until 2009, he was chief executive of Tate & Lyle Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development He is non-executive chairman of Berendsen plc and Stobart Group Limited He is also chairman of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office and lead independent director at the Department for Environment, Food and Rural Affairs He was formerly a non-executive director of Sygen International and of Greggs plc

1 2 3 4

**Board Committees code**

1. Audit, Risk & Assurance
2. Business Practices
3. Nomination
4. Remuneration
5. Group Tender and Investment
6. Finance and General Purposes

◯ Chair

**The Directors who held office during the year were**

| | |
|---|---|
| Steve Marshall | Chairman |
| Robert Amen | |
| Iain Ferguson | |
| Maureen Kempston Darkes | |
| Duncan Magrath | Chief Financial Officer |
| Andrew McNaughton | Chief Executive (until 3 May 2014) |
| Belinda Richards | (until 21 November 2014) |
| Graham Roberts | |
| Bill Thomas | (until 21 November 2014) |
| Peter Zinkin | Planning and Development Director |
| **New appointments in 2015** | |
| Philip Aiken | Non-executive Chairman (effective 26 March 2015) |
| Philip Harrison | Chief Financial Officer (Date to be confirmed) |
| Leo Quinn | Group Chief Executive (from 1 January 2015) |
| **Resignations in 2015** | |
| Steve Marshall | Effective 25 March 2015 |
| Peter Zinkin | Effective 25 March 2015 |
| Duncan Magrath | Effective 8 May 2015 |

**Robert Amen**
**Non-executive Director**
Age 65 Appointed a Director in 2010
Until 2009, he was chairman and chief executive officer of International Flavors & Fragrances Inc (IFF) Prior to joining IFF in 2006, he spent over 25 years at International Paper in a succession of roles, culminating in his appointment as president and member of the board He was also a director of Wyeth, the US pharmaceutical and healthcare company, until its acquisition by Pfizer in October 2009 He is a non-executive director of Verso Corporation, a US producer of printing and specialty papers and pulp, and currently serves as an executive-in-residence at Columbia Business School

1 2 3

**Maureen Kempston Darkes**
**Non-executive Director**
Age 66 Appointed a Director in 2012
She joined General Motors Corporation in 1975 and held a number of progressively senior roles during her time with the business, culminating in her appointment as group vice-president for General Motors' Latin America, Africa and Middle East operations She retired from General Motors in 2009 She has a portfolio of non-executive directorships including Brookfield Asset Management, Canadian National Railways, Enbridge Inc, Irving Oil Company and Schlumberger
She is a member of the Canadian Government's Science, Technology and Innovation Council

2 3 4

**Graham Roberts**
**Non-executive Director**
Age 56 Appointed a Director in 2009
He is chief executive of Assura Group, a UK primary healthcare property company and was formerly finance director of The British Land Company between 2002 and 2011 Prior to that, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors He is a Fellow of the Institute of Chartered Accountants

1 3 4

**Executive Directors in 2014**

**Steve Marshall Non-executive and Executive Chairman (until March 2015)**
Age 58 Appointed a Director in 2005 and Chairman in May 2008, in May 2014 he was appointed to the role of Executive Chairman on the departure of the then Chief Executive before reverting to non-executive capacity on 1 January 2015 He will cease to be a Director and Chairman on 25 March 2015 He is non-executive chairman of Wincanton plc and Biffa Group Holdings Limited He is a Fellow of the Chartered Institute of Management Accountants and a member of its governing council

2 3 4

**Duncan Magrath Chief Financial Officer (until May 2015)**
Age 50 Appointed to the Board in 2008, having joined Balfour Beatty in 2006 as deputy finance director from Exel He will cease to be a Director and an employee of Balfour Beatty on 8 May 2015 He is a non-executive director of Brammer plc and a Fellow of the Institute of Chartered Accountants

5 6

**Peter Zinkin Planning and Development Director (until March 2015)**
Age 61 Appointed to the Board in 1991, having joined the Group in 1981 He will cease to be a Director on 25 March 2015 and will retire from Balfour Beatty in August 2015 He is a governor of Birkbeck, University of London and a councillor in the London borough of Barnet

5 6

## DIRECTORS' REPORT

# Our governance framework

### CHAIRMAN'S INTRODUCTION

Balfour Beatty is committed to applying the very highest standards of corporate governance wherever it operates

**Areas of focus in 2014**

- Recruitment of a new Group Chief Executive and search for a new Chairman and Chief Financial Officer
- Operational delivery – focus on Construction Services UK
- Implementation of business strategy – disposal of Parsons Brinckerhoff

**Areas of focus in 2015**

- Programme of business transformation under the new leadership team
- Financial performance, including cash generation and cost reduction plan
- Greater assurance of risk analysis, controls and reporting
- Rebalance the skills and experience on the Board

We have continued to apply the UK Corporate Governance Code and, with respect to its main principles, I would like to draw your attention to the following

**Leadership**

Our areas of focus for the Board in 2014 and 2015 are summarised in the adjacent column In the pages which follow, I have set out how we have been addressing these items as a Board, whether through the Directors collectively or via the Board Committee structure

Losing Andrew McNaughton as Chief Executive early in the year meant I had to combine executive responsibility with my role as Chairman, until the business's future was assured and a successor could be recruited (as referred to in my Chairman's Review on pages 4 and 5) This, and the especially difficult year that 2014 proved to be, imposed additional burdens particularly on our non-executive Directors, both in the commercial decisions we were having to make and in governance matters

The appointments of Leo Quinn as Group Chief Executive, Philip Aiken as Chairman and Philip Harrison as Chief Financial Officer will bring a wealth of relevant experience The Company is actively recruiting a further non-executive Director to ensure the right balance of skills and experience, following the departure late last year of Belinda Richards and Bill Thomas In addition, in 2015 Duncan Magrath, Peter Zinkin and myself will leave the Board

**Diversity**

Though we again find ourselves with only one female Director on the Board, we specifically ask search firms to identify suitable women candidates as we endeavour to increase the female composition of our Board Although, as a policy, we strongly support greater diversity in all its forms, not least gender diversity, as an important objective for the Group, we do not believe in the concept of gender quotas, our preferred approach being much more directed at merit, experience and skills We are in the third year of our diversity and inclusion programme, which includes the development of women for future management positions in the Group More information on the various aspects of our diversity programme across the organisation is set out on page 37

**Accountability**

Despite the issues we have faced, we continue to believe that the Company's policies and procedures enable the Board to present a fair, balanced and understandable assessment of the Group's trading position and its prospects We continue to keep under review the matters reserved for the Board and the terms of reference of its Committees and will make adjustments as considered necessary and publish any changes on our corporate website During 2014 the Audit, Risk & Assurance Committee made significant revisions to the identification and assessment of risk at divisional level to achieve more reliable and responsible reporting Increased interrogation and risk reporting, and integrated analysis of commercial and business risks and their controls and the assurance that can be placed on them, will be a focus for 2015 More information can be found on pages 58 and 59

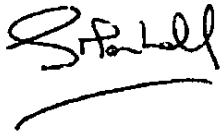
**Remuneration**

The remuneration policy, subject to a binding vote for the first time in 2014 was approved by shareholders at the Annual General Meeting in May We remain committed to the policy's principles and alignment to performance and shareholder value, and do not propose any changes for 2015 Details of how it will operate in 2015 can be found in the Remuneration Report on page 71

**Relations with shareholders**

Our investor relations programme remains of critical importance to the Board and this is why, at each of our meetings, we receive a comprehensive report from our investor relations team, as well as receiving at regular intervals, updates from analysts and the feedback from any meetings which the Directors, including myself, may have held with institutional shareholders The Annual General Meeting is recognised as an opportunity for private shareholders to engage with the Board Further information on our investor relations programme is set out on page 61

Read more online in our Investors section balfourbeatty com/investors



**Steve Marshall**
Chairman

**Balfour Beatty Governance Framework**

**The Board**
- Group strategy
- Annual budgets and financial reporting
- Interim and final dividends
- Major acquisitions, disposals and capital expenditure
- Financial and human resources
- Values and ethical standards
- Risk management and assurance

Read more on p48

**Audit, Risk & Assurance Committee**
- Financial statements
- Financial controls
- External audit
- Internal audit
- Risk management and assurance

Read more on p51

**Nomination Committee**
- Structure and composition of Board
- Appointment of non-executive Directors
- Succession planning and talent management

Read more on p54

**Remuneration Committee**
- Remuneration strategy and policies
- Remuneration packages
- Incentive plans

Read more on p55

**Business Practices Committee**
- Corporate values, ethics and Code of Conduct
- Health and safety
- Stakeholder management
- Sustainability
- Whistleblowing
- Community engagement

Read more on p56

**Group Tender and Investment Committee**
- Major contract approvals
- Acquisitions and disposals
- Capital expenditure

Read more on p57

**Finance and General Purposes Committee**
- Banking facilities and other treasury matters
- Share options

Read more on p57

**Compliance with the Code**
The UK Corporate Governance Code 2012 (the Code) is the standard applying to good corporate governance practice in the UK, and the Listing Rules require listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year (For information on the Code, visit www frc org uk )

The Company has complied with the requirements of the Code throughout the accounting period, other than in respect of the effectiveness of the Group's whistleblowing procedures which is kept under review by the Business Practices Committee and not by the Audit, Risk & Assurance Committee The principal reason for this is that the Business Practices Committee, in particular, focuses on the Company's business conduct, its ethics and values, ensuring that procedures exist for employees to raise concerns in confidence and this is an integral element of its overall remit However, the Audit, Risk & Assurance Committee is kept informed of any allegations of fraud or poor financial controls and internal audit participates in investigations into such claims and reports to that Committee on the outcome

**Directors' independence**
At its Board meeting in March 2015, as part of its annual audit of corporate governance, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them continues to be independent

**The Board**
Effective from 26 March 2015, the Board will comprise seven Directors, of whom five, including the Chairman, are non-executive Details of the changes during the year can be found under the heading "Board composition" below

**Board composition**
The names of the Directors serving through the year and at the year end are shown on page 42 All of the Directors in office on 26 March 2015, with the exception of Duncan Magrath, will seek election or re-election at the Annual General Meeting in accordance with the Code Brief biographical details are shown on pages 42 and 43 Full details of Directors' service agreements, emoluments and share interests are shown in the Remuneration Report starting on page 64

Andrew McNaughton stepped down as Chief Executive and from the Board on 3 May 2014, and Steve Marshall was appointed to the role of Executive Chairman Belinda Richards and Bill Thomas resigned as non-executive Directors effective 21 November 2014 Since the year end, we have made a number of changes to the Board and announced some which have yet to take effect Leo Quinn took office as Group Chief Executive and as a Director on the Board on 1 January 2015, Philip Aiken joins the Board as non-executive Chairman on 26 March 2015, succeeding Steve Marshall who, with Peter Zinkin, will cease to be Directors at that time, while Duncan Magrath will cease to hold office on 8 May 2015

Each of the Directors brings skills and experience which enhance the quality of debate in the boardroom and provides guidance The Directors believe that the Board retains the ability to provide effective leadership and that appointments being made will achieve an appropriate balance of skills Having said this, there is a need to make further appointments to the Board to give it the appropriate balance A search for a non-executive Director has been commissioned, and Philip Aiken, as Chairman, will be further considering the composition of the Board to ensure it has the right balance of skill and experience There are, however, areas where the non-executive Directors, in particular, bring with them a wealth of insight and, although not exhaustive, some of their most significant strengths are highlighted on page 46

# DIRECTORS' REPORT CONTINUED

| Board balance | | Board tenure | | Board geography | | Board diversity | |
|---|---|---|---|---|---|---|---|
| Chairman | 1 | 0–2 years | 1 | UK | 6 | Male | 7 |
| Executive Directors | 3 | 2–4 years | 1 | Americas | 2 | Female | 1 |
| Non-executive Directors | 4 | 4–6 years | 2 | | | | |
| | | 6+ years | 4 | | | | |

**Non-executive Directors – significant strengths**

| | Strategic development | Operating performance and delivery | Mergers and acquisitions | Business integration | Financial management and planning | Sector-specific |
|---|---|---|---|---|---|---|
| Philip Aiken | ● | ● | ● | ● | | |
| Robert Amen | ● | ● | ● | | ● | |
| Iain Ferguson | ● | ● | | | | |
| Maureen Kempston Darkes | ● | | ● | ● | | |
| Graham Roberts | ● | | ● | | ● | |

| | Experience of international markets | Health and safety | Risk management and assurance | HR management | Stakeholder engagement | Ethics values and culture |
|---|---|---|---|---|---|---|
| Philip Aiken | ● | ● | ● | | ● | ● |
| Robert Amen | ● | ● | | ● | ● | ● |
| Iain Ferguson | ● | ● | | ● | ● | ● |
| Maureen Kempston Darkes | ● | ● | | ● | | ● |
| Graham Roberts | | | ● | | ● | |

After evaluation, your Board is satisfied that each of the Directors continues to be effective and demonstrates commitment to the role, and that their election or re-election is in the Company's best interests

**Matters reserved for the Board**
The Board is collectively responsible for the success of the Company and has a formal schedule of matters reserved for its decision which includes the matters summarised below

- determining the Group's strategic direction
- approving annual budgets and financial reporting, including the annual and half-year results and interim management statements
- approving interim, and recommending final, dividends
- approving major acquisitions, disposals and capital expenditure
- ensuring the necessary financial and human resources are in place to achieve objectives and review management performance
- setting the Company's values and ethical standards
- approving policies and systems for risk management and assurance

The Board reviewed its list of reserved matters, most recently, at its meeting in March 2015 The full list and the terms of reference of the Board Committees are available on request from the Company Secretary and are also displayed on the Company's website Descriptions of the specific responsibilities which have been delegated to the Group Chief Executive and to the principal Board Committees are also provided on page 47 and pages 51 to 57

The day-to-day management of the business is delegated to executive Directors and the Group's senior management

Read more online in our Investors section balfourbeatty com/investors

**Chairman and Group Chief Executive**
The two roles are complementary and the Company usually keeps them separate The Chairman is responsible for managing the business of the Board, whilst the Group Chief Executive actually runs the business As the senior executive officer of the Company, the Group Chief Executive is responsible to the Chairman and Board for directing and prioritising the profitable operation and development of the Group The Chairman and Group Chief Executive keep each other appropriately informed on the other's current activities

Specifically, their roles comprise the principal responsibilities in the sections following

**Chairman's responsibilities**

- Ensuring effective strategic planning is undertaken by the executive Directors
- Ensuring corporate governance is properly maintained
- Formally appraising the performance of the Group Chief Executive and reviewing with the Group Chief Executive his views on the performance of the other executive Directors
- Providing leadership to the Board
- Acting as senior ambassador for the Company
- Considering Board balance, composition and succession
- Ensuring the smooth operation of the Board and its Committees
- Providing effective communication between the Board and its shareholders

**Group Chief Executive's responsibilities**

- Strategy development and the stewardship of physical, financial and human resources
- Group operational and financial performance
- Executive leadership
- Health, safety and environmental performance
- Corporate values and ethics
- Objective setting for the senior management team
- Organisational structure, succession and talent management
- Major capital expenditure prioritisation and allocation of resources
- Consideration of acquisitions, disposals and financing
- Stakeholder management

Until 3 May 2014, Steve Marshall carried out the role of non-executive Chairman He spent an average of two days a week on Company business, the Board being satisfied that his role as non-executive chairman of two other companies, and his other business and charitable commitments, could be accommodated without hindering his ability to carry out his duties as Chairman Assuming executive responsibility on 3 May, he relinquished one of his other company non-executive positions and devoted substantial additional time to the Company's needs until a new Group Chief Executive could be appointed From 1 January 2015, he reverted to non-executive capacity

**Senior Independent Director**

As Senior Independent Director, Iain Ferguson's principal responsibilities are to ensure that the views of the other non-executive Directors are properly considered and to provide an additional communication channel between the non-executive Directors and the shareholders and other stakeholders, as required Mr Ferguson meets with the other non-executive Directors without the Chairman or executive Directors being present at least once a year He has led the search for a new Chairman, on behalf of the Board

**Directors' interests**

No Director had any material interest in any contract of significance with the Group during the period under review The Directors have put in place procedures to ensure the Board collectively, and the Directors individually, comply with the disclosure requirements on conflicts of interest set out in the Companies Act 2006 At its meeting each January, a formal declaration of interests is reviewed by the Board

The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive scheme (the Performance Share Plan), the Deferred Bonus Plan, the Share Incentive Plan and share options are set out in the tables in the Remuneration Report commencing on page 64

**Directors' indemnities**

The Company grants an indemnity to all of its Directors to the extent permitted by law These indemnities are uncapped in relation to losses and liabilities which Directors may incur to third parties in the course of acting as a Director of the Company, or in any office where such duties are performed at the request of the Board, or as a result of their appointment as Directors

**Board meetings**

Procedures for Board meetings remain largely unchanged from previous years The Company Secretary is responsible for advising the Board on appropriate governance matters and for ensuring a good information flow and that Board procedures are properly followed He also provides updates on legal matters of relevance to the Group and is available to individual Directors for advice on Board procedures

**2014 meeting programme**

In 2014, confronted by an exceptional series of events, the Board met on 26 occasions and held numerous update discussions The vast majority of these were held at the Company's head office in London, or by telephone In addition to the scheduled eight meetings, many called at short notice were accommodated as conference calls Contrary to the Company's usual practice, given the overwhelming workload that had to be accommodated, none of the scheduled meetings during 2014 were held at business units or overseas

Each scheduled Board meeting normally lasts four to five hours but can be longer

On the evening preceding those Board meetings, the Directors generally meet for dinner and sometimes take the opportunity to discuss predetermined developmental themes, led by one of the executive Directors, other senior managers or a specialist external speaker One of the dinners each year is attended by the Chairman and the non-executive Directors only, whilst a second includes the Group Chief Executive, but none of the other executive Directors

Each scheduled Board meeting addresses key strategic topics for the Group which enable the Directors to engage in detailed reviews The Board also considers at each of these meetings monthly updates from the Group Chief Executive and the Chief Financial Officer Regular reports are also provided on health, safety and environment, operational performance, corporate communications, risk management and assurance, investor relations and any legal issues At each such meeting, the chairs of the various Board Committees provide a summary of the discussions held at the preceding Committee meeting and the key actions arising, minutes of the Committee meetings are then made available for inspection on the electronic portal used for disseminating papers for meetings and on which other key data and documents are kept

# DIRECTORS' REPORT CONTINUED

**2014 Board topics**
As mentioned on page 47, the Board met an unprecedented 26 times during 2014 driven by

- Group strategy leading to the disposal of Parsons Brinckerhoff
- the operational delivery and financial performance issues which emerged throughout the year, particularly within the UK construction business, and the proposed remedial actions
- the potential merger discussions with Carillion plc
- the proposal from John Laing Infrastructure Fund Limited to acquire the Group's PPP portfolio

The following topics were also addressed by the Board during 2014 under each of the themes shown For clarity, a synopsis of certain of the topics has been included as well

**Finance**
- Budgets 2014 and 2015
- Annual and half-year results including pre-close statements
- Dividend strategy – including return of capital to shareholders
- Financing capacity and options – future cash needs of the Group and compliance with covenants
- Trading updates

**Operational performance**
- Health and safety – performance across the Group and the status of the Zero Harm programme
- Efficiency programme – reviews of the principal cost reduction and efficiency programmes and monitoring their progress against predetermined measures and milestones
- Business reviews – operating performance against budget and strategic plan risks and opportunities, and matters such as health and safety, people development and sustainability, including
  - International (Middle East, Far East, Australia)
  - Construction Services UK – performance and plan of action
  - Construction Services US
  - Professional Services
  - Rail
  - Infrastructure Investments
- Infrastructure fund – the infrastructure fund enables the Group to utilise a combination of infrastructure asset knowledge, skills and experience to earn a superior return on capital, as well as advisory fees The Board received progress updates on how this part of the Group was progressing, including information on investments made in the year and the fund's valuation

**HR**
- Recruitment of a new Group Chief Executive, and the search for a new Chairman and other non-executive Directors
- People planning, talent and succession management – key people moves review of succession plans, the encouragement of cross-divisional and cross-geographical moves, and diversity and inclusion policies and practices across the Group
- Organisational structure
- Pensions

**Strategy**
- Group strategy development and structuring options – monitoring progress against plan and divestments

**Mergers, acquisitions and divestments**
- Evaluation of a number of merger or disposal opportunities
- Disposal of parts of the German rail business
- Disposal of Parsons Brinckerhoff
- Approval of Infrastructure Investments asset disposals in 2014
  - Durham Teaching Hospital
  - Knowsley Schools project
  - Pinderfields and Pontefract General Hospitals

**Risk**
- Risk management review

For 2015, the Board is scheduled to meet eight times At least one meeting will focus on the development of the strategic plan At least one meeting will be held outside London at one of the Group's business units

**2014 Board and Board Committee meetings**
All non-executive Directors receive papers for all Committees Any Director who is not a Committee member has an open invitation to attend any Committee meeting and a number of the Directors took this opportunity during the year For example, Steve Marshall and Duncan Magrath each attended all the Audit, Risk & Assurance Committee meetings in 2014, and Andrew McNaughton attended meetings of that Committee and the Business Practices Committee while he was a Director

Details of the number of meetings and attendance at the Board meetings and meetings of the Audit, Risk & Assurance, Business Practices, Nomination and Remuneration Committees during the year are set out in the table below

| Name of Director | Board | Audit Risk & Assurance | Business Practices | Nomination | Remuneration |
|---|---|---|---|---|---|
| Robert Amen | 23(26) | 4(4) | 2(2) | 4(4) | |
| Iain Ferguson | 23(26) | 0(0) | 2(2) | 4(4) | 7(7) |
| Maureen Kempston Darkes | 23(26) | | 2(2) | 4(4) | 6(7) |
| Duncan Magrath | 24(26) | | | | |
| Steve Marshall | 26(26) | | 1(2) | 4(4) | 7(7) |
| Andrew McNaughton (to 3 May 2014) | 5(5) | | | 0(0) | |
| Belinda Richards (to 21 November 2014) | 21(26) | 1(4) | 0(2) | 2(4) | |
| Graham Roberts | 24(26) | 4(4) | | 4(4) | 6(7) |
| Bill Thomas (to 21 November 2014) | 23(26) | 4(4) | 2(2) | 3(4) | |
| Peter Zinkin | 22(26) | | | | |

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships) Non attendance at meetings was due to prior business commitments and in particular during 2014 to the very short notice at which a meeting may have had to be convened In each case where the Directors have not been able to attend a Board or Committee meeting they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman or the Committee chair as appropriate

Further information about the work of each of the Board's Committees may be found on pages 51 to 57

**Board development**
**Induction**
Directors undertake a thorough induction programme and receive a range of information about the Company when they join the Board, including access to a portal on which all Board papers are stored, and which includes Balfour Beatty's Code of Conduct and processes for dealing in Balfour Beatty shares and Board procedures In addition, they also take part in a series of one-to-one meetings with other members of the Board, senior executives in the businesses and the Company's external advisers, which include briefings on the Company's business strategy, financial procedures, business development, legal and other key issues Visits to the Group's businesses are also arranged and encouraged, as part of the induction programme and ongoing training and development

Philip Aiken has already commenced this process which will be substantially completed shortly

**Professional development**
In discussion with the Directors and Company Secretary, each year the Chairman determines whether there are any specific training needs identified by the Directors, which can be addressed either by the topic being included at a future Board meeting or on a one-to-one basis Directors are also enrolled in the Deloitte Academy, a seminar-led programme for directors of UK listed companies, which provides regular updates throughout the year on the principal governance and other matters of which directors of a listed company should be fully aware

The Directors' induction programme also provides the foundation for continuing professional development This takes place throughout the year by way of a series of internal and external updates, including visits to operating companies to meet local management and visits to Balfour Beatty projects, both in the UK and overseas

Owing to the increased Board meeting commitment during 2014, as well as additional meetings of the Nomination and Remuneration Committees, the programme of visits organised for the non-executive Directors was curtailed

**Board evaluation**
**Introduction**
In keeping with the Code, the Board receives external evaluations, normally every three years, with internal evaluations in the intervening two years The most recent external evaluation was carried out for 2012, so for 2014 the evaluation has been conducted using internal resources

**2014 evaluation**
This was conducted between January and February 2015 using an online structured questionnaire covering the operation of the Board and each of its principal Committees, issued to the Directors and, in the case of the Committees to those other participants who regularly attend these meetings The emerging key themes were summarised and presented to the Board in March 2015 and the scope of the evaluation is shown below

# DIRECTORS' REPORT CONTINUED

**The work of the Board**

**Strategy and operations**
- Understanding of the Board's role
- Quality of strategic process
- Knowledge of operations and the external landscape
- Consideration of stakeholder views, including shareholders

**Risk and control**
- Quality of financial information
- Efficacy of internal and external audit functions
- Effectiveness of the Audit, Risk & Assurance Committee
- Effectiveness of the Business Practices Committee
- Interaction with advisers

**Performance management**
- Knowledge of corporate culture and context
- Assessment of executive motivation, performance and remuneration
- Quality of executive succession planning and leadership development
- Effectiveness of the Remuneration Committee

**Board environment**

**Culture**
- Board culture, dynamics, values and conduct
- Quality of debate and decision making
- Opportunity and ability to contribute, individually and collectively
- Balance of constructive challenge and support

**Composition**
- Board size, composition, skills and experience
- Effectiveness of the Nomination Committee

**The Board's use of time**

**Planning**
- Quality of information and the timeliness of papers
- Schedule of Board and Committee meetings
- Quality of secretariat support

**Allocation**
- Balance of formal and informal time
- Provision of time for priorities
- Balance of presentation and debate
- Availability of induction and training programmes

Conclusions reached were more qualitative than quantitative and based on a careful analysis of the Board and its Committees' approach to their work, contribution to the success of the Company and preparation for the future

The principal themes ensuing from the evaluation of 2014 are set out below

**Strengths**
- Strong chairmanship and performance of the Board in handling a series of crises, served well by the hard work of the leadership team
- Improved understanding of the views of major investors and stakeholders
- Well-managed process for the selection of a new Chairman, Group Chief Executive and Chief Financial Officer
- Information flow facilitating discussion and decision making
- Culture and quality of relationships

**Weaknesses**
- Need to appoint a Director with relevant construction sector experience
- More attention required in relation to operational oversight and visibility of operational performance
- Review and testing of risk management programmes

| The following key areas of focus were identified for 2015 | |
|---|---|
| **Restructuring and turnaround of CSUK** | Management actions to transform the Construction Services UK (CSUK) business and monitoring their progress to re-establish confidence in that business |
| **Improving strategic oversight and management of risk** | The Board needs greater transparency from management in being kept fully appraised of financial and operating issues in the business |
| **Increasing exposure of the Board to the business** | More time spent in the businesses in order to improve the Board's understanding of the pressures and issues |
| **Managing changes at Board level** | With significant change at Board level, it will be essential that the new Board gels quickly and achieves a common understanding of how to function together |
| **Succession planning and talent management** | The Group is in need of adding to the management team and planning for executive succession |

## AUDIT, RISK & ASSURANCE COMMITTEE

**Meetings in 2014** 4

**Members**
- Graham Roberts – chair
- Robert Amen
- Iain Ferguson – since November 2014

**Former members (retired in the year)**
- Belinda Richards
- Bill Thomas

**Responsibilities**
- Financial statements
- Financial controls
- External audit
- Internal audit
- Risk management and assurance

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council The main responsibilities of the Audit, Risk & Assurance Committee are summarised below

- monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance
- review the Group's internal controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems it has established and the conclusions of any testing carried out by the internal audit function and external auditor
- monitor and review the effectiveness of the internal audit function including its work programme
- make recommendations to the Board in relation to the appointment of the external auditor and approve the remuneration and terms of engagement of the external auditor
- assess the independence, objectivity and effectiveness of the external auditor and develop and implement policy on the engagement of the external auditor to supply non-audit services
- review the integrity of the statement in the Annual Report on being fair, balanced and understandable, as required under the Companies Act 2006

Graham Roberts, a Fellow of the Institute of Chartered Accountants and a former partner at Andersen and finance director of The British Land Company, has been identified by the Board as having recent and relevant financial experience

Partners from the external auditor, the Heads of Group Risk Management and Assurance and Internal Audit, and the Chief Financial Officer regularly attend each meeting In addition, any non-executive Director who is not a Committee member has an open invitation to attend meetings The Committee regularly also invites other executive Directors, divisional leaders and specialists relevant to the Committee's agenda Minutes of Committee meetings are circulated to all Board members

**Summary of activities in 2014**
In 2014, the Committee's work programme focused on a number of significant issues and other accounting judgements where the Committee believed the highest level of judgement was required and with the highest potential impact on the Group's financial statements Further information is set out on page 52 The Committee's standing agenda items comprised reports on

- accounting, financial and regulatory issues
- review of non-audit work carried out by the external auditors, and their fees
- risk management activities and compliance
- implementation of and progress against the Group assurance plan

The Committee is able to question management at both Group and divisional levels to gain any further insight into the issues addressed in these reports As well as the standing agenda items, the Committee also reviewed comprehensive papers on material litigation and tax

In view of the significance of the UK construction business's operational delivery issues, its performance was subject to scrutiny at the Board meetings, attended by CSUK leadership This approach succeeded the sub-Committee established in 2013

The results of the review by KPMG of the UK construction business is of considerable interest to the Committee The results and recommendations of the KPMG report are described in detail on page 19 of this document, and so will not be repeated here The Committee has received presentations addressing the actions being taken to implement the recommendations, and this will be an area of continued focus for 2015

**Risk management and assurance**
The Committee oversaw the development of more robust processes to embed operational risk and opportunity reporting in core reporting lines and processes in addition to existing reporting via revised framework and review procedures This work is ongoing with the intention of developing a unified and common approach to risk management and assurance across the Group

**Internal audit – co-sourcing**
The internal audit function entered into a co-sourcing arrangement with KPMG in the summer of 2014 This provides the Head of Internal Audit with access to additional resources and specialist audit techniques The initial focus of the increased resource was in contract review controls in the UK construction business and IT governance

**Fair, balanced and understandable**
Following the introduction of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 last year against which we reported, the Board has been mindful of the continuing need to provide a balanced and comprehensive analysis of the Company's development and performance during the year and the position at the year end The Audit, Risk & Assurance Committee has assisted in achieving this objective by reviewing proposals for the internal procedures to be applied in preparing the Annual Report

# DIRECTORS' REPORT CONTINUED

| Significant issues and other accounting judgements | |
|---|---|
| **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 (including the KPMG review) and met with management, the Committee considered contract and commercial issues where there was 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 The Committee considered management's assessment of additional contract risk provisions, as discussed in the Chairman's Review on page 4 The Committee also reviewed the work carried out to identify whether prior periods required restatement, explained fully on page 14 |
| **Carrying value of goodwill and other intangibles** | The judgement largely relates to the assumptions underlying the value in use of the cash-generating units, primarily the achievement of the three-year strategic plan and the macroeconomic assumptions (such as discount rates) underpinning the valuation process The Committee received reports from management outlining the basis of the assumptions used, in addition, the external auditor provided detailed written reports in this area During the year, the Committee reviewed management's impairment assessment of the Mainland European rail businesses and concluded that an impairment charge of £24 million should be recorded in relation to Rail Italy The Committee also agreed with the decision to partially impair the Oracle R12 intangible asset as a result of the decision to focus its roll-out on Construction Services UK only |
| **Accounting for acquisitions and disposals** | The Committee judges whether a business should be treated as held for sale and classified as a discontinued operation In doing so, it reviews management's position and Group strategy and evaluates the likelihood that the business will be disposed of within a 12-month period and if it constitutes a separate major line of business In 2014, Parsons Brinckerhoff and Rail Italy were classified as discontinued operations and Rail Germany was declassified from discontinued operations There were no acquisitions in 2014 |
| **Going concern** | In order to satisfy itself that the Company 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 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 for inclusion in the Annual Report Further details are provided in the Chief Financial Officer's Review on page 17 |
| **Non-underlying items** | The key judgement is whether items relate to the underlying trading or not and whether they have been presented in accordance with the Group's accounting policy The Committee conducted an in-depth review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature The Committee reviewed the appropriateness of presenting the results of Rail Germany and the performance of certain legacy Engineering Services contracts in non-underlying items |
| **Control environment** | The Committee discussed whether, given the difficult trading performance in parts of the UK construction business during 2014, the overall control environment in these parts of the business was not working effectively In particular, controls around forecast costs to complete on projects need to be strengthened to ensure the facts on site are reported in a timely manner |
| **Provisions** | The Committee reviewed the significant judgements relating to provisions including litigation and other risks The Committee received detailed reports, including relevant legal advice |
| **Retirement benefits** | The key judgement relates to the assumptions underlying the valuation of the 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 Investments portfolio** | The Committee assessed the methodology used to value the assets in terms of the discount rate applied It also critically appraised the output of the Directors' valuation exercise |

**Areas of focus in 2015**
In 2015, the Committee will continue to address the topics on its standing agenda and will also continue to undertake reviews of the risk management and assurance practices across the Group on a rolling programme The Committee will also continue to receive training in order to broaden and refresh the skills and knowledge of its members

**Implementation of KPMG recommendations**
As mentioned above, the Committee has already received information relating to the implementation of the recommendations in the KPMG report, focusing in particular on the actions that have been taken and that need to be taken across the UK construction business The ongoing monitoring and assurance of this activity will continue to be an area of focus in 2015 Read more on page 19

**Risk management and internal control**
A thorough review of all aspects of the Group's risk and opportunity management activities was undertaken following the continued operational delivery issues within the UK construction business The review centred on the business lifecycle from initial enquiry, tender submission and contract award, through to ongoing monitoring and control, and project completion The review concluded that existing internal controls which were in place across a number of different processes needed to be simplified and consolidated under a unified common approach across the Group The revised framework comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion The new process replaces and expands on previous monitoring and control processes These new processes have been strengthened by the reinforcement of common minimum standards in project and commercial management, and will be reviewed for effectiveness and compliance in 2015 (more details on pages 30 and 59)

**Internal auditor effectiveness**
The Committee reviews the effectiveness of internal audit on an ongoing basis This is achieved, in part, by reviewing and discussing the reports presented to it at each meeting setting out the department's work and findings, but also through a formal annual assessment An independent periodic review of internal audit, as well as a thorough self-assessment scorecard drawn up in accordance with best practice guidelines, also helps contribute to the Committee's evaluation

**External auditor independence and effectiveness**
The Committee carries out a formal review each year to assess the independence and effectiveness of the external auditor, Deloitte LLP The Committee has recommended that the Board proposes to shareholders that Deloitte LLP continues as the Company's external auditor, having satisfied itself of Deloitte's independence In reaching its conclusion, the Committee took into consideration the following matters

**Non-audit work**
The objective set out in the Company's policy is to ensure that the external auditor is not placed in a position where its independence is, or might be seen to be, compromised Under no circumstances will any assignment be given to the external auditor, when the result is that

- as part of the statutory audit, it is required to report directly on non-audit work
- it makes management decisions on behalf of the Group
- it acts as advocate for the Group
- the level of non-audit fees is such, relative to audit fees, as to raise concerns about its ability to form objective judgements

The Company's policy identifies the various types of non-audit services and determines the analysis to be undertaken and level of authority required before the external auditor can be considered to undertake such services Included within such analysis is consideration of the cost and efficiency benefits as well as the real or perceived threats to auditor independence

There is no inconsistency between the Financial Reporting Council's ethical standards and the Company's policy

In 2014, the external auditor was appointed to carry out various non-audit related work, including corporate finance services for reasons of commercial confidentiality and efficiency as well as tax advice and compliance services in Australia, Europe, South Africa and the US The main component of non-audit work related to corporate finance support for the disposal of Parsons Brinckerhoff including reporting responsibilities relating to the Class 1 circular sent to shareholders in order to seek their approval for the disposal

The Committee considers that the Company receives particular benefits, including those relating to cost, quality and consistency, from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations There can also be savings in management time and accelerated delivery of work in situations where rapid turnaround is required The majority of non-audit related work provided by all the major international accounting firms (76% by value) was carried out by firms other than Deloitte

**Annual assessment of the audit processes**
In addition to receiving written reports from the auditors (both internal and external) and management, the Committee also conducted separate private meetings with the external auditors and with management These provide the opportunity for open dialogue and feedback on the audit process, the responsiveness of management and the effectiveness of individual internal and external audit teams

A detailed assessment of the external audit process and the effectiveness of the external auditor, together with any identified improvement recommendations, is prepared each year Each division and operating company within the Group is required to evaluate the performance of the assigned external audit team and to compare that performance against the previous year This assessment has taken into account the issues which have been raised during 2014 The auditors have revised their audit approach in certain areas and applied additional focus on the UK construction business which was discussed with the Audit Committee and incorporated into the external auditor's audit plan for 2014

The external auditor's annual transparency report for the year ended 31 May 2014 was reviewed This was prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 made by the Professional Oversight Board of the Financial Reporting Council

# DIRECTORS' REPORT CONTINUED

### External auditor rotation

Audit partners have been rotated every five years The advisory partner changed in 2010 and the audit engagement partner changed in 2011 Deloitte's first audit report for the Company was completed in 2003 and there has not been a tender for external audit services in the intervening period

A number of circumstances would lead to consideration being given to carrying out an audit tender review For example

- in circumstances where the external auditor's performance had been called into question, or where, through the audit partner rotation process, no suitable replacement had been identified
- where value for money considerations had arisen
- where there was a real or perceived threat to independence
- where conflict of interests had been identified
- where issues had been raised about audit quality by a regulator

The final order from the UK Competition & Markets Authority amending the UK Corporate Governance Code requirement for FTSE 350 companies to put statutory audit out to tender not less frequently than every 10 years aligns the transitional arrangements with those for EC Audit Regulation, and this means we are now required to undertake a tender by 2023 The Committee's current intention is still to tender the audit earlier than formally required so as to coincide with the rotation of the current audit partner's engagement The tender process itself will take place during 2015 effective for the year ending 31 December 2016

## NOMINATION COMMITTEE

**Meetings in 2014** 4

**Members**
- Steve Marshall – chair
- Robert Amen
- Iain Ferguson
- Maureen Kempston Darkes
- Graham Roberts

**Former members (retired in the year)**
- Andrew McNaughton
- Belinda Richards
- Bill Thomas

**Responsibilities**
- Structure and composition of Board
- Appointment of non-executive Directors
- Succession planning and talent management

### Summary of activities in 2014

In 2014, the Committee's work programme entailed the selection of and recommendations to the Board for the appointment of a new Group Chief Executive, non-executive Chairman and Chief Financial Officer and considering further changes in Board composition

All appointments to the Board are based on merit, against objective criteria, having due regard for diversity, including gender

In seeking suitable candidates for the Group Chief Executive, Chief Financial Officer and Chairman vacancies, external executive search agencies were engaged The Committee identified for each of the roles the competencies sought and the required experience, and the agencies prepared shortlists of potential candidates who were interviewed by members of the Committee and by the executive Directors

Key determinants in the selection of the Chairman were, as well as stature to lead a top 150 company in this highly competitive market, a background in organisations that share key dynamics with Balfour Beatty including contracting, customer service, major capital projects, infrastructure and B2B services For the Group Chief Executive leadership, strategic and commercial skills significant experience of long-term contracts delivered through a devolved supply chain and a track record of enhancing shareholder value For the Chief Financial Officer driving major operational and structural change in a similar contract-based business, major system implementation and with the required control and project accounting discipline

The search agencies appointed were reminded to approach a diverse talent pool of candidates, and have no other connections with Balfour Beatty

Philip Aiken will replace Steve Marshall on this Committee in March 2015

### Areas of focus in 2015

In 2015, the Committee will continue to monitor the appropriateness of the composition of the Board and make recommendations to the Board concerning the need for the introduction of new non-executive Directors and to refresh the Board and enhance the sector-specific experience of the non-executive Directors The implications of the business strategy for senior executive recruitment and the impact on the Group's succession planning are also areas which the Committee will keep under review during the year

## REMUNERATION COMMITTEE

**Meetings in 2014** 7

**Members**
- Iain Ferguson – chair
- Maureen Kempston Darkes
- Steve Marshall
- Graham Roberts

**Responsibilities**
- Remuneration strategy and policies
- Remuneration packages
- Incentive plans

**Summary of activities in 2014**
The Committee has an annual calendar of activities, that and its four scheduled meetings are added to as may be necessary according to developments In 2014, the Committee's work programme comprised the following principal topics

**2013 annual bonus**
The Committee approved the deferral by the executive Directors of the 2013 cash bonus into shares under the Deferred Bonus Plan

**2012 PSP performance conditions**
EPS growth and the TSR measure were both below their respective threshold target which meant there would be no vesting of the 2012 Performance Share Plan (PSP) awards

**2013 special PSP performance conditions**
In relation to the special award granted in 2013 to the Chief Financial Officer under the PSP, the Committee assessed a significant partial achievement of the personal tailored objectives

**2014 annual bonus targets**
The Committee approved changes to the strategic objectives metrics following the trading statement issued on 6 May 2014 and the departure of the Chief Executive

**Executive Directors' salary review**
The Committee approved a 2 5% salary increase in 2014 for the executive Directors, in line with that afforded to other employees

**Remuneration policy and long-term incentive plan review**
The Committee decided not to embark on a review of remuneration policy and long-term incentives in 2014, and maintained two TSR measures for the PSP in 2014 The remuneration policy was approved by 97 2% of shareholders at the AGM

**Disposal and merger implications**
The Committee considered and approved incentive and deployment packages in connection with the Parsons Brinckerhoff disposal and for a small number of senior management It also reviewed change of control implications for the various share plans

**Terms for new appointments and leavers**
The Committee approved settlement terms for the outgoing Group Chief Executive The Committee also approved remuneration and incentive buyout terms for the incoming Group Chief Executive and Chief Financial Officer and temporary increases in the Chairman's and the Chief Financial Officer's remuneration to ensure continuity of business leadership

Further information about the work of the Committee during the financial year is set out in the Remuneration Report starting on page 64

Philip Aiken will replace Steve Marshall on this Committee in March 2015

**Areas of focus in 2015**
In 2015, the Remuneration Committee will undertake a formal review of the existing remuneration policy and the appropriateness of the short and long term incentive arrangements to properly meet the needs of the Company as it implements the next phase of its business strategy If changes are considered necessary, the Committee will consult with shareholders at the appropriate time

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# DIRECTORS' REPORT CONTINUED

## BUSINESS PRACTICES COMMITTEE

**Meetings in 2014** 2

**Members**
- Maureen Kempston Darkes – chair
- Robert Amen
- Iain Ferguson
- Steve Marshall

**Former members (retired in the year)**
- Belinda Richards
- Bill Thomas

**Responsibilities**
- Corporate values, ethics and Code of Conduct
- Health and safety
- Stakeholder management
- Sustainability
- Whistleblowing
- Community engagement

**Summary of activities in 2014**
The Committee focuses significant attention on health and safety, values, ethics and compliance, and sustainability The Committee also addresses the Group's Code of Conduct and the training which ensures that the Group's business principles are properly embedded throughout the business

In addition to the standing agenda items, the following principal topics were considered at Committee meetings during the year

**Health and safety**
The Committee reviewed the annual independent audit regime comparing Balfour Beatty against its industry peers This focuses on health and safety performance by sector and by geography and provides a truer comparator of performance than a broad benchmarking index

On the Zero Harm programme, the emphasis continued to be on prevention, with the focus on driving cultural change throughout the organisation The Committee acknowledges that difficulties arise because of the temporary nature of many of the work sites with contractors on site for short periods and with high turnover rates The Committee will continue to monitor progress against the programme and consider how the Zero Harm brand and concept may be refreshed in 2015

The Committee considered certain significant health and safety-related incidents, including any fatalities, discussing in detail the themes around supervision, communications and remote working

The Global Safety Principles were reviewed by the Committee in conjunction with management Action plans will continue to be reviewed by the Committee

**Ethics, values and compliance**
Although the Code of Conduct and the accompanying ethics and compliance programme was well designed and the Group had a strong reputation in this area, the Committee emphasised that there was opportunity to further embed and communicate the Code's values and processes in parts of the businesses Progress would be monitored through 2015

The outcome of whistleblowing claims through 2014 was reviewed by the Committee The Committee will keep progress under observation

The self-assessment ethics and compliance dashboard, which forms an integral element of the year end compliance reports, was reviewed

**People**
The Committee will continue to monitor progress in 2015 against the Group's diversity strategy

Philip Aiken will replace Steve Marshall on this Committee in March 2015

**Areas of focus in 2015**
In 2015, the Committee will continue to focus on the key reputational risk areas of health and safety, ethics and compliance, and sustainability and will monitor progress against the various action plans under each category referenced above The Committee will also work with management on other business practice areas which have a meaningful impact on the future success of the Group, including supply chain management and customer relationship management

## GROUP TENDER AND INVESTMENT COMMITTEE

**Meetings in 2014** in excess of 100

**Members**
- Ian Rylatt – chair since May 2014
- Duncan Magrath
- Steve Marshall – since May 2014
- Peter Zinkin
- Mathew Duncan – since August 2014
- Nick Flew
- Mark Layman
- Sandip Mahajan
- John Moore
- Brian Osborne
- Nick Pollard
- Steve Tarr
- Chris Vaughan

**Former members (retired in the year)**
- Kevin Craven
- Andrew McNaughton
- George Pierson

**Responsibilities**
- Major contract approvals
- Acquisitions and disposals
- Capital expenditure

The Committee has been chaired by the Group Chief Executive, or in his absence by the Chief Financial Officer However, in May 2014, the Board appointed Ian Rylatt to chair meetings (other than for Infrastructure Investments tenders) with Duncan Magrath, Steve Marshall and Peter Zinkin as alternate chairmen Leo Quinn replaced Ian Rylatt as chair of this Committee in March 2015

Its main purpose is to review all major proposed tenders with projected values above specified levels, with a specific focus on risk The Committee also has authority to approve capital expenditure applications and any proposed acquisitions or disposals up to certain specified limits determined by the Board For example, currently the Committee's terms of reference require contracts for construction or services in the UK of a value exceeding £100 million to be submitted for review, whilst other limits vary according to geography and nature of the contract

Any Director may convene a meeting of the Committee to discuss any of the tender reviews in more detail In addition to those members of the Committee most relevant for the consideration of each proposed tender, meetings are attended by key members of the bid team concerned and their divisional, operational and financial leaders Minutes of all meetings are made available to all Directors

## FINANCE AND GENERAL PURPOSES COMMITTEE

**Meetings in 2014** Numerous

**Members**
- Steve Marshall – chair since May 2014
- Duncan Magrath
- Peter Zinkin

**Former member (retired in the year)**
- Andrew McNaughton

**Responsibilities**
- Banking facilities and other treasury matters
- Share options

The Committee is chaired by the Group Chief Executive or, in his absence, by one of the other executive Directors Leo Quinn replaced Steve Marshall on this Committee in January 2015

Its principal purpose is to approve various routine banking and treasury matters, grants and exercises of employee share options and other matters relating to share capital

A summary of the business conducted at the meetings is provided to all Directors

# DIRECTORS' REPORT CONTINUED

**Risk management and internal control**

**Risk management**

Effective risk management underpins the delivery of the Group's objectives It is essential to protecting its reputation and generating sustainable shareholder value Balfour Beatty aims to identify key risks at an early stage and develop actions to eliminate them or mitigate their impact and likelihood to an acceptable level For more information, refer to pages 30 to 35

The Board has applied principle C2 of the UK Corporate Governance Code by embedding continuous risk management processes throughout the Group at all levels which form an integral part of day-to-day business activity They are designed to help management to identify and understand the risks they face in delivering business objectives and the status of the key controls in place for managing those risks

**Roles and responsibilities**

The Board is responsible for Balfour Beatty's system of risk management and internal control It sets the Group's appetite for risk in pursuit of its strategic objectives and the level of risk that can be taken by Group, divisional and business unit management without specific Board approval Group policies and delegated authority levels set by the Board provide the means by which risks are reviewed and escalated to the appropriate level within the Group, up to and including the Board, for consideration and approval

The roles and responsibilities of the Board, its Committees, and divisional and business unit management during the year are set out below

| | Responsibilities | Actions undertaken |
|---|---|---|
| **1 Board** | • Responsible for the Group's systems of risk management and internal control<br>• Determines Group appetite for risk in achieving its strategic objectives | • Issues and reviews Group risk management policy<br>• Annually reviews effectiveness of Group risk management and internal control systems<br>• Reviews the Group's key risks and risk responses |
| **Audit, Risk & Assurance Committee** | • Regularly reviews the effectiveness of Group internal controls, including systems to identify, assess, manage and monitor risks | • Receives regular reports on internal and external audit and other assurance activities<br>• Annually assesses Group risk management and internal control systems |
| **Business Practices Committee** | • Reviews Group management of non-financial risks such as health and safety, sustainability, employee engagement, values, ethics and compliance | • Receives regular reports on implementation of Group policies and procedures on non-financial risks<br>• Reviews effectiveness of the Group's helpline and other channels for raising concerns about Code of Conduct breaches |
| **Group Tender and Investment Committee** | • Reviews and approves tenders and investments, triggered by certain financial thresholds or other risk factors | • Critically appraises significant tender proposals and investment/divestment opportunities, with a specific focus on risk |
| **2 Group management** | • Strategic leadership<br>• Responsible for ensuring that the Group's risk management policy is implemented and embedded<br>• Ensures appropriate actions are taken to manage strategic risks and other key risks | • Strategic plan and annual budget process<br>• Reviews risk management and assurance activities and processes<br>• Monthly/quarterly finance and performance reviews |
| **3 Divisional management** | • Responsible for risk management and internal control systems within its division<br>• Ensures that business units' responsibilities are discharged | • Reviews key risks and mitigation plans monthly<br>• Reviews and challenges business unit assurance plans<br>• Reviews results of assurance activities<br>• Escalates key risks to Group management and the Board |
| **4 Business unit management** | • Maintains an effective system of risk management and internal control within its business unit and projects | • Maintains and regularly reviews project, functional and strategic risk registers<br>• Reviews mitigation plans<br>• Plans, executes and reports on assurance activities |

**Risk management process**
Balfour Beatty's risk management policy requires that all divisions and those business units within them identify and assess the risks to which they are exposed and which could impact the ability to deliver their, and the Group's, objectives

Identified risk events, their causes and possible consequences are recorded in risk registers, with details of the likelihood and potential business impact and the control systems in place to manage them analysed and, if required, additional actions developed and put in place to mitigate or eliminate unwanted exposures, and individuals allocated responsibility for evaluating and managing these risks to an agreed timescale

