Balfour Beatty

DSEP
Parent Accounts

Balfour Beatty
Utility Solutions Limited
01062438

CONNECTING COMMUNITIES

Annual Report and
Accounts 2013

Balfour Beatty is an international infrastructure group that delivers world class services essential to the development, creation and care of infrastructure assets; from finance and development, through design and project management to construction and maintenance; either alone or in partnership and by integrating local supply chains.

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KEY TO FURTHER CONTENT

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FINANCIAL PERFORMANCE

Group revenue

+1%

2013	**8,745**
2012	8,656
2011	8,654

Pre-tax profit[1]

-32%

2013	**£187m**
2012	£277m
2011	£292m

Underlying earnings per share[1]

-37%

2013	**20 0p**
2012	31 7p
2011	31 2p

Dividends per share

14.1p

2013	**14 1p**
2012	14 1p
2011	13 8p

FINANCIAL SUMMARY

(£m unless otherwise specified)	2013	2012	Change (%)
Revenue including joint ventures and associates	**10,118**	9,966	2
Group revenue	**8,745**	8,656	1
Profit from continuing operations			
– underlying[1]	**203**	284	(29)
– reported	**48**	154	(69)
Pre-tax profit from continuing operations			
– underlying[1]	**187**	277	(32)
– reported	**32**	147	(78)
Earnings per share from continuing operations			
– underlying[1]	**20 0p**	31 7p	(37)
– basic	**2 5p**	17 9p	(86)
Dividends per share	**14 1p**	14 1p	–
Financing			
– net cash borrowings before PPP subsidiaries (non-recourse)	**(66)**	35	
– net borrowings of PPP subsidiaries (non-recourse)	**(354)**	(368)	

[1] From continuing operations before non-underlying items 2012 restated in accordance with Note 38 on page 145

Group KPIs p10

CHAIRMAN'S REVIEW

2013 was a challenging year for Balfour Beatty, with a disappointing 37% decline in earnings per share as the result

- Operational issues within the UK Construction business have been actively addressed
- Profitable order book growth in the recovering US and UK infrastructure markets is the overriding priority for 2014

Revenue from continuing operations including joint ventures and associates increased by 2% in the year to £10,118 million Underlying pre-tax profits of £187 million were down 32%, most of which occurred in the first half of the year The full-year underlying EPS declined by 37% The year-end order book was broadly flat at £13 4 billion

Most parts of the Group delivered acceptable operating results in still highly competitive infrastructure markets, however the year presented two particular challenges In April it was announced that the UK construction business would deliver substantially lower profits This arose from a combination of order book and margin contraction in both the Major Projects and the Regional business, but was not helped by a major consolidation and reorganisation project being implemented at the beginning of the year, with an erosion of operating management's focus as a result Since that time, major changes have been made to improve operational delivery and also ongoing profitable work winning capability, including a number of new divisional management appointments Second half profitability has improved materially as a result

Secondly, the profitable Australian professional services business had to cope with the need to significantly downsize its operations, given the rapid collapse in local resources and mining related investment Operating costs, including headcount, have been aggressively reduced Every effort has been made to retain essential capabilities to benefit when sector reinvestment progressively occurs, albeit this will inevitably take some time

The majority of the Parsons Brinckerhoff worldwide business, the US construction business and Support Services all performed broadly in line with expectations

The Infrastructure Investments division had an excellent year, successfully recycling capital in line with its long term strategy, and generating £82 million profits on the sale of mature PFI assets in the process, this outcome was ahead of expectation and £45 million above Directors' valuation

Chief Executive s Report p4

Year-end net debt was £66 million, albeit the operating cash outflow of £162 million during the year was disappointing, not helped by first half issues within Construction Services UK

Board

There were a number of Board changes during the year, it was announced in January 2013 that Ian Tyler would step down as Chief Executive at the end of March 2013 and that Andrew McNaughton would be appointed to succeed him

Belinda Richards and Bill Thomas joined the Board as non-executive Directors with effect from 1 September 2013 In combination, they bring to the Board top-flight experience in change management and a strong business to business client focus honed in an international environment

Two non-executive Directors retired from the Board during the year Hubertus Krossa following the decision to divest the Group's Mainland European rail operations, and Mike Donovan having served eight years on the Board, including as chair of the Business Practices Committee We thank both for their valued contributions

At the end of the year, we also said goodbye to Robert van Cleave, CEO of Construction Services US and to Mike Peasland, previous CEO of our UK construction business I would like to wish both all the best for their retirements and thank them for all their efforts within the business

Employees and safety

Our employees have worked tirelessly throughout the year to meet our clients' expectations The Board thanks them for their personal commitment Despite overall measures of accident and injury levels continuing to improve, five employees of subcontractors lost their lives during the year whilst on duty This is a matter of huge regret to everyone involved, every incident has been exhaustively investigated to determine whether changes to our processes or procedures can reduce future risk

The way we work p38

Ongoing priorities

Despite short term earnings declines, the Board is proposing to hold the final dividend of 8 5 pence per share (2012 8 5 pence) resulting in an unchanged full-year dividend of 14 1 pence

It is right that recent challenges allied to recovery potential in our two largest markets will impact on our operational focus in 2014 The main priority is to recommence profitable order book growth in recovering US and UK infrastructure markets, where the Group's largest businesses are based Expansion into new and emerging markets will be limited for the immediate future Although the Group's balance sheet remains strong, with sources of funding now well diversified, improving underlying cash generation is also a key priority Discretionary investment beyond the ongoing recycling of PPP capital proceeds will be deliberately prioritised to ensure that this is achieved

Steve Marshall
Chairman

OUR GROUP AT A GLANCE

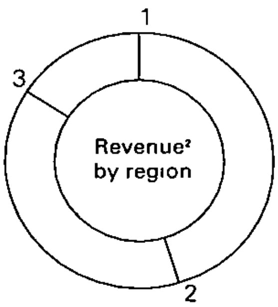
Our four businesses draw on more than 100 years of experience to deliver the highest levels of quality, safety and technical expertise to our clients, principally in the UK and the US, with developing businesses in Australia, Canada, the Middle East and South East Asia

With proven expertise in delivering infrastructure critical to support communities and society today and in the future, our key market sectors focus on

Infrastructure
- Transportation (roads, rail and aviation)
- Power and energy
- Water

Complex buildings
- Commercial
- Social

Business Model p6



1 UK **£4,607m**
2 North America **£3,921m**
3 Rest of World **£1,590m**

£10 billion
Revenue[2] generated this year

40,000
Employees worldwide

PROFESSIONAL SERVICES

Our Professional Services business is a global player in design, planning and programme management and a market leader in transportation and power

What we do
- Programme and project management
- Construction management
- Project design
- Technical services
- Planning
- Consultancy

Key highlights
- Order book increases in the US and Middle East offset by the impact of Australia and minor movement in the UK business
- Profitability impacted by significantly lower volumes in Australia
- Ongoing strength in core US transportation and market development in key markets including Middle East and Canada expected in 2014

Professional Services p28

16%
total revenue[2]

£1,533m
Order book

£1,661m
Revenue[2]

£54m
Profit from operations[1]

[1] From continuing operations before non-underlying items
[2] From continuing operations including joint ventures and associates

CONSTRUCTION SERVICES

We manage strong construction businesses in the UK, US the Middle East and South East Asia

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

Key highlights
- Poor performance in UK construction business addressed through management and operational changes
- Significant increase in the US order book, albeit from a low base
- Good order book growth in rest of world, driven by wins in Hong Kong

Construction Services p30

£7,715m
Order book

£6,573m
Revenue[2]

£21m
Profit from operations[1]

SUPPORT SERVICES

Our Support Services business provides outsourced maintenance, upgrade and management services in power transmission, utilities infrastructure and road and rail

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

Key highlights
- Revenue +10% as a result of strong performance in UK power and gas sectors
- Strong underlying profit from continuing operations with improved operating margin
- Executed in line with strategic objectives the disposal of Balfour Beatty WorkPlace for £155 million

Support Services p32

£4,107m
Order book

£1,265m
Revenue[2]

£55m
Profit from operations[1]

INFRASTRUCTURE INVESTMENTS

A leader in UK and US PPP and other investments, our Infrastructure Investments business has a proven track record of developing and financing projects over the last 15 years

What we do
- Operate a UK portfolio of concessions, mainly in education, health, roads/street lighting, renewables and student accommodation
- Operate a US portfolio of military housing and student accommodation concessions

Key highlights
- Strong financial performance including £82 million in disposal gains
- The portfolio remains substantial and diverse with a Directors' valuation of £766 million at December 2013
- Financial close on eight projects with another three advancing to preferred bidder stage

Infrastructure Investments p34

£766m
Directors' valuation

£608m
Revenue[2]

£132m
Pre-tax result[1]

CHIEF EXECUTIVE'S REPORT

In 2013, challenging economic conditions and, well flagged, operational issues in the UK led to a disappointing financial performance We have taken firm actions to address all these issues

We are committed to becoming a leading international infrastructure company, acclaimed for the quality of service that we deliver to our clients We create critical assets which support our clients in providing services to the communities which they serve

As I have highlighted over the course of the year, market conditions in the countries in which we operate have had a strong influence on our performance We have seen challenging markets in the UK and Australia and some emerging markets have been tougher This combined with our own operational issues has led to poor performance in those specific markets

In 2013, our leadership team has responded with decisive actions that have reduced the impact of these conditions and stabilised the business for the future whilst still remaining focused on our mid to long term growth opportunities

At the end of April, we reported that the UK construction business had been impacted by a £50 million profit shortfall The UK construction business has stabilised in the second half as the management team, led by the newly appointed Construction Services UK CEO – Nick Pollard – has focused on improving operational performance which was the primary cause As a result, we have seen our Regional business strengthen through the same period, but the current lack of investment in major infrastructure projects in the UK has resulted in fewer major projects being brought to the market Whilst the UK economy is starting to pick up and will start to have a positive impact on parts of the construction market, we anticipate current conditions will continue into 2014

Read more online about Nick Pollard

The market in Australia has seen significant deterioration, with a large number of capital projects cancelled over the last 18 months Our Australian Professional Services business has seen a corresponding deterioration in both volume and pricing through the year In response, we have already taken strong and decisive steps to take cost out of the business, enabling a return to profitability, but we see the constrained market conditions as being likely to continue in 2014

These issues have been partially offset by positive performance elsewhere With the exception of Australia the Professional Services business performed well, with particular strength in US transportation, Asia and the Middle East, where our focus on the transportation sector has proved beneficial with the award of various high profile contracts during the year However, order book increases in the US and the Middle East were offset by the impact of Australia and minor movement in the UK business

In the US, we are seeing a quicker return to growth than in the UK market There are more private and complex construction projects coming to the market and our order book is looking healthy for the future For the first time in 2013, the US construction business was larger than the UK In Asia, our Gammon JV continues to perform well and we are seeing high volumes and a strong order book, particularly in Hong Kong

Support Services has demonstrated resilience in the current economic environment and strengthened its position in the UK highways maintenance and power and gas markets with several key contract awards during the course of the year

Our Infrastructure Investments division has had an excellent year Our strategy of recycling the capital invested in the portfolio has delivered a very favourable outcome during the year, and full-year underlying profits before tax for the division were £132 million It is becoming clear that our investment division is core to connecting other areas of the business and we will maximise this in the future

Last year, at our full-year results in March, I set out clear objectives for the year, aligned to our strategic objectives In the short term, these were to continue with our focus on cost efficiencies, dispose of our mainland European rail businesses (which are underperforming and non-strategic) and complete the strategic review of our UK facilities management business – Balfour Beatty WorkPlace We have made significant progress on all of these

In July, we announced the sale of WorkPlace to GDF Suez Energy Services for £155 million in cash This sale represents an important step in our evolution as we intensify our focus on the creation and management of infrastructure assets In addition to finding a good new home for the business, its clients and employees, this transaction has achieved good value and will enable us to allocate more resources to target growth in the future

As part of our ongoing programme of mainland European rail disposals, in March, we announced the sale of the Spanish business, and in December the sale of the Scandinavian business to Strukton Rail B V We are currently in discussion with a number of potential buyers for the German business and have started preliminary discussions for the Italian business In Germany trading has been very poor which resulted in an underlying loss from operations of £26 million

Read more on p31

Our cost efficiency programmes remain on track and we have made significant progress in this area this year During 2013, we centralised much of our common expenditure and low value UK buying We made ongoing savings of £6 million per year in the US by relocating many support service staff from Parsons Brinckerhoff's New York headquarters to Lancaster, Pennsylvania and we closed our UK defined benefit pension scheme to current members

Read more on p16

Near term focus
As 2013 demonstrated, our Infrastructure Investments business was a key lever to connecting our operating divisions When we work in this way we generate incremental revenue across the Group and this is something we will absolutely focus on moving forward

As we head into 2014, we are seeing strong growth in some markets, for example the Middle East and Asia Also there are some signs that our largest and most mature markets, such as US building and parts of the UK, are returning to growth It is here that we will focus our efforts and maximise the benefits available from the cyclical recovery

Over the next few years, as the strength of the Group continues to grow, we will focus on expanding our local presence in our mature home markets and also look to develop our next generation of home markets such as Australia, Canada and the Middle East where, and when, market trends support our business model

Read more on p12

Our mid to long term growth plans
My longer term goals for the Group, as outlined in March 2013, are to leverage three key strengths, local presence, asset knowledge and our skills as an investor and developer

As I look to the future, we will continue to build on these differentiators We look to the effectiveness and reliability of our processes, the lifecycle and technical expertise that we have built on years of experience operating across the world, together with the strength of our people, and of course the great relationships we have with our clients, to set us apart from the competition We will look to innovate and target continuous improvement to make a difference to our projects It is in these areas that I expect to place significant emphasis over the coming years Creating leading local presence, harnessing the knowledge we have of the assets we create and manage and combining our skills as investor and developer are critical in enabling this

It is clear the near term will remain challenging and our focus must remain on being poised to benefit from a return to growth in our home markets However, we continue to lead the market in creating innovative solutions for complex projects and I am committed to a highly disciplined approach to increasing the value of our business and a continued review of the structure and capabilities of the Group as a whole

I am equally applying this sense of discipline to our key processes In 2013, we set out the next phase of our road map to Zero Harm Despite this, as Steve Marshall has noted, five people tragically lost their lives during the year No such loss is acceptable and I will remain relentless in my drive across the whole organisation for the elimination of risk to personal harm

It is not just my commitment but that of the whole team at Balfour Beatty Despite the challenges that we have faced in 2013 the energy and drive of business leaders faced with difficult choices and the dedication of the whole Balfour Beatty family to serving our clients and commitments is inspirational

Effective infrastructure is the heart of any community and everyone at Balfour Beatty plays a part It is a team that is growing in strength and capability to serve I therefore have no doubt that with this team and the actions taken in 2013, I can look to the future with confidence

Andrew McNaughton
Chief Executive

Read more about the Executive leadership team online

OUR STRATEGIC OBJECTIVES
Read more on p10

1 **GROWTH GEOGRAPHIC AND SECTOR GROWTH**
Read more on p12

2 **DELIVER GREATER VALUE TO CLIENTS TO SUPPORT THEIR OBJECTIVES**
Read more on p15

3 **IMPROVE OPERATIONAL PERFORMANCE AND COST EFFECTIVENESS**
Read more on p16

4 **CONTINUE TO SHOW LEADERSHIP IN VALUES AND BEHAVIOUR**
Read more on p19

We have set a clear path to embed sustainability into everything we do by 2020 We focus on our sustainability activities in three key areas, profitable markets, healthy communities and environmental limits Throughout this Report find out more about these areas of focus wherever you see these icons

balfourbeatty com/sustainability

Profitable Markets | Healthy Communities | Environmental Limits

BUSINESS MODEL

HOW WE DIFFERENTIATE

Local presence
Strong local presence, reflecting the fact that our clients and supply chains are predominantly local

Sector expertise
Technical sector expertise in relation to complex areas

World class processes
World class processes (in project pursuits, projects and risk management) distilling our multi-country knowledge, consistently applied across our businesses

Investments
Expertise and capability to develop and invest in assets, flowing from our long experience in the UK and US in PPP and other infrastructure investment

Safety, sustainability and ethics
Industry leading performance on safety, sustainability and ethics, and clients are increasingly demanding this

Read more on our strategic objectives on p10

HOW WE ADD VALUE

Cash generation
World-class processes generate profit and surplus cash flow Construction operations, in particular, create surplus cash flow as they grow, accelerated during upswings in the construction cycle

Investment
Cash flow from construction operations deployed in
- Investment (including acquisitions) in strengthening and developing our business
- PPP/infrastructure investment projects – which are delivered (designed, constructed, managed and maintained) internally

Virtuous circle enhances returns
- The combination of our PPP/infrastructure investment and delivery businesses is virtuously self-reinforcing
  - enhancing the success rate and returns of the investment business
  - enhancing the margins and cash flow of the delivery operations
- In addition, the combination of our construction and PPP/ Infrastructure Investments businesses gives us resilience as a Group throughout the cycle
  - cash deployed in investments generates further returns but is also accessible if required during a downturn

Read more on our strategic objectives on p10

WHO WE WORK FOR

- We offer services that develop and finance, design and manage, manage and maintain infrastructure assets
- We do all of the above by integrating local supply chains
- Our clients typically include government departments and agencies, regulated utilities, public agencies and commercial firms

Read more on p15

In-house delivery supports Infrastructure Investments enabling
- Higher win rates
- Greater delivery reliability

PPP PROJECTS & INVESTMENTS

PPP/Investments provide
- Higher margin opportunities for construction and operate and maintain businesses
- Balance sheet support for negative working capital

Our business model has been developed to enable us to differentiate from our competitors in our core markets and clearly add value for our key stakeholders our clients, our employees and our shareholders

CONSTRUCTION BUSINESS GENERATES CASH TO INVEST

↑

Balfour Beatty

Our business finances, designs, develops, manages and maintains essential assets, including buildings (commercial and social) and infrastructure (transport, power, water) by integrating local supply chains

INFRASTRUCTURE INVESTMENTS
Read more on p34

PROFESSIONAL SERVICES
Read more on p28

CONSTRUCTION SERVICES
Read more on p30

SUPPORT SERVICES
Read more on p32

↓

WORLD CLASS PERFORMANCE AND PROFIT AND CASH

↓

SHAREHOLDER RETURNS (DIVIDEND AND CAPITAL APPRECIATION)

Value added to acquired businesses through

- Management platforms
- World class processes
- Sector expertise

ACQUISITIONS

Acquisitions provide

- Growth
- Access to new markets and capabilities
- Further business and margin improvement

MARKET OVERVIEW

Infrastructure remains a good place to be As the global economy begins to strengthen and confidence returns, the long term drivers for infrastructure investment remain positive. Over the next five years alone, the global infrastructure market is estimated to be worth £12 trillion[1]

In advanced economies many key assets, such as power transmission lines, highways and rail networks are reaching the age at which they need to be upgraded or replaced Additionally, environmental targets are driving the creation of new assets and improvement of existing assets in sectors such as water and power generation In emerging markets, urbanisation and economic growth continue apace As economies and cities grow, so does the need for efficient transport, reliable power and an accessible safe water supply Almost without exception, infrastructure investment is a key priority on government agendas worldwide

Our core markets
Despite these positive long term drivers, our core UK and US construction markets have been constrained over the last two years Construction lags behind the market cycle, so even as economic growth has begun to strengthen, the flow through to new orders takes time Construction volumes in the UK and the US remain down on the highs achieved before the global financial crisis and in both markets, margins remain under pressure

In the UK, overall volumes have been low and have taken longer than expected to improve New major infrastructure projects have been slow to come to market A continued squeeze on margins has put pressure on contractors and, most notably, the supply chain The US, having gone into the downturn earlier, appears to be recovering sooner although some uncertainty around public spending remains

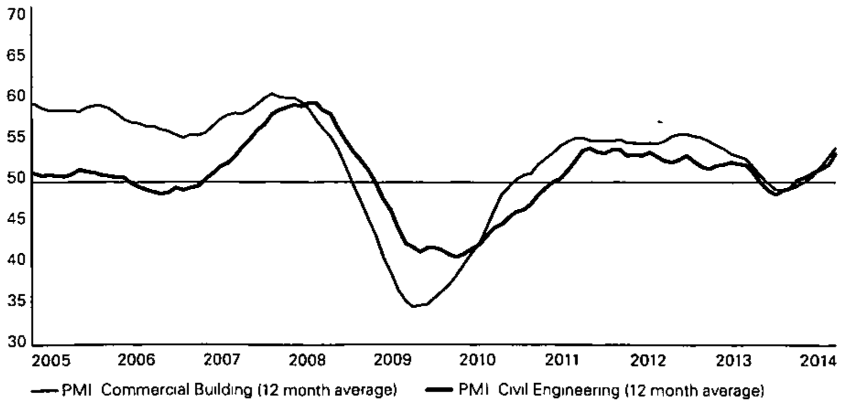
Nevertheless, as these economies return to growth, we believe the UK and the US will present significant opportunities in the short to medium term In the UK there are now clear signs of life The Markit Purchasing Manager's Index, a leading indicator, was up 20% on 2012[2] in the final five months of the year and forecasters are now, on average, expecting the construction market to grow by 7% pa to 2016[3] We are particularly optimistic about sectors such as commercial building, student accommodation and defence The infrastructure market has been supported in recent years by already awarded contracts, such as Crossrail The pipeline of new major projects coming to market in 2014 is likely to be slow, although this should improve in the longer term Investment for smaller infrastructure projects on the other hand has been quicker to flow through, which supports an improved outlook for our regional civil engineering business

The US recovery appears to be further along, albeit from a low base Forecasters are now expecting 6% pa nominal growth to 2017 The Dodge Momentum Index, a 12 month leading indicator for non-residential construction, has been improving throughout 2013 As confidence picks up, we will be seeking to take advantage of opportunities in, for example, multifamily accommodation, mission critical buildings such as data centres, green retrofit and student accommodation Investment in infrastructure remains steady and there is a continued need for new or replacement transport, power and water assets in the medium to long term

Emerging markets
Outside of the UK and the US, opportunities will increase in emerging markets over the long term as their proportion of the global construction market grows Populations in these regions are becoming more urbanised (from 50% in 2013 to 70% by 2050[4]) which increases infrastructure requirements Non-OECD markets are forecast to rise from 55% of global infrastructure spending in 2013 to 70% in 2025[5] GDP growth will certainly outperform in the medium term, with forecasts expecting +3% pa over mature markets to 2018[6]

£12 trillion
Over the next five years alone, the global infrastructure market is estimated to be worth £12 trillion[1]

Figure 1 Markit/CIPS, UK Construction Purchasing Manager's Index



1 IHS Global Insight Global Construction Outlook December 2013 Reflects total size of Infrastructure market in nominal terms from 2014–2018 inclusive Exchange rate applied USD GBP 1 0 61
2 Markit/CIPS UK Construction Purchasing Manager s Index December 2013
3 Average of 2013–16 CAGR for applicable market (new work in all construction excluding private residential) according to forecasters Experian (Autumn 2013) Hewes (Winter 2013) and CPA (Winter 2013)
4 United Nations World Urbanization Prospects 2011 Revision
5 IHS Global Insight Global Construction Outlook December 2013
6 IMF World Economic Outlook October 2013

We see this particularly in the Middle East and South East Asia, where existing forecasts are promising We will access this growth via our existing operations in these regions

Resource-rich economies
For resource-rich economies the short term outlook is more mixed Global commodity prices have fallen and with it so have miners' capital expenditure programmes In Australia, which had benefited from a mining investment boom over the last decade, the impact has been significant After an extended period of unprecedented growth, mining-related construction is now forecast to shrink over 2013–2014[7] The impact of this is felt across the economy, as tax receipts and consumer spending decline Growth in other infrastructure construction such as roads, railways and power, fell by 50% in nominal terms in 2011–2012[8]

Despite this there are initial signals that an Australian recovery may not be far away Following the general election, public investment has started to pick up and the new government has explicitly made infrastructure investment a priority as a catalyst for economic growth With the AIG Performance of Construction Index now positive for the first time since 2011[9], as well as the IMF forecasting >5% nominal GDP growth to 2018[8], there is reason for cautious optimism

Canada, another resource-rich economy, has fared better The total applicable construction market has grown by an annualised rate of 11% from 2009 to 2013, driven by resources and infrastructure investment Although future growth is unlikely to match these levels, forecasters are still expecting annual growth of more than 4% by 2018[10] Confidence is being maintained and we anticipate the overall economy to continue to show solid, stable growth in the medium term

CROSSRAIL – HELPING COMMUTERS GET THERE FASTER

In 2013 we were awarded two Crossrail projects by Network Rail We were awarded a contract to build two miles of the Crossrail route and an iconic new rail station in southeast London that will help thousands of commuters get around every day The second contract was for the electrification of a 12 5 mile section of the Great Western Main Line

SUSTAINABILITY Healthy Communities
balfourbeatty com/crossrail

Sector outlook
We define economic infrastructure as transport, power and water In all three sectors, the fundamental growth drivers remain strong Transport is dominated by road and rail investment Power will continue to be supported by population growth, ageing assets and the sustainability agenda Water will be driven by the need to harness limited water resources in many parts of the world, flood defences and other marine programmes

In mining and resources, commodity price reductions have impacted investment in the short term, but the long term drivers remain Some sectors, such as shale gas, appear to be entering a boom

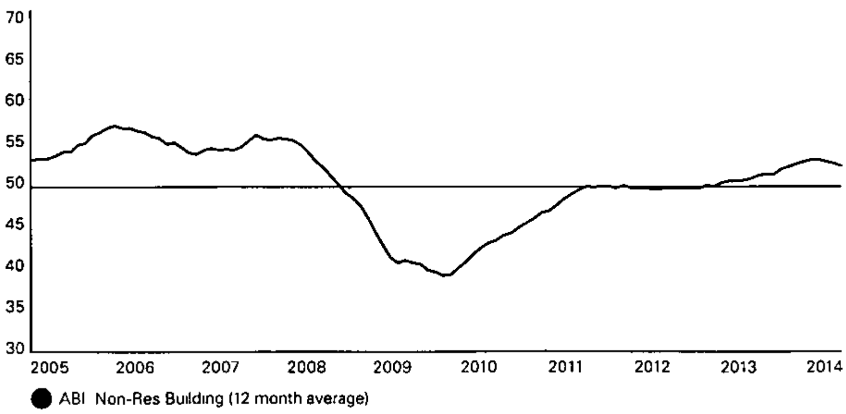
Finally, the building sector, which is traditionally the hardest hit sector during recessionary periods, is now entering a cyclical upswing in the US, and we expect the UK to follow

Procurement
In our core markets, and increasingly elsewhere, we are continuing to see a trend towards more sophisticated methods of project procurement and alternative delivery contracts becoming very much the mainstream for larger and more complex projects

PPP is becoming increasingly popular in the US, is returning to favour in Australia and remains commonplace in the UK and Canada In the UK, procurement through the new private finance framework (PF2) is now beginning to take place, particularly in education, albeit slowly There is also an increase in other PPP development opportunities, such as waste-to-energy and offshore transmission owner (OFTO) projects

We are also seeing the increased use of design-build in many sectors, particularly infrastructure, and it is now used for approximately 40% of non-residential projects in the US[11]

Figure 2 American Institute of Architects, US Architecture Billings Index



7 ACIF Australian Construction Forecast September 2013
8 Australian Bureau of Statistics Engineering Work Done December 2013
9 Australian Industry Group Performance of Construction Index November 2013
10 IHS Global Insight Canada Construction Market Forecasts December 2013
11 Reed Construction Data Design-Build Project Delivery Market Share and Market Size Report May 2013

OUR STRATEGIC OBJECTIVES & KPIs

Our vision is to be a world-class infrastructure business with international reach We will deliver this by growing within our mature and developing markets whilst focusing on creating assets that support communities, our clients and share our combined knowledge across the business We measure the Group's strategic progress through a balanced set of key performance indicators that are both financial and non-financial and which help guide our thinking and development at every stage

1 GROWTH

How we differentiate
In the short to medium term, our aim is to capitalise on growth opportunities in our core UK and US markets Our mid term strategy is to strengthen the business in other specific geographies

In the short to medium term, we aim to exploit growth opportunities across the infrastructure and complex buildings sectors Our long term strategy is to continue to strengthen our presence in economic infrastructure sectors and increase the level of diversification

How do we measure progress and how are we performing?
Sector focus (economic infrastructure vs complex buildings)
Group order book in target market sectors (transport, power & energy, water and mining) as Group %

+4%

2013	**67%**
2012	63%
2011	59%

Revenue[1] from target market sectors (transport, power & energy, water and mining) as Group %

+1%

2013	**49%**
2012	48%
2011	48%

Revenue[1] from higher growth markets (outside Europe and North America) as Group %

+0%

2013	**14%**
2012	14%
2011	12%

[1] From continued operations including joint ventures and associates
[2] From continued operations before non-underlying items

Read more on p12

2 DELIVER GREATER VALUE TO CLIENTS

How we differentiate
Our experience across all areas of infrastructure investment allows us to understand better our clients' own strategic objectives and enables us to create and maintain infrastructure solutions to support these objectives

How do we measure progress and how are we performing?
Client preference rankings

No.1
in the Road & Highway, Mass Transit and Airport categories
2012 No 1
2011 No 1

No.1
in the Design-Build category
2012 No 3
2011 No 4

The Parsons Brinckerhoff rankings, known as the Go-To List, represent the results of an annual Roads and Bridges magazine survey asking US government officials which design firm they prefer to work with While they only cover our Professional Services business, these rankings are indicative of our track record and reputation with clients

Client satisfaction
There is no one overall client measure of client satisfaction, however some areas of our Group, accounting for 71% of revenue, do measure overall client satisfaction

Construction UK	**Construction US**	**Infrastructure Investments**
7 4 out of 10	4 5 out of 5	3 7 out of 5
(2012 7 7, 2011 8 0)	(2012 4 6, 2011 4 6)	(2012 3 6, 2011 3 6)

We are looking to introduce client metrics across all our business in the future

Read more on p15

Key risks that could impact our strategic performance

Risk	Objectives
Health and Safety	3 4
Economic environment	1 2 3
Bidding	1 2 3
Project execution	2 3
Supply chain risks	2 3 4
People	2 4
Business conduct/compliance	4
Legal and regulatory	1 4
Expansion	1 4
Sustainability	2 3 4

3 IMPROVE OPERATIONAL PERFORMANCE AND COST EFFECTIVENESS

How we differentiate
In 2013, recognising the macroeconomic conditions, we continued to focus on generating efficiencies across all our operations and back office support functions to ensure we operate as efficiently and as profitably as possible

Our goal is to restore all areas of the Group to a good standard of operational performance and then aim for operational excellence

How do we measure progress and how are we performing?
Group operating margin[1,2]
Focusing on our Group operating margin demonstrates our commitment to profitable growth

Margin progress in 2013 was hindered by difficult market conditions in our traditional UK and US markets We also experienced operational issues in some areas of the business which hindered progress

2%

2013	**2 0%**
2012	2 8%
2011	3 0%

Cost efficiencies
Our ability to deliver cost savings is an indicator of our focus on operating as efficiently as possible

At the end of 2013 we had achieved £70 million in cost efficiencies

£70m

2013	**£70m**
2012	£36m
2011	£15m

Billability KPI
Billability is a good measure of resource utilisation, and therefore profitability, in our Professional Services business, which is essentially a billable hours business We compute direct labour cost charged to projects divided by total labour cost of employees

+1.9%

2013	**60 2%**
2012	58 3%
2011	58 7%

Read more on p16

4 CONTINUE TO SHOW LEADERSHIP IN VALUES AND BEHAVIOUR

How we differentiate
To be recognised as a global leader in infrastructure we continue to focus on securing a sustainable, long term future for the Group and providing a legacy to the communities in which we serve We must also be a leader in areas such as business ethics, talent management, safety and the environment

How do we measure progress and how are we performing?
Accident Frequency Rate
Accident Frequency Rate is a key measure of our focus on employee and subcontractor safety

Whilst most areas of the business improved in relation to safety performance in 2013 we still have progress to make and in 2014 we are renewing our focus on the elimination of fatal risks and increasing the level of personal accountability for safety

Accident Frequency Rate decreased by 19% to 0 13 We will change this KPI next year

Read more on p38

-19%

2013	**0 13**
2012	0 16
2011	0 17

Environmental performance
We are committed to reducing our impact on the environment and have set targets to reduce greenhouse gas emissions, water consumption and energy consumption

Scope 1 and 2 greenhouse gas emissions intensity has reduced by 12% (tonnes CO_2e/£m)

Read more on p41

-12%

2013	**35 6**
2012	40 4
2011	42 7

Read more on p19

Strategic objective

GROWTH

1

Our strategy is to develop our core UK and US businesses and to strengthen our presence in other chosen geographies and sectors in the longer term In 2013, this objective was slowed to enable us to focus on addressing operational issues in our business and capitalise on increasing opportunities in the UK and US

Why is this important?
As the UK and US markets return to growth and we begin to benefit from the actions we have taken to reshape some of our core businesses in these markets, we are well placed to capitalise on the opportunities they present In the longer term, it remains important to strengthen our business outside our current core in order to expand our growth horizons and position the business for long term success

What are we doing?
Core markets – UK and US
In response to current market conditions and some operational issues, our core UK construction business has been a key focus for management this year Going forward, our position in the UK means we are well placed to take advantage of the impending recovery Although it will take time to flow through to workload, early signs of activity are emerging in the regional construction and civil engineering business We are targeting particular opportunities in commercial building, student accommodation, defence and the regional markets, where we draw on multiple parts of our UK business to satisfy client requirements In the major projects business, significant new projects have been slow to come to market and we do not expect this trend to improve in 2014

In the US, where the market is gradually improving, we see significant opportunities for our business over the next few years In complex buildings, where we are a top-tier player, we are leveraging our world-class processes, sector expertise and innovation on a national basis This is allowing all of our business to access growth sectors such as commercial multifamily housing, corporate facilities, mission critical installations and student accommodation

In infrastructure, where we have a strong platform in professional services, we have significant headroom to develop our downstream construction activities, which continue to grow

+4%
increase in order book in target sectors

International growth
Outside our core markets, we continue to develop the business Last year, we identified seven geographies where we aim to strengthen our business We have made good progress in four Canada, the Middle East, South Africa and South East Asia Our Australian business has been hampered by the mining downturn which we have taken prompt measures to address Although it may take time for activity in the market to return to historic levels, we believe Australia still presents good opportunities for the Group in the medium term In the other two geographies of India and Brazil, we are reducing our efforts as we believe we will generate better growth returns in other markets in the short to mid term

Target sectors
We continue to target key infrastructure sectors and are making good progress in sectors where we can leverage global knowledge into our local businesses, such as transport, power and water Our progress in mining has been hampered by project delays and cancellations, particularly in Australia where growth has come to an abrupt halt, but we believe the long term drivers remain sound

Complex building is also likely to feature heavily in the UK and US in the next few years We will particularly target niche, higher margin areas such as student accommodation and defence in the UK and US and mission critical installations such as data centres in the US

In both building and infrastructure, PPP and other investment procurement models, remain a key component of our strategy We will continue to target any opportunities where we can leverage our combined construction and investment capability

SUSTAINABLE DESIGN SOLUTION FOR DUBAI AIRPORT

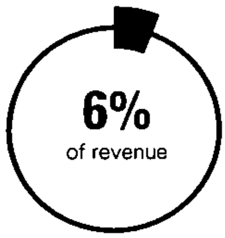
Our BK Gulf LLC joint venture in Dubai was awarded a £64 (AED378) million mechanical and electrical engineering contract to work on a project that will help Dubai International Airport assist millions more passengers to get through the airport each year Our sustainable design solution will mean the new facilities will be powered by renewable energy via photovoltaic and solar panels

SUSTAINABILITY Environmental Limits
balfourbeatty com/dubaiairport

500,000
homes powered each year by electricity generated through the Greater Gabbard project

Balfour Beatty Communities received top honours from the Professional Housing Management Association, winning six awards in the Military Service category of their annual awards programme recognising the outstanding client service of those who support the housing needs of US military personnel

Read more online



We reinforced our leading position in the growing offshore transmission market as we reached financial close on the £317 million Greater Gabbard offshore transmission project. To date, we have been awarded preferred bidder status on two other OFTO projects by Ofgem

Read more online

FINANCE & DEVELOP

Infrastructure Investments p34

1,160
The number of accommodation facilities for postgraduate students

We have leveraged our capabilities in the student accommodation market to establish a student accommodation portfolio in the UK and US

Our £63 million Holyrood Postgraduate Student Accommodation and Outreach Centre project is our first student accommodation win for our Investments business in the UK. The 50-year concession contract involves the design, build and maintenance of student accommodation facilities for the University of Edinburgh

Read more online

50-year
concession contract for the university

Image courtesy of Shanghai Tower Construction Development Co Ltd

Transform

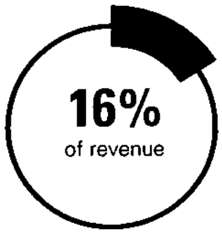
into a sustainable, healthy and economically thriving community

We have been appointed Programme Management Office Consultant on the Makkah Public Transport Programme for an expected 60 months at a value of £61 million This project holds great importance with strong cultural connotations given its prominent location in the Holy City of Makkah in Saudi Arabia

Read more online

When the Shanghai Tower opens in 2015, it will be the tallest building in China and also one of the most sustainable buildings in the world Parsons Brinckerhoff has played a key role in earning Leadership in Energy and Environmental Design (LEED) certification for the skyscraper

Read more online



DESIGN & MANAGE

Professional Services p28

"

This will be the nation's first high-speed rail system and will provide connections at up to 350kph. The first phase will connect the state's economic centers from San Francisco to the LA Basin and will be integrated with urban, commuter and intercity rail systems to create a modern statewide rail network

Frank Vacca, Chief Program Manager, California High-Speed Rail Authority

"

The California High-Speed Rail project is one of the largest, most ambitious public transportation programmes in the US, allowing passengers to travel from Los Angeles to San Francisco Parsons Brinckerhoff has served as the project's programme manager since 2006

Read more online

35 million

passengers annually when system is complete

£78 million

extension on the California High-Speed Rail programme management contract

350kph

Able to travel at speeds of up to 350kph

Image courtesy of the California High Speed Rail Authority

Strategic objective

DELIVER GREATER VALUE TO CLIENTS

80%

Client satisfaction[1]

2

We engage with our clients to gain a better understanding of their objectives and then use our experience across all areas of infrastructure development to be able to deliver on these objectives better In 2013, our focus in this area has remained

Why is this important?
Detailed engagement with our clients allows us to better understand their strategic needs Clients have their own objectives – be it better transport links, reliable and sustainable energy supply, high quality education or world class healthcare We aim to work in partnership with our clients to ensure their strategic objectives are met through the infrastructure we finance, design, construct and maintain In turn, transferring and sharing our knowledge and expertise across the business allows us to create and maintain infrastructure to a higher quality, at a lower price, faster and safer, to ensure our clients meet their goals

For example, in May 2013, we commenced work to remove a pivotal road/rail crossing in Melbourne and lower the existing rail line below the road, reducing congestion, improving safety and cutting journey times for commuters

The majority of our clients operate on a national basis and typically require support from us in specific areas of the asset lifecycle For them, we are able to provide local, dedicated teams who can draw on the expertise of all of our business to avoid duplication of effort and mistakes and ensure solutions are fit for purpose and best in class

For example, in the later stages of 2013, we were awarded a contract with SMRT Trains in Singapore to change the sleepers from timber to concrete, as part of the renewal and upgrade of the existing North-South Line The Asia team worked closely with the UK rail team to share knowledge and equipment As part of the process, experts from the UK moved to Singapore to support the project on the ground and reduce project risk

Whilst some clients purchase more than one service from us, many only use one at any given time We have therefore tailored our offer and provide services alone or in combination For those that are looking for support in more than one area, we have the ability to provide this and share knowledge and connect teams to work alongside our clients seamlessly

We have expert knowledge in certain sectors including transport, power and water By understanding the specific challenges and needs of a defined market sector, we are able to create and maintain infrastructure that is technically sound and delivered with innovative and sustainable techniques

During 2013 we had some notable successes in highways maintenance, power transmission and student housing

Student accommodation is an example of a growing sector, with around US$1 billion of new projects coming to market in the US and a pipeline of around £1 billion of new projects anticipated in the UK over the next few years We are establishing a significant presence in both markets, successfully transferring skills from work on social infrastructure projects and military housing During the course of 2013 we announced nine contract awards in this market on both sides of the Atlantic

[1] Where we operated a client service programme such as The MAP our average client satisfaction score was 80% which equates to being amongst the best however this only covers around 10% of our UK and US operations The MAP is an ongoing assessment and scoring tool that provides clients with a pro-active feedback mechanism to comment on our performance as a contractor/supplier

SHARING KNOWLEDGE REDUCES RISK IN SINGAPORE

Our Gammon Construction joint venture was awarded two significant rail contracts in Singapore Land Transport Authority's £87 (S$174) million contract for the design and construction of the Mayflower Station on the Thomson Line and SMRT Trains' £61 (S$122) million contract for track system replacement on the North-South Line

Our collaborative approach and the sharing of the knowledge and technology across our business, particularly with the UK rail team on the SMRT Trains project, has reduced the risk our clients face

Read more online balfourbeatty com/gammonrail

Strategic objective

IMPROVE OPERATIONAL PERFORMANCE AND COST EFFECTIVENESS

3

Clearly, given the profit issues within the UK construction business in the first half and economic challenges elsewhere, this became even more important in 2013 Through the year, we continued to focus on generating efficiencies across all operations and back office support functions to ensure we operate as efficiently and as profitably as possible

Why is operational efficiency important?
Our clients' budgets are under pressure Their expectation is that our scale will allow us to create and share best practice across our operating units, have consolidated back office functions and apply consistent standards to our processes This will allow us to deliver services reliably, informed by organisational learning and supported by a low cost and efficient overhead

What progress have we made?
The Shared Service Centre (SSC)
We have improved our cost effectiveness in the UK with the creation of the SSC

This has enabled us to centralise most of our common procurement, HR and accounting processes and consolidate our supply chain and leverage our buying power We have also completed the transfer of much of our UK accounting, HR administrative and IT services into the SSC

By the end of 2011, the activity at the SSC accounted for 50% of our UK transactions and about £300 million of indirect spend was procured through specialists at the SSC By the end of 2013, this is nearer 90% of our UK transactions and about £370 million of indirect spend

The success of this initiative informed our thinking on other initiatives including the Parsons Brinckerhoff Lancaster relocation

Other programmes completed in 2013
During 2013, at a one-off cost of £10 million, we relocated 170 roles in shared service functions (including finance, IT, HR and communications) from Parsons Brinckerhoff's New York headquarters to Lancaster, Pennsylvania This will deliver ongoing savings of £6 million per annum through staff rationalisation and lower lease payments

Following an extensive consultation with employees, we ceased future accrual in the UK defined benefit (DB) pension scheme for the majority of members in August 2013 The closure of the DB pension scheme attracted a one-off non-cash cost of £53 million, however it will reduce our cash contribution and profit and loss charge by £12 million pa in the future

Current programmes
In November, we signed a contract with Verizon for a single consolidated global IT network This will deliver lower costs and improved connectivity, enhancing knowledge sharing across the business The service will be rolled out over a period of 18 months

During the year, we also signed a five-year contract with Fujitsu for the provision of a standardised, centralised and commoditised IT service to our UK operations We will complete the rollout of this service in 2015

We continued the rollout of Oracle R12 within our UK operations Its deployment in Construction Services UK has been delayed by the restructuring of that business, however this work will be undertaken during 2014 Support Services will follow in 2015

In this report last year, we confirmed our intention to investigate the benefits of managing our businesses at a country level Having satisfied ourselves that there are advantages in terms of both client service and overhead reduction from this approach, we are now running our businesses under one leadership team in Australia/New Zealand, the Middle East and South Africa These are regions where Parsons Brinckerhoff and our Support Services and Construction businesses work together in closest proximity and, consequently, the benefits to our clients of an integrated approach are greatest However, due to the imperative to focus on maximising growth opportunities in the short term, we are not looking to move to a country model in the UK and US

CREATING APPRENTICESHIPS IN WESTMINSTER

Our £80 million contract to design and construct a 19 storey building for Urbanest, a leading supplier of student accommodation for Westminster University in London, was announced in 2013 We have committed to a range of employment and training initiatives including the creation of 40 apprenticeships to ensure the project generates tangible benefits for the local community

SUSTAINABILITY Healthy Communities
balfourbeatty com/urbanest

Apprenticeships

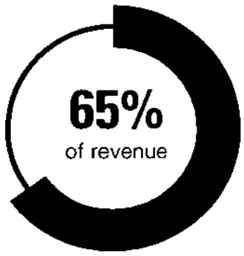
We have committed to the creation of apprenticeships which will amount to 7% of the total workforce for this contract

Built by Howard S Wright, a Balfour Beatty company, the Edith Green Wendell Wyatt Federal Building in Portland, Oregon US has become a proving ground for innovative sustainable technologies This modernisation resulted in one of the most energy efficient facilities in the US General Services Administration portfolio

Read more online

We were awarded the £154 million contract to carry out the full transformation works to the London 2012 Olympic Stadium The Stadium will host the Rugby World Cup 2015 and be the permanent home of West Ham United Football Club from 2016 The venue will also become the new national competition Stadium for athletics in the UK as well as hosting elite international athletics events and other sporting, cultural and community events

Read more online



CONSTRUCT & COMMISSION

Construction Services p30

1.6km

The Southern Connection Viaduct Section includes a 1 6km dual two-lane sea viaduct

The £720 million (HK$8 6bn) HKSAR highways contract to construct the Southern Connection Viaduct Section of the Tuen Mun – Chek Lap Kok Link in Hong Kong is the largest solo civil engineering contract ever awarded to Gammon Construction, our joint venture

Read more online

1,500

the project will generate an estimated 1,500 local jobs

2016

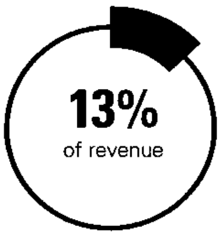
The project will be substantially completed by the end of 2016

Our joint venture won a contract with Sydney Water By sharing our network intelligence capabilities with Australian water companies, we are working collaboratively to better understand the issues facing water networks

Read more online

In 2013, we began to install high voltage electricity cables for National Grid's London Power Tunnels project, which will create an energy 'superhighway' in tunnels deep under the city Working with the Tunnelling and Underground Construction Academy, we are helping to address the resource challenges facing the power industry by offering local unemployed people training and the opportunity to work in tunnelling

Watch video and more online



£91 million

potential bid opportunity in Australian water renewals market over the next five years

MAINTAIN & OPERATE

Support Services p32

"Balfour Beatty rose to the challenge to deliver and sustain a real improvement in the condition of our roads – one that the people of Herefordshire are calling for."