The Group sets its risk appetite by calibrating its delegations of authority and the triggers for matters requiring Group senior management or Board approval In relation to bidding, this means that projects above a certain value, with certain features that import certain risks or involve a move into new markets or work types, require approval by the Group Tender and Investment Committee, with divisions having a delegated level of authority as well as their own approval and risk management committees and triggers

Reporting structures ensure that risks are monitored continually, mitigation plans are reviewed and significant exposures are escalated – from project level to business unit management to divisional and Group senior management

A range of procedures is used to monitor the effectiveness of internal controls, including management assurance, risk management processes and independent assurance provided by internal audit and other specialist third parties

In May 2014, significant revisions were made to divisional risk reporting, including the Group Commercial and Risk function playing a more proactive role to encourage responsible reporting and ownership of risk Other revisions include greater coordination of commercial and more general business risk and assurance reporting, attendance on divisional risk committees, greater frequency and breadth of site visits to specific projects and robust, structured and intrusive meetings being held with divisional assurance and commercial leads to interrogate their risk reports

Increased interrogation and coordination of risk reporting will continue throughout 2015 with the Group Commercial and Risk functions seeking to further integrate the analysis of commercial and general business risk and their controls

**Internal control**
The Board has ultimate responsibility for the Group's risk management systems and internal control, and regularly reviews their effectiveness

The Group's systems and controls are designed to ensure that the Group's exposure to significant risk is managed properly, but the Board recognises that any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss In addition, not all the material joint ventures in which the Group is involved are treated, for these purposes, as part of the Group Where they are not, systems of internal control and risk management are applied as agreed between the partners to the joint venture

Central to the Group's systems of internal control are its processes and framework for risk management These align with the Internal Controls Guidance to Directors (previously known as the Turnbull Guidance) on internal controls and were in place throughout 2014 and up to the date of signing this report

The Group's systems of internal control operate through a number of different processes, some of which are interlinked These include

- a clear system of delegated authorities from the Board to management with certain matters reserved by the Board
- the annual review of the strategy and plans of each division and of the Group as a whole in order to identify the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and management, including particular areas of business or project risk This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control the risks identified
- individual tender and project review procedures starting at the business unit and progressing to divisional and Board Committee levels if value, or perceived exposure, exceeds certain thresholds
- regular reporting monitoring and review of the effectiveness of health, safety and environmental processes These processes are subject to independent audit and certification to internationally recognised standards
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself
- specific policies set out in the Group Finance Manual covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls
- legal compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- Group-wide risk management standards which are embedded throughout the Group
- reviews and tests by the internal audit function of critical business financial processes and controls and specific reviews in areas of perceived high business risk
- the Group's ethics helpline and other channels by which staff are encouraged to raise concerns, in confidence, about possible breaches of the Code of Conduct, improprieties on matters of financial reporting and other issues

These systems are extended, as soon as possible and as appropriate, to all businesses joining the Group

Each of the divisional CEOs is responsible for ensuring that a comprehensive framework of assurance (including internal audit) exists within his or her division and business units which is in accordance with Group requirements

# DIRECTORS' REPORT CONTINUED

The Board continued to assess the effectiveness of the risk management processes and internal controls during 2014 and to the date of this report Such assessment is based on reports made to the Board, the Audit, Risk & Assurance Committee and the Business Practices Committee, including

- the results of internal audit's reviews of internal financial controls
- a Group-wide certification that effective internal controls had been maintained or, where any significant non-compliance or breakdown had occurred with or without loss, that appropriate remedial action has been or is being taken
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls

**2014 trading updates and KPMG review**
During 2014, there was continued worsening in certain parts of the Group's UK construction business and certain weaknesses in controls identified, as set out in the trading updates issued at the time and as explained elsewhere in this Annual Report on pages 18, 19 and 30

In September 2014, the Group appointed KPMG to undertake a detailed independent review of the contract portfolio within the UK construction business The outputs of this review are fully described in the review of the UK construction business on page 19, which forms part of the Directors' Report disclosures

**Risk improvements**
As explained on page 19, the recommendations and a number of other improvements identified have been or are being implemented to overcome the weaknesses which had been discovered in the risk controls In addition on page 30 is a description of the new Risk Framework which is being rolled out in 2015 to provide the rigour necessary to improve communication and accountability throughout the Group

As part of its review of the effectiveness of the system of risk management and internal control, the Board has considered the findings of the KPMG review as well as the progress that has been made in implementing the wider control enhancements considered necessary in the UK construction business, and confirms that it is satisfied that the necessary actions have been taken or are being taken to rectify any control weaknesses or failures

**Principal risks**
The principal risks that could adversely impact the Group's profitability and ability to achieve its strategic objectives are set out on pages 31 to 35

**Other disclosures**
**Business and financial review**
The Chairman's Review on pages 4 and 5 and the Group Chief Executive's Report on pages 6 and 7, the Strategy Review on pages 8 to 11, the Chief Financial Officer's Review on pages 14 to 17, the Performance Review on pages 18 to 26, and the section titled Safe, Innovative and Responsible Business on pages 36 to 41 are incorporated by reference into the Directors' Report

**Results and dividends**
The results for the year are shown in the audited financial statements presented on pages 86 to 164 and are explained more fully in the Chairman's Review, the Chief Financial Officer's Review and the Performance Review An interim dividend payment of 5 6p (net) per ordinary share was approved by the Board on 10 August 2014, giving a total dividend of 5 6p (net) per ordinary share for 2014, which compares with a total dividend per ordinary share of 14 1p (net) for 2013 Preference dividends totalling 10 75p (gross) per preference share were paid in 2014 (2013 10 75p (gross))

The Directors continued to offer the dividend reinvestment plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company s shares through a specially arranged share dealing service

**Innovation, research and development**
Information concerning innovation, research and development is set out on page 39 and forms part of the Directors' Report disclosures

**Branches**
As the Group is a global business, there are activities operated through branches in certain jurisdictions

**Share capital and shareholders**
Details of the share capital of the Company as at 31 December 2014, including the rights attaching to each class of share, are set out in Note 29 on pages 140 and 141 During the year ended 31 December 2014, no ordinary or preference shares were repurchased for cancellation 101,540 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 318,840 ordinary shares were issued following the exercise of options held under the Company's executive share option scheme

At 31 December 2014, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2014 to purchase through the market 68,920 815 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2015 AGM or on 1 July 2015

Throughout the year, all the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the Articles of Association and the prevailing law The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights

No person has special rights of control over the Company's share capital and all issued shares are fully paid

As at 31 December 2014, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its ordinary share capital

| | Number of ordinary shares held | Percentage of ordinary shares held |
|---|---|---|
| Newton Investment Management Limited | 35,529,044 | 5 15 |
| Prudential plc | 35,103,707 | 5 09 |
| Invesco Limited | 34,608,441 | 5 02 |
| Causeway Capital Management LLC | 33,571,956 | 4 87 |
| Standard Life Investments Limited | 25,202,285 | 3 66 |
| Norges Bank | 22,946,627 | 3 33 |

Since 1 January 2015, the Company has received further notifications advising that Newton Investment Management Limited's interest is now 4 55% and that

Causeway Capital Management Limited s interest is now 5 15%

**Auditor**
Deloitte LLP has indicated its willingness to continue as auditor to the Company and a resolution for its reappointment will be proposed at the AGM

**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 under UK company law

**Relations with shareholders**
The Board attaches great importance to maintaining good relationships with all shareholders and ensures that shareholders are kept informed of significant Company developments

The Company continued its programme of communication with institutional investors and sell-side analysts throughout 2014 Presentations of the half-year and full-year results were made in accordance with the practice of previous years, and teleconferences have been held for Interim Management Statements

Through the year, approximately 207 one-on-one and group meetings were held at regular intervals with institutional shareholders (2013 approximately 172) Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during hosted roadshows in London, Scotland and North America

This communication programme will be maintained and expanded where appropriate, subject to the constraints of regulation and practice The 2015 investor relations programme will focus on ensuring investors and the analyst community understand the Group, its operations and strategy, and that international institutions continue to be given the opportunity to meet with management

Care is exercised to ensure that any price sensitive information is released to all shareholders at the same time in accordance with UK Listing Authority requirements

Executive Directors report regularly to the Board on meetings or other contact with shareholders or their representatives The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman and the Senior Independent Director and through the regular reports to the Board, they are kept fully aware of the views of the larger shareholders in the Company and the investment community generally

The Board continues to retain the services of independent external corporate and investor relations consultants who provide advice on the relationship between the Company and its institutional investors

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders The chairs of the Board Committees attend the AGM each year along with the other Directors and are available to answer questions from shareholders The circular setting out the Notice of AGM provides a detailed explanation of the business to be transacted and includes contact details which shareholders can use to make any comments or ask any questions concerning the AGM

The website is regarded by the Company as an important source of information on the Group, including financial press releases, shareholder documentation, annual and half-year results presentations and the terms of reference of the principal Board Committees The Company's website continues to be developed to ensure it remains a principal source of information on the Group and its activities

**Political donations**
At the AGM held in May 2014, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2015 AGM

In the US and Canada, corporate political contributions totalling £282,000 were made by business units during 2014 (2013 £165,692) Most of these donations were made by Parsons Brinckerhoff (now sold), they were small and all were permitted by law They were non-partisan and many related to support given for local campaigns, public bond or similar referenda to promote investment in infrastructure 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 policies on probity set out in its Code of Conduct

# DIRECTORS' REPORT CONTINUED

**Corporate responsibility**
A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 39 to 41

The Group's published policies on health and safety, the environment, business conduct and ethics remain in place and are subject to regular reviews

**Greenhouse gas emissions**
Details of emissions during the year and the actions which the Group is taking to reduce them are set out on pages 39 and 40 and form part of the Directors' Report disclosures

**Employment**
The Balfour Beatty Group operates across multiple territories and end markets However, there are key principles in the design and practice of employment policy that are applicable across the Group These are to

- provide a safe, open, inclusive and challenging environment that attracts and retains the best people
- enable all employees to perform at their best and realise their full potential, assisted by appropriate training and career development
- communicate the strategy of the Group, the objectives of each respective business and the role and objectives of each employee within that business
- actively consult with all employees and engage in a participating environment that fosters the exchange of best practice and collaboration
- provide market competitive pay and benefits that reward both individual and collective performance
- ensure that all job applicants receive fair treatment, regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
- ensure that all employees similarly receive fair treatment throughout their career
- provide a working environment of respect and free from harassment

Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible The Group is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential, consistent with all other employees

The Company also operates an all employee Share Incentive Plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants

Information concerning the performance of the Group and the Company's share price is provided to all employees via the Group intranet, 360, and through the Company's website

**Employee diversity**
Information concerning employee diversity is set out on page 37 and forms part of the Directors' Report disclosures

**Events after the reporting date**
Details of events after the reporting date are set out in Note 37 on page 150

**Change of control provisions**
The Group's bank facility agreements contain provisions that, on 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control of the Company and cancel all commitments under the agreement concerned

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty on a change of control of the Company These include the right of a counterparty to request additional security and to terminate an agreement

The Group's US private placement arrangements require the Company, promptly upon becoming aware that a change of control of the Company has occurred (and in any event within 10 business days), to give written notice of such fact to all holders of the notes and make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest

The Group's convertible bond arrangements provide that the holder of bonds can require the Company to redeem its bonds following a change of control of the Company at their principal amount, together with accrued interest The Company is required to notify the bond holder within 14 days of a change of control

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, as do the terms of the Company's cumulative convertible redeemable preference shares

There are no agreements providing for compensation for the Directors or employees on a change of control

**Financial Instruments**
The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are detailed in Note 39 on pages 152 to 157

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and they have also chosen to prepare the parent company financial statements under IFRS as adopted by the EU 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 Company and of the profit or loss of the Company for that period In preparing these financial statements, International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for preventing and detecting fraud and other irregularities

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

The Directors confirm that to the best of their knowledge

- the financial statements, prepared in accordance with IFRS as adopted by the EU and Article 4 of the IAS Regulation, 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
- 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 they face

In light of the work undertaken by the Audit, Risk & Assurance Committee reported in greater detail on pages 51 to 54 and the internal verification and approval process which has been followed this year, the Directors are able to state that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

**Statements of Directors as to disclosure of information to auditors**

Each of the Directors at the date of approval of this report confirms that

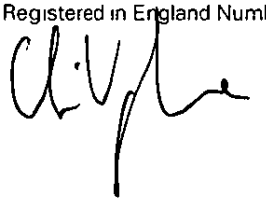
- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

**Chris Vaughan**
Chief Corporate Officer
& Company Secretary
24 March 2015

Registered Office
130 Wilton Road
London SW1V 1LQ
Registered in England Number 395826



# REMUNERATION REPORT

## I am pleased to present the Directors' Remuneration Report for 2014

This report is divided into two sections, the Policy Report and the Annual Report, the latter being subject to an advisory vote at the 2015 AGM

**Link to strategy**
The primary objectives of our remuneration policy are to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders Balfour Beatty executive remuneration comprises base salary, benefits and incentive plans that are designed to reward both short-term and long-term performance The incentive plans are subject to clawback provisions

**Impact of Board changes**
This year, the Committee has dealt with a number of key issues, notably the departure of Andrew McNaughton as Chief Executive in May 2014 and the recruitment of his replacement, Leo Quinn, who joined Balfour Beatty in January 2015 Shareholder response to the appointment of Leo Quinn has been favourable and his remuneration has previously been communicated

Steve Marshall announced in September 2014 his intent to step down from the Board on appointment of his successor He will be replaced by Philip Aiken, joining the Board as non-executive Chairman on 26 March 2015 Following the announcement in November 2014 that Duncan Magrath will be leaving the Company and the subsequent appointment of his successor, Phil Harrison, Duncan's leaving date has now been confirmed as 8 May 2015

**Reward for 2014**
Following the departure of Andrew McNaughton, the Committee approved temporary adjustments to the packages of Steve Marshall and Duncan Magrath to ensure continuity of business leadership Steve Marshall became Executive Chairman with immediate effect and his annual fees were increased to £531,500 pa to reflect his additional responsibilities and time commitment Duncan Magrath received an interim responsibility allowance of 20% of salary paid monthly up to 31 March 2015 The Committee considers that both adjustments were entirely appropriate in the absence of a Chief Executive during a period of significant corporate activity

Incentives in respect of 2014 have reflected the disappointing performance of the Group during the year The profit warnings, attributed to the UK construction business, resulted in failure to reach the performance threshold for payment on the profit before tax (PBT) element of the Annual Incentive Plan (AIP) for 2014 (70% of the incentive) However, whilst the strategic objectives (30% of the incentive) were partially met, notably attributed to the successful disposal of Parsons Brinckerhoff to WSP, it was agreed that the executive Directors would waive any entitlement under the AIP for 2014

The EPS and TSR performance conditions relating to the 2012 PSP which measured performance over the three years ended 31 December 2014 were not achieved and so those awards will lapse in full in April 2015 However, 94% of the special 50% of salary PSP award granted to Duncan Magrath in April 2013 vested on 31 December 2014

**Remuneration policy for 2015**
We remain committed to the principles of our existing remuneration policy and its strong alignment to performance and shareholder value Details of how the Committee intends to operate the policy for 2015 are set out below

- Reflecting Leo Quinn's inaugural year as Group Chief Executive and the challenges faced by the business, the AIP for 2015 will be measured using profit and cash targets together with business objectives
- The Committee intends to adopt a combination of cash, TSR and EPS performance measures for the 2015 PSP awards Cash generation has been introduced as a performance metric to drive this significant Group strategic focus

**Conclusion**
The Committee will continue to engage with the Company's major shareholders to ensure that its executive remuneration remains appropriate and that, if changes are proposed, they remain true to the Committee's principles of rewarding strong performance and enhanced value to shareholders

I hope you will be supportive of the resolution to approve the Annual Report on Remuneration at the 2015 AGM

**Iain Ferguson**
Chairman of the Remuneration Committee

## DIRECTORS' REMUNERATION POLICY REPORT

The policy was approved by shareholders at the AGM on 15 May 2014 Although there is no requirement to include the Policy Report this year, it has been included for ease of reference

### Policy overview

The Committee, on behalf of the Board, determines the Company's remuneration policy and the remuneration packages of the executive Directors of the Company and the Chairman In setting the remuneration policy, the Committee takes into account a number of factors, including

- general trends in pay and conditions throughout the Group
- the positioning of remuneration levels against the external market
- the balance between fixed and variable pay – more specifically, variable pay should form a significant but not disproportionately high level of potential remuneration
- the strategy of the business

In setting the overall remuneration policy, general trends and average increases throughout the Group are taken into account when setting executive Directors' reward packages A key feature for the executive Directors is that a higher proportion of their remuneration package is delivered through performance-related pay, which has a greater linkage to the results of the Group The areas covered in this Policy Report comprise


- Consideration of shareholders views p65
- Consideration of employment conditions elsewhere in the Group p65
- Summary of executive Directors' remuneration policy p66
- Remuneration scenarios for executive Directors p68
- Recruitment and promotion policy for executive Directors p68
- Service agreements and payments for loss of office for executive Directors p69
- External appointments of executive Directors p69
- Appointment of non-executive Directors p69


### Consideration of shareholders' views

The Committee considers feedback from shareholders received at each AGM, and any feedback from additional meetings, 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 are proposed

### Consideration of employment conditions elsewhere in the Group

In determining the remuneration of the Company's 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 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 rest of the workforce are taken These are focused for the most part on market competitiveness, business performance and personal performance

In practice, the remuneration policy for executive Directors is more heavily weighted towards variable pay than for other employees, so that a significant proportion of their remuneration is dependent on Company performance For employees below Board level, variable pay represents a lower proportion of their total remuneration which is driven by market comparators and general performance

# REMUNERATION REPORT CONTINUED

**Summary of executive Directors' remuneration policy**
The following table sets out a summary of each element of the 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

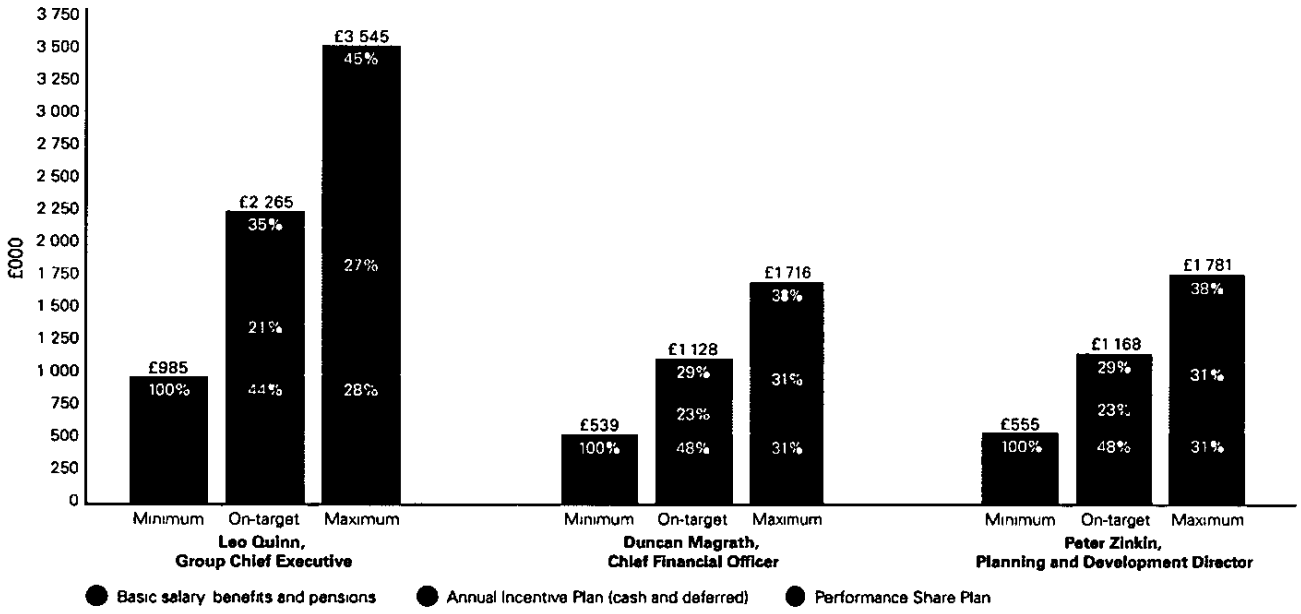
| Element of pay | Purpose and link to Company's strategy | How operated in practice |
|---|---|---|
| Base salary | To attract and retain high-calibre individuals<br>To provide a competitive salary relative to comparable companies in terms of size and complexity | Salaries are reviewed and set annually in July The Committee considers remuneration levels in companies of comparable market capitalisation revenue and industry sector<br>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)<br>Salaries are paid monthly in cash |
| 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 and life assurance may be provided<br>A car and fuel card or car allowance are offered<br>Other benefits may be provided as appropriate |
| Pension | To remain competitive in the marketplace | Executive Directors can elect either to<br>• participate in the defined contribution (DC) section of the Group's pension fund Executive Directors must make contributions of 5% of base salary (up to an earnings cap), with the Company contributing 20% of base salary (up to the cap) On earnings above the cap, executive Directors receive a salary supplement, or<br>• receive a salary supplement in lieu of a pension |
| 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<br>To facilitate share ownership and provide further alignment with shareholders | 50% of any payment is normally deferred into shares for three years<br>Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results<br>Participants may also receive an award of cash or shares in lieu of the value of dividends on vested shares |
| Performance Share Plan (PSP) | To incentivise and reward delivery of long-term performance linked to the business strategy<br>To facilitate share ownership and provide further alignment with shareholders<br>To aid retention | PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year<br>Awards normally vest on the third anniversary subject to performance<br>Participants also receive an award of cash or shares in lieu of the value of dividends on vested shares<br>Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results |
| Shareholding guidelines | To align the interests of executive Directors with those of shareholders | Executive Directors are expected to accumulate a shareholding in the Company's shares to the value of 100% of their base salary 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 |

Executive Directors may also participate in the all-employee share schemes up to prevailing HMRC limits

| Maximum opportunity | Performance metrics |
|---|---|
| There is no prescribed maximum annual increase The Committee is guided by the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role<br>Current salary levels are disclosed on page 71 | A number of factors are considered, notably market competitiveness, business and personal performance |
| The maximum opportunity for medical benefits is cover for the executive Director and his or her family Life assurance cover and any car or car allowance are based on market norms | None |
| Executive Directors who participate in the Group's pension fund benefit from a pension contribution of 20% of base salary up to the earnings cap and a salary supplement of 20% of base salary in excess of the cap<br>If a salary supplement is taken in lieu of a pension contribution, this is equivalent to 20% of base salary | None |
| Maximum annual incentive opportunity is 120% of base salary | A majority of the bonus will be based on profit and a minority of the bonus may be based on other performance metrics linked to the business strategy, measured over a one-year performance period<br>Measures are reviewed each year and varied as appropriate to reflect the strategy |
| The limit in the rules of the PSP is 200% of base salary Other than in exceptional circumstances, the normal limit will be 175% of base salary | Performance measures will normally be based on relative total shareholder return (TSR) and/or earnings per share metrics, although strategic measures may be used in exceptional circumstances Targets will normally be measured over a three-year performance period<br>There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance |
| – | None |

# REMUNERATION REPORT CONTINUED

**Remuneration scenarios for executive Directors**
The charts below provide estimates for the potential future remuneration based on the current remuneration policy for the three executive Directors Potential outcomes are based on three performance scenarios minimum, on-target and maximum




Notes
1 Salary levels are based on those applying from 1 July 2014 for Duncan Magrath and Peter Zinkin and 1 January 2015 for Leo Quinn The salary for Duncan Magrath does not include his 20% of salary responsibility allowance as this is not part of the ongoing remuneration policy and will cease on 31 March 2015
2 The value of benefits receivable for 2015 has been estimated
3 The on-target level of AIP is taken to be 50% of the maximum AIP opportunity (120% of salary for all executive Directors) of which 50% is paid in cash and 50% is deferred in shares under the DBP
4 The on-target level of vesting under the PSP is taken to be 50% of the face value of the award at grant (200% of salary for the Group Chief Executive and 150% of salary for the other executive Directors) The Group Chief Executive s buyout awards as agreed as part of his joining arrangements are not reflected in the above chart as these are not part of the ongoing remuneration policy
5 The maximum level of AIP and vesting under the PSP is taken to be 100% of the AIP opportunity and 100% of the face value of the PSP awards at grant
6 No share price appreciation or dividend awards have been assumed for the DBP shares and PSP awards

**Recruitment and promotion policy for executive Directors**
To ensure the ongoing leadership continuity of the Group, the appointment of high-calibre executives may be necessary, 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

The salary would be provided at such a level as required to attract the most appropriate candidate The AIP potential would be limited to 120% of salary, and grants under the PSP may be up to the plan maximum of 200% of salary In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer It would seek to ensure, where possible, that these awards were consistent with awards forfeited in terms of vesting periods, expected value and performance conditions

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

**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 are subject to one year's notice by the Company and six months' notice by the executive Director In accordance with the UK Corporate Governance Code, all executive Directors submit themselves for re-election at the AGM In the event of early termination, the executive Directors' contracts provide for compensation in line with their contractual notice period In summary, the contractual provisions are to provide the following

| Provision | Detailed terms |
|---|---|
| Notice period | 12 months by the Company, six months by the executive Director |

There are no contractual compensation provisions for termination of employment However, other non-contractual considerations are as follows

| | |
|---|---|
| Notice payments | If any existing contract were breached by the Company, it would be liable to pay an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period, subject to mitigation and phased payments where appropriate |
| Remuneration entitlements | Pro rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below)<br>In all cases, performance targets would apply |
| Change of control | No executive Director's contract contains additional provisions in respect of change of control |

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant 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, disability, retirement or other circumstances at the discretion of the Committee, good leaver status may be applied For good leavers, 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 Remuneration Committee has discretion to determine that PSP awards vest at cessation and/or to amend time pro rating Outstanding DBP awards will lapse on cessation of employment However, in certain good leaver circumstances DBP awards will vest in full on the date of cessation

**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 UK Corporate Governance Code, all non-executive Directors submit themselves for re-election at the AGM

| Element of pay | Purpose and link to Company s strategy | How operated in practice | Maximum opportunity |
|---|---|---|---|
| Non-executive Director fees | To attract and retain high-quality and experienced non-executive Directors | The Chairman 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<br>Non-executive Directors based outside Europe receive a travel allowance for each visit made on Company business to the UK, or to any other country (excluding their home country)<br>Fee levels are normally reviewed annually in July<br>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 | As per executive Directors, there is no prescribed maximum annual increase The Committee is guided by the general increase in the non-executive director market and for the broader employee population, but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role |

None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause and may be terminated at will by either party

# **REMUNERATION REPORT** CONTINUED

## ANNUAL REPORT ON REMUNERATION

This part of the Remuneration Report sets out how the remuneration policy will be applied over the year ending 31 December 2015 and how it was implemented over the year ended 31 December 2014 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 areas covered in this Annual Report on Remuneration comprise


- Implementation of the remuneration policy for the year ending 31 December 2015 p71
- Remuneration received by Directors for the year ended 31 December 2014 p72
- AIP awards for the year ended 31 December 2014 p73
- Vesting of PSP awards for the year under review p73
- Outstanding share awards p74
- Long-term incentive awards granted during the year p75
- Group Chief Executive changes and payments for loss of office p76
- Payments to past Directors p77
- Statement of Directors' shareholdings and share interests p77
- Performance graph p77
- Group Chief Executive's remuneration table p78
- Percentage change in Group Chief Executive's remuneration compared with all UK employees p78
- Relative importance of spend on pay, dividends and underlying pre-tax profit p78
- Directors pensions and pension allowances p78
- External appointments of executive Directors p79
- Consideration by the Directors of matters relating to Directors' remuneration p79
- Statement of shareholder voting at AGM p80

**Implementation of the remuneration policy for the year ending 31 December 2015**
The detailed information about the Directors' remuneration, set out on pages 71 to 80 (excluding the performance graph on page 77), has been audited by the Company's independent auditor, Deloitte LLP

**Base salaries**
The annual base salary review date is 1 July for executive Directors Current base salaries for the executive Directors who served in 2014 are as follows

| Base salary | 1 July 2013 £ | **1 July 2014 £** | % increase |
|---|---|---|---|
| Duncan Magrath[1] | 425,000 | **436,000** | 2 6% |
| Peter Zinkin | 443,000 | **454,000** | 2 5% |

[1] In addition to the above Duncan Magrath received a temporary responsibility allowance of 20% of base salary in respect of additional duties and responsibilities taken on in the absence of a Chief Executive This was payable from 3 May 2014 (the date Andrew McNaughton stepped down) up to 31 March 2015

The annual base salary for Leo Quinn was set at £800,000 from appointment to the Board on 1 January 2015 Further details are provided on page 76 As per the announcement of 20 January 2015, Phil Harrison will join the Board as Chief Financial Officer His annual base salary will be £400,000 with all other terms in line with the approved policy Full details will be provided in next year's Annual Report on Remuneration

**Performance targets for the AIP in 2015**
For 2015, the AIP will continue to be based on a combination of Group-based financial targets and objectives linked to the business strategy Reflecting Leo Quinn's inaugural year as Group Chief Executive and the challenges faced by the business, 76% of the AIP will be based on financial targets, and 24% will be based on business objectives While the Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in next year's Annual Report on Remuneration

The maximum AIP potential will continue to be 120% of base salary for executive Directors, with 50% of any payment deferred in shares for three years

**Performance targets for PSP awards granted in 2015**
The PSP awards to be granted in 2015 will be subject to the following targets

- relative TSR (33 3%) – the Company s TSR measured against a comparator group of UK listed companies ranked 51-150 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2015, the start of the performance period There is no vesting below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
- EPS (33 3%) – the growth in the Company's EPS over the performance period
- Cash (33 3%) – a cash measure is deemed appropriate given the Group's particular circumstances in 2015

As at the date of publication of this Remuneration Report, the Committee had not finalised the EPS and cash performance targets for the PSP award to be granted in 2015 These EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement following the PSP award and in the Remuneration Report for 2015

**Non-executive Directors**
As detailed in the Policy Report, 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 A summary of current fees is as follows

| | 1 July 2013 £ | **1 July 2014 £** | % increase |
|---|---|---|---|
| Chairman[1] | 265,750 | **265,750** | 0% |
| Base fee | 56,000 | **56,000** | 0% |
| Senior Independent Director fee | 10,000 | **10,000** | 0% |
| Committee chair fee | 10,000 | **10,000** | 0% |

[1] Following Andrew McNaughton s departure Steve Marshall became Executive Chairman with effect from 3 May 2014 He received a temporary increase in his annual fee from £265 750 to £531 500 from this date to reflect his additional responsibilities and time commitment His annual fee reverted to £265 750 from 1 January 2015 upon Leo Quinn s appointment as Group Chief Executive

Philip Aiken will join the Board as non-executive Chairman on 26 March 2015 His annual fee will be £270,000

For non-executive Directors based outside Europe, the travel allowance for each overseas visit made on Company business remains at £2,500

Where the Chairman or Senior Independent Director is also the chair of a committee, he or she receives no committee chair fee

# REMUNERATION REPORT CONTINUED

**Remuneration received by Directors for the year ended 31 December 2014**

The table below sets out the Directors' remuneration for the year ended 31 December 2014 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2013

| | Year | Base salary and fees[1,2] £ | Taxable benefits[3,4] £ | Pension[5] £ | Annual incentive cash £ | Annual incentive deferred shares £ | Long term incentives[6] £ | Other[7] £ | Total £ |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Duncan Magrath[8] | **2014** | **487,395** | **15,568** | **86,100** | **–** | **–** | **166,803** | **4,128** | **759,994** |
| | 2013 | 425,000 | 15,550 | 88,789 | – | 107,100 | – | – | 636,439 |
| Andrew McNaughton[9] | **2014** | **224,167** | **6,041** | **44,833** | **–** | **–** | **–** | **–** | **275,041** |
| | 2013 | 603,021 | 17,055 | 125,250 | – | 163,800 | – | – | 909,126 |
| Peter Zinkin[10] | **2014** | **448,500** | **10,385** | **89,700** | **–** | **–** | **–** | **–** | **548,585** |
| | 2013 | 443,000 | 9,970 | 88,600 | – | 111,636 | – | – | 653,206 |
| **Non-executive Directors** | | | | | | | | | |
| Robert Amen[11] | **2014** | **76,000** | **7,311** | **–** | **–** | **–** | **–** | **–** | **83,311** |
| | 2013 | 91,000 | 4,154 | – | – | – | – | – | 95,154 |
| Iain Ferguson | **2014** | **66,000** | **1,877** | **–** | **–** | **–** | **–** | **–** | **67,877** |
| | 2013 | 66,000 | 3,229 | – | – | – | – | – | 69,229 |
| Maureen Kempston Darkes[12] | **2014** | **86,000** | **5,496** | **–** | **–** | **–** | **–** | **–** | **91,496** |
| | 2013 | 76 000 | 1,539 | – | – | – | – | – | 77,539 |
| Steve Marshall[13] | **2014** | **441,488** | **5,878** | **–** | **–** | **–** | **–** | **–** | **447,366** |
| | 2013 | 265,750 | 5,811 | – | – | – | – | – | 271,561 |
| Belinda Richards[14] | **2014** | **49,397** | **–** | **–** | **–** | **–** | **–** | **–** | **49,397** |
| | 2013 | 14,000 | – | – | – | – | – | – | 14,000 |
| Graham Roberts | **2014** | **66,000** | **–** | **–** | **–** | **–** | **–** | **–** | **66,000** |
| | 2013 | 66,000 | – | – | – | – | – | – | 66,000 |
| Bill Thomas[14,15] | **2014** | **49,397** | **2,168** | **–** | **–** | **–** | **–** | **–** | **51,565** |
| | 2013 | 14,000 | 1,449 | – | – | – | – | – | 15,449 |

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors Duncan Magrath s base salary includes a temporary responsibility allowance as described on page 71

2 In practice the base salaries paid to Duncan Magrath Andrew McNaughton and Peter Zinkin have been reduced due to their participation in the Company s Share Incentive Plan These salary reductions in 2014 were £1 500 for Duncan Magrath and Peter Zinkin and £500 for Andrew McNaughton In practice the base salary paid to Peter Zinkin has been further reduced due to his participation in the Group s SMART Pensions salary sacrifice arrangement for the period to 31 January 2014 This salary reduction in 2014 was £588 which corresponds to his contributions to the Balfour Beatty Pension Fund for the month of January 2014 met directly by his employer as part of this arrangement The base salary for Peter Zinkin has also been reduced by £24 000 in 2014 (2013 £24 000) to meet additional travelling costs incurred by him in order to fulfil his role

3 Taxable benefits are calculated in terms of UK taxable values Duncan Magrath and Andrew McNaughton received private medical insurance for the Director and his immediate family Peter Zinkin received private medical insurance for the Director and his spouse Duncan Magrath received a car allowance of £14 000 pa Andrew McNaughton received a car allowance of £16 000 pa Peter Zinkin received a fully expensed car with taxable benefit value of £9 223 pa

4 Robert Amen Iain Ferguson Maureen Kempston Darkes Steve Marshall and Bill Thomas received taxable travel expenses which are shown in the taxable benefits column

5 For periods of membership of the DC section of the Group s pension fund this comprises the amount of employer contributions plus any salary supplements in lieu of pension on earnings that are above the earnings cap For any periods of non membership of the Group s pension fund this comprises any salary supplements in lieu of pension contributions For periods of deferred membership of the DB section of the Group s pension fund there may also be included the value of any increase in DB benefits Further details are set out in the section on Directors pensions on page 78 and 79

6 This relates to (i) the value of the 2012 PSP award (which will lapse in full based on a performance period ended on 31 December 2014) and (ii) for Duncan Magrath his additional 50% of salary special PSP award which was granted in 2013 and which vested on 31 December 2014 Further details of these awards are set out on page 73 and 74

7 Duncan Magrath received an expenses payment of £4 128 representing the reimbursement of the cost of a holiday which he was required to cancel as a result of corporate activity

8 Duncan Magrath will cease to be a Director on 8 May 2015

9 Andrew McNaughton stepped down from the Board on 3 May 2014 His pay for loss of office is described on page 76

10 Peter Zinkin will cease to be a Director on 25 March 2015

11 Robert Amen s fees shown for 2014 include £20 000 in respect of travel allowances for meetings attended in 2014 (2013 £25 000)

12 Maureen Kempston Darkes fees shown for 2014 include £20 000 in respect of travel allowances for meetings attended in 2014 (2013 £17 500) Her fees for 2013 have been restated for an underpayment in 2013 of £2 500 which was corrected in 2014

13 Steve Marshall s fees shown for 2014 include the additional annual fee agreed when he became Executive Chairman pro rated for the period 3 May 2014 to 31 December 2014 His taxable travel expenses for 2013 have been restated for an underpayment of £5 811 in 2013 which was corrected in 2014

14 Belinda Richards and Bill Thomas joined the Board on 1 September 2013 and stepped down from the Board on 21 November 2014

15 Bill Thomas taxable travel expenses for 2013 have been restated for an underpayment of £1 449 in 2013 which was corrected in 2014

**AIP awards for the year ended 31 December 2014**

The AIP awards for the year under review were based on performance against profit before tax and non-underlying items and Group-based performance metrics linked to the business strategy As a result of the trading statement issued on 6 May 2014, the departure of Andrew McNaughton, with Steve Marshall stepping in as Executive Chairman and a significant revision of the Group's strategic objectives, the three Group-based strategic metrics were amended and, to reflect the in-period changes, the Committee considered it appropriate to scale back the maximum payout by 25% (ie, rather than reflecting 30% of the bonus potential, this was reduced to 22 5%) The profit before tax and non-underlying items target was not amended The revised Group-based strategic metrics were as set out in the table below The Committee concluded that Andrew McNaughton's departure from the Board in May 2014 should preclude him from receiving any award under the AIP in respect of 2014

The Committee's assessment was that the AIP business strategy objectives had been partially achieved Notwithstanding this, Duncan Magrath and Peter Zinkin agreed with the Committee that they would waive any entitlement under the AIP in respect of 2014 given overall business performance

| AIP objective | Target | | Actual | Maximum (% of salary)[1] | Actual (% of salary) | Payable in cash (% of salary) | Payable in shares (% of salary) |
|---|---|---|---|---|---|---|---|
| Profit before tax and non-underlying items | Threshold<br>Budget<br>Maximum | £175 5m<br>£195 0m<br>£224 25m | £(80)m | 84% | 0% | 0% | 0% |
| Negotiate and close a Parsons Brinckerhoff disposal transaction at a value acceptable to the Board and to shareholders | Remuneration Committee assessment of achievement | | 100% achieved | 12% | 9% | 4 5% | 4 5% |
| Optimise the value of that disposal through, for example, the restructuring of the Group balance sheet and the allocation of proceeds in a manner broadly acceptable to all stakeholders | Remuneration Committee assessment of achievement | | 50% achieved | 12% | 4 5% | 2 25% | 2 25% |
| Simplify and focus Group activities, promoting a strong emphasis on operational delivery across the Group, strong continuing oversight of safety, values, ethics and sustainability, improved oversight of risk management and assurance at all levels | Remuneration Committee assessment of achievement | | 0% achieved | 12% | 0% | 0% | 0% |
| | | | Total | 120% | 13 5% | 6 75% | 6 75% |

[1] The maximum for each of the Group-based strategic performance metrics was reduced from 12% to 9% when the Group s strategic objectives were amended following the trading statement issued on 6 May 2014

**Vesting of PSP awards for the year under review**

The PSP awards granted on 16 April 2012 were based on a performance period for the three years ended 31 December 2014

As disclosed in previous Remuneration Reports, the performance conditions were as follows

| Metric | Performance condition | Measure | Threshold target | Maximum target | Actual | Vesting % |
|---|---|---|---|---|---|---|
| Earnings per share[1] (50% of the award) | EPS growth 15% (25% vesting of this part of the award) to 45% (100% vesting of this part of the award) | EPS at 31 December 2014 | 40 83p | 51 48p | (11 5)p | 0% |
| Total Shareholder Return (50% of the award) | TSR against the 90 remaining companies ranked 51-150 in the FTSE All Share Index (excluding investment trusts) as at the start of the performance period and still listed at the end of the performance period 25% of this part of the award vesting for median performance increasing to 100% of this part of the award vesting for upper quartile performance or above | TSR ranking | 45 or above | 23 or above | 74 | 0% |
| | | | | | Total vesting | 0% |

[1] Earnings per share is defined as underlying earnings per share from continuing operations

# REMUNERATION REPORT CONTINUED

**Vesting of PSP awards for the year under review continued**

The special PSP award granted to Duncan Magrath of up to 50% of his £425,000 salary on 16 April 2013 was based on a performance period from 1 April 2013 to 30 June 2014 The performance conditions were based on his contribution to the improvement of the Group's capital structure and leadership as follows

| Metric | Performance condition | Measure | Maximum (% of award) | Actual proportion achieved | Vesting[1] % |
|---|---|---|---|---|---|
| Improvement of Group's capital structure (60% of the award) | Implementation of private placement in US, improved diversity of debt funding sources and liquidity through issue of convertible bond, sale of Balfour Beatty WorkPlace, focus on cash management | Remuneration Committee assessment of achievement | 60% | 100% achieved | 60% |
| Lead and improve the strategic planning process (40% of the award) | Improvements in strategic planning process | Remuneration Committee assessment of achievement | 40% | 85% achieved | 34% |
| | | | | Total vesting | 94% |

[1] The special PSP award vested on 31 December 2014

Details of the PSP awards vesting for the year under review for the executive Directors are therefore as follows

| Executive | Type of award | Number of shares at grant | Number of shares to vest | Number of shares to lapse | Value of vested shares £ |
|---|---|---|---|---|---|
| Duncan Magrath | 2012 conditional | 219,076 | – | 219,076[1] | – |
| Duncan Magrath | 2013 special conditional | 85,272 | 80,155 | 5,117 | 166,803 |
| Andrew McNaughton | 2012 conditional | 232,600 | – | 232,600[2] | – |
| Peter Zinkin | 2012 conditional | 232,600 | – | 232,600[1] | – |

[1] The 2012 PSP awards for Duncan Magrath and Peter Zinkin will formally lapse on 16 April 2015
[2] The 2012 PSP award for Andrew McNaughton lapsed on 3 May 2014 Further details are on page 76

**Outstanding share awards**

| | | | | Maximum number of shares subject to award | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name of Director | Share award | Date granted | At 1 January 2014 | Awarded during the year | Vested during the year | Lapsed during the year | **At 31 December 2014** | Exercisable and/or vesting from | Exercise price |
| Duncan Magrath[17] | PSP[1 5 6] | 1 June 2011 | 181,729 | – | – | 181,729 | – | 1 June 2014 | – |
| | PSP[2 5 6] | 16 April 2012 | 219,076 | – | – | – | **219,076** | 16 April 2015 | – |
| | PSP[3 5 6] | 16 April 2013 | 255,818 | – | – | – | **255,818** | 16 April 2016 | – |
| | Special PSP[5 6,17] | 16 April 2013 | 85,272 | – | 80,155 | 5,117 | – | 31 December 2014 | – |
| | PSP[4 5 6 7] | 31 March 2014 | – | 211,162 | – | – | **211,162** | 31 March 2017 | – |
| | DBP[8 9 10 11] | 31 March 2011 | 24,172 | – | 24,172 | – | – | 31 March 2014 | – |
| | DBP[8 9 11 12] | 30 March 2012 | 61,859 | 4,095 | – | – | **65,954** | 30 March 2015 | – |
| | DBP[8 9 11 12] | 31 March 2013 | 46,083 | 3,050 | – | – | **49,133** | 31 March 2016 | – |
| | DBP[8 9 11 12 13] | 31 March 2014 | – | 37,823 | – | – | **37,823** | 31 March 2017 | – |
| | SRSOS[14 15 16] | 18 May 2009 | 628 | – | – | 628 | – | 1 July 2014 | 249 0p |
| | SRSOS[14 15 16] | 11 May 2010 | 1,291 | – | – | – | **1,291** | 1 July 2015 | 236 0p |
| Andrew McNaughton[18] | PSP[1 5 6] | 1 June 2011 | 193,530 | – | – | 193,530 | – | 1 June 2014 | – |
| | PSP[2 5 6] | 16 April 2012 | 232,600 | – | – | 232,600 | – | 16 April 2015 | – |
| | PSP[3 5 6] | 16 April 2013 | 456,460 | – | – | 456,460 | – | 16 April 2016 | – |
| | PSP[4 5 6 7] | 31 March 2014 | – | 376,780 | – | 376,780 | – | 31 March 2017 | – |
| | DBP[8 9 10 11] | 31 March 2011 | 25,742 | – | 25,742 | – | – | 31 March 2014 | – |
| | DBP[8 9 11 12] | 30 March 2012 | 65,677 | 1,921 | 67,598 | – | – | 30 March 2015 | – |
| | DBP[8 9 11 12] | 31 March 2013 | 49,879 | 1,458 | 51,337 | – | – | 31 March 2016 | – |
| | DBP[8 9 11 12 13] | 31 March 2014 | – | 51,806 | 51,806 | – | – | 31 March 2017 | – |
| Peter Zinkin | PSP[1 5 6] | 1 June 2011 | 196,834 | – | – | 196,834 | – | 1 June 2014 | – |
| | PSP[2 5 6] | 16 April 2012 | 232,600 | – | – | – | **232,600** | 16 April 2015 | – |
| | PSP[3 5 6] | 16 April 2013 | 266,653 | – | – | – | **266,653** | 16 April 2016 | – |
| | PSP[4 5 6 7] | 31 March 2014 | – | 220,105 | – | – | **220,105** | 31 March 2017 | – |
| | DBP[8 9 10 11] | 31 March 2011 | 26,180 | – | 26,180 | – | – | 31 March 2014 | – |
| | DBP[8 9 11 12] | 30 March 2012 | 65,677 | 4,348 | – | – | **70,025** | 30 March 2015 | – |
| | DBP[8 9 11 12] | 31 March 2013 | 48,035 | 3,180 | – | – | **51,215** | 31 March 2016 | – |
| | DBP[8 9 11 12 13] | 31 March 2014 | – | 39,424 | – | – | **39,424** | 31 March 2017 | – |

[1] 2011 PSP award Details of the Company s performance against the performance conditions are set out in the 2013 Remuneration Report The award lapsed in full on 1 June 2014 based on performance over three financial years to 31 December 2013 as the growth in EPS did not exceed the 15% threshold and the Company s TSR ranked below the median of the comparator group

[2] 2012 PSP award The award will formally lapse on 16 April 2015 Further details of this award are set out on page 73

[3] 2013 PSP award Each award is subject to two relative TSR performance conditions measured over three financial years The Company's TSR is measured against two comparator groups 50% of each award is measured against a comparator group comprising the FTSE 51–150 (excluding investment trusts) 50% is measured against the following group of construction and professional services companies – AE Com Atkins Bilfinger and Berger Carillion Costain Hochtief Morgan Sindall Tutor Perini Skanska and URS 25% of each part of the award will vest for a median ranking increasing on a straight line basis to full vesting for an upper quartile ranking No shares will vest from a part of the award if the Company s TSR is below that of the median of the comparator group

[4] 2014 PSP award details of this award are set out below

[5] 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

[6] 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 awards granted was 317 78p for the 2011 award 277 3p for the 2012 award 249 2p for the 2013 award and 301 9p for the 2014 awards The closing middle market price of ordinary shares on the date of the awards was 312 4p 271 9p 244 9p and 299 6p respectively

[7] On 31 March 2014 for all participants in the PSP a maximum of 2 369 138 conditional shares were awarded which are exercisable on 31 March 2017

[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 initial DBP awards made in 2012 2013 and 2014 will vest on 30 March 2015 31 March 2016 and 31 March 2017 respectively providing the Director 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 initial DBP awards made in 2011 vested on 31 March 2014 The closing middle market price of ordinary shares in the Company on the vesting date was 299 6p

[11] The DBP awards made on 31 March 2011 30 March 2012 31 March 2013 and 31 March 2014 were purchased at average prices of 343 417p 286 99p 234 85p and 301 9p respectively

[12] For the initial DBP awards made in 2012 2013 and 2014 the shares awarded on 23 April 2014 and 9 October 2014 (in lieu of the final 2013 and interim 2014 dividends respectively) were allocated at average prices of 290 6p and 155 93p respectively

[13] On 31 March 2014 for all participants in the DBP a maximum of 490 541 conditional shares were awarded which will normally be released on 31 March 2017 On 23 April 2014 a further 47 421 conditional shares were awarded in lieu of entitlements to the final 2013 dividend and on 9 October 2014 a further 49 552 conditional shares were awarded in lieu of entitlements to the interim 2014 dividend

[14] All savings related share option scheme (SRSOS) options are granted for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc

[15] The closing market price of the Company s ordinary shares on 31 December 2014 was 212 0p During the year the highest and lowest closing market prices were 321 4p and 148 7p respectively

[16] The SRSOS options granted to Duncan Magrath in May 2009 exercisable at 249 0p lapsed unexercised in December 2014

[17] The special PSP award vested on 31 December 2014 For the special PSP award a total of 9 686 shares in lieu of the final 2012 interim 2013 final 2013 and interim 2014 dividends as at 24 April 2013 9 October 2013 23 April 2014 and 9 October 2014 respectively were awarded based on average prices of 246 47p 264 0p 290 6p and 155 93p respectively The value of these shares at 31 December 2014 was £20 156

[18] Andrew McNaughton stepped down from the Board on 3 May 2014 At this time a proportion of his 2012 2013 and 2014 PSP awards lapsed reflecting the proportion of the performance period for each award which had not been completed at the date of leaving The remainder of the 2012 PSP 2013 PSP and 2014 PSP awards were tested on 3 May 2014 and lapsed The DBP awards made to him in 2012 2013 and 2014 vested on 3 May 2014

### Long-term incentive awards granted during the year

On 31 March 2014, 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 at granted | Face value of award | % of face value that would vest at threshold performance | Vesting determined by performance over | Vesting date |
|---|---|---|---|---|---|---|---|---|
| Andrew McNaughton | Conditional | 175% of salary of £650,000 | 301 9p | 376,780 | £1,137,500 | 25% | Three financial years to 31 December 2016 | 31 March 2017 |
| Duncan Magrath | Conditional | 150% of salary of £425,000 | 301 9p | 211,162 | £637,500 | 25% | | |
| Peter Zinkin | Conditional | 150% of salary of £443,000 | 301 9p | 220,105 | £664,500 | 25% | | |

50% of each award above is measured against a comparator group comprising the FTSE 51–150 (excluding investment trusts) and 50% is measured against the following group of construction and professional services companies – AECOM, Atkins, Bilfinger and Berger, Carillion Costain, Hochtief, Kier, Morgan Sindall, Tutor Perini, Skanska and URS 25% of each part of the award will vest for a median ranking, increasing on a straight-line basis to full vesting for an upper quartile ranking No shares will vest under each part of the award if the Company's TSR is below that of the median of the relevant comparator group

# REMUNERATION REPORT CONTINUED

**Chief Executive changes and payments for loss of office**

**Departure of Andrew McNaughton**

Andrew McNaughton stepped down from the Board on 3 May 2014 In line with his contractual entitlements, it was agreed that he should continue to receive his base salary, car allowance and pension allowance, paid monthly, in respect of his 12-month notice period (he therefore received monthly payments of £66,333 for each of the eight months from May 2014 to December 2014) The agreement with Andrew McNaughton included a duty to mitigate by reducing payments to him in the event of his finding new employment In addition, he was entitled to £3,250 in pay for unused holiday and private medical insurance for himself and his immediate family to 31 October 2014 and, thereafter, a payment in lieu of private medical insurance of £130 per month for six months He also received an amount of £10,000 in respect of legal costs and £30,000 for outplacement costs

In respect of Mr McNaughton's incentives, it was determined that

- there should be no entitlement under the 2014 AIP
- the 2012, 2013 and 2014 PSP awards should vest at cessation subject to performance conditions being satisfied at that point and pro rated for the proportion of the performance period served As a result of the performance conditions not being met in respect of any of the awards at 3 May 2014, all of his PSP awards lapsed
- awards held under the DBP (170,741 shares in respect of annual bonuses earned in the financial years ended 31 December 2011, 2012 and 2013) should vest at cessation These shares were released on termination at a value of £390,314, subject to tax and national insurance deductions

**Appointment of Leo Quinn**

As announced on 15 October 2014, Leo Quinn joined the Board as Group Chief Executive on 1 January 2015 The key elements of his remuneration package, which are consistent with the Company's approved remuneration policy, are as follows

- a base salary of £800,000
- a salary supplement at 20% of base salary in lieu of pension contributions
- a maximum annual bonus of 120% of base salary
- an annual PSP award of 175% of base salary, albeit PSP awards for 2015 and 2016 will be set at 200% of base salary

In addition to the above and as part of his recruitment arrangements, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer This compensation was, where possible, consistent with the awards forfeited in terms of currency (ie, cash versus shares), vesting periods and the operation of performance targets and is as follows

- compensation for any loss of annual bonus payable by the previous employer in respect of its financial year ending 31 March 2015 with any amount payable (i) based on the actual percentage of the maximum that Leo Quinn would have received, (ii) prorated from 1 April 2014 (the start of his previous employer's 2014/15 bonus period) to 1 January 2015 (ie, the point that Leo Quinn joined the Balfour Beatty AIP), and (iii) 50% in cash in 2015 and 50% in Balfour Beatty plc shares, deferred for three years with vesting subject to continued employment
- a conditional share award over 1,812,767 Balfour Beatty plc shares granted on 2 January 2015 which will vest in two tranches
  - 604,256 shares (1/3rd of the award) will vest on the second anniversary of grant subject to share price targets tested at the end of the two-year period based on a 60-day average and as adjusted for dividends 25% of this part of the award will vest for an end average share price of 222p increasing pro rata for full vesting of this part of the award for an end average share price of 309p No vesting for this part of the award will take place for an average share price of less than 222p
  - 1,208,511 shares (2/3rds of the award) will vest on the third anniversary of grant subject to share price targets tested at the end of the three-year period based on a 60-day average and as adjusted for dividends 25% of this part of the award will vest for an end average share price of 250p increasing pro rata for full vesting of this part of the award for an end average share price of 380p No vesting for this part of the award will take place for an average share price of less than 250p
  - In addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest
- conditional share awards over 141,791 Balfour Beatty plc shares, 308,010 Balfour Beatty plc shares and 504,151 Balfour Beatty plc shares granted on 2 January 2015 which will vest in May 2015, June 2015 and August 2015 respectively, based on the actual vesting percentages as determined by the original performance targets set and measured by Leo Quinn's previous employer

All share-based buyout awards lapse in the event of voluntary resignation or termination for cause prior to the respective vesting dates In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro rating at the time of cessation In the event of change of control, awards will be subject to performance testing being met at that time, but no time pro rating Except as set out above, the awards are subject to the terms of the PSP None of the awards are pensionable Any amendments to the awards which are to the advantage of the participant (other than certain minor amendments) are subject to shareholder approval

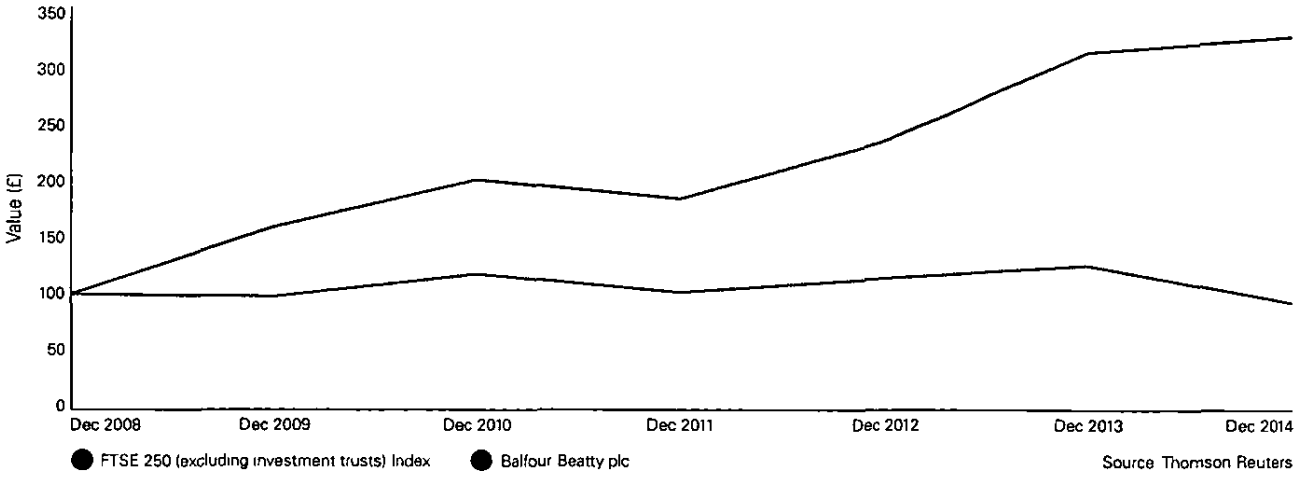
**Payments to past Directors**
There were no payments to past Directors other than the payments disclosed above in respect of Andrew McNaughton

**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

| Director | Beneficially owned at 1 January 2014[1,2] | Beneficially owned at 31 December 2014[2,3,4] | Outstanding PSP awards | Outstanding DBP awards | Beneficially owned at 31 December 2014 as a % of base salary at 31 December 2014 | Guideline met[5] |
|---|---|---|---|---|---|---|
| Duncan Magrath | 130,754 | 191,890 | 686,056 | 152,910 | 93% | No |
| Andrew McNaughton | 127,311 | 134,304 | | | | |
| Peter Zinkin[6] | 313,720 | 315,694 | 719,358 | 160,664 | 147% | Yes |
| Robert Amen | 10,139 | 10,139 | | | | |
| Iain Ferguson | 45,000 | 55,000 | | | | |
| Maureen Kempston Darkes | 7,000 | 7,000 | | | | |
| Steve Marshall | 7,142 | 17,142 | | | | |
| Belinda Richards | – | – | | | | |
| Graham Roberts | 15,000 | 15,000 | | | | |
| Bill Thomas | – | 9,128 | | | | |

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 departure if earlier
4 As at 24 March 2015 there have been no changes to the above other than in respect of shares held under the Share Incentive Plan which increased by 60 shares for Duncan Magrath and 169 shares for Peter Zinkin
5 The executive Directors are required to hold shares in the Company worth 100% of base salary and must retain no fewer than 50% of the shares net of taxes vesting under the DBP and PSP until the required shareholding is met
6 Peter Zinkin was also interested at 1 January 2014 and 31 December 2014 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc

**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 trading day average values




This graph shows the value by 31 December 2014 (averaged over 30 dealing days) of £100 invested in Balfour Beatty plc on 31 December 2008 compared with the value of £100 invested in the FTSE 250 (excluding investment trusts) Index The intermediate points are the 30 dealing day averages ending on the Company s financial year ends

# REMUNERATION REPORT CONTINUED

### Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last six 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 |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | **2014** |
| Total remuneration[1] | £1,617,223 | £1,451 016 | £1,514,007 | £1,189,287 | £961,350 | **£797,568** |
| AIP (%)[2] | 60 4% | 69 6% | 65 3% | 40 2% | 21 0% | **0%** |
| PSP (%) | 50% | 18 4% | 0% | 0% | 0% | **0%** |

[1] The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013 The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014
[2] Andrew McNaughton did not qualify for any 2014 AIP

### Percentage change in Group Chief Executive's remuneration compared with all employees

The table below shows the percentage change in the Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2013 and 31 December 2014, compared with the percentage increase in the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator

| | 2013 | **2014** | % change |
|---|---|---|---|
| **Salary for year ended 31 December** | | | |
| Group Chief Executive (£000)[1] | 650 | **650** | – |
| All UK employees (£m)[2] | 1,122 | **832** | (26) |
| **Benefits for year ended 31 December** | | | |
| Group Chief Executive (£000)[1] | 148 | **148** | – |
| All UK employees (£m) | 30 | **31** | 3 |
| **Annual bonus earned in year ended 31 December** | | | |
| Group Chief Executive (£000)[3] | 164 | **–** | (100) |
| All UK employees (£m)[4] | 13 | **18** | 38 |
| **Total remuneration for year ended 31 December** | | | |
| Group Chief Executive (£000) | 962 | **798** | (17) |
| All UK employees (£m) | 1,165 | **881** | (24) |

[1] Salary benefits annual bonus and total remuneration received by Andrew McNaughton annualised to reflect amounts receivable for a full year s service in role
[2] Reflects reduction in UK headcount year-on-year following the disposal of Balfour Beatty WorkPlace in December 2013 and Parsons Brinckerhoff in October 2014
[3] Andrew McNaughton did not qualify for any 2014 AIP
[4] Reflects good performance in the Investments and Services divisions

### 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

| | 2013 | **2014** | % change |
|---|---|---|---|
| Staff costs (£m)[1] | 2,299 | **1,896** | (18) |
| Dividends (£m) | 96 | **96** | – |
| Underlying pre-tax profit/(loss) (£m)[2] | 200 | **(41)** | (121) |

[1] Staff costs include base salary benefits and bonuses for all Group employees in continuing and discontinued operations (excluding joint ventures and associates)
[2] Underlying pre tax profit is from continuing and discontinued operations

### Directors' pensions and pension allowances

Peter Zinkin was the only Director to participate in the Balfour Beatty Pension Fund (the Fund) as a contributing member during 2014 Peter Zinkin participated in the defined contribution (DC) section up to 31 January 2014 He opted out of the DC section of the Fund on 31 January 2014 and became a deferred pensioner of the DC section of the Fund at this date

The DC section of the Fund is a money purchase scheme with a normal retirement age of 65 The Fund operates a Fund-specific earnings cap for pension purposes Peter Zinkin's pensionable earnings were subject to the Fund-specific earnings cap Peter Zinkin paid an annual contribution equal to 5% of contributory salary for the period to 31 January 2014 via the Group's SMART Pensions salary sacrifice arrangement as outlined in Note 2 in the Directors' remuneration table on page 72 A salary supplement was paid to Peter Zinkin in lieu of pension contributions on earnings above the Fund-specific earnings cap for the period to 31 January 2014 and this is included in the Directors' remuneration table on page 72 A salary supplement was paid to Peter Zinkin in lieu of Fund membership from 1 February 2014 and this is included in the Directors' remuneration table on page 72

Duncan Magrath, Andrew McNaughton and Peter Zinkin have all previously participated in the defined benefit (DB) section of the Fund The DB section of the Fund provides for a pension at a normal retirement age of 62, although the majority of benefits can be taken unreduced from age 60

Duncan Magrath opted out of the DB section of the Fund on 5 April 2012 and became a deferred pensioner In accordance with the Fund rules, his deferred pension was revalued in the year in line with price inflation (measured by the Retail Prices Index) He chose not to participate in the DC section of the Fund Duncan Magrath was paid a salary supplement in lieu of Fund membership which is included in the Directors' remuneration table on page 72

Andrew McNaughton opted out of the DB section of the Fund on 31 December 2012 and became a deferred pensioner In accordance with the Fund rules, his deferred pension was revalued in the year in line with price inflation (measured by the Retail Prices Index) He chose not to participate in the DC section of the Fund Andrew McNaughton was paid a salary supplement in lieu of Fund membership for the period from 1 January 2014 to 3 May 2014 which is included in the Directors remuneration table on page 72

Peter Zinkin opted out of the DB section of the Fund on 31 December 2010 and has been receiving his DB pension from 1 January 2011 He has not accrued any further DB pension in the Fund since 31 December 2010

The pension table below sets out the accrued DB deferred pension based on each executive Director's service to his date of becoming a deferred pensioner of the Fund The pension amount for Duncan Magrath and Andrew McNaughton is the value of the increase in each Director's DB deferred pension, in excess of price inflation (measured by the Consumer Prices Index), over the year ended 31 December 2014 The pension amount for Peter Zinkin is the amount of the employer contributions paid to the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts Figures for 2013 are included for comparative purposes The pension amounts are included in the Directors' remuneration table on page 72

| Name of Director | **Age at 31 December 2014 Years** | Accrued DB deferred pension at 31 December 2013[1] £ pa | **Accrued DB deferred pension at 31 December 2014[1] £ pa** | Pension amount 2013[2] £ | **Pension amount 2014[2] £** |
|---|---|---|---|---|---|
| Duncan Magrath[3] | **50** | 39,201 | **39,979** | 3,789 | **-** |
| Andrew McNaughton[4] | **51** | 48,071 | **48,507** | 4,646 | **-** |
| Peter Zinkin[5] | **61** | n/a | **n/a** | 28,020 | **2,350** |

[1] These amounts represent each Director s accrued DB deferred pension at the relevant date In accordance with the Fund Rules accrued DB deferred pension in excess of Guaranteed Minimum Pension has been increased in line with the Retail Prices Index between each Director s date of becoming a deferred pensioner of the Fund and the relevant date

[2] The amounts for Duncan Magrath and Andrew McNaughton represent the value of the increase in excess of inflation (where inflation is measured as the annual increase in the Consumer Prices Index to the September before the relevant date) of the accrued DB deferred pension over the period The increase in benefits has been calculated using HMRC methodology and then multiplied by a factor of 20 The figures for Peter Zinkin represent the contributions paid over the period by the Company into the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts

[3] The accrued DB deferred pension figures shown for Duncan Magrath include his DB benefits in the Fund purchased with Additional Voluntary Contributions (AVCs) In May 2013 the Fund paid an Annual Allowance tax charge of £27 249 to HMRC on Duncan Magrath s behalf in a Scheme Pays arrangement The value of this tax charge has been recorded as a negative DC contribution in respect of Duncan Magrath and will be rolled up to the Director's retirement date at which point it will be used to reduce the level of DB pension to which he is entitled from the Fund The pensions table above makes no allowance for Duncan Magrath's Scheme Pays arrangement

[4] The accrued DB deferred pension figures for Andrew McNaughton are at 31 December 2013 and 3 May 2014

[5] Peter Zinkin has not accrued any DB benefits in the Fund since 31 December 2010 Peter Zinkin participated in the DC section from 1 January 2011 to 31 January 2014 and the Company paid £2 350 into this arrangement during 2014 in addition to his SMART Pensions salary sacrifice of £588

**External appointments of executive Directors**

During 2014, Duncan Magrath acted as a non-executive director of Brammer plc and received fees of £43,250 which he retained During 2014, Peter Zinkin was elected as a local authority councillor and received fees of £6,324 which he retained Details of Steve Marshall's earnings elsewhere during his eight-month tenure as Executive Chairman have not been disclosed due to the interim nature of the role

**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 (except Steve Marshall) 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

- Iain Ferguson (Committee chair)
- Maureen Kempston Darkes
- Steve Marshall
- Graham Roberts

Steve Marshall stepped down as a Committee member during the period 3 May 2014 to 31 December 2014 when he served as Executive Chairman, although he continued to attend meetings by invitation

# **REMUNERATION REPORT** CONTINUED

The Committee also receives advice from several sources, namely

- the Group Chief Executive and the 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
- New Bridge Street (a trading name of Aon plc) (NBS)

NBS has been appointed as external independent executive remuneration advisers by the Committee and has provided a range of advice to the Committee during the year, including

- provision of pay benchmarking data for the executive Directors and non-executive Directors
- annual update for the Committee on developments in best practice, market experience and regulatory requirements for all remuneration elements
- assistance with the drafting of the Remuneration Report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards
- advice in relation to potential corporate activity
- advice in connection with certain Board changes during the year

Neither NBS nor any part of Aon plc provided any other services to the Company during the year under review Total fees paid to NBS in respect of its services to the Committee were £85,922 (2013 £55,798)

NBS is a signatory to the Remuneration Consultants' Code of Conduct The Committee is satisfied that the advice that it receives from NBS is objective and independent

**Statement of shareholder voting at AGM**
At the AGM on 15 May 2014, the resolution to approve the Remuneration Report received the following votes from shareholders

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 402,287,275 | 92 24% |
| Against | 33,836,389 | 7 76% |
| Total votes cast | 436,123,664 | 100% |
| Abstentions | 10,640,145 | |

At the AGM on 15 May 2014, the resolution to approve the remuneration policy received the following votes from shareholders

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 428,310,747 | 97 22% |
| Against | 12,241,834 | 2 78% |
| Total votes cast | 440,552,581 | 100% |
| Abstentions | 6,211,232 | |

By order of the Board

**Iain Ferguson**
Chairman of the Remuneration Committee
24 March 2015

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BALFOUR BEATTY PLC

**Opinion on financial statements of Balfour Beatty plc**
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 2014 and of the Group's loss and Parent Company's profit for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

The financial statements comprise the Group and Parent Company Income Statements, Statements of Comprehensive Income, Balance Sheets, Cash Flow Statements, Statements of Changes in Equity and the related Notes 1 to 41 The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

**Going concern**
As required by the Listing Rules we have reviewed the Directors' statement on page 17 that the Group is a going concern We confirm that

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern

**Our assessment of risks of material misstatement**
The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 52

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters

**Our assessment of risks of material misstatement**

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Recognition of contract revenue, margin and related receivables and liabilities** (Notes 2 5, 2 6, 2 27a and 2 27f)<br><br>The construction industry is characterised by contract risk with significant judgements involved in the assessment of both current and future contract financial performance<br><br>Revenue and margin are recognised based on the stage of completion of individual contracts, calculated on the proportion of total costs at the reporting date compared to the estimated total costs of the contract<br><br>The status of contracts is updated on a regular basis In doing so, management are required to exercise significant judgement in their assessment of the valuation of contract variations, claims and liquidated damages (revenue items), the completeness and accuracy of forecast costs to complete, and the ability to deliver contracts within forecast timescales<br><br>The potential final contract outcomes can cover a wide range Dependent on the level of judgement in each, the range on each contract can be individually material In addition, changes in these judgements, and the related estimates, as contracts progress can result in material adjustments to revenue and margin, which can be both positive and negative | Our work on the recognition of contract revenue, margin and related receivables and liabilities included<br><br>• an assessment of the design and implementation of key controls over the recognition of contract revenue and margin and, for continuing operations subject to full scope audit procedures, tests to determine whether these controls were operating effectively throughout the year, regardless of whether these controls were ultimately relied upon,<br><br>• selecting a sample of contracts in order to challenge both current and future financial performance Samples were selected based on a number of quantitative and qualitative factors, as well as other randomly selected contracts,<br><br>• for sampled contracts, challenging management's key judgements inherent in the forecast costs to complete that drive the accounting under the percentage of completion method, including the following procedures<br><br>– a review of the contract terms and conditions through review of contract documentation,<br>– testing the existence and valuation of claims and variations both within contract revenue and contract costs via inspection of correspondence with customers and the supply chain,<br>– a review of legal and experts' reports received on contentious matters,<br>– an assessment of the forecasts through discussion with Group, finance, commercial and operational management,<br>– an assessment of the ability to deliver contracts within budgeted timescales and any exposures to liquidated damages for late delivery of contract works, and<br>– a review of post-balance sheet contract performance to support year end judgements,<br><br>• an assessment of the recoverability of related receivables, including testing of post year end cash receipts, and completeness of any contract loss provisions through completion of the above procedures |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BALFOUR BEATTY PLC CONTINUED

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Trading performance within Construction Services UK (new risk in 2014)**<br>(Notes 2 2, 2 5, 2 6, 2 27a, 2 27f and 10)<br><br>The contract risks described above apply across the Group including Construction Services UK, however, given the incidence of losses incurred by the Construction Services UK business, most notably within Engineering Services, there is a greater risk of misstatement associated with contract judgements in this division, particularly in respect of under-performing contracts<br><br>Management have also disclosed £88m of losses incurred on certain external contracts within Engineering Services within the London and the South West regions as non-underlying items This has a number of presentational impacts, both on the face of the Group Income Statement and in disclosure of underlying performance metrics elsewhere in the Annual Report and financial statements<br><br>Management provide commentary of these issues within the Strategic Report, both in the Construction Services section on pages 18 to 20 which includes detailed discussion of the performance in Construction Services UK and within the Risk Management Framework section on page 30 on management's conclusions and response to failings in controls within the business during 2014 | In response to the significant losses incurred by Construction Services UK during the year, we have made the following amendments to our audit approach<br><br>• we have reduced the component materiality used to scope our audit of the Construction Services UK operations to £3 4 million (2013 £7 5 million) This, in combination with our not placing reliance on internal controls in certain parts of the Construction Services UK business, led to an increase in the number of contracts tested substantively by us and a greater level of substantive audit procedures performed on the forecast costs to complete,<br>• we have considered the findings from the third-party review of contract commercial positions and assessed these against management's assessment of current contract positions and our own contract audit procedures, and<br>• we have concluded on the appropriateness of disclosing certain external contracts in Engineering Services as non-underlying items by assessing the exceptional level of the losses incurred on these contracts, both in absolute and percentage terms and consideration of supportive fact patterns such as the Group now withdrawing from tendering for external work in the relevant geographies |
| **Assessment of whether losses incurred in 2014 should have been recognised in prior periods (new risk in 2014)**<br>(Page 14)<br><br>Given the £317 million of losses incurred in Construction Services UK in 2014 (including the £88 million disclosed as non-underlying), management have undertaken a detailed assessment to determine whether any of the losses should have been recognised in prior periods<br><br>This exercise was inherently judgemental as it required the reassessment of contract positions as at the prior period balance sheet date using information which was available or should reasonably have been available at that point in time without using the benefit of hindsight and in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors<br><br>In performing this exercise, management concluded that each of the 45 contracts which contributed to the trading updates issued during 2014 should be reviewed in detail<br><br>Management concluded from this exercise that the impact of any errors relating to prior periods was not material in the context of the Group accounts and accordingly the 2013 financial statements have not been restated However, approximately £16m of losses recorded in the second half of 2014 should have been recognised as at 27 June 2014 which is considered material to the June 2014 Interim Results, which will be restated accordingly in the June 2015 Interim Results | We have assessed the design and implementation of the controls over the preparation and review of the contract templates created by management to facilitate the prior period assessment We also assessed the objectivity of management personnel involved in the contract assessment process, and whether there was appropriate review by individuals not involved in making original contract judgements<br><br>We reviewed and tested the individual contract templates prepared by management for the 45 trading update contracts and challenged the conclusions reached by management with respect to the quantum of any losses which should reasonably have been recognised in prior periods<br><br>In addition to reviewing management's own analysis, we also considered the following sources of information as part of our audit<br><br>• historical Construction Services UK and Group contract and commercial issues papers,<br>• findings included in contract specific internal audit reports,<br>• observations and findings from site visits performed and other discussions held with management during 2014,<br>• the findings arising from the external review of contract commercial positions performed in 2014,<br>• subsequent events reviews performed at each balance sheet date, and<br>• prior period audit and interim review working papers |

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Impairment of goodwill and other intangible assets** (Notes 2 13, 2 27d, 15 and 16)<br><br>Under accounting standards, management is required to carry out an annual impairment test which incorporates judgements based on assumptions about future profitability for the related businesses against which appropriate long-term growth rates and discount rates must be applied<br><br>This exercise is highly judgemental and is used to support the carrying value of £826 million of goodwill as at 31 December 2014 Given the trading performance of the Group in the current year, and in particular variances between actual and budgeted profit and cash flows, the level of risk associated with goodwill impairment is greater in 2014 | We tested the design and implementation of management's key controls around testing the assessment of the recoverability of goodwill balances As part of this process, we obtained copies of the valuation models used to determine the recoverable amount of each cash generating unit and tested the arithmetical accuracy of the models<br><br>We challenged the assumptions underpinning the models, including the discount rates used, long-term growth rates and cash flow forecasts This was achieved through consultation with Deloitte valuation specialists to critically assess the discount rate and long-term growth rates applied, assessment of the reasonableness of forecast future cash flows by comparison to historical performance and future outlook, and discussions with management<br><br>We performed further sensitivities taking into account the historical forecasting accuracy of the Group recognising its recent performance in this area and after considering the magnitude of the losses in 2014<br><br>We have considered the adequacy of management's disclosures in respect of reasonable possible changes to assumptions as set out in Note 15 With respect to Construction Services UK we highlight that the recoverability of the goodwill within that cash generating unit is predicated on returning the business to more normal levels of performance in the future<br><br>We also assessed whether assumptions have been determined and applied consistently across the Group |
| **Assets held for sale, discontinued operations and disposal accounting** (Notes 2 27i, 10, 12, 15 and 32)<br><br>In relation to disposed operations, management applies judgement in determining the gains or losses on disposal of the various businesses In 2014, the £234 million gain on disposal of Parsons Brinckerhoff (PB) was a significant contributor to the overall Group result<br><br>The classification and valuation of £13 million of net assets in Rail Italy and certain parts of Rail Germany as held for sale is a key area of management judgement In addition, the classification of businesses as discontinued operations must be carefully considered in line with the relevant accounting standard<br><br>Given the change in approach during the second half of 2014 to selling the separate businesses within Rail Germany on a piecemeal basis and not via a single transaction as had previously been assumed, the assets and liabilities not subject to existing sales agreements have been reclassified out of held for sale with the results of the entire cash generating unit now re-presented as non-underlying items within continuing operations | We tested the design and implementation of controls management have in place around planned and completed disposal activities<br><br>**Disposal of Parsons Brinckerhoff**<br>We tested the calculation of the gain on disposal by challenging the judgements made in relation to the consideration receivable and the net assets disposed<br><br>The initial consideration receivable was agreed to the sale agreement and cash receipts Purchase price adjustments to reflect management's best estimates of the final working capital position of PB, which will lead to the final disposal consideration to be received, have been tested by comparison to supporting documentation and post-transaction correspondence with the purchaser<br><br>To test the net assets disposed, we performed a full scope audit of the PB disposal group as at 31 October 2014, the date of disposal In addition, detailed testing was performed on related disposal provisions, indemnities and the costs of disposal by reviewing and considering the sales agreements, supporting documentation and other evidence from the 31 October 2014 audit and subsequent events period<br><br>**Classification of assets held for sale and discontinued operations**<br>We challenged management's judgement on assets held for sale through understanding the status of the sales process and reviewing sales agreements and additional correspondence from prospective purchasers<br><br>We assessed the classification of assets held for sale and discontinued operations against the relevant ' highly probable" criteria in the accounting standard, including consideration of why Rail Germany no longer meets these criteria and the appropriateness and related disclosure of this business as part of non-underlying within continuing operations This also included testing the re-presentation of the prior period results from discontinued operations |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BALFOUR BEATTY PLC CONTINUED

**Our application of materiality**
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced We use materiality both in planning the scope of our audit work and in evaluating the results of our work

We determined materiality for the Group to be £8 5 million, which is approximately 6% of the average underlying profit before tax for the last three years, including 2014 We use underlying profit before tax to exclude the effect of volatility (for example, separately disclosed non-underlying items) from our determination and because it represents a key performance measure for the Group and receives significant focus from shareholders and analysts This is a change of approach from 2013, where we used a Group materiality of £15 million, which was approximately 8% of the Group's 2013 underlying profit before tax We have changed to using a three-year average of underlying profit before tax due to the extent of the reduction in underlying profit in the current year which, in our view, provides an unusual level of volatility and would result in an inappropriately low level of materiality for a Group of this scale Use of alternative benchmarks, such as assets or net revenue, would have resulted in higher and more consistent materiality levels compared with prior years Materiality as a percentage of net assets in the current year is 0 7% (2013 1 4%)

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £170,000 (2013 £300,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements

**An overview of the scope of our audit**
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level Based on that assessment, we focused our Group audit scope primarily on the audit work at the most significant operating companies, including joint ventures Either full or specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations, were performed

Operating companies representing the principal business units within the Group's reportable segments and accounting for 85% (2013 80%) of the Group's total revenue, including discontinued operations, are subject to full audit procedures, with others accounting for 7% (2013 7%) of the Group's revenue subject to specified audit procedures They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above Our audit work at these locations was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality and ranged from £3 4 million to £5 1 million (2013 £7 5 million to £9 0 million) Parsons Brinckerhoff was audited to £8 0m materiality

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances

The Group audit team follow a programme of planned visits to the significant operating companies The Senior Statutory Auditor or another senior member of the Group audit team visited operating companies covering 72% (2013 77%) of Group revenue in the year The Senior Statutory Auditor or another senior member of the Group audit team also discussed the risk assessment, reviewed documentation of key findings and participated in the close meetings for all operating companies subject to full scope

**Opinion on other matters prescribed by the Companies Act 2006**
In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**
**Adequacy of explanations received and accounting records**
Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- 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 are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters

**Directors' remuneration**
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns We have nothing to report arising from these matters

**Corporate Governance Statement**
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with 10 provisions of the UK Corporate Governance Code We have nothing to report arising from our review

**Our duty to read other information in the Annual Report**
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit, or
- otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed We confirm that we have not identified any such inconsistencies or misleading statements

**Respective responsibilities of Directors and auditor**
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors We also comply with International Standard on Quality Control 1 (UK and Ireland) Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied Our quality controls and systems include our dedicated professional standards review team and independent partner reviews

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

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**John Adam**
Senior Statutory Auditor
For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London United Kingdom
24 March 2015

# GROUP INCOME STATEMENT

**For the year ended 31 December 2014**

| | Notes | 2014 Underlying items[1] £m | 2014 Non-underlying items (Note 10) £m | 2014 Total £m | 2013[2,3,4] Underlying items[1] £m | 2013[2,3,4] Non-underlying items (Note 10) £m | 2013[2,3,4] Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Revenue including share of joint ventures and associates** | | **8,440** | **353** | **8,793** | 8,478 | 374 | 8,852 |
| Share of revenue of joint ventures and associates | 18 2 | **(1,490)** | **(39)** | **(1,529)** | (1,360) | (4) | (1,364) |
| **Group revenue** | 4 | **6,950** | **314** | **7,264** | 7,118 | 370 | 7,488 |
| Cost of sales | | **(6,723)** | **(410)** | **(7,133)** | (6,665) | (388) | (7,053) |
| **Gross profit/(loss)** | | **227** | **(96)** | **131** | 453 | (18) | 435 |
| Gain on disposals of interests in investments | 32 3/32 4 | **93** | **–** | **93** | 82 | – | 82 |
| Amortisation of acquired intangible assets | 16 | **–** | **(11)** | **(11)** | – | (17) | (17) |
| Other net operating expenses | | **(433)** | **(114)** | **(547)** | (460) | (144) | (604) |
| **Group operating (loss)/profit** | | **(113)** | **(221)** | **(334)** | 75 | (179) | (104) |
| Share of results of joint ventures and associates | 18 2 | **55** | **(2)** | **53** | 71 | – | 71 |
| **(Loss)/profit from operations** | 6 | **(58)** | **(223)** | **(281)** | 146 | (179) | (33) |
| Investment income | 8 | **64** | **–** | **64** | 63 | – | 63 |
| Finance costs | 9 | **(86)** | **(1)** | **(87)** | (78) | (1) | (79) |
| **(Loss)/profit before taxation** | | **(80)** | **(224)** | **(304)** | 131 | (180) | (49) |
| Taxation | 11 | **2** | **1** | **3** | (28) | 24 | (4) |
| **(Loss)/profit for the year from continuing operations** | | **(78)** | **(223)** | **(301)** | 103 | (156) | (53) |
| Profit/(loss) for the year from discontinued operations | 12 | **24** | **218** | **242** | 44 | (26) | 18 |
| **(Loss)/profit for the year** | | **(54)** | **(5)** | **(59)** | 147 | (182) | (35) |
| **Attributable to** | | | | | | | |
| Equity holders | | **(55)** | **(5)** | **(60)** | 147 | (182) | (35) |
| Non-controlling interests | | **1** | **–** | **1** | – | – | – |
| **(Loss)/profit for the year** | | **(54)** | **(5)** | **(59)** | 147 | (182) | (35) |

[1] Before non-underlying items (Notes 2 11 and 10)
[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 2 2 2 11 and 10)

| | Notes | 2014 Pence | 2013[2,3] Pence |
|---|---|---|---|
| **Basic (loss)/earnings per ordinary share** | | | |
| – continuing operations | 13 | **(43 9)** | (7 5) |
| – discontinued operations | 13 | **35 3** | 2 4 |
| | 13 | **(8 6)** | (5 1) |
| **Diluted (loss)/earnings per ordinary share** | | | |
| – continuing operations | 13 | **(43 9)** | (7 5) |
| – discontinued operations | 13 | **35 3** | 2 4 |
| | 13 | **(8 6)** | (5 1) |
| **Dividends per ordinary share proposed for the year** | 14 | **5 6** | 14 1 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

## COMMENTARY ON THE GROUP INCOME STATEMENT*

Total pre-tax loss from continuing operations for 2014 was £304m, which is inclusive of a non-underlying loss of £224m The total loss after tax including discontinued operations was £59m

**Background**

The Group Income Statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the statement of comprehensive income The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group

The income statement shows the revenue and results of continuing operations The post-tax results of Parsons Brinckerhoff (PB) and Rail Italy, which are classified as discontinued operations, are presented in a single line "Profit/(loss) for the year from discontinued operations" The prior year numbers have been re-presented accordingly

In 2014, non-underlying items include the re-presentation of Rail Germany from discontinued operations to continuing operations The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014

## COMMENTARY ON THE GROUP INCOME STATEMENT CONTINUED*

As a result, Rail Germany no longer satisfies the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation and the prior year comparatives have been re-presented accordingly

In addition to this, the performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work has also been included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group Performance on these contracts including any claims recovery will be presented in non-underlying items through to their completion and the prior year comparatives have been re-presented accordingly

**Revenue**
Revenue from continuing operations including non-underlying items, joint ventures and associates decreased by 1% to £8,793m from £8,852m (re-presented) in 2013 Revenue was broadly flat across all segments albeit there was a slight change in the geographical mix

**Gain on disposal of investments**
The Group continued its programme of realising accumulated value in the Investments portfolio and generating income by disposing of its interests in the Knowsley Building Schools for the Future project, the University Hospital of North Durham project and the Pinderfields and Pontefract Hospital project resulting in a net underlying gain of £93m after recycling a loss of £1m from reserves to the income statement

**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

**Underlying profit from operations**
Underlying profit from continuing operations decreased to a loss of £58m from £146m profit (re-presented) in 2013 Support Services and Infrastructure Investments continued to deliver excellent operating results, including the benefit of £93m of gains from investment disposals This was offset with increased losses in the UK construction business which was caused by poor operational and commercial controls in the business Following the UK construction business contract reviews the Group has also reassessed its accounting for construction contracts and taken a more prudent position in estimating contract completion costs This is a prospective change in accounting estimate and has resulted in a £51m expense in the current year

A further £88m of losses attributable to ES which is part of the UK construction business, has been included in non-underlying items as described below

**Non-underlying items**
Non-underlying items are items of financial performance which the Group believes 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 from continuing operations of £224m before tax were charged to the income statement These comprised amortisation of acquired intangible assets of £11m, the trading loss from Rail Germany of £24m, the losses resulting from legacy ES contracts of £88m and other loss items of £101m

Significant other non-underlying items included a £30m impairment charge of the assets within Rail Germany following an assessment of the carrying value of the assets compared to net realisable value £23m of restructuring costs were also incurred in the year, mainly due to £11m for the restructuring of the UK construction business where six business units were integrated into three business streams

The Group continued its plan to transition other operating companies to its UK shared service centre in Newcastle-upon-Tyne incurring further cost in the year of £14m In addition to this, the Group recognised an impairment charge of £21m in relation to its Oracle R12 software

**Net finance costs**
Net finance cost of £23m in the year represents an increase of 44% from £16m (re-presented) in 2013 mainly due to the recognition of a full year's finance cost of £10m on the Group's convertible bonds and an increase in net finance cost on the Group's pension schemes of £7m This was offset by a £6m reduction in interest on bank loans and overdrafts and a £4m increase in subordinated debt interest receivable

**Taxation**
The underlying tax credit for continuing operations excluding the Group's share of the results of joint ventures and associates of £2m equates to an effective tax rate of 1 5%

**Profit/(loss) from discontinued operations**
Profit/(loss) from discontinued operations shows the post-tax results relating to PB and certain Mainland European rail businesses, which were classified as discontinued operations

In October 2014 the Group completed the sale of PB for an agreed cash consideration of £812m After transaction costs and other charges the disposal resulted in a non-underlying gain of £234m PB contributed £38m (2013 £55m) to underlying profit from discontinued operations

Rail Italy was classified as a discontinued operation in 2014 and incurred an underlying post-tax loss of £nil (2013 £5m) It incurred a £27m non-underlying loss (2013 £nil) primarily due to the impairment of its goodwill

**Earnings per share**
Basic loss per share from continuing operations was (43 9)p (2013 (7 5)p re-presented), as a result of increased losses as discussed above Underlying loss per share from continuing operations was (11 5)p (2013 earnings of 15 3p (re-presented))

* The commentary is unaudited and forms part of the Chief Financial Officer s Review on pages 14 to 17

# GROUP STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2014**

| | Notes | 2014 £m | 2013 £m |
|---|---|---|---|
| **Loss for the year** | | **(59)** | (35) |
| **Other comprehensive income/(expense) for the year** | | | |
| Items which will not subsequently be reclassified to the income statement | | | |
| Actuarial gains/(losses) on retirement benefit liabilities | 30 1 | **232** | (114) |
| Tax on above | 30 1 | **(48)** | 17 |
| | | **184** | (97) |
| Items which will subsequently be reclassified to the income statement | | | |
| Currency translation differences | 30 1 | **32** | (14) |
| Fair value revaluations – PPP financial assets | 30 1 | **303** | (192) |
| – cash flow hedges | 30 1 | **(156)** | 120 |
| – available-for-sale investments in mutual funds | 30 1 | **2** | 7 |
| Recycling of revaluation reserves to the income statement on disposal* | 32 3/32 4 | **11** | (21) |
| Tax on above | 30 1 | **(29)** | 20 |
| | | **163** | (80) |
| **Total other comprehensive income/(expense) for the year** | | **347** | (177) |
| **Total comprehensive income/(expense) for the year** | 30 1 | **288** | (212) |
| **Attributable to** | | | |
| Equity holders | | **287** | (212) |
| Non-controlling interests | | **1** | – |
| **Total comprehensive income/(expense) for the year** | 30 1 | **288** | (212) |

* 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 2014 was £288m comprising a total loss after tax including discontinued operations of £59m and other comprehensive income after tax of £347m

### Background

The Group Statement of Comprehensive Income is presented on a total Group basis combining continuing and discontinued operations Other Comprehensive Income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement

### Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit liabilities are increases or decreases in the present value of the pension liability because of

- differences between the previous actuarial assumptions and what has actually occurred, or
- changes in actuarial assumptions used to value the obligations

Actuarial gains for the Group including joint ventures and associates increased from £114m loss in 2013 to £232m gain in 2014 Refer to Note 28

### 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 available-for-sale financial assets 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 and other fair value movements recognised in the income statement During the year there was a decrease in gilt rates resulting in a fair value gain of £303m being taken through OCI

#### Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in the Group's Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements The fair value of derivatives changes in response to prevailing market conditions During the year LIBOR decreased resulting in a fair value loss on the interest rate swaps of £156m being recognised in OCI in 2014 (2013 £120m gain)

#### Available-for-sale investments in mutual funds

The available-for-sale 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 28

The fair value of the available-for-sale investments is £20m, determined by the market price of each fund at the reporting date

#### Recycling of reserves to the income statement on disposal

Fair value gains and losses relating to the PPP financial assets and derivatives recognised in OCI are transferred to the income statement upon disposal of the asset and therefore on disposal of Infrastructure Investments' concessions, £1m loss was recycled to the income statement through OCI and is included in the gain on disposal

Following the disposal of Parsons Brinckerhoff, an £11m loss within reserves was recycled to the income statement comprising fair value gains arising from deferred compensation assets of £7m offset by foreign currency exchange losses of £18m

There is no associated tax on the amounts recycled to the income statement

* The commentary is unaudited and forms part of the Chief Financial Officer s Review on pages 14 to 17

# GROUP STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2014**

| | Notes | Called up share capital £m | Share premium account £m | Special reserve £m | Share of joint ventures and associates reserves (Note 18 8) £m | Other reserves (Note 30 1) £m | Retained profits £m | Non-controlling interests £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | 344 | 63 | 25 | 337 | 289 | 252 | 3 | 1,313 |
| Total comprehensive (expense)/income for the year | 30 1 | – | – | – | (17) | 11 | (206) | – | (212) |
| Ordinary dividends | 14 | – | – | – | – | – | (96) | (1) | (97) |
| Joint ventures' and associates' dividends | 18 1 | – | – | – | (47) | – | 47 | – | – |
| Issue of ordinary shares | 29 1 | – | 1 | – | – | – | – | – | 1 |
| Issue of convertible bonds | 29 2 2 | – | – | – | – | 26 | – | – | 26 |
| Movements relating to share-based payments | | – | – | – | – | (1) | 5 | – | 4 |
| Reserve transfers relating to joint venture and associate disposals | 18 8 | – | – | – | 3 | – | (3) | – | – |
| Other transfers | | – | – | (1) | 2 | (2) | 1 | – | – |
| At 31 December 2013 | | 344 | 64 | 24 | 278 | 323 | – | 2 | 1,035 |
| Total comprehensive income for the year | 30 1 | – | – | – | **142** | **69** | **76** | **1** | **288** |
| Ordinary dividends | 14 | – | – | – | – | – | **(96)** | – | **(96)** |
| Joint ventures' and associates' dividends | 18 1 | – | – | – | **(56)** | – | **56** | – | – |
| Issue of ordinary shares | 29 1 | **1** | – | – | – | – | – | – | **1** |
| Movements relating to share-based payments | | – | – | – | – | **(3)** | **5** | – | **2** |
| Reserve transfers relating to joint venture and associate disposals | 18 8 | – | – | – | **(24)** | – | **24** | – | – |
| Other transfers | | – | – | **(1)** | – | **(249)** | **250** | – | – |
| At 31 December 2014 | | **345** | **64** | **23** | **340** | **140** | **315** | **3** | **1,230** |

## COMMENTARY ON GROUP STATEMENT OF CHANGES IN EQUITY*

Total equity holders' funds of £1,230m at 31 December 2014 increased by 19% primarily due to movements in other comprehensive income offset by the payment of dividends

**Background**
The Group Statement of Changes in Equity includes the total comprehensive income attributable to equity holders of the Company and non-controlling interests and also discloses transactions which have been recognised directly in equity and not through the income statement

**Dividends**
The Board has not recommended a final dividend in respect of 2014, resulting in a full-year dividend of 5 6p (2013 14 1p) The full-year dividend paid during 2014 equated to £96m

**Joint ventures' and associates' dividends**
Dividends of £56m 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

**Share issues**
During the year 420,380 ordinary shares were issued for £1m

**Special reserve**
A special reserve of £185m was created in 2004 as a result of cancelling £181m of share premium and cancelling the £4m capital redemption reserve in Balfour Beatty plc This was approved by the court and becomes distributable to the extent of future increases in share capital and share premium, of which £1m occurred in 2014 (2013 £1m)

**Other reserves**
Other reserves comprise the equity components of the preference shares of £18m (2013 £18m) and convertible bonds £26m (2013 £26m), the Group s hedging reserves £(74)m (2013 £(56)m), PPP financial asset revaluation reserve £101m (2013 £56m), currency translation reserve £55m (2013 £8m), merger reserve £nil (2013 £249m), and other reserves £14m (2013 £22m) The merger reserve, which was wholly relating to the acquisition of Parsons Brinckerhoff in 2009, was fully transferred to retained earnings in the year following the disposal of Parsons Brinckerhoff

**Other reserve transfers relating to joint venture and associate disposals**
On disposal of JVAs, retained profits relating to these businesses are transferred from the JVA reserves to the Group's retained profits

* The commentary is unaudited and forms part of the Chief Financial Officer s Review on pages 14 to 17

# COMPANY INCOME STATEMENT

**For the year ended 31 December 2014**

| | Notes | 2014 Underlying items[1] £m | 2014 Non underlying items (Note 10) £m | 2014 Total £m | 2013 Underlying items[1] £m | 2013 Non-underlying items (Note 10) £m | 2013 Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 4 | **168** | **–** | **168** | 97 | – | 97 |
| Gain on disposal of interests in investments* | 32 3 2 | **49** | **–** | **49** | – | – | – |
| Net operating expense | | **(17)** | **(15)** | **(32)** | (19) | (3) | (22) |
| **Profit/(loss) from operations** | | **200** | **(15)** | **185** | 78 | (3) | 75 |
| Investment income | 8 | **8** | **–** | **8** | 5 | – | 5 |
| Finance costs | 9 | **(49)** | **–** | **(49)** | (42) | – | (42) |
| **Profit/(loss) before taxation** | | **159** | **(15)** | **144** | 41 | (3) | 38 |
| Taxation | 11 | **12** | **–** | **12** | 4 | (3) | 1 |
| **Profit/(loss) for the year attributable to equity holders** | | **171** | **(15)** | **156** | 45 | (6) | 39 |

[1] Before non-underlying items (Notes 2 11 and 10)
* The gain relates to the disposal of the Company s 50% interest in Consort Healthcare (Durham) Holdings Ltd Refer to Note 32 3 2

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2014**

| | Notes | 2014 £m | 2013 £m |
|---|---|---|---|
| **Profit for the year** | | **156** | 39 |
| **Other comprehensive income/(expense) for the year** | | | |
| Items which will not subsequently be reclassified to the income statement | | | |
| Actuarial movements on retirement benefit liabilities | 30 2 | – | 1 |
| Tax on above | 27 2 | – | (1) |
| | | – | – |
| Items which will subsequently be reclassified to the income statement | | | |
| Currency translation differences | 30 2 | – | (1) |
| Tax on share-based payments transferred | 27 2 | – | (2) |
| Tax on preference shares due to change in rate | 27 2 | – | 1 |
| | | – | (2) |
| **Total other comprehensive expense for the year** | | – | (2) |
| **Total comprehensive income for the year attributable to equity holders** | 30 2 | **156** | 37 |

# COMPANY STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2014**

| | Notes | Called up share capital £m | Share premium account £m | Special reserve £m | Other reserves (Note 30 2) £m | Retained profits £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | 344 | 63 | 25 | 338 | 326 | 1,096 |
| Total comprehensive income for the year | 30 2 | – | – | – | 1 | 36 | 37 |
| Ordinary dividends | 14 | – | – | – | – | (96) | (96) |
| Issue of ordinary shares | 29 1 | – | 1 | – | – | – | 1 |
| Issue of convertible bonds | 29 3 | – | – | – | 26 | – | 26 |
| Movements relating to share-based payments | | – | – | – | (3) | 4 | 1 |
| Other transfers | | – | – | (1) | – | 1 | – |
| At 31 December 2013 | | 344 | 64 | 24 | 362 | 271 | 1,065 |
| Total comprehensive income for the year | 30 2 | – | – | – | – | **156** | **156** |
| Ordinary dividends | 14 | – | – | – | – | **(96)** | **(96)** |
| Issue of ordinary shares | 29 1 | **1** | – | – | – | – | **1** |
| Movements relating to share-based payments | | – | – | – | **5** | – | **5** |
| Other transfers | | – | – | **(1)** | **(249)** | **250** | – |
| At 31 December 2014 | | **345** | **64** | **23** | **118** | **581** | **1,131** |

# BALANCE SHEETS

**At 31 December 2014**

| | Notes | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets – goodwill | 15 | **826** | 1,048 | **–** | – |
| – other | 16 | **216** | 204 | **–** | – |
| Property, plant and equipment | 17 | **171** | 208 | **–** | – |
| Investments in joint ventures and associates | 18 | **759** | 666 | **–** | – |
| Investments | 19 | **51** | 95 | **1,571** | 1,567 |
| PPP financial assets | 20 | **559** | 455 | **–** | – |
| Trade and other receivables | 23 | **111** | 113 | **11** | 17 |
| Deferred tax assets | 27 | **52** | 122 | **–** | – |
| Derivative financial instruments | 39 | **–** | – | **1** | – |
| | | **2,745** | 2,911 | **1,583** | 1,584 |
| **Current assets** | | | | | |
| Inventories and non-construction work in progress | 21 | **170** | 135 | **–** | – |
| Due from construction contract customers | 22 | **562** | 631 | **–** | – |
| Trade and other receivables | 23 | **966** | 1,190 | **1,381** | 1,262 |
| Cash and cash equivalents – infrastructure concessions | 26 | **40** | 65 | **–** | – |
| – other | 26 | **691** | 539 | **249** | – |
| Current tax assets | | **8** | 8 | **–** | – |
| Derivative financial instruments | 39 | **2** | 2 | **2** | 4 |
| | | **2,439** | 2,570 | **1,632** | 1,266 |
| Assets held for sale | 12 | **60** | 231 | **–** | – |
| | | **2,499** | 2,801 | **1,632** | 1,266 |
| **Total assets** | | **5,244** | 5,712 | **3,215** | 2,850 |
| **Current liabilities** | | | | | |
| Due to construction contract customers | 22 | **(350)** | (360) | **–** | – |
| Trade and other payables | 24 | **(1,959)** | (2,046) | **(1,591)** | (1,337) |
| Provisions | 25 | **(120)** | (100) | **–** | – |
| Borrowings – non-recourse loans | 26 | **(14)** | (9) | **–** | – |
| – other | 26 | **(4)** | (170) | **(142)** | (106) |
| Current tax liabilities | | **(5)** | (33) | **–** | – |
| Derivative financial instruments | 39 | **(14)** | (19) | **(2)** | (6) |
| | | **(2,466)** | (2,737) | **(1,735)** | (1,449) |
| Liabilities held for sale | 12 | **(47)** | (219) | **–** | – |
| | | **(2,513)** | (2,956) | **(1,735)** | (1,449) |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 24 | **(134)** | (182) | **(25)** | (25) |
| Provisions | 25 | **(77)** | (93) | **(2)** | (1) |
| Borrowings – non-recourse loans | 26 | **(471)** | (410) | **–** | – |
| – other | 26 | **(468)** | (435) | **(224)** | (212) |
| Liability component of preference shares | 29 | **(96)** | (94) | **(96)** | (94) |
| Retirement benefit liabilities | 28 | **(128)** | (434) | **–** | – |
| Deferred tax liabilities | 27 | **(49)** | (18) | **(2)** | (3) |
| Derivative financial instruments | 39 | **(78)** | (55) | **–** | (1) |
| | | **(1,501)** | (1,721) | **(349)** | (336) |
| **Total liabilities** | | **(4,014)** | (4,677) | **(2,084)** | (1,785) |
| **Net assets** | | **1,230** | 1,035 | **1,131** | 1,065 |
| **Equity** | | | | | |
| Called-up share capital | 29 | **345** | 344 | **345** | 344 |
| Share premium account | 30 | **64** | 64 | **64** | 64 |
| Special reserve | 30 | **23** | 24 | **23** | 24 |
| Share of joint ventures' and associates' reserves | 30 | **340** | 278 | **–** | – |
| Other reserves | 30 | **140** | 323 | **118** | 362 |
| Retained profits | 30 | **315** | – | **581** | 271 |
| **Equity attributable to equity holders of the parent** | | **1,227** | 1,033 | **1,131** | 1,065 |
| Non-controlling interests | 30 | **3** | 2 | **–** | – |
| **Total equity** | | **1,230** | 1,035 | **1,131** | 1,065 |