Geoff Hughes, Herefordshire Council

55 tonnes

of salt spread on roads across the county each night as part of winter maintenance

Our £200 million Herefordshire Council UK Public Realm contract covers highways maintenance and improvement works, street lighting and street cleaning, as well as responsibility for public rights of way, parks and open spaces Our dedication to delivering an effective, efficient, sustainable and client focused service for the county is achieved through flexible delivery, innovation, and staff development

Read more online

Our maintenance activities help the local community day in, day out

Strategic objective

CONTINUE TO SHOW LEADERSHIP IN VALUES AND BEHAVIOUR

4

As an international leader in infrastructure services and as part of our focus on securing a sustainable, long term future for the Group, we understand the need to provide a legacy within the communities in which we serve To achieve this, we need to improve continuously in areas such as safety, business ethics, talent management, environmental performance and community engagement In 2013, we continued our focus in these areas, to maintain our market position and enhance our reputation

Why is this important?
Our reputation is crucial to winning new business, attracting and retaining the best people and building effective client partnerships To be seen as a true leader in our field, we need to build and protect a reputation for leadership in values and behaviour

In 2013, we launched our Roadmap that charts Health and Safety maturity from one of minimum expectations in 2013 to excellence by 2017 Alongside the Roadmap we introduced our Global Safety Principles, a set of rules that define the way we work Throughout the year we have focused on a relentless determination to reduce the risk of harm Despite improvement in the industry standard measurement of safety performance and the Accident Frequency Rate five employees of sub contractors lost their lives during the year whilst on duty This is a matter of huge regret to everyone involved with the Group

The way we work – health and safety p38

We are acknowledged as leading the way from an environmental performance perspective and this is providing benefit in terms of work winning client engagement, employee engagement and supporting the communities we work within

There is a growing emergence of increasingly aggressive enforcement of anticorruption legislation and, with our global reach, it is vital we continue to focus on achieving a high degree of ethical rigour in everything we do Our aim is to comply with, if not exceed, the strict legal requirements of the countries where we operate

Our focus is to ensure our business is run ethically, not just to comply with the law We achieve this, in part, by ensuring our senior leadership are part of 'Tone at the Top' – a key element of our effective compliance programme, where our leaders lead by example We also ensure that the messages are embedded throughout the organisation, which we do through our extensive programme of ethical compliance, and we work with the middle tier of employees to ensure they too are aware of their responsibilities in this area These programmes focus on the importance of building a good corporate reputation and on the difference between what is lawful and what is right

In 2013, we have sought to maintain our commitment to development, career progression and talent management across our workforce In the current economic environment, there has inevitably been the need to cut budgets and costs which has impacted areas, such as training However, we have maintained our focus in many areas including supporting graduates and apprentices as they enter the workforce We have recently joined other UK companies and become members of the 5% Club to increase the number of apprentices and graduates in our workforce

The way we work – people p40

It is essential that we develop lasting, collaborative relationships with our supply chain partners Two thirds of our revenue is reinvested in our supply chain and as such our own performance is underpinned by theirs In Construction Services UK, 55% of our spend went directly to SME's and 41% went to suppliers within a 50km radius of our project sites, supporting local communities We are a signatory of the UK Government's Prompt Payment Code and in September, we launched a voluntary finance scheme to enable our UK supply chain to receive payment faster than before

The way we work p38 to p43

4
Core values

12%
Reduction in greenhouse gas emissions

OUR VALUES

We operate in increasingly diverse markets so a common set of values offers clear business benefits and will help support the challenges of future growth Our Values are, Integrity, Teamwork, Excellence and Respect

Read more online balfourbeatty com/values

PRINCIPAL RISKS

Operating in many different business environments and territories inevitably entails risks and uncertainties that are not necessarily within our control Although we cannot eliminate such risks and uncertainties completely, we have established risk management and internal control systems and procedures to manage their impact The Board believes that our risk management and internal control systems will help us to identify such risks and respond in a timely manner

The principal risks that could adversely impact our profitability and ability to achieve our strategic objectives are set out below

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

HEALTH AND SAFETY	No change to Risk
Risk description We work on significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks	**What impact it might have** Failure to manage these risks could result in harm to, or even death of, employees, subcontractor staff and members of the public, as well as potential criminal prosecutions, debarment and reputational damage
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/'Tone at the Top' • Management of subcontractors • Not briefing people properly before setting them to work • Failure to follow procedures • Debarment for safety failures	**How it is mitigated** We have 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 In 2013, in response to an unacceptable level of fatalities, serious injuries and near misses, we initiated work on implementing our Global Safety Principles The way we work p38

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

ECONOMIC ENVIRONMENT	Increased Risk
Risk description The continued or residual effects of the global economic downturn, or other national or market trends or new developments in infrastructure expenditure or procurement, may cause our clients to postpone, reduce or change existing or future projects, which may impact our strategy, business model, revenue or profitability in the short or medium term	**What impact it might have** Any significant changes in the level or timing of client spending or investment plans could adversely impact our future order book Such changes could arise from changes in government policy or clients' failure to secure financing for future projects or for future stages of existing projects Failure of a client, including any government or public sector body, could result in non collection of amounts owed
How the risk may manifest itself We 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 clients and suppliers • 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	**How it is mitigated** The Group's strategy to focus on the more resilient and stable infrastructure markets will help mitigate this risk The effect of spending changes in any one market is mitigated by our broad exposure to infrastructure markets across the globe and the continued need for infrastructure spending We also mitigate the effects of such market conditions by continuing to adapt our business model, overheads and efficiency The financial solvency and strength of counterparties is always considered before contracts are signed and is a specific focus in the current economic climate During the life of a contract such assessments are updated and reviewed whenever possible We also seek to ensure that we are not over reliant on any one counterparty

BIDDING	Increased Risk
Risk description Through our different divisions we seek to win profitable work through a large number of bids In some cases we bid in joint venture with carefully selected partners, often to help us manage or spread risks, especially where we want to augment our expertise or knowledge of the relevant market We also invest in PPP and infrastructure investments, where success depends on a number of assumptions made, at the time of investment, on future revenues and costs Our success depends on our 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 we have a competitive business model and overheads	**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 diminish profitability of contracts In the event of disagreement with, failure of, or poor delivery performance by a joint venture partner, we 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 the risk may manifest itself • Unrealistic programme • Incorrect pricing • Overambitious budgets • Bidding at too low a margin • Poor partner selection • Client 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 our overhead structure remains competitive	**How it is mitigated** All bids are subject to rigorous estimating and tendering processes within a defined framework We have defined delegated authority levels for approving all tenders and infrastructure investments All major and significant contracts above those authority levels are subject to Group review and approval by the Group Tender and Investment Committee (GTIC) Governance p61 We conduct reviews following successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders Before entering into a joint venture agreement we have procedures for reviewing the relevant skills, experience, resources and values of joint venture partners to understand how they complement ours Investment appraisals are performed and reviewed by experienced professionals We analyse the risks associated with revenues and costs and, where appropriate, establish contractual and other risk mitigations

PROJECT EXECUTION	No change to Risk
Risk description We work on complex design, engineering, construction and asset management projects If we fail to deliver them on time, to clients' requirements and in accordance with our own cost assumptions and reporting, we face 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 sub contractors 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 client requirements on time and to an appropriate quality could result in issues such as contract disputes, rejected claims, design issues cost overruns or failure to achieve client savings – which in turn harm our profitability and reputation Execution failure on a high profile project could result in significant reputational damage and costs
How the risk may manifest itself • Unrealistic progress assessments • Overestimating our ability to recover claims within the timeframe 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, finance etc	**How it is mitigated** Each business area has defined operating procedures to address the risks inherent in project delivery In addition, the Group risk management framework aids identification and quantification of specific risks on projects and the mitigating actions required 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 We also have public indemnity cover to provide further safeguards We monitor the performance of joint ventures, joint venture partners, sub contractors and suppliers throughout the life of a project

PRINCIPAL RISKS CONTINUED

SUPPLY CHAIN RISKS	Increased Risk
Risk description We are heavily reliant on our supply chain partners for successful operational delivery, which means we are 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 We 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 by us, or poor ethical standards in the supply chain, could lead to significant reputational harm for us
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 our ability to meet contractual commitments and harming our reputation • Supply chain operating to lower standards (safety, ethics, quality, timber, child labour, forced labour) • Failure to deliver targeted UK procurement savings • Ethical treatment of the supply chain	**How it is mitigated** We aim to develop long term relationships with key subcontractors, working closely with them to understand their operations We develop contingency plans to address subcontractor failure, and also obtain project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency We aim to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share our values We aim to avoid becoming over reliant on any one supplier or subcontractor

IMPORTANT RISKS WE FACE, COMMON TO MANY OTHER BUSINESSES

PEOPLE	Increased Risk
Risk description Our inability to recruit and retain the best management and employees who have the appropriate competencies and also share our values and behaviours may hamper our growth prospects	**What impact it might have** Failure to recruit and retain appropriately skilled people could harm our ability to win or perform specific contracts and grow our business
How the risk may manifest itself • Failure to attract and retain skilled staff • Distraction and impact on morale of change programmes • 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 • Staff dissatisfaction and loss of loyalty/engagement caused by termination of defined benefit pension plan	**How it is mitigated** We measure all potential recruits for key roles in the organisation against a competency and leadership framework Divisions undertake organisation and people reviews to review the roles, competencies, performance and potential of personnel We have a well-developed succession planning process to identify and develop high potential personnel to fill key roles These plans are reviewed regularly and discussed at all levels within the organisation and by the Board We have appropriate remuneration and incentive packages to help us attract and retain key employees The way we work p40

BUSINESS CONDUCT/COMPLIANCE	Increased Risk
Risk description We operate in various markets that may present business conduct-related risks involving, for example, fraud bribery or corruption, whether by our own staff or via third parties such as partners or subcontractors Those risks are higher in some countries and markets than others but cannot be ignored or underestimated even in low risk countries	**What impact it might have** Failure by the Group, our employees and third parties acting on our behalf or in partnership with us to observe the highest standards of integrity and conduct could result in civil and/or criminal penalties, debarment and reputational damage The way we work p39
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	**How it is mitigated** Throughout the Group we take a rigorous approach to assessing and addressing corruption risks We have a variety of programmes to promote compliance with our Code of Conduct published online 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 with whom we work is harder to control, but we have a range of risk assessment, due diligence and procurement controls that are designed to identify and minimise such risks We work with very few agents, all of whom undergo a rigorous due diligence and approval process

LEGAL AND REGULATORY	No change to Risk
Risk description We operate in diverse territories and our businesses are subject to a variety of complex, demanding and evolving legal, tax and regulatory requirements	**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 cyber crime, which can result in loss of confidential personal or commercial data, disruption to operations and associated costs Sometimes we may be the target of state-sponsored cyber activities because of who our clients are, rather than because our business is a particular target
How the risk may manifest itself • Data protection and privacy • Information security lapse • Cyber crime • Government/regulatory enquiry and enforcement actions • Local procurement laws • Debarment or blacklisting	**How it is mitigated** We monitor and respond to legal and regulatory developments in the territories where we operate We consider the local legal and regulatory framework as part of any Group decision to conduct business in a new country We have data protection and information security programmes across the Group, and cyber crime and other information security risks are assessed on a continual basis

EXPANSION INTO NEW TERRITORIES AND MARKETS AND BY ACQUISITION	Reduced in Risk
Risk description In pursuit of our strategic objectives, we may seek to enter new territories, markets or sectors and continue to make acquisitions Although this results from a careful and deliberate balancing of opportunity and risk, it has the potential to expose the Group to risks that it may not have encountered before or does not fully understand	**What impact it might have** Failure to identify, understand and evaluate the risks of conducting business in a new territory, market or sector could lead to significant financial loss and reputational damage Failure to recognise the expected benefits from acquisitions and to integrate acquired businesses successfully into the Group's processes could result in an adverse impact on our strategic objectives, future prospects, financial condition and profitability
How the risk may manifest itself New geographies • Political, security, safety and ethical risks, as well as the risk that economic, market and other risks mentioned elsewhere and the means of mitigating them are less well understood New sectors and work-types • Higher risk/higher return design/build projects Acquisitions and partnerships • Integration of acquisitions and performance to business plan • Partner performance, creditworthiness and ethics Inherited liabilities • Problem liabilities • Unethical past practice • Unaccounted for liabilities eg tax	**How it is mitigated** New geographies As part of the decision making process before entering a new territory, we undertake a detailed country and sector risk assessment This will consider and assess the prevailing economic, political, regulatory, ethical, health, safety and sustainability conditions to ensure that we can operate there in line with our own values and standards Acquisitions and partnerships We undertake detailed due diligence on all potential acquisitions and partnerships (such as joint ventures and consortia) to ensure that all aspects of their business align with ours In many cases, we have worked with these businesses before In addition, we prepare valuation models on all potential acquisitions, drawing on both internal and external resources Due diligence includes an assessment of our ability to integrate the acquired businesses successfully into the Group When a business is acquired, we actively work with it to ensure the business is successfully assimilated into the Group and its internal control framework

SUSTAINABILITY	Increased Risk
Risk description Through our activities we can impact either positively or adversely the world in which we operate and the communities with which we come into contact	**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 the risk may manifest itself • Environmental incident • Inaccurate greenhouse gas data may mean we are unaware of our actual impact • Inaccurate carbon reduction commitment data and other data in sustainability reporting may leave us exposed to unacceptable damage, fines etc • Unethical/unsustainable sourcing (eg timber, forced labour, child labour) • Insufficient management support and monitoring to achieve our agreed KPIs in this area	**How it is mitigated** Our sustainability strategy covers our operations until 2020 in terms of profitable markets, healthy communities and environmental limits Sustainability issues such as climate change adaptation are considered in risk management activities at divisional as well as project level The way we work p41 to p42

We also face 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

CHIEF FINANCIAL OFFICER'S REVIEW

Whilst we have made good progress on restructuring and focusing our business, our overall financial performance for the year was disappointing

Duncan Magrath
Chief Financial Officer

Revenue from continuing operations including joint ventures and associates increased by 2% in the year to £10,118 million (2012 £9,966 million) Revenue was broadly flat across most divisions with 10% growth in Support Services

In Construction Services, a 12% revenue improvement in the US and 16% growth in the rest of the world was partly offset by a 12% reduction in the UK In Professional Services, reductions in Australia were mitigated by improvements in the US Excluding the impact of currency, revenue from continuing operations for the Group including joint ventures and associates increased by 1%

Our share of underlying post-tax profits from continuing joint ventures and associates reduced, as anticipated, to £71 million from £92 million in 2012, principally due to the favourable resolution of bad debts and claims in the Middle East during 2012

Underlying profit from operations decreased to £203 million (2012 £284 million) Support Services and Infrastructure Investments delivered strong operating results, including the benefit of £82 million (2012 £52 million) of gains from PPP disposals after recycling £21 million (2012 £48 million) of gains from other comprehensive income to the income statement However, overall profits reduced as a result of a very significant drop in mining related capital expenditure in Australia impacting our Professional Services business, leading to reduced volumes and pricing In addition, the combination of a difficult external environment and an internal reorganisation in our UK construction business also contributed to the fall in profits

Net finance costs of £16 million increased by £9 million on the prior year (2012 £7 million) due to increased finance charges resulting from the US private placement issued in March 2013 The application of the revised IAS 19 reporting standard increased non-cash interest costs compared to the previous standard by £21 million in 2013, and the prior year restatement increased the 2012 reported figure by £10 million, of which £1 million relates to discontinued operations

Underlying pre-tax profit from continuing operations decreased to £187 million (2012 £277 million)

Detailed information on the financial and operating performance of each of our segments is included in the Performance Review

Read more on page 28 to 35

Non-underlying items
Non-underlying items from continuing operations of £155 million (2012 £130 million) before tax were charged to the income statement This comprised amortisation of acquired intangible assets of £30 million (2012 £39 million) and other items of £125 million (2012 £91 million) The amortisation charge declined in the year as some intangible assets became fully written down

Significant items included a £52 million non-cash curtailment charge (and associated costs) in connection with closing the defined benefit section of the Balfour Beatty Pension Fund to future accrual for the majority of members and £52 million (2012 £64 million) of restructuring and reorganisation costs These included £26 million (2012 £49 million) of costs in the UK in relation to continued restructuring of Construction Services UK, Support Services and other UK entities Within Professional Services, £20 million (2012 £2 million) of costs were incurred in Australia to significantly restructure the cost base as a result of the market downturn There was also £7 million (2012 £4 million) of further costs in the UK shared service centre as it expanded from its initial scope of finance and payroll into HR and IT shared services £10 million (2012 £2 million) of costs were incurred in the US for the creation of a shared service centre in Lancaster, Pennsylvania

Taxation
The underlying tax charge for continuing operations for the year of £50 million (2012 £61 million) excluding the Group's share of results of joint ventures and associates, equates to an effective tax rate of 43 1% (2012 33 0%) The increase from the prior year is due to the impact of some unrelieved losses and changes in tax legislation This includes a charge of £6 million as a result of writing down our deferred tax balances following the reduction in the UK corporation tax rate to 20% In addition there was a higher proportion of profits in higher tax territories than in 2012, offset by the benefit of a greater amount of profit from investment disposals Adjusting to include joint ventures and associates, and comparing this to pre-tax profit for the continuing Group and joint ventures and associates, the effective tax rate was 30 1% (2012 25 5%)

In 2014 we would expect the underlying effective tax rate to fall to approximately 40%

Discontinued operations
There was an underlying post-tax loss from discontinued operations of £15 million (2012 profit of £15 million) along with non-underlying post-tax costs of £37 million (2012 £101 million)

Year ended 31 December	2013 £m	2012 £m
Underlying profit before tax*	**116**	185
Tax at UK statutory rate of 23 25% (2012 24 5%)	**27**	45
Losses not available for offset	**24**	5
Higher tax rates on non-UK earnings	**14**	14
Non-deductible items	**5**	7
Adjustments in respect of prior years	**(15)**	(8)
UK corporation tax rate change	**6**	3
Other tax adjustments	**(11)**	(5)
Effective tax charge	**50**	61
Effective tax rate	**43 1%**	33 0%

* Excluding the results of joint ventures and associates

In December we completed the sale of the UK facilities management business, Balfour Beatty WorkPlace, for a net cash consideration of £155 million After transaction costs the disposal resulted in a non-underlying gain of £80 million before writing off goodwill, or £16 million after writing off goodwill The business contributed £19 million (2012 £22 million) to underlying profit from operations up to the date of disposal

There was a very poor performance in Mainland European rail, principally due to underperformance on three contracts in Germany, resulting in an underlying loss from operations of £26 million (2012 profit of £2 million) Non-underlying costs of £51 million included £38 million for writing down the goodwill in the German rail business to £nil, a loss on disposal of the Spanish business of £4 million, rail restructuring costs of £6 million and a £2 million regulatory fine in Germany

Earnings per share
Underlying earnings per share for continuing operations were 20 0 pence (2012 31 7 pence), which along with an underlying loss per share from discontinued operations of 2 2 pence (2012 earnings per share of 2 1 pence) gave an underlying earnings per share for total operations of 17 8 pence (2012 33 8 pence)

Dividends
The Board continues to recognise the importance to its shareholders of a good dividend and given the strong management actions taken, the strategic positioning of the Group and its strong balance sheet, it has recommended a final dividend of 8 5p in respect of 2013 This is in line with 2012's final dividend and results in an unchanged full-year dividend of 14 1p

Goodwill and intangible assets
The goodwill on the Group's balance sheet at 31 December 2013 decreased by £112 million to £1,048 million (2012 £1,160 million) £64 million of the reduction was due to the disposal of Balfour Beatty WorkPlace £38 million of the reduction resulted from reviewing the likely sales proceeds achievable on the German rail business, and as a consequence the goodwill was written down to £nil in the first half Other intangible assets, after amortisation charges of £33 million (2012 £43 million) reduced to £204 million (2012 £212 million)

Impairment reviews have been carried out, and none of the carrying values, other than as noted above, have been impaired There is however limited headroom in our Italian rail business and in Blackpool Airport such that a change in assumptions could result in an impairment Details of the calculations and assumptions are shown in Note 15

Results for the year from continuing operations	2013	2012	Change (%)
Revenue including joint ventures and associates	**£10,118m**	£9,966m	2%
Group revenue	**£8,745m**	£8,656m	1%
Profit from continuing operations			
– underlying	**£203m**	£284m	(29)%
– reported	**£48m**	£154m	(69)%
Pre-tax profit from continuing operations			
– underlying	**£187m**	£277m	(32)%
– reported	**£32m**	£147m	(78)%
Earnings per share from continuing operations			
– underlying	**20 0p**	31 7p	(37)%
– basic	**2 5p**	17 9p	(86)%

Provisions
The Group s provisions comprise contract, employee and other provisions

Contract provisions of £102 million (2012 £125 million) 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 Additional provisions were £67 million (2012 £74 million, including significant provisions in respect of two major contracts) Provisions reversed unused were £32 million (2012 £49 million) and provisions utilised £48 million (2012 £38 million)

Employee provisions of £42 million (2012 £57 million) 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 Additional provisions were £23 million (2012 £43 million, including significant provisions in respect of restructuring) Provisions reversed unused were £14 million (2012 £14 million) and provisions utilised £17 million (2012 £17 million)

Other provisions of £49 million (2012 £46 million) principally comprise motor and other insurance liabilities in the Group's captive insurance companies, legal claims and costs, property-related provisions, mainly onerous lease commitments, some of which arise from the Group's restructuring programmes, and environmental provisions

Pensions – balance sheet movement
The Group's balance sheet includes aggregate deficits of £434 million (2012 £333 million) for the Group's pension schemes

The Group recorded net actuarial losses for 2013 on those schemes totalling £117 million (2012 £111 million) There were £73 million (2012 £194 million) of actuarial losses recorded on the present value of the obligations, largely resulting from the effects of lower discount rates and higher inflation assumptions mitigated by an actuarial gain arising following the reassessment of the difference between RPI and CPI measures Actuarial losses of £44 million (2012 gain of £83 million) were recorded against the fair value of plan assets resulting from lower than expected returns Movements in the pension deficit are illustrated on page 27

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% A funding plan was agreed to eliminate the deficit over eight years, which provides for a reduced level of deficit

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

payments of £50 million per annum (adjusted by CPI movements) from April 2013 for the first three years, increasing by £5 million per annum to £65 million per annum by April 2018 through to May 2020 Under this plan the Group is making regular monthly payments, which increase each April by the growth in CPI up to a cap of 5%, plus double any increase in the Company's dividend in excess of capped CPI In the event of the Company making any special dividend or capital payment to shareholders, an additional contribution is payable for one year only, equal to 75% of the percentage uplift on the normal dividend payment represented by the one-off payment to shareholders

In August the majority of members of the BBPF ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge (and an increase in the deficit) and costs totalling £54 million, recognised as a non-underlying item, of which £2 million related to discontinued operations This reduces the future cash payments over the life of the scheme by approximately £250 million, and reduces the pension service charge (net of incremental defined contribution payments) by approximately £15 million per annum

The increase in the aggregate deficit to £434 million at the end of 2013 will increase non-cash pension interest costs in the income statement by £6 million to £15 million in 2014

Balance sheet and capital structure
We look to achieve a balance between the negative working capital, liquid funds and facilities and the PPP investments portfolio Whilst we have seen a reduction in net liquid funds during 2013, we have also seen a reduction in the levels of negative working capital However, despite the disposals in the year, the Directors' valuation of our PPP investments portfolio has increased to £766 million using constant discount rates (2012 £734 million) Overall we have maintained good balance sheet strength

Cash flow performance
Cash used in operations of £162 million (2012 £219 million) was impacted by a working capital outflow of £117 million (2012 £310 million) and pension deficit payments of £59 million (2012 £61 million)

Average net borrowings in the second half of the year were £433 million, although with the sale of Balfour Beatty WorkPlace in December, and a strong cash performance at the end of the year, the Group's net debt at 31 December 2013 was £66 million (2012 net cash of £35 million), before taking into account the consolidation of £354 million (2012 £368 million) of non-recourse net borrowings held in wholly owned PPP project companies

Working capital
Working capital comprises receivables and payables from construction contract customers and other third parties Where receivables exceed payables, this is termed positive working capital and where payables exceed receivables, this is referred to as negative working capital

Including the impact of exchange, negative working capital decreased from £665 million at the end of 2012 to £550 million at the end of 2013 Of this decrease of £115 million, the biggest component was £75 million in Construction Services This was largely due to changes in the mix of business, away from larger more complex projects, which have the potential for more favourable terms, to smaller projects

Total working capital as a percentage of annualised revenue (WCPR) at the end of the year was (6 3)% (2012 (7 7)%) The most significant component of negative working capital relates to Construction Services, which ended the year with WCPR of (10 5)% (2012 (11 6)%)

Read more on the individual components of working capital on p97

In 2014, we would expect further reductions in negative working capital in UK construction as a result of the continued change in mix from major projects to regional work, and the greater proportion of smaller contracts As the market recovery takes hold in the US we expect negative working capital in our US construction business to increase We expect working capital in Professional Services to be positive (ie net receivable), but broadly stable with 2013, and in

SUPPORTING NATIONAL ROAD SAFETY WEEK WITH SAFETY CHARITY BRAKE

We held nine events throughout the UK for National Road Safety Week, at local schools, colleges, supermarkets and service stations We also used Twitter to tweet facts on road safety and to increase awareness of the events taking place It is our 4th year participating in National Road Safety Week run by the road safety charity Brake

Follow the news on Twitter @BBroadsafety

Support Services, we may see a modest increase in the level of positive working capital

Banking facilities

The Group's principal committed bank facilities total £950 million and extend through to 2016 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, we have explored ways of diversifying our sources of funds away from the pure bank market

As part of that process, and taking advantage of historically low interest rates, in March 2013 we issued US$350 million notes by way of a US private placement with an average coupon of 4 94% per annum over 9 3 years The incremental cost of this funding on an annual basis is approximately £9 million Furthermore, in November we took advantage of favourable bond market conditions and issued approximately £253 million of unsecured convertible bonds due 2018 at a coupon of 1 875% per annum Proceeds from the bond issue have been used to repay short term borrowings under our principal committed bank facilities and for general corporate purposes The annual incremental cost of the bonds is £3 million from a cash perspective, or £8 million in income statement terms

At the end of 2013 we had no drawings against our £950 million of committed facilities

Foreign currency risk

The Group is exposed to foreign currency risk primarily in the US Asia-Pacific, and the Middle East Based on the geographical split of the Group a one cent movement in the US$ £ exchange rate would impact profit from operations by approximately £0 8 million The average exchange rate for 2013 was $1 57 £1 So far in 2014 the average rate has been $1 66, and consequently if this rate persists for the remainder of 2014, the impact of foreign exchange would be to reduce profit from operations by approximately £7 million

Financial risk factors and going concern

The key financial risk factors for the Group remain largely unchanged Some of our markets are showing signs of starting to recover This can lead to increased risk of subcontractor failures due to their cash requirements for increased working capital and also potential inflationary pressures in some areas

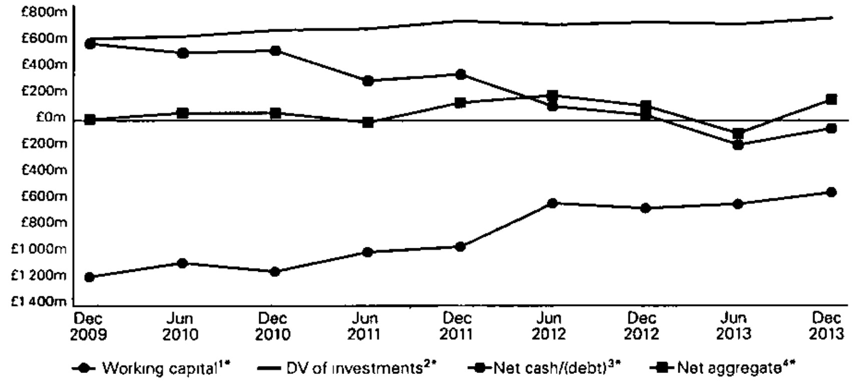
The Directors have acknowledged the guidance 'Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009 published by the Financial Reporting Council in October 2009 In reviewing the future prospects of the Group, the following factors are relevant

- 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 has an increasingly diversified business model that gives resilience to the business
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group has committed bank facilities of £950 million for at least the next two years, which were undrawn at 31 December 2013

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

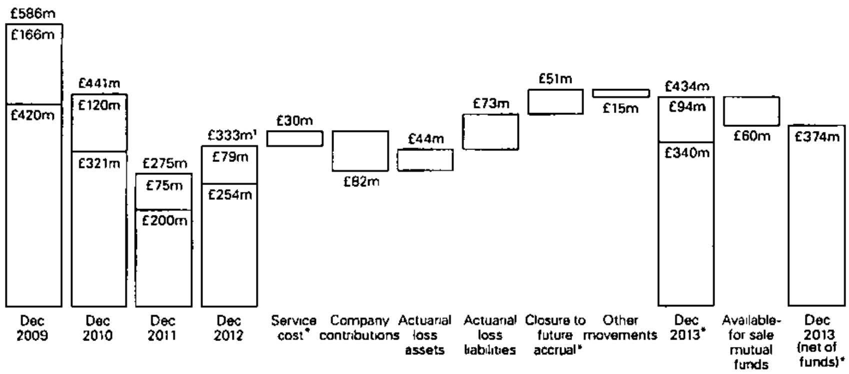
To appreciate the prospects for the Group as a whole, the complete Annual Report and Accounts 2013 needs to be read

Maintaining strength



[1] June 2013 and earlier figures restated to exclude provisions greater than 1 year
[2] Directors valuation of PPP concessions
[3] Excluding net debt of PPP subsidiaries (non recourse)
[4] Aggregate of Directors valuation of PPP concessions net cash/(debt) and working capital
[*] Dec 2012 and earlier figures include 2013 discontinued operations

Pensions – balance sheet movement
Cumulative contributions for deficit funding of £314m since December 2009



2 15%	2 05%	1 9%	1 5%	Real Discount Rate	1 05%

Since Dec 2009 deficit funding of £314m offset by c £155m increase from 1 10% reduction in real discount rate and £51m impact from closing the scheme to future accrual

● Pension deficits net of tax ● Deferred tax assets

[1] Restated for IAS 19 revised [*] From continuing operations

PROFESSIONAL SERVICES

HIGHLIGHTS

- Order book increases in the US and Middle East offset by the impact of Australia and minor movement in the UK business
- Profitability impacted by significantly lower volumes in Australia
- Ongoing strength in core US transportation and market development in key markets including Middle East and Canada expected in 2014

% OF TOTAL REVENUE

Read more on p2

FINANCIAL PERFORMANCE

The Professional Services order book ended the year at £1 5 billion, in line with the previous year The order book increased in the Americas and the Middle East but saw a small reduction in the UK and a more notable decline in Australia, resulting from the significant market deterioration experienced throughout 2013 Revenue remained stable at £1 7 billion (2012 £1 7 billion), with increases in the Americas and the Middle East offsetting lower volumes in Australia We indicated that profitability would be lower in Australia in 2013 due to 2012 benefiting from good final settlements on some profitable alliance and at-risk contracts, however this was compounded by the significantly deteriorating trading conditions Despite taking swift cost reduction measures in Australia and operating at or above expected levels in other regions, this led to a substantial decline in underlying profit from operations for the division to £54 million (2012 £98 million)

The 2012 order book was restated during the year, following the reallocation of work packages within our internal joint venture with the Support Services division

OPERATIONAL PERFORMANCE

Americas

In the US, where approximately 75% of activity is in the transportation sector, funding of projects by both the federal and state departments of transportation is crucial to our business The authorisation of the Transportation Bill in July 2012 for a period of two years (effective from September 2012) helped the transportation business deliver a good performance in 2013 In addition to good performance on major design-build projects, there was also an increase in traditional design work Furthermore, the short term US Federal Government shutdown in Autumn 2013 does not appear to have had a lasting impact on existing work or the pipeline of opportunities As a result, we saw a good performance in US transportation with revenue up 7% year-on-year whilst the order book remained at 2012 levels New awards and extensions on existing projects – including the two-year contract extension for programme management services on the California High-Speed Rail project – remained at a healthy level

We are currently at various stages on numerous US transportation design-build project opportunities During the year we created a core team of senior transportation executives to focus on the pursuit, management and performance of major design-build projects

Other ongoing major projects – the Dallas Horseshoe project, the Illiana Expressway which runs between Illinois and Indiana, the Midtown Tunnel project in Norfolk, Virginia, the Westside Subway Extension in Los Angeles, and the Second Avenue Subway in New York City – are all progressing well

During 2013, our Federal business was successful on the re-bid of the Federal Emergency Management Agency (FEMA) contract for disaster inspections, which is contracted through to January 2019 This is the fourth consecutive multi-year contract awarded to the business dating back to 1995

Performance of our US power business was lower relative to 2012 due to lower than planned volumes as a number of projects were delayed into 2014 There was good progress on the joint venture EPC contract we won in January 2013 to design and build the Garrison Energy Center, a 309MW combined cycle gas-fired power plant in Delaware We have completed the integration of Subsurface Group, which we acquired at the end of 2012, although its performance was somewhat below expectations in a subdued market

Our architectural and buildings business performed below our expectations following the settlement of a long running legal dispute for US$8 million

In Canada, our largest sector – structural work for buildings – has remained flat However, we have seen some success in our strategic objective of expanding into the transportation sector We have made good progress on transit programmes in the City of Toronto and for the Regional Municipality of Waterloo In addition, we are pursuing several other major opportunities in the province of Ontario We have also been aiming to grow in the power market, but as in the US, we saw a delay in the award of new projects in the power market in 2013, however, we continue to see future opportunities in areas such as storage caverns and injection well projects related to new work in oil sands

> Good performance in US transportation with revenue up 7% year-on-year.

In 2012 we launched a cost efficiency programme, when we announced the transfer of many of our support functions from New York City to Lancaster, Pennsylvania The shared service centre commenced operations in March 2013 and is now in full operation and performing well Building on that success, a number of other support functions, such as billing and certain human resource operations, were also moved to the shared service centre, from elsewhere in the US

We continue to progress the settlement of the previously highlighted longstanding contract dispute A negotiated settlement now seems unlikely, but the arbitration process is well advanced and we expect it to achieve a positive outcome in 2014

Europe, Middle East and Northern Africa
The UK remains an extremely competitive market with margins remaining under pressure despite volumes improving in the highways and rail sectors Our operations in highways and rail have been successful in securing improved levels of workload and have improved billability levels We are currently delivering aspects of the preliminary design of the railway systems packages for the UK's High Speed project as well as all three packages for Transport for London's structures and tunnels portfolio

The UK power business remains challenged for domestic workload as new projects continue to be delayed Expanding export services to other geographies has been a key focus for this operation in order to supplement the low level of domestic opportunities

We had excellent growth in the order book and revenue from the Middle East, particularly in Qatar and Saudi Arabia In June we won an $87 million contract with Ashghal to provide consulting services for the Qatar Expressway Programme, supplementing the significant programme we are already working on for the Local Roads and Drainage and Qatar Rail projects In July we were awarded the role of Programme Management Office Consultant on the prestigious Makkah Public Transport Programme in Saudi Arabia by the Development Commission of Makkah and Mashaaer

Asia, Australia-Pacific and Southern Africa
Our business in Australia has been significantly impacted by the sudden cancellation of capital projects across the resources sector, which has also had a subsequent impact on public revenues and spending plans of Australian states and municipalities We have taken swift action in response to this by significantly restructuring the business, including appropriate reduction of the Australian workforce However despite this, cost reductions inevitably lagged revenue declines Whilst the run rate at the end of the year was broadly break even, the business was loss making for 2013 as a whole and £40 million below the level achieved in 2012 We continue to perform work on the Roy Hill iron ore mining project for which we were appointed programme manager in March 2013 The project is expected to secure the remaining elements of financing during 2014 The transportation sector has also experienced delays in new awards due to ongoing funding uncertainty although there are some signs that this may improve in 2014 Despite this market turmoil we were successful in securing a key rail contract in Melbourne with Victoria's Road Authority

Our operations in Asia notably Singapore and Greater China have continued to increase their workload and perform well In Singapore, we secured £21 million (S$44 million) in contracts to support the Land Transport Authority for the Eastern Regional Line Depot and Stations Development of our structural capabilities in China is expected to provide avenues for additional growth in that market

As in 2012, activities in South Africa continued to show positive results during 2013 Our programme management role at the Medupi Power Station in South Africa continues to progress as we also look to pursue further opportunities in the region

LOOKING FORWARD

We expect to see ongoing strength in our core US transportation market, new opportunities in a number of our other key markets including the Middle East, UK and Canada, and increasing power opportunities in the US and South Africa

In Australia we have worked diligently to right size the business in line with current and projected market conditions Whilst volume and pricing risks remain, we expect the business to improve on its 2013 performance and deliver a broadly breakeven result in 2014

Overall therefore, excluding any benefit of the longstanding contract dispute, we expect to make progress in 2014 across the business, with margins improving progressively as the losses in Australia are eliminated

$87m
Contract to provide consulting services for Qatar Expressway Programme

WORLD'S FIRST INTERCONTINENTAL TUNNEL OPENS

A rail tunnel under the Bosphorus Strait in Istanbul opened in 2013, the culmination of more than two decades of planning and design work by Parsons Brinckerhoff – a 150 year dream to link Asia and Europe via an underwater crossing Known as the Marmaray Project, it involved an upgrade of a 47 mile commuter rail line from Gebze on the Asian side of the Bosphorus to Halkali on the European side The tunnel can accommodate 75,000 passengers per hour or an estimated 1 5 million people daily, reducing traffic congestion and travel time

Read more online balfourbeatty com/bosphorus

CONSTRUCTION SERVICES

HIGHLIGHTS

- Poor performance in UK construction business addressed through management and operational changes
- Significant increase in US order book, albeit from a low base
- Good order book growth in rest of world, driven by wins in Hong Kong

% OF TOTAL REVENUE

Read more on p3

FINANCIAL PERFORMANCE

The Construction Services order book from continuing operations improved in the year to £7 7 billion, up 5% from a year ago Following a year of very strong order intake in the US, our US order book increased by 10% despite significant revenue growth It is now over 20% larger than our UK order book, which itself decreased by 3% in 2013 with growth in the regional business not completely offsetting reductions in major projects and mechanical & engineering services We also saw strong growth in the rest of the world order book which increased by 10%, driven by wins in Hong Kong

Revenue from continuing operations increased by 1% during the year to £6,573 million US revenues were up 12% for the year, driven by a 20% increase in the second half versus the prior year In addition, revenue in the rest of the world increased by 16%, partially offset by a 12% reduction in the UK

Underlying profit from continuing operations reduced to £21 million from £119 million in 2012, with the decline mostly due to the performance of the UK business Whilst there was an expectation of reduced profitability at the start of the year, in light of a declining market, we announced a shortfall of approximately £50 million in April, resulting from further deterioration in the external environment combined with the impact of an ongoing internal reorganisation Whilst the UK business broadly performed in line with these reduced expectations a further deterioration at the end of the year resulted in an actual profit shortfall of £60 million

OPERATIONAL PERFORMANCE

UK

The UK construction market has been a challenging environment in which to win and execute work, allowing clients to impose increasingly stringent conditions onto contractors, and as a result placing subcontractors under significant financial pressure In addition, the business underwent a major reorganisation during 2012 and 2013 In January 2013, the operations were streamlined into three business units consisting of

- Major projects focused on complex projects in key market sectors such as energy, transportation and heavy infrastructure
- Regional civil engineering and building, private and public including work in partnerships and frameworks to provide customers with locally delivered, flexible and fully integrated civil and building services
- Mechanical and electrical engineering covering all market sectors

Following the identification of the profits shortfall highlighted above we re-focused attention on operational improvements and tighter governance At the end of April we made changes to the leadership of the business, appointing Nicholas Pollard as CEO of Construction Services UK We also undertook a review of the regional business and closed regional delivery units with weak future prospects The management team reviewed all operational contracts, and have subsequently taken steps to improve key disciplines such as tendering, estimating and commercial governance

The actions we have put in place to strengthen the leadership and performance of the UK construction business are taking effect, and contributed to a stronger second half performance Whilst we have seen a better than anticipated turnaround in the regional business, there was weaker financial performance on selected major projects in the building sector In our mechanical and electrical engineering business, where we predominantly act as a subcontractor, financial performance in the final quarter was adversely impacted by increasingly difficult market conditions The impact of these further deteriorations resulted in an overall £60 million reduction in profitability versus expectations at the start of the year

The UK order book has remained stable, albeit there continues to be a shift in the mix of work from the major projects business to regional construction due to the impact of the strengthening of the UK residential market and fewer major projects being brought to the market We won a number of contracts in the student accommodation sector including the University of Aberystwyth, University of Birmingham and an £80 million project for Urbanest in central London In the London commercial sector we were successful in securing some substantial awards, including the £110 million Providence Tower and a £121 million hotel contract for Grove Developments Whilst there were fewer major infrastructure projects up for award, important wins included the £321 million design and construction joint venture contract to upgrade sections of the M25 London orbital motorway for the Highways Agency We also announced the £154 million contract to carry out the full transformation works to the London 2012 Olympic Stadium, which incorporates enhancements to the stadium roof contract we were awarded in 2013

The performance of our UK Rail business was impacted by operational issues on a small number of projects However, we continue to believe that the UK rail sector will generate major programmes which we are well placed to address with our range of capabilities

US

In the US building market, which accounts for 80% of our business, federal and state spending remain at low levels, whilst private investment from large corporates is gradually improving

Over the past few years, we have taken significant steps to ensure that we are well placed to benefit from a market recovery in the building sector Focusing our acquisition strategy on particular sectors and geographies has enabled us to broaden our footprint and harness new relationships Streamlining the business from five to three regions, and the establishment of a national capability centre, has ensured that we drive innovation, develop best practice, share knowledge and deploy talent across the business nationally This drove a 54% increase in order intake in 2013 versus 2012, gaining market share

Building market segments where we have seen significant opportunities and those offering further potential into 2014 include mission critical (data centres), commercial/corporate facilities, student accommodation, multifamily housing and healthcare

Our buildings business continues to benefit from working with our Investments business, not only in the military housing area, but increasingly in other markets Examples of projects brought to our construction business from our investments business include the Air Force Northern Group project – a six-year project for the design, construction and/or renovation of 4,500 homes, valued at approximately $442 million and new graduate and family student housing project at the University of Nevada, Reno Preferred bidder status was achieved on a number of other schemes including the $500 million University of West Florida student accommodation project

HOUSTON CONVENTION CENTER

RIDA Development Corporation selected Balfour Beatty Construction US as a joint venture partner with WELBRO Building Corporation to build the new £207 (US$344) million 30-storey Houston Convention Center Hotel in downtown Houston This new project will add more than 1,800 construction jobs and 700 permanent jobs to the Houston hospitality industry

SUSTAINABILITY Healthy Communities
balfourbeatty com/houstonconvention

In civil infrastructure we are seeing opportunities although competition remains strong

Following the approval of the Transportation Bill in 2012, a number of civil infrastructure projects have moved to tender stage An increasing proportion of civil and rail projects are being let on a PPP or design build basis, which allows us to demonstrate our experience, expertise and innovation in this area In December, we announced the award of a $343 million joint venture contract for the Regional Transportation District in Denver to initiate the first phase of design and construction on the North Metro Rail Line project

International
In Hong Kong, 2013 was a busy tendering period for our joint venture, Gammon Construction, which ended the period with a strong order book The market has experienced a strong programme of government spending on both transportation infrastructure and public buildings In June, Gammon was awarded a contract worth £720 million (HK$8 66 billion) to design and build a major strategic road The HKSAR Highways contract to construct the Southern Connection Viaduct section of Tuen Mun – Chek Lap Kok Link in Hong Kong is the largest solo civil engineering contract ever awarded to Gammon In November Gammon won two significant rail contracts for a combined value of approximately £150 million (S$315 million) in Singapore the design and construction of the Mayflower Station on the Thomson Line, and a sleeper replacement programme on the existing North-South Line

Our joint venture in Dubai performed in line with our expectations with stable revenues in 2013 However, profitability was down on 2012 as a result of favourable bad debt and claim settlements in 2012 Looking into 2014, the business environment is improving, and we would expect a return to somewhat modest volume growth for our main contracting business, whereas our subcontract mechanical and electrical engineering business is currently operating in more difficult market conditions, much like the UK

Discontinued operations
Following the completion of the operational and strategic review of our mainland European rail businesses we concluded that maintaining a rail presence in Mainland Europe was not consistent with our strategy of building a strong local presence in a number of market sectors In Mainland Europe we essentially only operate in rail, and therefore in March 2013 we announced our intention to divest these operations In March 2013 we sold the Spanish business to its management, and in December we announced the sale of the Scandinavian business to Strukton Rail BV, with the disposal completing in January 2014

+5%
Order book improvements

9
Student accommodation contracts

In Germany, trading has been very disappointing which resulted in an underlying loss from operations of £26 million mainly due to three complex joint venture projects with operational and stakeholder issues, and continued low levels of activity We have made progress to divest our interests in the business, completing a management buyout of the small signalling manufacturing capability and closing down the switches and crossing manufacturing capability Discussions with a number of potential buyers for the remaining parts of the German operation are ongoing At the half year, having reviewed the likely sales proceeds achievable on disposal, we wrote down the £38 million of goodwill within our German business to £nil

LOOKING FORWARD
Whilst the environment is still challenging in the UK, we have taken steps to improve operational delivery We continue to expect the mix of our order book to shift towards the regional business, as the ongoing recovery in the housing market stimulates work for the regional business The number of new major infrastructure projects to be awarded in the short term is expected to be low, with a small number of significant opportunities expected to arise Our overall UK strategy remains to exploit our market leading position, and to continue to drive efficiency and build our skills and depth of capability in construction to capitalise on a gradual recovery

In the US building market we expect to see a continued steady improvement in market conditions and tender opportunities We expect the strong order intake we have achieved in 2013 to lead to volume improvements in 2014, and we anticipate that a broader market growth will lead to improving bid margins on work for execution in 2015 and beyond Our strategy in US building is to leverage our world class processes, sector expertise and innovation on a national basis, targeting growth sectors In US infrastructure we have significant headroom to grow, especially as the market moves towards greater private investment and design and build projects

Overall, whilst margins are expected to remain under pressure, we anticipate improved profitability in 2014, with partial recovery in margins

Performance review

SUPPORT SERVICES

HIGHLIGHTS

- Revenue +10% as a result of strong performance in UK power and gas sectors
- Strong underlying profit from continuing operations with improved operating margin
- Executed in line with strategic objectives the disposal of WorkPlace for £155 million

% OF TOTAL REVENUE

Read more on p3

FINANCIAL PERFORMANCE

The Support Services order book for continuing operations finished the year at £4 1 billion, down 11% from a year ago (2012 £4 6 billion) As expected, the order book has declined in the power sector as we have completed the first year of the £1 1 billion contract with National Grid to upgrade the UK's gas distribution network The order book has reduced in the water sector as the AMP5 regulatory water cycle nears completion in 2015 Revenue for the year was up 10% at £1,265 million, as a result of strong performance in the power sector – up 18% on 2012

Underlying profit from continuing operations increased to £55 million (2012 £30 million), resulting in an underlying operating margin of 4 3% compared with 2 6% in 2012 There was a particularly strong performance, accompanied by better than expected high volumes on power transmission in the fourth quarter, as well as a small settlement of multi-year commercial issues in the water sector

Transportation also had a good performance with improved performances across Highway services, Local Authority roads and rail renewals

The 2012 order book for power was restated during the year following the reallocation of work packages with our internal joint venture with the Professional Services division

OPERATIONAL PERFORMANCE

The power sector, a key growth sector for the Group, now accounts for over a third of our support services activities We continue to develop our power business in both overhead line and cabling capabilities, whilst helping clients maintain their significant asset base On overhead lines we made excellent progress on the Beauly-Denny replacement electricity transmission line contract for Scottish and Southern Energy This contract involves the development, design and construction of a 200km overhead line and associated civil works In cabling we continued to make progress on the delivery of the Humber Gateway offshore cabling contract for E ON In the US there was good performance on our New Energy Alliance with National Grid

The Gas Distribution Strategic Partnership contracts with National Grid to replace ageing networks in the Northwest and West Midlands are fully mobilised and are performing well We also made progress on our joint venture contract in the Republic of Ireland to replace and extend the gas network on behalf of state operator Bord Gais

In the water market, we continued to perform well on our AMP5 water contracts As the AMP5 regulatory water cycle draws to a close, we are working with a number of water companies to manage a smooth transition to the AMP6 cycle without unnecessary changeover disruption As water companies choose their partners for the next cycle, we have already won a three-way joint venture contract worth a potential £1 5 billion with Thames Water While the 23-month early contractor involvement is in our order book (£10 million), the vast majority of this work is yet to be booked Also under AMP6, Yorkshire Water extended our existing contract to 2020 which is worth £70 million

In transportation, we were successful in winning important highways work for local authorities At the start of 2013 we added the £150 million Wiltshire Highways contract to our order book The contract commenced work in May 2013 and since then we have been working progressively with the client to resolve a number of start-up issues We won a £200 million contract with Herefordshire Council in July and this project has mobilised in line with our expectations Other contracts in our portfolio, including West Sussex and the street lighting portfolio, performed well For the Highways Agency, the Area 10 contract to operate maintain and improve over 500km of motorway and trunk roads in the Northwest fully mobilised during the year and there was excellent performance on the M25 contract Through our Connect Plus Services joint venture we manage the operation and maintenance of 250 miles of road critical to the UK's transport network

9

contracts in the UK Highway Maintenance arena

4.3%
Operating margin

WORKING INNOVATIVELY WITH NATIONAL GRID

In a joint venture with M J Electric we formed an alliance with National Grid This New Energy Alliance (NEA) provides innovative ways for National Grid to deliver design, build and programme management of substations and transmission lines across New England, US The outcome has been 28 varied and challenging projects, with a total value of £300 (US$499) million, successfully completed on time and within budget