On behalf of the Board

**Duncan Magrath**
Director

**Peter Zinkin**
Director

24 March 2015

## COMMENTARY ON THE GROUP BALANCE SHEET*

Total assets of £5 2bn were 8% less than last year Total liabilities of £4 0bn decreased by 14% primarily due to the decrease in the pension deficits during the year

### Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2014 In accordance with IAS 1 Presentation of Financial Statements and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the Group does not re-present the prior year balance sheet for discontinued operations or disposals At December 2014, all assets and liabilities relating to the discontinued operations are no longer consolidated line by line in the Group's balance sheet but shown within assets held for sale or liabilities held for sale This should be borne in mind when making year-on-year comparisons

### Goodwill

The goodwill on the Group's balance sheet at 31 December 2014 decreased to £826m (2013 £1,048m), primarily due to the disposal of goodwill relating to Parsons Brinckerhoff of £227m

Impairment reviews have been carried out on all goodwill resulting in £24m impairments relating to goodwill in respect of Rail Italy

### Investments in joint ventures and associates

Investments in joint ventures and associates increased during the year primarily due to fair value gains on revaluations of their PPP financial assets

### PPP financial assets

The £104m increase in PPP financial assets is principally driven by the financial close of Thanet OFTO and the reduction in gilts rates leading to an increase in fair value, partially offset by the reduction arising from the disposal of Knowsley BSF

### Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 95

Provisions are discussed in the working capital commentary and in detail in Note 25

### Borrowings

#### Borrowings excluding non-recourse loans

The Group's principal committed facilities total £760m and extend through to 2016 The purpose of these facilities, and some other smaller facilities, is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its activities

The Group's borrowings include recourse borrowings to the Group arising from its Infrastructure Investment projects in North America amounting to £19m (2013 £8m)

#### Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in infrastructure concessions projects

At 31 December 2014, the Group's share of non-recourse net borrowings amounted to £1,925m (2013 £1,953m), comprising £1,480m (2013 £1,599m) in relation to joint ventures and associates as disclosed in Note 18 2 and £445m (2013 £354m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 26

### Retirement benefit liabilities

The Group's balance sheet includes aggregate liabilities ie deficits of £128m (2013 £434m) in the Group's pension schemes The retirement liabilities decreased primarily due to actuarial gains on pension scheme assets Refer to Note 28 for further details

Any surplus of deficit contributions would be recoverable by way of a reduction in future contributions as the Group has the ability to use surplus funds in the defined benefit section of the Balfour Beatty Pension Fund (BBPF) to pay its contributions due under the defined benefit and defined contribution sections of the BBPF

### Assets and liabilities held for sale

Refer to Note 12 for an analysis of the assets and liabilities held for sale and discontinued operations at the year end The Group is continuing negotiations with interested parties and does not consider the value of the remaining Mainland European rail businesses to be impaired at the year end The Group completed the sale of Rail Italy on 11 March 2015 Refer to Note 37

### 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 2014, contract bonds in issue by financial institutions under uncommitted facilities covered £3 0bn (2013 £2 8bn) of the contract commitments of the Group

### Equity commitments

During 2014 the Group invested £53m (2013 £48m) 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 £143m from 2015 onwards, inclusive of £34m expected for two projects at preferred bidder stage £56m of this is expected to be invested in 2015

* The commentary is unaudited and forms part of the Chief Financial Officer s Review on pages 14 to 17

# STATEMENTS OF CASH FLOWS

**For the year ended 31 December 2014**

| | Notes | Group 2014 £m | Group 2013[2,3,4,5] £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash (used in)/generated from | | | | | |
| – continuing operations – underlying[1] | 31 1 | **(192)** | (135) | **289** | 208 |
| – non-underlying | 31 1 | **(114)** | (81) | **(15)** | (3) |
| – discontinued operations | 31 1 | **(46)** | 54 | – | – |
| Income taxes paid | | **(20)** | (13) | – | – |
| **Net cash (used in)/from operating activities** | | **(372)** | (175) | **274** | 205 |
| **Cash flows from investing activities** | | | | | |
| Dividends received from | | | | | |
| – joint ventures and associates | 18 7 | **56** | 47 | **6** | 6 |
| – discontinued operations | | **–** | 1 | **–** | – |
| Interest received – infrastructure concessions[6] | | **23** | 25 | **6** | 3 |
| Interest received – other[6] | | **5** | 3 | **–** | – |
| Acquisition of businesses, net of cash and cash equivalents acquired | 32 1 | **(3)** | (14) | – | – |
| Purchases of | | | | | |
| – intangible assets – infrastructure concessions[6] | 16 | **(28)** | (20) | **–** | – |
| – intangible assets – other[6] | 16 | **(35)** | (18) | **–** | – |
| – property, plant and equipment – infrastructure concessions[6] | 17 | **(23)** | (11) | **–** | – |
| – property, plant and equipment – other[6] | 17 | **(43)** | (71) | **–** | – |
| – other investments | 19 | **(8)** | (12) | **–** | – |
| Investments in and long-term loans to joint ventures and associates | 18 7 | **(40)** | (51) | – | – |
| Short-term loans to joint ventures and associates | | **(4)** | – | – | – |
| Loans repaid from joint ventures and associates | 18 7 | **2** | 2 | **–** | – |
| PPP financial assets cash expenditure | 20 | **(232)** | (62) | **–** | – |
| PPP financial assets cash receipts | 20 | **37** | 59 | **–** | – |
| Disposals of | | | | | |
| – investments in joint ventures | 18 7/32 3 2 | **117** | 103 | **55** | – |
| – subsidiaries net of cash disposed, separation and transaction costs | 32 3 7 | **735** | 152 | – | – |
| – property, plant and equipment – underlying[1] | | **16** | 11 | – | – |
| – property, plant and equipment – non-underlying | | – | 8 | – | – |
| – other investments | 19 | **12** | 20 | **–** | – |
| **Net cash from investing activities** | | **587** | 172 | **67** | 9 |
| **Cash flows from financing activities** | | | | | |
| Purchase of ordinary shares | 30 3 | **(2)** | (2) | **–** | – |
| Proceeds from | | | | | |
| – issue of ordinary shares | 29 1 | **1** | 1 | **1** | 1 |
| – convertible bonds | 29 3 | **–** | 246 | **–** | – |
| – US private placement | | **–** | 231 | **–** | 231 |
| – other new loans – infrastructure concessions[6] | 31 3 | **236** | 110 | **–** | – |
| – other new loans – other[6] | 31 3 | **11** | – | **–** | – |
| – finance leases | 31 3 | **1** | 1 | **–** | – |
| Repayments of | | | | | |
| – loans – infrastructure concessions[6] | 31 3 | **(7)** | (12) | **–** | (410) |
| – loans – other[6] | 31 3 | **(83)** | (396) | **–** | – |
| – finance leases | 31 3 | **(3)** | (2) | **–** | – |
| Ordinary dividends paid | 14 | **(96)** | (96) | **(96)** | (96) |
| Other dividends paid – non-controlling interest | 14 | **–** | (1) | **–** | – |
| Interest paid – infrastructure concessions[6] | | **(21)** | (29) | **–** | (22) |
| Interest paid – other[6] | | **(29)** | (27) | **(22)** | – |
| Preference dividends paid | | **(11)** | (11) | **(11)** | (11) |
| **Net cash (used in)/from financing activities** | | **(3)** | 13 | **(128)** | (307) |
| **Net increase/(decrease) in cash and cash equivalents** | 31 3 | **212** | 10 | **213** | (93) |
| Effects of exchange rate changes | | **(12)** | 3 | – | – |
| Cash and cash equivalents at beginning of year | | **526** | 532 | **(106)** | (13) |
| Net decrease/(increase) in cash within assets held for sale | 12 | **1** | (19) | **–** | – |
| **Cash and cash equivalents at end of year** | 31 2 | **727** | 526 | **107** | (106) |

1 Before non-underlying items (Notes 2 11 and 10)
2 Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
3 Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)
4 Re presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 2 2 2 11 and 10)
5 Re presented to separately identify cash flows from underlying and non underlying operations and discontinued operations
6 Re presented to separately identify cash flows from infrastructure concessions and other

## COMMENTARY ON THE GROUP STATEMENT OF CASH FLOWS*

Cash and cash equivalents increased by 38% during the year to £727m Cash used in operating activities deteriorated by 113% to £372m

**Background**
The statement of cash flows shows the cash flows from operating, investing and financing activities during the year

**Working capital**
Working capital includes inventories and non-construction work in progress, amounts due to and from construction contract customers, operating trade and other receivables, operating trade and other payables, and operating provisions Where the net working capital balance is in an asset position, ie the inventory 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"

**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 in the year because the December 2014 balances exclude amounts relating to discontinued operations and disposals whereas the prior year balances include these balances

The movement in working capital is also distorted by the inclusion of risk provisions relating to Construction Services UK These provisions have primarily been reflected within the balances for amounts due to construction contract customers and amounts due from construction contract customers

Working capital movements are disclosed in Note 31 1

**Inventories and non-construction work in progress**
During 2014 underlying inventories and non-construction work in progress increased by £22m for continuing operations primarily relating to an increase in development land held in the UK

**Amounts due from construction contract customers**
During 2014 there was a £104m increase in underlying amounts due from construction contract customers from continuing operations primarily due to the timing on conversion to trade receivables at the balance sheet date in respect of Construction Services UK and Construction Services US of amounts subsequently billed in 2015

**Operating trade and other receivables**
During 2014 there was a £69m increase in underlying operating trade and other receivables for continuing operations primarily due to an increase in business experienced in Infrastructure Investments North America and the timing of this increase in business

**Amounts due to construction contract customers**
During 2014 there was a £70m increase in underlying amounts due to construction contract customers for continuing operations primarily due to the lifecycle on certain projects in Construction Services UK and Construction Services US

**Operating trade and other payables**
During 2014 there was a £135m increase in underlying operating trade and other payables for continuing operations primarily due to the timing of an increase in new business in the second half of the year

**Operating provisions**
During 2014 there was a £16m increase in underlying operating provisions for continuing operations primarily related to indemnity provisions created for significant disposals which occurred during the year

**Cash used in operations**
Underlying cash used in continuing operations of £192m (2013 £135m (re-presented)) was impacted by a loss from operations of £58m (2013 £146m profit) and a working capital inflow of £26m (2013 £121m outflow), after adjusting for the following items share of results of joint ventures and associates £55m (2013 £71m), depreciation charges of £33m (2013 £50m), pension deficit payments of £49m (2013 £57m) and profit on disposals of investments in infrastructure concessions of £93m (2013 £82m)

Non-underlying cash used in continuing operations of £114m (2013 £81m (re-presented)) was impacted by a loss from operations of £223m (2013 £179m) and a working capital inflow of £38m (2013 £3m), after adjusting for the following non-cash items a £21m (2013 £nil) impairment of the Group's Oracle R12 asset, a £30m (2013 £nil) impairment of assets in Rail Germany, a depreciation charge of £10m (2013 £nil) relating to Rail Germany and an amortisation charge of £11m (2013 £17m)

Cash used in discontinued operations was £46m (2013 £54m (re-presented) cash from discontinued operations) was impacted by profit from operations of 238m (2013 £35m) and a working capital outflow of £95m (2013 £7m inflow), after adjusting for a non-cash movement relating to goodwill impairment of £24m (2013 £nil (re-presented)), net gain on disposal of Parsons Brinckerhoff of £234m, a depreciation charge of £11m (2013 £6m) and an amortisation charge of £8m (2013 £15m)

**Cash flows from investing activities**
The Group received dividends of £56m (2013 £47m) from joint ventures and associates during the year

During the year the Group incurred additional spend on intangible assets of £63m (2013 £38m) of which £28m (2013 £20m) related to the Edinburgh student accommodation and £35m (2013 £18m) related to software and other intangible assets Of the £66m (2013 £82m) property, plant and equipment purchased during the year, £49m (2013 £71m) related to continuing operations and comprised capitalisation of the cost of constructing student accommodation in Iowa and Reno in the US of £23m (2013 £12m), the purchase of plant and equipment £19m (2013 £39m), and capitalisation of leasehold improvements £7m (2013 £20m)

The Group disposed of interests in two infrastructure concession joint ventures during the year for £117m In addition the Group fully disposed of one infrastructure concession subsidiary for £42m The Group also received £723m from the disposal of Parsons Brinckerhoff, the global infrastructure design and consultancy business, being consideration of £812m less separation and transaction costs paid and cash disposed of £89m

During the year the Group incurred cash expenditure of £232m (2013 £62m) and received cash receipts of £37m (2013 £59m) relating to PPP financial assets

**Cash flows from financing activities**
The Group made further drawdowns on its non-recourse borrowings of £236m (2013 £110m) mainly to finance the construction and transfer of assets within its infrastructure portfolio The Group also repaid £83m (2013 £396m) of other loans

Ordinary dividends of £96m were declared and paid during the year and preference dividends of £11m were paid

Total interest payments amounted to £50m (2013 £56m) during the year of which £21m (2013 £29m) related to infrastructure concessions and £29m (2013 £27m) related to recourse borrowings drawn down by the Group

**Cash and cash equivalents**
Cash and cash equivalents increased from £526m to £727m excluding those that are held within assets held for sale

* The commentary is unaudited and forms part of the Chief Financial Officer s Review on pages 14 to 17

# NOTES TO THE FINANCIAL STATEMENTS

## 1 BASIS OF ACCOUNTING

The annual financial statements have been prepared on a going concern basis as discussed on page 17 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 2014

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

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRIC 21 Levies
- Amendments to the following standards
  - IFRS 10, IFRS 11 and IFRS 12 Investment Entities
  - IFRS 10, IFRS 11 and IFRS 12 Transition Guidance
  - IAS 27 Separate Financial Statements
  - IAS 28 Investments in Associates and Joint Ventures
  - IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The above new and amended standards do not have a material quantitative effect on the Group As a result of the adoption of IFRS 12, the Group has included additional disclosures in relation to its joint ventures and associates Refer to Note 18

**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 2014

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- 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 19 Employee Benefits Defined Benefit Plans Employee Contributions
  - IAS 27 Equity Method in Separate Financial Statements

Of these, IFRS 9 is expected to have the most significant effect

The requirements of IFRS 9 in issue as at 31 December 2014 might result in the Group's PPP financial assets being reclassified from "available-for-sale", which is a category that would no longer exist under the current 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 £101m from PPP financial asset reserves to retained earnings The effect within the share of joint ventures' and associates' reserves would be a transfer of £422m from PPP financial asset reserves to retained earnings

The Directors have made initial assessments of the impact of IFRS 15 and do not expect any material quantitative impact to the Group 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 Group has chosen not to adopt any of the above standards and interpretations earlier than required

### 2 2 Re-presentation of comparative information

**Discontinued operations**

The Income Statement has been re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations

Rail Germany has been reclassified from discontinued operations in 2014 and its performance has been included within non-underlying items as part of continuing operations The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014 As a result, Rail Germany does not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation and the prior year comparatives have been restated accordingly

Refer to Notes 12 and 38

**Engineering Services**

The performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work has also been included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group ES has stopped bidding external work in London, South East and the South West At 31 December 2014, 12 of these contracts were still active, with the last of these contracts currently scheduled to complete in January 2016

## 2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### 2 2 Re-presentation of comparative information continued

Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group Performance on these contracts including any claims recovery will be presented in non-underlying items through to their completion Prior year comparatives have been restated accordingly Refer to Note 38

**Segmental analysis**

The Group no longer presents a Professional Services segment following the sale of Parsons Brinckerhoff on 31 October 2014 which constituted the vast majority of this segment Refer to Note 5 The remaining continuing operations, principally comprising the operations of Heery Inc which were previously reported in Professional Services, now report into Construction Services management and consequently have been re-presented within the Construction Services segment Prior year comparatives have been restated accordingly

The 2013 segmental analysis has also been re-presented to include the net non-recourse borrowings directly attributable to Infrastructure Investments within the Infrastructure Investments segment All other net debt is classified within Corporate activities

### 2 3 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 IAS 39 Financial Instruments Recognition and Measurement 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 (ie 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 Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity

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 Group may elect to measure some of its investments in associates at fair value through profit or loss in accordance with IAS 39 where the investment is held by a Group entity which meets the classification of a venture capital organisation, in which case the investment will be marked to market with movements being recognised in the income statement The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate

**c) Joint operations**

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet

## 2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### 2 4 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date Significant exchange rates used in the preparation of these financial statements are shown in Note 3

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used Assets and liabilities are translated at the rates of exchange prevailing at the reporting date Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date Currency translation differences arising are transferred to the Group's foreign currency translation reserve and are recognised in the income statement on disposal of the underlying investment

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward foreign exchange contracts Refer to Note 2 26c for details of the Group's accounting policies in respect of such derivative financial instruments

### 2 5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales based taxes, after eliminating revenue within the Group

Revenue is recognised as follows

- revenue from construction and service activities represents the value of work carried out during the year, including amounts not invoiced
- revenue from manufacturing activities is recognised when title has passed
- 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
- dividend income is recognised when the equity holder's right to receive payment is established

### 2 6 Construction and service contracts

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date

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

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 it is probable it will be agreed by the customer Revenue in respect of claims is recognised when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the probable amount can be measured reliably

Profit for the year includes the benefit of claims settled in the year on contracts completed in previous years

### 2 7 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 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 18 to 26

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 8 Pre-contract bid costs and recoveries

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract Amounts recovered in respect of pre-contract costs that have been written off are deferred and amortised over the life of the contract

For construction and services projects, the relevant contract is the construction or services contract respectively With respect to PPP projects, an assessment is made as to which contractual element the pre-contract costs relate to, in order to determine the relevant period for amortisation The relevant contract is that which gives rise to a financial or intangible asset, which is either the construction contract or the contract which transferred the asset to the project

### 2 9 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 10 Finance costs

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

### 2 11 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified 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 Underlying items are items before non-underlying items

Non-underlying items include

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions
- costs of restructuring and reorganisation of existing businesses
- costs of integrating newly acquired businesses

## 2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### 2 11 Non-underlying items continued

- 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)
- 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

The results of Rail Germany and certain legacy ES contracts have been included as non-underlying in 2014, with prior year comparatives re-presented accordingly Refer to Notes 2 2 and 38

### 2 12 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 in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised The carrying amount of deferred tax assets is reviewed at each reporting date

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

### 2 13 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 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
- 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 14 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 15 Leasing

Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases All other leases are classified as operating leases

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease, and depreciation is provided accordingly The liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant effective rate of interest on the remaining balance of the liability

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term

### 2 16 Impairment of assets

Goodwill arising on acquisitions and other assets that have an indefinite useful life and are not subject to amortisation are reviewed at least annually for impairment Other intangible assets and property, plant and equipment 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 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### 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

Available-for-sale investments are measured at fair value Gains and losses arising from changes in the fair value of available-for-sale 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 Held to maturity investments are measured at amortised cost

### 2 18 Assets held for sale and discontinued operations

Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use Held for sale assets are measured at the lower of their carrying amount on classification as held for sale or fair value less costs to sell

A component of the Group is presented as a discontinued operation if it has either been disposed of or is classified as held-for-sale and it is a separate major line of business or geographic operation or the proposed sale is part of a single co-ordinated plan to dispose of a single separate major line of business or geographical operation When classified as a discontinued operation, income statement performance is reported in summary form outside continuing operations and comparative figures are restated

### 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

### 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 companies, 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 the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and 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 Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to income on an accruals basis using the effective interest method and are added to the carrying amount of the instrument

### 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 majority 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 retirement benefit 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 obligation, 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 would be recoverable by way of a reduction in future contributions as the Group has the ability to use surplus funds in the defined benefit section of the BBPF to pay its contributions due under the defined benefit and defined contribution sections of the BBPF

### 2 25 Share-based payments

Employee services received in exchange for the grant of share options, performance share plan awards and deferred bonus plan awards are charged in the income statement on a straight-line basis over the vesting period based on the fair values of the options or awards at the date of grant and the numbers expected to become exercisable

The credits in respect of the amounts charged are included within separate reserves in equity until such time as the options or awards are exercised, when the proceeds received in respect of share options are credited to share capital and share premium or the shares held by the employee trust are transferred to employees in respect of performance share plan awards and deferred bonus plan awards

### 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

#### b) Cumulative convertible redeemable preference shares and convertible bonds

The Company's cumulative convertible redeemable preference shares and the Group's convertible bonds are compound instruments, comprising a liability component and an equity component The fair value of the liability components was estimated using the prevailing market interest rates at the dates of issue for similar non-convertible instruments The difference between the proceeds of issue of the preference shares and convertible bonds and the fair value assigned to the respective liability components, representing the embedded option to convert the liability components into the

## 2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### 2 26 Financial instruments continued

Company's ordinary shares, is included in equity

The interest expense on the liability components is calculated by applying applicable market interest rates for similar non-convertible debt prevailing at the dates of issue to the liability components of the instruments

The difference between this amount and the dividend interest paid is added to the carrying amount of the liability component and is included in finance charges, together with the dividend/ interest payable

**c) Derivative financial instruments and hedge accounting**

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies and commodity prices 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 39

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently re-measured at their fair values

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (OCI) Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement for the period

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded in the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract Changes in the fair value of those embedded derivatives recognised in the balance sheet are recognised in the income statement as they arise

**d) PPP concession companies**

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets

In the construction phase, income is recognised by applying an attributable profit margin to the construction costs representing the fair value of construction services In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant 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 on 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 and other movements recognised in the income statement 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 2014 are discussed below

All of the below are both judgements and estimates made by the Group apart from the classification of non-underlying items which is an item that requires judgement only

**a) Revenue and margin recognition**

The Group's revenue recognition and margin recognition policies, which are set out in Notes 2 5 and 2 6, 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 professional services, construction services and support services contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs

Following the UK construction business contract reviews, the Group has reassessed its accounting for construction contracts and taken a more prudent position in estimating contract completion costs This is a prospective change in accounting estimate and has resulted in a £51m expense in the current year

Given the scale of the UK construction business losses incurred in 2014, consideration has also been given as to whether any of the losses incurred in 2014 should have been identified and accounted for in previous periods in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors The results of the exercise showed that for the accounts for the year ended 31 December 2013, the aggregate impact of any errors was not material and accordingly the 2013 accounts have not been restated (more details are contained on page 14)

**b) Taxation**

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised

## 2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### 2 27 Judgements and key sources of estimation uncertainty continued

**c) Non-underlying items**

Non-underlying items are items of financial performance which the Group believes should be separately identified 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 judgment A total non-underlying loss after tax of £5m was charged to the income statement for the year ended 31 December 2014 Refer to Note 10

**d) Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash-generating unit and the application of a suitable discount rate in order to calculate the present value A nominal growth rate, based on real GDP growth plus CPI inflation, is used to calculate a terminal growth multiple in accordance with the Gordon Growth Model The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash-generating unit The carrying value of goodwill at 31 December 2014 was £826m (2013 £1,048m)

**e) Available-for-sale financial assets**

At 31 December 2014, £2,918m (2013 £2,747m) of PPP financial assets constructed by the Group's subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" 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 23% to 7 23% (2013 5 5% to 8 5%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions Movements in the fair value of PPP financial assets attributable to non-market related changes in future cash flow assumptions are recognised in the income statement At December 2014 this has given rise to a fair value gain of £15m (2013 £nil) which has been recognised within underlying profit from operations

A £303m gain was taken to other comprehensive income in 2014 (2013 £192m loss) and a cumulative fair value gain of £683m had arisen on these financial assets as a result of movements in the fair value of these financial assets at 31 December 2014 (2013 £405m gain)

**f) Recoverable value of recognised receivables**

The Group has recognised trade receivables with a carrying value of £557m (2013 £803m) The recoverability of trade receivables is regularly reviewed in the light of the available economic information specific to each receivable and specific provisions are recognised for balances considered to be irrecoverable

**g) Provisions**

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 Group recognised provisions at 31 December 2014 of £197m (2013 £193m)

**h) Retirement benefit obligations**

Details of the Group's defined benefit pension schemes are set out in Note 28, including tables showing the sensitivity of the Group pension scheme obligations and assets to different actuarial assumptions

At 31 December 2014, the retirement benefit liability recognised on the Group's balance sheet was £128m (2013 £434m) The effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses During 2014 the Group recognised net actuarial gains of £232m in equity (2013 £114m loss), including its share of the actuarial gains and losses arising in joint ventures and associates

**i) Held for sale and discontinued operations**

When it is highly probable that businesses will be sold within one year and they are being actively marketed they meet the criteria to be classified as held for sale Discontinued operations are businesses or a group of businesses which meet the criteria to be classified as held for sale, have been sold or abandoned and form a separate major line of business of the Group Details of the Group's discontinued operations are set out in Note 12

## 3 EXCHANGE RATES

The following key exchange rates were applied in these financial statements

**Average rates**

| £1 buys | **2014** | 2013 | Change |
|---|---|---|---|
| US$ | **1 65** | 1 57 | 5 1% |
| Euro | **1 24** | 1 18 | 5 1% |

**Closing rates**

| £1 buys | 2014 | 2013 | Change |
|---|---|---|---|
| US$ | **1 56** | 1 65 | (5 5)% |
| Euro | **1 28** | 1 20 | 6 7% |

## 4 REVENUE

| **Continuing operations** | **Group 2014 £m** | Group 2013[2 3] £m | **Company 2014 £m** | Company 2013 £m |
|---|---|---|---|---|
| Revenue from the provision of services* | **7,195** | 7,452 | **–** | – |
| Revenue from manufacturing activities | **22** | 11 | **–** | – |
| Proceeds from sale of development land | **47** | 25 | **–** | 7 |
| Dividends from subsidiaries | **–** | – | **162** | 84 |
| Dividends from joint ventures and associates | **–** | – | **6** | 6 |
| Total revenue | **7,264** | 7,488 | **168** | 97 |
| Investment income (Note 8) | **64** | 63 | **8** | 5 |
| Total revenue and investment income | **7,328** | 7,551 | **176** | 102 |

* Includes IAS 11 construction contract revenue of £6 195m (2013[2 3] £6 489m)

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying items within continuing operations (Notes 2 2 2 11 and 10)

## 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
- **Infrastructure Investments** – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, schools, student accommodation, military housing, offshore transmission networks and other concessions

Rail Germany has been reclassified from discontinued operations in 2014 and its performance has been included within non-underlying items as part of continuing operations The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014 As a result, Rail Germany does not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation and the prior year comparatives have been restated accordingly

The performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work has also been included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group ES has stopped bidding external work in London, South East and the South West At 31 December 2014, 12 of these contracts were still active, with the last of these contracts currently scheduled to complete in January 2016 Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group Performance on these contracts including any claims recovery will be presented in non-underlying items through to their completion Prior year comparatives have been restated accordingly

The Group no longer presents a Professional Services segment following the sale of Parsons Brinckerhoff on 31 October 2014 which constituted the vast majority of this segment Refer to Note 32 3 5 The remaining continuing operations, principally comprising the operations of Heery Inc which were previously reported in Professional Services, now report into Construction Services management and consequently have been re-presented within the Construction Services segment Heery Inc provides project management, architectural, design or other technical services along with some construction management and risk work Prior year comparatives have been restated accordingly

The 2013 segmental analysis has also been re-presented to include the net non-recourse borrowings directly attributable to Infrastructure Investments within the Infrastructure Investments segment All other net debt is classified within Corporate activities

## SEGMENT ANALYSIS CONTINUED

### 5 1 Total Group

| Income statement – performance by activity from continuing operations | Construction Services* | Support Services | Infrastructure Investments* | Corporate activities | Total | Rail Germany | Certain legacy ES contracts | Total |
|---|---|---|---|---|---|---|---|---|
| | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m |
| Revenue including share of joint ventures and associates | 6,597 | 1,273 | 570 | – | 8,440 | 291 | 62 | 8,793 |
| Share of revenue of joint ventures and associates | (1,168) | (26) | (296) | – | (1,490) | (39) | – | (1,529) |
| Group revenue | 5,429 | 1,247 | 274 | – | 6,950 | 252 | 62 | 7,264 |
| Group operating (loss)/profit^ | (217) | 49 | 81 | (26) | (113) | (22) | (88) | |
| Share of results of joint ventures and associates | 8 | 1 | 46 | – | 55 | (1) | – | |
| (Loss)/profit from operations^ | (209) | 50 | 127 | (26) | (58) | (23) | (88) | |
| Non-underlying items | | | | | | | | |
| – include results from certain legacy ES contracts within Construction Services | (88) | – | – | – | (88) | | | |
| – include results from Rail Germany within Construction Services | (23) | – | – | – | (23) | | | |
| – amortisation of acquired intangible assets | (5) | – | (6) | – | (11) | | | |
| – other non-underlying items | (66) | (27) | (3) | (5) | (101) | | | |
| | (182) | (27) | (9) | (5) | (223) | | | |
| (Loss)/profit from operations | (391) | 23 | 118 | (31) | (281) | | | |
| Investment income | | | | | 64 | | | |
| Finance costs | | | | | (87) | | | |
| Loss before taxation | | | | | (304) | | | |

^ Presented before non underlying items for underlying operations (Notes 2 11 and 10)
* £10m of costs relating to the acceleration of the completion of construction works is included within Infrastructure Investments Refer to page 24

| Income statement – performance by activity from continuing operations | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total | Rail Germany | Certain legacy ES contracts | Total |
|---|---|---|---|---|---|---|---|---|
| | 2013[2,3,4,7] £m | 2013 £m | 2013 £m | 2013 £m | 2013[2,3,4] £m | 2013[3] £m | 2013[4] £m | 2013[2,3] £m |
| Revenue including share of joint ventures and associates | 6,594 | 1,265 | 608 | 11 | 8,478 | 298 | 76 | 8 852 |
| Share of revenue of joint ventures and associates | (971) | (33) | (356) | – | (1,360) | (4) | – | (1,364) |
| Group revenue | 5,623 | 1,232 | 252 | 11 | 7,118 | 294 | 76 | 7,488 |
| Group operating (loss)/profit^ | (19) | 54 | 69 | (29) | 75 | (22) | – | |
| Share of results of joint ventures and associates | 37 | 1 | 33 | – | 71 | – | – | |
| Profit/(loss) from operations^ | 18 | 55 | 102 | (29) | 146 | (22) | – | |
| Non-underlying items | | | | | | | | |
| – include results from Rail Germany within Construction Services | (22) | – | – | – | (22) | | | |
| – amortisation of acquired intangible assets | (10) | – | (7) | – | (17) | | | |
| – other non-underlying items | (89) | (15) | – | (36) | (140) | | | |
| | (121) | (15) | (7) | (36) | (179) | | | |
| (Loss)/profit from operations | (103) | 40 | 95 | (65) | (33) | | | |
| Investment income | | | | | 63 | | | |
| Finance costs | | | | | (79) | | | |
| Loss before taxation | | | | | (49) | | | |

^ Presented before non-underlying items for underlying operations (Notes 2 11 and 10)
2 Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
3 Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)
4 Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 2 2 2 11 and 10)
7 Re presented to include Heery Inc which was previously included in Professional Services

## 5 SEGMENT ANALYSIS CONTINUED

### 5 1 Total Group continued

| Assets and liabilities by activity | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|
| | 2014+ # £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m |
| Due from construction contract customers | 406 | 156 | – | – | 562 |
| Due to construction contract customers | (317) | (33) | – | – | (350) |
| Inventories and non-construction work in progress | 82 | 84 | – | 4 | 170 |
| Trade and other receivables – current | 807 | 104 | 55 | – | 966 |
| Trade and other payables – current | (1,596) | (278) | (75) | (10) | (1,959) |
| Provisions – current | (89) | (15) | – | (16) | (120) |
| Working capital from continuing operations* | (707) | 18 | (20) | (22) | (731) |
| Classified as net assets held for sale (Note 12) | (2) | – | – | – | (2) |
| Adjusted working capital | (709) | 18 | (20) | (22) | (733) |

* Includes non-operating items and current working capital

| | | | | | |
|---|---|---|---|---|---|
| Total assets | 2,419 | 491 | 1,530 | 804 | 5,244 |
| Total liabilities | (2,274) | (365) | (701) | (674) | (4,014) |
| Net assets | 145 | 126 | 829 | 130 | 1,230 |

\+ Includes net assets held for sale of £13m relating to the Rail disposal group (Note 12)
\# Includes Heery Inc representing net assets of £11m

| Assets and liabilities by activity | Professional Services | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|---|
| | 2013# £m | 2013+# £m | 2013 £m | 2013^ £m | 2013^ £m | 2013 £m |
| Due from construction contract customers | 179 | 316 | 136 | – | – | 631 |
| Due to construction contract customers | (115) | (192) | (53) | – | – | (360) |
| Inventories and non-construction work in progress | 1 | 62 | 71 | – | 1 | 135 |
| Trade and other receivables – current | 285 | 703 | 142 | 50 | 10 | 1,190 |
| Trade and other payables – current | (234) | (1,445) | (283) | (58) | (26) | (2,046) |
| Provisions – current | (4) | (58) | (10) | (2) | (26) | (100) |
| Working capital from continuing operations* | 112 | (614) | 3 | (10) | (41) | (550) |
| Classified as net assets held for sale (Note 12) | – | (17) | – | – | – | (17) |
| Adjusted working capital | 112 | (631) | 3 | (10) | (41) | (567) |

* Includes non-operating items and current working capital

| | | | | | | |
|---|---|---|---|---|---|---|
| Total assets | 776 | 2,190 | 486 | 1,278 | 982 | 5,712 |
| Total liabilities | (453) | (2,102) | (458) | (613) | (1,051) | (4,677) |
| Net assets/(liabilities) | 323 | 88 | 28 | 665 | (69) | 1,035 |

\+ Includes net assets held for sale of £12m relating to the Rail disposal group (Note 12)
\# Re presented to include Heery Inc within Construction Services representing negative working capital of £27m and net assets of £11m
^ Re presented to include the net non recourse borrowings directly attributable to Infrastructure Investments which were previously included within Corporate activities

| Other information – continuing operations | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|
| | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m |
| Capital expenditure on property, plant and equipment (Note 17) | 15 | 11 | 23 | – | 49 |
| Depreciation (Note 17) | 25 | 15 | 2 | 1 | 43 |
| Gain on disposals of interests in investments (Note 32 3) | – | – | 93 | – | 93 |

| Other information – continuing operations | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|
| | 2013[2 3 7] £m | 2013 £m | 2013 £m | 2013 £m | 2013[2,3,7] £m |
| Capital expenditure on property, plant and equipment (Note 17) | 19 | 11 | 11 | 7 | 48 |
| Depreciation (Note 17) | 18 | 18 | 2 | 1 | 39 |
| Gain on disposals of interests in investments (Note 32 4) | – | – | 82 | – | 82 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)
[7] Includes Heery Inc which was previously included in Professional Services

## 5 SEGMENT ANALYSIS CONTINUED

### 5 1 Total Group continued

| Performance by geographic destination – continuing operations | United Kingdom 2014 £m | United States 2014 £m | Rest of world 2014 £m | Total 2014 £m |
|---|---|---|---|---|
| Revenue including share of joint ventures and associates | **4,271** | **3,123** | **1,399** | **8,793** |
| Share of revenue of joint ventures and associates | **(329)** | **(180)** | **(1,020)** | **(1,529)** |
| Group revenue | **3,942** | **2,943** | **379** | **7,264** |
| Non-current assets excluding financial assets and deferred tax assets | **1,135** | **709** | **128** | **1,972** |

| Performance by geographic destination – continuing operations | United Kingdom 2013 £m | United States 2013[2] £m | Rest of world 2013[2 3] £m | Total 2013[2 3] £m |
|---|---|---|---|---|
| Revenue including share of joint ventures and associates | 4,452 | 3,174 | 1,226 | 8,852 |
| Share of revenue of joint ventures and associates | (436) | (167) | (761) | (1,364) |
| Group revenue | 4,016 | 3,007 | 465 | 7,488 |
| Non-current assets excluding financial assets and deferred tax assets | 1,057 | 854 | 215 | 2,126 |
| Classified as assets held for sale (Note 12) | – | – | 52 | 52 |
| Adjusted non-current assets excluding financial assets and deferred tax assets | 1,057 | 854 | 267 | 2,178 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying items within continuing operations (Notes 2 2 2 11 and 10)

**Major customers**

Included in Group revenue are revenues from continuing operations of £1,201m (2013[2 3] £1,357m) from the US Government and £1,597m (2013[2 3] £1,760m) from the UK Government, which are the Group's two largest customers These revenues are included in the results across all three reported segments

### 5 2 Infrastructure Investments

| Underlying profit from operations[1] | Group 2014 £m | Share of joint ventures and associates (Note 18 2)* 2014 £m | Total 2014 £m | Group 2013 £m | Share of joint ventures and associates (Note 18 2)* 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| UK^ | **2** | **40** | **42** | 2 | 27 | 29 |
| North America | **15** | **6** | **21** | 21 | 6 | 27 |
| Infrastructure Fund | **–** | **–** | **–** | (2) | – | (2) |
| Infrastructure | **(2)** | **–** | **(2)** | (3) | – | (3) |
| Gain on disposals of interests in investments | **93** | **–** | **93** | 82 | – | 82 |
| | **108** | **46** | **154** | 100 | 33 | 133 |
| Bidding costs and overheads | **(27)** | **–** | **(27)** | (31) | – | (31) |
| | **81** | **46** | **127** | 69 | 33 | 102 |
| **Net assets/(liabilities)** | | | | | | |
| UK^ | **475** | **522** | **997** | 391 | 433 | 824 |
| North America | **158** | **92** | **250** | 106 | 83 | 189 |
| Infrastructure Fund | **(2)** | **20** | **18** | – | 11 | 11 |
| Infrastructure | **14** | **–** | **14** | (3) | – | (3) |
| | **645** | **634** | **1,279** | 494 | 527 | 1,021 |
| Infrastructure Investments central functions | **(5)** | **–** | **(5)** | (2) | – | (2) |
| Non-recourse borrowings net of associated cash and cash equivalents (Note 26) | **(445)** | **–** | **(445)** | (354) | – | (354) |
| Total Infrastructure Investments net assets | **195** | **634** | **829** | 138 | 527 | 665 |

* The Group s share of the results of joint ventures and associates is disclosed net of investment income finance costs and taxation
^ Including Singapore and Australia
[1] Before non-underlying items (Notes 2 11 and 10)

## 6 PROFIT/(LOSS) FROM OPERATIONS

### 6.1 Profit/(loss) from continuing operations is stated after charging/(crediting)

| | 2014 £m | 2013[2,3] £m |
|---|---|---|
| Research and development costs | **3** | 3 |
| Depreciation of property, plant and equipment | **43** | 39 |
| Amortisation of intangible assets | **17** | 20 |
| Net charge of trade receivables impairment provision | **5** | 4 |
| Impairment/(impairment reversal) of property, plant and equipment | **1** | (3) |
| Impairment of inventory | **1** | 3 |
| Gain on disposal of property, plant and equipment | **(7)** | (3) |
| Cost of inventory recognised as an expense | **168** | 180 |
| Exchange gains and losses | **–** | (2) |
| Auditor's remuneration | **5** | 5 |
| Short-term hire charges for plant and equipment | **117** | 125 |
| Other operating lease rentals | **64** | 61 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying items within continuing operations (Notes 2 2 2 11 and 10)

### 6 2 Analysis of auditor's remuneration – continuing and discontinued operations

| | 2014 £m | 2013 £m |
|---|---|---|
| Services as auditor to the Company | **0 9** | 0 8 |
| Services as auditor to Group subsidiaries | **3 8** | 3 7 |
| **Total audit fees** | **4 7** | 4 5 |
| Audit related assurance fees | **1 6** | 0 5 |
| Taxation compliance fees | **–** | 0 2 |
| Taxation advisory fees | **–** | 0 1 |
| Corporate finance fees | **1 0** | 1 4 |
| Other assurance fees | **1 0** | 0 1 |
| Other services | **0 1** | 0 1 |
| **Total non-audit fees** | **3 7** | 2 4 |
| Total fees in relation to audit and other services | **8 4** | 6 9 |

## 7 EMPLOYEE COSTS

### 7 1 Group – continuing and discontinued operations

| Employee costs during the year | 2014 £m | 2013 £m |
|---|---|---|
| Wages and salaries | **1,896** | 2,299 |
| Underlying redundancy costs | **8** | 14 |
| Non-underlying redundancy costs (Note 10) | **14** | 32 |
| Social security costs | **176** | 225 |
| Pension costs (Note 28) | **77** | 147 |
| Share-based payments (Note 33) | **5** | 6 |
| | **2,176** | 2,723 |

Of the above employee costs, £1,421m (2013[2 3] £1,535m) relates to continuing operations

| Average number of Group employees | 2014 Number | 2013[2 3] Number |
|---|---|---|
| Construction Services[7] | **15,833** | 16,531 |
| Support Services | **8,936** | 8,129 |
| Infrastructure Investments | **1,512** | 1,554 |
| Corporate | **149** | 154 |
| Continuing operations | **26,430** | 26,368 |
| Discontinued operations | **13,321** | 23,417 |
| | **39,751** | 49,785 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)
[7] Includes Heery Inc which was previously included in Professional Services

At 31 December 2014 the total number of Group employees was 25,818 (2013 41,221) of which 25,693 (2013[2 3] 26,719) relate to continuing operations and 125 (2013[2 3] 14,502) relate to discontinued operations

### 7 2 Company

On 1 February 2013, employees of the Company were transferred to Balfour Beatty Group Employment Ltd which has been established as the employing entity for the Balfour Beatty Group's UK businesses The Company did not have any employees and did not incur any employee costs in 2014 The average number of employees of Balfour Beatty plc in 2013 was 14 Total employee costs of Balfour Beatty plc in 2013 were £2m Total employee costs in 2013 comprise wages and salaries £2m, social security costs £nil, pension costs £nil, and share-based payments £nil

## 8 INVESTMENT INCOME

| Continuing operations | Group 2014 £m | Group 2013[2 3] £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| Subordinated debt interest receivable | **29** | 25 | **1** | 1 |
| Interest receivable on PPP financial assets | **26** | 33 | **–** | – |
| Interest receivable from subsidiaries | **–** | – | **2** | 3 |
| Other interest receivable and similar income | **9** | 5 | **5** | 1 |
| | **64** | 63 | **8** | 5 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

## 9 FINANCE COSTS

| Continuing operations | | Group 2014 £m | Group 2013[2 3] £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|---|
| Non-recourse borrowings | – bank loans and overdrafts | **20** | 28 | **–** | – |
| Preference shares | – finance cost | **11** | 10 | **11** | 10 |
| | – accretion | **2** | 2 | **2** | 2 |
| Convertible bonds | – finance cost | **5** | 1 | **–** | – |
| | – accretion | **6** | – | **–** | – |
| US private placement | – finance cost | **10** | 9 | **10** | 9 |
| Other interest payable | – loans under committed facilities | **6** | 9 | **6** | 9 |
| | – other bank loans and overdrafts | **–** | 3 | **1** | 1 |
| | – commitment fees | **5** | 4 | **5** | 4 |
| | – other finance charges | **6** | 4 | **–** | – |
| Net finance cost on pension scheme assets and liabilities (Note 28 1 2) | | **16** | 9 | **–** | – |
| Interest payable to subsidiaries | | **–** | – | **14** | 7 |
| | | **87** | 79 | **49** | 42 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

## 10 NON-UNDERLYING ITEMS

| | Group 2014 £m | Group 2013[2,3,4] £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| **Items (charged against)/credited to profit** | | | | |
| **10 1 Continuing operations** | | | | |
| **10 1 1** Trading results from Rail Germany (including £15m (2013 £4m) of other net operating expenses and £1m (2013 £1m) of finance cost) | **(23)** | (23) | – | – |
| **10 1 2** Results of certain legacy ES contracts | **(88)** | – | – | – |
| **10 1 3** Amortisation of acquired intangible assets | **(11)** | (17) | – | – |
| **10 1 4** Other non-underlying items | | | | |
| – restructuring and reorganisation costs relating to continuing businesses | **(23)** | (37) | – | (3) |
| – cost of implementing the shared service centre in the UK | **(14)** | (7) | – | – |
| – impairment of assets within Rail Germany | **(30)** | – | – | – |
| – goodwill impairment in respect of Rail Germany | – | (38) | – | – |
| – Rail Germany regulatory matters | **(6)** | (2) | – | – |
| – cost incurred in relation to the aborted merger discussions with Carillion plc | **(7)** | – | **(7)** | – |
| – impairment of Oracle R12 intangible asset | **(21)** | – | – | – |
| – pension fund settlement gain | **2** | – | – | – |
| – pension curtailment charges and related costs | – | (52) | – | – |
| – post-acquisition integration, reorganisation and other costs | – | (3) | – | – |
| – cost associated with the liquidation of Blackpool Airport | **(1)** | – | – | – |
| – loss on disposal of Stassfurt Signalling Workshop | – | (1) | – | – |
| – cost incurred on disposal of businesses | – | – | **(10)** | – |
| – release of provision against partial loan repayments from subsidiary | – | – | **2** | – |
| Total other non-underlying items from continuing operations | **(100)** | (140) | **(15)** | (3) |
| | **(222)** | (180) | **(15)** | (3) |
| **10 1 5** Share of results of joint ventures and associates – goodwill impairment in respect of Middle East | **(1)** | – | – | – |
| **10 1 6** Share of results of joint ventures and associates – trading results of Rail Germany | **(1)** | – | – | – |
| **Charged against profit before taxation from continuing operations** | **(224)** | (180) | **(15)** | (3) |
| **10 1 7** Tax on items above | **1** | 24 | – | (3) |
| **Non-underlying items charged against profit for the year from continuing operations** | **(223)** | (156) | **(15)** | (6) |
| **10 2 Discontinued operations** | | | | |
| **10 2 1** Amortisation of acquired intangible assets | **(8)** | (15) | – | – |
| **10 2 2** Other non-underlying items | | | | |
| – gain on disposal of Parsons Brinckerhoff | **234** | – | – | – |
| – goodwill impairment in respect of Rail Italy | **(24)** | – | – | – |
| – impairment of assets within Rail Italy | **(2)** | – | – | – |
| – UK facilities management business disposal gain | – | 16 | – | – |
| – restructuring charges in respect of discontinued businesses | **(1)** | (21) | – | – |
| – net loss on disposal of Rail Spain | – | (4) | – | – |
| – cost of implementing the shared service centre in the US | – | (10) | – | – |
| – pension curtailment charges | – | (2) | – | – |
| – post-acquisition integration, reorganisation and other costs | – | (1) | – | – |
| Total other non-underlying items from discontinued operations | **207** | (22) | – | – |
| **Credited to/(charged against) profit before taxation from discontinued operations** | **199** | (37) | – | – |
| **10 2 3** Tax on items above | **19** | 11 | – | – |
| **Non-underlying items credited to/(charged against) profit for the year from discontinued operations** | **218** | (26) | – | – |
| **Charged against profit for the year** | **(5)** | (182) | **(15)** | (6) |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 and 2 11)
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 2 2 and 2 11)

**Continuing operations**

**10 1 1** Rail Germany has been reclassified from discontinued operations in the year and its results are now being presented as part of the Group's non-underlying items within continuing operations This is because Rail Germany no longer meets the definition of discontinued operations at 31 December 2014 under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, however the Group remains committed to exiting the business In 2014, Rail Germany generated a loss before tax excluding share of joint ventures and associates of £23m (2013 £23m)

**10 1 2** The Group has presented the results of certain external legacy Engineering Services (ES) contracts as non-underlying in the year This is because the performance of these ES contracts is linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work due to the problematic delivery of these contracts and the size and nature of the losses are exceptional to the extent that they distort the underlying performance of the Group These contracts resulted in a loss before tax for the Group of £88m in 2014 (2013 £nil) No tax credit has been recognised on this loss

## 10 NON-UNDERLYING ITEMS CONTINUED

**Continuing operations continued**

**10 1 3** The amortisation of acquired intangible assets from continuing operations comprises customer contracts £6m (2013 £9m), customer relationships £4m (2013 £6m), and brand names £1m (2013 £2m)

**10 1 4 1** The Group continued to implement its plan to restructure a number of its businesses in order to increase its focus on the needs of customers and upon growth sectors, further integrate its service offerings to these customers, and realise operational efficiencies In 2014 restructuring costs of £23m were incurred (2013 £37m) relating to Construction Services UK £11m (2013 £14m), where six business units have been streamlined and restructured into one business with three business streams, Support Services UK £nil (2013 £5m), other UK entities £3m (2013 £7m), and other non-UK entities £9m (2013 £11m)

The 2014 restructuring costs comprise redundancy costs £13m (2013 £16m), external advisers £5m (2013 £7m), reversal of impairment of land and buildings £nil (2013 £(3)m), gain on sale of property £nil (2013 £(3)m), other property related costs £1m (2013 £4m), pension curtailment cost £nil (2013 £1m), and other restructuring costs £4m (2013 £15m)

The Company incurred restructuring costs of £nil (2013 £3m) during the year

**10 1 4 2** In 2014, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £14m (2013 £7m)

**10 1 4 3** An assessment of the carrying value of assets within Rail Germany was carried out in the year, which resulted in an impairment of £30m (2013 £nil) The impairment charge was recognised on the parts of Rail Germany which were sold to Rhomberg Sersa Rail Group in January 2015 Refer to Note 37 These assets have been included in assets held for sale at 31 December 2014 No impairment charge was recognised on the remaining parts of Rail Germany

**10 1 4 4** In 2013, a goodwill impairment charge of £38m was recognised in respect of Rail Germany

**10 1 4 5** During 2014, Rail Germany booked costs of £6m (2013 £2m) in relation to allegations of historical anti-competitive behaviour occurring in Schreck-Mieves GmbH, a company acquired by Balfour Beatty in 2008

**10.1 4 6** In 2014, costs of £7m (2013 £nil) were incurred in relation to the aborted merger discussions with Carillion plc

**10 1 4 7** In 2014, an impairment charge of £21m (2013 £nil) was recorded to write down the cost capitalised in relation to the Oracle R12 software within intangible assets Refer to Note 16

**10.1 4 8** A settlement gain of £2m (2013 £nil) was recognised in relation to the Balfour Beatty Pension Fund following a commutation exercise performed in 2014 Refer to Note 28

**10 1.4 9** On 31 August 2013 the majority of members of the Balfour Beatty Pension Fund ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge of £51m with associated costs of £1m being incurred in 2013

**10 1 4 10** Post-acquisition reorganisation costs of £3m were incurred in 2013 relating to Howard S Wright

**10 1 4 11** Blackpool Airport Ltd went into creditors' voluntary liquidation on 16 October 2014 which resulted in costs of £1m (2013 £nil)

**10 1 4 12** On 1 August 2013, as the initial step in disposing of Rail Germany, the Group disposed of the Stassfurt Signalling Workshop to its local management for €1 resulting in a loss of £1m Refer to Note 32 4 6

**10 1 4 13** In 2014, the Company incurred costs of £10m (2013 £nil) relating to the Parsons Brinckerhoff disposal These costs were included as part of the gain on disposal of Parsons Brinckerhoff at Group level Refer to Note 10 2 2 1

**10 1 4 14** In 2014, the Company released £2m (2013 £nil) of provisions which were created against loans due from its subsidiary following a partial loan repayment

**10 1 5** In 2014, a goodwill impairment charge of £1m (2013 £nil) was recognised in relation to one of the Group's investments in a joint venture in the Middle East

**10 1 6** In 2014, joint ventures and associates within Rail Germany generated a loss of £1m for the Group (2013 £nil)

**10 1 7** The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £1m comprising £4m charge on the results of Rail Germany and £nil on certain legacy Engineering Services contracts, £4m credit on amortisation of acquired intangible assets, and £1m credit on other non-underlying items (2013 £24m credit comprising £2m charge on the results of Rail Germany, £5m credit on amortisation of acquired intangible assets, and £21m credit on other non-underlying items)

The non-underlying items charged against Company operating profit gave rise to a tax charge of £nil (2013 £3m)

**Discontinued operations**

**10 2 1** The amortisation of acquired intangible assets from discontinued operations comprises customer contracts £1m (2013 £2m), customer relationships £2m (2013 £6m), and brand names £5m (2013 £7m)

**10.2 2 1** On 31 October 2014, the Group disposed of its 100% interest in Parsons Brinckerhoff, resulting in a gain on disposal of £234m Refer to Note 32 3 5 Included within the gain on disposal are costs of £2m in relation to the impairment of software intangible assets Refer to Note 16

**10.2 2 2** Rail Italy met the criteria to be classified as held for sale at 27 June 2014 Rail Italy is carried at the lower of cost and net realisable value which resulted in a goodwill impairment of £24m in 2014, of which £4m arose after its transfer to assets held for sale Refer to Note 15

**10 2 2 3** In 2014, an assessment of the carrying value of assets within Rail Italy was carried out in the year which resulted in an impairment of £2m (2013 £nil)

## 10 NON-UNDERLYING ITEMS CONTINUED

**Discontinued operations continued**

**10 2 2 4** On 13 December 2013 the Group disposed of the UK facilities management business, Balfour Beatty WorkPlace (BBW), resulting in a net estimated gain of £16m being recognised in 2013 Refer to Note 32 4 10 In 2014, the Group finalised the cash consideration due on this disposal, which resulted in a non-underlying gain on disposal of £6m This was fully offset by an impairment charge for an intangible asset of £6m (refer to Note 16) The net non-underlying gain on disposal recognised in 2014 was therefore £nil Refer to Note 32 3 6

**10 2 2 5** Restructuring costs of £1m (2013 £21m) were incurred in respect of discontinued businesses relating to Rail Italy £1m (2013 £nil), Parsons Brinckerhoff Australia £nil (2013 £20m), and other Parsons Brinckerhoff entities £nil (2013 £1m)

The 2014 restructuring costs comprise redundancy costs £1m (2013 £13m), and onerous leases of £nil (2013 £8m)

**10 2 2 6** On 1 March 2013 the Group disposed of Rail Spain for a net loss of £4m Refer to Note 32 4 1

**10 2 2 7** In 2013, the implementation of Parsons Brinckerhoff's shared service centre in Lancaster, Pennsylvania with the transfer of roles from New York led to costs of £10m

**10 2 2 8** On 31 August 2013 the majority of members of the Balfour Beatty Pension Fund ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge of £2m being incurred in relation to Balfour Beatty WorkPlace employees

**10 2 2 9** Post-acquisition reorganisation costs of £1m were incurred in 2013 relating to Parsons Brinckerhoff

**10 2 3** The non-underlying items charged against profit from discontinued operations gave rise to a tax credit of £19m comprising £2m on amortisation of acquired intangible assets, and £17m on other non-underlying items (2013 £11m comprising £4m on amortisation of acquired intangible assets, and £7m on other non-underlying items)

## 11 TAXATION

### 11 1 Taxation charge

| | Group | | | | | |
|---|---|---|---|---|---|---|
| **Continuing operations*** | **Underlying items[1] 2014 £m** | **Non-underlying items (Note 10) 2014 £m** | **Total 2014 £m** | Total 2013[2 3] £m | **Company 2014 £m** | Company 2013 £m |
| Total UK tax | **(16)** | **1** | **(15)** | (9) | **(12)** | (1) |
| Total non-UK tax | **14** | **(2)** | **12** | 13 | **–** | – |
| **Total tax (credit)/charge** | **(2)** | **(1)** | **(3)** | 4 | **(12)** | (1) |
| **Continuing operations*** | | | | | | |
| **UK current tax** | | | | | | |
| – corporation tax for the year at 21 5% (2013 23 25%) | **1** | **–** | **1** | 2 | **(9)** | (3) |
| – adjustments in respect of previous periods | **(14)** | **–** | **(14)** | (11) | **(2)** | 1 |
| | **(13)** | **–** | **(13)** | (9) | **(11)** | (2) |
| **Non-UK current tax** | | | | | | |
| – non-UK tax on profits for the year | **20** | **(14)** | **6** | (5) | **–** | – |
| – adjustments in respect of previous periods | **(19)** | **(1)** | **(20)** | (3) | **–** | – |
| | **1** | **(15)** | **(14)** | (8) | **–** | – |
| **Total current tax** | **(12)** | **(15)** | **(27)** | (17) | **(11)** | (2) |
| **UK deferred tax** | | | | | | |
| – current year (credit)/charge | **(8)** | **1** | **(7)** | (16) | **(1)** | 1 |
| – adjustments in respect of previous periods | **3** | **–** | **3** | 10 | **–** | – |
| – UK corporation tax rate change | **2** | **–** | **2** | 6 | **–** | – |
| | **(3)** | **1** | **(2)** | – | **(1)** | 1 |
| **Non-UK deferred tax** | | | | | | |
| – current year (credit)/charge | **(3)** | **12** | **9** | 19 | **–** | – |
| – adjustments in respect of previous periods | **16** | **1** | **17** | 2 | **–** | – |
| | **13** | **13** | **26** | 21 | **–** | – |
| **Total deferred tax** | **10** | **14** | **24** | 21 | **(1)** | (1) |
| **Total tax (credit)/charge from continuing operations** | **(2)** | **(1)** | **(3)** | 4 | **(12)** | (1) |

* Excluding joint ventures and associates
[1] Before non underlying items (Notes 2 11 and 10)
[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 18 2), except where tax is levied at the Group level

## 11 TAXATION CONTINUED

### 11 1 Taxation charge continued

In addition to the Group tax credit, tax of £77m is charged (2013 £37m credited) directly to other comprehensive income, comprising a deferred tax charge of £54m (2013 £9m credit), and a deferred tax charge in respect of joint ventures and associates of £23m (2013 £28m credit) Refer to Note 30 1

In addition to the Company tax credit, £nil deferred tax is charged directly to other comprehensive income (2013 £2m)

### 11 2 Taxation reconciliation

| Continuing operations | Group 2014 £m | Group 2013[2,3] £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| (Loss)/profit before taxation | **(304)** | (49) | **144** | 38 |
| Less share of results of joint ventures and associates | **(53)** | (71) | **–** | – |
| (Loss)/profit before taxation | **(357)** | (120) | **144** | 38 |
| Add non-underlying items charged excluding share of joint ventures and associates | **222** | 180 | **15** | 3 |
| Underlying (loss)/profit before taxation and the results of joint ventures and associates[1] | **(135)** | 60 | **159** | 41 |
| Tax on (loss)/profit before taxation at standard UK corporation tax rate of 21 5% (2013 23 25%) | **(29)** | 14 | **34** | 9 |
| **Effects of** | | | | |
| Expenses not deductible for tax purposes | **1** | (1) | **–** | 3 |
| Dividend income not taxable | **–** | – | **(36)** | (21) |
| Non-taxable disposals | **(21)** | (20) | **(10)** | – |
| Tax levied at Group level on share of joint ventures' and associates' profits | **7** | 7 | **–** | – |
| Preference share dividends not deductible | **2** | 3 | **2** | 3 |
| Deferred tax assets not recognised | **47** | 19 | **–** | – |
| Recognition of losses not previously recognised | **(1)** | – | **–** | – |
| Higher tax rates on non-UK earnings | **4** | 3 | **–** | – |
| UK corporation tax rate change | **2** | 6 | **–** | – |
| Adjustments in respect of previous periods | **(14)** | (3) | **(2)** | 2 |
| Total tax (credit)/charge on underlying (loss)/profit | **(2)** | 28 | **(12)** | (4) |
| Less tax (credit)/charge on non-underlying items | **(1)** | (24) | **–** | 3 |
| Total tax (credit)/charge on (loss)/profit from continuing operations | **(3)** | 4 | **(12)** | (1) |

1 Before non-underlying items (Notes 2 11 and 10)
2 Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
3 Re presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)
4 Re presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 2 2 2 11 and 10)

## 12 DISCONTINUED OPERATIONS

### Rail disposal group

Following a strategic review in light of low activity levels and the commoditisation of work, the Group decided to divest all of its Mainland European rail businesses over time The Group has been actively marketing its Mainland European rail businesses and accordingly, when it is probable that these businesses will be sold within a year and meet the criteria to be classified as an asset held for sale, or are sold or abandoned, they will form part of the Rail disposal group and be disclosed as discontinued operations

To be classified as a discontinued operation, the businesses must represent a separate major line of business Other than the Mainland European rail businesses there are no significant Group operations in Mainland Europe and therefore by exiting these businesses, the Group is exiting from a separate major geographical operation and meets the criteria to classify these businesses as discontinued operations

On 1 March 2013, the Group disposed of its interest in Rail Iberica SA (Rail Spain) to its local management for a cash consideration of €1 resulting in a net £4m loss on disposal Refer to Note 32 4 1

On 28 June 2013, it was probable that Rail Germany and Rail Scandinavia would be disposed within a year and therefore met the criteria to be classified as an asset held for sale, with a £38m goodwill impairment in respect of Rail Germany recognised as a non-underlying item

On 1 August 2013, as the initial step in disposing of Rail Germany, the Group disposed of the Stassfurt Signalling Workshop to its local management for €1 resulting in a net loss of £1m and closed its Switches and Crossings manufacturing facility during the year Refer to Note 32 4 6

On 8 January 2014, the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m The disposal resulted in a £nil gain being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed, including cash disposed of £9m, a £1m gain on recycling currency translation reserves to the income statement, and costs incurred and indemnity provisions of £1m Refer to Note 32 3 1

On 27 June 2014, following progression of talks with potential purchasers, it became highly probable that Rail Italy would be disposed within a year and met the criteria to be classified as an asset held for sale Accordingly a £24m goodwill impairment charge was recognised in the year as a non-underlying item Refer to Note 10 2 2 2 On 11 March 2015, the Group completed the sale of Rail Italy for a net consideration of £3m Refer to Note 37

## 12 DISCONTINUED OPERATIONS CONTINUED

**Rail disposal group continued**

Rail Germany has been reclassified from discontinued operations in 2014 and its performance has been included within non-underlying items as part of continuing operations The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014 As a result, Rail Germany does not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation and the prior year comparatives have been restated accordingly

At 31 December 2014, Rail Italy constitutes the Rail disposal group within discontinued operations In 2013, discontinued operations included Rail Scandinavia and Rail Spain

The Rail disposal group was part of the Construction Services segment

**UK facilities management disposal group**

Balfour Beatty WorkPlace (BBW) was the Group's only significant buildings facilities management business in the UK and represented a separate major line of business The Group disposed of BBW to GDF Suez Energy Services on 13 December 2013

During the year the Group finalised the cash consideration due on the disposal of BBW, giving rise to additional consideration for the Group of £1m At the same time, an agreement was reached to discharge the Group's obligation for which a provision of £14m had been made in return for a payment by the Group of £9m This resulted in a non-underlying gain on disposal of £6m, which was fully offset with an impairment charge on an intangible asset of £6m (refer to Note 16) The net non-underlying gain on disposal recognised in the year was therefore £nil (2013 £16m gain) Costs of £6m which were incurred in 2013 were paid in 2014 Refer to Note 32 3 6

BBW was part of the Support Services segment

**Parsons Brinckerhoff**

On 28 October 2014, shareholder approval was granted for the disposal of the Group's 100% interest in Parsons Brinckerhoff The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m with the proceeds being received on that day The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations after incurring separation costs of £24m and transaction costs of £45m The net gain comprises a gain of £314m before disposal costs in respect of the fair value of net assets disposed and a £11m loss in respect of reserves recycled to the income statement This disposal includes cash disposed of £42m Refer to Note 32 3 5

Parsons Brinckerhoff represented the majority of the Group's Professional Services segment As a result of its disposal, the Group no longer presents this segment The remaining continuing operations that were presented within Professional Services now report into Construction Services management and consequently are now presented in the Construction Services segment Refer to Note 5

**Results of the discontinued operations included within the Group Income Statement**

| | Parsons Brinckerhoff 2014 £m | Rail disposal group 2014 £m | Total discontinued operations 2014 £m | Parsons Brinckerhoff 2013[2] £m | Rail disposal group 2013[2 3] £m | UK facilities management disposal group 2013 £m | Total discontinued operations 2013[2 3] £m |
|---|---|---|---|---|---|---|---|
| **Revenue including share of joint ventures and associates** | **1,266** | **23** | **1,289** | 1,536 | 134 | 470 | 2,140 |
| Share of revenue of joint ventures and associates | **(13)** | **–** | **(13)** | (13) | – | (45) | (58) |
| **Group revenue** | **1,253** | **23** | **1,276** | 1,523 | 134 | 425 | 2,082 |
| **Underlying group operating profit/(loss)** | **38** | **1** | **39** | 55 | (2) | 19 | 72 |
| Share of results of joint ventures and associates | **–** | **–** | **–** | – | – | – | – |
| **Underlying profit/(loss) from operations** | **38** | **1** | **39** | 55 | (2) | 19 | 72 |
| Net finance costs | **–** | **–** | **–** | (1) | (1) | (1) | (3) |
| **Underlying profit/(loss) before tax** | **38** | **1** | **39** | 54 | (3) | 18 | 69 |
| Taxation on underlying profit/(loss) | **(14)** | **(1)** | **(15)** | (21) | (2) | (2) | (25) |
| **Underlying profit/(loss) after tax** | **24** | **–** | **24** | 33 | (5) | 16 | 44 |
| Non-underlying items | | | | | | | |
| – amortisation of acquired intangible assets | **(8)** | **–** | **(8)** | (13) | – | (2) | (15) |
| – gain/(loss) on disposal | **234** | **–** | **234** | – | (4) | 16 | 12 |
| – other non-underlying items | **–** | **(27)** | **(27)** | (32) | – | (2) | (34) |
| | **226** | **(27)** | **199** | (45) | (4) | 12 | (37) |
| Taxation on non-underlying items | **13** | **6** | **19** | 10 | – | 1 | 11 |
| **Non-underlying profit/(loss) after tax** | **239** | **(21)** | **218** | (35) | (4) | 13 | (26) |
| **Profit/(loss) for the year from discontinued operations** | **263** | **(21)** | **242** | (2) | (9) | 29 | 18 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

## 12 DISCONTINUED OPERATIONS CONTINUED

### Major classes of assets and liabilities included within net assets held for sale

| | Rail disposal group 2014 £m | Rail disposal group 2013 £m |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets – other | – | 2 |
| Property, plant and equipment | – | 42 |
| Investments in joint ventures and associates | – | 8 |
| Deferred tax asset | 1 | – |
| | 1 | 52 |
| **Current assets** | | |
| Inventories and non-construction work in progress | 2 | 13 |
| Due from construction contract customers | 14 | 73 |
| Trade and other receivables | 24 | 74 |
| Current tax asset | 1 | – |
| Cash | 18 | 19 |
| | 59 | 179 |
| **Total assets classified as held for sale** | 60 | 231 |
| **Current liabilities** | | |
| Due to construction contract customers | (1) | (47) |
| Trade and other payables | (39) | (120) |
| Provisions | (2) | (10) |
| Borrowings | (3) | – |
| Current tax liabilities | – | (3) |
| | (45) | (180) |
| **Non-current liabilities** | | |
| Trade and other payables | – | (4) |
| Provisions | – | (3) |
| Retirement benefit liabilities | (2) | (30) |
| Deferred tax liabilities | – | (2) |
| | (2) | (39) |
| **Total liabilities classified as held for sale** | (47) | (219) |
| **Net assets of disposal group** | 13 | 12 |

### Reconciliation of net assets classified as held for sale

| | Rail disposal group 2014 £m |
|---|---|
| At 1 January 2014 | 12 |
| Rail Germany reclassified from net assets held for sale into continuing operations* | (7) |
| Rail Italy reclassified into net assets held for sale | 8 |
| At 31 December 2014 | 13 |

* Includes impairments of assets of £30m Refer to Note 10 1 4 3

Included within the Group's cash flows for the year ended 31 December 2014 are net £1m operating cash outflows (2013 £10m), net £9m investing cash outflows (2013 £10m), and net £nil financing cash outflows (2013 £1m) relating to the Rail disposal group

Included within the Group's cash flows for the year ended 31 December 2014 are net £43m operating cash outflows, net £703m investing cash inflows, and net £1m financing cash outflows relating to Parsons Brinckerhoff

Included within the Group's cash flows for the year ended 31 December 2014 are net £nil operating cash inflows (2013 £7m, and net £14m investing cash outflows (2013 £139m inflows) relating to the UK facilities management disposal group

## 13 EARNINGS PER ORDINARY SHARE

### Earnings

| | Basic 2014 £m | Diluted 2014 £m | Basic 2013[2,3,4] £m | Diluted 2013[2,3,4] £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Loss | **(302)** | **(302)** | (53) | (53) |
| Amortisation of acquired intangible assets – net of tax credit of £4m (2013[2,3,4] £5m) | **7** | **7** | 12 | 12 |
| Other non-underlying items – net of tax charge of £3m (2013[2,3,4] credit £19m) | **216** | **216** | 144 | 144 |
| Underlying (loss)/earnings | **(79)** | **(79)** | 103 | 103 |
| **Discontinued operations** | | | | |
| Earnings | **242** | **242** | 18 | 18 |
| Amortisation of acquired intangible assets – net of tax credit of £2m (2013[2,3] £4m) | **6** | **6** | 11 | 11 |
| Other non-underlying items – net of tax of credit of £17m (2013[2,3] £7m) | **(224)** | **(224)** | 15 | 15 |
| Underlying earnings | **24** | **24** | 44 | 44 |
| **Total operations** | | | | |
| Loss | **(60)** | **(60)** | (35) | (35) |
| Amortisation of acquired intangible assets – net of tax credit of £6m (2013[2,3,4] £9m) | **13** | **13** | 23 | 23 |
| Other non-underlying items – net of tax credit of £14m (2013[2,3,4] £26m) | **(8)** | **(8)** | 159 | 159 |
| Underlying (loss)/earnings | **(55)** | **(55)** | 147 | 147 |

| | Basic 2014 m | Diluted 2014 m | Basic 2013 m | Diluted 2013 m |
|---|---|---|---|---|
| Weighted average number of ordinary shares | **686** | **686** | 685 | 686 |

| Earnings per share | Basic 2014 Pence | Diluted 2014 Pence | Basic 2013[2,3,4] Pence | Diluted 2013[2,3,4] Pence |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Loss per ordinary share | **(43 9)** | **(43 9)** | (7 5) | (7 5) |
| Amortisation of acquired intangible assets | **1 1** | **1 1** | 1 8 | 1 8 |
| Other non-underlying items | **31 3** | **31 3** | 21 0 | 21 0 |
| Underlying (loss)/earnings per ordinary share | **(11 5)** | **(11 5)** | 15 3 | 15 3 |
| **Discontinued operations** | | | | |
| Earnings per ordinary share | **35 3** | **35 3** | 2 4 | 2 4 |
| Amortisation of acquired intangible assets | **0 8** | **0 8** | 1 6 | 1 6 |
| Other non-underlying items | **(32 6)** | **(32 6)** | 2 2 | 2 2 |
| Underlying earnings per ordinary share | **3 5** | **3 5** | 6 2 | 6 2 |
| **Total operations** | | | | |
| Loss per ordinary share | **(8 6)** | **(8 6)** | (5 1) | (5 1) |
| Amortisation of acquired intangible assets | **1 9** | **1 9** | 3 4 | 3 4 |
| Other non-underlying items | **(1 3)** | **(1 3)** | 23 2 | 23 2 |
| Underlying (loss)/earnings per ordinary share | **(8 0)** | **(8 0)** | 21 5 | 21 5 |

[2] Re-presented to include Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 2 2 2 11 and 10)

## 14 DIVIDENDS ON ORDINARY SHARES

| | Per share 2014 Pence | Amount 2014 £m | Per share 2013 Pence | Amount 2013 £m |
|---|---|---|---|---|
| **Proposed dividends for the year** | | | | |
| Interim – current year | **5 6** | **38** | 5 6 | 38 |
| Final – current year | **–** | **–** | 8 5 | 58 |
| | **5 6** | **38** | 14 1 | 96 |
| **Recognised dividends for the year** | | | | |
| Final – prior year | | **58** | | 58 |
| Interim – current year | | **38** | | 38 |
| | | **96** | | 96 |

The interim 2014 dividend was paid on 5 December 2014 Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending a final dividend payable for 2014 This results in a total dividend for the year of 5 6 pence (2013 14 1 pence) The Board will look to reinstate the dividend payments in March 2016, at an appropriate level

| | 2014 £m | 2013 £m |
|---|---|---|
| Dividends on ordinary shares of the Company | **96** | 96 |
| Other dividends to non-controlling interests | **–** | 1 |
| **Total recognised dividends for the year** | **96** | 97 |

## 15 INTANGIBLE ASSETS – GOODWILL

| | Cost £m | Accumulated impairment losses £m | Carrying amount £m |
|---|---|---|---|
| At 1 January 2013 | 1,299 | (139) | 1,160 |
| Currency translation differences | (9) | – | (9) |
| Impairment charges in respect of Mainland European rail businesses (Note 10 1 4 8) | – | (38) | (38) |
| Business acquired – prior year | (1) | – | (1) |
| Reclassified to assets held for sale | (134) | 134 | – |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | (64) | – | (64) |
| At 31 December 2013 | 1,091 | (43) | 1,048 |
| Currency translation differences | **24** | **5** | **29** |
| Impairment charges in respect of Mainland European rail businesses (Note 10 2 2 2) | **–** | **(20)** | **(20)** |
| Reclassified from assets held for sale relating to Rail Germany | **113** | **(113)** | **–** |
| Reclassified to assets held for sale relating to Rail Italy | **(24)** | **20** | **(4)** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **(227)** | **–** | **(227)** |
| At 31 December 2014 | **977** | **(151)** | **826** |

| | 2014 | | | 2013 | | | |
|---|---|---|---|---|---|---|---|
| **Carrying amounts of goodwill by segment** | **United Kingdom £m** | **United States £m** | **Total £m** | United Kingdom* £m | United States £m | Rest of world £m | Total £m |
| Professional Services^ | **–** | **–** | **–** | 12 | 152 | 57 | 221 |
| Construction Services^ | **260** | **391** | **651** | 260 | 369 | 25 | 654 |
| Support Services | **129** | **–** | **129** | 129 | – | – | 129 |
| Infrastructure Investments | **4** | **42** | **46** | 4 | 40 | – | 44 |
| Group | **393** | **433** | **826** | 405 | 561 | 82 | 1,048 |

^ Re-presented to include goodwill relating to Heery Inc of £13m within Construction Services This was included within Professional Services in 2013

| **Carrying amounts of goodwill by cash generating unit** | **2014 £m** | **Pre-tax discount rate 2014 %** | 2013* £m | Pre tax discount rate 2013* % |
|---|---|---|---|---|
| Parsons Brinckerhoff | **–** | **–** | 219 | 12 5 |
| Construction Services UK | **260** | **10 4** | 260 | 10 7 |
| Balfour Beatty Construction Group Inc | **356** | **12 6** | 338 | 12 8 |
| Support Services | **129** | **8 7** | 129 | 9 1–12 7 |
| Other | **81** | **8 7–12 8** | 102 | 9 1–12 1 |
| Group total | **826** | | 1,048 | |

* Re presented to align 2013 s carrying amount of goodwill to 2014 s CGU allocation as a result of changes in management reporting structure Construction Services US has also been split into two CGUs being Balfour Beatty Construction Group Inc and Balfour Beatty Infrastructure Inc the latter being included within "Other

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 workload of each cash-generating unit (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 (3YP), which covers the period from 2015 to 2017 and includes a stabilisation of performance in the Construction Services UK business 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

It is anticipated that the UK construction market will grow modestly over the forecast period, with improvements in tender margins The 3YP assumes a decline in revenue in 2015 as the business is restored to profitability It is anticipated that the US construction market will continue to improve materially, as will tender margins In the Support Services segment, market conditions are anticipated to be stable in the UK The Support Services business has a portfolio of long-term contracts and has secured the majority of its workload for the forecast period

The other key inputs in assessing each CGU are its long-term growth rate and discount rate The discount rates have been calculated using the Weighted Average Cost of Capital (WACC) method, which takes account of the Group's capital structure (financial risk) as well as the nature of each CGU's business (operational risk) Long-term growth rates are assumed to be the estimated future GDP growth rates based on published independent forecasts for the country or countries in which each CGU operates, less 1 0% to reflect current economic uncertainties and their consequent estimated effect on public sector spending on infrastructure

In the derivation of each CGU's value-in-use, a terminal value is assumed based on a multiple of earnings before interest and tax The multiple is applied to a terminal cash flow, which is the normalised cash flow in the last year of the forecast period 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

## 15 INTANGIBLE ASSETS – GOODWILL CONTINUED

| | 2014 | | | | 2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Construction Services UK %** | **Balfour Beatty Construction Group Inc %** | **Support Services %** | **Other %** | Professional Services* % | Construction Services UK % | Balfour Beatty Construction Group Inc* % | Support Services* % | Other* % |
| Inflation rate | **1 9** | **1 9** | **1 9** | **1 9** | 2 4 | 2 4 | 2 4 | 2 4 | 2 4 |
| Real growth rate | **1 3** | **1 7** | **1 3** | **1 7** | 1 7 | 1 2 | 1 7 | 1 2 | 1 2 |
| Nominal long-term revenue growth rate applied | **3 2** | **3 6** | **3 2** | **3 6** | 4 1 | 3 6 | 4 1 | 3 6 | 3 6 |

* Re presented to align 2013's carrying amount of goodwill to 2014 s CGU allocation as a result of changes in management reporting structure Construction Services US has also been split into two CGUs being Balfour Beatty Construction Group Inc and Balfour Beatty Infrastructure Inc the latter being included within Other"

**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 revenue growth rate

In light of the significant losses incurred within Construction Services UK in 2014 the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in that CGU and concluded that it is not the case The stabilisation and recovery of Construction Services UK to more normal levels of performance is however a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill

Except as noted below, a reasonable possible change in a single assumption will not give rise to an impairment in any of the Group's CGUs

Using a pre-tax discount rate of 12 6% and revenue growth rate of 3 6% the recoverable amount of the remaining goodwill in Balfour Beatty Construction Group Inc is £443m based on value in use, with consequent headroom of £87m A 1 0% increase in the discount rate and a 1 0% reduction in the growth rate would lead to an impairment of £13m

The recoverable amount of goodwill on Blackpool International Airport is £4m with £nil headroom, based on the fair value of the land Any decrease in the fair value of the land will lead to an equivalent impairment of the goodwill Blackpool Airport Ltd went into creditors' voluntary liquidation on 16 October 2014

## 16 INTANGIBLE ASSETS – OTHER

| | Customer contracts £m | Customer relationships £m | Brand names £m | Infrastructure Investments intangible £m | Software and other £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2013 | 228 | 141 | 58 | – | 64 | 491 |
| Currency translation differences | (4) | (2) | – | – | – | (6) |
| Additions | – | – | – | 21 | 17 | 38 |
| Disposals | – | – | – | – | (1) | (1) |
| Impairment – continuing operations[2 3] | – | – | – | – | (2) | (2) |
| Reclassified from property plant and equipment (Note 17) | – | – | – | – | 2 | 2 |
| Reclassified to assets held for sale (Note 12) | (1) | (2) | – | – | (6) | (9) |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | (3) | (14) | (3) | – | (3) | (23) |
| At 31 December 2013 | 220 | 123 | 55 | 21 | 71 | 490 |
| Currency translation differences | **11** | **4** | **2** | **–** | **–** | **17** |
| Additions | **–** | **–** | **–** | **28** | **35** | **63** |
| Disposals | **–** | **–** | **–** | **–** | **–** | **–** |
| Reclassified from property plant and equipment (Note 17) | **–** | **–** | **–** | **–** | **4** | **4** |
| Reclassified from assets held for sale (Note 12) | **–** | **–** | **–** | **–** | **4** | **4** |
| Reclassified to assets held for sale (Note 12) | **–** | **–** | **–** | **–** | **(1)** | **(1)** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **(30)** | **(70)** | **(34)** | **–** | **(3)** | **(137)** |
| At 31 December 2014 | **201** | **57** | **23** | **49** | **110** | **440** |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2013 | (133) | (95) | (40) | – | (11) | (279) |
| Currency translation differences | 2 | 2 | 1 | – | – | 5 |
| Charge for the year – continuing operations[2 3] | (9) | (6) | (2) | – | (3) | (20) |
| Charge for the year – discontinued operations[2 3] | (2) | (6) | (7) | – | – | (15) |
| Disposals | – | – | – | – | 1 | 1 |
| Reclassified from property plant and equipment (Note 17) | – | – | – | – | (1) | (1) |
| Reclassified to assets held for sale (Note 12) | 1 | 1 | – | – | 5 | 7 |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | 3 | 11 | 2 | – | – | 16 |
| At 31 December 2013 | (138) | (93) | (46) | – | (9) | (286) |
| Currency translation differences | **(6)** | **(4)** | **(1)** | **–** | **–** | **(11)** |
| Charge for the year – continuing operations | **(6)** | **(4)** | **(1)** | **–** | **(6)** | **(17)** |
| Charge for the year – discontinued operations | **(1)** | **(2)** | **(5)** | **–** | **–** | **(8)** |
| Impairment charge – continuing operations | **–** | **–** | **–** | **–** | **(21)** | **(21)** |
| Impairment charge – discontinued operations | **–** | **–** | **–** | **–** | **(8)** | **(8)** |
| Reclassified from assets held for sale (Note 12) | **–** | **–** | **–** | **–** | **(4)** | **(4)** |
| Reclassified to assets held for sale (Note 12) | **–** | **–** | **–** | **–** | **1** | **1** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **29** | **65** | **33** | **–** | **3** | **130** |
| At 31 December 2014 | **(122)** | **(38)** | **(20)** | **–** | **(44)** | **(224)** |
| **Carrying amount** | | | | | | |
| At 31 December 2014 | **79** | **19** | **3** | **49** | **66** | **216** |
| At 31 December 2013 | 82 | 30 | 9 | 21 | 62 | 204 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include the results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

In 2013, the Group reached financial close on a student accommodation project in which the Group has demand risk and therefore, under IFRIC 12 Service Concession Arrangements, recognises an intangible asset as "Infrastructure Investments intangible" The project to design, build and maintain postgraduate accommodation at the University of Edinburgh is in the construction phase, with build completion expected in 2016 Additional spend of £28m (2013 £21m) was incurred in the year in respect of this project

Software and other primarily comprises software of the UK shared service centre and operating companies with a cost of £100m (2013 £70m) and accumulated amortisation of £43m (2013 £9m), including internally generated software with a cost of £75m (2013 £62m) and accumulated amortisation and impairment of £34m (2013 £4m)

In 2014, an impairment charge of £27m was recognised against internally generated software intangible assets, of which £6m relates to discontinued operations This represents capitalised costs on the development and implementation of the Oracle R12 business suite Due to curtailments in the scope of the rollout of this asset, it is not expected to provide service potential as originally planned, which represents a significant change in the extent to which the asset is to be used and as such the future benefits expected to be generated are reduced The impairment was recognised as a non-underlying charge Refer to Notes 10 1 4 7 and 10 2 2 4

A further impairment charge of £2m was also recognised against the Group's knowledge sharing and collaboration assets which arises on the loss of future economic benefits associated with Parsons Brinckerhoff This has been recognised as a non-underlying loss as part of the gain on disposal of Parsons Brinckerhoff Refer to Note 10 2 2 1

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 US which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships These contracts have a duration of up to 50 years for customer contracts relating to Balfour Beatty Investments US

The Infrastructure Investments intangible is amortised on a straight-line basis over the life of the project which is 50 years

## 16 INTANGIBLE ASSETS – OTHER CONTINUED

The software for the UK shared service centre and operating companies is amortised on a basis matching its usage profile over its seven-year life The Group's remaining knowledge sharing and collaboration software is amortised on a basis matching its usage profile over its five-year life Other intangible assets are amortised up to 10 years

## 17 PROPERTY, PLANT AND EQUIPMENT

### 17 1 Movements

| | Land and buildings £m | Plant and equipment £m | Infrastructure leasehold improvements £m | Assets in course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2013 | 112 | 522 | – | – | 634 |
| Currency translation differences | (1) | (3) | – | – | (4) |
| Additions – continuing operations[2 3] | 4 | 32 | – | 12 | 48 |
| Disposals – continuing operations[2 3] | (16) | (42) | – | – | (58) |
| Impairment reversal | 3 | – | – | – | 3 |
| Reclassified to software (Note 16) | – | (2) | – | – | (2) |
| Additions – discontinued operations[2 3] | 16 | 18 | – | – | 34 |
| Disposals – discontinued operations[2 3] | – | (6) | – | – | (6) |
| Reclassified to assets held for sale (Note 12) | (10) | (82) | – | – | (92) |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | – | (25) | – | – | (25) |
| At 31 December 2013 | 108 | 412 | – | 12 | 532 |
| Currency translation differences | **3** | **3** | **–** | **1** | **7** |
| Additions – continuing operations | **7** | **19** | **–** | **23** | **49** |
| Disposals – continuing operations | **(4)** | **(40)** | **–** | **–** | **(44)** |
| Reclassified to software (Note 16) | **–** | **(4)** | **–** | **–** | **(4)** |
| Reclassified to inventories | **(3)** | **–** | **–** | **–** | **(3)** |
| Transfers | **–** | **–** | **34** | **(34)** | **–** |
| Additions – discontinued operations | **8** | **9** | **–** | **–** | **17** |
| Disposals – discontinued operations | **–** | **(9)** | **–** | **–** | **(9)** |
| Reclassified from assets held for sale (Note 12) | **7** | **35** | **–** | **–** | **42** |
| Reclassified to assets held for sale (Note 12) | **(4)** | **(9)** | **–** | **–** | **(13)** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **(53)** | **(54)** | **–** | **–** | **(107)** |
| At 31 December 2014 | **69** | **362** | **34** | **2** | **467** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2013 | (49) | (338) | – | – | (387) |
| Currency translation differences | – | 2 | – | – | 2 |
| Charge for the year – continuing operations[2 3] | (5) | (34) | – | – | (39) |
| Charge for the year – discontinued operations[2 3] | (5) | (12) | – | – | (17) |
| Disposals – continuing operations[2 3] | 7 | 40 | – | – | 47 |
| Disposals – discontinued operations[2 3] | – | 4 | – | – | 4 |
| Reclassified to software (Note 16) | – | 1 | – | – | 1 |
| Reclassified to assets held for sale (Note 12) | 4 | 46 | – | – | 50 |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | – | 15 | – | – | 15 |
| At 31 December 2013 | (48) | (276) | – | – | (324) |
| Currency translation differences | **(1)** | **–** | **–** | **–** | **(1)** |
| Charge for the year – continuing operations | **(5)** | **(38)** | **–** | **–** | **(43)** |
| Charge for the year – discontinued operations | **(4)** | **(7)** | **–** | **–** | **(11)** |
| Impairment – continuing operations | **–** | **(1)** | **–** | **–** | **(1)** |
| Impairment – discontinued operations | **(2)** | **–** | **–** | **–** | **(2)** |
| Disposals – continuing operations | **2** | **35** | **–** | **–** | **37** |
| Disposals – discontinued operations | **–** | **6** | **–** | **–** | **6** |
| Reclassified from assets held for sale (Note 12) | **(4)** | **(20)** | **–** | **–** | **(24)** |
| Reclassified to assets held for sale (Note 12) | **4** | **9** | **–** | **–** | **13** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **24** | **30** | **–** | **–** | **54** |
| At 31 December 2014 | **(34)** | **(262)** | **–** | **–** | **(296)** |
| **Carrying amount** | | | | | |
| At 31 December 2014 | **35** | **100** | **34** | **2** | **171** |
| At 31 December 2013 | 60 | 136 | – | 12 | 208 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re presented to include the results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying items within continuing operations (Notes 2 2 2 11 and 10)

## 17 PROPERTY, PLANT AND EQUIPMENT CONTINUED

### 17 1 Movements continued

In 2014, the Group completed construction on two student accommodation projects in Iowa and Reno Expenditure on these buildings amounted to £23m in 2014 (2013 £11m) and was previously capitalised as assets under construction Both buildings are held under short leaseholds

The carrying amount of the Group's property, plant and equipment held under finance leases was £1m (2013 £5m) The Company has no property, plant and equipment held under finance leases

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% pa or over the term of the lease, and plant and equipment is depreciated at 4% to 33% pa

### 17 2 Analysis of carrying amount of land and buildings

| | **Group 2014 £m** | Group 2013 £m |
|---|---|---|
| Freehold | **16** | 18 |
| Long leasehold – over 50 years unexpired | **2** | 5 |
| Short leasehold | **17** | 37 |
| | **35** | 60 |

## 18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

### 18 1 Movements

| | Net assets £m | Loans £m | Provisions £m | Total £m |
|---|---|---|---|---|
| At 1 January 2013 | 543 | 270 | (87) | 726 |
| Currency translation differences | (5) | – | – | (5) |
| Income recognised – continuing operations[2 3] | 71 | – | – | 71 |
| Fair value revaluation of PPP financial assets (Note 30 1) | (167) | – | – | (167) |
| Fair value revaluation of cash flow hedges (Note 30 1) | 65 | – | – | 65 |
| Actuarial movements on retirement benefit obligations (Note 30 1) | 3 | – | – | 3 |
| Tax on items taken directly to equity (Note 30 1) | 28 | – | – | 28 |
| Dividends | (47) | – | – | (47) |
| Additions[5] | 26 | – | – | 26 |
| Disposals | (18) | (36) | – | (54) |
| Fair value of retained interest in CNDR (Note 32 4 9) | 6 | 3 | – | 9 |
| Loans advanced | – | 29 | – | 29 |
| Loans repaid | – | (2) | – | (2) |
| Provisions utilised | (43) | (44) | 87 | – |
| Reclassified to assets held for sale (Note 12) | (8) | – | – | (8) |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | (8) | – | – | (8) |
| At 31 December 2013 | 446 | 220 | – | 666 |
| Currency translation differences | **11** | **–** | **–** | **11** |
| Income recognised – continuing operations | **53** | **–** | **–** | **53** |
| Fair value revaluation of PPP financial assets (Note 30 1) | **224** | **–** | **–** | **224** |
| Fair value revaluation of cash flow hedges (Note 30 1) | **(102)** | **–** | **–** | **(102)** |
| Actuarial movements on retirement benefit obligations (Note 30 1) | **(5)** | **–** | **–** | **(5)** |
| Tax on items taken directly to equity (Note 30 1) | **(23)** | **–** | **–** | **(23)** |
| Dividends | **(56)** | **–** | **–** | **(56)** |
| Additions | **25** | **–** | **–** | **25** |
| Disposals | **(33)** | **(20)** | **–** | **(53)** |
| Loans advanced | **–** | **15** | **–** | **15** |
| Loans repaid | **–** | **(2)** | **–** | **(2)** |
| Goodwill impairment | **(1)** | **–** | **–** | **(1)** |
| Reclassified from assets held for sale (Note 12) | **8** | **–** | **–** | **8** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **(1)** | **–** | **–** | **(1)** |
| At 31 December 2014 | **546** | **213** | **–** | **759** |

[5] Includes £4m non-cash addition
[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include the results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying items within continuing operations (Notes 2 2 2 11 and 10)

The principal joint ventures and associates are shown in Note 41 The original cost of the Group's investments in joint ventures and associates was £123m (2013 £137m)

The Group's share of borrowings of joint ventures and associates is shown in Note 18 2 The amount which was supported by the Group and the Company was £10m (2013 £nil), relating to the Group's share of guaranteed borrowings The non-recourse borrowings of joint venture and associate entities relating to infrastructure concessions projects are repayable over periods extending up to 2046 The non-recourse borrowings arise under facilities taken out by project specific joint venture and associate concession companies

## 18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

### 18 1 Movements continued

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 41f, 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

There were no provisions utilised in the year Provisions utilised of £87m in 2013 relate to the investments in Metronet BCV Ltd and Metronet SSL Ltd On 18 July 2007, a PPP Administrator was appointed to the principal trading subsidiaries (Infracos) of these companies On 27 May 2008, the business and the majority of assets and liabilities of the Infracos was transferred to new companies owned by TfL and on 11 December 2009 the Infracos entered into compulsory liquidation

### 18 2 Share of results and net assets of joint ventures and associates

| | | | Infrastructure Investments | | | | |
|---|---|---|---|---|---|---|---|
| **Income statement – continuing operations** | Construction Services 2014 £m | Support Services 2014 £m | UK^ 2014 £m | North America 2014 £m | Infrastructure Fund 2014 £m | Total 2014 £m | Total 2014 £m |
| **Revenue[1]** | 1,168 | 26 | 249 | 47 | – | 296 | 1,490 |
| **Underlying operating profit[1]** | 10 | 1 | 11 | 8 | – | 19 | 30 |
| Investment income | 1 | – | 176 | 2 | – | 178 | 179 |
| Finance costs | – | – | (135) | (4) | – | (139) | (139) |
| **Profit before taxation[1]** | 11 | 1 | 52 | 6 | – | 58 | 70 |
| Taxation | (3) | – | (12) | – | – | (12) | (15) |
| **Profit after taxation before non-underlying items** | 8 | 1 | 40 | 6 | – | 46 | 55 |
| Share of results within non-underlying items | (2) | – | – | – | – | – | (2) |
| **Profit after taxation** | 6 | 1 | 40 | 6 | – | 46 | 53 |
| **Balance sheet** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Intangible assets – goodwill | 29 | – | – | – | – | – | 29 |
| – Infrastructure Investments intangible | – | – | 24 | – | – | 24 | 24 |
| – other | – | – | 6 | – | – | 6 | 6 |
| Property plant and equipment | 41 | – | 16 | 4 | – | 20 | 61 |
| Investment in joint ventures and associates | 5 | – | – | – | – | – | 5 |
| PPP financial assets | – | – | 2,326 | 33 | – | 2,359 | 2,359 |
| Military housing projects | – | – | – | 91 | – | 91 | 91 |
| Infrastructure Fund investment | – | – | – | – | 20 | 20 | 20 |
| Other non-current assets | 52 | – | 34 | – | – | 34 | 86 |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | 258 | 2 | 161 | 107 | – | 268 | 528 |
| Other current assets | 447 | 7 | 49 | – | – | 49 | 503 |
| **Total assets** | 832 | 9 | 2,616 | 235 | 20 | 2,871 | 3,712 |
| **Current liabilities** | | | | | | | |
| Borrowings – recourse | (10) | – | – | – | – | – | (10) |
| Borrowings – non-recourse | – | – | (51) | – | – | (51) | (51) |
| Other current liabilities | (608) | (7) | (137) | (7) | – | (144) | (759) |
| **Non-current liabilities** | | | | | | | |
| Borrowings – non-recourse | (40) | – | (1,566) | (131) | – | (1,697) | (1,737) |
| Other non-current liabilities | (51) | – | (340) | (5) | – | (345) | (396) |
| **Total liabilities** | (709) | (7) | (2,094) | (143) | – | (2,237) | (2,953) |
| **Net assets** | 123 | 2 | 522 | 92 | 20 | 634 | 759 |

^ Including Singapore and Australia
[1] Before non-underlying items (Notes 2 11 and 10)

The Group's investment in military housing joint ventures' and associates' projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects The military housing joint ventures and associates have total non-recourse net borrowings of £2,099m (2013 £1,858m) Note 41(e) details the Group's military housing projects

The Group has elected to recognise its investment in Balfour Beatty Infrastructure Partners LP (Infrastructure Fund) at fair value with movements in fair value being recognised through the income statement The Infrastructure Fund holds multiple assets which are valued by third parties

Capital expenditure authorised and contracted which has not been provided for in the financial statements of the joint ventures and associates amounted to £1m (2013 £2m)

As a result of the net fair value revaluations of PPP financial assets and cash flow hedges on one Infrastructure Investments concession, where the borrowings are non-recourse to the Group, the Group has not recognised cumulative fair value revaluation charges to other comprehensive income of £15m (2013 £24m)

## 18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

### 18 2 Share of results and net assets of joint ventures and associates continued

| Income statement – continuing operations | Professional Services[2] 2013 £m | Construction Services* 2013 £m | Support Services 2013 £m | Infrastructure Investments: UK^ 2013 £m | Infrastructure Investments: North America 2013 £m | Infrastructure Investments: Infrastructure Fund 2013 £m | Infrastructure Investments: Total 2013 £m | Total 2013[2]* £m |
|---|---|---|---|---|---|---|---|---|
| **Revenue[1]** | – | 971 | 33 | 356 | – | – | 356 | 1,360 |
| **Underlying operating profit[1]** | – | 38 | 1 | 11 | 6 | – | 17 | 56 |
| Investment income | – | 2 | – | 164 | – | – | 164 | 166 |
| Finance costs | – | – | – | (142) | – | – | (142) | (142) |
| **Profit before taxation[1]** | – | 40 | 1 | 33 | 6 | – | 39 | 80 |
| Taxation | – | (3) | – | (6) | – | – | (6) | (9) |
| **Profit after taxation** | – | 37 | 1 | 27 | 6 | – | 33 | 71 |
| **Balance sheet** | | | | | | | | |
| **Non-current assets** | | | | | | | | |
| Intangible assets – goodwill | – | 29 | – | – | – | – | – | 29 |
| – Infrastructure Investments intangible | – | – | – | 23 | – | – | 23 | 23 |
| – other | – | – | – | 6 | – | – | 6 | 6 |
| Property, plant and equipment | – | 43 | – | 8 | – | – | 8 | 51 |
| Investments in joint ventures and associates | – | 2 | – | – | – | – | – | 2 |
| PPP financial assets | – | – | – | 2,292 | – | – | 2,292 | 2,292 |
| Military housing projects | – | – | – | – | 83 | – | 83 | 83 |
| Infrastructure Fund investment | – | – | – | – | – | 11 | 11 | 11 |
| Other non-current assets | – | 38 | – | 45 | – | – | 45 | 83 |
| **Current assets** | | | | | | | | |
| Cash and cash equivalents | 2 | 235 | 3 | 192 | – | – | 192 | 432 |
| Other current assets | 1 | 345 | 8 | 45 | – | – | 45 | 399 |
| **Total assets** | 3 | 692 | 11 | 2,611 | 83 | 11 | 2,705 | 3,411 |
| **Current liabilities** | | | | | | | | |
| Borrowings – non-recourse | – | – | – | (47) | – | – | (47) | (47) |
| Other current liabilities | (2) | (480) | (8) | (160) | – | – | (160) | (650) |
| **Non-current liabilities** | | | | | | | | |
| Borrowings – non-recourse | – | (44) | – | (1,744) | – | – | (1,744) | (1,788) |
| Other non-current liabilities | – | (33) | – | (227) | – | – | (227) | (260) |
| **Total liabilities** | (2) | (557) | (8) | (2,178) | – | – | (2,178) | (2,745) |
| **Net assets** | 1 | 135 | 3 | 433 | 83 | 11 | 527 | 666 |

^ Including Singapore
* Re-presented to reflect the change in IFRS 11 for joint arrangements within the Group s joint ventures
[1] Before non-underlying items (Notes 2 11 and 10)
[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Notes 12 and 38)

### 18 3 Aggregate information of joint ventures and associates that are not individually material

| | **Joint ventures 2014 £m** | **Associates 2014 £m** | **Total 2014 £m** |
|---|---|---|---|
| The Group's share of profit from continuing operations | **45** | **8** | **53** |
| Aggregate carrying amount of the Group's interest | **652** | **107** | **759** |

| | Joint ventures 2013 £m | Associates 2013 £m | Total 2013[2] £m |
|---|---|---|---|
| The Group's share of profit from continuing operations | 65 | 6 | 71 |
| Aggregate carrying amount of the Group's interest | 567 | 99 | 666 |