Read more online balfourbeatty com/nea

In the rail renewals market we continued to work with Network Rail and London Underground to renew and improve service levels across the rail network

Discontinued operations
In December, we completed the sale of our UK facilities management business to GDF Suez Energy Services for £155 million in cash This sale represents an important step in our evolution as we intensify our focus on the creation and management of infrastructure assets The business contributed £19 million to underlying profit from operations up to the date of disposal

LOOKING FORWARD

We work for clients across the regulated and public sector, all of whom need to manage financial pressures, whilst improving the quality of the infrastructure that facilitates our daily lives This will continue to provide opportunities for us, as clients look to outsource work, and seek innovative solutions in the provision of that work, but also presents challenges in an increasingly competitive environment

In the near term, we see growth coming from the water and local authority sectors In the water sector, we are actively bidding for AMP6 contracts with a number of the major water companies with a focus on offering broader solutions for clients leveraging on our recent success with Thames Water The continuing outsourcing trend by local government will provide additional growth opportunities for Balfour Beatty Living Places, which increasingly, looks to leverage its strong position in the highways and street lighting markets to provide additional complementary services to local authority clients

Volumes in the power transmission sector are likely to reduce as current contracts complete and we anticipate our 2014 revenue will be down about £100 million We will continue to target new opportunities outside the UK and seek opportunities in the power market linked to the changing nature of the energy industry across the globe as new sources of power in new places need to be connected into existing infrastructure We are well placed to take advantage of UK cabling opportunities expected in 2014

We have continued to see increasing competitive pressure in the routine rail renewals market over the year and are no longer bidding for Network Rail's track renewal work, with our existing contract running to the end of the first quarter of 2014 We anticipate our 2014 revenue will decline in this area by approximately £60 million

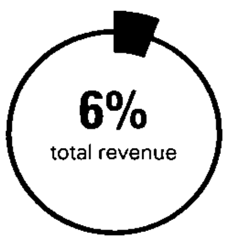
Looking to 2014 we expect overall revenues to drop in line with the order book Taking into account the change in mix of business and some closure costs of exiting the rail renewals work, margins are expected to reduce in 2014

Performance review

INFRASTRUCTURE INVESTMENTS

HIGHLIGHTS
- Strong financial performance, including £82 million in disposal gains
- The portfolio remains substantial and diverse with a current Directors' valuation of £766 million
- Financial close on eight projects, with another three advancing to preferred bidder stage

% OF TOTAL REVENUE



Read more on p3

FINANCIAL PERFORMANCE

The Investments business delivered another successful year of growth, establishing a strong presence in new markets and generating a significant increase in underlying pre-tax profits to £132 million (2012 £97 million), whilst growing the value of the portfolio The pre-disposals operating profit of £20 million was up £3 million on the previous year as strong growth in US military housing income and the favourable impact of cost savings throughout the division more than outweighed the decline in UK income as a result of disposals Net interest income, a significant element of total income, also increased by £2 million to £30 million

Following another strong year, the disposals programme delivered an increase in gains from £52 million in 2012 to £82 million in 2013, after recycling £21 million (2012 £48 million) of revaluation reserves from other comprehensive income to the income statement The disposals realised value significantly above both the Directors valuation and our own expectations Despite the disposals, the PPP investments portfolio remains substantial and diverse, and the Directors' valuation increased to £766 million using constant discount rates at the end of 2013 (2012 £734 million) including the benefit of £76 million of inflation and operational performance gains

OPERATIONAL REVIEW

We continued to perform well in 2013, reaching financial close on eight projects with another three advancing to preferred bidder stage The student accommodation market remained a key growth area for us in the US and UK in 2013, as we secured four new projects with a construction value of over £500 million

Our strategy to diversify further our economic infrastructure capabilities delivered successes with preferred bidder appointment on the £346 million Gwynt y Môr Offshore Transmission Owners (OFTO) project and financial close on the Birmingham Bio Power waste wood gasifier project These projects represent significant progress for our business and the continued evolution of our portfolio

In addition to growing the business in new end markets we have continued to expand our Investments business geographically At the start of 2014 we achieved a significant milestone as we secured our first win in Canada, with a preferred bidder appointment on the £196 million (C$350 million) BC Children's and Women's hospital redevelopment project in Vancouver The Canadian pipeline remains strong and we are actively pursuing a number of other social and economic infrastructure opportunities In Australia we are working on a number of waste transportation and accommodation projects

UK

In the UK our most active markets were predominantly student accommodation, power and waste

We reached financial close on two projects in the student accommodation market during the year the £63 million Holyrood Postgraduate Student Accommodation and Outreach Centre project for the University of Edinburgh and the £45 million Penglais Farm New Residences Project for Aberystwyth University Notably these projects were financed with long term debt from institutional investors, supporting the UK Government s drive to encourage low cost pension fund investment in infrastructure Building at both sites has commenced with the first phases of both projects contracted to be delivered in the autumn, although Aberystwyth has incurred programme delays at the beginning of 2014 with the extreme weather conditions We continue to see further bidding opportunities in the sector in 2014

In the UK power sector, the preferred bidder appointment for the Gwynt y Môr project strengthened our position in the OFTO market Greater Gabbard OFTO (£317 million) achieved financial close in November, with the Thanet OFTO (£163 million) expected to reach financial close during 2014 Through these project successes we have developed a leading investor position in this growing market and supported the Group's wider strategy for developing our delivery capability in offshore transmission

We continue to see opportunities for development in the waste market, achieving financial close on two waste projects in 2013, although these projects can suffer from planning delays

£82m

strong financial performance including £82 million in disposal gains

We achieved financial close on the Gloucestershire waste project, but this is currently subject to a planning appeal on which we anticipate the outcome will be announced later in 2014 We continue to work on a pipeline of biomass opportunities We are making good progress with our Essex waste treatment facility, construction is now well underway and it is on schedule to open in 2017

North America
In the US, military housing remains a key aspect of our portfolio with 21 operational projects In August 2013 we reached financial close on the $442 million Northern Group project for the US Air Force, which consists of six bases This project requires managing all development, operations and maintenance, property management, construction, renovation and demolition services for 4,540 homes We again demonstrated our ability to launch innovative funding structures, with the project being financed by institutional investors through a bond issue in the US In addition we also assumed property management services for the ACC III military housing privatisation project

We have continued to make significant progress in the student accommodation market, as we share learning and best practice across geographies for the benefit of our clients We completed the building of a 233-bed facility for Lake Forest College, Illinois We successfully reached financial close on the University of Iowa and University of Nevada projects in 2013 In the third quarter of 2013, we announced two significant preferred bidder positions in this market with the $500 million University of West Florida project followed by our second preferred bidder appointment with Texas A&M University for the $200 million College Station project We anticipate further growth opportunities in this sector in 2014

We are also progressing on our strategy to utilise our developer capabilities in North America Through our involvement in the Lake Forest College project and Tarleton State University (Phase 1) project, we have created an opportunity to earn development fees, while also generating income for the Construction Services division without investing Group capital This is further demonstration of how the investments business is able to deliver additional value to the wider Group beyond simply earning a return on invested capital Diversification is also taking place in our military housing business as we explore opportunities for third party management, leveraging our management service capabilities We secured our first win in this market in January 2013 with the Carriage House Townhomes project

We were delighted to secure our first project success in Canada with the preferred bidder appointment in January 2014 on the BC Children's and Women's hospital redevelopment project representing a significant win for the Group Construction is expected to commence in April 2014 and the new facility will be completed in June 2017

Disposals programme
We had considerable success during 2013 as we continued our disposal strategy through the full or partial disposal of a number of our mature UK PFI assets generating an accounting gain of £82 million, and at a value of £45 million in excess of their Directors' valuation These included our 50% interests in four PFI schools projects in Birmingham, Bassetlaw, Stoke and Rotherham, our 50% interests in two PFI hospital projects in Salford and Tameside, and partial equity disposals in the Carlisle Northern Development Route (CNDR) and A30/A35 road, where we have retained strategic interests of 25% and 20% respectively We continue to see strong demand for these assets in the secondary market

Investment management business
In 2011 we launched an investment management business, Balfour Beatty Infrastructure Partners (BBIP) Alongside external investors we have a total commitment of $110 million, which we expect to be drawn down and invested over the next three to four years The fund has so far raised approximately $500 million and made a number of investments and commitments acquiring 10 operational UK solar projects in the UK, and entering into a definitive agreement (subject to regulatory approval) to acquire a regulated electric utility business in Michigan We anticipate subsequent closes to the fund during 2014

LOOKING FORWARD
Our primary objective continues to be the investment in projects where we can use our investment skills and expertise to maximise the broader benefit to the Group's growth and development We will continue to evolve our developer capabilities to realise new opportunities for the Investments business and the broader Group We have a significant pipeline of work globally as we continue to pursue a variety of PPP and non-PPP opportunities We anticipate a continuation of our disposals programme as a means of realising the value in mature assets but expect the gains to revert to a more sustainable level of approximately £40 million in 2014

DEVELOPING STUDENT ACCOMMODATION FOR TEXAS A&M UNIVERSITY

Our $200 million student accommodation project at Texas A&M University is our sixth student accommodation project in the US It is a collaboration between Balfour Beatty Campus Solutions who will be lead developer and our US construction business, based in Dallas, who will be the construction partner

Read more online balfourbeatty com/texasstudent

DIRECTORS' VALUATION OF PPP CONCESSIONS

The size and composition of our investment portfolio continues to develop and reflects the successful implementation of our investment recycling programme as well as further investments in new and existing markets

We continue to achieve value through the disposal, either in whole or in part, of mature assets while continuing to hold strategic investments in individual projects, or market sectors, which offer downstream supply chain opportunities for the Group or potential areas for market growth We remain active in using our investment capability to develop new markets and have successfully transferred our capability and experience to invest in a number of new sectors with eight projects in the UK in student accommodation, off shore transmission and waste and three student accommodation projects in the US

The Directors' valuation is intended to provide an indicator of the value intrinsic in our PPP investment portfolio and illustrate movements in underlying values between periods, highlighting the impact of intervening transactions, through the application of a consistent methodology It does not set out to estimate the market value of the investments in the portfolio

The valuation is based on the forecast investments and returns of the projects based on current projections, and may differ significantly from the book value of the investments shown in the accounts

The values are calculated using a discounted cash flow methodology, discounting all future cash flows to Balfour Beatty at a fixed rate This rate is 9 5% pre shareholder tax for the UK portfolio and 12% pre shareholder tax for the US portfolio

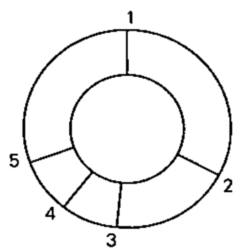
As part of our investment recycling programme we sold part or all of the Group's stake in eight PFI projects in 2013 50% shareholdings in four schools (Stoke, Rotherham, Bassetlaw and Birmingham), 50% shareholdings in two hospitals (Tameside and Salford), 75% of our 100% shareholding in Carlisle Northern Development Route and 65% of our 85% shareholding in the A30/A35 concession In each case the value realised was substantially above the Directors' valuation

During the year Balfour Beatty achieved preferred bidder status on a student accommodation project for Aberystwyth University and on the Gwynt y Môr Offshore Transmission Owners (OFTO) project We successfully closed the Birmingham Bio Power project and two US student accommodation projects for the universities of Iowa and Nevada In addition, shortly after year end Balfour Beatty won its first Canadian PPP hospital project in British Columbia This project is not included in the Directors' valuation as it had not achieved preferred bidder status at 31 December 2013

We were also appointed preferred bidder on two student accommodation projects in the US but these have not been included in the Directors' valuation

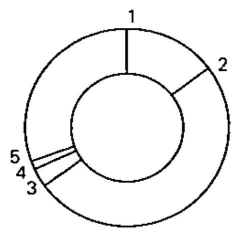
Portfolio valuation December 2013

Value by sector



Sector	No projects (2012)	2013 £m	2012 £m
1 Roads	12 (12)	**253**	260
2 Hospitals	5 (7)	**144**	156
3 Schools	9 (13)	**68**	91
4 Other	11 (9)	**69**	44
BB Investments UK	37 (41)	**534**	551
5 BB Investments US	24 (22)	**232**	183
Total	61 (63)	**766**	734

Value by phase



Stage	No projects (2012)	2013 £m	2012 £m
1 3+ years post construction	10 (13)	**113**	150
2 0–3 years post construction	16 (18)	**385**	355
3 Construction	9 (6)	**24**	26
4 Preferred bidder	2 (4)	**12**	20
BB Investments UK	37 (41)	**534**	551
5 BB Investments US	24 (22)	**232**	183
Total	61 (63)	**766**	734

Movement in value 2012/2013 £m

	2012	Equity invested	Distributions received	Disposal proceeds	Gain on disposals	Unwind of discount	Rebased	New project wins	Inflation and operational performance	FX translation	2013
BB Investments UK	551	25	(54)	(128)	45	52	491	2	41	–	**534**
BB Investments US	183	23	(29)	–	–	22	199	2	35	(4)	**232**
Total	734	42	(79)	(128)	45	74	688	6	76	(4)	**766**

as the clients are yet to determine the financial structure of the projects

The table above shows the changes in the value of our portfolio over the past year, based on

- the 2012 valuation
- PLUS equity invested during the year
- LESS distributions received during the year
- LESS the sale value of disposals during the year
- PLUS the gains we made from disposals in the year over and above the Directors' valuation of those interests
- PLUS the 'discount unwind' – the increase in value as time passes, bringing future distributions closer

Together, these changes give us the 'rebased' figure The rebased figure is the roll forward of the prior year valuation, adjusted for known movements before new wins or changes in operational performance

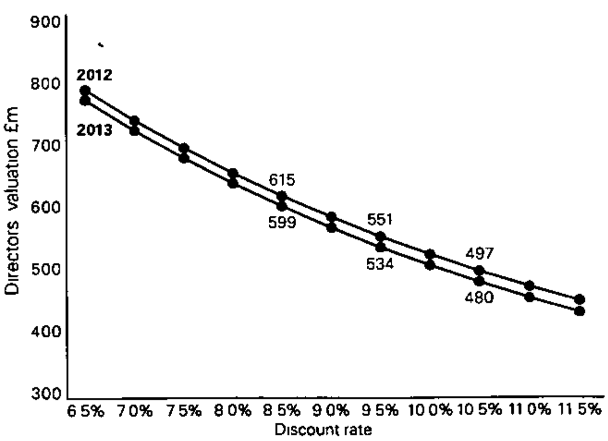
- PLUS new project wins during the year
- PLUS inflation and operational performance gains which reflect improvements or reductions in the performance of the investments – these may be due to changes in inflation, changes in demand, revisions to costs and other factors The UK portfolio is showing a large gain in performance this year, primarily due to the recognition of higher inflation to date on the M25 concession upon leaving construction stage, and more generally improvements in forecast inflation and costs across the portfolio The US portfolio also shows a large increase which is primarily due to higher than expected increases in rental allowances in US military housing projects
- LESS the effect of foreign exchange movements on our portfolio value

Together, these give us the valuation of the 61 PPP projects in our portfolio at the end of 2013, which includes three projects at preferred bidder stage (two in the UK portfolio and one in the US)

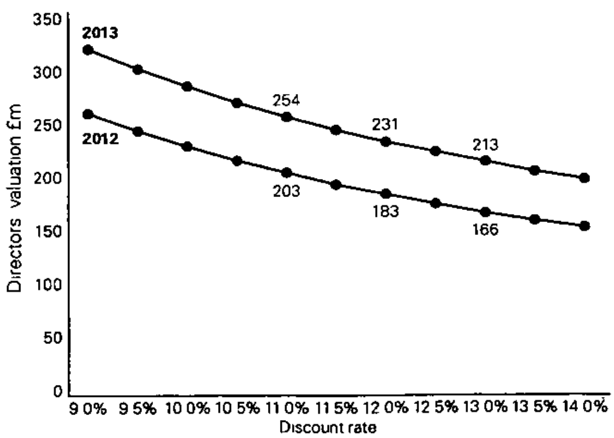
The graphs below give the value of each portfolio over a range of pre shareholder tax discount rates

Valuation – The portfolio value at a range of discount rates

Balfour Beatty Investments UK



Balfour Beatty Investments US



THE WAY WE WORK

The reach of Balfour Beatty spans many countries, cultures and operating environments It is therefore key that we operate to high ethical and professional standards regardless of location

Our approach to sustainability is broad and reflects a conviction that sustainability strategy should be central to how we run the business

HEALTH AND SAFETY

In 2013, we set new and challenging requirements for our business

We launched our Zero Harm Roadmap that charts the Health and Safety (H&S) maturity from a level of minimum expectation in 2013 to one of Health and Safety excellence by 2017 Alongside the Roadmap we introduced our Global Safety Principles (GSPs), a set of rules that define the way we work, developed as a result of investigations into serious incidents across the business Each of our business areas has developed plans to improve safety in these key areas

Read more about our GSPs online

Despite the overall improvement, there were, unfortunately, five work related fatalities during 2013 across our Group – two in the UK, two in Germany and one in our joint venture business in Hong Kong (2012 8, 2011 5) All the individuals killed were employed by sub contractors In 2013, there were also three non-work related fatalities

Every fatal accident is subject to a thorough investigation and a detailed review by the Chief Executive and his executive team Lessons learned are shared across the Group to help improve future performance and prevent it happening again

As a result of workplace injuries, our workers lost 5,996 days during 2013 This is an improvement on 2012 (6,342) and a significant 35% reduction on 2011 (9,218) 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 3,273 total injuries were sustained by our workforce in 2013 which is 15% less than 2012 (3,845)

From 2014, we have replaced Accident Frequency Rate (AFR) with Lost Time Injury Rate (LTIR) as our primary lagging indicator of H&S performance LTIR includes all lost time injuries and injuries resulting in restricted duty and transfers As such, this universally recognised measure, is a better indicator towards our goal of Zero Harm For future comparison our LTIR in 2013 was 0 23 compared to 0 26 in 2012 and 0 29 in 2011

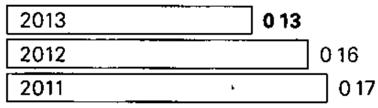
During 2013, 12 Chief Executive reviews were held covering each business area and joint venture business These intensive reviews allowed Andrew McNaughton to measure progress against the Zero Harm Roadmap and GSPs gap analysis performed early in the year They also served as a discussion forum for concerns around meeting specific requirements and established a process to review H&S annual action plans by which each successive level of H&S performance will be achieved

In 2014 and beyond, our Zero Harm goals of zero fatalities, zero disabling injuries, zero injuries to members of the public and zero new cases of long term harm to health, will remain As we head into 2014, we are renewing our focus on the elimination of fatal risks and increasing the level of personal accountability for safety

Our overall Group performance once again improved in 2013

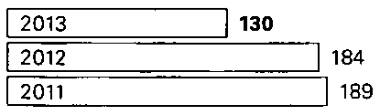
The Group Accident Frequency Rate (AFR)
Improved by 19% down to 0 13 from 0 16 in 2012 81% of our businesses recorded an improved or zero AFR for 2013

–19%



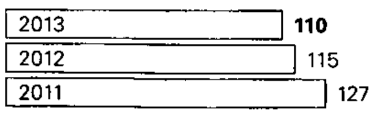
Major injuries
130 major injuries were reported in 2013 This is a 29% improvement on 2012 and a 31% improvement on 2011 Of those major injuries reported two were classified as permanently disabling compared to one in 2012

–29%



Injuries to the public
There were 110 injuries to members of the public in 2013 a reduction of 4%

–4%



ETHICS AND VALUES

We have continued to embed our ethics, values and compliance programme across the business, building on the sound foundations developed over the previous three years and focusing in areas where we believe we are most at risk

Through our ongoing cycle of corruption risk assessments, training, reviews of financial and commercial activities and audits of our anti corruption procedures we have focused on assessing how well embedded our programmes are

Human rights have rapidly increased in prevalence and are emerging as a new ethical risk priority We view human rights primarily as an extension of our determination not only to treat our employees with respect but also to obtain assurance about ethics in our supply chain Wherever we work in the world we ensure we do not exploit anyone and we will refuse to work with any individual or organisation that fails to uphold these standards Intrinsic to our values is our belief in upholding the fundamental rights and freedoms of individuals set out in the United Nations Universal Declaration of Human Rights

One of the features of 2013 has been the gradual increase in the number and rigour of questions from clients seeking assurance about our ethics and values and, specifically, our anti bribery compliance programme Similarly, we continue to work with our own supply chain to embed a shared commitment to ethical business conduct, helped by our Code of Conduct for our sub contractors, suppliers and partners

It is important to do more than just have a Code of Conduct We also need to ensure it is properly embedded throughout the organisation and that we work with partners and suppliers who have similar values We have an extensive programme of compliance internally and it is pleasing to note that during the year, the Red Flag Group awarded us 'Best Supplier Code of Conduct', describing our Code as "one of the most cutting edge, innovative and complete codes out there today"

As ever, we continue to emphasise the importance of promoting our Ethics Helpline and other channels by which employees, sub contractors and suppliers, and others can raise concerns about possible unethical conduct We have witnessed a stabilisation in the number of such cases over the last two years, but we still receive what we consider to be a healthy number, indicating that people continue to share our commitment to upholding our Code of Conduct We treat each case sensitively and investigate it thoroughly

Since we launched the Code of Conduct training 90% of our office based employees have completed module 1 and 84% have completed module 2

Unfortunately we do not always get this right We have previously acknowledged using the services of the Consulting Association up until 2009 to carry out reference checks (blacklisting) on employees in the construction industry It should not have happened and we have apologised to the workers and families who may have been adversely affected over the years by this

For Balfour Beatty, this is an historic issue Following the receipt of the Information Commissioner's Enforcement Notice in 2009, we took steps to address the shortcomings revealed in our data protection practices, which included the introduction of a Group wide data protection policy and a revised ethical Code of Conduct, both introduced in 2009

Balfour Beatty is one of eight UK construction companies which have joined together to establish The Construction Workers Compensation Scheme to compensate workers whose names were on the Consulting Association database The scheme is expected to launch in 2014

Awarded Best Supplier Code of Conduct

by the Red Flag Group, describing our Code as "one of the most cutting edge, innovative and complete codes out there today"

Number of Ethics Helpline cases

276

Year	Cases
2013	**276**
2012	273
2011	280

Number of Ethics Helpline cases (excluding HR grievances)

205

Year	Cases
2013	**205**
2012	221
2011	232

Since its inception the number of office based employees to have completed Code of Conduct module 1

90%

Since its inception the number of office based employees to have completed Code of Conduct module 2

84%

THE WAY WE WORK CONTINUED

PEOPLE

In 2013, the Group has sought to maintain its commitment to development, career progression and active talent management across its global workforce of approximately 40,000 employees

The reduction in workforce numbers from approximately 50,000 employees reported in 2012 is largely related to the divestment of WorkPlace in December 2013 By continuing to invest in the capabilities and leadership of our people, we continue to both enhance the quality of services we deliver to our clients and communities and promote the Group as an 'employer of choice so we attract and retain the best people in our sectors

Comprehensive training and people development programmes are embedded within each business area and country, as appropriate, to ensure close and timely alignment to the specific demands and challenges of our respective global markets These are also conducted within the context of a Groupwide Organisation and People Review (OPR) to ensure consistency of methodology and visibility to talent, succession planning and career opportunity across the Group The OPR also enables the centralised and focused development of key leadership talent

During 2013, we continued to run a small number of centrally sponsored development programmes One programme, the Advanced Management Programme, is designed to support the transition of participants to leadership positions and to enable them to network and share knowledge with others from across the business and different functional activities This was expanded in 2013 to include 'unconscious bias' training to enhance our commitment to diversity and inclusion amongst our leaders

Our agility in deploying talent and experience to develop infrastructure opportunities across multiple geographies is a key differentiator and Balfour Beatty received the gold award from the Forum for Expat Management in recognition of being the EMEA based Company with the 'Best Global Mobility Programme in the Industrial/Energy Sector ' The Company also won the silver award with the 'Most Effective Relocation Management Strategy 2013 ' Balfour Beatty had 136 international assignees at the start of 2013, with a further 120 expatriate assignees during the course of the year and a further 70 employees who either redeployed internationally on an immediate local basis or were localised during the year

We also joined other UK employers in the 5% Club to create momentum for graduate and apprentice recruitment and development, by committing to 5% of our workforce to structured training schemes in the next five years To meet this commitment, we will be reporting progress towards this goal in future Annual Reports against the 2014 starting point set out below

Graduates	**428**
Represents graduates recruited over the last three years on a graduate training programme 125 were hired in the UK in 2013 as part of a global graduate hiring population of 428 (29 2%)	
Apprentices	**258**
Sponsored students	**46**
Total structured trainees in UK	**724**
Total UK workforce	**21,729**
% structured trainees	**3 3%**

The Group has improved in its commitment to diversity and inclusion, maintaining our Bronze rating in the UK 'Opportunity Now' and 'Race for Opportunity' gender and racial diversity assessment ratings We were also commended for our leadership commitment to diversity and the content of our Group diversity strategy and action plans In 2013, of the 125 graduates recruited in the UK, 22% were women and 18% from an ethnic minority background, compared with 101 recruited in 2012 of whom 21% were women and 15% from an ethnic minority background

	Male	Female	Total	% male	% female
PLC board	**8**	**2**	**10**	**80**	**20**
Directors of subsidiaries	**423**	**42**	**465**	**91**	**9**
Senior Management[1]	**163**	**24**	**187**	**87**	**13**
Group	**30,117**	**8,495**	**38,612[2]**	**78**	**22**

[1] Members of Group Head Office and Divisional Senior Leadership teams
[2] Excluding discontinued operations

Times Top 100

We regained our position as one of the UK's leading graduate employers in the Times 'Top 100'

Across our entire workforce, our female employees account for 22% (2012 23%, 2011 25%) a modest reduction, despite the divestment of WorkPlace which had a disproportionately higher female employee population However, within senior management, this figure is 12 9% (2012 12 3%, 2011 12 6%) Whilst there are many commendable actions taking place across the Group in this area, there remains considerable work to be done to achieve our aspirational 'best in class' state We have developed a Diversity Action Plan, integrated into our Sustainability Roadmap, which includes multiple activities to improve the mix of our workforce at all levels, including proactive recruitment measures, unconscious bias training, leadership development participation and the establishment of affinity networks across the business

Female employees across entire workforce

2013	22%
2012	23%
2011	25%

We regained our position as one of the UK's leading Graduate Employers in the Times 'Top 100' and were recognised as one of the leading construction companies to work for by the 'Job Crowd' whilst our US construction business was recognised by Fortune magazine as one of 'the best companies to work for' for a fourth consecutive year

ENVIRONMENTAL PERFORMANCE

At the beginning of the year we revisited our sustainability strategy and aligned it more closely with the long term goals of the business, namely to be client focused, embedded in the local community, efficient, innovative and responsible

The leading position we now occupy in sustainability strategy and performance is a consequence of a concerted effort to develop knowledge and practice in all our businesses over the past seven years In most markets we are a recognised sustainability leader and valued adviser to our clients

This position is reflected in our Carbon Disclosure project (CDP) score of 87/100, which places us second in our sector We were also rated Gold in the BitC index The quality of our reporting was once again recognised by the Building Public Trust Awards FTSE 250 Sustainability Report Award where we were 'Highly Commended '

More importantly, this leading position is reflected in the performance we have delivered along key dimensions of sustainability – such as carbon waste and local employment – for our clients

Standards
Sustainability is an integral part of modern infrastructure projects our public sector clients require conformance to standards such as BREEAM, LEED and CEEQUAL and these are also a key consideration for planning authorities Sustainability is allowing us to enrich the dialogue we have with our clients Our knowledge allows us to help them achieve the required standards efficiently and to incorporate features that enhance the whole life performance of their projects

Sustainability advisory services enhance our programme management offering For example the Parsons Brinckerhoff team secured a renewed commission for sustainability advisory services to the California High Speed Rail Programme this year

Scope 1 and 2 carbon emissions
Since establishing our baseline in 2010, we have reduced our overall scope 1 and 2[1] emissions by 31,459 tonnes of CO_2 equivalent (CO_2e) by 7%

Our CO_2e emissions/£m turnover dropped from 42 4 tonnes of CO_2e/£m to 35 6 tonnes of CO_2e/£m since 2010

In the UK, our Scope 1 and 2 emissions have come down from 264,343 tonnes of CO_2e in 2010 to 192,231 tonnes of CO_2e in 2013

Our 2015 goal is to achieve a minimum reduction of 20% 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 clients and shareholders

Additionally, a number of our clients 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 22% of our Scope 1 and 2 emissions In 2013, it became the first construction company in Hong Kong to implement ISO 14064-1, the international standard for quantifying and reporting greenhouse gas (GHG) emissions, and to have its Scope 1 and 2 GHGs independently verified This verification was carried out by SGS

Further information on the measures we have taken to reduce our CO_2 emissions can be found online

balfourbeatty com/efficient

[1] Scope 1 emissions include those resulting from the combustion of the fuel and operation of facilities Scope 2 emissions result from the purchase of electricity heat steam and cooling for own use The full descriptions can be found within our reporting guidelines found at www balfourbeatty com/efficient

Absolute tonnes of CO_2e

	Base year 2010	2011	2012	2013
Scope 1	347,011	361,994	331 823	**305,398**▲
Scope 2	119,058	135,830	133,938	**129,212**▲
Total gross emissions	466,069	497,824	465,761	**434,610**
Total carbon emissions per £m revenue	42 4	42 7	40 4	**35 6**

Scope 1 & 2 carbon intensity
Scope 1 and 2 greenhouse gas emissions intensity has reduced by 12% (tonnes CO_2e/£m)

-12%

2013	**35 6**
2012	40 4
2011	42 7

CDP
Our score in the most widely used global sustainability index, measuring carbon performance and environmental governance has increased since 2012

+12%

2013	**87/100**
2012	78/100
2011	78/100

Water intensity
Since improving our approach to monitoring water we have seen a small, improvement in our water intensity (m³/£m) in the areas of our business where we monitor this

-3%

2013	**339**
2012	348
2011	307

Waste intensity
Improvements in our reporting and the introduction of new projects have led to an increase of our waste intensity (tonnes of waste sent to landfill/£m) in the areas of our business where we monitor this

+10%

2013	**98**
2012	89
2011	100

ENVIRONMENTAL PERFORMANCE CONTINUED

GHG reporting and assurance

Our greenhouse gas (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 (revised edition) 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 We developed reporting guidance specific to our business for the calculation of GHG emissions which can be found online 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 2013 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 also incorporated emissions data for Parsons Brinckerhoff North America and Indonesia in the 2013 data set, these were not reported previously

We have restated our Scope 2 emissions to account for the Government's changes to electricity conversion factors (ie the removal of the grid rolling average) and updated our emissions data for 2010, 2011, and 2012 as a result

We engaged KPMG LLP to undertake a limited assurance engagement, reporting to Balfour Beatty only, using the International Standard on Assurance Engagements ('ISAE') 3410 'Assurance Engagements on Greenhouse Gas Statements' and ISAE 3000 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' over the selected greenhouse gas (GHG) performance data that have been marked in this report with the symbol Δ (see table on page 41)

KPMG LLP has provided an unqualified opinion in relation to the selected GHG performance data and their full assurance opinion is available in the sustainability section of our website

Read more online

4

environmental incidents resulting in enforcement actions and fines

The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance engagement In order to reach their opinion, KPMG LLP performed a range of procedures which included interviews with management, examination of reporting processes and documentation, as well as selected data testing at an operating company and Head Office 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 selected GHG performance information contained within the Annual Report and Accounts 2013 in the context of KPMG LLP's full limited assurance opinion Our reporting guidelines for the selected GHG performance data are available on our website

balfourbeatty com/reporting

Environmental protection

Against a backdrop of tighter global environmental legislation, we had just four environmental incidents (2012 4, 2011 6) resulting in enforcement action and fines totalling £13,260 (2012 £66,800, 2011 £18,800)

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, with the aim of maximising 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 we operate For example the Group's UK tax contribution extends significantly beyond corporate tax, where the size of our workforce means we not only collect very large amounts of income tax, but also pay over £100 million in employer's national insurance contributions in a typical year

7,000

over 7,000 hours of volunteering by our US teams

CONNECTING WITH OUR COMMUNITIES

Our business helps build healthy communities and we strive to achieve this as well through the community engagement programmes we support

Through the Balfour Beatty Charitable Trust, we work in partnership with charitable partners in the UK and support, through funding and volunteering effort, specific projects which are targeted at improving the employability and employment opportunities of young disadvantaged people We also believe that participation in sport has an important role to play in helping build self-confidence, team skills and healthy lifestyles

With unemployment amongst young people at such high levels in many of our markets, this theme particularly resonates with us and with our employees We have the opportunity to help nurture the next generation of workers, not only for their own health and well-being, but also more broadly, for the wider economy and our sectors, in particular

In the UK, through our charitable trust, we have built strong relationships with Action for Children, the Coram Foundation and the Prince's Trust and, in addition from 2013, with a new partner, Barnardo's

Since 2009, via a mix of employee fundraising and core financial support provided by the Company, our Trust has contributed over £2 million, as well as having been instrumental in organising in-kind support, including employee volunteering

£383,100

contribution by the Balfour Beatty Charitable Trust in 2013

Outside the UK, our businesses and employees participate in a wide range of community-led activities, contributing both financially and through volunteering

In the US, we have developed our Community Involvement Challenge, which provides employees of Parsons Brinckerhoff with the opportunity to take part in a friendly but competitive challenge to create community engagement events outside the workplace Not only does this help teamwork but in 2013, over 7,000 hours of volunteering effort and over 220 pints of blood have been donated by staff

Our US construction business, has adopted the Balfour Beatty Spirit programme which has contributed over US$1 4 million to a variety of charitable causes Examples of our charitable projects include

- building or refurbishing more than 65 houses for elderly low income residents of Dallas through the Hearts & Hammers programme – an 18 year commitment
- donating pro bono construction services to build the Castle of Miracles and other facilities at Give Kids the World Village in Orlando, Florida, this provides seriously ill children and their families with a well deserved escape and a week of fun in Disney theme parks
- building school playgrounds for disabled children in Charlotte, North Carolina

In South Africa, we have been examining how we can work more strategically and long term with social enterprises, charities and schools and have provided financial support to help with food and shelter for poor, homeless and unemployed mothers and their children In Australia, we have been helping to maintain essential infrastructure in remote aboriginal communities and have provided essential training in carrying out day-to-day tasks like cleaning solar panels and checking fuel levels

Balfour Beatty has been the lead sponsor of the London Youth Games since 2008 During this period, participation in the Games has multiplied fourfold For our business it brings multiple benefits including engaging our employees who volunteer at the Games, supporting government relations, helping client relationships and supporting the communities around London where we operate

Despite the adverse economic conditions which have existed over recent years and which inevitably has led to variable contribution levels, we are enormously proud of the way our employees have continued to engage with and support our core charitable programmes

GET INTO & THE PRINCE'S TRUST

In 2013, we provided 11 young unemployed Londoners with a step up on the career ladder through the Prince's Trust's 'Get into' construction programme 'Get into' provides young disadvantaged people with the skills and confidence they need to find a job

Since 2009, we have supported more than 200 young people across the UK through work placements on 'Get into' This is the fourth of 18 courses planned and we remain committed to sharing our knowledge and expertise with young people to help them get into work and develop their careers

SUSTAINABILITY Healthy Communities
balfourbeatty com/sustainability

Our 2013 Strategic Report, from pages 1 to 43, was approved by the Board on 5 March 2014

Andrew McNaughton
Chief Executive

CHAIRMAN'S INTRODUCTION

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

Areas of focus in 2013
- Transition to new Chief Executive
- Appointment of two non-executive Directors
- Operational delivery – focus on Construction Services UK and implementation of its recovery plan
- Implementation of business strategy – concentrated focus on key recovery markets, UK and US
- Remuneration policy review – dialogue with shareholders completed in Q1 2013 No fundamental changes to the policy proposed for 2014

Areas of focus in 2014
- Operational delivery
- Financial performance including cash generation

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

Leadership and effectiveness
Our areas of focus for the Board in 2013 and 2014 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

The transition from Ian Tyler to Andrew McNaughton as Chief Executive, went smoothly

During 2013, two of our non-executive Directors, Mike Donovan and Hubertus Krossa, retired after several years of successful service on the Board Both have been replaced, as referred to in my Chairman's Review on page 1, with Directors who bring with them, amongst other things, a wealth of experience of related sectors and a sound knowledge of building businesses in an international and professional services environment Although Belinda Richards and Bill Thomas only joined us in September 2013, they have already attended several Board and Committee meetings as well as strategy working group meetings They have also given significant time to participating in a comprehensive induction programme which has enabled them to meet with senior leaders in each part of our business

Diversity
We have reported elsewhere in this report on our diversity and inclusion programme, which extends over a three-year timeframe to 2015 Belinda Richards was appointed as our second female Director increasing the female composition of our Board to 20% 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 More information on our diversity programme across the organisation is set out on page 40

Accountability
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 terms of reference of the Board and its Committees and will make adjustments as considered necessary Any changes to the terms of reference are published on our corporate website Towards the end of 2013, the Audit Committee carried out a comprehensive review of its terms of reference in light of best practice, which culminated in a proposal coming forward to the Board in January 2014 The proposal was accepted and the Audit Committee has now been renamed the Audit, Risk & Assurance Committee to reflect this increased level of focus on risk more generally The Committee will, in future, meet five times each year with a separate meeting concentrated entirely on risk related matters

Read more online in our Investors section

Remuneration
In Q1 2013, the Remuneration Committee carried out a limited consultation exercise with major shareholders on the structure and targets of the annual incentive plan and the long term performance share plan These proposals were broadly accepted by those shareholders and the proposals were subsequently included in our Remuneration Report, which was submitted to shareholders for approval, at the Annual General Meeting in May 2013 Although the resolution had an overwhelming majority, we were disappointed that there was a 25% vote against the Remuneration Report We had not received any notification ahead of the AGM that there was any disquiet with the content of the report and, in the absence of any information to the contrary, believe

this understandably reflected shareholder concerns following the publication of our trading update in April which signalled a poor performance in Construction Services UK We will continue to maintain our close dialogue with shareholders on remuneration matters The remuneration policy will be subject to a binding vote for the first time at our AGM in May 2014

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 shareholders Further information on our investor programme is set out on page 65 Our continued commitment of resources and time to investor communication in our major home market of the US continues to derive benefits and around 16% of our share capital continues to be held by US investors We will continue to seek out ways how this proportion might grow over time

Steve Marshall
Chairman

MEASURING A LASTING LEGACY

We are replacing the existing 132kV overhead line from Beauly to Denny with an upgraded 400kV line, capable of carrying much more electricity, on behalf of Scottish Hydro Electric Transmission Through collaborative working with our client, we are developing a data framework to measure the social, economic and environmental impact of major projects to improve the planning and implementation of future projects

SUSTAINABILITY Environmental Limits
balfourbeatty com/beaulydenny

BOARD OF DIRECTORS

CHAIRMAN AND EXECUTIVE DIRECTORS

STEVE MARSHALL
Non-executive Chairman

Age 57 Appointed a Director in 2005 and Chairman in May 2008 He is non-executive chairman of Wincanton plc and Biffa Group Holdings Limited, and a non-executive director of Halma p l c He is a former chairman of Delta, Torex Retail and Queens' Moat Houses He was chief executive of Thorn and of Railtrack Group, having also served as group finance director at each company His earlier career included a wide range of corporate and operational roles at Grand Metropolitan, Black & Decker, BOC and Burton Group He is a Fellow of the Chartered Institute of Management Accountants and a member of its governing council

2 3 4

ANDREW MCNAUGHTON
Chief Executive

Age 50 Appointed to the Board as Chief Operating Officer in 2009, he additionally assumed the role of Deputy Chief Executive in 2012 and was appointed Chief Executive in March 2013 He joined Balfour Beatty in 1997, having spent 12 years with the Kier Group, and held the position of managing director of Balfour Beatty Civil Engineering from 2004 to 2007, when he became Group managing director with responsibility for civil engineering in the UK and the Group's interests in the Middle East He is a Fellow of the Institution of Civil Engineers, a Liveryman in the Worshipful Company of Engineers and a vice-president of the Institution of Civil Engineers In January 2014, he was appointed a Business Ambassador by the UK Government, to promote British infrastructure capabilities globally

3 5 6

DUNCAN MAGRATH
Chief Financial Officer

Age 49 Appointed to the Board in 2008 He joined Balfour Beatty in 2006 as deputy finance director from Exel He spent 13 years at Exel in a number of senior finance roles in both the UK and US, latterly as director of investor relations and financial strategy Prior to this he worked at Price Waterhouse 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

Age 60 Joined the Group in 1981 and became Planning and Development Director in 1991 after a series of senior positions in the finance function He is responsible for the Group's merger, acquisition and divestment activities as well as the development of Group strategy Previously, he worked at the London Business School and UMIST He is a governor of Birkbeck, University of London

5 6

Board Committees Colour Code

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

NON-EXECUTIVE DIRECTORS

ROBERT AMEN
Non-executive Director

Age 64 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 New Page Corporation, a US manufacturer of coated papers, and currently serves as an executive-in-residence at Columbia Business School

1 2 3

IAIN FERGUSON CBE
Senior Independent Director

Age 58 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 and a non-executive director of Greggs plc 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

2 3 4

MAUREEN KEMPSTON DARKES
Non-executive Director

Age 65 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 and Irving Oil Company She is a member of the Canadian Government's Science, Technology and Innovation Council

2 3 4

BELINDA RICHARDS
Non-executive Director

Age 55 Appointed a Director on 1 September 2013 Until 2010, she was global head of Deloitte's Merger Integration and Separation Advisory Services business, a business she started and successfully grew Prior to this, she was vice-president of Cap Gemini, Ernst & Young's Post-Acquisition Integration and Separation Services business, and was previously at KPMG She is currently a non-executive director of Grainger plc, Resolution Limited and Friends Life Limited and a member of the advisory council of the Centre for the Study of Financial Innovation

1 2 3

GRAHAM ROBERTS
Non-executive Director

Age 55 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

BILL THOMAS
Non-executive Director

Age 54 Appointed a Director on 1 September 2013 Until 2009, he was senior vice-president and general manager, Europe, the Middle East and Africa of Hewlett-Packard Prior to this, he held a succession of senior roles at Electronic Data Systems (EDS), culminating in his appointment as executive vice-president for EDS Europe, the Middle East and Africa He is currently a non-executive director of The Co-operative Bank plc, GFI Software SARL and Xchanging plc He is also chairman of the international advisory board of Cranfield School of Management and a member of the advisory board of Leeds University Business School

1 2 3

DIRECTORS' REPORT

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

AUDIT, RISK & ASSURANCE COMMITTEE

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

Read more on p55

NOMINATION COMMITTEE

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

Read more on p58

REMUNERATION COMMITTEE

- Remuneration strategy and policies
- Remuneration packages
- Incentive plans

Read more on p58

BUSINESS PRACTICES COMMITTEE

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

Read more on p60

GROUP TENDER AND INVESTMENT COMMITTEE

- Major contract approvals
- Acquisitions and disposals
- Capital expenditure

Read more on p61

FINANCE AND GENERAL PURPOSES COMMITTEE

- Banking facilities and other treasury matters
- Share options

Read more on p61

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 Financial Conduct Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year

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 is an integral element in 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 2014, 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
The Board currently comprises 10 Directors, of whom seven, 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 at the year end are shown on pages 46 and 47 together with brief biographical details Full details of Directors' service agreements, emoluments and share interests are shown in the Remuneration Report starting on page 68

Belinda Richards and Bill Thomas were appointed as non-executive Directors on 1 September 2013 Ian Tyler, Hubertus Krossa and Mike Donovan retired from the Board on 31 March, 16 May and 1 October respectively Mr Tyler remained as an employee until 30 April 2013

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 continues to include an appropriate balance of skills and retains the ability to provide effective leadership Having said this, there is a need to introduce further sector specific experience amongst the non-executive Directors and the Board will be considering how it might best address this over the coming months 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 below

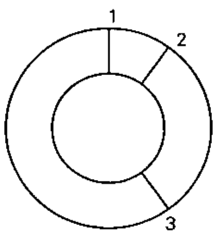
Matters reserved for the Board
The Board is collectively responsible for the success of the Company and has a formal schedule of matters reserved for its decision which includes the matters summarised below

- 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

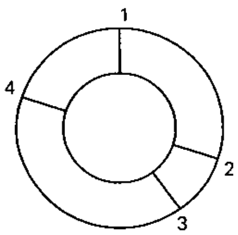
The Board reviewed its list of reserved matters, most recently, at its meeting in March 2014 The terms of reference of the Board and the Board Committees are available on request from the Company Secretary and are also displayed on the Company's website Descriptions of the specific responsibilities which have been delegated to the Chief Executive and to the principal Board Committees are also provided on page 50 and pages 55 to 61

Read more online in our Investors section

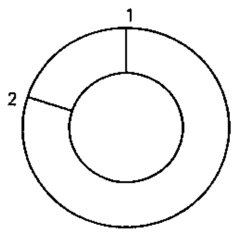
Board balance
1 Chairman **1**
2 Executive Directors **3**
3 Non-executive Directors **6**



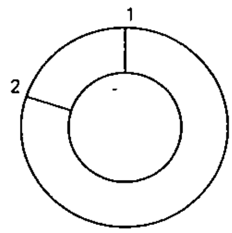
Board tenure
1 0–2 years **3**
2 2–4 years **1**
3 4–6 years **4**
4 6+ years **2**



Board geography
1 UK **8**
2 Americas **2**



Board diversity
1 Male **80**
2 Female **20**



Non-executive Directors – significant strengths

	Strategic development	Operating performance and delivery	Mergers and acquisitions	Business integration	Financial management and planning	Sector specific
Robert Amen	●	●	●		●	
Iain Ferguson	●	●				
Maureen Kempston Darkes	●		●	●		
Steve Marshall	●	●			●	●
Belinda Richards	●		●	●	●	●
Graham Roberts	●		●		●	
Bill Thomas	●	●		●		●

	Experience of international markets	Health and safety	Risk management and assurance	HR management	Stakeholder engagement	Ethics values and culture
Robert Amen	●		●			
Iain Ferguson	●	●		●		●
Maureen Kempston Darkes	●			●		●
Steve Marshall		●		●	●	●
Belinda Richards			●		●	●
Graham Roberts			●		●	
Bill Thomas	●					

Chairman and Chief Executive

The two roles are complementary The Chairman is responsible for managing the business of the Board, whilst the Chief Executive actually runs the business As the senior executive officer of the Company, the Chief Executive is responsible to the Chairman and Board for directing and prioritising the profitable operation and development of the Group The Chairman and 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 Chief Executive and reviewing with the 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

Steve Marshall spends an average of two days a week on Company business The Board is satisfied that his role as non-executive chairman of two other companies, and his other business and charitable commitments, can be accommodated without hindering his ability to carry out his duties as Chairman

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

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

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 68

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 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

2013 meeting programme

In 2013, in part due to the difficult trading conditions encountered in the early part of the year, the Board met on 13 occasions All these meetings, except one, were held at the Company's head office in London The Board also visited the headquarters of Infrastructure Investments and participated in a comprehensive briefing on the case for disposal of hospital and school PPP investments in 2013 and a detailed consideration of the division's wider portfolio

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

On the evening preceding a Board meeting, 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 For example, in 2013, one of the themes focused on investor relations One of the dinners each year is attended by the Chairman and the non-executive Directors only, whilst a second includes the Chief Executive, but none of the other executive Directors

Each 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 its meetings monthly updates from the 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 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

2013 Board topics

The following topics were also addressed by the Board during 2013 under each of the themes shown For clarity, a synopsis of certain of the topics has been included as well

The Board specifically addressed the Chief Executive's objectives for 2013 which identified those key tasks over and above his normal responsibilities, which include ensuring that the Group achieves its overall budget performance This was of particular relevance in light of Andrew McNaughton's promotion Where appropriate, each of the objectives had identified milestones and each one was integral in moving the organisation forward along its stated path Specific objectives included the development of the market sector structure and market entry strategies the pursuit of the four principal efficiency projects across the Group, the disposal of the Mainland European rail business and the continued development and progress of the Zero Harm safety programme

As mentioned above, the Board met an unprecedented 13 times during 2013 driven by