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Notes 12 and 38)

## 18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

### 18 4 Details of material joint ventures

| | Dutco^ | | Gammon China Ltd | | Connect Plus (M25) Ltd | |
|---|---|---|---|---|---|---|
| | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m |
| **Proportion of the Group's ownership interest in the joint venture** | **49%** | 49% | **50%** | 50% | **40%** | 40% |
| **Income statement – continuing operations** | | | | | | |
| Revenue | **361** | 263 | **1,372** | 1,122 | **249** | 340 |
| Underlying operating (loss)/profit | **(30)** | 11 | **29** | 36 | **5** | 4 |
| Investment income | **–** | 2 | **1** | 1 | **139** | 137 |
| Finance costs | **–** | – | **–** | – | **(105)** | (108) |
| Income tax (charge)/credit | **–** | – | **(6)** | (5) | **(8)** | (6) |
| (Loss)/profit and total comprehensive (expense)/income (100%) | **(30)** | 13 | **24** | 32 | **31** | 27 |
| **Group's share of (loss)/profit and total comprehensive (expense)/income** | **(15)** | 6 | **12** | 16 | **12** | 11 |
| **Dividends received by the Group during the year** | **–** | 5 | **8** | 8 | **9** | 5 |
| **Balance sheet** | | | | | | |
| **Non-current assets** | **39** | 30 | **135** | 113 | **2,127** | 1,879 |
| **Current assets** | | | | | | |
| Cash and cash equivalents | **–** | 14 | **410** | 264 | **130** | 151 |
| Other current assets | **404** | 300 | **366** | 285 | **32** | 22 |
| | **404** | 314 | **776** | 549 | **162** | 173 |
| **Current liabilities** | | | | | | |
| Trade and other payables | **(138)** | (114) | **(501)** | (371) | **(28)** | (31) |
| Provisions | **–** | – | **(39)** | (26) | **–** | – |
| Borrowings – recourse | **(20)** | – | **–** | – | **–** | – |
| Borrowings – non-recourse | **–** | – | **–** | – | **(6)** | (6) |
| Other current liabilities | **(231)** | (155) | **(118)** | (38) | **(43)** | (44) |
| | **(389)** | (269) | **(658)** | (435) | **(77)** | (81) |
| **Non-current liabilities** | | | | | | |
| Trade and other payables | **(10)** | (4) | **(54)** | (35) | **(122)** | (90) |
| Provisions | **–** | – | **(15)** | (12) | **–** | – |
| Borrowings – non-recourse | **–** | – | **(80)** | (88) | **(1,074)** | (1,078) |
| Other current liabilities | **–** | – | **(12)** | (1) | **(286)** | (200) |
| | **(10)** | (4) | **(161)** | (136) | **(1,482)** | (1,368) |
| **Net assets (100%)** | **44** | 71 | **92** | 91 | **730** | 603 |
| **Reconciliation of the above summarised financial information to the carrying amount of the interest in the above joint ventures recognised in the consolidated financial statements** | | | | | | |
| Net assets of joint venture (100%) | **44** | 71 | **92** | 91 | **730** | 603 |
| Group's share of net assets | **22** | 35 | **46** | 46 | **292** | 241 |
| Goodwill | **1** | 2 | **26** | 24 | **–** | – |
| **Carrying amount of the Group's interest in the joint venture** | **23** | 37 | **72** | 70 | **292** | 241 |

^ Represents the results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure

### 18 5 Infrastructure Investments' investments

| | **Net investment 2014 £m** | **Reserves 2014 £m** | **Total 2014 £m** | Net investment 2013 £m | Reserves 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| Roads | **127** | **250** | **377** | 107 | 201 | 308 |
| Hospitals | **40** | **25** | **65** | 62 | (8) | 54 |
| Schools | **40** | **21** | **61** | 37 | 9 | 46 |
| Other concessions | **16** | **3** | **19** | 15 | 10 | 25 |
| UK^ | **223** | **299** | **522** | 221 | 212 | 433 |
| North America | **70** | **22** | **92** | 64 | 19 | 83 |
| Infrastructure Fund | **19** | **1** | **20** | 11 | – | 11 |
| Total investments | **312** | **322** | **634** | 296 | 231 | 527 |

^ Including Singapore and Australia

## 18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

### 18 6 Infrastructure Fund investment

| | 2014 £m | 2013 £m |
|---|---|---|
| At 1 January | 11 | – |
| Capital calls | **9** | 11 |
| Distributions received | **(1)** | – |
| Currency translation differences | **1** | – |
| At 31 December | **20** | 11 |

### 18 7 Cash flow from/(to) joint ventures and associates

| | Infrastructure Investments | | | | | Infrastructure Investments | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows from investing activities** | UK^ 2014 £m | North America 2014 £m | Infra-structure Fund 2014 £m | Other 2014 £m | Total 2014 £m | UK^ 2013 £m | North America 2013 £m | Infra-structure Fund 2013 £m | Other 2013 £m | Total 2013 £m |
| Dividends from joint ventures and associates | **20** | **8** | **–** | **28** | **56** | 20 | 8 | – | 19 | 47 |
| Subordinated debt interest received | **24** | **–** | **–** | **–** | **24** | 26 | – | – | – | 26 |
| Investments in and loans to joint ventures and associates | **(24)** | **(6)** | **(8)** | **–** | **(38)** | (16) | (21) | (11) | (1) | (49) |
| Equity | **(19)** | **(6)** | **–** | **–** | **(25)** | – | (21) | – | (1) | (22) |
| Subordinated debt invested | **(7)** | **–** | **–** | **–** | **(7)** | (18) | – | – | – | (18) |
| Subordinated debt repaid | **2** | **–** | **–** | **–** | **2** | 2 | – | – | – | 2 |
| Other investments and loans | **–** | **–** | **(8)** | **–** | **(8)** | – | – | (11) | – | (11) |
| Disposal of investments in joint ventures | **117** | **–** | **–** | **–** | **117** | 102 | – | – | 1 | 103 |
| Net cash flow from/(to) joint ventures and associates | **137** | **2** | **(8)** | **28** | **159** | 132 | (13) | (11) | 19 | 127 |

^ Including Singapore and Australia

### 18 8 Share of reserves of joint ventures and associates

| | Accumulated profit/(loss) £m | Hedging reserve £m | PPP financial assets £m | Currency translation reserve £m | Total (Note 30 1) £m |
|---|---|---|---|---|---|
| At 1 January 2013 | 136 | (218) | 399 | 20 | 337 |
| Currency translation differences | – | – | – | (2) | (2) |
| Income recognised – continuing operations | 71 | – | – | – | 71 |
| Fair value revaluation of PPP financial assets | – | – | (167) | – | (167) |
| Fair value revaluation of cash flow hedges | – | 65 | – | – | 65 |
| Actuarial movements on retirement benefit liabilities | 3 | – | – | – | 3 |
| Tax on items taken directly to equity | – | (21) | 49 | – | 28 |
| Dividends | (47) | – | – | – | (47) |
| Recycling of revaluation reserves to the income statement on disposal | – | 20 | (35) | – | (15) |
| Reserves disposed | 3 | – | – | – | 3 |
| Other movements | – | (3) | 5 | – | 2 |
| At 31 December 2013 | 166 | (157) | 251 | 18 | 278 |
| Currency translation differences | **–** | **–** | **–** | **2** | **2** |
| Income recognised – continuing operations | **53** | **–** | **–** | **–** | **53** |
| Fair value revaluation of PPP financial assets | **–** | **–** | **224** | **–** | **224** |
| Fair value revaluation of cash flow hedges | **–** | **(102)** | **–** | **–** | **(102)** |
| Actuarial movements on retirement benefit liabilities | **(5)** | **–** | **–** | **–** | **(5)** |
| Tax on items taken directly to equity | **1** | **21** | **(45)** | **–** | **(23)** |
| Dividends | **(56)** | **–** | **–** | **–** | **(56)** |
| Recycling of revaluation reserves to the income statement on disposal | **–** | **1** | **(8)** | **–** | **(7)** |
| Reserves disposed | **(24)** | **–** | **–** | **–** | **(24)** |
| At 31 December 2014 | **135** | **(237)** | **422** | **20** | **340** |

## 19 INVESTMENTS

### 19 1 Group

| | Held to maturity bonds £m | Available-for-sale investments in mutual funds £m | Total £m |
|---|---|---|---|
| At 1 January 2013 | 42 | 52 | 94 |
| Currency translation differences | – | (1) | (1) |
| Fair value movements | – | 7 | 7 |
| Interest accrued | – | 3 | 3 |
| Additions | 7 | 5 | 12 |
| Maturities/disposals | (14) | (6) | (20) |
| At 31 December 2013 | 35 | 60 | 95 |
| Currency translation differences | **–** | **2** | **2** |
| Fair value movements – continuing operations | **–** | **1** | **1** |
| – discontinued operations | **–** | **2** | **2** |
| Additions – continuing operations | **–** | **1** | **1** |
| – discontinued operations | **–** | **7** | **7** |
| Maturities/disposals – continuing operations | **(4)** | **(6)** | **(10)** |
| – discontinued operations | **–** | **(2)** | **(2)** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **–** | **(45)** | **(45)** |
| At 31 December 2014 | **31** | **20** | **51** |

The held to maturity 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 1 10% (2013 1 61%) and weighted average life of 2 1 years (2013 2 7 years) The fair value of the bonds is £33m (2013 £38m), determined by the market price of the bonds at the reporting date The maximum exposure to credit risk at 31 December 2014 is the carrying amount These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd

The available-for-sale 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 28 The fair value of the available-for-sale investments is £20m (2013 £60m), determined by the market price of the funds at the reporting date

### 19 2 Company

| | Note | **2014 £m** | 2013 £m |
|---|---|---|---|
| Investment in subsidiaries^ | | **1,671** | 1,666 |
| Investment in joint ventures and associates | 32 3 2 | **2** | 3 |
| Provisions | | **(102)** | (102) |
| | | **1,571** | 1,567 |

^ The movement in investment in subsidiaries of £5m in 2014 represents additional non cash equity contributions made from the Company to its subsidiaries

## 20 PPP FINANCIAL ASSETS

| | Schools £m | Roads £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2013 | 217 | 280 | 45 | 542 |
| Income recognised in the income statement | | | | |
| – construction contract margin | – | 1 | – | 1 |
| – interest income (Note 8) | 12 | 17 | 4 | 33 |
| (Losses)/gains recognised in the statement of comprehensive income | | | | |
| – fair value movements | (14) | (21) | 10 | (25) |
| Other movements | | | | |
| – cash expenditure | – | 40 | 22 | 62 |
| – cash received | (19) | (25) | (15) | (59) |
| – disposal of interest in CNDR (Note 32 4 11) | – | (99) | – | (99) |
| At 31 December 2013 | 196 | 193 | 66 | 455 |
| Income recognised in the income statement | | | | |
| – construction contract margin | **–** | **1** | **–** | **1** |
| – interest income (Note 8) | **5** | **16** | **5** | **26** |
| Gains recognised in the statement of comprehensive income | | | | |
| – fair value movements | **4** | **32** | **43** | **79** |
| Other movements | | | | |
| – cash expenditure | **–** | **39** | **193** | **232** |
| – cash received | **(8)** | **(21)** | **(8)** | **(37)** |
| – disposal of interest in Knowsley (Note 32 3 7) | **(197)** | **–** | **–** | **(197)** |
| At 31 December 2014 | **–** | **260** | **299** | **559** |

Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets and are denominated in sterling The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets

## 20 PPP FINANCIAL ASSETS CONTINUED

In 2014, the Group disposed of its 100% interest in Transform Schools (Knowsley) Holdings Ltd (Knowsley) Refer to Note 32 3 3

The Group also achieved financial close on Thanet OFTO which is an offshore transmission network concession This resulted in cash expenditure of £179m in the year

There were no impairment provisions in 2014 or 2013

## 21 INVENTORIES

| | 2014 £m | 2013 £m |
|---|---|---|
| Unbilled non-construction work in progress | **61** | 51 |
| Raw materials and consumables | **44** | 39 |
| Development and housing land and work in progress | **53** | 42 |
| Manufacturing work in progress | **5** | 1 |
| Finished goods and goods for resale | **7** | 2 |
| | **170** | 135 |

## 22 CONSTRUCTION CONTRACTS

| **Contracts in progress at reporting date** | 2014 £m | 2013 £m |
|---|---|---|
| Due from construction contract customers | **562** | 631 |
| Due to construction contract customers | **(350)** | (360) |
| | **212** | 271 |

The aggregate amount of costs incurred plus recognised profits less recognised losses for all contracts in progress that had not reached practical completion at the reporting date was £10,720m from total operations (2013 £15,201m)

## 23 TRADE AND OTHER RECEIVABLES

| | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| **Current** | | | | |
| Trade receivables | **583** | 827 | **–** | – |
| Less provision for impairment of trade receivables | **(26)** | (26) | **–** | – |
| | **557** | 801 | **–** | – |
| Other receivables | **56** | 76 | **26** | 17 |
| Due from subsidiaries | **–** | – | **1,354** | 1,243 |
| Due from joint ventures and associates | **33** | 28 | **–** | – |
| Due from joint operations | **29** | 3 | **–** | – |
| Contract retentions receivable* | **210** | 198 | **–** | – |
| Accrued income | **39** | 21 | **–** | 1 |
| Prepayments | **42** | 47 | **1** | 1 |
| Due on acquisitions | **–** | 16 | **–** | – |
| | **966** | 1,190 | **1,381** | 1,262 |
| **Non-current** | | | | |
| Trade receivables | **–** | 8 | **–** | – |
| Less provision for impairment of trade receivables | **–** | (6) | **–** | – |
| | **–** | 2 | **–** | – |
| Other receivables | **7** | 2 | **–** | – |
| Due from joint ventures and associates | **16** | 11 | **11** | 17 |
| Due from joint operations | **4** | – | **–** | – |
| Contract retentions receivable* | **84** | 98 | **–** | – |
| | **111** | 113 | **11** | 17 |
| Total trade and other receivables | **1,077** | 1,303 | **1,392** | 1,279 |
| **Comprising** | | | | |
| Financial assets (Note 39) | **1,035** | 1,256 | **1,391** | 1,278 |
| Non-financial assets – prepayments | **42** | 47 | **1** | 1 |
| | **1,077** | 1,303 | **1,392** | 1,279 |

* Including £291m (2013 £295m) construction contract retentions receivable

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 trade and other receivables approximate their fair values The fair value of non-current trade and other receivables amounts to £107m (2013 £108m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date

## 23 TRADE AND OTHER RECEIVABLES CONTINUED

### Movement in the provision for impairment of trade receivables

| | Group 2014 £m | Group 2013 £m |
|---|---|---|
| At 1 January | **(32)** | (29) |
| Currency translation differences | **(1)** | (2) |
| (Charged)/credited to the income statement | | |
| – additional provisions – continuing operations[2] | **(8)** | (9) |
| – additional provisions – discontinued operations[2] | **(6)** | (3) |
| – unused amounts reversed – continuing operations[2] | **3** | 5 |
| – unused amounts reversed – discontinued operations[2] | **3** | 5 |
| Utilised during the year | **5** | 1 |
| Reclassified from assets held for sale | **(1)** | – |
| Reclassified to assets held for sale and subsequently sold | **11** | – |
| At 31 December | **(26)** | (32) |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

### Maturity profile of impaired trade receivables

| | Group 2014 £m | Group 2013 £m |
|---|---|---|
| Up to three months | **7** | 1 |
| Three to six months | **–** | 1 |
| Six to nine months | **–** | 2 |
| Nine to 12 months | **4** | 8 |
| More than 12 months | **15** | 20 |
| | **26** | 32 |

At 31 December 2014, trade receivables of £83m (2013 £217m) 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

### Maturity profile of trade receivables past due but not impaired

| | Group 2014 £m | Group 2013 £m |
|---|---|---|
| Up to three months | **44** | 153 |
| Three to six months | **20** | 24 |
| Six to nine months | **7** | 12 |
| Nine to 12 months | **6** | 7 |
| More than 12 months | **6** | 21 |
| | **83** | 217 |

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year

## 24 TRADE AND OTHER PAYABLES

| | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| **Current** | | | | |
| Trade and other payables | **905** | 857 | **16** | 4 |
| Accruals | **961** | 1,044 | **17** | 14 |
| Deferred income | **5** | 6 | **–** | – |
| Advance payments on contracts* | **1** | 14 | **–** | – |
| VAT, payroll taxes and social security | **79** | 115 | **11** | 13 |
| Due to subsidiaries | **–** | – | **1,542** | 1,301 |
| Due to joint ventures and associates | **–** | 1 | **–** | – |
| Dividends on preference shares | **5** | 5 | **5** | 5 |
| Due on acquisitions | **3** | 4 | **–** | – |
| | **1,959** | 2,046 | **1,591** | 1,337 |
| **Non-current** | | | | |
| Trade and other payables | **65** | 112 | **–** | – |
| Accruals | **24** | 20 | **–** | – |
| Deferred income | **3** | 7 | **–** | – |
| Due to joint ventures and associates | **27** | 27 | **25** | 25 |
| Due on acquisitions | **15** | 16 | **–** | – |
| | **134** | 182 | **25** | 25 |
| Total trade and other payables | **2,093** | 2 228 | **1,616** | 1,362 |
| **Comprising** | | | | |
| Financial liabilities (Note 39) | **1,972** | 2,025 | **1,605** | 1,349 |
| Non-financial liabilities | | | | |
| – accruals not at amortised cost | **33** | 61 | **–** | – |
| – deferred income | **8** | 13 | **–** | – |
| – advance payments on contracts | **1** | 14 | **–** | – |
| – VAT, payroll taxes and social security | **79** | 115 | **11** | 13 |
| | **2,093** | 2,228 | **1,616** | 1,362 |

* Including £nil (2013 £11m) advances on construction contracts

### Maturity profile of the Group's non-current financial liabilities at 31 December

| | Trade and other payables 2014 £m | Accruals 2014 £m | Due to joint ventures and associates 2014 £m | Due on acquisitions 2014 £m | Total 2014 £m |
|---|---|---|---|---|---|
| Due within one to two years | **43** | **11** | **1** | **2** | **57** |
| Due within two to five years | **7** | **7** | **5** | **7** | **26** |
| Due after more than five years | **15** | **6** | **21** | **6** | **48** |
| | **65** | **24** | **27** | **15** | **131** |
| Fair values | **65** | **23** | **20** | **15** | **123** |

| | Trade and other payables 2013 £m | Accruals 2013 £m | Due to joint ventures and associates 2013 £m | Due on acquisitions 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|
| Due within one to two years | 73 | 9 | – | 2 | 84 |
| Due within two to five years | 8 | 7 | 5 | 7 | 27 |
| Due after more than five years | 31 | 4 | 22 | 7 | 64 |
| | 112 | 20 | 27 | 16 | 175 |
| Fair values | 97 | 17 | 18 | 16 | 148 |

The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date

## 25 PROVISIONS

| | Group | | | | Company |
|---|---|---|---|---|---|
| | Contract provisions £m | Employee provisions £m | Other provisions £m | Total £m | Other provisions £m |
| At 1 January 2013 | 125 | 57 | 46 | 228 | 5 |
| Currency translation differences | (2) | – | – | (2) | – |
| Transfers | 3 | (4) | 1 | – | – |
| Charged/(credited) to the income statement – continuing operations[2] | | | | | |
| – additional provisions | 72 | 25 | 12 | 109 | – |
| – unused amounts reversed | (33) | (14) | (12) | (59) | (3) |
| Utilised during the year | (48) | (17) | (7) | (72) | (1) |
| (Credited)/charged to the income statement – discontinued operations[2] | (5) | (1) | 9 | 3 | – |
| Reclassified to assets held for sale (Note 12) | (10) | (3) | – | (13) | – |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | – | (1) | – | (1) | – |
| At 31 December 2013 | 102 | 42 | 49 | 193 | 1 |
| Currency translation differences | **3** | **–** | **–** | **3** | **–** |
| Transfers | **–** | **(3)** | **3** | **–** | **–** |
| Reclassified to accruals | **(1)** | **–** | **(1)** | **(2)** | **–** |
| Charged/(credited) to the income statement – continuing operations | | | | | |
| – additional provisions | **78** | **28** | **10** | **116** | **1** |
| – unused amounts reversed | **(27)** | **(7)** | **(12)** | **(46)** | **–** |
| Utilised during the year | **(54)** | **(11)** | **(10)** | **(75)** | **–** |
| Charged to the income statement – discontinued operations | **1** | **–** | **10** | **11** | **–** |
| Reclassified from assets held for sale | **7** | **2** | **–** | **9** | **–** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **(12)** | **–** | **–** | **(12)** | **–** |
| At 31 December 2014 | **97** | **51** | **49** | **197** | **2** |

| | **Group** | | | | Group | | | | **Company** | Company |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Contract provisions 2014 £m** | **Employee provisions 2014 £m** | **Other provisions 2014 £m** | **Total 2014 £m** | Contract provisions 2013 £m | Employee provisions 2013 £m | Other provisions 2013 £m | Total 2013 £m | **Other provisions 2014 £m** | Other provisions 2013 £m |
| Due within one year | **67** | **25** | **28** | **120** | 57 | 15 | 28 | 100 | **–** | – |
| Due within one to two years | **13** | **11** | **6** | **30** | 16 | 10 | 7 | 33 | **–** | – |
| Due within two to five years | **12** | **12** | **12** | **36** | 20 | 14 | 10 | 44 | **2** | 1 |
| Due after more than five years | **5** | **3** | **3** | **11** | 9 | 3 | 4 | 16 | **–** | – |
| | **97** | **51** | **49** | **197** | 102 | 42 | 49 | 193 | **2** | 1 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

Contract provisions include construction insurance liabilities, principally in the Group's captive insurance companies, and defect and warranty provisions on contracts, primarily construction contracts, that have reached practical completion

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's captive insurance companies and provisions for employee termination liabilities arising from the Group's restructuring programmes

Other provisions principally comprise motor and other insurance liabilities in the Group's captive insurance companies, legal claims and costs, where provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress, property-related provisions, mainly onerous lease commitments, some of which arise from the Group's restructuring programmes, and environmental provisions

The Group takes actuarial advice when establishing the level of provisions in the Group's captive insurance companies and certain other categories of provision

Insurance-related provisions within these categories were £76m (2013 £86m) as follows Contract provisions £39m (2013 £52m), Employee provisions £32m (2013 £28m), and Other, mainly motor provisions £5m (2013 £6m)

Restructuring provisions within these categories were £15m (2013 £12m) as follows Employee provisions £8m (2013 £7m), and Other, mainly property-related, provisions £7m (2013 £5m)

## 26 CASH AND CASH EQUIVALENTS AND BORROWINGS

### 26 1 Group

| | Current 2014 £m | Non-current 2014 £m | Total 2014 £m | Current 2013 £m | Non-current 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| Unsecured borrowings at amortised cost | | | | | | |
| – bank overdrafts | (4) | – | (4) | (78) | – | (78) |
| – US private placement (Note 26 2) | – | (224) | (224) | – | (212) | (212) |
| – liability component of convertible bonds (Note 26 3) | – | (227) | (227) | – | (221) | (221) |
| – other loans | – | (16) | (16) | (91) | – | (91) |
| Secured borrowings at amortised cost | | | | | | |
| – finance leases | – | (1) | (1) | (1) | (2) | (3) |
| | (4) | (468) | (472) | (170) | (435) | (605) |
| Cash and deposits at amortised cost | 653 | – | 653 | 472 | – | 472 |
| Term deposits at amortised cost | 38 | – | 38 | 67 | – | 67 |
| Cash and cash equivalents (excluding infrastructure concessions) | 691 | – | 691 | 539 | – | 539 |
| | 687 | (468) | 219 | 369 | (435) | (66) |
| Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2027 and 2037 | (14) | (471) | (485) | (9) | (410) | (419) |
| Infrastructure concessions cash and cash equivalents | 40 | – | 40 | 65 | – | 65 |
| | 26 | (471) | (445) | 56 | (410) | (354) |
| Net cash/(borrowings) | 713 | (939) | (226) | 425 | (845) | (420) |

The loans relating to infrastructure concessions project finance arise under non-recourse facilities taken out by project-specific subsidiary concession companies The loans 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

Included in cash and cash equivalents is restricted cash of £23m (2013 £17m) held by the Group's captive insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations, £2m (2013 £2m) currently not readily remittable from Argentina, £17m (2013 £1m) held within construction project bank accounts, and £40m (2013 £65m) relating to the maintenance and other reserve accounts in the Infrastructure Investments subsidiaries

Cash, deposits and term deposits include the Group's share of amounts held by joint operations of £212m (2013 £211m)

#### Maturity profile of the Group's borrowings at 31 December

| | Infrastructure concessions non-recourse project finance 2014 £m | Finance leases 2014 £m | Other borrowings 2014 £m | Total 2014 £m | Infrastructure concessions non-recourse project finance 2013 £m | Finance leases 2013 £m | Other borrowings 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|---|---|
| Due on demand or within one year | (14) | – | (4) | (18) | (9) | (1) | (169) | (179) |
| Due within one to two years | (31) | (1) | (19) | (51) | (10) | (1) | – | (11) |
| Due within two to five years | (33) | – | (256) | (289) | (36) | (1) | (248) | (285) |
| Due after more than five years | (407) | – | (192) | (599) | (364) | – | (185) | (549) |
| | (485) | (1) | (471) | (957) | (419) | (3) | (602) | (1,024) |

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

| | Infrastructure concessions non-recourse project finance 2014 £m | Other borrowings 2014 £m | Total 2014 £m | Infrastructure concessions non recourse project finance 2013 £m | Other borrowings 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| Expiring in one year or less | 69 | – | 69 | 36 | – | 36 |
| Expiring in more than one year but not more than two years | 32 | 791 | 823 | 38 | – | 38 |
| Expiring in more than two years | – | – | – | 26 | 990 | 1,016 |
| | 101 | 791 | 892 | 100 | 990 | 1,090 |

### 26 2 US private placement

In March 2013, the Group raised US$350m (£231m) of borrowings through a US private placement of a series of notes with an average coupon of 4 94% per annum and an average maturity of 9 3 years At 31 December 2014, as a result of movements in exchange rates, the balance outstanding was £224m (2013 £212m)

## 26 CASH AND CASH EQUIVALENTS AND BORROWINGS CONTINUED

### 26 3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds of £100,000 each maturing on 3 December 2018 at a total issue price of £252 7m and incurred transaction costs of £6 3m resulting in net proceeds of £246 4m The bonds have a coupon of 1 875% per annum payable semi-annually in arrears and the initial conversion price has been set at £3 6692 per share On 23 April 2014, the conversion price was revised to £3 6212

From 14 January 2014 until 14 days prior to final maturity one bond is convertible at the option of the holder into one preference share in Balfour Beatty Finance No 2 Ltd which is immediately transferred to the Company in exchange for the issue of ordinary shares in the Company The Group has the option to redeem the bonds from December 2015 under certain circumstances

The bonds are a compound instrument, comprising an equity and a liability component The fair value of the liability component at the date of issue, included under non-current liabilities, was £220m estimated using the prevailing market interest rate of 4 29% for a similar non-convertible instrument The difference between the net proceeds of issue of the convertible bonds after the transaction costs and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in equity holders' funds Refer to Note 29 3

| Liability component recognised in the Balance Sheet | 2014 £m | 2013 £m |
|---|---|---|
| Liability component at 1 January at amortised cost | **221** | 220 |
| Accretion | **6** | 1 |
| Liability component at 31 December at amortised cost | **227** | 221 |

The fair value of the liability component of the convertible bonds at 31 December 2014 was £231m (2013 £220m)

The finance cost of the convertible bonds is calculated using the effective interest method

### 26 4 Company

| | Current 2014 £m | Non current 2014 £m | Total 2014 £m | Current 2013 £m | Non current 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| Cash and deposits | **249** | **–** | **249** | – | – | – |
| Unsecured borrowings at amortised cost | | | | | | |
| – bank loans and overdrafts | **(142)** | **–** | **(142)** | (106) | – | (106) |
| – US private placement (Note 26 2) | **–** | **(224)** | **(224)** | – | (212) | (212) |
| Net borrowings | **107** | **(224)** | **(117)** | (106) | (212) | (318) |

The bank loans and overdrafts are sterling denominated, variable rate instruments and repayable on demand

## 27 DEFERRED TAX

### 27 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 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| Deferred tax assets | **52** | 122 | **–** | – |
| Deferred tax liabilities | **(49)** | (18) | **(2)** | (3) |
| | **3** | 104 | **(2)** | (3) |

**Movement for the year in the net deferred tax position**

| | Group £m | Company £m |
|---|---|---|
| At 1 January 2013 | 106 | – |
| Currency translation differences | (1) | – |
| Charged to income statement – continuing operations[1 2 3] | (21) | (1) |
| Credited to income statement – discontinued operations[1 2 3] | 8 | – |
| Credited/(charged) to equity[1] | 9 | (2) |
| Reclassified to assets held for sale | 2 | – |
| Reclassified to assets held for sale and subsequently sold | 1 | – |
| At 31 December 2013 | 104 | (3) |
| Currency translation differences | **1** | **–** |
| (Charged)/credited to income statement – continuing operations[1] | **(24)** | **1** |
| Credited to income statement – discontinued operations[1] | **23** | **–** |
| Charged to equity[1] | **(54)** | **–** |
| Reclassified from liabilities held for sale (Note 12) | **(2)** | **–** |
| Reclassified to assets held for sale (Note 12) | **(1)** | **–** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **(44)** | **–** |
| At 31 December 2014 | **3** | **(2)** |

[1] Group includes £2m charged (2013 £6m) to the income statement and £nil charged (2013 £10m) to equity in relation to reductions in the UK corporation tax rate
[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

## 27 DEFERRED TAX CONTINUED

### 27 1 Group continued

The below table shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority

| Deferred tax assets | Depreciation in excess of capital allowances £m | Retirement benefit liabilities £m | Unrelieved trading losses £m | Share-based payments £m | Provisions £m | Derivatives £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 20 | 79 | 21 | 3 | 20 | 5 | 148 |
| Currency translation differences | – | (1) | – | – | – | – | (1) |
| Credited/(charged) to income statement – continuing operations[2 3] | (3) | 1 | (6) | – | (5) | – | (13) |
| Credited/(charged) to income statement – discontinued operations[2 3] | – | – | 2 | – | 2 | – | 4 |
| Credited/(charged) to equity | – | 15 | – | – | – | (7) | 8 |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | (2) | – | – | – | (1) | 2 | (1) |
| At 31 December 2013 | 15 | 94 | 17 | 3 | 16 | – | 145 |
| Currency translation differences | **–** | **1** | **1** | **–** | **1** | **–** | **3** |
| Transfers to deferred tax liabilities | **2** | **1** | **–** | **–** | **14** | **–** | **17** |
| Credited/(charged) to income statement – continuing operations | **6** | **(8)** | **2** | **–** | **(1)** | **–** | **(1)** |
| Credited/(charged) to income statement – discontinued operations | **–** | **1** | **(1)** | **–** | **18** | **–** | **18** |
| Credited/(charged) to equity | **–** | **(47)** | **–** | **(1)** | **–** | **–** | **(48)** |
| Reclassified to assets held for sale and subsequently sold (Note 32 3 7) | **(5)** | **(16)** | **(5)** | **–** | **(18)** | **–** | **(44)** |
| At 31 December 2014 | **18** | **26** | **14** | **2** | **30** | **–** | **90** |

| Deferred tax liabilities | Revaluation of properties £m | Goodwill £m | Preference shares £m | Fair value adjustments £m | Loss of IBAs £m | Derivatives £m | Other GAAP differences £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | (1) | (7) | (5) | (28) | (1) | – | – | (42) |
| Credited/(charged) to income statement – continuing operations[2 3] | – | 1 | – | (9) | – | – | – | (8) |
| Credited/(charged) to income statement – discontinued operations[2 3] | – | – | – | 4 | – | – | – | 4 |
| Credited/(charged) to equity | – | – | 1 | – | – | – | – | 1 |
| Reclassified to assets held for sale (Note 12) | – | – | – | 2 | – | – | – | 2 |
| Reclassified to assets held for sale and subsequently sold (Note 32 4 11) | – | – | – | 2 | – | – | – | 2 |
| At 31 December 2013 | (1) | (6) | (4) | (29) | (1) | – | – | (41) |
| Currency translation differences | **–** | **–** | **–** | **(3)** | **–** | **–** | **1** | **(2)** |
| Transfers from deferred tax assets | **–** | **–** | **–** | **–** | **–** | **–** | **(17)** | **(17)** |
| Credited/(charged) to income statement – continuing operations | **1** | **–** | **1** | **(11)** | **–** | **–** | **(14)** | **(23)** |
| Credited/(charged) to income statement – discontinued operations | **–** | **7** | **–** | **(2)** | **–** | **–** | **–** | **5** |
| Credited/(charged) to equity | **–** | **–** | **–** | **–** | **–** | **(6)** | **–** | **(6)** |
| Reclassified from liabilities held for sale (Note 12) | **–** | **–** | **–** | **–** | **–** | **–** | **(2)** | **(2)** |
| Reclassified to assets held for sale (Note 12) | **–** | **(1)** | **–** | **–** | **–** | **–** | **–** | **(1)** |
| Reclassified to liabilities held for sale and subsequently sold (Note 32 3 7) | **–** | **–** | **–** | **3** | **–** | **(2)** | **(1)** | **–** |
| At 31 December 2014 | **–** | **–** | **(3)** | **(42)** | **(1)** | **(8)** | **(33)** | **(87)** |
| **Total net deferred tax asset** | | | | | | | | **3** |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying within continuing operations (Notes 2 2 2 11 and 10)

At the reporting date the Group had unrecognised tax losses from operations that arose over a number of years of approximately £708m (2013 £452m) which are available for offset against future profits £7m (2013 £15m) will expire between five and 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2015 The remaining losses may be carried forward indefinitely

At the reporting date the undistributed reserves for which deferred tax liabilities have not been recognised were £7m (2013 £6m) in respect of subsidiaries and £2m (2013 £3m) in respect of joint ventures and associates 2013 has been restated to remove Parsons Brinckerhoff and only reflect undistributed reserves that may give rise to a tax liability on distribution 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

The Group has recognised deferred tax assets for UK corporation tax trading losses of £55m Based on profit forecasts, it is probable that there will be sufficient taxable profits in the future against which both temporary differences and these tax losses will be utilised The Group also has UK corporation tax trading losses of £376m which are not recognised as deferred tax assets

## 27 DEFERRED TAX CONTINUED

### 27 2 Company

Deferred tax assets and liabilities are offset when they relate to income taxes levied by HMRC and the Company intends to settle its current tax assets and liabilities on a net basis

| | Deferred tax liability | Deferred tax assets | | | | |
|---|---|---|---|---|---|---|
| Deferred tax assets and liabilities | Preference shares £m | Share-based payments £m | Retirement benefit liabilities £m | Provisions £m | Total £m | Net deferred tax assets/ (liability) £m |
| At 1 January 2013 | (5) | 2 | 1 | 2 | 5 | – |
| Charged to income statement | – | – | – | (1) | (1) | (1) |
| Credited/(charged) to equity*^ | 1 | (2) | (1) | – | (3) | (2) |
| At 31 December 2013 | (4) | – | – | 1 | 1 | (3) |
| Credited to income statement | **1** | **–** | **–** | **–** | **–** | **1** |
| At 31 December 2014 | **(3)** | **–** | **–** | **1** | **1** | **(2)** |

* The Company includes £nil credited (2013 £2m) to equity in relation to reductions in the UK corporation tax rate

^ On 1 February 2013 employees of the Company transferred to Balfour Beatty Group Employment Limited a company established as the employing entity for the Balfour Beatty Group s UK businesses resulting in £nil (2013 £3m) being charged to equity

## 28 RETIREMENT BENEFIT LIABILITIES

### 28 1 Group

#### 28 1 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 a high-quality corporate bond 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 cost arising from the expected interest income on plan assets and interest cost on scheme obligations is included in finance costs Actuarial gains and losses are reported in the Statement of Comprehensive Income The IAS 19 accounting valuations are set out in Note 28 1 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 a high quality corporate bond as required by IAS 19 for the financial statements Details of the latest formal triennial funding valuations are set out in Note 28 1 3

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of, the Group

#### Principal schemes

The Group's principal schemes are the Balfour Beatty Pension Fund (BBPF), which includes defined contribution and defined benefit sections, and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme (RPS) The defined benefit sections of both schemes are funded and closed to new members with the exception of employees where employment has transferred to the Group under certain agreed arrangements Pension benefits are based on employees' pensionable service and their pensionable salary

The schemes operate under trust law and are managed and administered by trustees on behalf of the members in accordance with the terms of the trust deed and rules and relevant legislation Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice The trustees are responsible for establishing the investment strategy and ensuring that there are sufficient assets to meet the cost of current and future benefits

These schemes expose the Group to investment and actuarial risks where additional contributions may be required if assets are not sufficient to pay future pension benefits

- Investment risk Equity returns are a key determinant of investment return but the investment portfolio is also subject to a range of other risks typical of the investments held, for example, credit risk on corporate bond holdings
- 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 a high quality corporate bond 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

## 28 RETIREMENT BENEFIT LIABILITIES CONTINUED

### 28 1 1 Introduction continued

**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 swaps in order to match the duration and inflation exposure of the obligations and enhance the resilience of the funding level of the scheme The performance of the assets is measured against market indices

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2013 As a result the Group agreed with effect from April 2013 to make ongoing deficit payments of £50m per annum, increasing to £55m per annum from April 2016, £60m per annum from April 2017, and £65m per annum from April 2018 to May 2020, increasing each year by CPI (minimum 0% and capped at 5%) plus (in the period before the next actuarial valuation is agreed) 200% of any increase in the Company's dividend in excess of capped CPI If the Company makes any one-off return of value to shareholders such as a special dividend, share buy-back, capital payment or similar before the next actuarial valuation is agreed, there will be an additional increase in the deficit payment for the following year only, calculated as the regular deficit payment for that year multiplied by 75%, multiplied by the value of the one-off return of value, divided by the total of the regular dividends for the year prior to the year in which the one-off return was made This agreement constitutes a minimum funding requirement under IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction Under the terms of the trust deed and subject to the agreement of the trustees (who would need to balance their responsibility to set contribution rates in accordance with the trust rules together with the interests of the beneficiaries at the time), the Group has the ability to use surplus funds, should they arise, in the defined benefit section of the BBPF to pay its contributions towards further service benefits in the defined benefit and defined contribution sections of the scheme The Directors consider that, as the Group is permitted to assume that it would not be required to make contributions to maintain a surplus, should one arise, these further service benefits will exceed the minimum funding requirement

In 2014, the Group commenced a commutation exercise for pensioner members and dependants This gave members the option to extinguish their benefits within the BBPF in exchange for a cash lump sum and was offered to all pensioner members and dependants with benefits with a value of less than £10 000 and £18,000, respectively The acceptance of this offer by certain members and dependants gave rise to a settlement event resulting in a decrease in liabilities of £2m, which was recognised in non-underlying income Refer to Note 10 1 4 8

In anticipation of the disposal of Parsons Brinckerhoff and the then proposed £200m return of capital to shareholders, and following the scheme apportionment arrangement made in relation to the disposal of Balfour Beatty WorkPlace, agreement was reached on 24 September 2014 with the trustee of the BBPF for additional deficit payments of £100m in 2015, of which £15m was in respect of Balfour Beatty WorkPlace and £85m was in respect of Parsons Brinckerhoff In February 2015, this agreement was varied and it is anticipated that £85m of infrastructure concession assets will be transferred into a Scottish limited partnership in which the BBPF will participate The £15m is being paid to the BBPF in 2015 in agreed monthly instalments The BBPF will receive the £85m deficit payments over the period to 2023, with the first payment of £4m due in 2016

**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

In 2013 and previous years, the assumed cost of providing benefits was split between the Group and the members in the ratio 60 40 To date, this has been a reasonable assumption to make of how costs might be shared over the long term

Because of a declining population of active members it is becoming less likely that the costs of providing benefits borne by the Group will be capped in line with its economic interest of 60%

Based on discussions arising from the ongoing 2013 triennial valuation process, it is estimated that members might only be able to afford to fund 5% of the scheme deficit For 2014, the long-term cost of providing the benefits has therefore been assumed to be split between the Group and the members in the ratio 95 5 The balance sheet asset and liability disclosed at 31 December 2014, therefore, are equal to 95% of the total scheme asset and liability Any future surplus or deficit is assumed to be split in this manner This change in assumption gives rise to a net deficit increase of £22m, which was recognised in the Statement of Comprehensive Income

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' assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled "growth" fund This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time The remaining assets in the RPS are principally fixed and index-linked bonds

Following the formal triennial funding valuation carried out as at 31 December 2010, the Group agreed to make ongoing fixed deficit contributions of £1 3m per annum plus an additional 1% of the active members' payroll costs The valuation as at 31 December 2013 is currently underway

## 28 RETIREMENT BENEFIT LIABILITIES CONTINUED

### 28 1 1 Introduction continued

**Other schemes**

Other schemes comprise unfunded post-retirement benefit obligations in Europe and North America, the majority of which are closed to new entrants, and deferred compensation schemes in the US, where an element of employees' compensation is deferred and invested in available-for-sale assets (as disclosed in Note 19 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

**Membership of the principal schemes**

| | **Balfour Beatty Pension Fund 2014** | | | **Railways Pension Scheme 2014** | | | Balfour Beatty Pension Fund 2013 | | | Railways Pension Scheme 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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 | **69** | **6** | **20** | **156** | **63** | **21** | 97 | 3 | 20 | 250 | 44 | 19 |
| – deferred pensioners | **13,423** | **1,539** | **23** | **1,389** | **99** | **20** | 13,876 | 1,372 | 23 | 1,433 | 54 | 18 |
| – pensioners, widow(er)s and dependants | **20,772** | **1,595** | **11** | **1,578** | **157** | **12** | 22,244 | 1,589 | 11 | 1,531 | 93 | 11 |
| Defined contribution | **12,809** | **–** | **–** | **–** | **–** | **–** | 13,238 | – | – | – | – | – |
| **Total** | **47,073** | **3,140** | **17** | **3,123** | **319** | **16** | 49,455 | 2,964 | 16 | 3,214 | 191 | 14 |

### 28 1 2 IAS 19 accounting valuations

**Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes**

| | **Balfour Beatty Pension Fund 2014 %** | **Railways Pension Scheme 2014 %** | Balfour Beatty Pension Fund 2013 % | Railways Pension Scheme 2013 % |
|---|---|---|---|---|
| Discount rate | **3 60** | **3 60** | 4 35 | 4 35 |
| Inflation rate – RPI | **2 95** | **2 95** | 3 30 | 3 30 |
| – CPI | **1 55** | **1 55** | 2 10 | 2 10 |
| Future increases in pensionable salary | **1 55** | **1 55** | 2 10 | 2 10 |
| Rate of increase in pensions in payment (or such other rate as is guaranteed) | **2 80** | **1 80** | 3 05 | 2 25 |

In December 2014, following independent advice from the Group's actuaries based on further announcements by the Office for National Statistics, the Group reassessed the difference between RPI and CPI measures of price inflation from 1 2% in January 2014 to 1 4% reducing the pension liability by a further £31m which was recognised in the Statement of Comprehensive Income

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (47,073 members at 31 December 2014) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables The actuary is also able to monitor changes in the exhibited mortality over time This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes

The mortality assumptions as at 31 December 2014 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2004 to 31 March 2014 The mortality tables adopted for the 2014 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2013 SAPS S1 tables) with a multiplier of 102% for all male and female members (2013 101%) and 109% for female widows and dependants (2013 110%), all with future improvements in line with the CMI 2014 core projection model (2013 2012 core projection model), with long-term improvement rates of 1 25% pa and 1 00% pa for males and females respectively (2013 1 25% pa and 1 00% pa)

| | **2014 Average life expectancy at 65 years of age** | | 2013 Average life expectancy at 65 years of age | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Members in receipt of a pension | **22 2** | **24 0** | 22 4 | 24 4 |
| Members not yet in receipt of a pension (current age 50) | **23 5** | **25 1** | 23 7 | 25 6 |

## 28 RETIREMENT BENEFIT LIABILITIES CONTINUED

### 28 1 2 IAS 19 accounting valuations continued

**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 £306m (2013 £259m) have been excluded from the other tables on pages 136 to 139 Defined contribution charges for other schemes include contributions to multi-employer pension schemes

| | Balfour Beatty Pension Fund 2014 £m | Railways Pension Scheme 2014 £m | Other schemes 2014 £m | Total 2014 £m | Balfour Beatty Pension Fund 2013[2] £m | Railways Pension Scheme 2013 £m | Other schemes 2013[2 3] £m | Total 2013[2 3] £m |
|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | |
| Current service cost | (3) | (2) | (2) | (7) | (23) | (2) | (1) | (26) |
| Curtailment cost | | | | | | | | |
| – ceasing future accrual | – | – | – | – | (51) | – | – | (51) |
| – restructuring costs | – | – | – | – | (1) | – | – | (1) |
| Defined contribution charge | (49) | – | (3) | (52) | (29) | – | (7) | (36) |
| Included in employee costs (Note 7) | (52) | (2) | (5) | (59) | (104) | (2) | (8) | (114) |
| Interest income | 113 | 6 | – | 119 | 101 | 6 | – | 107 |
| Interest cost | (126) | (7) | (2) | (135) | (107) | (7) | (2) | (116) |
| Net finance cost (Note 9) | (13) | (1) | (2) | (16) | (6) | (1) | (2) | (9) |
| Settlements (Note 7) | 2 | – | – | 2 | – | – | – | – |
| Total charged to income statement from continuing operations | (63) | (3) | (7) | (73) | (110) | (3) | (10) | (123) |
| **Discontinued operations** | | | | | | | | |
| Current service cost (Note 7) | – | – | (4) | (4) | (6) | – | (5) | (11) |
| Curtailment cost – ceasing future accrual (Note 7) | – | – | – | – | (2) | – | – | (2) |
| Defined contribution costs (Note 7) | (4) | – | (12) | (16) | (9) | – | (11) | (20) |
| Net finance cost | – | – | (1) | (1) | (1) | – | (1) | (2) |
| Total charged to income statement from discontinued operations | (4) | – | (17) | (21) | (18) | – | (17) | (35) |
| Total charged to income statement | (67) | (3) | (24) | (94) | (128) | (3) | (27) | (158) |

[2] Re-presented to include Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

**Amounts recognised in the Statement of Comprehensive Income**

| | Balfour Beatty Pension Fund 2014 £m | Railways Pension Scheme 2014 £m | Other schemes[1] 2014 £m | Total 2014 £m | Balfour Beatty Pension Fund 2013 £m | Railways Pension Scheme 2013 £m | Other schemes[1] 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|---|---|
| Actuarial movements on pension scheme obligations | (195) | (128) | (14) | (337) | (63) | (5) | (5) | (73) |
| Actuarial movements on pension scheme assets | 465 | 109 | – | 574 | (48) | 4 | – | (44) |
| Total actuarial movements recognised in the Statement of Comprehensive Income (Note 30 1) | 270 | (19) | (14) | 237 | (111) | (1) | (5) | (117) |
| Cumulative actuarial movements recognised in the Statement of Comprehensive Income | (176) | (53) | (34) | (263) | (446) | (34) | (20) | (500) |

[1] Other schemes include the Rail Germany pension scheme in 2014 which was held as a liability held for sale in 2013

The actual return on plan assets was a gain of £693m (2013 £79m)

**Amounts recognised in the Balance Sheet**

| | Balfour Beatty Pension Fund 2014 £m | Railways Pension Scheme 2014 £m | Other schemes[1] 2014 £m | Total 2014 £m | Balfour Beatty Pension Fund 2013 £m | Railways Pension Scheme 2013 £m | Other schemes[1] 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|---|---|
| Present value of obligations | (3,140) | (319) | (59) | (3,518) | (2,964) | (191) | (74) | (3,229) |
| Fair value of plan assets | 3,128 | 261 | 1 | 3,390 | 2,641 | 153 | 1 | 2,795 |
| Liabilities in the balance sheet | (12) | (58) | (58) | (128) | (323) | (38) | (73) | (434) |

[1] Other schemes include the Rail Germany pension scheme in 2014 which was held as a liability held for sale in 2013 Available for sale investments in mutual funds of £20m (2013 £60m) are held by the Group to satisfy the Group s deferred compensation obligations (Note 19 1)

The defined benefit obligation comprises £58m (2013 £73m) arising from wholly unfunded plans and £3,460m (2013 £3,156m) arising from plans that are wholly or partly funded

## 28 RETIREMENT BENEFIT LIABILITIES CONTINUED

### 28 1 2 IAS 19 accounting valuations continued

**Movement in the present value of obligations**

| | **Balfour Beatty Pension Fund 2014 £m** | **Railways Pension Scheme 2014 £m** | **Other schemes 2014 £m** | **Total 2014 £m** | Balfour Beatty Pension Fund 2013[2] £m | Railways Pension Scheme 2013 £m | Other schemes 2013 £m | Total 2013[2] £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January | (2,964) | (191) | (74) | (3,229) | (2,863) | (184) | (99) | (3,146) |
| Currency translation differences | – | – | **(1)** | **(1)** | – | – | 1 | 1 |
| Current service cost – continuing operations | **(3)** | **(2)** | **(2)** | **(7)** | (23) | (2) | (1) | (26) |
| Curtailment costs | | | | | | | | |
| – ceasing future accrual – continuing operations | – | – | – | – | (51) | – | – | (51) |
| – restructuring – continuing operations | – | – | – | – | (1) | – | – | (1) |
| Finance cost – continuing operations | **(126)** | **(7)** | **(2)** | **(135)** | (107) | (7) | (2) | (116) |
| Income statement costs relating to discontinued operations | – | – | **(5)** | **(5)** | (25) | – | (6) | (31) |
| Actuarial movements from reassessing the difference between RPI and CPI | **27** | **4** | – | **31** | 62 | 12 | – | 74 |
| Other financial actuarial movements | **(226)** | **(133)** | **(13)** | **(372)** | (126) | (13) | 4 | (135) |
| Actuarial movements from changes in demographic assumptions | **9** | **2** | – | **11** | (25) | (3) | – | (28) |
| Experience gains/(losses) | **(5)** | **(1)** | **(1)** | **(7)** | 26 | (1) | (9) | 16 |
| Total actuarial movements | **(195)** | **(128)** | **(14)** | **(337)** | (63) | (5) | (5) | (73) |
| Contributions from members | – | – | – | – | (1) | – | – | (1) |
| Benefits paid | **146** | **9** | **9** | **164** | 139 | 7 | 8 | 154 |
| Settlements | **2** | – | – | **2** | – | – | – | – |
| Reclassified to liabilities held for sale for Rail Italy (Note 12) | – | – | **1** | **1** | – | – | – | – |
| Reclassified (from)/to liabilities held for sale for Rail Germany (Note 12) | – | – | **(21)** | **(21)** | – | – | 30 | 30 |
| Reclassified to liabilities held for sale and subsequently sold (Notes 32 3 7 and 32 4 11) | – | – | **50** | **50** | 31 | – | – | 31 |
| At 31 December | **(3,140)** | **(319)** | **(59)** | **(3,518)** | (2,964) | (191) | (74) | (3,229) |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