- the operational delivery and financial performance issues which had emerged and culminated in the trading update in April
- the disposal of Balfour Beatty WorkPlace

After ensuring that suitable stabilisation measures had been put in place in Construction Services UK where the issues had arisen, the Directors concentrated on monitoring progress against the performance improvement plan which had been drawn up by the divisional management team

Finance
- Budgets 2013 and 2014
- Annual and half-year results including pre-close statements
- Dividend strategy
- Financing capacity and options – future cash needs of the Group and approval of both a US private placement and an issue of convertible bonds in 2013
- Trading updates

REPLACING OVERHEAD POWERLINES AROUND THE GLOBE

Our international overhead line teams have been continuing to work on major projects in Australia and Hong Kong during 2013 In Australia, our joint venture with United Group Limited, has been undertaking a £60 million replacement of over 100km of overhead transmission line on behalf of Powerlink Queensland In Hong Kong, our joint venture Gammon Construction is reinforcing, refurbishing and upgrading 500km of overhead transmission line to protect against typhoon weather conditions Our dedicated training facility in the Philippines has helped invest in the skills and expertise of local people

SUSTAINABILITY Profitable Markets
balfourbeatty com/power

Operational performance
- Health and safety – performance across the Group and the status of the Zero Harm programme
- Efficiency programme – reviews of each of the four 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, India, Brazil, 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 business was progressing including information on investments made in the year

HR
- Transition to new Chief Executive
- People planning, talent and succession management – review of detailed divisional management succession plans, the encouragement of cross-divisional and cross-geographical moves and diversity and inclusion policies and practices across the Group, including associated action plans
- Organisational structure
- Pensions

DIRECTORS' REPORT CONTINUED

Strategy
- Group strategy development and structuring options – development of the business model to help differentiate and enable the organisation to operate as a connected services group as the most effective way to deliver greater value to our clients, to improve operating performance and cost effectiveness and enhance shareholder value Consideration was given to the shape of the operating model and how the Group might best develop the core UK and US markets and strengthen the business in other specific geographies
- Rail strategy and business review

Mergers, acquisitions and divestments
- Acquisition reviews covering the period from 2000 to 2012 This incorporated a detailed analysis of the Parsons Brinckerhoff acquisition in 2009 and crucially, the lessons learned from each of these acquisitions
- Disposal of Balfour Beatty WorkPlace
- Approval of Infrastructure Investment asset disposals in 2013
  - Tameside and Salford Hospitals
  - Four Midlands-based schools projects
  - Carlisle Northern Development Route and A30/A35 roads (partial equity disposal)
  - Exeter Airport

Risk
- Risk management review – Australia and New Zealand

For 2014, the Board is scheduled to meet eight times 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 and one meeting will be held overseas, most likely in the US, to link with our businesses in this geography

2013 Board and Board Committee meetings

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 following table

Name of Director	Board	Audit Risk & Assurance	Audit Risk & Assurance Sub-Committee	Business Practices	Nomination	Remuneration
Robert Amen	13 (13)	4 (4)	4 (4)	3 (3)	1 (1)	
Mike Donovan (to 1 October 2013)	9 (12)	3 (3)	3 (3)	2 (2)	0 (1)	
Iain Ferguson	11 (13)			2 (3)	1 (1)	3 (3)
Maureen Kempston Darkes	11 (13)		3 (4)	3 (3)	1 (1)	0 (0)
Hubertus Krossa (to 16 May 2013)	7 (8)	2 (2)		1 (1)		2 (2)
Duncan Magrath	13 (13)					
Steve Marshall	12 (13)			3 (3)	1 (1)	3 (3)
Andrew McNaughton	13 (13)				1 (1)	
Belinda Richards (from 1 September 2013)	2 (2)	1 (1)	1 (1)	1 (1)	0 (0)	
Graham Roberts	13 (13)	4 (4)	4 (4)		1 (1)	3 (3)
Bill Thomas (from 1 September 2013)	2 (2)	1 (1)	1 (1)	1 (1)	0 (0)	
Ian Tyler (to 31 March 2013)	3 (3)					
Peter Zinkin	13 (13)					

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 illness or prior business commitments 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

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, Messrs Marshall, Magrath and McNaughton each attended all the Audit, Risk & Assurance Committee meetings in 2013, including Sub-Committee meetings whilst Mr Ferguson attended three Sub-Committee meetings The Business Practices Committee was also attended on each occasion by Mr McNaughton

Further information about the work of each of the Board's Committees may be found on pages 55 to 61

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 the Board portal, which includes Balfour Beatty s Code of Conduct, processes for dealing in Balfour Beatty shares and Board procedures, as well as the minutes and papers of past Board and Board Committee meetings In addition, they also take part in a series of one-to-one meetings with other members of the Board and senior executives which include briefings on the Company's business strategy, financial procedures, business development, legal and other key issues

In the case of Ms Richards and Mr Thomas, this process commenced immediately on their appointment on 1 September 2013 and was substantially completed by the end of the year In addition to meeting the UK-based divisional CEOs, both non-executive Directors have met with the CEOs of Professional Services and Construction Services US in the UK It is our intention to organise visits for both Ms Richards and Mr Thomas to the US in 2014, when any remaining segments of their induction programme will be completed

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

During 2013, the non-executive Directors visited three projects in the UK where they received detailed briefings and met with senior management and project personnel

- power transmission project in Kent (Canterbury–Sellinge overhead line refurbishment scheme)
- student accommodation (King's Cross, London)
- Crossrail (Whitechapel, London)

Owing to the increased Board meeting commitment in 2013, as well as additional meetings of the Audit, Risk & Assurance Committee and separate business strategy working group sessions, the number of visits organised for the non-executive Directors was reduced

In 2014, three visits are planned for the non-executive Directors which will concentrate, as in previous years, on key strategic topics The first visit has been organised and will focus on Construction Services UK One of the three visits in 2014 will be to the US

USING BIM TECHNOLOGY TO DELIVER A KEY CENTRAL LONDON LOCATION

Our UK construction business was awarded a £87 million contract to construct 260,000 square feet of new commercial and retail space across two eight storey blocks in central London We are using 4D Building Information Modelling (BIM) technology to mitigate potential risks and disruption to the public and other stakeholders

SUSTAINABILITY Environmental Limits
balfourbeatty com/stjames

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 Prior to 2013, the last external evaluation was carried out in 2010

For 2014, the evaluation will be conducted using internal resources, the output from which will be reported in 2015

2013 evaluation
The Board appointed Boardroom Review to conduct its evaluation in 2013 This was conducted between January and March 2013 and the scope of the evaluation is shown below

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
- Oversight of risk and 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, tenure and independence
- Non-executive Director succession planning
- Effectiveness of the Nomination Committee
- Effectiveness of the Chairman, Committee chairs and Directors

The Board's use of time
Planning
- Diligence of executive and non-executive Directors' preparation
- 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

The conclusions reached were more qualitative than quantitative and based on a careful analysis of the Board's approach to its work, its contribution to the success of the Company and its preparation for the future During the review, evidence was garnered from in depth interviews with each of the Directors and other senior management personnel and from the observation of the reviewer of the conduct of the Board and Board Committees and the presentation of Board and Committee information

The principal themes ensuing from the evaluation in 2013 are set,out below

Strengths
- Individual contribution, current Board composition and strong chairmanship
- Positive strategic outcomes and thoughtful consideration of shareholders' views
- Historical financial reporting, the development of KPIs and effective Audit, Risk & Assurance and Business Practices Committees
- Constructive executive culture, a practical Remuneration Committee and well conducted Chief Executive succession process
- Thoughtful calendars, agenda and Board support

HOWEVER THE FOLLOWING KEY AREAS OF FOCUS WERE IDENTIFIED FOR 2013	
Evolution of Board culture and future composition	The Board has been refreshed in 2013 with the recruitment of two new non-executive Directors, including a second female Director Both the new non-executive Directors bring with them a proven track record in professional services, which will boost the Board's overall sector specific experience Further strengthening of the sector specific experience will be addressed during 2014 The appointment of the new Chief Executive in 2013 afforded a valuable opportunity to effect structural and cultural changes within the organisation A strong relationship exists between the Chairman and the Chief Executive and there is a constructive level of non-executive Director oversight
Development of competitive benchmarking	In response to today's rapidly changing environment and new business model, more time has and will be spent on competitors and clients A re-definition of the Group's value proposition has been included as part of the strategy review There has been greater challenge on the divisional landscape, market trends and expectations The identification of better benchmarking processes and evolving client needs are both areas being pursued through 2014
Improvements to forecasting, the oversight of risk and the internal audit function	The Chief Financial Officer and the Audit, Risk & Assurance Committee have worked hard to provide reliable historical financial reporting and the development of KPIs has been helpful Through the work which has been undertaken in Construction Services UK, with management's focus on both leading and lagging indicators, forecasting has been high on the Board's agenda and will continue to be so through 2014 The Audit, Risk & Assurance Committee has conducted a series of risk management "deep dives' across a number of the divisions There will be a continuing focus on developing robust processes that capture critical risks and provide perspectives from divisional executives on key and emerging risks, potential options and responses The Committee has also undertaken a review of the long term development of the internal audit function, the conclusions of which are being implemented during 2014

AUDIT, RISK & ASSURANCE COMMITTEE

Meetings in 2013 4, plus 4 Sub-Committee meetings

Members
- Graham Roberts – chair
- Robert Amen
- Belinda Richards
- Bill Thomas

Former members (retired in the year)
- Mike Donovan
- Hubertus Krossa

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 they have 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 'fair, balanced and understandable' 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 Minutes of Committee meetings are circulated to all Board members

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 independent non-executive Director who is not a Committee member has an open invitation to attend meetings The Committee also invites other executives from within the Group to participate in Committee discussions

Summary of activities in 2013
In 2013, 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 56 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 thoroughly reviews these reports at each of its meetings and 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 major litigation and tax, in the latter case, approving how the Group's tax strategy should evolve

The Committee also received a presentation from the UK governmental department responsible on the threats of cyber security and considered the proposals which had been made to mitigate against these risks Messrs Marshall and Roberts also participated in a survey on cyber security issued by the UK Government

Response to CSUK operational issues
The Committee established a Sub-Committee in May, chaired by Mr Roberts and comprising non-executive Directors, to monitor and oversee the performance of Construction Services UK and the plan of action which the divisional management team had devised to deliver the required operational and financial performance in 2013 In addition, the Sub-Committee also reviewed the remit and structure of the internal audit function including its annual plan The Sub-Committee met on four separate occasions and received detailed briefings on each occasion from senior management in Construction Services UK

Fair, balanced and understandable
With the introduction of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Board has been particularly mindful of the 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 and the verification process The Committee received a briefing on the approach proposed by management and members received drafts of the Annual Report for comment earlier than had been the case in previous years, as have all the Directors more generally The content has also been shared at an earlier stage with external auditors and other external advisers in order that they can help identify whether there are any material inconsistencies between the strategic report, the other narrative sections and the financial statements

DIRECTORS' REPORT CONTINUED

AUDIT, RISK & ASSURANCE COMMITTEE CONTINUED

Significant issues and other accounting judgements
In forming its view of the significant issues and accounting judgements for the year ended 31 December 2013, the Committee took into consideration the views of management and the external auditor through a combination of written reports and discussion On page 55 attention is drawn to the action taken by the Committee following the trading update in April 2013 and the focus on Construction Services UK In addition, the following significant issues and judgements were carefully considered

Revenue and margin recognition	Given the nature of the Group's operations these elements are central to how the Group values the work it has carried out Having reviewed detailed reports and met with management, the Committee considered those contract and commercial issues where there was exposure to both revenue and margin recognition risks The Committee received a report from management showing the outcomes of earlier projects which enabled the Committee to gain an overall impression on whether management was being overly optimistic or pessimistic in its conclusions 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
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 macro economic assumptions (such as discount rates) underpinning the valuation process The Committee received reports from management outlining the basis of the assumptions used The strategic plan was approved by the Board In addition, the external auditor provided detailed written reports to the Committee in this area During the year, the Committee reviewed the impairment assessment of the European Rail businesses carried out by management and concluded that an impairment charge of £38m should be recorded in relation to Rail Germany
Accounting for acquisitions and disposals	For a disposal, the Committee considers the judgement around 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 the Group strategy and evaluates the likelihood that the business will be disposed of within a 12 month period and whether it constitutes a separate major line of business There were no acquisitions in 2013
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
Non-underlying items	The key judgement is whether the items being considered relate to the underlying trading or not and whether they have been presented in accordance with the Group's accounting policy in this area 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 Specifically, the Committee reviewed the curtailment charge arising in the Balfour Beatty Pension Fund, the restructuring of a number of the Group's businesses and the European Rail and Balfour Beatty WorkPlace disposals
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 obligation 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 Group's strategic plan is reviewed together with considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable Taking into account the past, the Committee has to assess how credible the future view of the business is through its strategic plan
Directors' valuation of PPP concessions	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 2014
In 2014, 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 A fifth meeting will be organised specifically to focus on the risk management agenda itself The Committee will also continue to receive training in order to broaden and refresh the skills and knowledge of its members

Risk management and internal control
The Group's risk management and internal control systems and processes were subjected to close scrutiny following the discovery of the operational delivery issues in Construction Services UK in 2013 Further details on the review of the effectiveness of the system of risk management and internal control are provided on pages 62 to 64

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 2013, 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 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 (71% by value) was carried out using the services of major international audit 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 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

The external auditor's annual transparency report for the year ended 31 May 2013 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

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 UK Competition Commission's decision following its enquiry into the statutory audit market was published in October 2013 This will lead to FTSE 350 companies having to put their statutory audit engagement out to tender not less frequently than every 10 years The UK Corporate Governance Code is also expected to be amended to reflect this decision by the Commission With this in mind, the existing lead engagement partner's final year of engagement, which commenced in 2011 will be for the year ending 31 December 2015 For audit relationships, where the last tender was before 1 January 2005, the audit should be put out to tender within two years of the end of the current audit partner's five-year engagement period On this basis, the Group audit would need to be put out to tender by the end of 2017

However, the Committee's current intention is to tender the audit earlier than formally required so as to coincide with the last year of the current audit partner's engagement The tender process itself would then take place during the second half of 2015 for approval at the 2016 AGM and would be effective for the year ending 31 December 2016

NOMINATION COMMITTEE

Meetings in 2013 1

Members
- Steve Marshall – chair
- Robert Amen
- Iain Ferguson
- Maureen Kempston Darkes
- Andrew McNaughton
- Belinda Richards
- Graham Roberts
- Bill Thomas

Former members (retired in the year)
- Mike Donovan
- Hubertus Krossa
- Ian Tyler

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

"Succession planning across the Group and the composition of the Board specifically will be the key areas of focus in 2014"

Summary of activities in 2013
In 2013, the Committee's work programme entailed recommending to the Board the appointment of two new non-executive Directors in place of the retiring Hubertus Krossa and Mike Donovan as non-executive Directors

In seeking suitable candidates for the non-executive Director vacancies, Korn Ferry, an external executive search agency, was engaged The Committee identified the competences sought and the required experience, and the agency prepared a shortlist of potential candidates who were interviewed by members of the Committee and by the executive Directors

Key determinants in the selection of Belinda Richards and Bill Thomas were the enormous strengths they would bring in change management and B2B client focus whilst also having significant experience in building businesses in an international and professional services environment

The executive search agency appointed for the recruitment of the non-executive Directors has no other connections with Balfour Beatty

Areas of focus in 2014
In 2014, the Committee will monitor the appropriateness of the composition of the Board and make recommendations concerning the need for the introduction of non-executive Directors to refresh the Board It is accepted that enhancing the sector specific experience of the non-executive Directors, which commenced in 2013, should be continued The implications of the business strategy on 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 2013 3

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

Former members (retired in the year)
- Hubertus Krossa

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

"Ensuring the current remuneration policy and the appropriateness of the short and long term incentive arrangements properly meet the needs of the organisation, remains high on the Committee's agenda"

Summary of activities in 2013
In 2013, the Committee's work programme comprised the following principal topics

Bonus payments
In common with previous years, the Committee determined that it would be appropriate to take into account certain other matters in assessing profit before tax (PBT), namely (i) the impact of acquisitions and disposals (ii) the application of a constant exchange rate and (iii) the impact of PPP asset disposals

2012 annual bonus payment date
The Committee sought views on the practices of other companies in response to the reduction in the top rate of income tax from 6 April 2013 The Committee concluded that no deferral of the 2012 annual bonus was justified The release date of maturing share awards under the Deferred Bonus Plan was maintained at the normal maturity date

2010 PSP performance conditions
The EPS growth calculation was below the minimum level of achievement and the TSR measure showed Balfour Beatty at a position between 11 and 12 when compared against the remaining 21 peer companies, which meant there would be no vesting of the 2010 Performance Share Plan (PSP) awards The Committee required a consistent approach to be applied when calculating TSR and, because of the proximity to the median level, commissioned an external review by the Committee's remuneration advisers, to ensure the components of the TSR calculation were appropriate and being applied correctly

2013 annual bonus and PSP structure and targets
The Committee considered the proposals which had emerged following discussions between the Committee chair and the Committee's remuneration advisers concerning possible changes to the structure of the annual bonus and long term incentive plan (PSP), whilst the organisation was in transition, and as management moved forward with the implementation of the new business strategy Minor changes to the remuneration policy emerged as a consequence of applying certain adjustments to the performance metrics for the annual bonus and the PSP, including the adoption of TSR only measures for PSP awards made in 2013

A consultation exercise was undertaken with major shareholders which culminated with their broad agreement of the proposals, further details of which are included in the Remuneration Report on pages 68 to 84

The Committee also reflected on the "cap and collar" restriction applied to PPP asset disposals (+/-20% of budgeted sales value) and agreed to include an additional allowance which could be attributed for bonus calculation purposes

The Committee approved, after consultation with major shareholders, a special incentive for the Chief Financial Officer (CFO) under the PSP, details of which are included in the Remuneration Report on page 79 Performance conditions were set The reason for the special incentive award was to recognise the work which the CFO would undertake in 2013 in relation to cost control, asset disposals and the change to the business mix, whilst working alongside the new Chief Executive

Executive Directors' salary review
The Committee did not sanction any salary increases in 2013 for the executive Directors, other than in relation to Mr McNaughton, who was appointed Chief Executive on 31 March

Remuneration policy and long term incentive plan review
The Committee decided not to embark on a remuneration policy and long term incentive review in 2013, preferring instead to maintain for the executive Directors the two TSR measures for the PSP in 2014

2013 AGM and BIS reporting requirements
The Committee had reflected on the significantly lower vote in favour of the Remuneration Report at the AGM in 2013, which it concluded could be attributed largely to investors' concerns around the financial performance of the Group following the operational issues in Construction Services UK, rather than specific issues with the remuneration policy, which had only recently been reviewed by major shareholders As part of the new UK Department for Business, Innovation & Skills (BIS) reporting requirements, the Committee also undertook a detailed analysis of the structure and content of the 2012 Remuneration Report to understand the scale of any changes required in 2013 to satisfy the new BIS reporting requirements

Further information about the work of the Committee during the financial year is set out in the Remuneration Report starting on page 68

Areas of focus in 2014
In 2014, 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 ahead of the AGM in 2015

Remuneration Report p68

BUSINESS PRACTICES COMMITTEE

Meetings in 2013 3

Members
- Maureen Kempston Darkes – chair
- Robert Amen
- Iain Ferguson
- Steve Marshall
- Belinda Richards
- Bill Thomas

Former members (retired in the year)
- Mike Donovan – chair
- Hubertus Krossa

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

> "This Committee is evolving As well as its reputational risk responsibilities, 2014 will also see its scope widen to include other business practice areas"

Summary of activities in 2013
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 The Committee also has responsibility for reviewing contract commission arrangements

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 has moved away from risk mitigation to one of prevention The Committee did not focus on lagging indicators but on a series of leading indicators aimed at driving cultural change throughout the organisation The Committee acknowledged that difficulties arose 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 monitored the programme and milestones which had been set

The Committee considered fatality reviews, discussing in detail the emerging themes around supervision, communications and remote working

The Global Safety Principles were reviewed by the Committee in conjunction with management Gap analyses had been conducted for each business unit and a heat map prepared Action plans will continue to be reviewed by the Committee

The Zero Harm Roadmap will be kept under review during 2014 so that the Committee can monitor progress against the plan and a mid-year assessment will be conducted

Ethics, values and compliance
The Committee conducted a review of the compliance officer function across the Group and risk assessment and enforcement regimes Although the Code of Conduct and the accompanying ethics and compliance programme had become well embedded across the organisation, the Committee emphasised that work would still need to be done to similarly embed the Code and processes in joint ventures Progress would be monitored through 2014

A series of investigations into whistleblowing claims had been carried out through 2013 which were reviewed by the Committee The external monitor's report on Parsons Brinckerhoff's own compliance programme was thoroughly reviewed and the Committee noted the aim to continue to strengthen this programme The Committee will keep progress under observation

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

The 2013 action plan was monitored The strengthening of the ethics and compliance programme in emerging territories will feature on the Committee's agenda in 2014 This will be carried out in conjunction with the values programme with the intention of embedding the Code of Conduct requirements within each of the businesses in these emerging territories

People
The Committee completed a review of the Group diversity strategy and action plans and the current positioning in relation to gender diversity across the workforce The Committee will continue to monitor progress in 2014 against the measurements which have been identified and formally incorporated into the Sustainability Roadmap The Committee will also be keen to see how the diversity and inclusion programme is being expanded in 2014 to incorporate wider diversity including race, disability and age

Areas of focus in 2014
In 2014, 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 and client relationship management

GROUP TENDER AND INVESTMENT COMMITTEE

Meetings in 2013 Numerous

Members
- Andrew McNaughton – chair
- Duncan Magrath
- Peter Zinkin
- Kevin Craven
- Nick Flew
- Mark Layman
- Sandip Mahajan
- John Moore
- Brian Osborne
- George Pierson
- Nick Pollard
- Ian Rylatt
- Steve Tarr
- Chris Vaughan

Former members (retired in the year)
- Ian Tyler – chair
- Manfred Leger
- Mike Peasland
- Robert Van Cleave

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

"The Committee will continue to ensure internal approval processes are appropriate for major projects and capital expenditure"

The Committee is chaired by the Chief Executive, or in his absence by the Chief Financial Officer Its main purpose is to review all major proposed tenders with projected values above specified levels 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

An audit was carried out this year on how robustly the appraisal processes were being applied within selected divisions on projects which did not normally require prior Committee approval Whilst minor adjustments were recommended following the reviews, the overall appraisal processes undertaken by those divisions were judged by management to be both comprehensive and robust

Minutes of Committee meetings are made available to all Directors

FINANCE AND GENERAL PURPOSES COMMITTEE

Meetings in 2013 Numerous

Members
- Andrew McNaughton – chair
- Duncan Magrath
- Peter Zinkin

Former member (retired in the year)
- Ian Tyler – chair

Responsibilities
- Banking facilities and other treasury matters
- Share options

The Committee is chaired by the Chief Executive, or in his absence by one of the other executive Directors 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

Risk management and internal control

Risk management

Effective risk management underpins the delivery of our objectives It is essential to protecting our reputation and generating sustainable shareholder value We aim 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 20 to 23

Risk management processes are embedded throughout the Group at all levels and form an integral part of day-to-day business activity They 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 our 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 are set out below

	RESPONSIBILITIES	ACTIONS UNDERTAKEN
1 Board	• Responsible for the Group's systems of risk management and internal control • Determines Group appetite for risk in achieving its strategic objectives	• Issues and reviews Group risk management policy • Annually reviews effectiveness of Group risk management and internal control systems • 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 • 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 • 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 • Responsible for ensuring that the Group's risk management policy is implemented and embedded • Ensures appropriate actions are taken to manage strategic risks and other key risks	• Strategic plan and annual budget process • Reviews risk management and assurance activities and processes • Monthly/quarterly finance and performance reviews
3 Divisional management	• Responsible for risk management and internal control systems within their division • Ensures that business units' responsibilities are discharged	• Reviews key risks and mitigation plans monthly • Reviews and challenges business unit assurance plans • Reviews results of assurance activities • Escalates key risks to Group management and the Board
4 Business unit management	• Maintains an effective system of risk management and internal control within their business unit and projects	• Maintains and regularly reviews project, functional and strategic risk registers • Reviews mitigation plans • Plans, executes and reports on assurance activities

Risk management process

Our 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 their ability to deliver their, and the Group's, objectives

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

Risk registers and relevant action plans are regularly reviewed, at various levels throughout the business, to identify emerging risks, remove expired risks and update mitigation plans

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 or that import certain risks, or a move into new markets or work types, require approval by the Group Tender and Investment Committee Divisions have a delegated level of authority as well as their own approval and risk management committees and triggers

In addition to the delegation of authority and approval controls mentioned above, and the mitigations listed in the table of Principal Risks on pages 20 to 23, where possible we take a programmatic or management system approach to risks, which typically involves the following elements (or equivalent)

- strong leadership and accountabilities
- risk assessment
- clear policies
- education, training and communications
- appropriate procedures and controls
- monitoring, auditing and continual improvement

Such an approach is underpinned by our Group values and carefully balanced incentives Examples of this approach are our health and safety, commercial management, procurement, financial control and ethics and compliance programmes

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

All divisions and business units must have assurance mechanisms to ensure that their internal controls and actions designed to mitigate and eliminate risks are operating effectively 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 party reviews

Internal control

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

The Board continued to assess the effectiveness of the risk management processes and internal controls during 2013 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

Central to the Group's systems of internal control are its processes and framework for risk management These align with the Turnbull Guidance on internal controls and were in place throughout 2013 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

8.5p
final dividend (net) per ordinary share

- legal compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- a Group wide risk management framework which is embedded throughout the Group Under it, key risks are identified and assessed and action plans are developed to mitigate or eliminate unwanted exposures The results of these reviews are placed on risk registers and are subject to regular review, with material risks being escalated as appropriate
- 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 their division and business units which is in accordance with Group requirements

During the year, a difficult external environment combined with internal reorganisation resulted in poor operational delivery in the UK regional construction business and, to a lesser extent, the building part of the UK major projects business These factors led to a trading update being issued on 29 April, which disclosed that Construction Services UK was expected to deliver significantly lower profits from operations than management's expectations at the time of the full-year results announcement in March 2013

As part of its review of the effectiveness of the system of risk management and internal control, the Board has taken into account the events reported in the trading update of 29 April and the control enhancements that were adjudged to be necessary as a result

Actions taken to address these issues included

- the appointment of a new CEO of Construction Services UK
- an action plan to improve standards in key disciplines such as planning, cost estimating and commercial governance
- the enhancement of risk management processes to provide greater assurance that risks such as those which had materialised in Construction Services UK are better understood and addressed

In May 2013, a Sub-Committee of the Audit, Risk & Assurance Committee was appointed to monitor the progress of these actions and the wider performance of the UK construction services business This Sub-Committee met four times during the year

The Board has considered the progress that has been made in implementing the control enhancements considered necessary in the UK construction services 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 our profitability and ability to achieve strategic objectives are set out on pages 20 to 23

Other disclosures

Business and financial review
The Chairman's Review on page 1 and the Chief Executive's Report on pages 4 and 5, the Strategy Review on pages 10 to 19, Chief Financial Officer's Review on pages 24 to 27, the Performance Review on pages 28 to 35, and The Way We Work on pages 38 to 43 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 85 to 157 and are explained more fully in the Chief Executive's Report, 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 13 August 2013 and a final dividend of 8 5p (net) per ordinary share will be recommended at the Annual General Meeting, giving a total of 14 1p (net) per ordinary share, which compares with a total dividend per ordinary share of 14 1p (net) for 2012 Preference dividends totalling 10 75p (gross) per preference share were paid in 2013 (2012 10 75p (gross) per preference share)

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
Increasingly we are working in long term relationships with our clients and innovation plays an important role in building those relationships and creating additional value for our clients Our ability to innovate is therefore essential to our sustainability

Most of that innovation emanates from collaboration, with our clients, supply chain and by means of internal collaboration across our businesses For example, we have developed a pipeline inspection camera for use in live water and gas mains with technology specialist JD7 We participated in the development of a new sleeper system for London Underground with the client and two manufacturers with the result that track renewal productivity has more than doubled A collaboration on the M25 widening scheme involving some 10 partner organisations has resulted in the development of a rapid cure concrete that has reduced lane occupation times during maintenance by 80%

Our innovations are informed by research work at several academic partner organisations, including Salford University (BIM), Bristol University (systems engineering) and Pennsylvania State University (building energy performance) We sponsor three engineering doctorate students at Bristol in conjunction with the Engineering and Physical Sciences Research Council (EPSRC)

Our ability to collaborate has been enhanced by the growth in communities of practice, particularly those that involve participation from both our construction and professional services businesses, by the deployment of training in collaborative working practices and through our ongoing Group wide accreditation to the standard BS11000 Collaborative Business Relationships

Share capital and shareholders
Details of the share capital of the Company as at 31 December 2013, including the rights attaching to each class of share, are set out in Note 29 on pages 135 and 136 During the year ended 31 December 2013 no ordinary or preference shares were repurchased for cancellation 386,386 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 270,895 ordinary shares were issued following the exercise of options held under the Company's executive share option scheme

At 31 December 2013, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2013 to purchase through the market 68,848,254 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 2014 AGM or on 1 July 2014

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 2013, 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
Causeway Capital Management LLC	35,275,099	5 12
Prudential plc	35,103,707	5 10
Standard Life Investments Limited	25,104,162	3 65

Since 1 January 2014, the Company has received a further notification advising that Causeway Capital Management LLC's interest is now 4 87% and that Newton Investment Management Ltd has an interest of 5 16%

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

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 2013 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, 172 one-on-one and group meetings were held at regular intervals with institutional shareholders (2012 approximately 185) Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during hosted roadshows in London, Scotland, North America and Europe Balfour Beatty also presented at an investor conference In addition, our international management teams met with some of our largest shareholders, with meetings taking place during the year in Australia, Asia and the US

Separately, the Chairman held three meetings with major investors and five further meetings were held with major shareholders by senior executives as part of our ongoing engagement

We will maintain this communication programme and expand it where appropriate, subject to the constraints of regulation and practice The 2014 investor programme will focus on ensuring our 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 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 We continue to develop the Company's website to ensure it remains a principal source of information on the Group and its activities

Read more online

172
one-on-one and group meetings were held at regular intervals with institutional shareholders

Political donations
At the AGM held on 16 May 2013, 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 2014 AGM

In the US and Canada, donations totalling £165,692 were made by business units during 2013 (2012 £371 000) Most of these donations were made by Parsons Brinckerhoff, they were small and all were permitted by law They are non-partisan and, in the main, they relate 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 A review of existing practices was undertaken during 2013 and no changes to these practices were considered necessary

Parsons Brinckerhoff Group Inc sponsors a Political Action Committee (PAC) A PAC is an independently administered committee which receives small voluntary contributions from Parsons Brinckerhoff's US employees and allocates the funds received to US political candidates and other eligible stakeholders who support investment in infrastructure markets generally Contributions are entirely voluntary from employees and are kept completely separate from company funds Decisions taken by the PAC are independent of influence by Balfour Beatty Total PAC contributions in 2013 were £83,981 (2012 £88,019)

Corporate responsibility
A full description of our approach to sustainability, including information on the Group's community engagement programme, appears on page 43

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

12%
reduction in carbon intensity

Greenhouse gas emissions
Details of our emissions during the year and the actions which the Group is taking to reduce them are set out on pages 41 and 42 and form part of the Directors' Report disclosures

Employment
The Balfour Beatty Group operates across a broad spectrum of geographies and end markets In order that we can best serve our customers across such a complex and diverse business environment and remain agile to its ever-changing demands and challenges, we actively promote a decentralised management structure to ensure client centricity, speed of decision making and consistent operational excellence However, parallel with this decentralised approach, 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
- to enable all employees to perform at their best and realise their full potential, assisted by the appropriate training and career development
- to communicate the strategy of the Group, the objectives of each respective business and the role and objectives of each employee within that business
- to actively consult with all employees and engage in a participating environment that fosters the exchange of best practice, collaboration and Group cohesion of purpose
- to provide market competitive pay and benefits that reward both individual and collective performance
- to ensure that all job applicants receive fair treatment, regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
- to ensure that all employees similarly receive fair treatment throughout their career
- to 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 We are 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 all employee and executive share schemes in the UK further details of which are included in the Remuneration Report

In the case of the Share Incentive Plan (SIP), participants are invited by the SIP Trustee to indicate their voting preferences on resolutions submitted to shareholder meetings and the SIP Trustee will vote its holding in accordance with those instructions Shares held by the Balfour Beatty Employee Share Ownership Trust are not voted

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 corporate website

Employee diversity
Information concerning employee diversity is set out on page 40 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 144

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 146 to 150

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 details on pages 55 to 57 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
5 March 2014

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

REMUNERATION REPORT

I am pleased to present the Remuneration Committee's report for 2013 on Directors' remuneration

This report will be subject to two shareholder votes at the forthcoming AGM

- the Directors' Remuneration Policy Report sets out the forward looking Directors' remuneration policy for the Company which will, subject to shareholder approval, become formally effective from the 2014 AGM
- the Annual Report on Remuneration provides details of how the policy for 2014 will be operated and the remuneration earned by Directors in the year ended 31 December 2013

Summary of major decisions made in 2013

Following consultation with major shareholders and representative bodies, the remuneration policy for 2013 was adjusted to take account of a number of factors, notably the appointment of Andrew McNaughton replacing Ian Tyler as Chief Executive in March 2013 and the challenges in a number of our markets, especially in UK construction, which have required, in the immediate term, an urgent drive and focus on operational efficiency and rigorous cost control measures While not reflecting a significant divergence from the Company's existing policy, the following changes were considered to be important

- instead of basing the entire Annual Incentive Plan (AIP) on profit before tax and non-underlying items (PBT), in view of the strategic challenges facing the business, strategic measures linked to the repositioning of the business for future growth were introduced Accordingly, for 2013, PBT was retained for 70% of the bonus opportunity (albeit the payout range was toughened) with the remaining 30% determined by strategic targets based around the strength of the order intake a cost reduction programme and the development of the organisational structure
- instead of the Company's traditional approach of measuring 50% of any Performance Share Plan (PSP) award based on EPS growth targets and 50% based on relative TSR against the FTSE 51-150 recognising the difficulties in determining meaningful EPS targets in a period of transition and structural change, the 2013 PSP awards were based solely on relative TSR performance 50% of an award is based on the current FTSE 51-150 companies and 50% is based on a construction and professional services based group of companies, including international peers
- in addition to the normal 150% of salary PSP award level, Duncan Magrath received a 50% of salary PSP award in April 2013 While his normal award of 150% of salary is based on the same performance targets as the awards granted to the other executive Directors, the additional award is based on personally tailored targets covering Group capital structure and the execution of the strategic planning (Strategic Roadmap) process, measured over a 15 month period to June 2014 The additional award will vest, subject to the achievement of the performance targets and continued service, on 31 December 2014 although these shares must be retained by Mr Magrath until the vesting date of the normal PSP awards (ie April 2016)

Performance and reward for 2013

The Group has continued to face challenging trading conditions in many of its traditional construction markets and is taking action to improve operational performance and effectiveness Underlying PBT from continuing operations, which is the measure on which we based performance for 70% of AIP, was below threshold, meaning that no bonus was payable under the PBT element The Group however made progress against strategic initiatives in 2013, resulting in a 21 0% payout against the 30% strategic element In the light of disappointing financial performance the Executive Directors decided that all of their cash bonus entitlement, which was earned for achievement of strategic initiatives, should be deferred in shares for three years The EPS and TSR performance conditions relating to the 2011 Performance Share Plan were not achieved and so those awards will lapse in full in April 2014

Remuneration policy for 2014

We remain committed to ensuring that rewards for executives are closely aligned to the interests of shareholders through having all of our incentive arrangements linked to the achievement of challenging business performance targets and generation of strong levels of shareholder return We remain comfortable that this is the case As such we feel that the existing remuneration policy remains fit for purpose and are not proposing to make any significant changes to the policy for 2014 Specifically

- base salary remains appropriately positioned against the market Base salaries were not increased with effect from 1 July 2013
- the structure of the annual bonus remains appropriate to incentivise the delivery of annual objectives The maximum bonus opportunity remains at 120% of salary for all executive Directors and will be subject to a range of challenging PBT and strategic targets
- the long term incentive awards under the PSP will again be based on TSR versus the FTSE 51-150 and a group of construction and professional services companies, providing strong alignment of interest between executives and shareholders

The Committee encourages dialogue with the Company's shareholders and will consult with major shareholders ahead of any significant future changes to remuneration policy, although it is intended that the policy for which shareholder approval will be sought at the 2014 AGM will remain in operation for the forthcoming three financial years

I hope that you will be supportive of the two resolutions to approve the Directors' Remuneration Report at the 2014 AGM

Iain Ferguson
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION POLICY REPORT

This part of the Remuneration Report sets out the remuneration policy for the Company which will become formally effective following approval from shareholders through a binding vote at the 2014 AGM

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 Committee is, however, aware of the risk of an upward ratchet in remuneration levels through overreliance on comparative survey data
- the balance between fixed and variable pay – more specifically, variable pay should form a significant but not disproportionately high level of 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
The Remuneration 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 Remuneration Committee engages pro-actively 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 Group'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 nature of the Company, 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

Summary Directors' remuneration policy from the 2014 AGM onwards
The following table sets out a summary of each element of the 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

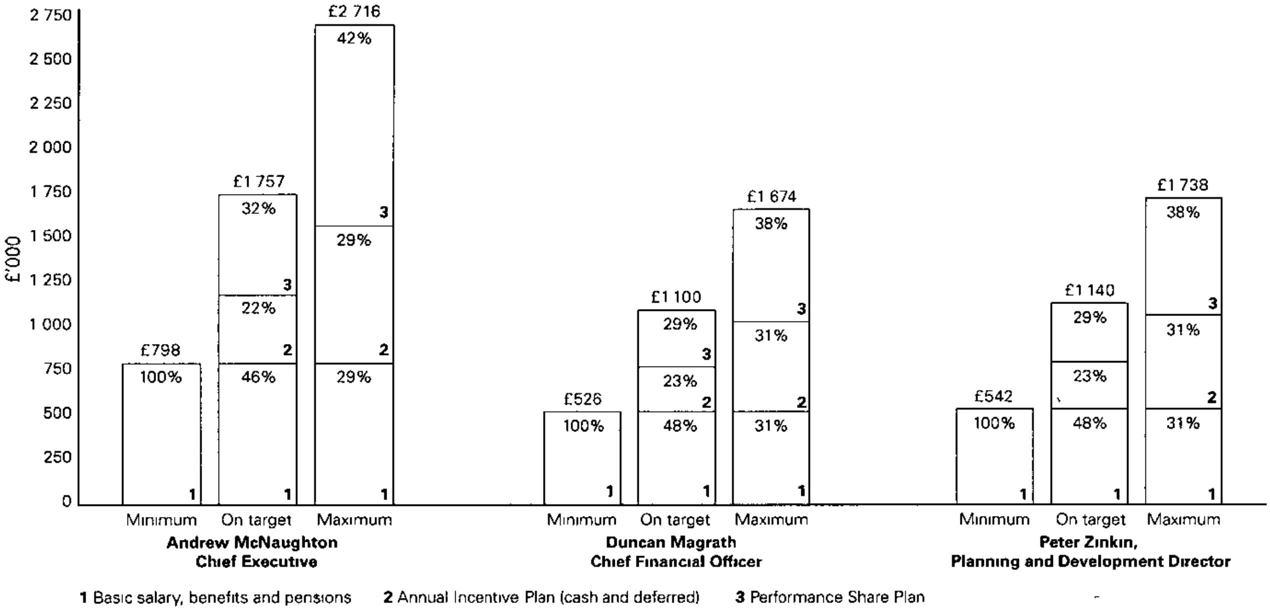
Element of pay	Purpose and link to Company's strategy	How operated in practice
Base salary	To attract and retain high calibre individuals To provide a competitive salary relative to comparable companies in terms of size and complexity	Salaries are normally reviewed and set annually in July The Committee considers remuneration levels in companies of comparable market capitalisations, revenue and industry sector In addition a key reference point for salary increases is the average increase across the general workforce (with the exception of promotions or significant changes in responsibility) Salaries are paid monthly 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 A car and fuel card or car allowance are offered Other benefits may be provided as appropriate
Pension	To remain competitive in the marketplace	Executive Directors can elect to either • 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 • receive a salary supplement
Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)	To motivate executives and incentivise the achievement of key business performance targets over the financial year without encouraging excessive risk taking Managing risk is critical particularly given the nature of the Company's business To facilitate share ownership and provide further alignment with shareholders	50% of any payment is normally deferred into shares for three years Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results 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 To facilitate share ownership and provide further alignment with shareholders To aid retention	PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year Awards normally vest on the third anniversary subject to performance Participants may also receive an award of cash or shares in lieu of the value of dividends on vested shares 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

Notes
1 Directors may also participate in the all-employee share schemes up to prevailing HMRC Limits
2 The AIP is primarily if not solely based on PBT although other Group-based measures which are set to reflect the business strategy may be included The Remuneration Committee reviews these measures each year and varies them as appropriate to reflect the strategy for the year ahead
3 Relative TSR performance was considered to be the most appropriate long term incentive performance condition for awards granted in 2013 although earnings per share targets determined half of previous awards and may be operated going forward Executive Directors should be incentivised to achieve strong stock market performance and grow earnings to align their interests with those of shareholders The Committee reserves the discretion to introduce additional internal financial or strategic measures for future awards which will be set to reflect the prevailing strategy although investors will be consulted in advance where there is a material change
4 The Committee operates share plans in accordance with the respective rules and in accordance with the Listing Rules and HMRC where relevant The Committee consistent with market practice retains discretion over a number of areas relating to the operation and administration of certain plans
5 For avoidance of doubt in approving this Directors Remuneration Policy Report authority is given to the Company to honour any commitments entered into with current or former Directors (such as the vesting of past share awards)

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 Current salary levels are disclosed on page 75	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 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 If a salary supplement alone is taken this is equivalent to 20% of base salary	None
Maximum annual incentive opportunity is 120% of base salary	A majority (if not all) 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 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 There is 25% vesting for threshold performance rising to 100% vesting for maximum performance
–	None

DIRECTORS' REMUNERATION POLICY REPORT CONTINUED

Remuneration scenarios for executive Directors
The charts below provide estimates for the potential future remuneration based on the remuneration policy for 2014 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 2013
2 The value of benefits receivable in 2014 is taken to be the value of benefits received in 2013 (as shown in the Directors Remuneration table set out on page 76) and pension has been assumed to be worth 20% of salary
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 (under normal circumstances 175% of salary for the Chief Executive and 150% of salary for the other executive Directors)
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 award at grant respectively
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 would be 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 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 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 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 is 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) 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 Non-executive Directors based outside Europe receive an additional allowance for each visit made on Company business to the UK, or to any other country (excluding their home country) Fee levels are normally reviewed annually in July 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

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 2014 and how it was implemented over the year ended 31 December 2013 Details of the remuneration earned by executive 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 2014
The detailed information about the Directors' remuneration, set out on pages 75 to 80 (excluding the performance graph on page 80), has been audited by the Company's independent auditors Deloitte LLP

Base salaries
Current base salaries for the executive Directors are as follows

Base salary	1 July 2012[1] £	**1 July 2013 £**	% increase
Andrew McNaughton	650,000	**650,000**	0%
Duncan Magrath	425,000	**425,000**	0%
Peter Zinkin	443,000	**443,000**	0%

[1] Andrew McNaughton s base salary was increased effective from 31 March 2013 on his promotion to Chief Executive

The annual base salary review date is 1 July for executive Directors

Performance targets for the AIP in 2014
For 2014, the AIP will continue to be based on PBT (70% of the AIP potential) and Group-based measures linked to the business strategy (30% of the AIP potential) 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 seen in next year's Annual Report on Remuneration

The maximum AIP potential will continue to be 120% of base salary for executive Directors and 50% of any payment will be deferred in shares for three years

Performance targets for PSP awards granted in 2014
The PSP awards to be granted in 2014 will be subject to the following targets

- relative TSR (50%) – 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 2014, the start of the performance period
- relative TSR (50%) – the Company's TSR measured against a comparator group of construction and professional services companies, including international peers
- for both parts there is no vesting below median, with 25% vesting at median ranking, rising to 100% vesting at upper quartile or higher Opening and closing values used to calculate TSR for all companies are based on three month averages

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 2012 £	**1 July 2013 £**	% increase
Chairman	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%

For non-executive Directors based outside Europe the additional allowance for each overseas visit made on Company business remains at £2,500

Where the Chairman or Senior Independent Director is also the Committee chair, only the Chairman or Senior Independent Director fee is due

ANNUAL REPORT ON REMUNERATION CONTINUED

Remuneration received by Directors for the year ended 31 December 2013

The table below sets out the Directors' remuneration for the year ended 31 December 2013 (or for performance periods ended in that year in respect of long term incentives) together with comparative figures for the year ended 31 December 2012

	Year	Base salary and fees[1,2] £	Taxable benefits[3,4] £	Pension[5] £	Annual incentive cash[8] £	Annual incentive deferred shares[6] £	Long term incentives[7] £	Other[8] £	Total £
Executive Directors									
Duncan Magrath	**2013**	**425,000**	**15,550**	**88,789**	**–**	**107,100**	**–**	**–**	**636,439**
	2012	415,000	15,550	80,865	102,425	102,425	–	–	716,265
Andrew McNaughton	**2013**	**603,021**	**17,055**	**125,250**	**–**	**163,800**	**–**	**–**	**909,126**
	2012	445 000	15,550	107,182	110,860	110,860	–	–	789,452
Peter Zinkin	**2013**	**443,000**	**9,970**	**88,600**	**–**	**111,636**	**–**	**–**	**653,206**
	2012	436,500	9,881	87 300	106 763	106,763	–	189	747,396
Ian Tyler[9]	**2013**	**172,000**	**6,956**	**42,296**	**–**	**–**	**–**	**–**	**221,252**
	2012	678,000	27,546	151,845	165,808	165,808	–	280	1,189,287
Non-executive Directors									
Robert Amen[10]	**2013**	**91,000**	**4,154**	**–**	**–**	**–**	**–**	**–**	**95,154**
	2012	77,500	–	–	–	–	–	–	77,500
Mike Donovan[11]	**2013**	**49,500**	**3,223**	**–**	**–**	**–**	**–**	**–**	**52,723**
	2012	65,000	–	–	–	–	–	–	65,000
Iain Ferguson	**2013**	**66,000**	**3,229**	**–**	**–**	**–**	**–**	**–**	**69,229**
	2012	65,000	–	–	–	–	–	–	65,000
Maureen Kempston Darkes[12]	**2013**	**73,500**	**1,539**	**–**	**–**	**–**	**–**	**–**	**75,039**
	2012	33,000	–	–	–	–	–	–	33,000
Hubertus Krossa[13]	**2013**	**21,101**	**–**	**–**	**–**	**–**	**–**	**–**	**21,101**
	2012	79,390	–	–	–	–	–	–	79,390
Steve Marshall	**2013**	**265,750**	**–**	**–**	**–**	**–**	**–**	**–**	**265,750**
	2012	261,875	–	–	–	–	–	–	261 875
Belinda Richards[14]	**2013**	**14,000**	**–**	**–**	**–**	**–**	**–**	**–**	**14,000**
	2012	–	–	–	–	–	–	–	–
Graham Roberts	**2013**	**66,000**	**–**	**–**	**–**	**–**	**–**	**–**	**66,000**
	2012	65,000	–	–	–	–	–	–	65,000
Bill Thomas[14]	**2013**	**14,000**	**–**	**–**	**–**	**–**	**–**	**–**	**14,000**
	2012	–	–	–	–	–	–	–	–

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors

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 The salary reductions in 2013 were £1 500 for all three executive Directors In practice the base salary paid to Peter Zinkin has been further reduced due to his participation in the Company s SMART Pensions salary sacrifice arrangement The salary reduction in 2013 was £7 005 This corresponds to his contributions to the Balfour Beatty Pension Fund which were met directly by the Company as part of this arrangement The base salary for Peter Zinkin has also been reduced in practice by £24 000 in 2013 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 Andrew McNaughton and Ian Tyler 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 £14 000 pa prior to 31 March 2013 and £16 000 pa from 31 March 2013 Peter Zinkin received a fully expensed car with taxable benefit value of £8 800 pa Ian Tyler received a fully expensed car and a fuel card up to 31 March 2013 with taxable benefit value of £26 300 pa