**Movement in the fair value of plan assets**

| | **Balfour Beatty Pension Fund 2014 £m** | **Railways Pension Scheme 2014 £m** | **Other schemes 2014 £m** | **Total 2014 £m** | Balfour Beatty Pension Fund 2013[2] £m | Railways Pension Scheme 2013 £m | Other schemes 2013 £m | Total 2013[2] £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January | 2,641 | 153 | 1 | 2,795 | 2,665 | 147 | 1 | 2,813 |
| Interest income – continuing operations | **113** | **6** | – | **119** | 101 | 6 | – | 107 |
| Interest income – discontinued operations | – | – | – | – | 16 | – | – | 16 |
| Actuarial movements | **465** | **109** | – | **574** | (48) | 4 | – | (44) |
| Contributions from employer | | | | | | | | |
| – regular funding | **4** | **1** | – | **5** | 21 | 2 | – | 23 |
| – ongoing deficit funding – continuing operations | **48** | **1** | – | **49** | 49 | 1 | – | 50 |
| – ongoing deficit funding – discontinued operations | – | – | – | – | 2 | – | – | 2 |
| – conditional deficit funding | – | – | – | – | 7 | – | – | 7 |
| Benefits paid | **(146)** | **(9)** | – | **(155)** | (139) | (7) | – | (146) |
| Settlements | **3** | – | – | **3** | – | – | – | – |
| Reclassified to liabilities held for sale and subsequently sold (Note 32 4 11) | – | – | – | – | (33) | – | – | (33) |
| At 31 December | **3,128** | **261** | 1 | **3,390** | 2,641 | 153 | 1 | 2,795 |

[2] Re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

## 28 RETIREMENT BENEFIT LIABILITIES CONTINUED

### 28 1 2 IAS 19 accounting valuations continued

Fair value of the assets held by the schemes at 31 December

| | Balfour Beatty Pension Fund value 2014 £m | Railways Pension Scheme value[1] 2014 £m | Other schemes value 2014 £m | Total 2014 £m |
|---|---|---|---|---|
| Return-seeking | **979** | **197** | **–** | **1,176** |
| – Developed nation equities | **356** | **–** | **–** | **356** |
| – Emerging market equities | **115** | **–** | **–** | **115** |
| – Emerging market debt and currency | **134** | **–** | **–** | **134** |
| – Hedge funds | **313** | **–** | **–** | **313** |
| – Return-seeking growth pooled funds | **–** | **197** | **–** | **197** |
| – Other return-seeking assets | **61** | **–** | **–** | **61** |
| Liability matching bond-type assets | **1,944** | **64** | **–** | **2,008** |
| – Corporate bonds | **681** | **–** | **–** | **681** |
| – Fixed interest gilts | **464** | **–** | **–** | **464** |
| – Index-linked gilts | **583** | **–** | **–** | **583** |
| – Liability matching pooled funds | **–** | **64** | **–** | **64** |
| – Interest and inflation rate swaps | **216** | **–** | **–** | **216** |
| Other | **205** | **–** | **1** | **206** |
| Total | **3,128** | **261** | **1** | **3,390** |

| | Balfour Beatty Pension Fund value 2013 £m | Railways Pension Scheme value 2013[1] £m | Other schemes value 2013 £m | Total 2013 £m |
|---|---|---|---|---|
| Return-seeking | 1,115 | 117 | – | 1,232 |
| – Developed nation equities | 451 | – | – | 451 |
| – Emerging market equities | 108 | – | – | 108 |
| – Emerging market debt and currency | 148 | – | – | 148 |
| – Hedge funds | 335 | – | – | 335 |
| – Return-seeking growth pooled funds | – | 117 | – | 117 |
| – Other return-seeking assets | 73 | – | – | 73 |
| Liability matching bond-type assets | 1,462 | 36 | – | 1,498 |
| – Corporate bonds | 617 | – | – | 617 |
| – Fixed interest gilts | 438 | – | – | 438 |
| – Index-linked gilts | 373 | – | – | 373 |
| – Liability matching pooled funds | – | 36 | – | 36 |
| – Interest and inflation rate swaps | 34 | – | – | 34 |
| Other | 64 | – | 1 | 65 |
| Total | 2,641 | 153 | 1 | 2,795 |

[1] The amounts in 2014 represent 95% of the scheme's assets (2013 60%)

All assets have quoted prices in active markets with the exception of the following where the classification is in accordance with IFRS 13 Fair Value Measurement

- £105m of the corporate bonds (Level 2)
- interest and inflation rate swaps (Level 2)
- hedge funds (Level 3)
- return-seeking growth pooled funds (Level 3)
- other return-seeking assets (Level 3)
- liability matching pooled funds (Level 3)

## 28 RETIREMENT BENEFIT LIABILITIES CONTINUED

### 28 1 2 IAS 19 accounting valuations continued

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2015

| | Balfour Beatty Pension Fund 2015 £m | Railways Pension Scheme 2015 £m | Total 2015 £m |
|---|---|---|---|
| Regular funding | **3** | **1** | **4** |
| Ongoing deficit funding | **50** | **1** | **51** |
| Deficit funding relating to Balfour Beatty WorkPlace | **15** | **–** | **15** |
| Total | **68** | **2** | **70** |

Following the disposal of Balfour Beatty WorkPlace (BBW), an additional funding agreement was reached between the Group and the trustees which set out additional deficit contributions to be paid by the Group into the BBPF over and above the existing schedule of contributions In particular, after allowing for the transfer of certain pension liabilities associated with the disposal of BBW it was agreed that the Group would pay a further £15m into the BBPF in 2015

Sensitivity of the Group's retirement benefit obligations at 31 December 2014 to different actuarial assumptions

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

| Obligations | Percentage points/ Years | (Decrease)/ increase in obligations % | (Decrease)/ increase in obligations £m |
|---|---|---|---|
| Increase in discount rate | **0 5%** | **(7 8)** | **(271)** |
| Increase in market expectation of RPI inflation | **0 5%** | **5 6** | **192** |
| Increase in salary growth | **0 5%** | **0 1** | **3** |
| Increase in life expectancy | **1 year** | **3 7** | **126** |

Sensitivity of the Group's retirement benefit assets at 31 December 2014 to changes in market conditions

| Assets | Percentage points | (Decrease)/ increase in assets % | (Decrease)/ increase in assets £m |
|---|---|---|---|
| Increase in interest rates | **0 5%** | **(8 1)** | **(273)** |
| Increase in market expectation of RPI inflation | **0 5%** | **4 7** | **160** |

The asset sensitivities only take into account the impact of the changes in market conditions on bond type assets The value of the schemes' return-seeking assets is not directly correlated with movements in interest rates or RPI inflation

Year end historical information for the Group's retirement defined benefit schemes

| | **2014 £m** | 2013 £m | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|---|---|
| Present value of obligations | **(3,518)** | (3,229) | (3,146) | (2,910) | (2,780) |
| Fair value of assets | **3,390** | 2,795 | 2,813 | 2,640 | 2,344 |
| Deficit | **(128)** | (434) | (333) | (270) | (436) |
| Experience adjustment for obligations | **(7)** | 16 | (39) | (11) | 62 |
| Experience adjustment for assets | **574** | (44) | 83 | 148 | 128 |
| Total deficit funding | **49** | 59 | 61 | 113 | 80 |

### 28 1 3 Latest formal triennial funding valuations

| | Balfour Beatty Pension Fund £m | Railways Pension Scheme £m |
|---|---|---|
| Date of last formal triennial funding valuation | 31/03/2013 | 31/12/2010 |
| **Scheme deficit** | | |
| Market value of assets | 3,103 | 260 |
| Present value of obligations | (3,522) | (268) |
| Deficit in defined benefit scheme | (419) | (8) |
| **Funding level** | 88 1% | 97 0% |

### 28 2 Company

Until 1 February 2013, certain employees of the Company were members of the BBPF Retirement benefit assets, liabilities, income and expenditure relating to this fund were allocated on an appropriate basis to Group companies participating in the scheme based on pensionable payroll for the year On 1 February 2013 the employees of the Company and the net pension deficit allocated to the Company were transferred to Balfour Beatty Group Employment Ltd, which has been established as the employing entity for the Group's UK businesses

## 29 SHARE CAPITAL

### 29 1 Ordinary shares of 50p each

| | Issued | |
|---|---|---|
| | Million | £m |
| At 1 January 2013 | 688 | 344 |
| Shares issued | 1 | – |
| At 31 December 2013 | 689 | 344 |
| Shares issued | **1** | **1** |
| At 31 December 2014 | **690** | **345** |

All issued ordinary shares are fully paid Ordinary shares carry no right to fixed income but each share carries the right to one vote at general meetings of the Company

| Ordinary shares issued during the year credited as fully paid | Ordinary shares 2014 Number | Consideration 2014 £m | Ordinary shares 2013 Number | Consideration 2013 £m |
|---|---|---|---|---|
| Savings-related share options exercised | **101,540** | **–** | 386,386 | 1 |
| Executive share options exercised | **318,840** | **1** | 270,895 | – |
| | **420,380** | **1** | 657,281 | 1 |

At 31 December 2014 there were 591,789 share options outstanding under the Savings-Related Share Option Scheme (SAYE) which were granted in 2010 (2013 1,364,265 granted between 2008 and 2010) The weighted average exercise price is 236 0p (2013 242 1p) No options have been granted under the SAYE since 2010

At 31 December 2014 there were no share options outstanding under the Executive Share Option Scheme (ESOS) (2013 387,733 granted in 2004) These options are normally exercisable between three and 10 years after the grant date Performance conditions have been met for all outstanding options under the ESOS The weighted average exercise price in 2013 was 227 3p No options have been granted under the ESOS since 2004

### 29 2 Cumulative convertible redeemable preference shares of 1p each

| | Issued | |
|---|---|---|
| | Million | £m |
| At 31 December 2013 and 2014 | **112** | **1** |

All issued preference shares are fully paid During the current and prior year no preference shares were repurchased for cancellation by the Company

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10 75p per preference share per annum, payable half-yearly A preference dividend of 5 375p gross (4 8375p net) per cumulative convertible redeemable preference share of 1p was paid on 1 July 2014 in respect of the six months ended 30 June 2014 A preference dividend of 5 375p gross (4 8375p net) per cumulative convertible redeemable preference share of 1p was paid on 1 January 2015 in respect of the six months ended 31 December 2014

On 1 July 2020 any preference shares still outstanding are redeemable at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2014 (2013 £112m)

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 24 69136 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30-day period exceeds 810p, subject to adjustment in certain circumstances

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding up of the Company On winding up the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares

The preference shares are a compound instrument, comprising an equity and a liability component The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13 5% for a similar non-convertible instrument The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the value of the equity conversion component is included in equity holders' equity, net of deferred tax

## 29 SHARE CAPITAL CONTINUED

### 29 2 Cumulative convertible redeemable preference shares of 1p each continued

| Liability component recognised in the Balance Sheet | 2014 £m | 2013 £m |
|---|---|---|
| Redemption value of shares in issue at 1 January | **112** | 112 |
| Equity component | **(18)** | (18) |
| Deferred tax and interest element | **–** | (2) |
| Liability component at 1 January at amortised cost | **94** | 92 |
| Interest accretion | **2** | 2 |
| Liability component at 31 December at amortised cost | **96** | 94 |

The fair value of the liability component of the preference shares at 31 December 2014 amounted to £111m (2013 £113m) The fair value is determined by using the market price of the preference shares at the reporting date

Interest expense on the preference shares is calculated using the effective interest method

### 29 3 Convertible bonds

On 3 December 2013 the Group issued convertible bonds for net proceeds of £246m The convertible bond is a compound instrument comprising equity and liability components The fair value of the liability component was estimated as £220m using the prevailing market rate at the date of issue for a similar non-convertible instrument The difference between the net proceeds and the fair value of the liability represented the embedded option to convert the liability into the Company's ordinary shares being the equity component of £26m Refer to Note 26 3

## 30 MOVEMENTS IN EQUITY

### 30 1 Group

| | | | | | | | Other reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Called up share capital 2014 £m | Share premium account 2014 £m | Special reserve 2014 £m | Share of joint ventures and associates reserves (Note 18 8) 2014 £m | Equity component of preference shares and convertible bonds 2014 £m | Hedging reserves 2014 £m | PPP financial assets 2014 £m | Currency translation reserve 2014 £m | Merger reserve 2014 £m | Other 2014 £m | Retained profits 2014 £m | Non-controlling interests 2014 £m | Total 2014 £m |
| At 1 January 2014 | 344 | 64 | 24 | 278 | 44 | (56) | 56 | 8 | 249 | 22 | – | 2 | 1,035 |
| Profit for the year | – | – | – | **53** | – | – | – | – | – | – | **(113)** | **1** | **(59)** |
| Currency translation differences | – | – | – | **2** | – | – | – | **30** | – | – | – | – | **32** |
| Actuarial movements on retirement benefit liabilities | – | – | – | **(5)** | – | – | – | – | – | – | **237** | – | **232** |
| Fair value revaluations – PPP financial assets | – | – | – | **224** | – | – | **79** | – | – | – | – | – | **303** |
| – cash flow hedges | – | – | – | **(102)** | – | **(54)** | – | – | – | – | – | – | **(156)** |
| – available-for-sale investments in mutual funds | – | – | – | – | – | – | – | – | – | **2** | – | – | **2** |
| Recycling of revaluation reserves to the income statement on disposal* | – | – | – | **(7)** | – | **26** | **(18)** | **17** | – | **(7)** | – | – | **11** |
| Tax on items recognised in other comprehensive income* | – | – | – | **(23)** | – | **10** | **(16)** | – | – | – | **(48)** | – | **(77)** |
| Total comprehensive income/ (expense) for the year | – | – | – | **142** | – | **(18)** | **45** | **47** | – | **(5)** | **76** | **1** | **288** |
| Ordinary dividends | – | – | – | – | – | – | – | – | – | – | **(96)** | – | **(96)** |
| Joint ventures' and associates' dividends | – | – | – | **(56)** | – | – | – | – | – | – | **56** | – | – |
| Issue of ordinary shares | **1** | – | – | – | – | – | – | – | – | – | – | – | **1** |
| Movements relating to share-based payments | – | – | – | – | – | – | – | – | – | **(3)** | **5** | – | **2** |
| Reserve transfers relating to joint venture and associate disposals | – | – | – | **(24)** | – | – | – | – | – | – | **24** | – | – |
| Other transfers | – | – | **(1)** | – | – | – | – | – | **(249)** | – | **250** | – | – |
| At 31 December 2014 | **345** | **64** | **23** | **340** | **44** | **(74)** | **101** | **55** | – | **14** | **315** | **3** | **1,230** |

* Recycling of revaluation reserves to the income statement on disposal has no associated tax effect

## 30 MOVEMENTS IN EQUITY CONTINUED

### 30 1 Group continued

| | Called up share capital 2013 £m | Share premium account 2013 £m | Special reserve 2013 £m | Share of joint ventures and associates reserves (Note 18 8) 2013 £m | Other reserves: Equity component of preference shares and convertible bonds 2013 £m | Hedging reserves 2013 £m | PPP financial assets 2013 £m | Currency translation reserve 2013 £m | Merger reserve 2013 £m | Other 2013 £m | Retained profits 2013 £m | Non-controlling interests 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013[2] | 344 | 63 | 25 | 337 | 17 | (109) | 93 | 21 | 249 | 18 | 252 | 3 | 1,313 |
| Profit for the year | – | – | – | 71 | – | – | – | – | – | – | (106) | – | (35) |
| Currency translation differences | – | – | – | (2) | – | – | – | (12) | – | – | – | – | (14) |
| Actuarial movements on retirement benefit liabilities | – | – | – | 3 | – | – | – | – | – | – | (117) | – | (114) |
| Fair value revaluations | | | | | | | | | | | | | |
| – PPP financial assets | – | – | – | (167) | – | – | (25) | – | – | – | – | – | (192) |
| – cash flow hedges | – | – | – | 65 | – | 55 | – | – | – | – | – | – | 120 |
| – available-for-sale investments in mutual funds | – | – | – | – | – | – | – | – | – | 7 | – | – | 7 |
| Recycling of revaluation reserves to the income statement on disposal* | – | – | – | (15) | – | 10 | (15) | (1) | – | – | – | – | (21) |
| Tax on items recognised in other comprehensive income* | – | – | – | 28 | 1 | (15) | 8 | – | – | (2) | 17 | – | 37 |
| Total comprehensive income/(expense) for the year | – | – | – | (17) | 1 | 50 | (32) | (13) | – | 5 | (206) | – | (212) |
| Ordinary dividends | – | – | – | – | – | – | – | – | – | – | (96) | (1) | (97) |
| Joint ventures' and associates' dividends | – | – | – | (47) | – | – | – | – | – | – | 47 | – | – |
| Issue of ordinary shares | – | 1 | – | – | – | – | – | – | – | – | – | – | 1 |
| Issue of convertible bonds | – | – | – | – | 26 | – | – | – | – | – | – | – | 26 |
| Movements relating to share-based payments | – | – | – | – | – | – | – | – | – | (1) | 5 | – | 4 |
| Reserve transfers relating to joint venture and associate disposals | – | – | – | 3 | – | – | – | – | – | – | (3) | – | – |
| Other transfers | – | – | (1) | 2 | – | 3 | (5) | – | – | – | 1 | – | – |
| At 31 December 2013 | 344 | 64 | 24 | 278 | 44 | (56) | 56 | 8 | 249 | 22 | – | 2 | 1,035 |

* Recycling of revaluation reserves to the income statement on disposal has no associated tax effect

### 30 2 Company

| | Called up share capital £m | Share premium account £m | Special reserve £m | Other reserves: Equity component of preference shares and convertible bonds £m | Merger reserve £m | Other £m | Retained profits £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 344 | 63 | 25 | 17 | 249 | 72 | 326 | 1,096 |
| Profit for the year | – | – | – | – | – | – | 39 | 39 |
| Currency translation differences | – | – | – | – | – | – | (1) | (1) |
| Actuarial movements on retirement benefit liabilities | – | – | – | – | – | – | 1 | 1 |
| Tax on items recognised in other comprehensive income | – | – | – | 1 | – | – | (3) | (2) |
| Total comprehensive income for the year | – | – | – | 1 | – | – | 36 | 37 |
| Ordinary dividends | – | – | – | – | – | – | (96) | (96) |
| Issue of ordinary shares | – | 1 | – | – | – | – | – | 1 |
| Issue of convertible bonds | – | – | – | 26 | – | – | – | 26 |
| Movements relating to share-based payments | – | – | – | – | – | (3) | 4 | 1 |
| Other transfers | – | – | (1) | – | – | – | 1 | – |
| At 31 December 2013 | 344 | 64 | 24 | 44 | 249 | 69 | 271 | 1,065 |
| Profit for the year | – | – | – | – | – | – | **156** | **156** |
| Total comprehensive income for the year | – | – | – | – | – | – | **156** | **156** |
| Ordinary dividends | – | – | – | – | – | – | **(96)** | **(96)** |
| Issue of ordinary shares | **1** | – | – | – | – | – | – | **1** |
| Movements relating to share-based payments | – | – | – | – | – | **5** | – | **5** |
| Other transfers | – | – | **(1)** | – | **(249)** | – | **250** | – |
| At 31 December 2014 | **345** | **64** | **23** | **44** | – | **74** | **581** | **1,131** |

## 30 MOVEMENTS IN EQUITY CONTINUED

**30 2 Company continued**

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 £1m occurred in 2014 (2013 £1m)

**30 3** 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 Balfour Beatty Performance Share Plan and the Balfour Beatty Deferred Bonus Plan In 2014, 0 6m (2013 0 7m) shares were purchased at a cost of £1 7m (2013 £1 6m) The market value of the 2 9m (2013 3 3m) shares held by the Trust at 31 December 2014 was £6 2m (2013 £9 3m) The carrying value of these shares is £9 0m (2013 £10 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, the appropriate number of shares will be unconditionally transferred to participants In 2014, 0 1m shares were transferred to participants in relation to the April 2013 special awards under the Performance Share Plan (2013 nil) no shares were transferred to participants in relation to the April 2011 awards under the Performance Share Plan (2013 no shares were transferred to participants in relation to the April 2010 awards under the Performance Share Plan), and 0 9m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2013 1 1m) The trustees have waived the rights to dividends on shares held by the trust Other reserves in the Group and the Company include £4 3m relating to unvested Performance Share Plan awards (2013 £5 1m), £0 4m relating to unvested share options (2013 £1 1m) and £2 1m relating to unvested Deferred Bonus Plan awards (2013 £3 3m)

## 31 NOTES TO THE STATEMENTS OF CASH FLOWS

| | | Continuing operations | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Notes | Underlying items[1] 2014 £m | Non-underlying items (Note 10) 2014 £m | Discontinued operations (Note 12) 2014 £m | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
| **31 1 Cash (used in)/generated from operations** | | | | | | | | |
| (Loss)/profit from operations | | (58) | (223) | 238 | (43) | 1 | 185 | 75 |
| Share of results of joint ventures and associates | 18 | (55) | 2 | – | (53) | (71) | – | – |
| Dividends received – continuing operations | | – | – | – | – | – | (168) | (90) |
| Dividends received – discontinued operations | | – | – | – | – | (1) | – | – |
| Depreciation of property, plant and equipment | 17 | 33 | 10 | 11 | 54 | 56 | – | – |
| Amortisation of other intangible assets | 16 | 6 | 11 | 8 | 25 | 35 | – | – |
| Impairment of Oracle R12 intangible asset | 17 | – | 21 | – | 21 | – | – | – |
| Pension deficit payments | | | | | | | | |
| – ongoing deficit funding | 28 2 | (49) | – | – | (49) | (52) | – | – |
| – conditional deficit funding | 28 2 | – | – | – | – | (7) | – | – |
| Pension curtailment charge – ceasing future accrual | 28 2 | – | – | – | – | 53 | – | – |
| Pension curtailment charge – restructuring | 28 2 | – | – | – | – | 1 | – | – |
| Pension fund settlement gain | 10 | – | (2) | – | (2) | – | – | |
| Movements relating to share-based payments | 33 | 5 | – | – | 5 | 6 | – | – |
| Profit on disposal of investments in infrastructure concessions | 32 3 | (93) | – | – | (93) | (82) | (49) | – |
| Profit on disposal of property, plant and equipment | | (7) | – | – | (7) | (6) | – | – |
| Contingent consideration for acquisitions | | – | – | – | – | (4) | – | – |
| Net gain on disposal of other businesses | 32 3 | – | – | (234) | (234) | (11) | – | – |
| Goodwill impairment in respect of Mainland European rail businesses | 10 | – | – | 24 | 24 | 38 | – | – |
| Impairment of assets in Rail Germany | 10 | – | 30 | – | 30 | – | – | – |
| Impairment of assets in Rail Italy | 10/17 | – | – | 2 | 2 | – | – | – |
| Impairment of other intangible assets | 16 | – | – | – | – | 2 | – | – |
| Impairment/(impairment reversal) of property, plant and equipment | 17 | 1 | – | – | 1 | (3) | – | – |
| Impairment of inventory | | – | – | – | – | 1 | – | – |
| Other non-cash items | | (1) | (1) | – | (2) | (1) | – | – |
| Operating cash flows before movements in working capital | | (218) | (152) | 49 | (321) | (45) | (32) | (15) |
| (Increase)/decrease in operating working capital | | 26 | 38 | (95) | (31) | (117) | 306 | 220 |
| Inventories and non-construction work in progress | | (22) | (1) | (7) | (30) | 2 | – | – |
| Due from construction contract customers | | (104) | 54 | (42) | (92) | (81) | – | – |
| Trade and other receivables | | (69) | 20 | 6 | (43) | (191) | 42 | (34) |
| Due to construction contract customers | | 70 | (8) | (12) | 50 | 33 | – | – |
| Trade and other payables | | 135 | (19) | (31) | 85 | 148 | 264 | 258 |
| Provisions | | 16 | (8) | (9) | (1) | (28) | – | (4) |
| Cash generated (used in)/from operations | | (192) | (114) | (46) | (352) | (162) | 274 | 205 |

[1] Before non-underlying items (Notes 2 11 and 10)

## 31 NOTES TO THE STATEMENTS OF CASH FLOWS CONTINUED

| | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| **31 2 Cash and cash equivalents** | | | | |
| Cash and deposits | **653** | 472 | **249** | – |
| Term deposits | **38** | 67 | **–** | – |
| Cash balances within infrastructure concessions | **40** | 65 | **–** | – |
| Bank overdrafts | **(4)** | (78) | **(142)** | (106) |
| | **727** | 526 | **107** | (106) |

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than three months and bank overdrafts Bank overdrafts are shown within borrowings in current liabilities in the balance sheet

| | Infrastructure concessions non-recourse project finance 2014 £m | Other 2014 £m | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|---|---|
| **31 3 Analysis of movement in net (borrowings)/cash** | | | | | | |
| Opening net borrowings | **(354)** | **(66)** | **(420)** | (333) | **(318)** | (423) |
| Currency translation differences | **–** | **(21)** | **(21)** | 3 | **(12)** | 19 |
| Net (decrease)/increase in cash and cash equivalents | **(25)** | **237** | **212** | 10 | **213** | (93) |
| Proceeds from US private placement | **–** | **–** | **–** | (231) | **–** | (231) |
| Proceeds from convertible bonds and accretion | **–** | **(6)** | **(6)** | (221) | **–** | – |
| Proceeds from new loans | **(236)** | **(11)** | **(247)** | (110) | **–** | – |
| Proceeds from new finance leases | **–** | **(1)** | **(1)** | (1) | **–** | – |
| Repayments of loans | **7** | **83** | **90** | 408 | **–** | 410 |
| Repayments of finance leases | **–** | **3** | **3** | 2 | **–** | – |
| Disposal of non-recourse borrowings (Notes 32 3 7 and 32 4 11) | **163** | **–** | **163** | 72 | **–** | – |
| Net decrease/(increase) in cash within assets held for sale (Note 12) | **–** | **1** | **1** | (19) | **–** | – |
| Closing net (borrowings)/cash | **(445)** | **219** | **(226)** | (420) | **(117)** | (318) |

### 31 4 Borrowings

During the year ended 31 December 2014 the significant movements in borrowings were a net increase in cash (excluding cash held in infrastructure concession projects) of £237m (2013 £68m net increase in overdrafts), a net repayment of short-term loans of £83m (2013 £396m), an increase of £236m (2013 £110m increase) in non-recourse loans funding the development of financial assets in infrastructure concessions subsidiaries, disposal of non-recourse borrowings in Transform Schools (Knowsley) Holdings Ltd £163m (2013 £72m on disposal of Connect CNDR Ltd), and repayment of £7m (2013 £12m) of non-recourse loans

In 2013, a drawdown of US private placement loans of £231m was made together with the issue of unsecured convertible bonds with a liability component of £221m

## 32 ACQUISITIONS AND DISPOSALS

### 32 1 Current and prior year acquisitions

**32 1 1** There were no material acquisitions during the years ended 31 December 2014 and 2013

**32 1 2** Deferred consideration paid during 2014 in respect of acquisitions completed in earlier years was £3m, £1m relating to the acquisition of Subsurface Group Inc (Subsurface) and £2m relating to other acquisitions

### 32 2 Contingent consideration arrangements

| | Parsons Brinckerhoff Inc £m | Subsurface £m | Total £m |
|---|---|---|---|
| **Contingent consideration recoverable/(payable)** | | | |
| At 1 January 2014 | 16 | (1) | 15 |
| (Recovered)/paid during the year | **(15)** | **1** | **(14)** |
| Released to the income statement | **(1)** | **–** | **(1)** |
| At 31 December 2014 | **–** | **–** | **–** |

### 32 3 Current year disposals

| Notes | Disposal date | Entity/business | Percentage disposed % | Cash consideration £m | Net assets disposed £m | Amount recycled from reserves £m | Direct costs incurred indemnity provisions created and fair value uplift £m | Underlying gain £m | Non underlying gain £m |
|---|---|---|---|---|---|---|---|---|---|
| **32 3 1** | 8 January 2014 | Rail Scandinavia* | 100 | 2 | (2) | 1 | (1) | – | – |
| **32 3 2** | 22 May 2014 | Consort Healthcare (Durham) Holdings Ltd^ | 50 | 55 | (43) | 15 | – | 27 | – |
| **32 3 3** | 30 May 2014 | Transform Schools (Knowsley) Holdings Ltd* | 100 | 42 | (10) | (8) | – | 24 | – |
| **32 3 4** | 1 October 2014 | Consort Healthcare (Mid Yorkshire) Holdings Ltd^ | 50 | 62 | (12) | (8) | – | 42 | – |
| **32 3 5** | 31 October 2014 | Parsons Brinckerhoff* | 100 | 812 | (498) | (11) | (69) | – | 234 |
| | | | | **973** | **(565)** | **(11)** | **(70)** | **93** | **234** |

* Subsidiary
^ Joint venture

**32 3 1** On 8 January 2014, the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m The disposal resulted in a £nil gain/loss being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed and a £1m gain on recycling currency translation reserves to the income statement Costs of disposal incurred and indemnity provisions of £1m were charged to the income statement which resulted in the overall £nil gain/loss The disposal included cash disposed of £9m

**32 3 2** On 22 May 2014, the Group disposed of its 50% interest in Consort Healthcare (Durham) Holdings Ltd (CHDHL) for an agreed cash consideration of £55m, including a settlement of short-term loans due from joint ventures of £5m On this date the Group ceased to jointly control CHDHL by virtue of a put/call structure with a preferred bidder The disposal was completed on 30 June 2014 and the proceeds were received in July 2014 This disposal resulted in a net gain of £27m being recognised within underlying operating profit in the income statement comprising a gain of £12m in respect of the disposal of the investment in the joint venture and a £15m gain in respect of revaluation reserves recycled to the income statement

The Company recognised an underlying gain of £49m in respect of this disposal

**32 3 3** On 30 May 2014, the Group disposed of its 100% interest in Transform Schools (Knowsley) Holdings Ltd (TSKHL) for an agreed cash consideration of £42m On this date the Group ceased to jointly control TSKHL by virtue of a put/call structure with a preferred bidder The disposal of the subsidiary was completed on 12 June 2014 This disposal resulted in a net gain of £24m being recognised within underlying profit, comprising a gain of £32m in respect of the fair value of net assets disposed and an £8m loss in respect of revaluation reserves recycled to the income statement The disposal included cash disposed of £8m

**32 3 4** On 1 October 2014, the Group disposed of its 50% interest in Consort Healthcare (Mid Yorkshire) Holdings Ltd for an agreed cash consideration of £62m This disposal was completed on 1 October 2014 and resulted in a gain of £42m being recognised within underlying operating profit, comprised of a £50m gain in respect of the disposal of the investment in the joint venture and an £8m loss in respect of revaluation reserves recycled to the income statement

**32 3 5** On 28 October 2014, shareholder approval was granted for the disposal of the Group's 100% interest in Parsons Brinckerhoff The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m with the proceeds being received on that day The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations after incurring separation costs of £24m and transaction costs of £45m The net gain comprises a gain of £314m before disposal costs in respect of the fair value of net assets disposed and a £11m loss in respect of reserves recycled to the income statement This disposal includes cash disposed of £42m Additional consideration may be received based on the agreement of the final working capital position of Parsons Brinckerhoff

## 32 ACQUISITIONS AND DISPOSALS CONTINUED

### 32 3 Current year disposals continued

**32 3 6** During the year the Group finalised the cash consideration due on the disposal of its UK facilities management business, Balfour Beatty WorkPlace (BBW), amounting to an additional consideration for the Group of £1m At the same time, an agreement was reached to discharge the Group's obligation for which a provision of £14m had been made in return for a payment by the Group of £9m This resulted in a non-underlying gain on disposal of £6m, which was fully offset with an impairment charge for an intangible asset of £6m (refer to Note 16) The net non-underlying gain on disposal recognised in the year was therefore £nil (2013 £16m gain) Costs of £6m incurred in 2013 were subsequently settled in 2014 Refer to Note 32 4 10

### 32 3 7 Subsidiaries net assets disposed

| Net assets disposed | Notes | Parsons Brinckerhoff £m | Knowsley £m | Rail Scandinavia £m | Total £m |
|---|---|---|---|---|---|
| Intangible assets – goodwill | 15 | 227 | – | – | 227 |
| Intangible assets – other | 16 | 7 | – | – | 7 |
| Property, plant and equipment | 17 | 53 | – | 7 | 60 |
| Investment in joint ventures and associates | 18 | 1 | – | – | 1 |
| Available-for-sale investments | 19 | 45 | – | – | 45 |
| PPP financial assets | 20 | – | 197 | – | 197 |
| Deferred taxation | 27 | 42 | 2 | – | 44 |
| Inventories and non-construction work in progress | | 116 | – | 5 | 121 |
| Trade and other receivables | | 300 | 3 | 21 | 324 |
| Trade and other payables | | (269) | (4) | (30) | (303) |
| Provisions | 25 | (12) | – | (2) | (14) |
| Retirement benefit liabilities | 28 | (50) | – | (8) | (58) |
| Current taxation | | (4) | – | – | (4) |
| Derivatives | | – | (33) | – | (33) |
| Cash | | 42 | 8 | 9 | 59 |
| Non-recourse borrowings | 31 3 | – | (163) | – | (163) |
| | | 498 | 10 | 2 | 510 |
| Reserves recycled to the income statement | | 11 | 8 | (1) | 18 |
| Costs directly related to the sale | | 69 | – | 1 | 70 |
| | | 578 | 18 | 2 | 598 |
| Net cash consideration | | (812) | (42) | (2) | (856) |
| Gain on disposal | | (234) | (24) | – | (258) |
| **Net cash flow effect** | | | | | |
| Total consideration | | 812 | 42 | 2 | 856 |
| Cash and cash equivalents disposed | | (42) | (8) | (9) | (59) |
| Transaction and separation costs paid | | (47) | – | (1) | (48) |
| Net cash consideration | | 723 | 34 | (8) | 749 |
| Net payments made in relation to BBW disposal and associated transaction costs (Note 32 3 6) | | | | | (14) |
| | | | | | 735 |

### 32 4 Prior year disposals

| Notes | Disposal date | Entity/business | Percentage disposed % | Cash consideration £m | Net assets disposed £m | Amount recycled from reserves £m | Direct costs incurred indemnity provisions created and fair value uplift £m | Underlying gain £m | Non-underlying gain/(loss) £m |
|---|---|---|---|---|---|---|---|---|---|
| **32 4 1** | 1 March 2013 | Rail Iberica SA* | 100 | – | (5) | 1 | – | – | (4) |
| **32 4 2** | 26 April 2013 | Consort Healthcare (Tameside) Holdings Ltd^ | 50 | 16 | (11) | 4 | – | 9 | – |
| **32.4 3** | 30 April 2013 | Transform Schools Bassetlaw^, Birmingham^, Rotherham^, Stoke^ | 50 | 43 | (24) | 5 | – | 24 | – |
| **32 4 4** | 20 June 2013 | Consort Healthcare (Salford) Holdings Ltd^ | 50 | 22 | (10) | – | – | 12 | – |
| **32 4 5** | 25 June 2013 | Exeter and Devon Airport Ltd^ | 60 | – | – | – | – | – | – |
| **32 4 6** | 1 August 2013 | Stassfurt Signalling Workshop | – | – | (1) | – | – | – | (1) |
| **32 4 7** | 31 October 2013 | Balfour Sevan LLC^ | 50 | 1 | (1) | – | – | – | – |
| **32 4 8** | 4 November 2013 | Connect A30/A35 Holdings Ltd^ | 65 | 21 | (9) | 6 | – | 18 | – |
| **32 4 9** | 4 November 2013 | Connect CNDR Holdings Ltd* | 75 | 26 | (16) | 5 | 4 | 19 | – |
| **32 4 10** | 13 December 2013 | Balfour Beatty WorkPlace* | 100 | 155 | (120) | – | (19) | – | 16 |
| | | | | **284** | **(197)** | **21** | **(15)** | **82** | **11** |

* Subsidiary
^ Joint venture

## 32 ACQUISITIONS AND DISPOSALS CONTINUED

**32 4 Prior year disposals continued**

**32 4 1** On 1 March 2013, the Group disposed of its interest in Rail Iberica SA (Rail Spain) to its local management for a cash consideration of €1 The disposal resulted in a net £4m loss being recognised as a non-underlying item, comprising a £5m loss in respect of the fair value of net assets disposed, including cash disposed of £7m, and a £1m gain on recycling revaluation reserves to the income statement The Group continues to guarantee certain bonds on behalf of Rail Spain until their expiry

**32 4 2** On 26 April 2013, the Group disposed of its 50% interest in Consort Healthcare (Tameside) Holdings Ltd for a cash consideration of £16m This disposal resulted in a net £9m gain being recognised in underlying operating profit, comprising a gain of £5m in respect of the disposal of the investment in the joint venture and a £4m gain on recycling revaluation reserves to the income statement

**32 4 3** On 30 April 2013, the Group disposed of its 50% interest in four Transform Schools projects Bassetlaw, Birmingham, Rotherham, and Stoke, for a combined cash consideration of £43m This disposal resulted in a net gain of £24m being recognised within underlying operating profit, comprising a gain of £19m in respect of the disposal of the investments in the joint ventures and a £5m gain on recycling revaluation reserves to the income statement

**32 4 4** On 20 June 2013, the Group disposed of its 50% interest in Consort Healthcare (Salford) Holdings Ltd for a cash consideration of £22m This disposal resulted in a net gain of £12m being recognised within underlying operating profit There were no material revaluation reserves

**32 4 5** On 25 June 2013, the Group disposed of its interest in Exeter and Devon Airport Ltd held through an intermediary company wholly owned by its joint venture Regional & City Airports (Exeter) Holdings Ltd in which the Group has a 60% interest The proceeds from the sale were used to repay secured lenders The carrying value of the Group's investment had been written down to £nil in 2012 and the disposal therefore resulted in a £nil gain/loss

**32 4 6** On 1 August 2013, as part of its initial step in disposing of Rail Germany, the Group disposed of Stassfurt Signalling Workshop to its local management for a cash consideration of €1 resulting in a £1m loss on disposal

**32 4 7** On 31 October 2013, the Group disposed of its 50% interest in Balfour Sevan LLC for a cash consideration of £1m The carrying value of the Group's investment amounted to £1m and the disposal resulted in a £nil gain/loss

**32 4 8** On 4 November 2013, the Group disposed of a 65% interest in Connect A30/A35 Holdings Ltd for a cash consideration of £21m This disposal resulted in a gain of £18m being recognised within underlying operating profit, comprising a gain of £12m in respect of the disposal of the investment in the joint venture and a £6m gain in respect of revaluation reserves recycled to the income statement The Group retains a 20% interest in the joint venture

**32 4 9** On 4 November 2013, the Group disposed of a 75% interest in Connect CNDR Holdings Ltd (CNDR) for a cash consideration of £26m This disposal resulted in a gain of £19m being recognised within underlying operating profit, comprising a gain of £10m in respect of the disposal of the investment in the subsidiary, a £5m gain in respect of revaluation reserves recycled to the income statement, and £4m representing the fair value uplift of the interest retained The Group retains a 25% interest in CNDR which will be accounted for as a joint venture using the equity method

**32 4 10** On 13 December 2013, the Group disposed of its UK facilities management business, Balfour Beatty WorkPlace (BBW) for cash proceeds of £155m resulting in a net non-underlying gain of £16m recognised within discontinued operations after creating indemnity provisions of £10m and incurring transaction costs of £9m Refer to Notes 12 and 32 3 6

## 32 ACQUISITIONS AND DISPOSALS CONTINUED

### 32 4 Prior year disposals continued

### 32 4 11 Prior year subsidiaries net assets disposed

| Net assets disposed | Notes | BBW £m | CNDR £m | Rail Spain £m | Total £m |
|---|---|---|---|---|---|
| Intangible assets – goodwill | 15 | 64 | – | – | 64 |
| Intangible assets – other | 16 | 7 | – | – | 7 |
| Property, plant and equipment | 17 | 10 | – | – | 10 |
| Investment in joint ventures and associates | 18 | 8 | – | – | 8 |
| PPP financial assets | 20 | – | 99 | – | 99 |
| Deferred taxation | 27 | 1 | (2) | – | (1) |
| Inventories and non-construction work in progress | | 23 | – | – | 23 |
| Trade and other receivables | | 120 | 2 | 5 | 127 |
| Trade and other payables | | (121) | (3) | (6) | (130) |
| Provisions | 25 | (1) | – | – | (1) |
| Retirement benefit liabilities | 28 | 2 | – | – | 2 |
| Current taxation | | – | – | (1) | (1) |
| Derivatives | | – | (16) | – | (16) |
| Cash | | 7 | 13 | 7 | 27 |
| Non-recourse borrowings | 31 3 | – | (72) | – | (72) |
| Net assets of interest retained in CNDR | | – | (5) | – | (5) |
| | | 120 | 16 | 5 | 141 |
| Indemnity liabilities raised on disposal | | 11 | – | – | 11 |
| Fair value uplift of retained investment in CNDR | | – | (4) | – | (4) |
| Reserves recycled to the income statement | | – | (5) | (1) | (6) |
| Costs directly related to the sale | | 8 | – | – | 8 |
| | | 139 | 7 | 4 | 150 |
| Net cash consideration | | (155) | (26) | – | (181) |
| (Gain)/loss on disposal | | (16) | (19) | 4 | (31) |
| **Net cash flow effect** | | | | | |
| Total consideration | | 155 | 26 | – | 181 |
| Cash and cash equivalents disposed | | (7) | (13) | (7) | (27) |
| Transaction costs paid | | (2) | – | – | (2) |
| Net cash consideration | | 146 | 13 | (7) | 152 |

## 33 SHARE-BASED PAYMENTS

The Company operates four equity-settled share-based payment arrangements, namely the Savings-Related Share Option Scheme (SAYE), the Executive Share Option Scheme (ESOS), the Performance Share Plan (PSP) and the Deferred Bonus Plan (DBP) The Group recognised total expenses relating to equity-settled share-based payment transactions of £4 9m in 2014 (2013 £5 8m) Refer to the Remuneration Report for details of the various schemes and to Note 29 1

### 33 1 Movements in share options

| | SAYE options | | | | ESOS options | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 Number | Weighted average exercise price 2014 Pence | 2013 Number | Weighted average exercise price 2013 Pence | 2014 Number | Weighted average exercise price 2014 Pence | 2013 Number | Weighted average exercise price 2013 Pence |
| Outstanding at 1 January | **1,364,265** | **242 1** | 3,645,518 | 254 9 | **387,733** | **227 3** | 689,049 | 205 6 |
| Forfeited during the year | **(187,464)** | **242 8** | (361,496) | 248 4 | – | – | – | – |
| Exercised during the year | **(101,540)** | **242 3** | (386,386) | 238 4 | **(318,840)** | **227 3** | (270,895) | 172 2 |
| Expired during the year | **(483,472)** | **249 2** | (1,533,371) | 271 9 | **(68,893)** | **227 3** | (30,421) | 227 3 |
| Outstanding at 31 December | **591,789** | **236 0** | 1,364,265 | 242 1 | – | – | 387,733 | 227 3 |
| Exercisable at 31 December | – | – | 49,678 | 250 5 | – | – | 387,733 | 227 3 |

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 274 7p (2013 266 3p) and the weighted average remaining contractual life of SAYE options outstanding at 31 December 2014 is 0 5 years (2013 1 0 year)

The weighted average share price at the date of exercise for those ESOS options exercised during the year was 296 4p (2013 251 7p) There are no ESOS options outstanding as at 31 December 2014 The weighted average remaining contractual life of ESOS options outstanding at 31 December 2013 was 0 3 years

## 33 SHARE-BASED PAYMENTS CONTINUED

### 33 2 Movements in share plans

| | PSP conditional awards | | DBP conditional awards | |
|---|---|---|---|---|
| | **2014 Number** | 2013 Number | **2014 Number** | 2013 Number |
| Outstanding at 1 January | **9,615,176** | 9,688,585 | **1,797,335** | 2,275,048 |
| Granted during the year | **2,521,625** | 3,815,247 | **490,541** | 575,983 |
| Awards in lieu of dividends | **–** | – | **96,973** | 102,609 |
| Forfeited during the year | **(2,431,898)** | (1,209,841) | **(116,179)** | (40,879) |
| Exercised during the year | **(143,337)** | – | **(923,197)** | (1,115,426) |
| Expired during the year | **(2,728,501)** | (2,678,815) | **–** | – |
| Outstanding at 31 December | **6,833,065** | 9,615,176 | **1,345,473** | 1,797,335 |
| Exercisable at 31 December | **–** | – | **30,239** | 101,062 |

The weighted average remaining contractual life of those PSP awards outstanding at 31 December 2014 is 1 1 years (2013 1 4 years)

The weighted average share price at the date of exercise for those DBP awards exercised during the year was 273 7p (2013 243 3p) and the weighted average remaining contractual life of DBP awards outstanding at 31 December 2014 is 1 7 years (2013 1 3 years)

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 PSP awards in 2014 subject to market conditions, were

| Award date | **Closing share price before award date Pence** | **Expected volatility of shares %** | **Expected term of awards Years** | **Risk free interest rate %** | **Calculated fair value of an award Pence** |
|---|---|---|---|---|---|
| 31 March 2014 | **299 6** | **34 7** | **3 0** | **1 12** | **178 8** |

For the DBP awards in 2014, the fair value of the awards is the closing share price before award date

## 34 COMMITMENTS

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £3m (2013 £7m) in the Group and £nil (2013 £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 41f

In January 2013, the Balfour Beatty Infrastructure Partners Fund (Infrastructure Fund) reached first close with US$317m of commitments, of which Balfour Beatty committed US$110m Final close was reached in July 2014 with a total of US$618m committed The Group has invested a net US$33m in the Infrastructure Fund, of which US$33m was invested in 2014

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements The leases have varying terms, escalation clauses and renewal rights The lease expenditure charged to the income statement for continuing operations is disclosed in Note 6 1

### Future operating lease expenditure commitments

| **Continuing operations** | **Land and buildings 2014 £m** | **Other 2014 £m** | Land and buildings 2013[2 3] £m | Other 2013[2 3] £m |
|---|---|---|---|---|
| **Group** | | | | |
| Due within one year | **30** | **29** | 30 | 52 |
| Due between one and five years | **57** | **41** | 46 | 46 |
| Due after more than five years | **23** | **5** | 19 | 6 |
| | **110** | **75** | 95 | 104 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)
[3] Re-presented to include results of Rail Germany which no longer meets the definition of a discontinued operation as non-underlying items within continuing operations (Notes 2 2 2 11 and 10)

The Company did not have any future operating lease expenditure commitments as at 31 December 2014 (2013 £nil)

### Future committed operating lease income

| **Continuing operations** | **Land and buildings 2014 £m** | Land and buildings 2013 £m |
|---|---|---|
| **Group** | | |
| Due within one year | **1** | 1 |
| Due between one and five years | **1** | 1 |
| | **2** | 2 |

The Company did not have any future committed operating lease income as at 31 December 2014 (2013 £nil)

## 35 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

## 36 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 £673m (2013 £777m) 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 23 and 24 respectively

**Pension schemes**

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £7m in 2014 (2013 £8m)

**Key management personnel**

| Remuneration of key management personnel of the Company | 2014 £m | 2013^ £m |
|---|---|---|
| Short-term benefits | **2 274** | 2 662 |
| Long-term benefits | **0 167** | 0 191 |
| Post-employment benefits | **0 002** | 0 058 |
| Payments for loss of office | **0 574** | 0 588 |
| Share-based payments | **0 988** | 1 284 |
| | **4 005** | 4 783 |

^ Restated to include remuneration of non-executive Directors

Key management personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors The remuneration included above is that paid 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 2014 Remuneration Report on pages 64 to 80

On 1 February 2013, the employees of the Company were transferred to Balfour Beatty Group Employment Ltd (BBGEL), which has been established as the employing entity for the Balfour Beatty Group's UK businesses During the year employee costs of £11m (2013 £16m) were recharged from BBGEL to the Company

## 37 EVENTS AFTER THE REPORTING DATE

On 31 January 2015, the Group completed the sale of JumboTec, Austria and Track (which constituted parts of Rail Germany) to Rhomberg Sersa Rail Group for a net consideration of £nil after taking into account cash that will transfer with the business The deal was announced on 14 November 2014, and a non-underlying loss on disposal was estimated at that time at £25m At 31 December 2014, in light of the consideration expected to be received on completion of the deal, the Group recognised an impairment of £30m to write down the net assets of these businesses to the consideration expected This has been recognised as a non-underlying item Refer to Note 10 1 4 3

On 16 February 2015, the Group announced the sale of an 80% interest in the Thanet offshore transmission (OFTO) project for £40m to Equitix The consideration is consistent with the Directors' valuation at 31 December 2014 The Group retains a 20% interest in the joint venture

On 18 February 2015, the Group announced the acquisition of the Gwynt y Môr offshore transmission (OFTO) project, in which the Group will be joint venture partners with Equitix The Group's stake is £28m which represents 60% of equity required

On 11 March 2015, the Group completed the sale of Rail Italy for net cash consideration of £3m to Alpiq InTec AG The consideration reflected the Group's carrying value of the business at 31 December 2014

## 38 PRIOR YEAR COMPARISONS

### Group

The 2013 income statement has been re-presented to classify Parsons Brinckerhoff and Rail Italy as part of discontinued operations at the year end Refer to Note 12

The 2013 income statement has also been re-presented to reclassify Rail Germany from a discontinued operation to non-underlying items within continuing operations Refer to Note 12

The performance of Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third party work has also been moved to non-underlying items Refer to Note 2 11