4 No Director received any expense allowance except Robert Amen Mike Donovan Iain Ferguson and Maureen Kempston Darkes whose taxable travel expenses in 2013 are shown in the taxable benefits column There were no such expenses in 2012

5 For periods of membership of the DC section of the Group s pension fund this comprises the amount of Company contributions plus any cash allowances in lieu of pension on earnings that are above the earnings cap For periods of membership of the defined benefit (DB section of the Group s pension fund this comprises the value of any ongoing accrual as determined by the scheme actuaries plus any cash allowances 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 cash allowances 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 as determined by the scheme actuaries Further details are set out in the section on Directors pensions on pages 82 and 83 The figures for 2012 have been restated to comply with new regulations

6 The Executive Directors decided to defer 100% of their AIP for three years for the year ended 31 December 2013 rather than the usual 50% deferment of award

7 This relates to the value of the 2011 PSP award which lapsed in full The performance period for this award ended on 31 December 2013 Further details of these awards are set out on page 77

8 Relates to the value at vesting of options granted under the Savings-Related Share Option Scheme which became exercisable during the year under review

9 Ian Tyler retired from the Board on 31 March 2013 He remained an employee until 30 April 2013

10 Robert Amen s fees shown include £25 000 in respect of travel allowances for meetings attended in 2013 and £10 000 in respect of travel allowances for meetings attended in 2011 and 2012

11 Mike Donovan retired from the Board on 1 October 2013

12 Maureen Kempston Darkes fee for 2013 shown includes £17 500 in respect of travel allowances Her fee for 2012 has been restated to allow for an underpayment of £3 500 The fee re-stated for 2012 includes £5 000 in respect of travel allowances

13 Hubertus Krossa retired from the Board on 16 May 2013

14 Belinda Richards and Bill Thomas joined the Group on 1 September 2013

AIP award for the year ended 31 December 2013

The AIP award for the year under review was based on performance against profit before tax and underlying items and three other Group-based performance metrics linked to the business strategy, namely, delivery of cost efficiencies, strength of order book, and restructuring for strategic growth

	Target		Actual	Maximum (% of salary)	Actual (% of salary)	Payable in cash (% of salary)	Payable in shares (% of salary)[3]
Profit before tax and non-underlying items	Threshold Budget Maximum	£220m £245m £294m	£187 0m	84%	0	0	0
Delivery of cost efficiencies[1]	Threshold Maximum	£54 8m £64 8m	£61 0m	12%	9 72%	0	9 72%
Strength of order book[2]	Threshold Budget Maximum	£8,184m £9,093m £10,002m	£9,324m	12%	7 08%	0	7 08%
Development of the organisational model	New structure in place in key geographies with leadership teams and business plans in place for 2014		70% achieved	12%	8 4%	0	8 4%
			Total	120%	25 2%	0	25 2%

[1] After taking account of non-underlying costs
[2] After taking account of margin inherent in orders received
[3] Executive Directors decided that 100% of their AIP should be deferred in shares for 3 years rather than the usual 50% cash and 50% deferment

Vesting of PSP awards for the year under review

The PSP awards granted on 1 June 2011 were based on a performance period for the three years ended 31 December 2013 As disclosed in previous Remuneration Reports, the performance condition was 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) over three financial years	EPS at 31 December 2013	43 35p	54 66p	20 0p	0%
Total Shareholder Return[2] (50% of the award)	TSR against the 87 companies ranked positions 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	44 or above	22 25 or above	62	0%
					Total vesting	0%

[1] Earnings per share is defined as underlying earnings per share from continuing operations
[2] TSR is measured over three financial years with a three month average at the start and end of the performance period

The 2011 PSP award details for the executive Directors are therefore as follows

Executive	Type of award	Number of shares at grant[1]	Number of shares to vest	Number of shares to lapse[2]	Value of vested shares (£)
Duncan Magrath	Conditional	181,729	0	181,729	0
Andrew McNaughton	Conditional	193,530	0	193,530	0
Peter Zinkin	Conditional	196,834	0	196,834	0
Ian Tyler	Conditional	277,550	0	277,550	0

[1] Or date of leaving the Company if before 31 December 2013
[2] The 2011 PSP awards will formally lapse on 1 June 2014

ANNUAL REPORT ON REMUNERATION CONTINUED

Outstanding share awards

Name of Director	Share award	Date granted	At 1 January 2013	Awarded during the year	Vested during the year	Lapsed during the year	**At 31 December 2013**	Exercisable and/or vesting from	Exercise price
			Maximum number of shares subject to award						
Duncan Magrath	PSP[1 5 6]	15 April 2010	133,826	–	–	133,826	–	15 April 2013	–
	PSP[2 5 6]	1 June 2011	181,729	–	–	–	**181,729**	1 June 2014	–
	PSP[3 5 6]	16 April 2012	219,076	–	–	–	**219,076**	16 April 2015	–
	PSP[4 5 6 7]	16 April 2013	–	341,090	–	–	**341,090**	16 April 2016	–
	DBP[8 9 10 11]	31 March 2010	22,761	–	22,761	–	–	31 March 2013	–
	DBP[8 9 11 12]	31 March 2011	22,876	1,296	–	–	**24,172**	31 March 2014	–
	DBP[8 9 11 12]	30 March 2012	58,542	3,317	–	–	**61,859**	30 March 2015	–
	DBP[8 9 11 12 13]	31 March 2013	–	46,083	–	–	**46,083**	31 March 2016	–
	SRSOS[14 15 16]	7 May 2008	1,073	–	–	1,073	–	1 July 2013	315 2p
	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	PSP[1 5,6]	15 April 2010	143,120	–	–	143,120	–	15 April 2013	–
	PSP[2 5 6]	1 June 2011	193,530	–	–	–	**193,530**	1 June 2014	–
	PSP[3 5 6]	16 April 2012	232,600	–	–	–	**232,600**	16 April 2015	–
	PSP[4 5 6 7]	16 April 2013	–	456,460	–	–	**456,460**	16 April 2016	–
	DBP[8 9 10 11]	31 March 2010	24,343	–	24,343	–	–	31 March 2013	–
	DBP[8 9 11 12]	31 March 2011	24,362	1,380	–	–	**25,742**	31 March 2014	–
	DBP[8 9 11 12]	30 March 2012	62,155	3,522	–	–	**65,677**	30 March 2015	–
	DBP[8 9 11 12 13]	31 March 2013	–	49,879	–	–	**49,879**	31 March 2016	–
Peter Zinkin	PSP[1 5 6]	15 April 2010	150,555	–	–	150,555	–	15 April 2013	–
	PSP[2 5 6]	1 June 2011	196,834	–	–	–	**196,834**	1 June 2014	–
	PSP[3 5 6]	16 April 2012	232,600	–	–	–	**232,600**	16 April 2015	–
	PSP[4 5 6,7]	16 April 2013	–	266,653	–	–	**266,653**	16 April 2016	–
	DBP[8 9 10 11]	31 March 2010	25,609	–	25 609	–	–	31 March 2013	–
	DBP[8 9 11 12]	31 March 2011	24,777	1,403	–	–	**26,180**	31 March 2014	–
	DBP[8 9 11 12]	30 March 2012	62,155	3,522	–	–	**65,677**	30 March 2015	–
	DBP[8 9 11 12 13]	31 March 2013	–	48,035	–	–	**48,035**	31 March 2016	–
	SRSOS[14 15 16]	7 May 2008	804	–	–	804	–	1 July 2013	315 2p
	SRSOS[14 15 16]	11 May 2010	246	–	–	246	–	1 July 2013	236 0p
Ian Tyler[17]	PSP[1 5 6]	15 April 2010	281,036	–	–	281,036	–	15 April 2013	–
	PSP[2 5 6]	1 June 2011	356,850	–	–	79,300	**277,550**	1 June 2014	–
	PSP[3 5 6]	16 April 2012	421,565	–	–	234,203	**187,362**	16 April 2015	–
	DBP[8 9 10 11]	31 March 2010	39,835	–	39 835	–	–	31 March 2013	–
	DBP[8 9 11 12]	31 March 2011	38,506	–	38,506	–	–	31 March 2014	–
	DBP[8 9 11 12]	30 March 2012	96,558	–	96,558	–	–	30 March 2015	–
	SRSOS[14 15]	11 May 2010	676	–	–	676	–	1 July 2013	236 0p

1 2010 PSP award 50% of each award is subject to an EPS growth performance condition and 50% is subject to a relative TSR performance condition Details of the Company s performance against the performance conditions are set out in last year s Remuneration Report The award lapsed in full on 15 April 2013 based on performance over three years financial years to 31 December 2012 as the growth in EPS did not exceed the RPI +6% threshold and the Company s TSR ranked below the median of the comparator group

2 2011 PSP award details of this award are set out on page 77

3 2012 PSP award 50% of each award is subject to an EPS growth performance condition measured over a performance period of three financial years to 31 December 2014 25% of this part of the award will vest for EPS growth of 15% increasing on a straight line basis to full vesting of this part of the award for EPS growth of 45% No shares will vest from this part of the award if EPS growth is less than 15% The other 50% of each award is subject to a relative TSR performance condition measured over three financial years The Company s TSR is measured against a comparator group comprising the FTSE 51–150 (excluding investment trusts) 25% of this 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 this part of the award if the Company s TSR is below that of the median of the comparator group

4 2013 PSP award Details of this award are set out on page 79

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 302 63p for the 2010 award 317 78p for the 2011 award 277 3p for the 2012 award and 249 2p for the 2013 award The closing middle market price of ordinary shares on the date of the awards was 302 8p 312 4p 271 9p and 244 9p

7 On 16 April 2013 for all participants in the PSP a maximum of 3 815 247 conditional shares were awarded which are normally exercisable in April 2016

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 2011 2012 and 2013 will vest on 31 March 2014 30 March 2015 and 31 March 2016 respectively providing the Director is still employed by the Company 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 2010 vested on 31 March 2013 The closing middle market price of ordinary shares in the Company on the vesting date was 234 8p

11 The shares awarded on 31 March 2010 31 March 2011 30 March 2012 and 31 March 2013 were purchased at average prices of 300 32p 343 417p 286 99p and 234 85p respectively

[12] For the initial DBP awards made in 2011 2012 and 2013 the shares awarded on 24 April 2013 and 9 October 2013 (in lieu of the final 2012 and interim 2013 dividends respectively) were allocated at average prices of 244 8p and 264 1p respectively

[13] On 31 March 2013 for all participants in the DBP a maximum of 575 983 conditional shares were awarded which will normally be released on 31 March 2016 On 24 April 2013 a further 64 953 conditional shares were awarded in lieu of entitlements to the final 2012 dividend and on 9 October a further 37 656 conditional shares were awarded in lieu of entitlements to the interim 2013 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 2013 was 286 9p During the year the highest and lowest closing market prices were 207 6p and 291 5p respectively

[16] The SRSOS options granted to Duncan Magrath and Peter Zinkin in May 2008 exercisable at 315 2p lapsed unexercised in December 2013

[17] Ian Tyler retired from the Board on 31 March 2013 He remained an employee until 30 April 2013 At this time a proportion of his 2011 and 2012 PSP awards lapsed reflecting the proportion of the performance period for each award which had not been completed at the date of leaving The 2011 PSP awards subsequently lapsed in full The remainder of the 2012 PSP award will vest in the same proportion and at the same time in 2015 as the awards made to the other participants The DBP awards made to him in 2011 and 2012 vested on 30 April 2013

Long term incentive awards granted during the year

On 16 April 2013, 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	£2 492	456,460	£1,137,500	25%	Three financial years to 31 December 2015	16 April 2016
Duncan Magrath	Conditional	150% of salary of £425,000	£2 492	255,818	£637,500	25%		
Peter Zinkin	Conditional	150% of salary of £443,000	£2 492	266,653	£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, 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

In addition to the above and on the same date, and following consultation with the Company's major shareholders, the following PSP awards were granted to Duncan Magrath in order to incentivise the achievement of key business objectives

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
Duncan Magrath	Conditional	50% of salary of £425,000	£2 492	85,272	£212,500	25%	Fifteen months to 30 June 2014	31 December 2014*

* While this additional award will vest on 31 December 2014 any shares which vest must be retained until the normal vesting date of the main PSP awards (ie 16 April 2016) Performance targets for the additional 50% of salary award granted to Duncan Magrath were (i) to review the Group's capital structure and implement changes as appropriate and (ii) to lead the strategic planning (Strategic Roadmap) process in 2013 and implement improvements in 2014

Payments for loss of office

In line with contractual entitlements, Ian Tyler worked four months of his 12 months' notice period, up to 30 April 2013 (after retiring from the Board on 31 March 2013), to ensure a smooth handover to Andrew McNaughton In April 2013 Ian Tyler received his base salary of £57,333 and continued to receive his taxable benefits He also accrued an additional month's entitlement under the PSP In lieu of the remainder of the notice period, he received a payment of £265,360 from the Company equivalent to four months' base salary and benefits (for pension treatment see page 82) and phased monthly payments of £66,340 for each of the four months from September to December 2013, which would have been subject to an offset against any remuneration earned in a comparable role during this period He also continued to receive private medical insurance for himself and his immediate family until 31 December 2013 As disclosed in the 2012 Remuneration Report, Ian Tyler has been treated as a good leaver under the relevant share plans On 30 April 2013, his outstanding DBP awards vested in full and a proportion of his PSP awards lapsed reflecting the proportion of the performance period for each award which had not been completed at that date The remainder of his PSP awards will vest subject to performance in the same proportion, and at the same time, as the awards made to the other participants

Payments to past Directors

There were no payments to past Directors other than the payments disclosed in this report for Ian Tyler

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

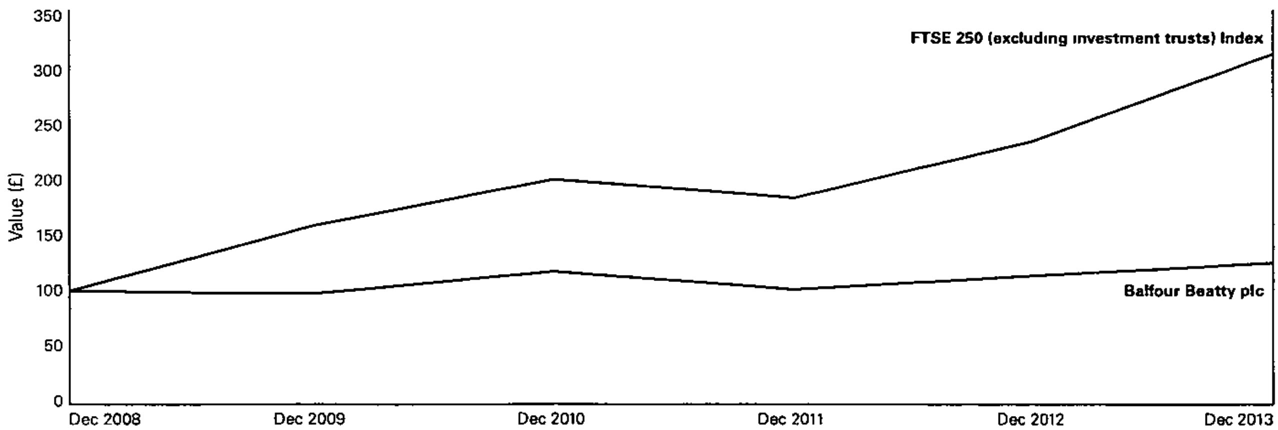
Director	Beneficially owned at 1 January 2013[1,2]	Beneficially owned at 31 December 2013[2,3,4]	Outstanding PSP awards	Outstanding DBP awards	Beneficially owned at 31 December 2013 as a % of base salary at 31 December 2013	Guideline met
Duncan Magrath	119,167	130,754	741,895	132,114	88 27%	No
Andrew McNaughton	115,001	127,311	882,590	141,298	60 57%	No
Peter Zinkin[5]	308,058	313,720	696,087	139,892	203 17%	Yes
Ian Tyler	376,595	26,595	464,912	–	n/a	n/a
Robert Amen	10 139	10,139				
Mike Donovan	10,000	10,000				
Iain Ferguson	25,000	45,000				
Maureen Kempston Darkes	–	7,000				
Hubertus Krossa	7,142	7,142				
Steve Marshall	7,142	7,142				
Belinda Richards	–	–				
Graham Roberts	15,000	15,000				
Bill Thomas	–	–				

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 5 March 2014 there have been no changes to the above other than in respect of investments under the Share Incentive Plan which increased by 83 shares for each of Duncan Magrath Andrew McNaughton and Peter Zinkin
5 Peter Zinkin was also interested at 1 January 2013 and 31 December 2013 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc

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 achieved

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



Chief Executive's remuneration table

The total remuneration figures for the Chief Executive during each of the last five 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 ending in
	2009	2010	2011	2012	**2013**
Total remuneration[1]	£1,617,223	£1,451,016	£1,514,007	£1,189,287	**£961,350**
AIP (%)	60 4%	69 6%	65 3%	40 2%	**21 0%**
PSP (%)	50%	18 4%	0%	0%	**0%**

1 The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013 The figure for 2013 relates to an annualised figure for Andrew McNaughton who was appointed on 31 March 2013

Percentage change in Chief Executive's remuneration compared to 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 2012 and 31 December 2013, compared to the percentage increase in the same for all UK employees of the Group where UK employees have been selected as the most appropriate comparator

	2012	**2013**	% change
Salary for 12 months to 31 December			
Chief Executive (£000)	678[1]	**650**[2]	(4 1)
All UK employees (£m)	778	**793**	1 9
Benefits for 12 months to 31 December			
Chief Executive (£000)	28[1]	**18**	(35 7)
All UK employees (£m)	29	**30**	3 4
Annual bonus earned in 12 months to 31 December			
Chief Executive (£000)	332	**164**	(50 6)
All UK employees (£m)	9	**13**	44 4
Total remuneration for 12 months to 31 December			
Chief Executive (£000)	1,038	**832**	(19 8)
All UK employees (£m)	816	**836**	2 5

1 Received by Ian Tyler
2 Salary received by Andrew McNaughton annualised to reflect salary receivable for a full year s service in role

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

	2012	**2013**	% change
Staff costs (£m)[1]	2,253	**2,297**	2 0
Dividends (£m)	96	**96**	0
Underlying pre tax profit (£m)[2]	299	**177**	(40 1)

1 Staff costs include base salary benefits and bonuses for all Group employees in continuing and discontinued operations
2 Underlying pre tax profit is from continuing and discontinued operations

Directors' pensions and pension allowances
Only Peter Zinkin and Ian Tyler participated in the Balfour Beatty Pension Fund (the Fund) during 2013 Peter Zinkin participated in the defined contribution (DC) section and Ian Tyler participated in the defined benefit (DB) section up to 30 April 2013 He ceased to be employed by the Company on 30 April 2013 and became a deferred pensioner 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 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

Each participating Director pays an annual contribution equal to 5% of contributory salary except where the Director participates in the Company's SMART Pensions salary sacrifice arrangement as outlined in Note 2 in the Directors' remuneration table on page 76

The Fund operates a Fund-specific earnings cap for pension purposes The pensionable earnings of each participating Director were subject to the Fund-specific earnings cap The Company paid allowances to Peter Zinkin and Ian Tyler in lieu of pension contributions on earnings above the Fund-specific earnings cap, which are included in the Directors' remuneration table on page 76

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 and has been receiving an allowance in lieu of Fund membership since 6 April 2012 The Company's paid an allowance to Duncan Magrath in lieu of Fund membership which is included in the Directors' remuneration table on page 76

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 and has been receiving an allowance in lieu of Fund membership since 31 December 2012 The Company paid an allowance to Andrew McNaughton in lieu of Fund membership which is included in the Directors' remuneration table on page 76

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 at based on each executive Director's service to their date of becoming a deferred pensioner of the Fund and the Pension amount The Pension amount' for Duncan Magrath, Andrew McNaughton and Ian Tyler is the value of the increase in each Director's DB deferred pension, in excess of price inflation (measured by the Consumer Prices Index) less contributions paid by the Director, over the year ended 31 December 2013 The Pension amount for Peter Zinkin is the amount of the Company s contributions paid to the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts Figures for 2012 are included for comparative purposes The Pension amount is included in the Directors' remuneration table on page 76

Name of Director	Age at 31 December 2013 Years	Accrued DB deferred pension at 31 December 2012 £ pa[1]	Accrued DB deferred pension at 31 December 2013 £ pa[1]	Pension amount over 2012 £[2]	Pension amount over 2013 £[2]
Duncan Magrath[3]	**49**	38,191	**39,201**	4,838	**3,789**
Andrew McNaughton	**50**	46,832	**48,071**	58,391	**4,646**
Peter Zinkin[4]	**60**	n/a	**n/a**	27,090	**28,020**
Ian Tyler[5]	**53**	58,417	**64,392**	71,231	**87,381**

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 These amounts 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 less Director contributions 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 Peter Zinkin has not accrued any DB benefits in the Fund since 31 December 2010 Peter Zinkin has participated in the DC section since 1 January 2011 and the Company paid £28 020 into this arrangement during 2013 in addition to his SMART Pensions salary sacrifice of £7 005

5 Ian Tyler has not accrued any benefits in the Fund since 30 April 2013 Immediately prior to him becoming a deferred pensioner of the Fund the Company contributed £40 420 towards augmenting his accrued deferred pension Ian Tyler s accrued DB deferred pension at 30 April 2013 included this augmentation of £2 391 pa In May 2013 the Fund paid an Annual Allowance tax charge of £3 950 to HMRC on Ian Tyler s behalf in a Scheme Pays arrangement The value of this tax charge has been recorded as a negative DC contribution in respect of Ian Tyler 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 Ian Tyler s Scheme Pays arrangement

External appointments of executive Directors
During 2013 Duncan Magrath acted as a non-executive Director of Brammer plc and received fees of £37,000 which he retained

Consideration by the Directors of matters relating to Directors' remuneration
The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code No member of the Committee has conflicts of interest arising from cross directorships and no member is involved in the day-to-day executive management of the Group During the year under review, the members of the Committee were as follows

- Iain Ferguson (Committee chair)
- Maureen Kempston Darkes (from 13 September 2013)
- Hubertus Krossa (retired from the Board on 16 May 2013)
- Steve Marshall
- Graham Roberts

The Committee also receives advice from several sources, namely

- the 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

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 Remuneration Committee were £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 2013 AGM, the Remuneration Report received the following votes from shareholders

	Total number of votes	% of votes cast
For	303,759,518	75 21%
Against	100,110,156	24 79%
Total votes cast	403,869,674	100%
Abstentions	42,527,882	

The Committee has reflected on the significantly lower vote in favour of the Remuneration Report at the AGM in 2013, which it concluded could be attributed largely to investors' concerns around the financial performance of the Group, following the operational issues in Construction Services UK, rather than specific issues with the remuneration policy, which had only recently been reviewed by major shareholders

By order of the Board

Iain Ferguson
Chairman of the Remuneration Committee
5 March 2014

FINANCIAL STATEMENTS

Financial Statements

Other

£12 trillion

Estimated value of global infrastructure market in 2014–2018[1]

£10 billion

Revenue[2] generated this year

-37%

underlying[3] earnings per share from continuing operations

-32%

pre-tax underlying[3] profit from continuing operations

14.1p

dividends per share

[1] IHS Global Insight Global Construction Outlook December 2013 Reflects total size of infrastructure market in nominal terms from 2014–2018 inclusive Exchange rate applied USD GBP 1 0 61
[2] Including joint ventures and associates
[3] Before non-underlying items (Note 10)

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 2013 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, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company 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 27 that the Group is a going concern We confirm that

- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union, and
- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate

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

SUBJECT	NATURE OF RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Recognition of contract revenue margin and related receivables and liabilities	The industry is characterised by contract risk with significant judgements involved in the assessment of current and future contract financial performance, variations to original contract terms and claims	Our work on the recognition of contract revenue, margin and related receivables and liabilities included • tests of controls over the recognition of contract revenue and margin, • challenge of management's key judgements inherent in the forecast costs to complete that drive the accounting under the percentage of completion method, including a review of the contract terms and conditions, management's assessments of the forecasts, the existence and valuation of claims and variations both within contract revenue and contract costs, and • an assessment of the recoverability of related receivables
Goodwill	Management is required to carry out an annual impairment test which incorporates judgements based on assumptions about future profitability for the related businesses	We assessed and challenged management's assumptions used in the impairment model for goodwill and intangible assets, described in Note 15 to the financial statements, including benchmarking the discount and long-term growth rates, against third party data and assessing the reasonableness of forecast future cash flows by comparison to historic performance and future outlook
Assets held for sale, discontinued operations and disposal accounting	The classification and valuation of assets 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 In relation to disposed operations, management also applies judgement in determining the gain or loss on disposal	We challenged management's judgement on assets held for sale through understanding the status of the sales process and reviewing correspondence from prospective purchasers We assessed the classification of disposed businesses and assets held for sale as discontinued operations against the relevant criteria in the accounting standard For disposed businesses we tested the calculation of the gain or loss on disposal and challenged the judgements made in relation to consideration and disposal provisions with reference to the sales agreements and supporting documentation

The Audit Committee's consideration of the above risks is set out on page 56

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 application of materiality
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements would be changed or influenced

When establishing our overall audit strategy, we determined planning materiality for the Group to be £15 million, which is approximately 8% of underlying profit before tax We use underlying profit before tax to exclude the effect of volatility (for example, separately disclosed non-underlying items) from our determination and as it represents a key performance measure for the Group

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 where either full or specified audit procedures were carried out based on our assessment of the identified risks of material misstatement identified above The remaining operating companies were subject to analytical review procedures designed to confirm that no further risks of misstatement existed that were material to the Group financial statements

Operating companies representing the principal business units within the Group's reportable segments and accounting for 80% of the Group's revenue are subject to full audit procedures with those accounting for 7% of the Group's revenue subject to specified audit procedures Analytical review procedures were carried out at the remaining operating companies accounting for 13% of the Group's revenue The coverage of our audit procedures as a percentage of the revenue of each reportable segment is similar

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 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

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the 2013 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 2013 Remuneration Report to be audited is not in agreement with the accounting records and returns Under the Listing Rules we are required to review certain elements of the 2013 Remuneration Report We have nothing to report arising from these matters or our review

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 nine 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 the International Standards and 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
- is 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 strategically focused second partner reviews 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
5 March 2014

For the year ended 31 December 2013

GROUP INCOME STATEMENT

	Notes	2013 Underlying items[1] £m	2013 Non-underlying items (Note 10) £m	2013 Total £m	2012[2,3] Underlying items[1] £m	2012[2,3] Non underlying items (Note 10) £m	2012[2,3] Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**10,118**	**–**	**10,118**	9,966	–	9,966
Share of revenue of joint ventures and associates	18 2	**(1,373)**	**–**	**(1,373)**	(1,310)	–	(1,310)
Group revenue	4	**8,745**	**–**	**8,745**	8,656	–	8,656
Cost of sales		**(7,882)**	**–**	**(7,882)**	(7,667)	–	(7,667)
Gross profit		**863**	**–**	**863**	989	–	989
Gain on disposals of interests in investments	32 3/32 4	**82**	**–**	**82**	52	–	52
Amortisation of acquired intangible assets	16	**–**	**(30)**	**(30)**	–	(39)	(39)
Other net operating expenses		**(813)**	**(125)**	**(938)**	(849)	(91)	(940)
Group operating profit/(loss)		**132**	**(155)**	**(23)**	192	(130)	62
Share of results of joint ventures and associates	18 2	**71**	**–**	**71**	92	–	92
Profit/(loss) from operations	6	**203**	**(155)**	**48**	284	(130)	154
Investment income	8	**65**	**–**	**65**	62	–	62
Finance costs	9	**(81)**	**–**	**(81)**	(69)	–	(69)
Profit/(loss) before taxation		**187**	**(155)**	**32**	277	(130)	147
Taxation	11	**(50)**	**35**	**(15)**	(61)	35	(26)
Profit/(loss) for the year from continuing operations		**137**	**(120)**	**17**	216	(95)	121
(Loss)/profit for the year from discontinued operations	12	**(15)**	**(37)**	**(52)**	15	(101)	(86)
Profit/(loss) for the year		**122**	**(157)**	**(35)**	231	(196)	35
Attributable to							
Equity holders		**122**	**(157)**	**(35)**	231	(196)	35
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit/(loss) for the year		**122**	**(157)**	**(35)**	231	(196)	35

[1] Before non-underlying items (Notes 2 11 and 10)
[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

	Notes	2013 Pence	2012[2,3] Pence
Basic earnings/(loss) per ordinary share			
– continuing operations	13	**2 5**	17 9
– discontinued operations	13	**(7 6)**	(12 6)
	13	**(5 1)**	5 3
Diluted earnings/(loss) per ordinary share			
– continuing operations	13	**2 5**	17 9
– discontinued operations	13	**(7 6)**	(12 6)
	13	**(5 1)**	5 3
Dividends per ordinary share proposed for the year	14	**14 1**	14 1

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

COMMENTARY ON THE GROUP INCOME STATEMENT*

Total underlying profit from continuing operations for 2013 was £203m The total loss after tax including discontinued operations was £35m

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

In 2013 the income statement has been presented on a continuing basis The post tax results of certain Mainland European rail businesses and the UK facilities management business, Balfour Beatty WorkPlace (BBW), which are classified as discontinued operations, are presented in a single line (Loss)/profit for the year from discontinued operations" The prior year numbers have been re-presented accordingly

In addition, the Group restated the prior year income statement as a result of adopting IAS 19 Employee Benefits (Revised) in 2013, increasing the prior year's total net interest cost by £10m Previously the net pension finance charge was calculated by applying an expected rate of return to the pension assets and the AA corporate bond discount rate to the pension liabilities IAS 19 Revised calculates the net pension finance charge by applying the AA corporate bond discount rate to the net pension surplus or deficit The AA corporate bond rate is normally lower than the expected return on assets and so the effect is to give a higher net finance charge

Revenue

Revenue from continuing operations including joint ventures and associates increased by 2% to £10,118m from £9,966m in 2012 Revenue was broadly flat across all segments albeit there was a change in the geographical mix In Construction Services, a 12% improvement in the US was offset by a corresponding reduction in the UK In Professional Services reductions in Australia were largely mitigated by improvements in the US Excluding the impact of currency revenue from continuing operations including joint ventures and associates increased by 1%

Gain on disposal of investments

The Group continued its programme of realising accumulated value in the Infrastructure Investments portfolio and generating income by disposing of its interest in two Consort Healthcare hospitals, four Transform Schools education projects and partially disposing of its interest in two Connect Roads highway projects resulting in a net underlying gain of £82m after recycling £21m 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 by 28% to £203m from £284m in 2012 Support Services and Investments delivered excellent operating results, including the benefit of £82m of gains from the above disposals However, overall profits reduced as a result of a significant drop in mining related capital expenditure in Australia impacting the professional services business In addition, a combination of a difficult external environment and an internal reorganisation in our UK construction business caused a shortfall in expected profits

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 £155m before tax were charged to the income statement These comprised amortisation of acquired intangible assets of £30m and other items of £125m The amortisation charge declined in the year as some acquired intangible assets became fully amortised

Significant other non-underlying items included a £52m curtailment charge from closing the defined benefit section of the Balfour Beatty pension scheme to future accrual for the majority of members and £52m of restructuring costs Restructuring costs are mainly due to the planned restructuring of the UK construction business where six business units were integrated into three business streams £14m, and restructuring in Australia as a result of the severe market downturn £20m The creation of the professional services shared service centre in Lancaster, Pennsylvania cost £10m

Net finance costs

Net finance costs of £16m increased by £9m primarily resulting from the US private placement in March 2013

Taxation

The underlying tax charge for continuing operations excluding the Group's share of the results of joint ventures and associates of £50m equates to an effective tax rate of 43 1% (2012 33 0%) This increase is due to the impact of unrelieved losses and changes in tax legislation

(Loss)/profit from discontinued operations

(Loss)/profit from discontinued operations shows the post tax results relating to certain Mainland European rail businesses and BBW, which are classified as discontinued operations

In December we completed the sale of BBW for a net cash consideration of £155m After transaction costs and other charges the disposal resulted in a non-underlying gain of £16m BBW contributed £19m (2012 £22m) to underlying profit from discontinued operations

There was a disappointing performance in Mainland European rail mainly due to underperformance in Germany resulting in an underlying loss from operations of £26m (2012 profit of £2m) Non-underlying costs of £51m included £38m for writing down the goodwill in the German rail business to £nil, a loss on disposal of the Spanish business of £4m, a loss on disposal of the Stassfurt Signalling Workshop of £1m, rail restructuring costs of £6m and a £2m regulatory fine in Germany

Earnings per share (EPS)

Basic EPS from continuing operations was 2 5p, down 86% as a result of lower profits as discussed above Underlying EPS from continuing operations was 20 0p (2012 31 7p)

* The commentary is unaudited and forms part of the Chief Financial Officer s Review on pages 24-27

For the year ended 31 December 2013

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013 £m	2012[2,4] £m
(Loss)/profit for the year		**(35)**	35
Other comprehensive (expense)/income for the year			
Items which will not subsequently be reclassified to the income statement			
Actuarial losses on retirement benefit liabilities	30 1	**(114)**	(115)
Tax on above	30 1	**17**	18
		(97)	(97)
Items which will subsequently be reclassified to the income statement			
Currency translation differences	30 1	**(14)**	(56)
Fair value revaluations – PPP financial assets	30 1	**(192)**	405
– cash flow hedges	30 1	**120**	(19)
– available-for-sale investments in mutual funds	19 1/30 1	**7**	4
Recycling of revaluation reserves to the income statement on disposal	32 3/32 4	**(21)**	(48)
Tax on above	30 1	**20**	(90)
		(80)	196
Total other comprehensive (expense)/income for the year		**(177)**	99
Total comprehensive (expense)/income for the year	30 1	**(212)**	134
Attributable to			
Equity holders		**(212)**	134
Non-controlling interests		**–**	–
Total comprehensive (expense)/income for the year	30 1	**(212)**	134

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[4] Re-presented to reflect the recycling of revaluation reserves to the income statement in the statement of comprehensive income instead of the statement of changes in equity

COMMENTARY ON GROUP STATEMENT OF COMPREHENSIVE INCOME

Total comprehensive expense for 2013 was £212m comprising a total loss after tax including discontinued operations of £35m and other comprehensive expense after tax of £177m

Background
The Statement of Comprehensive Income (OCI) is presented on a total Group basis combining continuing and discontinued operations

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
- changes in actuarial assumptions used to value the obligations

Actuarial losses for the Group including joint ventures and associates decreased from £115m in 2012 to £114m in 2013 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 an increase in gilt rates resulting in a fair value loss of £192m being taken through OCI In 2012 the fair value of the financial assets included a significant uplift due to the M25 reaching construction completion and being fair valued for the first time

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 constantly changes in response to prevailing market conditions During the year LIBOR increased resulting in a fair value gain on the interest rate swaps of £120m being recognised in OCI in 2013 (2012 £19m loss)

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 £60m determined by the market price of each fund at the reporting date

Recycling of revaluation 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 eight Infrastructure Investments' concessions, £21m was recycled to the income statement through OCI and is included in the gain on disposal 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 24–27

For the year ended 31 December 2013

GROUP STATEMENT OF CHANGES IN EQUITY

	Notes	Called up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures and associates reserves (Note 18 5)[2 4] £m	Other reserves (Note 30 1)[5] £m	Retained profits[2 4] £m	Non-controlling interests £m	Total[2 4] £m
At 1 January 2012[2]		344	61	27	144	328	359	4	1,267
Total comprehensive income/(expense) for the year[4]	30 1	–	–	–	323	(37)	(152)	–	134
Ordinary dividends	14	–	–	–	–	–	(96)	(1)	(97)
Joint ventures' and associates' dividends	18 1	–	–	–	(58)	–	58	–	–
Issue of ordinary shares	29 1	–	2	–	–	–	–	–	2
Movements relating to share-based payments		–	–	–	–	(2)	9	–	7
Other reserve transfers relating to joint venture and associate disposals[4]	30 1	–	–	–	(72)	–	72	–	–
Other transfers		–	–	(2)	–	–	2	–	–
At 31 December 2012		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**
Other reserve transfers relating to joint venture and associate disposals	18 5	**–**	**–**	**–**	**3**	**–**	**(3)**	**–**	**–**
Other transfers		**–**	**–**	**(1)**	**2**	**(2)**	**1**	**–**	**–**
At 31 December 2013		**344**	**64**	**24**	**278**	**323**	**–**	**2**	**1,035**

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[4] Re presented to reflect the recycling of revaluation reserves to the income statement in the statement of comprehensive income instead of the statement of changes in equity
[5] Re-presented to amalgamate the equity component of preference shares into other reserves

COMMENTARY ON GROUP STATEMENT OF CHANGES IN EQUITY*

Total equity holders funds of £1,035m at 31 December 2013 decreased by 21% primarily due to movements in other comprehensive income and the payment of dividends

Background
The 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 recommended a final dividend of 8 5p in respect of 2013 in line with the prior year's final dividend, resulting in a full-year dividend of 14 1p (2012 14 1p) The full-year dividend paid during 2013 equated to £96m Underlying dividend cover from continuing operations, taking into account PPP disposal gains, for 2013 is 1 4 times

Joint venture' and associates' dividends
Dividends of £47m were received in the year from joint ventures and associates (JVA) resulting in a transfer of this amount between JVA reserves and Group retained profit

Share issues
During the year 657,281 ordinary shares were issued for £1 4m of which £1 1m was share premium

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 2013 (2012 £2m)

Other reserves
Other reserves comprises the equity components of the preference shares and convertible bonds £44m (2012 £17m), the Group's hedging reserves £(56)m (2012 £(109)m), PPP financial asset revaluation reserve £56m (2012 £93m), currency translation reserve £8m (2012 £21m), merger reserve £249m (2012 £249m), and other reserves £22m (2012 £18m)

Equity component of convertible bonds
On 3 December the Group issued convertible bonds for net proceeds of £246m The convertible bonds are compound instruments comprising both equity and liability components The fair value of the liability component was £220m, estimated using the prevailing market rate at the date of issue for a similar non-convertible instrument
The equity component of £26m is the difference between the net proceeds and the fair value of the liability component representing the embedded option to convert the bonds into the Company's ordinary shares

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 24–27

For the year ended 31 December 2013

COMPANY INCOME STATEMENT

	Notes	2013 Underlying items[1] £m	2013 Non-underlying items (Note 10) £m	2013 Total £m	2012 Underlying items[1] £m	2012 Non-underlying items (Note 10) £m	2012 Total £m
Revenue	4	**97**	**–**	**97**	130	–	130
Net operating expense		**(19)**	**(3)**	**(22)**	(24)	(2)	(26)
Profit/(loss) from operations		**78**	**(3)**	**75**	106	(2)	104
Investment income	8	**5**	**–**	**5**	6	–	6
Finance costs	9	**(42)**	**–**	**(42)**	(35)	–	(35)
Profit/(loss) before taxation		**41**	**(3)**	**38**	77	(2)	75
Taxation	11	**4**	**(3)**	**1**	8	1	9
Profit/(loss) for the year attributable to equity holders		**45**	**(6)**	**39**	85	(1)	84

[1] Before non underlying items (Notes 2 11 and 10)

For the year ended 31 December 2013

COMPANY STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013 £m	2012 £m
Profit for the year		**39**	84
Other comprehensive (expense)/income for the year			
Items which will not subsequently be reclassified to the income statement			
Actuarial movements on retirement benefit liabilities		**1**	(3)
Tax on above	27 3	**(1)**	1
		–	(2)
Items which will subsequently be reclassified to the income statement			
Currency translation differences		**(1)**	–
Tax on share based payments transferred		**(2)**	–
Tax on preference shares due to change in rate	27 3	**1**	–
		(2)	–
Total other comprehensive expense for the year		**(2)**	(2)
Total comprehensive income for the year attributable to equity holders	30 2	**37**	82

For the year ended 31 December 2013

COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves (Note 28 2)[5] £m	Retained profits £m	Total £m
At 1 January 2012		344	61	27	340	333	1,105
Total comprehensive income for the year	30 2	–	–	–	–	82	82
Ordinary dividends	14	–	–	–	–	(96)	(96)
Issue of ordinary shares	29 1	–	2	–	–	–	2
Movements relating to share-based payments		–	–	–	(2)	5	3
Other transfers		–	–	(2)	–	2	–
At 31 December 2012		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**

[5] Re-presented to amalgamate the equity component of preference shares into other reserves

At 31 December 2013

BALANCE SHEETS

	Notes	Group 2013 £m	Group 2012[2] £m	Company 2013 £m	Company 2012 £m
Non-current assets					
Intangible assets – goodwill	15	**1,048**	1,160	**–**	–
– other	16	**204**	212	**–**	–
Property, plant and equipment	17	**208**	247	**–**	–
Investments in joint ventures and associates	18	**666**	726	**–**	–
Investments	19	**95**	94	**1,567**	1,937
PPP financial assets	20	**455**	542	**–**	–
Trade and other receivables	23	**113**	100	**17**	23
Deferred tax assets	27	**122**	116	**–**	–
Derivative financial instruments	39	**–**	–	**–**	–
		2,911	3,197	**1,584**	1,960
Current assets					
Inventories and non-construction work in progress	21	**135**	172	**–**	–
Due from construction contract clients	22	**631**	634	**–**	–
Trade and other receivables	23	**1,190**	1,241	**1,262**	1,152
Cash and cash equivalents – PPP subsidiaries	26	**65**	25	**–**	–
– other	26	**539**	517	**–**	43
Current tax assets		**8**	4	**–**	–
Derivative financial instruments	39	**2**	1	**4**	2
		2,570	2,594	**1,266**	1,197
Assets held for sale	12	**231**	–	**–**	–
		2,801	2,594	**1,266**	1,197
Total assets		**5,712**	5,791	**2,850**	3,157
Current liabilities					
Due to construction contract clients	22	**(360)**	(382)	**–**	–
Trade and other payables	24	**(2,046)**	(2,214)	**(1,337)**	(1,464)
Provisions	25	**(100)**	(116)	**–**	–
Borrowings – non-recourse loans	26	**(9)**	(12)	**–**	–
– other	26	**(170)**	(477)	**(106)**	(466)
Current tax liabilities		**(33)**	(42)	**–**	–
Derivative financial instruments	39	**(19)**	(20)	**(6)**	(2)
		(2,737)	(3,263)	**(1,449)**	(1,932)
Liabilities held for sale	12	**(219)**	–	**–**	–
		(2,956)	(3 263)	**(1,449)**	(1,932)
Non-current liabilities					
Trade and other payables	24	**(182)**	(159)	**(25)**	(25)
Provisions	25	**(93)**	(112)	**(1)**	(5)
Borrowings – non-recourse loans	26	**(410)**	(381)	**–**	–
– other	26	**(435)**	(5)	**(212)**	–
Liability component of preference shares	29	**(94)**	(92)	**(94)**	(92)
Retirement benefit liabilities	28	**(434)**	(333)	**–**	(6)
Deferred tax liabilities	27	**(18)**	(10)	**(3)**	–
Derivative financial instruments	39	**(55)**	(123)	**(1)**	(1)
		(1,721)	(1,215)	**(336)**	(129)
Total liabilities		**(4,677)**	(4,478)	**(1,785)**	(2,061)
Net assets		**1,035**	1,313	**1,065**	1,096
Equity[5]					
Called-up share capital	29	**344**	344	**344**	344
Share premium account	30	**64**	63	**64**	63
Special reserve	30	**24**	25	**24**	25
Share of joint ventures' and associates' reserves	30	**278**	337	**–**	–
Other reserves[5]	30	**323**	289	**362**	338
Retained profits	30	**–**	252	**271**	326
Equity attributable to equity holders of the parent		**1,033**	1,310	**1,065**	1,096
Non-controlling interests	30	**2**	3	**–**	–
Total equity		**1,035**	1,313	**1,065**	1,096

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[5] Re-presented to amalgamate the equity component of preference shares into other reserves

On behalf of the Board

Steve Marshall — Director

Duncan Magrath — Director

5 March 2014

COMMENTARY ON THE GROUP BALANCE SHEET*

Total assets of £5 7bn were 1% less than last year Total liabilities of £4 7bn increased by 4% primarily due to the increase in the pension deficit during the year

Background
The Group's balance sheet shows the Group's assets and liabilities as at 31 December 2013 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 Instead, at December 2013, 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 2013 decreased to £1,048m (2012 £1,160m) £64m of this reduction was due to the disposal of Balfour Beatty WorkPlace with a further £38m reduction due to an impairment in respect of Rail Germany

Impairment reviews have been carried out on all goodwill No goodwill, other than Rail Germany mentioned above, was impaired

Investments in joint ventures and associates
Investments in joint ventures and associates decreased during the year primarily due to the disposal of Infrastructure Investments joint ventures

PPP financial assets
The £87m decrease in the PPP financial assets is principally driven by the part disposal of Connect CNDR Holdings Ltd and the reduction in the fair value of the remaining financial assets due to a rise in discount rates resulting from a rise in gilt rates

Working capital
Net movements in working capital are discussed in the statement of cash flows commentary on page 97

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 £950m 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 However, as the Group's business has evolved over time, Balfour Beatty has diversified its sources of funds away from the bank market

As part of that process, in March 2013 the Company issued notes in a US$350m US private placement with an average coupon of 4 94% per annum and an average maturity of 9 3 years The incremental annual cost of this funding is approximately £9m

In December the Group issued £253m of unsecured convertible bonds due 2018 at a coupon of 1 875% per annum The incremental annual cost in the income statement of this funding is approximately £8m The proceeds from these new funds were used in the first instance to repay borrowings under the committed facilities

Non-recourse loans
In addition, the Group has non-recourse facilities in companies engaged in PPP projects and infrastructure investments

At 31 December 2013, the Group's share of non-recourse net borrowings amounted to £1,953m (2012 £2,122m), comprising £1,599m (2012 £1,754m) in relation to joint ventures and associates as disclosed in Note 18 2 and £354m (2012 £368m) 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 £434m (2012 £333m restated for IAS 19 Revised) in the Group's pension schemes The retirement liabilities increased primarily due to an increase in the inflation assumptions and a £52m curtailment charge resulting from the majority of the Balfour Beatty Pension Fund's (BBPF) members ceasing to accrue future defined benefits and becoming deferred members 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 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 assets and liabilities relating to the 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

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 clients with guarantees in connection with its contracting activities, commonly referred to as bonds These bonds provide a client 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 2013, contract bonds in issue by financial institutions under uncommitted facilities covered £2 8bn (2012 £3 3bn) of the contract commitments of the Group

Equity commitments
During 2013 the Group invested £48m (2012 £55m) 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 £137m from 2014 onwards, inclusive of £50m expected for two projects at preferred bidder stage £73m of this is expected to be invested in 2014

* The commentary is unaudited and forms part of the Chief Financial Officer's Review on pages 24–27

For the year ended 31 December 2013

STATEMENTS OF CASH FLOWS

	Notes	Group 2013 £m	Group 2012[6] £m	Company 2013 £m	Company 2012[6] £m
Cash flows from operating activities					
Cash (used in)/generated from					
– continuing operations – underlying[1,6]	31 1	**(83)**	(175)	**208**	(76)
– non-underlying[6]	31 1	**(75)**	(44)	**(3)**	(3)
– discontinued operations[6]	31 1	**(4)**	–	**–**	–
Income taxes paid		**(13)**	(19)	**–**	–
Net cash (used in)/from operating activities		**(175)**	(238)	**205**	(79)
Cash flows from investing activities					
Dividends received from					
– joint ventures and associates	18 4	**47**	58	**6**	3
– discontinued operations		**1**	–	**–**	–
– subsidiaries		**–**	–	**–**	4
Interest received		**28**	33	**3**	3
Acquisition of businesses, net of cash and cash equivalents acquired	32 1	**(14)**	(4)	**–**	–
Purchases of					
– intangible assets – other	16	**(38)**	(25)	**–**	–
– property, plant and equipment	17	**(82)**	(49)	**–**	–
– other investments	19	**(12)**	(5)	**–**	–
Investments in and loans to joint ventures and associates	18 4	**(51)**	(39)	**–**	–
Loans repaid to joint ventures and associates	18 4	**2**	12	**–**	–
PPP financial assets cash expenditure[7]	20	**(62)**	(67)	**–**	–
PPP financial assets cash receipts[7]	20	**59**	45	**–**	–
Disposals of					
– investments in joint ventures	18 4	**103**	81	**–**	–
– subsidiaries net of cash disposed and transaction costs	32 3 11	**152**	–	**–**	–
– property, plant and equipment – underlying[1]		**11**	21	**–**	–
– property, plant and equipment – non-underlying		**8**	–	**–**	–
– other investments	19	**20**	9	**–**	–
Net cash from investing activities		**172**	70	**9**	10
Cash flows from financing activities					
Purchase of ordinary shares	30 3	**(2)**	(3)	**–**	–
Proceeds from					
– issue of ordinary shares	29 1	**1**	2	**1**	2
– convertible bonds	29 3	**246**	–	**–**	–
– US private placement	31 4	**231**	–	**231**	–
– other new loans	31 3	**110**	350	**–**	230
– finance leases	31 3	**1**	–	**–**	–
Repayment of					
– loans	31 3	**(408)**	(53)	**(410)**	(32)
– finance leases	31 3	**(2)**	(4)	**–**	–
Ordinary dividends paid	14	**(96)**	(96)	**(96)**	(96)
Other dividends paid – non-controlling interest	14	**(1)**	(1)	**–**	–
Interest paid		**(56)**	(47)	**(22)**	(13)
Preference dividends paid		**(11)**	(11)	**(11)**	(11)
Net cash from financing activities		**13**	137	**(307)**	80
Net increase/(decrease) in cash and cash equivalents	31 3	**10**	(31)	**(93)**	11
Effects of exchange rate changes		**3**	(17)	**–**	–
Cash and cash equivalents at beginning of year		**532**	580	**(13)**	(24)
Reclassified to assets held for sale	12	**(19)**	–	**–**	–
Cash and cash equivalents at end of year	31 2	**526**	532	**(106)**	(13)

[1] Before non-underlying items (Notes 2 11 and 10)
[6] Re-presented to separately identify cashflows from underlying and non underlying continuing operations and discontinued operations
[7] Re-presented to separately identify PPP financial assets cash inflows and outflows which were previously disclosed in Note 20

COMMENTARY ON THE GROUP STATEMENT OF CASH FLOWS*

Cash and cash equivalents decreased by 1% during the year to £526m Cash used in operating activities decreased by 26% to £175m

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 clients, 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 "positive working capital" Where this is not the case this is referred to as "negative working capital"

Working capital movements
The movement of the individual working capital balances on the balance sheet will not be reflective of the actual movement of working capital in the year because the December 2013 balances exclude amounts relating to discontinued operations and disposals whereas the prior year balances include these balances

Working capital movements are disclosed in Note 31 1

Inventories and non-construction work in progress
During 2013 movement on inventories and non-construction work in progress was broadly flat with a £5m decrease for continuing operations

Amounts due from construction contract clients
During 2013 there was a £93m increase in amounts due for construction contract clients from continuing operations primarily due to a large contract in Support Services on which work is being performed but payment is not made until completion of certain milestones in the project

Operating trade and other receivables
During 2013 there was a £166m increase in operating trade and other receivables for continuing operations primarily due to new contract wins in Construction Services US which is in line with its increased revenue in the second half of 2013

Amounts due to construction contract clients
During 2013 there was a £33m increase in amounts due to construction contract clients for continuing operations due to the lifecycle of some projects in Professional Services and Construction Services US

Operating trade and other payables
During 2013 there was a £106m increase in operating trade and other payables for continuing operations primarily due to new contract wins in the second half of the year for Construction Services US in line with increased cost of sales

Operating provisions
During 2013 there was a £14m decrease in operating provisions for continuing operations primarily due to utilising restructuring provisions during the year Refer to Note 25

Cash used in operations
Underlying cash used in continuing operations of £83m (2012 £175m) was impacted by a working capital outflow of £129m (2012 £339m) and pension deficit payments of £57m (2012 £61m)

Non-underlying cash used in continuing operations was £75m (2012 £44m) after adjusting for the following non-cash items a £51m (2012 £44m) pension curtailment charge resulting from ceasing to accrue future defined benefits for the majority of the Balfour Beatty Pension Fund's members and amortisation of acquired intangible assets £30m (2012 £39m)

Cash used in discontinued operations was £4m (2012 £nil) after adjusting for a non-cash movement relating to goodwill impairment of £38m (2012 £95m)

Cash flows from investing activities
The Group received dividends of £47m (2012 £58m) from joint ventures and associates during the year

During the year the Group purchased intangible assets of £38m (2012 £25m) of which £21m (2012 £nil) related to Edinburgh student accommodation Of the £82m property, plant and equipment purchased during the year, £71m relates to continuing operations and relates to the purchase of plant and equipment £39m, capitalisation of leasehold improvements £20m mainly relating to the new professional services shared service centre, and the refit of our New York headquarters, and assets in course of construction £12m, the majority of which relates to investment projects in the US

The Group disposed of interests in seven PPP joint ventures and one infrastructure joint venture during the year for £102m In addition the Group partially disposed of one PPP subsidiary for £26m, retaining an interest in the entity as a joint venture The Group also disposed of Balfour Beatty WorkPlace, the UK facilities management business (BBW), Rail Spain and Stassfurt Signalling Workshop for a net consideration of £152m, of which £146m relates to the disposal of BBW being consideration of £155m less transaction costs and cash disposed of £9m

Cash flows from financing activities
The Group diversified its borrowings in the year by entering into a US private placement in March 2013 for US$350m, (£231m) and in December 2013, the Group issued convertible bonds for net proceeds of £246m These funds were used in the first instance to repay borrowings under committed facilities

Ordinary dividends of £96m were declared and paid during the year and preference dividends of £11m were paid

Cash and cash equivalents
Cash and cash equivalents decreased from £532m to £526m excluding the project cash held in a jointly controlled operation which is classified within assets held for sale

* The commentary is unaudited and forms part of the Chief Financial Officer s Review on pages 24–27

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 27 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 2013 The Group early adopted amendments to IAS 36 Recoverable Amount Disclosures for Non-financial Assets

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 13 Fair Value Measurement
- Amendments to the following standards
  - IFRS 1 Government Loans
  - IFRS 7 Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities
  - IAS 19 Employee Benefits (Revised)
  - IAS 32 Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities
  - IAS 36 Impairment of Assets
  - IAS 36 Recoverable Amount Disclosures for Non-financial Assets
  - Improvements to IFRSs (2009–2011)

Other than IAS 19 Employee Benefits (Revised) (IAS 19 Revised), the above new and amended standards do not have a material effect on the Group The effect on the financial statements of adopting IAS 19 Revised is disclosed in Note 38

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 2013

- IFRS 9 Financial Instruments
- 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 19 Employee Benefits Defined Benefit Plans Employee Contributions
  - IAS 27 Separate Financial Statements
  - IAS 28 Investments in Associates and Joint Ventures
  - IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
  - Improvements to IFRSs (2010–2012)
  - Improvements to IFRSs (2011–2013)

Of these, IFRS 9 is expected to have the most significant effect

IFRS 9 will replace IAS 39 Financial Instruments Recognition and Measurement IFRS 9 in issue as at 31 December 2013 concerns the classification and measurement of financial assets and financial liabilities, the de-recognition of financial instruments and hedge accounting

The requirements of IFRS 9 in issue as at 31 December 2013 would 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 £57m from PPP financial asset reserves to retained earnings The effect within the share of joint ventures and associates' reserves would be a transfer of £251m from PPP financial asset reserves to retained earnings

On 28 November 2012 the IASB issued an Exposure Draft, Classification and Measurement Limited Amendments to IFRS 9 which proposes a new category for the classification of financial assets and liabilities, "Fair value through other comprehensive income" Should these proposals be adopted the Group's PPP financial assets will be classified as ' Fair value through other comprehensive income" which would not result in a material change to the current accounting for the Group's PPP financial assets

2 2 Re-presentation of comparative information

IAS 19 Revised

All primary statements have been restated to reflect the effects of adopting IAS 19 Revised affecting net finance costs, taxation, actuarial movements, retirement benefit liabilities, deferred tax assets and opening retained profits Refer to Note 38

Discontinued operations

The Income Statement has been re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations Refer to Notes 12 and 38

Recycling of revaluation reserves

The Statement of Comprehensive Income and the Statement of Changes in Equity have been re-presented to reflect the disclosure of recycling of the revaluation reserves to the Income Statement through other comprehensive income This was previously shown within the Statement of Changes in Equity

2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 over which the Group has control, being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities The results of subsidiaries acquired or sold in the year are consolidated from the effective date of acquisition to the effective date of disposal

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 (i e reclassified to profit or loss or transferred directly to retained earnings)

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group All intra-Group transactions, balances, income and expenses are eliminated on consolidation

b) Joint ventures and associates
Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement Associates are entities over which the Group is in a position to exercise significant influence, but does not control or exercise joint control, through participation in the financial and operating policy decisions of the investee

The results, assets and liabilities of joint ventures and associates are generally 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 Balfour Beatty Investments US is contractually limited to a maximum level of return, beyond which Balfour Beatty Investments US does not share in any further return

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) Jointly controlled 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 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 26(c) 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

2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

2 5 Revenue recognition continued

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 client Revenue in respect of claims is recognised when negotiations have reached an advanced stage such that it is probable that the client 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 four 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 28 to 35

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

Major clients are defined as clients 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 there are potentially three contracts over which the recovered costs could be amortised, the concession contract itself, the construction contract or the services contract An assessment is made as to which contractual element the pre-contract costs relate to, in order to determine which is the relevant period for amortisation The relevant contract is either the construction contract that ultimately gives rise to a financial or intangible asset, or the services contract where there is no initial construction

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 PPP concessions
- costs of restructuring and reorganisation of existing businesses
- costs of integrating newly acquired businesses
- acquisition and similar costs related to business combinations such as transaction costs
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets)
- 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 Amortisation charges in respect of software are included in underlying items

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

2 PRINCIPAL ACCOUNTING POLICIES CONTINUED

2 12 Taxation continued
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

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 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
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 or fair value less costs to sell

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 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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

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 were 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 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 remeasured 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 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 2013 are discussed below

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

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

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 cost after tax of £157m was charged to the income statement for the year ended 31 December 2013

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 2013 was £1,048m (2012 £1,160m)

e) Available-for-sale financial assets
At 31 December 2013 £2,747m (2012 £3,183m) of assets constructed by the Group's PPP 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 5 5% to 8 5% (2012 4 7% to 7 7%), which reflects the prevailing risk free interest rates and the different risk profiles of the various concessions A £192m loss was taken to other comprehensive income in 2013 and a cumulative fair value gain of £405m had arisen on these financial assets as a result of movements in the fair value of these financial assets at 31 December 2013

f) Recoverable value of recognised receivables
The Group has recognised trade receivables with a carrying value of £803m (2012 £824m) 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 2013 of £193m (2012 £228m)

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 2013, the retirement benefit liability recognised on the Group's balance sheet was £434m (2012 £333m restated) 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 2013 the Group recognised net actuarial losses of £114m in equity (2012 £115m losses restated), 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 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 followıng key exchange rates were applıed ın these fınancıal statements

Average rates

£1 buys	2013	2012	Change
US$	**1 57**	1 59	(1 3)%
Euro	**1 18**	1 23	(4 1)%

Closıng rates

£1 buys	2013	2012	Change
US$	**1 65**	1 62	1 9%
Euro	**1 20**	1 23	(2 4)%

4 REVENUE

Contınuıng operatıons	Group 2013 £m	Group 2012[3] £m	Company 2013 £m	Company 2012 £m
Revenue from the provısıon of servıces*	**8,709**	8,639	–	–
Revenue from manufacturıng actıvıtıes	**11**	13	–	–
Proceeds from sale of development land	**25**	4	**7**	–
Dıvıdends from subsıdıarıes	–	–	**84**	127
Dıvıdends from joınt ventures and assocıates	–	–	**6**	3
Total revenue	**8,745**	8,656	**97**	130
Investment ıncome (Note 8)	**65**	62	**5**	6
Total revenue and ınvestment ıncome	**8,810**	8,718	**102**	136

[3] Re presented to classıfy certaın Maınland European raıl busınesses and the UK facılıtıes management busıness as dıscontınued operatıons (Notes 12 and 38)
* Includes IAS 11 constructıon contract revenue of £7 872m (2012 £7 668m re presented[3])

5 SEGMENT ANALYSIS

Reportable segments of the Group

- **Professıonal Servıces** – the provısıon of project management, archıtectural, desıgn or other technıcal servıces performed by the Group as a consultant
- **Constructıon Servıces** – actıvıtıes resultıng ın the physıcal constructıon of an asset
- **Support Servıces** – actıvıtıes whıch support exıstıng assets or functıons such as asset maıntenance and refurbıshment
- **Infrastructure Investments** – acquısıtıon, operatıon and dısposal of ınfrastructure assets such as PPP concessıons, student accommodatıon and aırports

5 1 Total Group

Income statement – performance by actıvıty from contınuıng operatıons

	Professıonal Servıces 2013 £m	Constructıon Servıces 2013 £m	Support Servıces 2013 £m	Infrastructure Investments 2013 £m	Corporate actıvıtıes 2013 £m	Total 2013 £m
Revenue ıncludıng share of joınt ventures and assocıates	**1,661**	**6,573**	**1,265**	**608**	**11**	**10,118**
Share of revenue of joınt ventures and assocıates	**(13)**	**(971)**	**(33)**	**(356)**	**–**	**(1,373)**
Group revenue	**1,648**	**5,602**	**1,232**	**252**	**11**	**8,745**
Underlyıng group operatıng profıt/(loss)[1]	**54**	**(16)**	**54**	**69**	**(29)**	**132**
Share of results of joınt ventures and assocıates	**–**	**37**	**1**	**33**	**–**	**71**
Underlyıng profıt/(loss) from operatıons[1]	**54**	**21**	**55**	**102**	**(29)**	**203**
Non-underlyıng ıtems						
– amortısatıon of acquıred ıntangıble assets	**(13)**	**(10)**	**–**	**(7)**	**–**	**(30)**
– other non-underlyıng ıtems	**(28)**	**(45)**	**(15)**	**–**	**(37)**	**(125)**
Profıt/(loss) from operatıons	**13**	**(34)**	**40**	**95**	**(66)**	**48**
Investment ıncome						**65**
Fınance costs						**(81)**
Profıt before taxatıon						**32**

	2012 £m	2012[2 3] £m	2012[3] £m	2012 £m	2012 £m	2012[2 3] £m
Revenue ıncludıng share of joınt ventures and assocıates	1,668	6,511	1,151	636	–	9,966
Share of revenue of joınt ventures and assocıates	(21)	(818)	(44)	(427)	–	(1,310)
Group revenue	1,647	5,693	1,107	209	–	8,656
Underlyıng group operatıng profıt/(loss)[1]	97	70	28	29	(32)	192
Share of results of joınt ventures and assocıates	1	49	2	40	–	92
Underlyıng profıt/(loss) from operatıons[1]	98	119	30	69	(32)	284
Non-underlyıng ıtems						
– amortısatıon of acquıred ıntangıble assets	(19)	(12)	–	(8)	–	(39)
– other non-underlyıng ıtems	(13)	(49)	(14)	(12)	(3)	(91)
Profıt/(loss) from operatıons	66	58	16	49	(35)	154
Investment ıncome						62
Fınance costs						(69)
Profıt before taxatıon						147

[1] Before non underlyıng ıtems (Notes 2 11 and 10)
[2] Restated to reflect the effects of IAS 19 Employee Benefıts (Revısed) (Note 38)
[3] Re-presented to classıfy certaın Maınland European raıl busınesses and the UK facılıtıes management busıness as dıscontınued operatıons (Notes 12 and 38)

5 SEGMENT ANALYSIS CONTINUED

5.1 Total Group continued

Assets and liabilities by activity	Professional Services 2013 £m	Construction Services 2013[+] £m	Support Services 2013 £m	Infrastructure Investments 2013 £m	Corporate activities 2013 £m	Total 2013 £m
Due from construction contract clients	**179**	**316**	**136**	**–**	**–**	**631**
Due to construction contract clients	**(115)**	**(192)**	**(53)**	**–**	**–**	**(360)**
Inventories and non-construction work in progress	**1**	**62**	**71**	**–**	**1**	**135**
Trade and other receivables – current	**303**	**685**	**142**	**50**	**10**	**1,190**
Trade and other payables – current	**(279)**	**(1,400)**	**(283)**	**(58)**	**(26)**	**(2,046)**
Provisions – current	**(4)**	**(58)**	**(10)**	**(2)**	**(26)**	**(100)**
Working capital from continuing operations*	**85**	**(587)**	**3**	**(10)**	**(41)**	**(550)**
Classified as net assets held for sale (Note 12)	**–**	**(17)**	**–**	**–**	**–**	**(17)**
Adjusted working capital	**85**	**(604)**	**3**	**(10)**	**(41)**	**(567)**

* Includes non operating items and current working capital

Total assets	**833**	**2,133**	**486**	**1,213**	**1,047**	**5,712**
Total liabilities	**(499)**	**(2,056)**	**(458)**	**(194)**	**(1,470)**	**(4,677)**
Net assets/(liabilities)	**334**	**77**	**28**	**1,019[^]**	**(423)**	**1,035**

[+] Includes net assets held for sale of £15m relating to the Rail disposal group (Note 12)
[^] Excludes net non recourse borrowings of £354m which are included within Corporate. Refer to Notes 2.7 and 5.2

	2012 £m	2012[2] £m	2012 £m	2012 £m	2012 £m	2012[2 8] £m
Due from construction contract clients	187	387	60	–	–	634
Due to construction contract clients	(127)	(243)	(12)	–	–	(382)
Inventories and non-construction work in progress	5	79	87	–	1	172
Trade and other receivables – current	309	663	208	49	12	1,241
Trade and other payables – current	(302)	(1,455)	(368)	(43)	(46)	(2,214)
Provisions – current[8]	(4)	(93)	(14)	(1)	(4)	(116)
Working capital[8]	68	(662)	(39)	5	(37)	(665)

* Includes non-operating items and current working capital
[8] Re-presented to include current provisions only in line with all other working capital items

Total assets	864	2,268	579	1,341	739	5,791
Total liabilities	(571)	(2,082)	(449)	(256)	(1,120)	(4,478)
Net assets/(liabilities)	293	186	130	1,085[x]	(381)	1,313

[x] Excludes net non-recourse borrowings of £368m which are included within Corporate. Refer to Notes 2.7 and 5.2
[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

Other information – continuing operations	Professional Services 2013 £m	Construction Services 2013 £m	Support Services 2013 £m	Infrastructure Investments 2013 £m	Corporate activities 2013 £m	Total 2013 £m
Capital expenditure on property, plant and equipment (Note 17)	**26**	**16**	**11**	**11**	**7**	**71**
Depreciation (Note 17)	**13**	**16**	**18**	**2**	**1**	**50**
Gain on disposals of interests in investments (Note 32.3)	**–**	**–**	**–**	**82**	**–**	**82**

	2012 £m	2012[3] £m	2012[3] £m	2012 £m	2012 £m	2012[3] £m
Capital expenditure on property, plant and equipment (Note 17)	11	16	11	1	1	40
Depreciation (Note 17)	13	16	19	2	1	51
Gain on disposals of interests in investments (Note 32.4)	–	–	–	52	–	52

[3] Re presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

Performance by geographic destination – continuing operations	United Kingdom 2013 £m	United States 2013 £m	Rest of world 2013 £m	Total 2013 £m
Revenue including share of joint ventures and associates	**4,607**	**3,921**	**1,590**	**10,118**
Share of revenue of joint ventures and associates	**(436)**	**(180)**	**(757)**	**(1,373)**
Group revenue	**4,171**	**3,741**	**833**	**8,745**
Non-current assets excluding financial assets and deferred tax assets	**1,057**	**854**	**215**	**2,126**
Classified as net 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**
	2012[3] £m	2012[3] £m	2012[3 9] £m	2012[3] £m
Revenue including share of joint ventures and associates	4,837	3,540	1,589	9,966
Share of revenue of joint ventures and associates	(475)	(118)	(717)	(1,310)
Group revenue	4,362	3,422	872	8,656
Non-current assets excluding financial assets and deferred tax assets	1,207	835	307	2,349

[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)
[9] Re-presented to amalgamate geographic information relating to continuing Mainland European operations and Rest of world

5 SEGMENT ANALYSIS CONTINUED

Major clients

Included in Group revenue are revenues from continuing operations of £2,235m (2012 £2,226m) from the US Government and £1,790m (2012 £1,959m restated) from the UK Government, which are the Group's two largest clients These revenues are included in the results across all four reported segments

5 2 Infrastructure Investments

Underlying profit from operations[1]	Group 2013 £m	Share of joint ventures and associates (Note 18 2)* 2013 £m	Total 2013 £m	Group 2012[10] £m	Share of joint ventures and associates (Note 18 2)* 2012 £m	Total 2012[10] £m
UK^	**2**	**27**	**29**	2	35	37
North America	**21**	**6**	**27**	12	6	18
Infrastructure Fund[10]	**(2)**	–	**(2)**	(4)	–	(4)
Infrastructure	**(3)**	–	**(3)**	(3)	(1)	(4)
Gain on disposals of interests in investments	**82**	–	**82**	52	–	52
	100	**33**	**133**	59	40	99
Bidding costs and overheads[10]	**(31)**	–	**(31)**	(30)	–	(30)
	69	**33**	**102**	29	40	69
Net assets/(liabilities)						
UK^	**391**	**433**	**824**	393	528	921
North America	**106**	**83**	**189**	130	65	195
Infrastructure Fund	–	**11**	**11**	–	–	–
Infrastructure	**(3)**	–	**(3)**	1	–	1
	494	**527**	**1,021**	524	593	1,117
Infrastructure Investments central functions	**(2)**	–	**(2)**	(32)	–	(32)
Total Infrastructure Investments net assets	**492**	**527**	**1,019**	492	593	1,085
Non-recourse borrowings net of associated cash and cash equivalents (Note 26)	**(354)**	–	**(354)**	(368)	–	(368)
	138	**527**	**665**	124	593	717

1 Before non underlying items (Notes 2 11 and 10)
* The Group s share of the results of joint ventures and associates is disclosed net of investment income finance costs and taxation
^ Including Singapore
10 Re-presented to separately identify costs directly related to the Infrastructure Fund

6 PROFIT/(LOSS) FROM OPERATIONS

6 1 Profit/(loss) from continuing operations is stated after charging/(crediting)

Continuing operations	2013 £m	2012[3] £m
Research and development costs	**2**	1
Depreciation of property, plant and equipment	**50**	51
Amortisation of intangible assets	**33**	43
Net reversal of trade receivables impairment provision	**(2)**	(13)
(Impairment reversal)/impairment of property, plant and equipment	**(3)**	5
Impairment of inventory	**–**	3
Gain on disposal of property, plant and equipment	**(3)**	(7)
Cost of inventory recognised as an expense	**174**	145
Exchange gains and losses	**–**	1
Auditor's remuneration	**7**	7
Short term hire charges for plant and equipment	**125**	117
Other operating lease rentals	**110**	114

[3] Re presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

6 2 Analysis of auditor's remuneration – continuing and discontinued operations

	2013 £m	2012 £m
Services as auditor to the Company	**0 8**	0 8
Services as auditor to Group subsidiaries	**3 7**	4 3
Total audit fees	**4 5**	5 1
Audit related assurance fees	**0 5**	0 5
Taxation compliance fees	**0 2**	0 3
Taxation advisory fees	**0 1**	0 1
Corporate finance fees	**1 4**	1 6
Other assurance fees	**0 1**	0 2
Other services	**0 1**	0 1
Total non-audit fees	**2 4**	2 8
Total fees in relation to audit and other services	**6 9**	7 9

7 EMPLOYEE COSTS

7 1 Group – continuing and discontinued operations

Employee costs during the year	2013 £m	2012 £m
Wages and salaries	**2,299**	2,253
Underlying redundancy costs	**14**	12
Non-underlying redundancy costs (Note 10)	**32**	21
Social security costs	**225**	226
Pension costs (Note 28)	**147**	104
Share-based payments (Note 33)	**6**	7
	2,723	2,623

Of the above employee costs, £2,350m (2012 £2,293m) relates to continuing operations

Average number of Group employees	2013 Number	2012[3] Number
Professional Services	**14,086**	13,894
Construction Services	**14,925**	16,267
Support Services	**8,129**	7,228
Infrastructure Investments	**1,554**	1,621
Corporate	**154**	188
Continuing operations	**38,848**	39,198
Discontinued operations	**10,937**	10,976
	49,785	50,174

[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

At 31 December 2013 the total number of Group employees was 41,221 (2012 50,304) of which 39,141 (2012 39,054) relate to continuing operations and 2,080 (2012 11,250) 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 average number of employees of Balfour Beatty plc was 14 (2012 134) Total employee costs of Balfour Beatty plc were £2m (2012 £19m) Total employee costs comprise wages and salaries £2m (2012 £14m), social security costs £nil (2012 £2m), pension costs £nil (2012 £1m), and share-based payments £nil (2012 £2m)

8 INVESTMENT INCOME

Continuing operations	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Subordinated debt interest receivable	**25**	24	**1**	2
Interest receivable on PPP financial assets	**33**	31	**–**	–
Interest receivable from subsidiaries	**–**	–	**3**	3
Other interest receivable and similar income	**7**	7	**1**	1
	65	62	**5**	6

9 FINANCE COSTS

Continuing operations		Group 2013 £m	Group 2012[2,3] £m	Company 2013 £m	Company 2012[2] £m
Non-recourse borrowings	– bank loans and overdrafts	**28**	27	**–**	–
Preference shares	– finance cost	**12**	12	**12**	12
Convertible bonds	– finance cost	**1**	–	**–**	–
US private placement	– finance cost	**9**	–	**9**	–
Other interest payable	– loans under committed facilities	**9**	8	**9**	8
	– other bank loans and overdrafts	**3**	3	**1**	1
	– commitment fees	**4**	4	**4**	4
	– other finance charges	**6**	6	**–**	–
Net finance cost on pension scheme assets and liabilities (Note 28 2)		**9**	9	**–**	–
Interest payable to subsidiaries		**–**	–	**7**	10
		81	69	**42**	35

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[3] Re presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

10 NON-UNDERLYING ITEMS

	Group 2013 £m	Group 2012[3] £m	Company 2013 £m	Company 2012 £m
Operating expenses (charged against)/credited to profit				
10 1 Continuing operations				
10 1 1 Amortisation of acquired intangible assets	**(30)**	(39)	**–**	–
10 1 2 Other non-underlying items				
– restructuring and reorganisation costs relating to Australia[o]	**(20)**	(2)	**–**	–
– restructuring and reorganisation costs relating to other continuing businesses[o]	**(32)**	(62)	**(3)**	(2)
– pension curtailment charges and related costs	**(52)**	–	**–**	–
– cost of implementing UK shared service centre	**(7)**	(4)	**–**	–
– cost of implementing US shared service centre[o]	**(10)**	(2)	**–**	–
– post-acquisition integration, reorganisation and other costs	**(4)**	(9)	**–**	–
– write-down of investment in Exeter International Airport	**–**	(12)	**–**	–
Total other non-underlying items	**(125)**	(91)	**(3)**	(2)
Charged against profit before taxation from continuing operations	**(155)**	(130)	**(3)**	(2)
10 1 3 Tax on items above	**35**	35	**(3)**	1
Non-underlying items charged against profit for the year from continuing operations	**(120)**	(95)	**(6)**	(1)
10 2 Discontinued operations				
10 2 1 Amortisation of acquired intangible assets	**(2)**	(6)	**–**	–
10 2 2 Other non-underlying items				
– goodwill impairment in respect of Mainland European rail businesses	**(38)**	(95)	**–**	–
– other restructuring charges in respect of Mainland European rail businesses[o]	**(6)**	(2)	**–**	–
– pension curtailment charges	**(2)**	–	**–**	–
– Rail Germany regulatory fine	**(2)**	–	**–**	–
– loss on disposal of Rail Spain	**(4)**	–	**–**	–
– loss on disposal of Stassfurt Signalling Workshop	**(1)**	–	**–**	–
– UK facilities management business disposal gain/transaction costs[o]	**16**	(2)	**–**	–
Total other non-underlying items from discontinued operations	**(37)**	(99)	**–**	–
Charged against profit before taxation from discontinued operations	**(39)**	(105)	**–**	–
10 2 3 Tax on items above	**2**	4	**–**	–
Non-underlying items charged against profit for the year from discontinued operations	**(37)**	(101)	**–**	–
Charged against profit for the year	**(157)**	(196)	**(6)**	(1)

[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)
[o] Re-presented to separately identify restructuring costs relating to Australia the disposal transaction costs relating to the UK facilities management business the costs relating to the implementation of the US shared service centre and to amalgamate the prior year restructuring costs relating to continuing Mainland European rail businesses

10 NON-UNDERLYING ITEMS CONTINUED

Continuing operations

10 1 1 The amortisation of acquired intangible assets from continuing operations comprises customer contracts £10m (2012 £16m), customer relationships £11m (2012 £14m), and brand names £9m (2012 £9m)

10 1 2 1 In response to the downturn in Australia, the Group incurred restructuring and reorganisation costs of £20m (2012 £2m) mainly relating to the mining sector The 2013 restructuring costs comprise redundancy costs £12m (2012 £2m), and onerous leases £8m (2012 £nil)

10 1 2 2 The Group continued to implement its plan to restructure a number of its businesses in order to increase its focus on the needs of clients and upon growth sectors, further integrate its service offering to these clients, and realise operational efficiencies In 2013 restructuring costs of £32m were incurred (2012 £62m) relating to Construction Services UK £14m (2012 £34m), where six business units have been streamlined and restructured into one business with three business streams, Support Services UK £5m (2012 £5m), other UK entities £7m (2012 £10m), continuing Mainland European rail businesses £nil (2012 £7m) and other non-UK entities £6m (2012 £6m)

The 2013 restructuring costs comprise redundancy costs £16m (2012 £24m), external advisers £6m (2012 £8m), impairment of land and buildings £nil (2012 £5m), reversal of impairment of land and buildings £(3)m (2012 £nil), gain on sale of property £(3)m (2012 £nil), other property related costs £4m (2012 £11m), pension curtailment cost £1m (2012 £2m), and other restructuring costs £11m (2012 £12m)

The Company incurred restructuring costs of £3m (2012 £2m) during the year

10 1 2 3 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 (2012 £nil) being incurred

10 1 2 4 In 2013, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £7m (2012 £4m) being incurred

10 1 2 5 In 2013, the implementation of the US shared service centre in Lancaster, Pennsylvania with the transfer of roles from New York led to incremental costs of £10m (2012 £2m) being incurred

10 1 2 6 Post-acquisition integration and reorganisation costs of £4m (2012 £9m) have been incurred in 2013 of which £3m (2012 £nil) relates to Howard S Wright post-acquisition reorganisation costs and £1m (2012 £1m) relates to Parsons Brinckerhoff post-acquisition reorganisation costs In 2012, a liability of £8m was settled in respect of a geotechnical survey carried out by a company acquired by Parsons Brinckerhoff prior to its own acquisition by Balfour Beatty in 2009

10 1 2 7 During 2012 an impairment charge of £12m arose on the Group's 60% interest in Regional & City Airports (Exeter) Holdings Ltd from writing the carrying value of the Group's joint venture investment down to £nil, as a result of the continued effect of adverse economic conditions upon traffic at regional airports, which was exacerbated by an increase in Air Passenger Duty effective from April 2012 Exeter was subsequently sold in 2013 (Note 32 3 5)

10 1 3 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £35m comprising £9m on amortisation of acquired intangible assets and £26m on other non-underlying items (2012 £35m comprising £13m on amortisation of acquired intangible assets and £22m on other non-underlying items)

The non-underlying items charged against Company operating profit gave rise to £3m tax (2012 £1m)

Discontinued operations

10 2 1 The amortisation of acquired intangible assets from discontinued operations comprises customer contracts £1m (2012 £1m), customer relationships £1m (2012 £4m), and brand names £nil (2012 £1m)

10 2 2 1 During 2012, following a strategic review in the light of low activity levels and the commoditisation of work, the Group decided to divest all of its Mainland European rail businesses over time At 28 June 2013 Rail Germany, Rail Scandinavia and Rail Spain were classified as discontinued operations with a £38m goodwill impairment arising in respect of Rail Germany During 2012, £95m of goodwill in the Mainland European rail businesses was impaired Refer to Note 12

10 2 2 2 Restructuring costs of £6m (2012 £2m) were incurred in respect of Mainland European rail businesses classified as discontinued operations of which £4m (2012 £1m) related to redundancy costs

10 2 2 3 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 4 During 2013 Rail Germany incurred a £2m fine imposed by the German competition authority in respect of allegations of historic anti-competitive behaviour occurring in Schreck-Mieves GmbH, a company acquired by Balfour Beatty in 2008

10 2 2 5 On 1 March 2013 the Group disposed of Rail Spain for a net loss of £4m Refer to Note 32 3 1

10 2 2 6 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 Refer to Note 32 3 6

10 2 2 7 On 13 December 2013 the Group disposed of the UK facilities management business, Balfour Beatty WorkPlace for net cash proceeds of £155 million resulting in a net gain of £16m Transaction costs of £2m were incurred in 2012 relating to the disposal of Balfour Beatty WorkPlace Refer to Note 32 3 10

10 2 3 The non-underlying items charged against Group operating profit from discontinued operations gave rise to a tax credit of £2m comprising £nil on amortisation of acquired intangible assets and £2m on other non-underlying items (2012 £4m comprising £1m on amortisation of acquired intangible assets and £3m on other non-underlying items)

11 TAXATION

11 1 Taxation charge – continuing operations

	Group					
	Underlying items[1] 2013 £m	Non-underlying items (Note 10) 2013 £m	Total 2013 £m	Total 2012[2,3] £m	Company 2013 £m	Company 2012[2] £m
Total UK tax	7	(20)	(13)	(9)	(1)	(9)
Total non-UK tax	43	(15)	28	35	–	–
Total tax charge/(credit)	50	(35)	15	26	(1)	(9)
Continuing operations*						
UK current tax						
– corporation tax for the year at 23 25% (2012 24 5%)	8	(7)	1	(7)	(3)	(10)
– adjustments in respect of previous periods	(10)	–	(10)	(2)	2	1
	(2)	(7)	(9)	(9)	(1)	(9)
Non-UK current tax						
– non-UK tax on profits for the year	46	(21)	25	33	–	–
– adjustments in respect of previous periods	(14)	–	(14)	3	–	–
	32	(21)	11	36	–	–
Total current tax	30	(28)	2	27	(1)	(9)
UK deferred tax						
– current year credit	(2)	(13)	(15)	(3)	–	–
– adjustments in respect of previous periods	5	–	5	–	–	–
– UK corporation tax rate change	6	–	6	3	–	–
	9	(13)	(4)	–	–	–
Non-UK deferred tax						
– current year charge	7	6	13	6	–	–
– adjustments in respect of previous periods	4	–	4	(7)	–	–
	11	6	17	(1)	–	–
Total deferred tax	20	(7)	13	(1)	–	–
Total tax charge/(credit) from continuing operations	50	(35)	15	26	(1)	(9)

* Excluding joint ventures and associates
1 Before non-underlying items (Notes 2 11 and 10)
2 Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
3 Re presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

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

In addition to the Group tax charge, tax of £37m is credited directly to other comprehensive income (2012 £72m charged), comprising a deferred tax credit of £9m (2012 £13m credit restated), a current tax credit of £nil (2012 £1m credit), and a deferred tax credit in respect of joint ventures and associates of £28m (2012 £86m charge)

In addition to the Company tax credit, £2m of deferred tax is credited directly to other comprehensive income (2012 £1m credited)

11 TAXATION CONTINUED

11 2 Taxation reconciliation – continuing operations

	Group 2013 £m	Group 2012[2,3] £m	Company 2013 £m	Company 2012[2] £m
Profit before taxation	**32**	147	**38**	75
Less share of results of joint ventures and associates	**(71)**	(92)	**–**	–
(Loss)/profit before taxation	**(39)**	55	**38**	75
Add non-underlying items charged excluding share of joint ventures and associates	**155**	130	**3**	2
Underlying profit before taxation and the results of joint ventures and associates[1]	**116**	185	**41**	77
Tax on profit/(loss) before taxation at standard UK corporation tax rate of 23 25% (2012 24 5%)	**27**	45	**9**	19
Effects of				
Expenses not deductible for tax purposes	**5**	7	**3**	1
Dividend income not taxable	**–**	–	**(21)**	(32)
Non-taxable disposals	**(20)**	(12)	**–**	–
Tax levied at Group level on share of joint ventures' and associates' profits	**7**	5	**–**	–
Preference share dividends not deductible	**3**	3	**3**	3
Losses not available for offset	**24**	5	**–**	–
Recognition of losses not previously recognised	**(1)**	(1)	**–**	–
Higher tax rates on non-UK earnings	**14**	14	**–**	–
UK corporation tax rate change	**6**	3	**–**	–
Adjustments in respect of previous periods	**(15)**	(8)	**2**	1
Total tax charge/(credit) on underlying profit/(loss)	**50**	61	**(4)**	(8)
Less tax (credit)/charge on non-underlying items	**(35)**	(35)	**3**	(1)
Total tax charge/(credit) on profit/(loss) from continuing operations	**15**	26	**(1)**	(9)

[1] Before non-underlying items (Notes 2 11 and 10)
[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

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 3 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 Together with Rail Spain they constitute the Rail disposal group within discontinued operations

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 3 6

On 10 December 2013, the Group announced that it had reached agreement to sell Rail Scandinavia to Strukton Rail BV resulting in a small gain This disposal is effective from 8 January 2014 Refer to Note 37

The Rail disposal group was part of the Construction Services segment

UK facilities management disposal group

Balfour Beatty WorkPlace (BBW) is the Group's only significant buildings facilities management business in the UK and represents a separate major line of business

On 28 June 2013, it was probable that BBW would be disposed of within a year and therefore BBW met the criteria to be classified as an asset held for sale and consequently as a discontinued operation

On 13 December 2013 the Group disposed of BBW to GDF Suez Energy Services for net cash consideration of £155m This resulted in an estimated net non-underlying gain of £16m Refer to Note 32 3 11

BBW was part of the Support Services segment

12 DISCONTINUED OPERATIONS CONTINUED

Results of the discontinued operations included within the Group Income Statement

	Rail disposal group 2013 £m	UK facilities management disposal group 2013 £m	Total discontinued operations 2013 £m	Rail disposal group 2012 £m	UK facilities management disposal group 2012 £m	Total discontinued operations 2012 £m
Revenue including share of joint ventures and associates	**396**	**470**	**866**	448	482	930
Share of revenue of joint ventures and associates	**(4)**	**(45)**	**(49)**	(12)	(91)	(103)
Group revenue	**392**	**425**	**817**	436	391	827
Underlying group operating (loss)/profit	**(26)**	**19**	**(7)**	(1)	21	20
Share of results of joint ventures and associates	**–**	**–**	**–**	3	1	4
Underlying (loss)/profit from operations	**(26)**	**19**	**(7)**	2	22	24
Net finance costs	**(2)**	**(1)**	**(3)**	(2)	–	(2)
Underlying (loss)/profit before tax	**(28)**	**18**	**(10)**	–	22	22
Taxation on underlying (loss)/profit	**(3)**	**(2)**	**(5)**	(3)	(4)	(7)
Underlying (loss)/profit after tax	**(31)**	**16**	**(15)**	(3)	18	15
Non-underlying items						
Amortisation of acquired intangible assets	**–**	**(2)**	**(2)**	(1)	(5)	(6)
(Loss)/gain on disposal	**(5)**	**16**	**11**	–	–	–
Other non-underlying items	**(46)**	**(2)**	**(48)**	(97)	(2)	(99)
	(51)	**12**	**(39)**	(98)	(7)	(105)
Taxation on non-underlying items	**1**	**1**	**2**	3	1	4
Non-underlying (loss)/profit after tax	**(50)**	**13**	**(37)**	(95)	(6)	(101)
(Loss)/profit for the year from discontinued operations	**(81)**	**29**	**(52)**	(98)	12	(86)

Major classes of assets and liabilities included within net assets held for sale

	Notes	Rail disposal group 2013 £m
Non-current assets		
Intangible assets – other	16	2
Property, plant and equipment	17	42
Investments in joint ventures and associates	18	8
		52
Current assets		
Inventories and non-construction work in progress		13
Due from construction contract clients		73
Trade and other receivables		74
Cash	31 3	19
		179
Total assets classified as held for sale		231
Current liabilities		
Due to construction contract clients		(47)
Trade and other payables		(120)
Provisions	25	(10)
Current tax liabilities		(3)
		(180)
Non-current liabilities		
Trade and other payables		(4)
Provisions	25	(3)
Retirement benefit liabilities	28	(30)
Deferred tax liabilities	27	(2)
		(39)
Total liabilities classified as held for sale		(219)
Net assets of disposal group		12

Reconciliation of net assets classified as held for sale

	Rail disposal group 2013 £m	UK facilities management disposal group 2013 £m	Total discontinued operations 2013 £m
As at 28 June 2013	39	115	154
Net assets disposed since June (Note 32 3 11)	(5)	(120)	(125)
Movement since classification as held for sale	(22)	5	(17)
Total net assets classified as held for sale	**12**	**–**	**12**

Included within the Group's cash flows for the year ended 31 December 2013 are net £10m operating cash outflows, net £10m investing cash outflows, and net £1m financing cash outflows relating to the Rail disposal group and net £7m operating cash inflows and net £139m investing cash inflows relating to the UK facilities management disposal group

13 EARNINGS PER ORDINARY SHARE

Earnings	Basic 2013 £m	Diluted 2013 £m	Basic 2012[2,3] £m	Diluted 2012[2,3] £m
Continuing operations				
Earnings	**17**	**17**	121	121
Amortisation of acquired intangible assets – net of tax credit of £9m (2012 £13m)	**21**	**21**	26	26
Other non-underlying items – net of tax credit of £26m (2012 £22m)	**99**	**99**	69	69
Underlying earnings	**137**	**137**	216	216
Discontinued operations				
Earnings	**(52)**	**(52)**	(86)	(86)
Amortisation of acquired intangible assets – net of tax credit of £nil (2012 £1m)	**2**	**2**	5	5
Other non-underlying items – net of tax of credit of £2m (2012 £3m)	**35**	**35**	96	96
Underlying earnings	**(15)**	**(15)**	15	15
Total operations				
Earnings	**(35)**	**(35)**	35	35
Amortisation of acquired intangible assets – net of tax credit of £9m (2012 £14m)	**23**	**23**	31	31
Other non-underlying items – net of tax credit of £28m (2012 £25m)	**134**	**134**	165	165
Underlying earnings	**122**	**122**	231	231

	Basic 2013 m	Diluted 2013 m	Basic 2012 m	Diluted 2012 m
Weighted average number of ordinary shares	**685**	**686**	684	685

Earnings per share	Basic 2013 Pence	Diluted 2013 Pence	Basic 2012[2,3] Pence	Diluted 2012[2,3] Pence
Continuing operations				
Earnings per ordinary share	**2 5**	**2 5**	17 9	17 9
Amortisation of acquired intangible assets	**3 0**	**3 0**	3 8	3 8
Other non-underlying items	**14 5**	**14 5**	10 0	10 0
Underlying earnings per ordinary share	**20 0**	**20 0**	31 7	31 7
Discontinued operations				
Earnings per ordinary share	**(7 6)**	**(7 6)**	(12 6)	(12 6)
Amortisation of acquired intangible assets	**0 2**	**0 2**	0 6	0 6
Other non-underlying items	**5 2**	**5 2**	14 1	14 1
Underlying earnings per ordinary share	**(2 2)**	**(2 2)**	2 1	2 1
Total operations				
Earnings per ordinary share	**(5 1)**	**(5 1)**	5 3	5 3
Amortisation of acquired intangible assets	**3 2**	**3 2**	4 4	4 4
Other non-underlying items	**19 7**	**19 7**	24 1	24 1
Underlying earnings per ordinary share	**17 8**	**17 8**	33 8	33 8

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

14 DIVIDENDS ON ORDINARY SHARES

	Per share 2013 Pence	Amount 2013 £m	Per share 2012 Pence	Amount 2012 £m
Proposed dividends for the year				
Interim – current year	**5 60**	**38**	5 60	38
Final – current year	**8 50**	**58**	8 50	58
	14 10	**96**	14 10	96
Recognised dividends for the year				
Final – prior year		**58**		58
Interim – current year		**38**		38
		96		96

The interim 2013 dividend was paid on 6 December 2013 Subject to approval at the Annual General Meeting on 15 May 2014, the final 2013 dividend will be paid on 4 July 2014 to holders on the register on 25 April 2014 The ordinary shares will be quoted ex-dividend on 23 April 2014

	2013 £m	2012 £m
Dividends on ordinary shares of the Company	**96**	96
Other dividends to non-controlling interests	**1**	1
Total recognised dividends for the year	**97**	97

15 INTANGIBLE ASSETS – GOODWILL

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2012	1,325	(46)	1,279
Currency translation differences	(34)	2	(32)
Impairment charges in respect of Mainland European rail businesses (Note 10)	–	(95)	(95)
Business acquired	9	–	9
Businesses acquired – prior year	(1)	–	(1)
At 31 December 2012	1,299	(139)	1,160
Currency translation differences	**(9)**	**–**	**(9)**
Impairment charges in respect of Mainland European rail businesses (Note 10)	**–**	**(38)**	**(38)**
Business acquired – prior year (Note 32 1 4)	**(1)**	**–**	**(1)**
Reclassified to assets held for sale	**(134)**	**134**	**–**
Reclassified to assets held for sale and subsequently sold (Note 32 3 11)	**(64)**	**–**	**(64)**
At 31 December 2013	**1,091**	**(43)**	**1,048**

Carrying amounts of goodwill by segment	2013 United Kingdom £m	2013 United States £m	2013 Rest of world £m	2013 Total £m	2012 United Kingdom £m	2012 United States £m	2012 Rest of world £m	2012 Total £m
Professional Services	**13**	**165**	**57**	**235**	10	169	58	237
Construction Services	**326**	**356**	**25**	**707**	329	362	61	752
Support Services	**62**	**–**	**–**	**62**	125	–	–	125
Infrastructure Investments	**4**	**40**	**–**	**44**	4	42	–	46
Group	**405**	**561**	**82**	**1,048**	468	573	119	1,160

Carrying amounts of goodwill by cash generating unit	2013 £m	Pre-tax discount rate %	2012 £m	Pre-tax discount rate %
Parsons Brinckerhoff	**235**	**12 5**	237	13 7
Construction Services UK	**261**	**10 7**	263	10 8
Construction Services US	**356**	**12 8**	362	12 9
Other	**196**	**9 1–12 1**	298	9 0–12 0
Group total	**1,048**		1,160	

The recoverable amount of goodwill is based on value in use 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 2014 budget and strategic roadmap The other key inputs in assessing each CGU are its revenue growth rate and discount rate The revenue growth rates have been applied to cash flows after three years into perpetuity and have been derived from estimated GDP growth rates based on published data for the economic environment of each CGU less 1 0% to reflect current economic uncertainties and their consequent estimated effect on public sector spending on infrastructure The cash flows assume a residual value based on a multiple of earnings before interest and tax

	2013 Professional Services %	2013 Construction Services UK %	2013 Construction Services US %	2013 Other %	2012 Professional Services %	2012 Construction Services UK %	2012 Construction Services US %	2012 Other %
Inflation rate	**2 4**	**2 4**	**2 4**	**2 4**	2 2	2 2	2 2	2 2
Real growth rate	**1 7**	**1 2**	**1 7**	**1 2**	1 7	1 3	1 7	1 2
Nominal long-term revenue growth rate applied	**4 1**	**3 6**	**4 1**	**3 6**	3 9	3 5	3 9	3 4

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

Except as noted below a reasonable possible change in a single assumption will not give rise to impairment in any of the Group's CGUs

Using a pre-tax discount rate of 12 1% and revenue growth rate of 2 6% the recoverable amount of the remaining goodwill in the continuing Mainland Europe rail business is £25m based on value in use, with consequent headroom of £6m A 1 0% increase in the discount rate and a 1 0% reduction in the growth rate would lead to a further impairment of £1m

The recoverable amount of the Blackpool International Airport goodwill is £4m with headroom of £nil, based on the value in use of the trading business and the fair value of the land Any decrease in the fair value of the land will lead to a commensurate impairment of the goodwill