The effect on the financial statements is as follows

| Income statement | As previously reported 2013 Year £m | Effect of Parsons Brinckerhoff 2013 Year £m | Effect of Rail Italy 2013 Year £m | Effect of Rail Germany 2013 Year £m | Effect of certain legacy ES contracts 2013 Year £m | As re-presented 2013 Year £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| **Revenue including share of joint ventures and associates[1]** | 10,118 | (1,536) | (28) | – | (76) | 8,478 |
| Share of revenue of joint ventures and associates[1] | (1,373) | 13 | – | – | – | (1,360) |
| **Group revenue[1]** | 8,745 | (1,523) | (28) | – | (76) | 7,118 |
| **Underlying group operating profit/(loss)[1]** | 132 | (55) | (2) | – | – | 75 |
| Share of results of joint ventures and associates | 71 | – | – | – | – | 71 |
| **Underlying profit/(loss) from operations[1]** | 203 | (55) | (2) | – | – | 146 |
| Investment income | 65 | (2) | – | – | – | 63 |
| Finance costs | (81) | 3 | – | – | – | (78) |
| **Underlying profit/(loss) before taxation from continuing operations[1]** | 187 | (54) | (2) | – | – | 131 |
| Taxation on underlying profit/(loss) from continuing operations | (50) | 21 | 1 | – | – | (28) |
| **Underlying profit/(loss) for the year from continuing operations[1]** | 137 | (33) | (1) | – | – | 103 |
| Non-underlying items after tax from continuing operations | (120) | 35 | – | (71) | – | (156) |
| **Profit/(loss) for the year from continuing operations** | 17 | 2 | (1) | (71) | – | (53) |
| **Underlying (loss)/profit for the year from discontinued operations after tax** | (15) | 33 | 1 | 25 | – | 44 |
| Non-underlying items after tax from discontinued operations | (37) | (35) | – | 46 | – | (26) |
| **(Loss)/profit for the year from discontinued operations** | (52) | (2) | 1 | 71 | – | 18 |
| **Loss for the year** | (35) | – | – | – | – | (35) |

[1] Before non-underlying items (Notes 2 11 and 10)

| Earnings per share | Pence | Pence | Pence | Pence | Pence | Pence |
|---|---|---|---|---|---|---|
| Basic earnings/(loss) per ordinary share from continuing operations | 2 5 | 0 3 | (0 1) | (10 2) | – | (7 5) |
| Basic (loss)/earnings per ordinary share from discontinued operations | (7 6) | (0 3) | 0 1 | 10 2 | – | 2 4 |
| **Basic loss per ordinary share** | (5 1) | – | – | – | – | (5 1) |
| Diluted earnings/(loss) per ordinary share from continuing operations | 2 5 | 0 3 | (0 1) | (10 2) | – | (7 5) |
| Diluted (loss)/earnings per ordinary share from discontinued operations | (7 6) | (0 3) | 0 1 | 10 2 | – | 2 4 |
| **Diluted loss per ordinary share** | (5 1) | – | – | – | – | (5 1) |

## 39 FINANCIAL INSTRUMENTS

### 39 1 Capital risk management

The Group and Company manage their capital to ensure their 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 29 1 and 30, preference shares as disclosed in Note 29 2, US private placement as disclosed in Note 26, convertible bonds as disclosed in Note 26, and cash and cash equivalents and borrowings as disclosed in Note 26

The Group and Company maintain or adjust their 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 and the Company 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 and the Company remains unchanged from 2013

### 39 2 Group

Categories of financial instruments

| Group | Loans and receivables at amortised cost, cash and deposits 2014 £m | Financial liabilities at amortised cost 2014 £m | Available-for-sale financial assets 2014 £m | Held to maturity financial assets 2014 £m | Derivatives 2014 £m | Loans and receivables at amortised cost cash and deposits 2013 £m | Financial liabilities at amortised cost 2013 £m | Available-for-sale financial assets 2013 £m | Held to maturity financial assets 2013 £m | Derivatives 2013 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | |
| Fixed rate bonds and treasury stock | – | – | – | 31 | – | – | – | – | 35 | – |
| Mutual funds | – | – | 20 | – | – | – | – | 60 | – | – |
| PPP financial assets | – | – | 559 | – | – | – | – | 455 | – | – |
| Cash and deposits | 731 | – | – | – | – | 604 | – | – | – | – |
| Trade and other receivables | 1,035 | – | – | – | – | 1,256 | – | – | – | – |
| Derivatives | – | – | – | – | 2 | – | – | – | – | 2 |
| Total | 1,766 | – | 579 | 31 | 2 | 1,860 | – | 515 | 35 | 2 |
| **Financial liabilities** | | | | | | | | | | |
| Liability component of preference shares | – | (96) | – | – | – | – | (94) | – | – | – |
| Trade and other payables | – | (1,972) | – | – | – | – | (2,025) | – | – | – |
| Unsecured borrowings | – | (471) | – | – | – | – | (602) | – | – | – |
| Secured borrowings | – | (1) | – | – | – | – | (3) | – | – | – |
| Infrastructure concessions non-recourse term loans | – | (485) | – | – | – | – | (419) | – | – | – |
| Derivatives | – | – | – | – | (92) | – | – | – | – | (74) |
| Total | – | (3,025) | – | – | (92) | – | (3,143) | – | – | (74) |
| **Net** | 1,766 | (3,025) | 579 | 31 | (90) | 1,860 | (3,143) | 515 | 35 | (72) |
| Current year comprehensive income/(expense) excluding share of joint ventures and associates | 29 | (68) | 89 | 1 | 28 | 19 | (63) | – | 2 | 65 |

Derivatives

| | Financial assets | | | Financial liabilities | | | Financial assets | | | Financial liabilities | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current 2014 £m | Non-current 2014 £m | Total 2014 £m | Current 2014 £m | Non-current 2014 £m | Total 2014 £m | Current 2013 £m | Non-current 2013 £m | Total 2013 £m | Current 2013 £m | Non-current 2013 £m | Total 2013 £m |
| **Foreign currency contracts** | | | | | | | | | | | | |
| Held for trading at fair value through income statement | 2 | – | 2 | (1) | – | (1) | 2 | – | 2 | (4) | – | (4) |
| Designated as cash flow hedges | – | – | – | (1) | – | (1) | – | – | – | (1) | – | (1) |
| **Interest rate swaps** | | | | | | | | | | | | |
| Designated as cash flow hedges | – | – | – | (12) | (78) | (90) | – | – | – | (14) | (55) | (69) |
| | 2 | – | 2 | (14) | (78) | (92) | 2 | – | 2 | (19) | (55) | (74) |

## 39 FINANCIAL INSTRUMENTS CONTINUED

### 39 2 Group continued

**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**

| | Infrastructure concessions non recourse project finance 2014 £m | Other borrowings 2014 £m | Other financial liabilities 2014 £m | Total non-derivative financial liabilities 2014 £m | Discount 2014 £m | Carrying value 2014 £m |
|---|---|---|---|---|---|---|
| Due on demand or within one year | (18) | (4) | (1,852) | (1,874) | 14 | (1,860) |
| Due within one to two years | (43) | (18) | (69) | (130) | 23 | (107) |
| Due within two to five years | (73) | (278) | (57) | (408) | 99 | (309) |
| Due after more than five years | (609) | (197) | (169) | (975) | 226 | (749) |
| | (743) | (497) | (2,147) | (3,387) | 362 | (3,025) |
| Discount | 258 | 25 | 79 | 362 | | |
| Carrying value | (485) | (472) | (2,068) | (3,025) | | |

| | Infrastructure concessions non-recourse project finance 2013 £m | Other borrowings 2013 £m | Other financial liabilities 2013 £m | Total non derivative financial liabilities 2013 £m | Discount 2013 £m | Carrying value 2013 £m |
|---|---|---|---|---|---|---|
| Due on demand or within one year | (11) | (170) | (1,872) | (2,053) | 13 | (2,040) |
| Due within one to two years | (14) | (1) | (91) | (106) | 15 | (91) |
| Due within two to five years | (34) | (280) | (57) | (371) | 63 | (308) |
| Due after more than five years | (534) | (185) | (191) | (910) | 206 | (704) |
| | (593) | (636) | (2,211) | (3,440) | 297 | (3,143) |
| Discount | 174 | 31 | 92 | 297 | | |
| Carrying value | (419) | (605) | (2,119) | (3,143) | | |

**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 2014 £m | Receivable 2014 £m | Net payable 2014 £m | Payable 2013 £m | Receivable 2013 £m | Net payable 2013 £m |
|---|---|---|---|---|---|---|
| Due on demand or within one year | (193) | 172 | (21) | (285) | 263 | (22) |
| Due within one to two years | (21) | 5 | (16) | (21) | 7 | (14) |
| Due within two to five years | (45) | 1 | (44) | (17) | 4 | (13) |
| Due after more than five years | (105) | – | (105) | (84) | – | (84) |
| Total | (364) | 178 | (186) | (407) | 274 | (133) |

**Financial risk factors**

The Group's activities expose it to a variety of financial risks market risk, credit risk, and liquidity risk The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures The Group uses derivative financial instruments to hedge certain risk exposures The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes

## 39 FINANCIAL INSTRUMENTS CONTINUED

### 39 2 Group continued

**(a) Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including

- forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company
- interest rate swaps to mitigate the cash flow variability in Infrastructure Investments concessions 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 2013

**(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, Hong Kong dollars and United Arab Emirate dirhams Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency Whenever a current or future foreign currency exposure is identified with sufficient reliability Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer

Refer to page 152 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures

As at 31 December 2014, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £176m (2013 £324m) receivable and £181m (2013 £325m) payable with related cash flows expected to occur in up to three (2013 four) 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 designated forward exchange contracts with a notional principal amount of £2m (2013 £63m) receivable and £2m (2013 £66m) payable as cash flow hedges against highly probable cash flows which are expected to occur in up to two (2013 four) years Fair value gains on these contracts of £nil (2013 £nil) have been taken to hedging reserves through other comprehensive income The cumulative amount deferred in the hedging reserves relating to cash flow hedges at the reporting date is £nil (2013 £nil)

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the income statement in relation to any foreign exchange cash flow hedges

The Group's investments in foreign operations are exposed to foreign currency translation risks The Group does not enter into forward foreign exchange or other derivative contracts to hedge foreign currency denominated net assets

In March 2013 the Group raised US$350m through a US private placement which has been designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements The Group has reassessed this hedge following the sale of Parsons Brinckerhoff and has concluded that the hedge continues to be effective Exchange movements in the year totalled £12m (2013 £19m)

The hedging policy is reviewed periodically At the reporting date there had been no change to the hedging policies since 2013

**(ii) Interest rate risk management**

Interest rate risk arises in the Group's Infrastructure Investments concessions which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets 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 therefore 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 2014 and 2013, the Group's infrastructure concessions subsidiaries' borrowings at variable rates of interest were denominated in sterling

The notional principal amounts of the outstanding subsidiaries' interest rate swaps outstanding at 31 December 2014 totalled £419m (2013 £357m) with maturities that match the maturity of the underlying borrowings ranging from one year to 25 years

At 31 December 2014, the fixed interest rates range from 3 5% to 5 1% (2013 4 3% to 5 1%) and the principal floating rates are LIBOR plus a fixed margin

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £3m increase (2013 £2m) /£4m decrease (2013 £3m) in amounts taken directly to other comprehensive income by the Group in relation to the Group's exposure to interest rates on the available-for-sale 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 A 50 basis point increase/ decrease in the interest rate of each currency in which these financial instruments are held would lead to a £nil (2013 £nil) increase/£nil (2013 £1m) decrease in the Group's net finance cost

## 39 FINANCIAL INSTRUMENTS CONTINUED

### 39 2 Group 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 and credit exposures to customers, including outstanding receivables and committed transactions The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions

For cash and deposits and derivative financial instruments the Group has a policy of only using counterparties that are independently rated with a minimum long term credit rating of BBB+ At 31 December 2014, £13m (2013 £44m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances, however no losses are anticipated from these counterparties The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board of Directors for the Group and subsidiary companies Management monitors the utilisation of these credit limits regularly

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer

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

**(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 26 1 The maturity profile of the Group's financial liabilities is set out on page 153

**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

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities The Group holds available-for-sale investments in mutual funds 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 the 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

There have been no transfers between these categories in the current or preceding year

**PPP financial assets**

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 The consequent movement in the fair value is taken to other comprehensive income

**Investment in the Infrastructure Fund**

The Group's investment in the Infrastructure Fund (the Fund) is subject to the terms and conditions of the Fund's offering documentation The investment in the Fund is primarily valued based on the latest available financial information provided by the Fund's General Partner, which is a related party of the Group Management reviews the details of the reported valuation obtained from the Fund and considers (i) the valuation of the underlying investments, (ii) the value date of the net asset value (NAV) provided, (iii) cash flows (calls/distributions) since the latest value date, and (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair value information provided by the Fund's General Partner

Where the information provided by the Fund's General Partner is not considered appropriate, management will make amendments to the NAV obtained as noted above in order to present a carrying value that more appropriately reflects the fair value of the Group's investment at the reporting date In determining the continued appropriateness of the valuation, management reviews the valuation reports received from the Fund's General Partner The terms of the Fund's partnership agreement require these valuation reports to be supported by an annual external valuation

## 39 FINANCIAL INSTRUMENTS CONTINUED

### 39 2 Group continued

| Financial instruments at fair value | Level 1 £m | Level 2 £m | Level 3 £m | 2014 Total £m | Level 1 £m | Level 2 £m | Level 3 £m | 2013 Total £m |
|---|---|---|---|---|---|---|---|---|
| Available-for-sale mutual fund financial assets | **20** | – | – | **20** | 60 | – | – | 60 |
| Available-for-sale PPP financial assets | – | – | **559** | **559** | – | – | 455 | 455 |
| Financial assets – foreign currency contracts | – | **2** | – | **2** | – | 2 | – | 2 |
| Total assets measured at fair value | **20** | **2** | **559** | **581** | 60 | 2 | 455 | 517 |
| Financial liabilities – foreign currency contracts | – | **(2)** | – | **(2)** | – | (5) | – | (5) |
| Financial liabilities – infrastructure concessions interest rate swaps | – | **(90)** | – | **(90)** | – | (69) | – | (69) |
| Total liabilities measured at fair value | – | **(92)** | – | **(92)** | – | (74) | – | (74) |

**Level 3 financial assets**

**PPP financial assets**

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis points increase/decrease, which represents management's assessment of a reasonably possible change in the risk adjusted discount rate, would lead to a £27m decrease (2013 £21m) / £27m increase (2013 £22m) in the fair value of the assets taken through equity Refer to Note 20 for a reconciliation of the movement from the opening balance to the closing balance

**Investment in the Infrastructure Fund**

Management has determined that an absolute shift of 15% represents a reasonably possible change in the fair value of the Group's investment in the Fund and would result in an absolute change of £3m In arriving at this value management have considered the economic assumptions and discount rates used in the valuation of the underlying investments Refer to Note 18 6 for a reconciliation of the movement from the opening balance to the closing balance

At 31 December 2014, management considered that the NAV provided by the Fund's General Partner appropriately reflected the fair value of the Group's investment

### 39 3 Company

**Categories of financial instruments**

| Company | Loans and receivables at amortised cost cash and deposits 2014 £m | Financial liabilities at amortised cost 2014 £m | Available-for sale financial assets 2014 £m | Held to maturity financial assets 2014 £m | Derivatives 2014 £m | Loans and receivables at amortised cost cash and deposits 2013 £m | Financial liabilities at amortised cost 2013 £m | Available-for-sale financial assets 2013 £m | Held to maturity financial assets 2013 £m | Derivatives 2013 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | |
| Cash and deposits | **249** | – | – | – | – | – | – | – | – | – |
| Trade and other receivables | **1,391** | – | – | – | – | 1,278 | – | – | – | – |
| Derivatives | – | – | – | – | **3** | – | – | – | – | 4 |
| Total | **1,640** | – | – | – | **3** | 1,278 | – | – | – | 4 |
| **Financial liabilities** | | | | | | | | | | |
| Liability component of preference shares | – | **(96)** | – | – | – | – | (94) | – | – | – |
| Trade and other payables | – | **(1,605)** | – | – | – | – | (1,349) | – | – | – |
| Unsecured borrowings | – | **(366)** | – | – | – | – | (318) | – | – | – |
| Derivatives | – | – | – | – | **(2)** | – | – | – | – | (7) |
| Total | – | **(2,067)** | – | – | **(2)** | – | (1,761) | – | – | (7) |
| Net | **1,640** | **(2,067)** | – | – | **1** | 1,278 | (1,761) | – | – | (3) |
| Current year comprehensive income/(expense) | **8** | **(49)** | – | – | – | 5 | (42) | – | – | – |

**Derivatives**

| | Financial assets | | | Financial liabilities | | | Financial assets | | | Financial liabilities | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current 2014 £m | Non-current 2014 £m | Total 2014 £m | Current 2014 £m | Non-current 2014 £m | Total 2014 £m | Current 2013 £m | Non-current 2013 £m | Total 2013 £m | Current 2013 £m | Non-current 2013 £m | Total 2013 £m |
| Held for trading at fair value through income statement | **2** | **1** | **3** | **(2)** | – | **(2)** | 4 | – | 4 | (6) | (1) | (7) |

The Company is responsible for executing all of the Group's external derivative contracts, except for those in relation to infrastructure concessions The Company's external derivative contracts are matched with derivative contracts issued by the Company to the Group's operating companies The Company's financial assets and financial liabilities measured at fair value are the derivative foreign currency contracts shown in the table above The fair value of these foreign currency 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

The Company's derivatives are classified as Level 2 in the fair value estimation hierarchy detailed above

## 39 FINANCIAL INSTRUMENTS CONTINUED

### 39 3 Company continued

Non-derivative financial liabilities gross maturity

**Maturity profile of the Company's non-derivative financial liabilities at 31 December**

| | Borrowings 2014 £m | Other financial liabilities 2014 £m | Total non-derivative financial liabilities 2014 £m | Total discount 2014 £m | Carrying value 2014 £m |
|---|---|---|---|---|---|
| Due on demand or within one year | (142) | (1,593) | (1,735) | 13 | (1,722) |
| Due within one to two years | – | (12) | (12) | 11 | (1) |
| Due within two to five years | (32) | (37) | (69) | 32 | (37) |
| Due after more than five years | (192) | (147) | (339) | 32 | (307) |
| | (366) | (1,789) | (2,155) | 88 | (2,067) |
| Discount | – | 88 | 88 | | |
| Carrying value | (366) | (1,701) | (2,067) | | |

| | Borrowings 2013 £m | Other financial liabilities 2013 £m | Total non-derivative financial liabilities 2013 £m | Total discount 2013 £m | Carrying value 2013 £m |
|---|---|---|---|---|---|
| Due on demand or within one year | (106) | (1,337) | (1,443) | 13 | (1,430) |
| Due within one to two years | – | (11) | (11) | 11 | – |
| Due within two to five years | (24) | (37) | (61) | 32 | (29) |
| Due after more than five years | (188) | (148) | (336) | 34 | (302) |
| | (318) | (1,533) | (1,851) | 90 | (1,761) |
| Discount | – | 90 | 90 | | |
| Carrying value | (318) | (1,443) | (1,761) | | |

Derivative financial liabilities gross maturity

**Maturity profile of the Company's derivative financial liabilities at 31 December**

| | Payable 2014 £m | Receivable 2014 £m | Net receivable 2014 £m | Payable 2013 £m | Receivable 2013 £m | Net payable 2013 £m |
|---|---|---|---|---|---|---|
| Due on demand or within one year | (151) | 152 | 1 | (315) | 313 | (2) |
| Due within one to two years | (12) | 12 | – | (14) | 14 | – |
| Due within two to five years | (3) | 3 | – | (6) | 6 | – |
| Due after more than five years | – | – | – | (56) | 54 | (2) |
| Total | (166) | 167 | 1 | (391) | 387 | (4) |

### Financial risk factors

**(a) Market risk**

**(i) Foreign currency risk management**

For the Company, there would be no material effect of any strengthening/weakening in US dollar, euro, Hong Kong dollar or United Arab Emirates dirham exchange rates against sterling The Company's external forward foreign exchange contracts hedge the currency risk on foreign currency loans entered into with Group companies or are offset by forward foreign exchange contracts with the Group's operating companies where Group Treasury is hedging the exchange rate risk arising on trading activities on their behalf

**(ii) Interest rate risk management**

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £8m (2013 £10m) increase/decrease in the Company s net finance cost This is mainly attributable to the Company's exposure to UK interest rates on its cash and cash equivalents and term deposits and amounts due to and from its subsidiaries There would be no effect on amounts taken directly by the Company to other comprehensive income

**(b) Credit risk**

The Company bears credit risk in respect to trade and other receivables and payables due from/to subsidiaries There were no amounts past due at the reporting date The maximum exposure is the carrying value of the financial assets recorded in the financial statements

## 40 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 |
|---|---|
| Balfour Beatty Building Ltd | 1881683 |
| Balfour Beatty CE Ltd | 2306280 |
| Balfour Beatty Construction International Ltd | 1878848 |
| Balfour Beatty Education Ltd | 6863458 |
| Balfour Beatty Engineering Solutions Ltd | 1531651 |
| Balfour Beatty International Ltd | 920030 |
| Balfour Beatty Living Places Ltd | 2067112 |
| Balfour Beatty Management Ltd | 4590162 |
| Balfour Beatty Projects and Engineering Ltd | 169240 |
| Balfour Beatty Rail Investments Ltd | 3048949 |
| Balfour Beatty Rail Track Systems Ltd | 2311350 |
| Balfour Beatty Refurbishment Ltd | 3107653 |
| Balfour Beatty Regional Civil Engineering Ltd | SC382011 |
| Balfour Beatty Utility Solutions Ltd | 1062438 |
| Consort Healthcare Infrastructure Investments Ltd | 6859623 |
| Dean & Dyball Rail Ltd | 5503947 |
| EIMCO Ltd | 3159250 |
| Heery International Ltd | 2759565 |
| Painter Brothers Ltd | 238081 |
| SEIMCO Ltd | 3159074 |
| The Telegraph Construction and Maintenance Company Ltd | 1147 |

## 41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

| | Country of incorporation or registration |
|---|---|
| **(a) Principal subsidiaries** | |
| **Construction and Support Services** | |
| Balfour Beatty Civil Engineering Ltd | |
| Balfour Beatty Construction Group Inc | US |
| Balfour Beatty Construction, LP | Canada |
| Balfour Beatty Engineering Services Ltd | Scotland |
| Balfour Beatty Group Ltd | |
| Balfour Beatty Infrastructure Inc | US |
| Balfour Beatty Rail GmbH | Germany |
| Balfour Beatty Rail Inc | US |
| Balfour Beatty Rail Ltd | |
| Balfour Beatty Rail SpA | Italy |
| Balfour Beatty Utility Solutions Ltd | |
| Mansell Construction Services Ltd | |
| **Infrastructure Investments (refer Note 41)** | |
| Balfour Beatty Communities LLC | US |
| Balfour Beatty Infrastructure Investments Ltd* | |
| Balfour Beatty Investments Inc | US |
| Balfour Beatty Investments, LP | Canada |
| Balfour Beatty Communities, LP | Canada |
| Balfour Beatty Investments Ltd | |
| **Other** | |
| Balfour Beatty Holdings Inc | US |
| Delphian Insurance Company Ltd* | Isle of Man |

| | Country of incorporation or registration | Ownership interest % |
|---|---|---|
| **(b) Principal joint ventures and associates** | | |
| **Construction and Support Services** | | |
| BK Gulf LLC | Dubai | 49 0 |
| Dutco Balfour Beatty LLC | Dubai | 49 0 |
| Gammon China Ltd | Hong Kong | 50 0 |

**(c) Principal joint operations**

The Group carries out a number of its larger contracts in joint arrangement with other contractors so as to share resources and risk The principal joint projects in progress during the year are shown below

| | | |
|---|---|---|
| South-East England Roads | | 65 0 |
| Crossrail | | 26 7 |
| M25 Maintenance | | 52 5 |
| M25 LUS | | 50 0 |
| Gotthard Base Tunnel | Switzerland | 25 0 |
| Carl R Darnall Army Medical Center | US | 50 0 |
| Parkland Acute Care Hospital | US | 40 0 |
| DFW Terminal Development Program | US | 60 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

## 41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CONTINUED

### (d) Balfour Beatty Investments UK

#### Roads

**Summary** Balfour Beatty is a promoter, developer and investor in 13 road and street lighting projects to construct new roads, to upgrade and maintain existing roads and to replace and maintain street lighting

**Contractual arrangements** The principal contract in the roads concessions is the project agreement with the governmental highway authority setting out the obligations for the construction, operation and maintenance of the roads including lifecycle replacement for the life of the concession to specified standards In the case of M1-A1, A30/A35 and A50 the inflation-indexed payment is related to traffic volumes In the case of M77/GSO and CNDR, the inflation-indexed payment is partly based on availability and partly on traffic volumes, and is subject to any performance related deductions In the case of M25 and Aberdeen Western Peripheral Route, the inflation-indexed payment is wholly based on availability and is subject to any performance related deductions Construction of the roads was subcontracted to construction joint ventures in which Balfour Beatty had an interest or, in the case of the M77/GSO and CNDR, 100% to Balfour Beatty subsidiaries On the street lighting projects, payment is by a periodic inflation-indexed availability payment subject to performance deductions and the replacement and maintenance obligations have been subcontracted to a Balfour Beatty subsidiary There are no provisions to reprice the contracts and all assets transfer to the client at the end of the concessions

| Concession company (i) | Project | Total debt and equity funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|---|
| Connect M1-A1 Ltd | 30km road | 290 | 50% | March 1996 | 30 | 1999 |
| Connect A50 Ltd | 57km road | 42 | 25% | May 1996 | 30 | 1998 |
| Connect A30/A35 Ltd | 102km road | 127 | 20% | July 1996 | 30 | 2000 |
| Connect M77/GSO plc (ii) | 25km road | 167 | 85% | May 2003 | 32 | 2005 |
| Connect Roads Sunderland Ltd | Street lighting | 27 | 100% | August 2003 | 25 | 2008 |
| Connect Roads South Tyneside Ltd | Street lighting | 28 | 100% | December 2005 | 25 | 2010 |
| Connect Roads Derby Ltd | Street lighting | 36 | 100% | April 2007 | 25 | 2012 |
| Connect Plus (M25) Ltd | J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel | 1,309 | 40% | May 2009 | 30 | 2012 |
| Connect CNDR Ltd | Carlisle Northern Development Route | 176 | 25% | July 2009 | 30 | 2012 |
| Connect Roads Coventry Ltd | Street lighting | 56 | 100% | August 2010 | 25 | 2015 |
| Connect Roads Cambridgeshire Ltd | Street lighting | 51 | 100% | April 2011 | 25 | 2016 |
| Connect Roads Northamptonshire Ltd | Street lighting | 64 | 100% | August 2011 | 25 | 2016 |
| Aberdeen Roads Ltd | Aberdeen Western Peripheral Route | 665 | 33 3% | December 2014 | 33 | 2018 |

Notes
(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Connect M77/GSO plc and Aberdeen Roads Ltd which are registered in and conduct their principal operations in Scotland
(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company the Directors consider that the Group does not control this company and it has been accounted for as a joint venture

#### Hospitals

**Summary** Balfour Beatty is a promoter, developer and investor in four hospital projects to build hospital accommodation and to provide certain non-medical facilities management services over the concession period

**Contractual arrangements** The principal contract is the project agreement between the concession company and the NHS Trust An inflation-indexed payment is primarily based upon availability of the hospital subject to any performance related deductions The only projects where construction of the hospitals was subcontracted to construction joint ventures in which Balfour Beatty subsidiaries did not participate 100% is Edinburgh Royal Infirmary where the Group's share was 85% The payments for the facilities management services are repriced every five years All assets transfer to the customer at the end of the concession, with the exception of Edinburgh Royal Infirmary, where the customer has the option to terminate the arrangement for the provision of the hospital and the services in 2028

| Concession company (i) | Project | Total debt and equity funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|---|
| Consort Healthcare (Edinburgh Royal Infirmary) Ltd | Teaching hospital and medical school | 220 | 50% | August 1998 | 30 | 2003 |
| Consort Healthcare (Birmingham) Ltd | Teaching hospital and mental health hospital | 553 | 40% | June 2006 | 40 | 2011 |
| Consort Healthcare (Fife) Ltd | General hospital | 170 | 50% | April 2009 | 30 | 2011 |
| Balfour Beatty Healthcare (Irvine) Ltd | Mental health hospital | 58 | 100% | June 2014 | 27 | 2016 |

Notes
(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Consort Healthcare (Edinburgh Royal Infirmary) Ltd Consort Healthcare (Fife) Ltd and Balfour Beatty Healthcare (Irvine) Ltd which are registered in and conduct their principal operations in Scotland

## 41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CONTINUED

### (d) Balfour Beatty Investments UK continued

#### Schools

**Summary** Balfour Beatty is a promoter, developer and investor in eight schools projects to design, build or refurbish schools and to provide certain non-educational services over the concession period under the UK Government Building Schools for the Future (BSF) programme

**Contractual arrangements** The principal contract is the project agreement between the concession company and the local authority that provides for an inflation-indexed payment based upon availability subject to any performance related deductions For projects other than Aura Newcastle Ltd, construction was subcontracted to construction joint ventures of Balfour Beatty subsidiaries The payments for the facilities management services are repriced every five years All assets transfer to the client at the end of the concession

| Concession company (i) | Project | Total debt and equity funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|---|
| Aura Newcastle Ltd | BSF | 47 | 20% | July 2007 | 25 | 2012 |
| Transform Islington Ltd (ii) | BSF | 77 | 80% | July 2008 | 26 | 2013 |
| 4 Futures Ltd (ii) | BSF | 70 | 80% | May 2009 | 26 | 2014 |
| Blackburn with Darwen and Bolton LEP Ltd (ii) | BSF | 85 | 80% | January 2010 | 25 | 2011 |
| Derby City BSF Partnership Ltd (ii) | BSF | 39 | 80% | December 2010 | 25 | 2012 |
| Future Ealing Ltd (ii) | BSF | 36 | 80% | December 2010 | 25 | 2012 |
| Oldham Education Partnership Ltd (ii) | BSF | 40 | 90% | December 2010 | 25 | 2012 |
| Hertfordshire Schools Building Partnership Ltd (ii) | BSF | 55 | 80% | January 2011 | 25 | 2012 |

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

#### Other concessions

**Summary** Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex Gammon Capital (West) Pte Ltd has a contract to design, build and finance the Institute of Technical Education (ITE) College West in Singapore and provide long term facilities management services for the remainder of the 27-year project Balfour Beatty Fire and Rescue NW Ltd is contracted to design, construct, fund and provide facilities for 16 community fire stations in Merseyside, Cumbria and Lancashire UBB Waste (Essex) Ltd has a 28-year PPP contract to design, build and operate a new sustainable waste treatment facility for Essex County Council and Southend-on-Sea Borough Council UBB Waste (Gloucestershire) Ltd has a 28-year PPP contract to design, build and operate a new sustainable waste treatment facility for Gloucestershire County Council Holyrood Student Accommodation involves the design, construction, financing, operation and maintenance of a 1,153 bed student accommodation facility in the centre of Edinburgh Aberystwyth Student Accommodation involves the design, construction, operation and maintenance of a 1,000 bed student accommodation facility adjacent to the Penglais Campus of Aberystwyth University Greater Gabbard involves the operation of transmission assets of the Greater Gabbard offshore wind farm project located off the Sussex coast, as part of the Offshore Transmission Owners (OFTO) regulatory regime Thanet involves the operation of transmission assets of the Greater Gabbard offshore wind farm project located off the Kent coast Birmingham Bio Power involves the design, construction, financing, operation and maintenance of a 9 3MW waste wood gasifier located at Tyseley Energy Park Birmingham Wollongong Student Accommodation involves the finance, design, construction and operation of new and existing student accommodation for the University of Wollongong, Australia

**Contractual arrangements** PCDL's principal contract is the flood defence services agreement with the Environment Agency that provides for an inflation-indexed payment subject to any performance related deductions For the Singapore project, the principal agreement is the project agreement with the ITE of Singapore that provides for an inflation-indexed availability based payment subject to any performance deductions Construction is subcontracted to Gammon Pte Ltd, a wholly owned subsidiary of Gammon China Ltd in which the Group has a 50% interest The facilities management services under the ITE agreement are provided by a third party The principal contract for Balfour Beatty Fire and Rescue NW Ltd is the project agreement between the concession company and Cumbria County Council, Lancashire Combined Fire Authority and Merseyside Fire and Rescue Authority This agreement provides for an inflation-indexed payment based upon availability subject to any performance related deductions Construction is subcontracted to Balfour Beatty subsidiaries The principal contract for UBB Waste (Essex) Ltd is the project agreement between the concession company, Essex County Council and Southend-on-Sea Borough Council This agreement provides for an inflation-indexed payment linked to both the availability of the plant and waste processed Construction services are subcontracted to a joint venture in which the Group has a 30% interest and operations are subcontracted to a subsidiary of the other shareholder There are no provisions to reprice contracts and all assets transfer to the customer at the end of the concession The principal contract for UBB Waste (Gloucestershire) Ltd is the project agreement between the concession company and Gloucestershire County Council This agreement provides for an inflation-indexed payment linked to both the availability of the plant and waste processed At Edinburgh Holyrood the unitary payment is based upon fluctuations in rental demand and subject to any performance related deductions and construction is contracted to a Balfour Beatty subsidiary At Aberystwyth the unitary payment is based upon availability subject to any performance related deductions and construction is contracted to a Balfour Beatty subsidiary Greater Gabbard and Thanet OFTOs will operate and maintain the transmission assets under the terms of a perpetual licence granted by Ofgem which contains the right to be paid a revenue stream over a 20-year period on an availability basis On Birmingham Bio Power, construction is contracted outside of the Group At Wollongong Student Accommodation the unitary payment is based partially upon rental demand and partially upon availability

## 41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CONTINUED

### (d) Balfour Beatty Investments UK continued

**Other concessions continued**

| Concession company (i) | Project | Total debt and equity funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|---|
| Pevensey Coastal Defence Ltd | Sea defences | 3 | 25% | July 2000 | 25 | n/a |
| Gammon Capital (West) Pte Ltd | Technical education college | 100 | 50% | August 2008 | 27 | 2010 |
| Balfour Beatty Fire and Rescue NW Ltd | Fire stations | 55 | 100% | February 2011 | 25 | 2013 |
| UBB Waste (Essex) Ltd | Waste processing plant | 146 | 30% | May 2012 | 28 | 2015 |
| UBB Waste (Gloucestershire) Ltd | Waste processing plant | 209 | 49 5% | February 2013 | 28 | 2017 |
| Holyrood Student Accommodation SPV Ltd | Student accommodation | 82 | 100% | July 2013 | 50 | 2016 |
| Aberystwyth Student Accommodation Ltd | Student accommodation | 51 | 100% | July 2013 | 35 | 2015 |
| Greater Gabbard OFTO Ltd | Offshore transmission | 351 | 33 3% | November 2013 | 20 | n/a |
| Thanet OFTO Ltd | Offshore transmission | 197 | 100% | December 2014 | 20 | n/a |
| Birmingham Bio Power Ltd | Waste wood gasifier | 53 | 37 5% | December 2013 | n/a | n/a |
| Living and Learning Unit Trust | Student accommodation in Wollongong, Australia | 144 | 50% | December 2014 | 34 | 2017 |

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Gammon Capital (West) Pte Ltd which is registered in and conducts its principal operations in Singapore and Living and Learning Unit Trust which is registered in and conducts its principal operations in Australia

### (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 42,800 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 rate of return On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return The unpaid amounts will generally accrue and accumulate, and can be used to fund renovation and construction costs, if necessary If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the government in accordance with the terms of the project agreements

## 41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CONTINUED

### (e) Balfour Beatty Investments North America continued

**Military housing continued**

**Allocation of remaining operating cash flows** Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of 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 discussed above 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)(ii) | Projects | Total project funding £m | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|
| Military family housing | | | | | |
| Fort Carson Family Housing LLC | Army base | 113 | November 2003 | 46 | 2004 |
| – Fort Carson expansion | | 84 | November 2006 | 43 | 2010 |
| – Fort Carson GTA expansion | | 63 | April 2010 | 39 | 2013 |
| Stewart Hunter Housing LLC | Two Army bases | 240 | November 2003 | 50 | 2012 |
| Fort Hamilton Housing LLC | Army base | 39 | June 2004 | 50 | 2009 |
| Fort Detrick/Walter Reed Army Medical Center Housing LLC | Two Army bases | 71 | July 2004 | 50 | 2008 |
| Northeast Housing LLC | Seven Navy bases | 318 | November 2004 | 50 | 2010 |
| Fort Eustis/Fort Story Housing LLC | Two Army bases | 112 | March 2005 | 50 | 2011 |
| – Fort Eustis expansion | | 5 | July 2010 | 45 | 2011 |
| – Fort Eustis – Marseilles Village | | 17 | March 2013 | 42 | 2015 |
| Fort Bliss/White Sands Missile Range Housing LP | Two Army bases | 274 | July 2005 | 50 | 2011 |
| – Fort Bliss expansion | | 31 | December 2009 | 46 | 2011 |
| – Fort Bliss GTA expansion phase I | | 105 | July 2011 | 44 | 2014 |
| – Fort Bliss GTA expansion phase II | | 94 | November 2012 | 43 | 2016 |
| Fort Gordon Housing LLC | Army base | 70 | May 2006 | 50 | 2012 |
| Carlisle/Picatinny Family Housing LP | Two Army bases | 54 | July 2006 | 50 | 2011 |
| – Carlisle Heritage Heights phase II | | 14 | October 2012 | 44 | 2014 |
| AETC Housing LP | Four Air Force bases | 230 | February 2007 | 50 | 2012 |
| Southeast Housing LLC | 11 Navy bases | 357 | November 2007 | 50 | 2013 |
| Vandenberg Housing LP | Air Force base | 99 | November 2007 | 50 | 2012 |
| Leonard Wood Family Communities LLC | Army base | 148 | Acquired June 2008 | 47 | 2014 |
| AMC West Housing LP | Three Air Force bases | 282 | July 2008 | 50 | 2015 |
| West Point Housing LLC | Army base | 141 | August 2008 | 50 | 2016 |
| Fort Jackson Housing LLC | Army base | 116 | October 2008 | 50 | 2013 |
| Lackland Family Housing LLC | Air Force base | 67 | Acquired December 2008 | 50 | 2013 |
| Western Group Housing LP | Four Air Force bases | 211 | March 2012 | 50 | 2017 |
| Northern Group Housing LP | Six Air Force bases | 276 | August 2013 | 50 | 2019 |
| ACC Group Housing LLC | Two Air Force bases | 37 | June 2014 | 50 | 2018 |
| Military unaccompanied personnel housing | | | | | |
| Stewart Hunter Housing LLC | | 23 | January 2008 | 50 | 2010 |

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US
(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested

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 impacted a project's economics Based on this review, the Company determined that it did not have the power to direct these activities and does not have control and therefore does not consolidate the military housing projects

## 41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CONTINUED

### (e) Balfour Beatty Investments North America continued

#### Hospitals

**Summary** Balfour Beatty is a developer, operator and investor in two hospital projects in Canada

**Contractual arrangements** The principal contract is the project agreement between the concession companies and the authorities An inflation-indexed payment is primarily based upon availability of the hospital subject to any performance related deductions The construction services for the BC Children's and BC Women's Hospital project were subcontracted to a joint venture in which the Group has a 50% participation and the facilities maintenance services were subcontracted to a joint venture in which the Group also has a 50% participation The soft facilities management services at North Island Hospital were subcontracted to a Group company and the hard facilities management services were subcontracted to a third party The payments for the soft facilities management services, at both projects, are initially market adjusted after the third year of operations and then every six years thereafter All assets transfer to the authorities at the end of the concession

| Hospitals (i) | Project | Total project funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|---|
| Affinity Partnerships (ii) | BC Children and BC Women's Hospital | 248 | 70% | April 2014 | 33 | 2017 |
| THP Partnerships (ii) | North Island Hospital | 279 | 50% | June 2014 | 32 | 2017 |

Notes
(i) Registered in the Province of Manitoba in Canada and the principal operations of each project are conducted in British Columbia Canada
(ii) Balfour Beatty has joint control over the above projects through unanimous consent over all significant operating and financing decisions and therefore does not consolidate these projects

#### Residential investments

**Summary** Balfour Beatty is a developer, operator and investor in a multifamily residential project

**Contractual arrangements** Balfour Beatty formed a joint venture to purchase a 152 unit residential apartment building in Lady Lake, Florida The joint venture entered into an agreement with Balfour Beatty Communities LLC to manage the operations and renovation work

| Residential investments (i) | Total project funding £m | Shareholding | Financial close | Duration years | Renovation completion |
|---|---|---|---|---|---|
| Carmendy Square | 9 | 45% | September 2014 | n/a | 2016 |

Notes
(i) Registered in the US and the principal operations of each project are conducted in Florida US

#### Student accommodation

**Summary** Through its subsidiary, Balfour Beatty Campus Solutions LLC, Balfour Beatty is a manager on one student accommodation project, where it acted as a developer and until December 2012 as a bond investor, and is a developer and owner of two additional student accommodation projects

**Contractual arrangements** The principal contract in the Florida Atlantic University project is the property management agreement with the state university setting out the obligations for the operation and maintenance of the student accommodation The principal contracts in the other two student accommodation projects where Balfour Beatty is an owner are the ground leases, development leases and operating agreements with the state universities setting out the obligations for the construction, operation and maintenance of the student accommodation including lifecycle replacement during the concession period

| Concession company (i) | Total project funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|
| CBBC Management/CBBC Development (Florida) | 64 | (ii) | March 2010 | 30 | 2011 |
| Hawkeye Housing LLC (Iowa) | 20 | 100% | June 2013 | 41 | 2014 |
| BCS UN Reno Housing LLC (Reno) | 14 | 100% | August 2013 | 43 | 2014 |

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US
(ii) 50% holding in the management company The Company held US$3m of bonds in the concession company until December 2012

## 41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CONTINUED

### (f) Balfour Beatty Investments UK and North America

Total future committed equity and debt funding for Infrastructure Investments' project companies

| Concessions | 2015 £m | 2016 £m | 2017 £m | 2018 onwards £m | Total £m |
|---|---|---|---|---|---|
| **UK** | | | | | |
| Roads | 6 | 11 | – | 20 | 37 |
| Hospitals | – | 5 | – | – | 5 |
| Student accommodation | 14 | 1 | – | – | 15 |
| Other UK | 36 | 3 | – | 21 | 60 |
| | 56 | 20 | – | 41 | 117 |
| **North America** | | | | | |
| Military housing | – | 2 | – | – | 2 |
| Social infrastructure | – | – | 2 | 4 | 6 |
| Hospitals | – | 1 | 17 | – | 18 |
| | – | 3 | 19 | 4 | 26 |
| | 56 | 23 | 19 | 45 | 143 |
| Projects at financial close | 28 | 23 | 17 | 41 | 109 |
| Projects at preferred bidder stage | 28 | – | 2 | 4 | 34 |
| **Total** | 56 | 23 | 19 | 45 | 143 |

# UNAUDITED GROUP FIVE-YEAR SUMMARY

| | 2014 £m | 2013[2,3,4] £m | 2012[2,3,4] £m | 2011[2,3,4] £m | 2010[2,3,4] £m |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Revenue including share of joint ventures and associates | **8,793** | 8,852 | 8,681 | 8,842 | 7,842 |
| Share of revenue of joint ventures and associates | **(1,529)** | (1,364) | (1,301) | (1,420) | (1,082) |
| Group revenue from continuing operations | **7,264** | 7,488 | 7,380 | 7,422 | 6,760 |
| Underlying (loss)/profit from continuing operations | **(58)** | 146 | 188 | 212 | 197 |
| Underlying net finance costs | **(22)** | (15) | (6) | (14) | (24) |
| Underlying (loss)/profit before taxation | **(80)** | 131 | 182 | 198 | 173 |
| Amortisation of acquired intangible assets | **(11)** | (17) | (20) | (27) | (30) |
| Other non-underlying items | **(213)** | (163) | (159) | (21) | 4 |
| Profit from continuing operations before taxation | **(304)** | (49) | 3 | 150 | 147 |
| Taxation on profit from continuing operations | **3** | (4) | (6) | (30) | (30) |
| Profit from continuing operations after taxation | **(301)** | (53) | (3) | 120 | 117 |
| Profit/(loss) from discontinued operations after taxation | **242** | 18 | 38 | 53 | 19 |
| Profit for the year attributable to equity holders | **(59)** | (35) | 35 | 173 | 136 |
| **Capital employed** | | | | | |
| Equity holders' funds | **1,227** | 1,033 | 1,310 | 1,259 | 1,156 |
| Liability component of preference shares | **96** | 94 | 92 | 91 | 89 |
| Net borrowings – infrastructure concessions | **445** | 354 | 368 | 332 | 270 |
| Net (cash)/borrowings – other | **(219)** | 66 | (35) | (340) | (518) |
| | **1,549** | 1,547 | 1,735 | 1,342 | 997 |

| | 2014 Pence | 2013 Pence | 2012 Pence | 2011 Pence | 2010 Pence |
|---|---|---|---|---|---|
| **Statistics** | | | | | |
| Underlying earnings per ordinary share from continuing operations[1] | **(11 5)** | 15 3 | 23 6 | 22 0 | 28 0 |
| Basic (loss)/earnings per ordinary share from continuing operations | **(43 9)** | (7 5) | (0 3) | 17 5 | 25 6 |
| Diluted (loss)/earnings per ordinary share from continuing operations | **(43 9)** | (7 5) | (0 3) | 17 5 | 25 6 |
| Proposed dividends per ordinary share | **5 6** | 14 1 | 14 1 | 13 8 | 12 7 |
| Underlying (loss)/profit from continuing operations before net finance costs including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates | **(0 7)%** | 1 6% | 2 2% | 2 4% | 2 5% |

Notes

[1] Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group s underlying trading performance

[2] Prior years 2010 2013 have been re presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Notes 12 and 38)

[3] Prior years 2010 2013 have been re presented to include the results of Rail Germany which no longer meets the definition of a discontinued operation as non underlying items within continuing operations (Notes 2 2 2 11 and 10)

[4] Prior years 2010 2013 have been re presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 2 2 2 11 and 10)

# SHAREHOLDER INFORMATION

**Financial calendar**

| | 2015 |
|---|---|
| 14 May | Annual General Meeting |
| 21 May | Ex-dividend date for July 2015 preference dividend |
| 22 May | July 2015 preference dividend record date |
| 3 July | Preference dividend payable |
| 12 August* | Announcement of 2015 half-year results |

* Provisional date

**Registrars**
All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state your registered address and, if available, your shareholder reference number Please write to

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone 0871 664 0300 from the UK (calls cost 10p per minute plus network extras) and +44 20 8639 3399 from outside the UK (Monday to Friday 9 00 am to 5 30 pm, UK time) Alternatively, you can email Shareholderenquiries@capita co uk

They can help you to check your shareholding, register a change of address or name, obtain a replacement dividend cheque or tax voucher, record the death of a shareholder

**Dividends and dividend reinvestment plan**
Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS) The Registrars can provide a dividend mandate form A dividend reinvestment plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service Full details of the DRIP and its charges, together with mandate forms, are available at www balfourbeatty-shares com

**International payment service**
Shareholders outside the UK may elect to receive dividends direct into their overseas bank account, or by currency draft, instead of by sterling cheque For further information, contact the Company's Registrars on +44 20 8639 3405 (from outside the UK) or 0871 664 0385 from the UK (calls cost 10p per minute plus network extras) Lines are open Monday to Friday 9 00 am to 5 30 pm, UK time Alternatively, you can log on to www balfourbeatty-shares com and click on the link for International Payment Service

**Shareholder information on the internet and electronic communications**
Our website www balfourbeatty com provides a range of information about the Company, our people and businesses and our policies on corporate governance and corporate responsibility It should be regarded as your first point of reference for information on any of these matters The share price can also be found there

You can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to view your holdings and indicative share price and valuation, view movements on your holdings and your dividend payment history, register a dividend mandate to have your dividends paid directly into your bank account, change your registered address, sign up to receive e-communications or access the online proxy voting facility, and download and print shareholder forms

The Share Portal is easy to use Please visit www balfourbeatty-shares com Alternatively, you can email shareportal@capita 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 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 reports on the Company

If you receive any unsolicited investment advice

- always ensure the firm is on the Financial Conduct Authority (FCA) Register and is allowed to give financial advice before handing over your money You can check via http //www fsa gov uk/register/home do
- double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back Check their identity 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
- check the FCA's list of known unauthorised overseas firms at http // www fca org uk However, these firms change names regularly, so even if a firm is not listed, it does not mean they are legitimate Always check that they are listed on the FCA Register
- if you are approached about a share scam, you should inform the FCA using the share fraud reporting form at www fca org uk/consumers/scams/report-scam/share-fraud-form, where you can also find out about the latest investment scams or 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, who are the UK's national fraud reporting centre at www actionfraud police uk, or by calling 0300 123 2040

**Gifting shares to your family or to charity**
To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no 1052686), whose work Balfour Beatty supports

Any shares you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities Since ShareGift was launched, over £18m has been given to more than 2,000 charities

The relevant share transfer form may be obtained from the Registrars For more information visit www sharegift org

**Share dealing services**
Capita Share Dealing Services (a trading name of Capita IRG Trustees Limited) provide a telephone and online share dealing service for UK and EEA resident shareholders To use this service, telephone 0871 664 0364 from the UK (calls cost 10p per minute plus network extras) and +44 20 3367 2686 from outside the UK (Monday to Friday 8 00 am to 4 30 pm, UK time) Alternatively, you can log on to www capitadeal com

Capita IRG Trustees Limited is authorised and regulated by the Financial Conduct Authority and is also authorised to conduct cross-border business within the EEA under the provisions of the EU Markets in Financial Instruments Directive

**London Stock Exchange Codes**
The London Stock Exchange Daily Official List (SEDOL) codes are Ordinary shares 0096162 Preference shares 0097820

The London Stock Exchange ticker codes are Ordinary shares BBY, Preference shares BBYB

**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 Registrars A copy of the consolidated tax voucher may be downloaded from the Share Portal at www balfourbeatty-shares com

**Enquiries**
Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty com

Balfour Beatty plc Registered Office
130 Wilton Road, London SW1V 1LQ
Registered in England Number 395826

**Forward-looking statements**
This document may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', '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 the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this report and reflect the Balfour Beatty plc Directors' beliefs and expectations By their nature these statements involve risk and uncertainty 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 31 to 35 of this document

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 Forward-looking statements speak only as at the date of this document and Balfour Beatty plc and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this document No statement in the document is intended to be, or intended to be construed as, a profit forecast or to be interpreted to mean that earnings per Balfour Beatty plc share for the current or future financial years will necessarily match or exceed the historical earnings per Balfour Beatty plc share As a result, you are cautioned not to place any undue reliance on such forward-looking statements

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