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 2012	236	145	58	–	39	478
Currency translation differences	(9)	(5)	(1)	–	–	(15)
Additions	–	–	–	–	25	25
Business acquired	1	1	1	–	–	3
At 31 December 2012	228	141	58	–	64	491
Currency translation differences	**(4)**	**(2)**	**–**	**–**	**–**	**(6)**
Additions	**–**	**–**	**–**	**21**	**17**	**38**
Disposals	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Impairment – continuing operations	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Impairment – discontinued operations	**–**	**–**	**–**	**–**	**(1)**	**(1)**
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 3 11)	**(3)**	**(14)**	**(3)**	**–**	**(3)**	**(23)**
At 31 December 2013	**220**	**123**	**55**	**21**	**71**	**490**
Accumulated amortisation						
At 1 January 2012	(122)	(79)	(31)	–	(7)	(239)
Currency translation differences	5	3	1	–	–	9
Charge for the year – continuing operations	(16)	(14)	(9)	–	(4)	(43)
Charge for the year – discontinued operations	–	(5)	(1)	–	–	(6)
At 31 December 2012	(133)	(95)	(40)	–	(11)	(279)
Currency translation differences	**2**	**2**	**1**	**–**	**–**	**5**
Charge for the year – continuing operations	**(10)**	**(11)**	**(9)**	**–**	**(3)**	**(33)**
Charge for the year – discontinued operations	**(1)**	**(1)**	**–**	**–**	**–**	**(2)**
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 3 11)	**3**	**11**	**2**	**–**	**–**	**16**
At 31 December 2013	**(138)**	**(93)**	**(46)**	**–**	**(9)**	**(286)**
Carrying amount						
At 31 December 2013	**82**	**30**	**9**	**21**	**62**	**204**
At 31 December 2012	95	46	18	–	53	212

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"

Software and other primarily includes software of the UK shared service centre and operating companies with a cost of £59m (2012 £45m) and accumulated amortisation of £3m (2012 £1m) Of the total software, £58m (2012 £49m) is internally generated software with a cost of £62m (2012 £50m) and accumulated amortisation of £4m (2012 £1m)

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 Parsons Brinckerhoff, Barnhart and 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 eight years for customer contracts and relationships relating to Parsons Brinckerhoff and Barnhart and 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

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 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	Assets in course of construction £m	Group Total £m
Cost or valuation				
At 1 January 2012	122	562	4	688
Currency translation differences	(4)	(9)	–	(13)
Additions – continuing operations	6	34	–	40
Additions – discontinued operations	1	8	–	9
Disposals	(8)	(77)	–	(85)
Impairment	(5)	–	–	(5)
Transfers	–	4	(4)	–
At 31 December 2012	112	522	–	634
Currency translation differences	**(1)**	**(3)**	–	**(4)**
Additions – continuing operations	**20**	**39**	**12**	**71**
Disposals – continuing operations	**(16)**	**(45)**	–	**(61)**
Impairment reversal	**3**	–	–	**3**
Reclassified to software (Note 16)	–	**(2)**	–	**(2)**
Additions – discontinued operations	–	**11**	–	**11**
Disposals – discontinued operations	–	**(3)**	–	**(3)**
Reclassified to assets held for sale (Note 12)	**(10)**	**(82)**	–	**(92)**
Reclassified to assets held for sale and subsequently sold (Note 32 3 11)	–	**(25)**	–	**(25)**
At 31 December 2013	**108**	**412**	**12**	**532**
Accumulated depreciation				
At 1 January 2012	(45)	(355)	–	(400)
Currency translation differences	1	5	–	6
Charge for the year – continuing operations	(10)	(41)	–	(51)
Charge for the year – discontinued operations	–	(13)	–	(13)
Disposals	5	66	–	71
At 31 December 2012	(49)	(338)	–	(387)
Currency translation differences	–	**2**	–	**2**
Charge for the year – continuing operations	**(10)**	**(40)**	–	**(50)**
Charge for the year – discontinued operations	–	**(6)**	–	**(6)**
Disposals – continuing operations	**7**	**41**	–	**48**
Disposals – discontinued operations	–	**3**	–	**3**
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 3 11)	–	**15**	–	**15**
At 31 December 2013	**(48)**	**(276)**	–	**(324)**
Carrying amount				
At 31 December 2013	**60**	**136**	**12**	**208**
At 31 December 2012	63	184	–	247

The carrying amount of the Group's property, plant and equipment held under finance leases was £5m (2012 £7m) 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 2013 £m	Group 2012 £m
Freehold	**18**	31
Long leasehold – over 50 years unexpired	**5**	5
Short leasehold	**37**	27
	60	63

18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

18 1 Movements

	Net assets £m	Loans £m	Provisions £m	Total £m
At 1 January 2012	293	264	(91)	466
Currency translation differences	(5)	–	–	(5)
Income recognised – continuing operations[2,3]	92	–	–	92
Income recognised – discontinued operations[2,3]	4	–	–	4
Fair value revaluation of PPP financial assets	374	–	–	374
Fair value revaluation of cash flow hedges	(7)	–	–	(7)
Actuarial losses on retirement benefit obligations[2]	(4)	–	–	(4)
Tax on items taken directly to equity	(86)	–	–	(86)
Dividends	(58)	–	–	(58)
Additions	20	–	–	20
Disposals	(68)	(9)	–	(77)
Write-down of investment in Exeter International Airport	(12)	–	–	(12)
Loans advanced	–	27	–	27
Loans repaid	–	(12)	–	(12)
Provisions utilised	–	–	4	4
At 31 December 2012	543	270	(87)	726
Currency translation differences	**(5)**	–	–	**(5)**
Income recognised – continuing operations	**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 gains 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[1]	**26**	–	–	**26**
Disposals	**(18)**	**(36)**	–	**(54)**
Fair value of retained interest in CNDR (Note 32 3 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 3 11)	**(8)**	–	–	**(8)**
At 31 December 2013	**446**	**220**	–	**666**

1 Includes £4m non-cash addition
2 Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
3 Re presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

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 £137m (2012 £199m)

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 £nil (2012 £nil), relating to the Group's share of guaranteed borrowings The borrowings of the PPP joint venture and associate entities are repayable over periods extending up to 2048 The non-recourse borrowings arise under facilities taken out by project specific joint venture and associate concession companies The borrowings of each concession company are secured by a combination of fixed and floating charges over that concession company's interests in its project's assets and revenues and the shares in the concession company held by its immediate parent company A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps

As disclosed in Note 34, 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

Provisions utilised of £87m (2012 £4m) 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 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

18 2 Share of results and net assets of joint ventures and associates

Income statement – continuing operations	Professional Services 2013 £m	Construction Services 2013 £m	Support Services 2013 £m	Infrastructure Investments UK^ 2013 £m	North America 2013 £m	Infrastructure Fund 2013 £m	Total 2013 £m	Total 2013 £m
Revenue	13	971	33	356	–	–	356	1,373
Underlying operating profit[1]	–	38	1	11	6	–	17	56
Investment income	–	2	–	164	–	–	164	166
Finance costs	–	–	–	(142)	–	–	(142)	(142)
Profit before taxation	–	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	12
Property, plant and equipment	–	41	–	8	–	–	8	49
PPP financial assets	–	–	–	2,292	–	–	2,292	2,292
Military housing projects	–	–	–	–	83	–	83	83
Other non-current assets	–	40	–	45	–	–	45	85
Infrastructure Fund investment	–	–	–	–	–	11	11	11
Current assets								
Cash and cash equivalents	2	202	3	192	–	–	192	399
Other current assets	1	341	8	45	–	–	45	395
Total assets	3	659	11	2,611	83	11	2,705	3,378
Current liabilities								
Borrowings – non-recourse	–	–	–	(47)	–	–	(47)	(47)
Other current liabilities	(2)	(431)	(8)	(160)	–	–	(160)	(601)
Non-current liabilities								
Borrowings – recourse	–	(44)	–	–	–	–	–	(44)
Borrowings – non-recourse	–	–	–	(1,744)	–	–	(1,744)	(1,744)
Other non-current liabilities	–	(49)	–	(227)	–	–	(227)	(276)
Total liabilities	(2)	(524)	(8)	(2,178)	–	–	(2,178)	(2,712)
Net assets	1	135	3	433	83	11	527	666

^ Including Singapore
[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 £1,858m (2012 £1,787m) Note 41(f) 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 £2m (2012 £2m)

As a result of the net fair value revaluations of PPP financial assets and cash flow hedges on three Infrastructure Investments concessions, where the borrowings are non-recourse to the Group, the Group has not recognised cumulative fair value revaluation charges to other comprehensive income of £24m (2012 £15m)

18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

18 2 Share of results and net assets of joint ventures and associates continued

				Infrastructure Investments				
Income statement – continuing operations	Professional Services 2012 £m	Construction Services 2012[2,3] £m	Support Services 2012[2,3] £m	UK^ 2012 £m	North America 2012 £m	Infrastructure 2012 £m	Total 2012 £m	Total 2012[2,3] £m
Revenue	21	818	44	422	–	5	427	1,310
Underlying operating profit[1]	1	54	2	19	6	–	25	82
Investment income	–	–	–	180	–	–	180	180
Finance costs	–	–	–	(155)	–	(2)	(157)	(157)
Profit before taxation	1	54	2	44	6	(2)	48	105
Taxation	–	(5)	–	(9)	–	1	(8)	(13)
Profit after taxation	1	49	2	35	6	(1)	40	92
Balance sheet								
Non-current assets								
Intangible assets – goodwill	–	30	–	–	–	12	12	42
– Infrastructure Investments intangible	–	–	–	18	–	–	18	18
– other	–	2	–	1	–	–	1	3
Property, plant and equipment	–	41	7	1	–	13	14	62
PPP financial assets	–	–	–	2,641	–	–	2,641	2,641
Military housing projects	–	–	–	–	65	–	65	65
Other non-current assets	–	11	2	11	–	3	14	27
Current assets								
Cash and cash equivalents	5	202	9	211	–	2	213	429
Other current assets	2	357	27	95	–	15	110	496
Total assets	7	643	45	2,978	65	45	3,088	3 783
Current liabilities								
Borrowings – recourse	–	(45)	–	–	–	–	–	(45)
Borrowings – non-recourse	–	–	–	(58)	–	–	(58)	(58)
Other current liabilities	(3)	(441)	(37)	(206)	–	(6)	(212)	(693)
Non-current liabilities								
Borrowings – non-recourse	–	–	–	(1,871)	–	(38)	(1,909)	(1,909)
Other non-current liabilities	(3)	(33)	–	(315)	–	(1)	(316)	(352)
Total liabilities	(6)	(519)	(37)	(2,450)	–	(45)	(2,495)	(3,057)
Net assets	1	124	8	528	65	–	593	726

^ Including Singapore
1 Before non-underlying items (Notes 2 11 and 10)
2 Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
3 Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

18 3 Infrastructure Investments' investments

	Net investment 2013 £m	**Reserves 2013 £m**	**Total 2013 £m**	Net investment 2012 £m	Reserves 2012 £m	Total 2012 £m
Roads	**107**	**201**	**308**	101	238	339
Hospitals	**62**	**(8)**	**54**	78	45	123
Schools	**37**	**9**	**46**	54	4	58
Other concessions	**15**	**10**	**25**	1	7	8
UK^	**221**	**212**	**433**	234	294	528
North America	**64**	**19**	**83**	53	12	65
Infrastructure Fund	**11**	**–**	**11**	–	–	–
Total investments	**296**	**231**	**527**	287	306	593

^ Including Singapore

18 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

18 4 Cash flow from/(to) joint ventures and associates

Cash flows from investing activities	UK^ 2013 £m	North America 2013 £m	Infra-structure Fund 2013 £m	Other 2013 £m	Total 2013 £m	UK^ 2012 £m	North America 2012 £m	Other 2012 £m	Total 2012 £m
Dividends from joint ventures and associates	**20**	**8**	**–**	**19**	**47**	25	7	26	58
Subordinated debt interest received	**26**	**–**	**–**	**–**	**26**	20	–	–	20
Investments in and loans to joint ventures and associates	**(16)**	**(21)**	**(11)**	**(1)**	**(49)**	(15)	(12)	–	(27)
Equity	**–**	**(21)**	**–**	**(1)**	**(22)**	–	(12)	–	(12)
Subordinated debt invested	**(18)**	**–**	**–**	**–**	**(18)**	(27)	–	–	(27)
Subordinated debt repaid	**2**	**–**	**–**	**–**	**2**	12	–	–	12
Other investments and loans	**–**	**–**	**(11)**	**–**	**(11)**	–	–	–	–
Disposal of investments in joint ventures	**102**	**–**	**–**	**1**	**103**	81	–	–	81
Net cash flow from/(to) joint ventures and associates	**132**	**(13)**	**(11)**	**19**	**127**	111	(5)	26	132

^ Including Singapore

18 5 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
Balance at 1 January 2012	174	(233)	181	22	144
Currency translation differences	–	–	–	(2)	(2)
Income recognised – continuing operations[2,3]	92	–	–	–	92
Income recognised – discontinued operations[2,3]	4	–	–	–	4
Fair value revaluation of PPP financial assets	–	–	374	–	374
Fair value revaluation of cash flow hedges	–	(7)	–	–	(7)
Actuarial movements on retirement benefit liabilities[2]	(4)	–	–	–	(4)
Tax on items taken directly to equity	–	(5)	(81)	–	(86)
Dividends	(58)	–	–	–	(58)
Recycling of revaluation reserves to the income statement on disposal	–	27	(75)	–	(48)
Reserves disposed	(72)	–	–	–	(72)
Balance at 31 December 2012	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**
Balance at 31 December 2013	**166**	**(157)**	**251**	**18**	**278**

2 Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
3 Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

19 INVESTMENTS

19 1 Group

	Held to maturity bonds £m	Available-for-sale investments in mutual funds £m	Total £m
Balance at 1 January 2012	46	50	96
Currency translation differences	–	(2)	(2)
Fair value movements	–	4	4
Additions	–	5	5
Maturities/disposals	(4)	(5)	(9)
Balance at 31 December 2012	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)**
Balance at 31 December 2013	**35**	**60**	**95**

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 61% (2012 1 20%) and weighted average life of 2 7 years (2012 2 3 years) The fair value of the bonds is £38m (2012 £45m), determined by the market price of the bonds at the reporting date The maximum exposure to credit risk at 31 December 2013 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 £60m (2012 £52m), determined by the market price of the funds at the reporting date

19 2 Company

	2013 £m	2012 £m
Investment in subsidiaries	**1,666**	2,072
Investment in joint ventures and associates	**3**	3
Provisions	**(102)**	(138)
	1,567	1,937

20 PPP FINANCIAL ASSETS

	Schools £m	Roads £m	Other £m	Total £m
Balance at 1 January 2012	215	217	25	457
Income recognised in the income statement				
– construction contract margin	–	1	–	1
– interest income	12	16	3	31
(Losses)/gains recognised in the statement of comprehensive income				
– fair value movements	(3)	34	–	31
Other movements				
– cash expenditure	10	38	19	67
– cash received	(17)	(26)	(2)	(45)
Balance at 31 December 2012	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 3 11)	**–**	**(99)**	**–**	**(99)**
Balance at 31 December 2013	**196**	**193**	**66**	**455**

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

The Group disposed of a 75% interest in Connect CNDR Holdings Ltd (CNDR) during the year and retained a 25% interest which is accounted for as a joint venture Refer to Note 32 3 9 There were no impairment provisions in 2013 or 2012

21 INVENTORIES

	2013 £m	2012 £m
Unbilled non-construction work in progress	**51**	76
Raw materials and consumables	**39**	50
Development and housing land and work in progress	**42**	32
Manufacturing work in progress	**1**	6
Finished goods and goods for resale	**2**	8
	135	172

22 CONSTRUCTION CONTRACTS

Contracts in progress at reporting date	2013 £m	2012 £m
Due from construction contract clients	**631**	634
Due to construction contract clients	**(360)**	(382)
	271	252

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 £14,484m from continuing operations (2012 £15,647m from total operations)

23 TRADE AND OTHER RECEIVABLES

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Current				
Trade receivables	**827**	851	**–**	–
Less Provision for impairment of trade receivables	**(26)**	(29)	**–**	–
	801	822	**–**	–
Other receivables	**76**	69	**17**	6
Due from subsidiaries	**–**	–	**1,243**	1,144
Due from joint ventures and associates	**28**	38	**–**	–
Due from jointly controlled operations	**3**	1	**–**	–
Contract retentions receivable*	**198**	199	**–**	–
Accrued income	**21**	38	**1**	–
Prepayments	**47**	74	**1**	2
Due on acquisitions	**16**	–	**–**	–
	1,190	1,241	**1,262**	1,152
Non-current				
Trade receivables	**2**	2	**–**	–
Other receivables	**2**	9	**–**	–
Due from joint ventures and associates	**11**	2	**17**	19
Contract retentions receivable*	**98**	67	**–**	–
Prepayments	**–**	4	**–**	4
Due on acquisitions	**–**	16	**–**	–
	113	100	**17**	23
Total trade and other receivables	**1,303**	1,341	**1,279**	1,175
Comprising				
Financial assets (Note 39)	**1,256**	1,263	**1,278**	1,169
Non-financial assets – prepayments	**47**	78	**1**	6
	1,303	1,341	**1,279**	1,175

* Include £295m (2012 £265m) construction contract retentions receivable

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual clients, 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 £108m (2012 £98m) 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 2013 £m	Group 2012 £m
Balance at 1 January	**(29)**	(46)
Currency translation differences	**(2)**	1
(Charged)/credited to the income statement – continuing operations		
– additional provisions	**(12)**	(9)
– unused amounts reversed	**10**	22
Utilised during the year	**1**	3
Balance at 31 December*	**(32)**	(29)

* Includes £6m (2012 £nil) provisions relating to non-current trade receivables

Maturity profile of impaired trade receivables

	Group 2013 £m	Group 2012 £m
Up to three months	**1**	1
Three to six months	**1**	3
Six to nine months	**2**	1
Nine to 12 months	**8**	1
More than 12 months	**20**	23
	32	29

At 31 December 2013, trade receivables of £217m (2012 £245m) were past due but not impaired These relate to a number of individual clients where there is no reason to believe that the receivable is not recoverable

Maturity profile of trade receivables past due but not impaired

	Group 2013 £m	Group 2012 £m
Up to three months	**153**	154
Three to six months	**24**	39
Six to nine months	**12**	15
Nine to 12 months	**7**	10
More than 12 months	**21**	27
	217	245

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 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Current				
Trade and other payables	**857**	900	**4**	10
Accruals	**1,044**	1,130	**14**	8
Deferred income	**6**	15	–	1
Advance payments on contracts*	**14**	19	–	–
VAT, payroll taxes and social security	**115**	108	**13**	14
Due to subsidiaries	–	–	**1,301**	1,421
Due to joint ventures and associates	**1**	15	–	5
Dividends on preference shares	**5**	5	**5**	5
Due on acquisitions	**4**	22	–	–
	2,046	2,214	**1,337**	1,464
Non-current				
Trade and other payables	**112**	94	–	–
Accruals	**20**	16	–	–
Deferred income	**7**	4	–	–
Advance payments on contracts	–	1	–	–
Due to joint ventures and associates	**27**	25	**25**	25
Due on acquisitions	**16**	19	–	–
	182	159	**25**	25
Total trade and other payables	**2,228**	2,373	**1,362**	1,489
Comprising				
Financial liabilities (Note 39)	**2,025**	2,130	**1,349**	1,474
Non-financial liabilities				
– accruals not at amortised cost	**61**	96	–	–
– deferred income	**13**	19	–	1
– advance payments on contracts	**14**	20	–	–
– VAT, payroll taxes and social security	**115**	108	**13**	14
	2,228	2,373	**1,362**	1,489

* Includes £11m (2012 £14m) advances on construction contracts

Maturity profile of the Group's non-current financial liabilities at 31 December

	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**

	Trade and other payables 2012 £m	Accruals 2012 £m	Due to joint ventures and associates 2012 £m	Due on acquisitions 2012 £m	Total 2012 £m
Due within one to two years	47	6	–	3	56
Due within two to five years	14	7	3	7	31
Due after more than five years	33	3	22	9	67
	94	16	25	19	154
Fair values	80	15	18	19	132

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

	Contract provisions £m	Employee provisions £m	Other provisions £m	Group Total £m	Company Other provisions £m
At 1 January 2012	147	30	60	237	6
Currency translation differences	(3)	–	–	(3)	–
Transfers	(6)	15	(9)	–	–
Charged/(credited) to the income statement					
– additional provisions	74	43	22	139	–
– unused amounts reversed	(49)	(14)	(8)	(71)	(1)
Utilised during the year	(38)	(17)	(19)	(74)	–
At 31 December 2012	125	57	46	228	5
Currency translation differences	**(2)**	**–**	**–**	**(2)**	**–**
Transfers	**3**	**(4)**	**1**	**–**	**–**
Charged/(credited) to the income statement – continuing operations					
– additional provisions	**67**	**23**	**22**	**112**	**–**
– unused amounts reversed	**(32)**	**(14)**	**(12)**	**(58)**	**(3)**
– discount unwind	**–**	**–**	**(1)**	**(1)**	**–**
Utilised during the year	**(48)**	**(17)**	**(7)**	**(72)**	**(1)**
(Credited)/charged to the income statement – discontinued operations	**(1)**	**1**	**–**	**–**	**–**
Reclassified to assets held for sale (Note 12)	**(10)**	**(3)**	**–**	**(13)**	**–**
Reclassified to assets held for sale and subsequently sold (Note 32 3 11)	**–**	**(1)**	**–**	**(1)**	**–**
At 31 December 2013	**102**	**42**	**49**	**193**	**1**

	Contract provisions 2013 £m	**Employee provisions 2013 £m**	**Other provisions 2013 £m**	**Group Total 2013 £m**	Contract provisions 2012 £m	Employee provisions 2012 £m	Other provisions 2012 £m	Group Total 2012 £m	**Company Other provisions 2013 £m**	Company Other provisions 2012 £m
Due within one year	**57**	**15**	**28**	**100**	71	26	19	116	**–**	–
Due within one to two years	**16**	**10**	**7**	**33**	35	18	11	64	**1**	1
Due within two to five years	**20**	**14**	**10**	**44**	16	12	10	38	**–**	4
Due after more than five years	**9**	**3**	**4**	**16**	3	1	6	10	**–**	–
	102	**42**	**49**	**193**	125	57	46	228	**1**	5

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 £86m (2012 £95m) as follows Contract provisions £52m (2012 £49m), Employee provisions £28m (2012 £35m), and Other, mainly motor provisions £6m (2012 £11m)

Restructuring provisions within these categories were £12m (2012 £26m) as follows Contract provisions £nil (2012 £nil), Employee provisions £7m (2012 £14m), and Other, mainly property-related, provisions £5m (2012 £12m) The restructuring provisions reduced substantially in the period as staff left the businesses and the property portfolio was streamlined by the surrender or other disposal of leases

26 CASH AND CASH EQUIVALENTS AND BORROWINGS

26 1 Group

	Current 2013 £m	Non current 2013 £m	Total 2013 £m	Current 2012 £m	Non-current 2012 £m	Total 2012 £m
Unsecured borrowings at amortised cost						
– bank overdrafts	(78)	–	(78)	(10)	–	(10)
– loans under committed facilities expiring in less than one year	–	–	–	–	–	–
– loans under committed facilities expiring in more than one year	–	–	–	(410)	–	(410)
– US private placement (Note 26 2)	–	(212)	(212)	–	–	–
– liability component of convertible bonds (Note 26 3)	–	(221)	(221)	–	–	–
– other loans	(91)	–	(91)	(56)	(2)	(58)
Secured borrowings at amortised cost						
– finance leases	(1)	(2)	(3)	(1)	(3)	(4)
	(170)	(435)	(605)	(477)	(5)	(482)
Cash and deposits at amortised cost	472	–	472	515	–	515
Term deposits at amortised cost	67	–	67	2	–	2
Non-PPP cash and cash equivalents	539	–	539	517	–	517
	369	(435)	(66)	40	(5)	35
Non-recourse project finance loans at amortised cost with final maturity between 2027 and 2037	(9)	(410)	(419)	(12)	(381)	(393)
PPP cash and cash equivalents	65	–	65	25	–	25
	56	(410)	(354)	13	(381)	(368)
Net (borrowings)/cash	425	(845)	(420)	53	(386)	(333)

The PPP project finance sterling loans 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 £17m (2012 £15m) held by the Group's captive insurance company Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations, £2m (2012 £nil) currently not readily remittable from Argentina, £1m (2012 £nil) held within construction project bank accounts and £65m (2012 £25m) 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 jointly controlled operations of £144m (2012 £232m)

The Group discloses its borrowings under committed facilities as current liabilities due to requirements in IAS 1 However the borrowings are drawn down under committed facilities expiring in more than one year and the Group believes they will be rolled forward within the terms of the facilities

Maturity profile of the Group's borrowings at 31 December

	PPP non recourse project finance 2013 £m	Finance leases 2013 £m	Other borrowings 2013 £m	Total 2013 £m	PPP non-recourse project finance 2012 £m	Finance leases 2012 £m	Other borrowings 2012 £m	Total 2012 £m
Due on demand or within one year	(9)	(1)	(169)	(179)	(12)	(1)	(476)	(489)
Due within one to two years	(10)	(1)	–	(11)	(9)	(1)	–	(10)
Due within two to five years	(36)	(1)	(248)	(285)	(50)	(1)	(1)	(52)
Due after more than five years	(364)	–	(185)	(549)	(322)	(1)	(1)	(324)
	(419)	(3)	(602)	(1,024)	(393)	(4)	(478)	(875)

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

	PPP non-recourse project finance 2013 £m	Other borrowings 2013 £m	Total 2013 £m	PPP non-recourse project finance 2012 £m	Other borrowings 2012 £m	Total 2012 £m
Expiring in one year or less	36	–	36	41	–	41
Expiring in more than one year but not more than two years	38	–	38	36	55	91
Expiring in more than two years	26	990	1,016	56	540	596
	100	990	1,090	133	595	728

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 2013, as a result of movements in exchange differences, the balance outstanding was £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

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 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

The Group has the option to redeem the bonds from December 2015 under certain circumstances

Liability component recognised in the Balance Sheet	**Convertible bonds 2013 £m**
Liability component at 1 January at amortised cost	–
Issued during the year	**220**
Interest accretion	**1**
Liability component at 31 December at amortised cost	**221**

The fair value of the liability component of the convertible bonds at 31 December 2013 was unchanged at £220m (2012 £nil)

The finance cost of the convertible bonds is calculated using the effective interest method

26 4 Company

	Current 2013 £m	**Non-current 2013 £m**	**Total 2013 £m**	Current 2012 £m	Non current 2012 £m	Total 2012 £m
Cash and deposits	–	–	–	43	–	43
Unsecured borrowings at amortised cost						
– bank loans and overdrafts	**(106)**	–	**(106)**	(56)	–	(56)
– loans under committed facilities	–	–	–	(410)	–	(410)
– US private placement (Note 26 2)	–	**(212)**	**(212)**	–	–	–
Net borrowings	**(106)**	**(212)**	**(318)**	(423)	–	(423)

The bank loans and overdrafts are sterling denominated, variable rate instruments and repayable on demand Loans under committed facilities comprise £nil (2012 £410m) sterling denominated borrowings which are variable rate instruments repayable within one year

27 DEFERRED TAX

27 1 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 2013 £m	Group 2012[2] £m	**Company 2013 £m**	Company 2012 £m
Deferred tax assets	**122**	116	–	–
Deferred tax liabilities	**(18)**	(10)	**(3)**	–
	104	106	**(3)**	–

Movement for the year in the net deferred tax position

	Group[2] £m	Company £m
At 1 January 2012	89	(1)
Credited to income statement*	6	–
Credited to equity*	13	1
Businesses acquired	(2)	–
At 31 December 2012	106	–
Currency translation differences	**(1)**	–
Credited to income statement – continuing operations*	**(13)**	–
Credited to income statement – discontinued operations*	–	–
Credited/(charged) to equity*	**9**	**(3)**
Reclassified to assets held for sale	**2**	–
Reclassified to assets held for sale and subsequently sold	**1**	–
At 31 December 2013	**104**	**(3)**

* Group includes £6m charged (2012 £3m) to the income statement and £10m charged (2012 £5m) to equity in relation to the reduction in the UK corporation tax rate

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

27 DEFERRED TAX CONTINUED

27 2 Group

Deferred tax assets	Depreciation in excess of capital allowances £m	Retirement benefit liabilities[2] £m	Unrelieved trading losses £m	Share based payments £m	Provisions £m	Derivatives £m	Total[2] £m
At 1 January 2012	17	74	15	3	17	10	136
Currency translation differences	–	1	(1)	–	(1)	–	(1)
Credited/(charged) to income statement	3	(13)	7	–	6	–	3
Credited/(charged) to equity	–	17	–	–	–	(5)	12
Business acquired	–	–	–	–	(2)	–	(2)
At 31 December 2012	20	79	21	3	20	5	148
Currency translation differences	–	**(1)**	–	–	–	–	**(1)**
Credited/(charged) to income statement – continuing operations	**(3)**	**2**	**(4)**	–	**(3)**	–	**(8)**
Credited/(charged) to income statement – discontinued operations	–	**(1)**	–	–	–	–	**(1)**
Credited/(charged) to equity	–	**15**	–	–	–	**(7)**	**8**
Reclassified to assets held for sale and subsequently sold (Note 32 3 11)	**(2)**	–	–	–	**(1)**	**2**	**(1)**
At 31 December 2013	**15**	**94**	**17**	**3**	**16**	–	**145**

Deferred tax liabilities	Revaluation of properties £m	Goodwill £m	Preference shares £m	Fair value adjustments £m	Loss of IBAs £m	Total £m
At 1 January 2012	(1)	(10)	(6)	(28)	(2)	(47)
Currency translation differences	–	–	–	1	–	1
Credited/(charged) to income statement	–	3	–	(1)	1	3
Credited to equity	–	–	1	–	–	1
At 31 December 2012	(1)	(7)	(5)	(28)	(1)	(42)
Credited/(charged) to income statement – continuing operations	–	–	–	**(5)**	–	**(5)**
Credited/(charged) to income statement – discontinued operations	–	**1**	–	–	–	**1**
Credited 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 3 11)	–	–	–	**2**	–	**2**
At 31 December 2013	**(1)**	**(6)**	**(4)**	**(29)**	**(1)**	**(41)**

Total net deferred tax asset	**104**

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

At the reporting date the Group had unrecognised tax losses from operations that arose over a number of years of approximately £452m (2012 £280m) which are available for offset against future profits £15m (2012 £22m) 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 £901m (2012 £905m) in respect of subsidiaries and £101m (2012 £128m) in respect of joint ventures and associates No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated

27 3 Company

	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 2012	(6)	2	1	2	5	(1)
Credited/(charged) to equity[*]	1	–	–	–	–	1
At 31 December 2012	(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)**

[*] The Company includes £2m credited (2012 £nil) to equity in relation to the reduction 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 £3m (2012 £nil) being charged to equity

28 RETIREMENT BENEFIT LIABILITIES

28 1 Group

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 (Revised) (IAS 19 Revised) 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 Revised accounting valuation is set out in Note 28 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 Revised for the financial statements Details of the latest formal triennial funding valuations are set out in Note 28 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 (Railways Pension Scheme) 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 Revised liability and the net finance cost

BBPF

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

Following the previous formal triennial funding valuation of the BBPF carried out as at 31 March 2010, the Group agreed to make ongoing deficit payments to the BBPF of £48m per annum from April 2010, increasing each year by CPI (capped at 5%) plus 50% of any increase in the Company's dividend in excess of capped CPI Following the merger of the Parsons Brinckerhoff Scheme with the BBPF the Group agreed to make additional deficit payments of £11m per annum, with the first payment made in October 2012 During 2012 the Group also agreed to make additional conditional deficit contributions of £1m per month, payable quarterly in arrears, if the BBPF funding levels in any given month were below certain funding targets set out in the BBPF journey plan, with the first payment made in January 2013

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 revised 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 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 in which the one-off return was made The Group has the ability to use surplus funds in the defined benefit section of the BBPF to pay its contributions towards future service benefits in the defined benefit and defined contribution sections of the scheme

In 2012 a pension increase exchange (PIE) offer to certain current pensioners, widows and widowers of the BBPF, to forego their entitlement to future non-statutory inflation increases in return for a higher pension than their current entitlement, resulted in a £2m reduction to the pension liability and a consequential net past service cost credit of £2m

28 RETIREMENT BENEFIT LIABILITIES CONTINUED

28 1 Group continued

BBPF continued

On 31 August 2013 the majority of members of the BBPF ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge of £53m, recognised as a non-underlying item, of which £2m related to discontinued operations During 2013 various group restructurings resulted in an additional £1m curtailment charge

Railways Pension Scheme

The economic interest of the Group in the Railways Pension Scheme is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing

The Railways Pension Scheme 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 Railways Pension Scheme's assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled "growth" fund This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time The remaining assets in the Railways Pension Scheme 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

Parsons Brinckerhoff Scheme

During the year ended 31 December 2012, Parsons Brinckerhoff Ltd operated a defined benefit scheme (Parsons Brinckerhoff Scheme) which had been closed to new members since 31 July 2003 On 30 June 2012 the Parsons Brinckerhoff Scheme merged with the BBPF and the Group agreed to make additional deficit payments of £11m per annum to the BBPF, with the first payment made in October 2012 On 28 June 2012 the Parsons Brinckerhoff Scheme released its legal charge over a Group leasehold property with a book value of £4m at 31 December 2011 in return for a one-off deficit contribution of £2 5m The deficit contributions have been superseded by the deficit contributions agreed in the March 2013 BBPF formal triennial funding valuation

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 2013			**Railways Pension Scheme 2013**			Balfour Beatty Pension Fund 2012			Railways Pension Scheme 2012		
	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[2]	Average duration Years	Number of members	Defined benefit obligations £m[2]	Average duration Years
Defined benefit												
– active members	**97**	**3**	**20**	**250**	**44**	**19**	3,404	614	22	260	43	19
– deferred pensioners	**13,876**	**1,372**	**23**	**1,433**	**54**	**18**	11,887	794	24	1,476	52	18
– pensioners, widow(er)s and dependants	**22,244**	**1,589**	**11**	**1,531**	**93**	**11**	22,586	1,455	12	1,490	89	11
Defined contribution	**13,238**	**–**	**–**	**–**	**–**	**–**	10,373	–	–	–	–	–
Total	**49,455**	**2,964**	**16**	**3,214**	**191**	**14**	48,250	2,863	17	3,226	184	14

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

28 2 IAS 19 accounting valuations

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes

	Balfour Beatty Pension Fund 2013 %	**Railways Pension Scheme 2013 %**	Balfour Beatty Pension Fund 2012 %	Railways Pension Scheme 2012 %
Discount rate	**4 35**	**4 35**	4 40	4 40
Inflation rate – RPI	**3 30**	**3 30**	2 90	2 90
– CPI	**2 10**	**2 10**	2 20	2 20
Future increases in pensionable salary				
– certain members that have a protected right to a defined benefit membership	**2 10**	**2 10**	2 20	2 20
– other members	**–**	**2 10**	4 40	2 20
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**3 05**	**2 25**	2 80	2 20

In the year ended 31 December 2012, the Group reassessed the difference between the RPI and CPI measures of price inflation from 0 90% to 0 70% The reduction was applied following consideration of proposals made by the Office for National Statistics (ONS) to change the method to calculate RPI and independent advice received from the Group's actuaries This change in assumptions gave rise to a £25m actuarial increase in liabilities which was recognised in the Statement of Comprehensive Income

28 RETIREMENT BENEFIT LIABILITIES CONTINUED

28 2 IAS 19 accounting valuations continued

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes continued

In January 2013 the market RPI expectation increased by 0 30% following an announcement by the ONS that there would be no material change in the calculation of RPI As a result of this announcement and following independent advice received from the Group's actuaries, the Group reassessed the difference between RPI and CPI measures of price inflation from 0 7% to 1 0% in 2013 reducing the pension liability by £38m which was recognised in the Statement of Comprehensive Income

In December 2013, following independent advice from the Group's actuaries based on further announcements by the ONS, the Group reassessed the difference between RPI and CPI measures of price inflation from 1 0% in January 2013 to 1 2% reducing the pension liability by a further £36m 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 (49,455 members at 31 December 2013) 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 2013 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2003 to 31 March 2013 The mortality tables adopted for the 2013 and 2012 IAS 19 valuations are the SAPS tables with a multiplier of 101% for male and for female members (2012 90% for male and 103% for female members) and 110% for female widows and dependants (2012 103%), all with an improvement rate in line with the CMI core projection model to 2013 (2012 flat 1 6% pa to 2013), plus future improvements from 2013 in line with the CMI core projection model applicable to each member's year of birth with a long term rate of 1 25% pa for male and 1 00% pa for female members

	2013 Average life expectancy at 65 years of age		2012 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**22 4**	**24 4**	21 9	24 4
Members not yet in receipt of a pension (current age 50)	**23 7**	**25 6**	23 2	25 6

In December 2012 allowance was made for approximately three future years of life expectancy for former members of the Parsons Brinckerhoff Scheme The 2013 investigation revealed that the life expectancy for these members is similar to other members of the BBPF, therefore mortality assumptions have been aligned in 2013

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 £259m (2012 £200m) have been excluded from the tables on pages 132 to 134 Defined contribution charges for other schemes include contributions to multi-employer pension schemes

Amounts recognised in the Income Statement

	Balfour Beatty Pension Fund 2013 £m	**Railways Pension Scheme 2013 £m**	**Other schemes 2013 £m**	**Total 2013 £m**	Balfour Beatty Pension Fund 2012[2,3] £m	Railways Pension Scheme 2012[2] £m	Parsons Brinckerhoff Scheme 2012[2] £m	Other schemes 2012[2,3] £m	Total 2012[2,3] £m
Continuing operations									
Current service cost	**(23)**	**(2)**	**(5)**	**(30)**	(34)	(2)	–	(5)	(41)
Past service cost credit	**–**	**–**	**–**	**–**	2	–	–	–	2
Curtailment cost									
– ceasing future accrual	**(51)**	**–**	**–**	**(51)**	–	–	–	–	–
– restructuring costs	**(1)**	**–**	**–**	**(1)**	(2)	–	–	–	(2)
Defined contribution charge	**(32)**	**–**	**(14)**	**(46)**	(30)	–	(4)	(16)	(50)
Included in employee costs (Note 7)	**(107)**	**(2)**	**(19)**	**(128)**	(64)	(2)	(4)	(21)	(91)
Interest income	**102**	**6**	**–**	**108**	100	7	3	–	110
Interest cost	**(108)**	**(7)**	**(2)**	**(117)**	(105)	(8)	(4)	(2)	(119)
Net finance cost (Note 9)	**(6)**	**(1)**	**(2)**	**(9)**	(5)	(1)	(1)	(2)	(9)
Total charged to income statement from continuing operations	**(113)**	**(3)**	**(21)**	**(137)**	(69)	(3)	(5)	(23)	(100)
Discontinued operations									
Current service cost (Note 7)	**(6)**	**–**	**(1)**	**(7)**	(6)	–	–	(1)	(7)
Curtailment cost									
– ceasing future accrual (Note 7)	**(2)**	**–**	**–**	**(2)**	–	–	–	–	–
Defined contribution costs (Note 7)	**(6)**	**–**	**(4)**	**(10)**	(5)	–	–	(1)	(6)
Net finance cost	**(1)**	**–**	**(1)**	**(2)**	–	–	–	(1)	(1)
Total charged to income statement from discontinued operations	**(15)**	**–**	**(6)**	**(21)**	(11)	–	–	(3)	(14)
Total charged to income statement	**(128)**	**(3)**	**(27)**	**(158)**	(80)	(3)	(5)	(26)	(114)

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

[3] Re presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

28 RETIREMENT BENEFIT LIABILITIES CONTINUED

28 2 IAS 19 accounting valuations continued

Amounts recognised in the Statement of Comprehensive Income

	Balfour Beatty Pension Fund 2013 £m	Railways Pension Scheme 2013 £m	Other schemes 2013 £m	Total 2013 £m	Balfour Beatty Pension Fund 2012[2] £m	Railways Pension Scheme 2012[2] £m	Parsons Brinckerhoff Scheme 2012[2] £m	Other schemes 2012[2] £m	Total 2012[2] £m
Actuarial movements on pension scheme obligations	(63)	(5)	(5)	(73)	(174)	(11)	2	(11)	(194)
Actuarial movements on pension scheme assets	(48)	4	–	(44)	82	2	–	(1)	83
Total actuarial movements recognised in the Statement of Comprehensive Income (Note 30 1)	(111)	(1)	(5)	(117)	(92)	(9)	2	(12)	(111)
Cumulative actuarial movements recognised in the Statement of Comprehensive Income	(446)	(34)	(20)	(500)	(329)	(33)	(6)	(15)	(383)

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

The actual return on plan assets was a gain of £79m (2012 £210m)

Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2013 £m	Railways Pension Scheme 2013 £m	Other schemes[1] 2013 £m	Total 2013 £m	Balfour Beatty Pension Fund[2] 2012 £m	Railways Pension Scheme[2] 2012 £m	Other schemes[1 2] 2012 £m	Total[2] 2012 £m
Present value of obligations	(2,964)	(191)	(74)	(3,229)	(2,863)	(184)	(99)	(3,146)
Fair value of plan assets	2,641	153	1	2,795	2,665	147	1	2,813
Liability in the balance sheet	(323)	(38)	(73)	(434)	(198)	(37)	(98)	(333)

[1] Available-for-sale investments in mutual funds of £60m (2012 £52m) are held by the Group to satisfy the Group s deferred compensation obligations (Note 19 1)
[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

The defined benefit obligation comprises £73m (2012 £97m) arising from wholly unfunded plans and £3,156m (2012 £3,049m restated) arising from plans that are wholly or partly funded

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2013 £m	Railways Pension Scheme 2013 £m	Other schemes 2013 £m	Total 2013 £m	Balfour Beatty Pension Fund 2012[2,3] £m	Railways Pension Scheme 2012 £m	Parsons Brinckerhoff Scheme 2012 £m	Other schemes 2012[2,3] £m	Total[2,3] 2012 £m
At 1 January[2]	(2,863)	(184)	(99)	(3,146)	(2,465)	(169)	(187)	(89)	(2,910)
Currency translation differences	–	–	1	1	–	–	–	2	2
Current service cost	(23)	(2)	(5)	(30)	(34)	(2)	–	(5)	(41)
Past service cost credit	–	–	–	–	2	–	–	–	2
Curtailment costs									
– ceasing future accrual	(51)	–	–	(51)	–	–	–	–	–
– restructuring	(1)	–	–	(1)	(2)	–	–	–	(2)
Finance cost	(108)	(7)	(2)	(117)	(105)	(8)	(4)	(2)	(119)
Income statement costs relating to discontinued operations	(24)	–	(2)	(26)	(23)	–	–	(2)	(25)
Actuarial movements from reassessing the difference between RPI and CPI	62	12	–	74	(20)	(5)	–	–	(25)
Other financial actuarial movements	(126)	(13)	4	(135)	(165)	(5)	2	(8)	(176)
Actuarial movements from changes in demographic assumptions	(25)	(3)	–	(28)	45	4	–	–	49
Experience gains/(losses)	26	(1)	(9)	16	(34)	(5)	–	(3)	(42)
Total actuarial movements	(63)	(5)	(5)	(73)	(174)	(11)	2	(11)	(194)
Contributions from members	(1)	–	–	(1)	(1)	–	–	–	(1)
Benefits paid	139	7	8	154	124	6	4	8	142
Parsons Brinckerhoff Scheme merger	–	–	–	–	(185)	–	185	–	–
Reclassified to liabilities held for sale (Note 12)	–	–	30	30	–	–	–	–	–
Reclassified to liabilities held for sale and subsequently sold (Note 32 3 11)	31	–	–	31	–	–	–	–	–
At 31 December	(2,964)	(191)	(74)	(3,229)	(2,863)	(184)	–	(99)	(3,146)

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[3] Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

28 RETIREMENT BENEFIT LIABILITIES CONTINUED

28 2 IAS 19 accounting valuations continued

On 12 December 2013 the Group disposed of its UK facilities management business, Balfour Beatty WorkPlace (BBW), a participating employer in the BBPF The Group retains the obligation to provide pension benefits arising on past service accrual in the BBPF for the majority of BBW employees BBW retains the obligation to provide pension benefits arising on past service accrual for protected members of the BBPF resulting in a settlement loss for the Group based on actuarial assumptions at the date of disposal of £2m, a reduction in liabilities of £31m, and a reduction in assets of £33m Refer to Note 32 3 11

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2013 £m	**Railways Pension Scheme 2013 £m**	**Other schemes 2013 £m**	**Total 2013 £m**	Balfour Beatty Pension Fund 2012[2,3] £m	Railways Pension Scheme 2012 £m	Parsons Brinckerhoff Scheme 2012 £m	Other schemes 2012[2,3] £m	Total 2012[2,3] £m
At 1 January	2,665	147	1	2,813	2,370	141	127	2	2,640
Interest income – continuing operations	**102**	**6**	–	**108**	100	7	3	–	110
Interest income – discontinued operations	**15**	–	–	**15**	17	–	–	–	17
Actuarial movements	**(48)**	**4**	–	**(44)**	82	2	–	(1)	83
Contributions from employer									
– regular funding	**21**	**2**	–	**23**	33	2	–	–	35
– ongoing deficit funding – continuing operations	**49**	**1**	–	**50**	55	1	2	–	58
– ongoing deficit funding – discontinued operations	**2**	–	–	**2**	–	–	–	–	–
– conditional deficit funding	**7**	–	–	**7**	–	–	–	–	–
– one-off deficit funding	–	–	–	–	–	–	3	–	3
Contributions from members	–	–	–	–	1	–	–	–	1
Benefits paid	**(139)**	**(7)**	–	**(146)**	(124)	(6)	(4)	–	(134)
Parsons Brinckerhoff Scheme merger	–	–	–	–	131	–	(131)	–	–
Reclassified to liabilities held for sale and subsequently sold (Note 32 3 11)	**(33)**	–	–	**(33)**	–	–	–	–	–
At 31 December	**2,641**	**153**	**1**	**2,795**	2,665	147	–	1	2,813

2 Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
3 Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

Fair value of the assets held by the schemes at 31 December

	Balfour Beatty Pension Fund Value 2013 £m	**Railways Pension Scheme Value 2013 £m**	**Other schemes Value 2013 £m**	**Total Value 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**

	Value 2012 £m	Value 2012 £m	Value 2012 £m	Value 2012 £m
Return-seeking	1,065	110	–	1,175
– Developed nation equities	428	–	–	428
– Emerging market equities	107	–	–	107
– Emerging market debt and currency	147	–	–	147
– Hedge funds	328	–	–	328
– Return-seeking growth pooled funds	–	110	–	110
– Other return-seeking assets	55	–	–	55
Liability matching bond-type assets	1,470	37	–	1,507
– Corporate bonds	613	–	–	613
– Fixed interest gilts	417	–	–	417
– Index-linked gilts	291	–	–	291
– Liability matching pooled funds	–	37	–	37
– Interest and inflation rate swaps	149	–	–	149
Other	130	–	1	131
Total	2,665	147	1	2,813

28 RETIREMENT BENEFIT LIABILITIES CONTINUED

28 2 IAS 19 accounting valuations continued

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

- £99 2m 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)

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2014

	Balfour Beatty Pension Fund 2014 £m	Railways Pension Scheme 2014 £m	Total 2014 £m
Regular funding	**3**	**2**	**5**
Ongoing deficit funding	**51**	**1**	**52**
Total	**54**	**3**	**57**

Sensitivity of the Group's retirement benefit obligations at 31 December 2013 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 4)**	**(232)**
Increase in market expectation of RPI inflation	**0 5%**	**4 9**	**154**
Increase in salary growth	**0 5%**	**–**	**2**
Increase in life expectancy	**1 year**	**3 3**	**104**

Sensitivity of the Group's retirement benefit assets at 31 December 2013 to changes in market conditions

Assets	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0 5%**	**(6 1)**	**(170)**
Increase in market expectation of RPI inflation	**0 5%**	**3 3**	**93**

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 are not directly correlated with movements in interest rates or RPI inflation

Year end historical information for the Group's retirement defined benefit schemes

	2013 £m	2012[2] £m	2011[2] £m	2010[2] £m	2009[2] £m
Present value of obligations	**(3,229)**	(3 146)	(2 910)	(2,780)	(2,752)
Fair value of assets	**2,795**	2,813	2,640	2,344	2,171
Deficit	**(434)**	(333)	(270)	(436)	(581)
Experience adjustment for obligations	**16**	(39)	(11)	62	(9)
Experience adjustment for assets	**(44)**	83	148	128	135
Total deficit funding	**59**	61	113	80	35

[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

28 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 4 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 Balfour Beatty Group's UK businesses

29 SHARE CAPITAL

29 1 Ordinary shares of 50p each

	Million	Issued £m
At 1 January 2012	687	344
Shares issued	1	–
At 31 December 2012	688	344
Shares issued	**1**	**–**
At 31 December 2013	**689**	**344**

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 2013 Number	Consideration 2013 £m	Ordinary shares 2012 Number	Consideration 2012 £m
Savings-related share options exercised	**386,386**	**1**	866,427	2
Executive share options exercised	**270,895**	**–**	229,220	–
	657,281	**1**	1,095,647	2

At 31 December 2013 there were 1,364,265 share options outstanding under the Savings-Related Share Option Scheme (SAYE) which were granted between 2008 and 2010 (2012 3,645,518 granted between 2007 and 2010) The weighted average exercise price is 242 1p (2012 254 9p) No options have been granted under the SAYE since 2010

At 31 December 2013 there were 387,733 share options outstanding under the Executive Share Option Scheme (ESOS) which were granted in 2004 (2012 689,049 granted between 2003 and 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 is 227 3p (2012 205 6p) No options have been granted under the ESOS since 2004

29 2 Cumulative convertible redeemable preference shares of 1p each

	Million	Issued £m
At 31 December 2012 and 2013	**112**	**–**

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 2013 in respect of the six months ended 30 June 2013 A preference dividend of 5 375p gross (4 8375p net) per cumulative convertible redeemable preference share was paid on 1 January 2014 in respect of the six months ended 31 December 2013

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 2013 (2012 £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

Liability component recognised in the Balance Sheet	2013 £m	2012 £m
Redemption value of shares in issue at 1 January	**112**	112
Equity component	**(18)**	(17)
Deferred tax and interest element	**(2)**	(4)
Liability component at 1 January at amortised cost	**92**	91
Interest accretion	**2**	1
Liability component at 31 December at amortised cost	**94**	92

The fair value of the liability component of the preference shares at 31 December 2013 amounted to £113m (2012 £120m) 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 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 represents the embedded option to convert the liability into the Company's ordinary shares being the equity component of £26m Refer to Note 26

30 MOVEMENTS IN EQUITY

30 1 Group

					Other reserves								
	Called-up share capital 2013 £m	Share premium account 2013 £m	Special reserve 2013 £m	Share of joint ventures and associates reserves (Note 18 5) 2013 £m	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[2] 2013 £m	Non-controlling interests 2013 £m	Total[2] 2013 £m
At 31 December 2012[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
[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)

30 MOVEMENTS IN EQUITY CONTINUED

30.1 Group continued

	Called-up share capital 2012 £m	Share premium account 2012 £m	Special reserve 2012 £m	Other reserves: Share of joint ventures and associates reserves[4] (Note 18.5) 2012 £m	Other reserves: Equity component of preference shares and convertible bonds 2012 £m	Other reserves: Hedging reserves 2012 £m	Other reserves: PPP financial assets 2012 £m	Other reserves: Currency translation reserve 2012 £m	Other reserves: Merger reserve 2012 £m	Other reserves: Other 2012 £m	Retained profits[2,4] 2012 £m	Non controlling interests 2012 £m	Total[2,4] 2012 £m
At 1 January 2012[2]	344	61	27	144	17	(97)	67	75	249	17	359	4	1,267
Profit for the year	–	–	–	96	–	–	–	–	–	–	(61)	–	35
Currency translation differences	–	–	–	(2)	–	–	–	(54)	–	–	–	–	(56)
Actuarial movements on retirement benefit liabilities	–	–	–	(4)	–	–	–	–	–	–	(111)	–	(115)
Fair value revaluations													
– PPP financial assets	–	–	–	374	–	–	31	–	–	–	–	–	405
– cash flow hedges	–	–	–	(7)	–	(12)	–	–	–	–	–	–	(19)
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	–	4	–	–	4
Recycling of revaluation reserves to the income statement on disposal[•,4]	–	–	–	(48)	–	–	–	–	–	–	–	–	(48)
Tax on items recognised in other comprehensive income	–	–	–	(86)	–	–	(5)	–	–	(1)	20	–	(72)
Total comprehensive income/(expense) for the year	–	–	–	323	–	(12)	26	(54)	–	3	(152)	–	134
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(96)	(1)	(97)
Joint ventures' and associates' dividends	–	–	–	(58)	–	–	–	–	–	–	58	–	–
Issue of ordinary shares	–	2	–	–	–	–	–	–	–	–	–	–	2
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	(2)	9	–	7
Reserve transfers relating to joint venture and associate disposals[4]	–	–	–	(72)	–	–	–	–	–	–	72	–	–
Other transfers	–	–	(2)	–	–	–	–	–	–	–	2	–	–
At 31 December 2012	344	63	25	337	17	(109)	93	21	249	18	252	3	1,313

• Recycling of revaluation reserves to the income statement on disposal has no associated tax effect
[2] Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
[4] Re presented to reflect the recycling of revaluation reserves to the income statement in the statement of comprehensive income instead of the statement of changes in equity

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	Other reserves: Merger reserve £m	Other reserves: Other £m	Retained profits £m	Total £m
At 1 January 2012	344	61	27	17	249	74	333	1,105
Profit for the year	–	–	–	–	–	–	84	84
Actuarial movements on retirement benefit liabilities	–	–	–	–	–	–	(3)	(3)
Tax on items recognised in other comprehensive income	–	–	–	–	–	–	1	1
Total comprehensive income for the year	–	–	–	–	–	–	82	82
Ordinary dividends	–	–	–	–	–	–	(96)	(96)
Issue of ordinary shares	–	2	–	–	–	–	–	2
Movements relating to share-based payments	–	–	–	–	–	(2)	5	3
Other transfers	–	–	(2)	–	–	–	2	–
At 31 December 2012	344	63	25	17	249	72	326	1,096
Profit for the year	–	–	–	–	–	–	**39**	**39**
Actuarial movements on retirement benefit liabilities	–	–	–	–	–	–	**1**	**1**
Tax on items recognised in other comprehensive income	–	–	–	**1**	–	–	**(4)**	**(3)**
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**

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 2013 (2012: £2m).

30 MOVEMENTS IN EQUITY CONTINUED

30 3 The retained profits in the Group and the retained profit 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 2013, 0 7m (2012 1 0m) shares were purchased at a cost of £1 6m (2012 £3 0m) The market value of the 3 3m (2012 3 7m) shares held by the Trust at 31 December 2013 was £9 3m (2012 £10 1m) The carrying value of these shares is £10 0m (2012 £11 8m) 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 2013 no shares were transferred to participants in relation to the April 2010 awards under the Performance Share Plan (2012 no shares for the April 2009 award under the Performance Share Plan), and 1 1m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2012 1 0m) The trustees have waived the rights to dividends on shares held by the Trust Other reserves in the Group and the Company include £5 1m relating to unvested Performance Share Plan awards (2012 £4 7m), £1 1m relating to unvested share options (2012 £2 9m), and £3 3m relating to unvested Deferred Bonus Plan awards (2012 £3 4m)

31 NOTES TO THE STATEMENTS OF CASH FLOWS

		Continuing operations						
	Notes	**Underlying items[1] 2013 £m**	**Non-underlying items (Note 10) 2013 £m**	**Discontinued operations (Note 12) 2013 £m**	**Group 2013 £m**	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
31 1 Cash (used in)/generated from operations								
Profit/(loss) from operations		**203**	**(155)**	**(47)**	**1**	73	**75**	104
Share of results of joint ventures and associates – continuing operations	18	**(71)**	**–**	**–**	**(71)**	(92)	**–**	–
Share of results of joint ventures and associates – discontinued operations	18	**–**	**–**	**–**	**–**	(4)	**–**	–
Dividends received – continuing operations		**–**	**–**	**–**	**–**	–	**(90)**	(130)
Dividends received – discontinued operations		**–**	**–**	**(1)**	**(1)**	–	**–**	–
Depreciation of property, plant and equipment	17	**50**	**–**	**6**	**56**	64	**–**	–
Amortisation of other intangible assets	16	**3**	**30**	**2**	**35**	49	**–**	–
Pension deficit payments								
– ongoing deficit funding	28 2	**(50)**	**–**	**(2)**	**(52)**	(58)	**–**	(2)
– conditional deficit funding	28 2	**(7)**	**–**	**–**	**(7)**	–	**–**	–
– one-off deficit funding	28 2	**–**	**–**	**–**	**–**	(3)	**–**	–
Pension past service cost credit	28 2	**–**	**–**	**–**	**–**	(2)	**–**	–
Pension curtailment charge – ceasing future accrual	28 2	**–**	**51**	**2**	**53**	–	**–**	–
Pension curtailment charge – restructuring	28 2	**–**	**1**	**–**	**1**	2	**–**	–
Movements relating to share-based payments	33	**6**	**–**	**–**	**6**	6	**–**	1
Profit on disposal of investments in PPP concessions	32 3	**(82)**	**–**	**–**	**(82)**	(52)	**–**	–
Profit on disposal of property, plant and equipment		**(3)**	**(3)**	**–**	**(6)**	(7)	**–**	–
Contingent consideration for acquisitions	32 2	**(4)**	**–**	**–**	**(4)**	–	**–**	–
Net gain on disposal of other businesses	32 3	**–**	**–**	**(11)**	**(11)**	–	**–**	–
Write-down of investment in Exeter International Airport		**–**	**–**	**–**	**–**	12	**–**	–
Goodwill impairment in respect of Mainland European rail businesses	10 2	**–**	**–**	**38**	**38**	95	**–**	–
Impairment of other intangible assets	16	**–**	**1**	**1**	**2**	–	**–**	–
(Impairment reversal)/impairment of property, plant and equipment	17	**–**	**(3)**	**–**	**(3)**	5	**–**	–
Impairment of inventory		**–**	**–**	**1**	**1**	4	**–**	–
Other non-cash items		**(1)**	**–**	**–**	**(1)**	(1)	**–**	–
Operating cash flows before movements in working capital		**44**	**(78)**	**(11)**	**(45)**	91	**(15)**	(27)
(Increase)/decrease in operating working capital		**(127)**	**3**	**7**	**(117)**	(310)	**220**	(52)
Inventories and non-construction work in progress		**5**	**–**	**(3)**	**2**	(37)	**–**	–
Due from construction contract clients		**(93)**	**–**	**12**	**(81)**	(33)	**–**	–
Trade and other receivables		**(166)**	**–**	**(25)**	**(191)**	113	**(34)**	85
Due to construction contract clients		**33**	**–**	**–**	**33**	(182)	**–**	–
Trade and other payables		**106**	**11**	**31**	**148**	(161)	**258**	(137)
Provisions		**(12)**	**(8)**	**(8)**	**(28)**	(10)	**(4)**	–
Cash (used in)/generated from operations		**(83)**	**(75)**	**(4)**	**(162)**	(219)	**205**	(79)

[1] Before non-underlying items (Notes 2 11 and 10)

31 NOTES TO THE STATEMENTS OF CASH FLOWS CONTINUED

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
31 2 Cash and cash equivalents				
Cash and deposits	**472**	515	**–**	43
Term deposits	**67**	2	**–**	–
PPP cash balances	**65**	25	**–**	–
Bank overdrafts	**(78)**	(10)	**(106)**	(56)
	526	532	**(106)**	(13)

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

	PPP 2013 £m	Other 2013 £m	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
31 3 Analysis of movement in net (borrowings)/cash						
Opening net (borrowings)/cash	**(368)**	**35**	**(333)**	8	**(423)**	(236)
Currency translation differences	**–**	**3**	**3**	(17)	**19**	–
Net increase/(decrease) in cash and cash equivalents	**40**	**(30)**	**10**	(31)	**(93)**	11
Proceeds from US private placement	**–**	**(231)**	**(231)**	–	**(231)**	–
Proceeds from convertible bonds and interest accretion – liability component	**–**	**(221)**	**(221)**	–	**–**	–
Proceeds from new loans	**(110)**	**–**	**(110)**	(350)	**–**	(230)
Proceeds from new finance leases	**–**	**(1)**	**(1)**	–	**–**	–
Repayment of loans	**12**	**396**	**408**	53	**410**	32
Repayment of finance leases	**–**	**2**	**2**	4	**–**	–
Disposal of non-recourse borrowings (Note 32 3 11)	**72**	**–**	**72**	–	**–**	–
Reclassified to assets held for sale (Note 12)	**–**	**(19)**	**(19)**	–	**–**	–
Closing net borrowings	**(354)**	**(66)**	**(420)**	(333)	**(318)**	(423)

31 4 Borrowings

During the year ended 31 December 2013 the significant movements in borrowings were a drawdown of US private placement loans of £231m (2012 £nil), issuing unsecured convertible bonds with a liability component of £221m (2012 £nil) a drawdown of short term loans of £nil (2012 £286m), a net repayment of short term loans of £396m (2012 £32m), a £68m net increase (2012 £5m decrease) in bank overdrafts, an increase of £110m (2012 £64m increase) in non-recourse loans funding the development of financial assets in PPP subsidiaries, disposal of non-recourse borrowings in Connect CNDR Ltd £72m (2012 £nil) and repayment of £12m (2012 £21m) of non-recourse PPP loans

32 ACQUISITIONS AND DISPOSALS

32 1 Current and prior year acquisitions

32 1 1 There were no material acquisitions during the year ended 31 December 2013

32 1 2 Deferred consideration paid during 2013 in respect of acquisitions completed in earlier years was £11m, £8m relating to the acquisition of Subsurface Group Inc (Subsurface) and £3m on other acquisitions

32 1 3 In addition to the amounts shown above, £2m and £1m held in escrow at 31 December 2012 relating to the acquisitions of Power Efficiency and Office Projects respectively were paid during 2013

32 1 4 The fair values of the acquired assets and liabilities disclosed as provisional at 31 December 2012 in respect of Subsurface were finalised during 2013 giving rise to a decrease in both goodwill and provisions of £1m

32 2 Contingent consideration arrangements

	Parsons Brinckerhoff Inc £m	Howard S Wright £m	SpawMaxwell £m	Subsurface £m	Total £m
Contingent consideration recoverable/(payable)					
At 31 December 2012	16	(9)	(1)	(1)	5
Movements	–	**9**	**1**	–	**10**
At 31 December 2013	**16**	–	–	**(1)**	**15**

The fair value of the contingent consideration arrangements is estimated by applying the provisions of the purchase agreement to management's assessment of possible outcomes and discounting the expected contract costs and insurance claim proceeds to their present value The maximum amount that the Group could be required to pay or receive under the terms of the contingent consideration arrangements is £11m payable or £16m receivable in respect of Parsons Brinckerhoff and £1m payable in respect of Subsurface

32 2 1 The contingent consideration payable relating to Howard S Wright (HSW) was settled in April 2013 with a final settlement of £6m, £3m of which was paid in cash and the remainder netted-off against notes receivable from the HSW sellers, resulting in a £3m gain

32 2 2 £1m contingent consideration payable relating to SpawMaxwell was released to the income statement during the year

32 3 Current year disposals

Notes	Disposal date	Entity/business	Percentage disposed %	Net cash consideration £m	Net assets disposed £m	Amount recycled from revaluation reserve £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain/(loss) £m	Non underlying gain/(loss) £m
32 3 1	1 March 2013	Rail Iberica SA*	100	–	(5)	1	–	–	(4)
32 3 2	26 April 2013	Consort Healthcare (Tameside) Holdings Ltd^	50	16	(11)	4	–	9	–
32 3 3	30 April 2013	Transform Schools Bassetlaw^, Birmingham^, Rotherham^, Stoke^	50	43	(24)	5	–	24	–
32 3 4	20 June 2013	Consort Healthcare (Salford) Holdings Ltd^	50	22	(10)	–	–	12	–
32 3 5	25 June 2013	Exeter and Devon Airport Ltd^	60	–	–	–	–	–	–
32 3 6	1 August 2013	Stassfurt Signalling Workshop	–	–	(1)	–	–	–	(1)
32 3 7	31 October 2013	Balfour Sevan LLC^	50	1	(1)	–	–	–	–
32 3 8	4 November 2013	Connect A30/A35 Holdings Ltd^	65	21	(9)	6	–	18	–
32 3 9	4 November 2013	Connect CNDR Holdings Ltd*	75	26	(16)	5	4	19	–
32 3 10	13 December 2013	Balfour Beatty WorkPlace*	100	155	(120)	–	(19)	–	16
				284	**(197)**	**21**	**(15)**	**82**	**11**

* Subsidiary
^ Joint venture

32 3 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 Refer to Note 10 2 2 The Group continues to guarantee certain bonds on behalf of Rail Spain until their expiry

32 3 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 PPP 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 3 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 PPP 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 ACQUISITIONS AND DISPOSALS

32 3 Current year disposals continued

32 3 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 PPP disposal resulted in a net gain of £12m being recognised within underlying operating profit There were no material revaluation reserves

32 3 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 3 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 3 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 for the Group

32 3 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 PPP 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 3 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 PPP 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 3 10 On 13 December 2013 the Group disposed of its UK facilities management business, Balfour Beatty WorkPlace 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 28

32 3 11 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		10	–	–	10
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		9	–	–	9
		139	7	4	150
Net cash consideration		(155)	(26)	–	(181)
(Gain)/loss on disposal		(16)	(19)	4	(31)
Net cashflow 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

32 ACQUISITIONS AND DISPOSALS CONTINUED

32 4 Prior year disposals

32 4 1 On 1 February 2012, the Group disposed of its 50% interest in the shares and loan notes issued by Transform Schools (North Lanarkshire) Holdings Ltd for a cash consideration of £18m This disposal resulted in a gain of £8m being recognised within underlying operating profit, comprising a loss of £2m in respect of the disposal of the investment in the joint venture and a £10m gain in respect of revaluation reserves recycled to the income statement

32 4 2 On 11 May 2012 the Group disposed of its 33 3% interest in the shares and loan notes issued by Health Management (UCLH) Holdings Ltd (HMU) for an agreed cash consideration of £66m On this date the Group ceased to jointly control HMU by virtue of a put/ call structure with a preferred bidder The other shareholders in HMU exercised pre-emption provisions in the shareholders' agreement and the disposal was completed on 11 July 2012

As a consequence of the disposal, £2m was donated to the UCLH Charity and treated as a cost of disposal This donation would not have taken place had the disposal of HMU not taken place Additional transaction costs of £1m were incurred in respect of the disposal The disposal resulted in a net gain of £44m being recognised within underlying operating profit, comprising a gain of £6m in respect of the disposal of the investment in the joint venture and a £38m gain in respect of revaluation reserves recycled to the income statement

32 4 3 The above disposals resulted in a total underlying gain of £52m after recycling £48m revaluation reserves to the income statement through other comprehensive income

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 since 7 November 2002 of £5 8m in 2013 (2012 £6 5m) 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			
	2013 Number	**Weighted average exercise price 2013 Pence**	2012 Number	Weighted average exercise price 2012 Pence	**2013 Number**	**Weighted average exercise price 2013 Pence**	2012 Number	Weighted average exercise price 2012 Pence
Outstanding at 1 January	**3,645,518**	**254 9**	6,200,690	263 5	**689,049**	**205 6**	755,224	203 2
Forfeited during the year	**(361,496)**	**248 4**	(683,176)	256 6	**–**	**–**	–	–
Exercised during the year	**(386,386)**	**238 4**	(866,427)	249 4	**(270,895)**	**172 2**	(66,175)	177 4
Expired during the year	**(1,533,371)**	**271 9**	(1,005,569)	311 8	**(30,421)**	**227 3**	–	–
Outstanding at 31 December	**1,364,265**	**242 1**	3,645,518	254 9	**387,733**	**227 3**	689,049	205 6
Exercisable at 31 December	**49,678**	**250 5**	169,409	293 5	**387,733**	**227 3**	689,049	205 6

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 266 3p (2012 298 2p) and the weighted average remaining contractual life of SAYE options outstanding at 31 December 2013 is 1 0 year (2012 1 6 years)

The weighted average share price at the date of exercise for those ESOS options exercised during the year was 251 7p (2012 287 7p) and the weighted average remaining contractual life of ESOS options outstanding at 31 December 2013 is 0 3 years (2012 1 0 year)

33 2 Movements in share plans

	PSP conditional awards		DBP conditional awards	
	2013 Number	2012 Number	**2013 Number**	2012 Number
Outstanding at 1 January	**9,688,585**	8,700,324	**2,275,048**	2,291,952
Granted during the year	**3,815,247**	4,177,096	**575,983**	916,940
Awards in lieu of dividends	**–**	–	**102,609**	117,718
Forfeited during the year	**(1,209,841)**	(457,142)	**(40,879)**	(33,337)
Exercised during the year	**–**	–	**(1,115,426)**	(1,018,225)
Expired during the year	**(2,678,815)**	(2,731,693)	**–**	–
Outstanding at 31 December	**9,615,176**	9,688,585	**1,797,335**	2,275,048
Exercisable at 31 December	**–**	–	**101,062**	16,727

The weighted average remaining contractual life of those PSP awards outstanding at 31 December 2013 is 1 4 years (2012 1 4 years)

The weighted average share price at the date of exercise for those DBP awards exercised during the year was 243 3p (2012 288 8p) and the weighted average remaining contractual life of DBP awards outstanding at 31 December 2013 is 1 3 years (2012 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 2013 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
16 April 2013	**246 9**	**32 0**	**3 0**	**0 31**	**90 2**

For the DBP awards in 2013, 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 £7m (2012 £14m) in the Group and £nil (2012 £nil) in the Company

The Group has committed to provide its share of further equity funding and subordinated debt in Infrastructure Investments which have reached financial close Refer to Note 41(h)

In January 2013 the Balfour Beatty Infrastructure Partners Fund (Infrastructure Fund) reached first close with US$317m of total commitments, of which Balfour Beatty has committed US$110m Since first close, total commitments have increased to US$521m To date the Group has invested a net US$17m in the Infrastructure Fund

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 is disclosed in Note 6 1

Future operating lease expenditure commitments

	Land and buildings 2013 £m	**Other 2013 £m**	Land and buildings 2012 £m	Other 2012 £m
Group				
Due within one year	**61**	**52**	71	62
Due between one and five years	**149**	**47**	191	55
Due after more than five years	**87**	**6**	109	1
	297	**105**	371	118
Company				
Due within one year	**–**	**–**	3	–
Due between one and five years	**–**	**–**	3	–
	–	**–**	6	–

Future committed operating lease income

	Land and buildings 2013 £m	Land and buildings 2012 £m
Group		
Due within one year	**1**	4
Due between one and five years	**1**	4
	2	8
Company		
Due within one year	**–**	3
Due between one and five years	**–**	3
	–	6

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 Where such agreements are entered into, they are considered to be and are accounted for as insurance arrangements 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 £777m (2012 £1,018m) These transactions occurred in thè 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 markup The amounts due to or from 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 £8m in 2013 (2012 £8m)

Rail Spain
On 1 March 2013 Rail Spain was sold to its local management for a cash consideration of €1 Refer to Note 32 3 1

Stassfurt Signalling Workshop
On 1 August 2013 Stassfurt Signalling Workshop was sold to its local management for a cash consideration of €1 Refer to Note 32 3 6

Key management personnel

Remuneration of key management personnel of the Company	2013 £m	2012 £m
Short term benefits	**2 001**	3 957
Long term benefits	**0 191**	–
Post-employment benefits	**0 058**	0 139
Payments for loss of office	**0 588**	–
Share-based payments	**1 284**	1 714
	4 122	5 810

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 2013 Remuneration Report on pages 68 to 84

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 £16m were recharged from BBGEL to the Company

37 EVENTS AFTER THE REPORTING DATE

Disposal of Rail Scandinavia
On 8 January 2014 the Group disposed of Rail Scandinavia to Strukton Rail resulting in a small gain

38 PRIOR YEAR COMPARISONS

38 1 Group

In 2013 the Group adopted IAS 19 Employee Benefits (Revised) which increased the total Group net finance cost by £10m before tax in the income statement with a corresponding restatement of the actuarial movements in the statement of other comprehensive income In addition, the Railway Pension Scheme liability was revalued resulting in a £5m reduction to the retirement benefit liability with deferred tax assets and opening retained profits being restated accordingly

The 2012 income statements have been re-presented to classify Rail Germany, Rail Scandinavia, Rail Spain and the UK facilities management business, Balfour Beatty WorkPlace as discontinued operations Refer to Note 12

The effect on the financial statements is as follows

Income statement	As previously reported 2012 year £m	Effect of IAS 19 Revised 2012 year £m	Effect of discontinued operations 2012 year £m	As re-presented 2012 year £m
Continuing operations				
Revenue including share of joint ventures and associates	10,896	–	(930)	9,966
Share of revenue of joint ventures and associates	(1,413)	–	103	(1,310)
Group revenue	9,483	–	(827)	8,656
Underlying group operating profit[1]	212	–	(20)	192
Share of results of joint ventures and associates	97	(1)	(4)	92
Underlying profit/(loss) from operations[1]	309	(1)	(24)	284
Investment income	62	–	–	62
Finance costs	(61)	(9)	1	(69)
Underlying profit/(loss) before taxation from continuing operations[1]	310	(10)	(23)	277
Taxation on underlying profit from continuing operations	(70)	2	7	(61)
Underlying profit/(loss) for the period from continuing operations[1]	240	(8)	(16)	216
Non-underlying items after tax from continuing operations	(196)	–	101	(95)
Profit/(loss) for the period from continuing operations	44	(8)	85	121
Underlying profit/(loss) for the period from discontinued operations after tax	–	(1)	16	15
Non-underlying items after tax from discontinued operations	–	–	(101)	(101)
Profit/(loss) for the period from discontinued operations	–	(1)	(85)	(86)
Profit for the period	44	(9)	–	35

[1] Before non-underlying items (Note 10)

Earnings per share	pence	pence	pence	pence
Basic earnings per ordinary share from continuing operations	6 5	(1 2)	12 6	17 9
Basic earnings per ordinary share from discontinued operations	–	–	(12 6)	(12 6)
Basic earnings per ordinary share	6 5	(1 2)	–	5 3
Diluted earnings per ordinary share from continuing operations	6 5	(1 2)	12 6	17 9
Diluted earnings per ordinary share from discontinued operations	–	–	(12 6)	(12 6)
Diluted earnings per ordinary share	6 5	(1 2)	–	5 3

Statement of Comprehensive Income	£m	£m	£m	£m
Profit for the period	44	(9)	–	35
Retirement benefit liabilities – actuarial movements	(126)	11	–	(115)
– tax	20	(2)	–	18
Items which will not subsequently be reclassified to the income statement	(106)	9	–	(97)
Items which will subsequently be reclassified to the income statement	244	–	–	244
Total comprehensive income for the period	182	–	–	182

Balance sheet				
Retirement benefit liabilities	(338)	5	–	(333)
Deferred tax assets	117	(1)	–	116
Net assets	1,309	4	–	1,313
Retained profits	248	4	–	252
Equity	1 309	4	–	1,313

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 2012.

39.2 Group

Categories of financial instruments

Group	**Loans and receivables at amortised cost cash and cash equivalents 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**	Loans and receivables at amortised cost cash and cash equivalents 2012 £m	Financial liabilities at amortised cost 2012 £m	Available-for-sale financial assets 2012 £m	Held to maturity financial assets 2012 £m	Derivatives 2012 £m
Financial assets										
Fixed rate bonds and treasury stock	–	–	–	**35**	–	–	–	–	42	–
Mutual funds	–	–	**60**	–	–	–	–	52	–	–
PPP financial assets	–	–	**455**	–	–	–	–	542	–	–
Cash and cash equivalents	**604**	–	–	–	–	542	–	–	–	–
Trade and other receivables	**1,256**	–	–	–	–	1,263	–	–	–	–
Derivatives	–	–	–	–	**2**	–	–	–	–	1
Total	**1,860**	–	**515**	**35**	**2**	1,805	–	594	42	1
Financial liabilities										
Liability component of preference shares	–	**(94)**	–	–	–	–	(92)	–	–	–
Trade and other payables	–	**(2,025)**	–	–	–	–	(2,130)	–	–	–
Unsecured borrowings	–	**(602)**	–	–	–	–	(478)	–	–	–
Secured borrowings	–	**(3)**	–	–	–	–	(4)	–	–	–
PPP non-recourse term loans	–	**(419)**	–	–	–	–	(393)	–	–	–
Derivatives	–	–	–	–	**(74)**	–	–	–	–	(143)
Total	–	**(3,143)**	–	–	**(74)**	–	(3,097)	–	–	(143)
Net	**1,860**	**(3,143)**	**515**	**35**	**(72)**	1,805	(3,097)	594	42	(142)
Current year comprehensive income/(expense) excluding share of joint ventures and associates	**19**	**(63)**	–	**2**	**65**	27	(46)	66	2	(12)

Derivatives

	Financial assets			**Financial liabilities**			Financial assets			Financial liabilities		
	Current 2013 £m	**Non-current 2013 £m**	**Total 2013 £m**	**Current 2013 £m**	**Non-current 2013 £m**	**Total 2013 £m**	Current 2012 £m	Non current 2012 £m	Total 2012 £m	Current 2012 £m	Non-current 2012 £m	Total 2012 £m
Foreign currency contracts												
Held for trading at fair value through profit and loss	**2**	–	**2**	**(4)**	–	**(4)**	1	–	1	(1)	–	(1)
Designated as cash flow hedges	–	–	–	**(1)**	–	**(1)**	–	–	–	(1)	–	(1)
Interest rate swaps												
Designated as cash flow hedges	–	–	–	**(14)**	**(55)**	**(69)**	–	–	–	(18)	(123)	(141)
	2	–	**2**	**(19)**	**(55)**	**(74)**	1	–	1	(20)	(123)	(143)

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

	PPP 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)**		

	PPP non-recourse project finance 2012 £m	Other borrowings 2012 £m	Other financial liabilities 2012 £m	Total non-derivative financial liabilities 2012 £m	Discount 2012 £m	Carrying value 2012 £m
Due on demand or within one year	(14)	(477)	(1,991)	(2,482)	13	(2,469)
Due within one to two years	(11)	(1)	(66)	(78)	13	(65)
Due within two to five years	(65)	(2)	(61)	(128)	48	(80)
Due after more than five years	(577)	(2)	(209)	(788)	305	(483)
	(667)	(482)	(2,327)	(3,476)	379	(3,097)
Discount	274	–	105	379		
Carrying value	(393)	(482)	(2,222)	(3,097)		

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 2013 £m	Receivable 2013 £m	Net payable 2013 £m	Payable 2012 £m	Receivable 2012 £m	Net payable 2012 £m
Due on demand or within one year	**(285)**	**263**	**(22)**	(205)	184	(21)
Due within one to two years	**(21)**	**7**	**(14)**	(27)	8	(19)
Due within two to five years	**(17)**	**4**	**(13)**	(60)	6	(54)
Due after more than five years	**(84)**	**–**	**(84)**	(121)	–	(121)
Total	**(407)**	**274**	**(133)**	(413)	198	(215)

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 2012

(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, Australian dollars, 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 At 31 December 2013 no individual entities within the Group had material financial assets or liabilities in a functional currency other than their own 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 146 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures

As at 31 December 2013, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £324m (2012 £274m) receivable and £325m (2012 £287m) payable with related cash flows expected to occur up to four (2012 five) 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 £63m (2012 £21m) receivable and £66m (2012 £23m) payable as cash flow hedges against highly probable cash flows which are expected to occur in up to four (2012 four) years Fair value gains on these contracts of £nil (2012 £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 (2012 £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 Exchange movements in the year totalled £19m (2012 £nil)

The hedging policy is reviewed periodically At the reporting date the only change to the hedging policies since 2012 was to designate the US private placement as a net investment hedge

(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 2013 and 2012, the Group's PPP 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 2013 totalled £357m (2012 £404m) with maturities that match the maturity of the underlying borrowings ranging from one year to 24 years At 31 December 2013, the fixed interest rates range from 4 3% to 5 1% (2012 4 2% 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 £2m increase (2012 £8m) /£3m decrease (2012 £9m) 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 (2012 £nil) increase/£1m (2012 £2m) decrease in the Group's net finance cost

39 FINANCIAL INSTRUMENTS CONTINUED

39 2 Group continued
(a) Market risk continued
(iii) Price risk management
The Group's principal price risk exposure arises in its Infrastructure Investments concessions At the commencement of the concession an element of the unitary payment by the client 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 cash equivalents, derivative financial instruments and credit exposures to clients, including outstanding receivables and committed transactions The Group has a policy of assessing the creditworthiness of potential clients before entering into transactions

For cash and cash equivalents 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 2013 £44m (2012 £37m) 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 client's credit quality based on its financial position, past experience and other factors The Group's most significant clients 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 client

The maximum exposure to credit risk in respect of the above at 31 December 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 147

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 31 December

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 Investment swaps is not considered 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 considered material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party

Level 3 – The fair value is based on unobservable inputs The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin by reference to the construction margin on non-PPP projects reflecting the construction risks retained by the construction contractor, and fair value of construction services performed In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long term gilt rates adjusted for the risk levels associated with the assets The consequent movement in the fair value is taken to other comprehensive income

There have been no transfers between these categories in the current or preceding year

39 FINANCIAL INSTRUMENTS CONTINUED

(c) Liquidity risk continued

Fair value estimation continued

Financial instruments at fair value	Level 1 2013 £m	Level 2 2013 £m	Level 3 2013 £m	Total 2013 £m	Level 1 2012 £m	Level 2 2012 £m	Level 3 2012 £m	Total 2012 £m
Available-for-sale mutual fund financial assets	60	–	–	60	52	–	–	52
Available-for-sale PPP financial assets	–	–	455	455	–	–	542	542
Financial assets – foreign currency contracts	–	2	–	2	–	1	–	1
Total assets measured at fair value	60	2	455	517	52	1	542	595
Financial liabilities – foreign currency contracts	–	(5)	–	(5)	–	(2)	–	(2)
Financial liabilities – interest rate swaps	–	(69)	–	(69)	–	(141)	–	(141)
Total liabilities measured at fair value	–	(74)	–	(74)	–	(143)	–	(143)

In respect of the Level 3 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 £22m increase (2012 £28m)/£21m decrease (2012 £26m) in the fair value of the assets taken through other comprehensive income A reasonably possible change in the attributable profit margin would not have a significant effect on the value of the asset Refer to Note 20 for a reconciliation of the movement of the opening balance to the closing balance

The carrying values less impairment provision of trade and other receivables and payables approximate their fair values due to their short term nature The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments

39 3 Company

Categories of financial instruments

Company	Loans and receivables at amortised cost, cash and cash equivalents 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	Loans and receivables at amortised cost cash and cash equivalents 2012 £m	Financial liabilities at amortised cost 2012 £m	Available for-sale financial assets 2012 £m	Held to maturity financial assets 2012 £m	Derivatives 2012 £m
Financial assets										
Cash and cash equivalents	–	–	–	–	–	43	–	–	–	–
Trade and other receivables	1,278	–	–	–	–	1,169	–	–	–	–
Derivatives	–	–	–	–	4	–	–	–	–	2
Total	1,278	–	–	–	4	1,212	–	–	–	2
Financial liabilities										
Liability component of preference shares	–	(94)	–	–	–	–	(92)	–	–	–
Trade and other payables	–	(1,349)	–	–	–	–	(1,474)	–	–	–
Unsecured borrowings	–	(318)	–	–	–	–	(466)	–	–	–
Derivatives	–	–	–	–	(7)	–	–	–	–	(3)
Total	–	(1,761)	–	–	(7)	–	(2,032)	–	–	(3)
Net	1,278	(1,761)	–	–	(3)	1,212	(2,032)	–	–	(1)
Current year comprehensive income/(expense)	5	(42)	–	–	–	6	(35)	–	–	–

Derivatives

	Financial assets Current 2013 £m	Financial assets Non-current 2013 £m	Financial assets Total 2013 £m	Financial liabilities Current 2013 £m	Financial liabilities Non-current 2013 £m	Financial liabilities Total 2013 £m	Financial assets Current 2012 £m	Financial assets Non-current 2012 £m	Financial assets Total 2012 £m	Financial liabilities Current 2012 £m	Financial liabilities Non-current 2012 £m	Financial liabilities Total 2012 £m
Held for trading at fair value through profit and loss	4	–	4	(6)	(1)	(7)	2	–	2	(2)	(1)	(3)

The Company is responsible for executing all of the Group's external derivative contracts, except for those in relation to PPP 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 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)**		

	Borrowings 2012 £m	Other financial liabilities 2012 £m	Total non derivative financial liabilities 2012 £m	Total discount 2012 £m	Carrying value 2012 £m
Due on demand or within one year	(466)	(1,461)	(1,927)	12	(1,915)
Due within one to two years	–	(11)	(11)	11	–
Due within two to five years	–	(35)	(35)	32	(3)
Due after more than five years	–	(161)	(161)	47	(114)
	(466)	(1,668)	(2,134)	102	(2,032)
Discount	–	102	102		
Carrying value	(466)	(1,566)	(2,032)		

Derivative financial liabilities gross maturity

Maturity profile of the Company's derivative financial liabilities at 31 December

	Payable 2013 £m	Receivable 2013 £m	Payable 2012 £m	Receivable 2012 £m
Due on demand or within one year	**(315)**	**313**	(245)	195
Due within one to two years	**(14)**	**14**	(4)	4
Due within two to five years	**(6)**	**6**	(3)	4
Due after more than five years	**(56)**	**54**	–	–
Total	**(391)**	**387**	(252)	203

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, Australian dollar, 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 £10m (2012 £8m) 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
Connect Roads Infrastructure Investments Ltd	7276835
Consort Healthcare Infrastructure Investments Ltd	6859623
Dean & Dyball Rail Ltd	5503947
EIMCO Ltd	3159250
Heery International Ltd	2759565
Painter Brothers Ltd	238081
Parsons Brinckerhoff Group Holdings Ltd	3515454
Parsons Brinckerhoff Holdings Ltd	3640733
Parsons Brinckerhoff Investments Ltd	3599313
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	
Professional, Construction and Support Services	
Balfour Beatty Civil Engineering Ltd	
Balfour Beatty Construction Group Inc	US
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	
Parsons Brinckerhoff (Asia) Ltd	Hong Kong
Parsons Brinckerhoff Australia Pty Ltd	Australia
Parsons Brinckerhoff Group Inc	US
Parsons Brinckerhoff Inc	US
Parsons Brinckerhoff International Pte Ltd	Singapore
Parsons Brinckerhoff Ltd	
Infrastructure Investments (refer Note 41)	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Investments Ltd	
Other	
Balfour Beatty Group Inc	US
Balfour Beatty Investment Holdings Ltd*	
Balfour Beatty LLC	US
Delphian Insurance Company Ltd*	Isle of Man

	Country of incorporation or registration	Ownership interest %
(b) Principal joint ventures and associates		
Professional, Construction and Support services		
BK Gulf LLC	Dubai	49 0
Dutco Balfour Beatty LLC	Dubai	49 0
Gammon China Ltd	Hong Kong	50 0
Denver Transit Constructors LLC	US	30 0

(c) Principal jointly controlled 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 12 road and street lighting projects under Balfour Beatty's Connect brand 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 by Connect 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, 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 a 50% 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

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Connect M77/GSO plc which conducts its 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 five hospital projects under Balfour Beatty's Consort Healthcare brand 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 client at the end of the concession, with the exception of Edinburgh Royal Infirmary where the client 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 (Durham) Ltd	Teaching hospital	90	50%	March 1998	30	2001
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 (Mid Yorkshire) Ltd	Pinderfields and Pontefract general hospitals	311	50%	June 2007	35	2010
Consort Healthcare (Fife) Ltd	General hospital	170	50%	April 2009	30	2011

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 and Consort Healthcare (Fife) Ltd which are registered 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 nine schools projects principally under Balfour Beatty's Transform Schools brand 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 is subcontracted to construction joint ventures of Balfour Beatty subsidiaries and the facilities management services are subcontracted to a Balfour Beatty subsidiary (disposed of in the year) Construction and facilities management services on Aura Newcastle are carried out by subsidiaries of other shareholders 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 Schools (Knowsley) Ltd	BSF	163	100%	December 2007	27	2010
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 The Powerlink project comprises two companies UK Power Networks Services Powerlink Ltd (UKPNSPL), which operated the London Underground high voltage power system under a 30-year contract and was responsible for procuring various new power assets, and Power Asset Development Company Ltd (PADCO), which constructed the new-build power assets and leased them to UKPNSPL 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 new 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

Contractual arrangements For the Powerlink project the principal project agreement is the power services contract between UKPNSPL and London Underground Ltd (LUL) that provided for an inflation-indexed availability payment subject to any performance deductions UKPNSPL operates and maintains the power network using its own staff and is leasing the new power assets from PADCO, which subcontracted construction to a construction joint venture in which the Group had a 40% interest LUL has exercised its right to terminate the contract in August 2013 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 and facility management services are 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 client 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 Greater Gabbard OFTO Ltd 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 At Aberystwyth the unitary payment is based upon availability subject to any performance related deductions At Edinburgh the unitary payment is based upon fluctuations in rental demand and subject to any performance related deductions

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
UK Power Networks Services Powerlink Ltd (ii)/ Power Asset Development Company Ltd	London Underground power system	184	10%/25%	August 1998	30	2006
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

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 and conducts its principal operations in Singapore

(ii) The Group exercises significant influence through its participation in the management of UK Power Networks Services Powerlink Ltd and therefore accounts for its interest as an associate

(e) UK developer projects

Summary Balfour Beatty is an investor in and a promoter and developer of other PPP infrastructure investments

Project descriptions The Project involves the design, construction, financing, operation and maintenance of a 9 3 MW waste wood gasifier located at Tyseley Energy Park, Birmingham

Company (i)	Project	Total project funding £m	Shareholding	Financial close
Birmingham Bio Power	Waste wood gasifier	53	37 5%	December 2013

Notes

(i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales

(ii) Shareholding quoted is economic interest

(f) 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 54 US government military bases which includes 54 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 42,500 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

(f) 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 privatisation project (i)(ii)	Bases	Total project funding £m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson	Army base	107	November 2003	46	2004
– Fort Carson expansion		79	November 2006	43	2010
– Fort Carson GTA expansion		60	April 2010	39	2013
Fort Stewart/Hunter Airfield	Two army bases	229	November 2003	50	2012
Fort Hamilton	Army base	37	June 2004	50	2009
Walter Reed Army Medical Center/Fort Detrick	Two army bases	68	July 2004	50	2008
Navy Northeast Region	Seven navy bases	301	November 2004	50	2010
Fort Eustis/Fort Story	Two army bases	106	March 2005	50	2011
– Fort Eustis expansion		5	July 2010	45	2011
– Fort Eustis – Marseilles Village		16	March 2013	42	2015
Fort Bliss/White Sands Missile Range	Two army bases	259	July 2005	50	2011
– Fort Bliss expansion		29	December 2009	46	2011
– Fort Bliss GTA expansion phase I		99	July 2011	44	2014
– Fort Bliss GTA expansion phase II		89	November 2012	43	2016
Fort Gordon	Army base	66	May 2006	50	2012
Carlisle/Picatinny	Two army bases	51	July 2006	50	2011
– Carlisle Heritage Heights phase II		13	October 2012	44	2014
AETC Group 1	Four air force bases	217	February 2007	50	2012
Navy Southeast Region	11 navy bases	346	November 2007	50	2013
Vandenberg	Air force base	94	November 2007	50	2012
Fort Leonard Wood	Army base	143	Acquired June 2008	47	2014
AMC West	Three air force bases	266	July 2008	50	2015
West Point	Army base	133	August 2008	50	2016
Fort Jackson	Army base	110	October 2008	50	2013
Lackland	Air force base	68	Acquired December 2008	50	2013
Western Group	Four air force bases	199	March 2012	50	2017
Northern Group	Six air force bases	261	August 2013	50	2019
Military unaccompanied personnel housing					
Fort Stewart UPH		22	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

41 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CONTINUED

(g) Balfour Beatty Investments UK and North America

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 further 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 project The principal contracts in the 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

Student accommodation project (i)	Project	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
Florida Atlantic University	Student accommodation	61	(ii)	March 2010	30	2011
University of Iowa	Student accommodation	19	100%	June 2013	41	2014
University of Nevada, Reno	Student accommodation	13	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

(h) Total future committed equity and debt funding for Infrastructure Investments' project companies

Concessions	2014 £m	2015 £m	2016 £m	2017 onwards £m	Total £m
UK					
Roads	–	6	11	–	17
Hospitals	–	–	–	–	–
Schools	4	–	–	–	4
Student accommodation	2	13	1	–	16
Infrastructure	–	–	–	–	–
Other UK	57	10	21	–	88
	63	29	33	–	125
North America					
Military housing	2	–	2	–	4
Student accommodation	8	–	–	–	8
	10	–	2	–	12
	73	29	35	–	137
Projects at preferred bidder stage	50	–	–	–	50
Projects at financial close	23	29	35	–	87
Total	73	29	35	–	137

(i) UK airport project

Summary Balfour Beatty is an investor in and a promoter of an airport investment

Project descriptions Blackpool Airport Ltd owns and operates Blackpool International Airport

Company (i)	Project	Total project funding £m	Shareholding	Financial close
Blackpool Airport Ltd (ii)	Blackpool International Airport	14	95%	May 2008

Notes
(i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales
(ii) Shareholding quoted is economic interest

UNAUDITED GROUP FIVE-YEAR SUMMARY

	2013 £m	2012^ £m	2011^ £m	2010^ £m	2009^ £m
Income					
Revenue including share of joint ventures and associates	**10,118**	9,966	10,036	9,519	9,385
Share of revenue of joint ventures and associates	**(1,373)**	(1,310)	(1,382)	(1,086)	(1,148)
Group revenue from continuing operations	**8,745**	8,656	8,654	8,433	8,237
Underlying profit from continuing operations	**203**	284	303	291	234
Underlying net investment income/(finance costs)	**(16)**	(7)	(11)	(26)	(13)
Underlying profit before taxation	**187**	277	292	265	221
Amortisation of acquired intangible assets	**(30)**	(39)	(57)	(80)	(45)
Other non-underlying items	**(125)**	(91)	(21)	(21)	33
Profit from continuing operations before taxation	**32**	147	214	164	209
Taxation on profit from continuing operations	**(15)**	(26)	(52)	(37)	(42)
Profit from continuing operations after taxation	**17**	121	162	127	167
Profit/(loss) from discontinued operations after taxation	**(52)**	(86)	11	9	45
Profit for the year attributable to equity holders	**(35)**	35	173	136	212
Capital employed					
Equity holders' funds	**1,033**	1,310	1,259	1,156	995
Liability component of preference shares	**94**	92	91	89	88
Net borrowings/(cash)	**420**	333	(8)	(248)	(324)
	1,547	1,735	1,342	997	759

	2013 Pence	2012 Pence	2011 Pence	2010 Pence	2009 Pence
Statistics					
Underlying earnings per ordinary share from continuing operations*	**20 0**	31 7	31 2	36 7	28 1
Basic (loss)/earnings per ordinary share from continuing operations	**(5 1)**	17 9	23 7	26 3	29 3
Diluted (loss)/earnings per ordinary share from continuing operations	**(5 1)**	17 9	23 7	26 2	29 2
Proposed dividends per ordinary share	**14 10**	14 10	13 80	12 70	11 99
Underlying profit from continuing operations before net investment income/(finance costs) including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	**2 0%**	2 8%	3 0%	3 1%	2 5%

Notes
* Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group s underlying trading performance
^ Prior years 2009 2012 have been
  - Restated to reflect the effects of IAS 19 Employee Benefits (Revised) (Note 38)
  - Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38)

SHAREHOLDER INFORMATION

Financial calendar

	2014
23 April	Ex-dividend date for final 2013 ordinary dividend
25 April	Final 2013 ordinary dividend record date
15 May	Annual General Meeting
21 May	Ex-dividend date for July 2014 preference dividend
23 May	July 2014 preference dividend record date
4 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
4 July*	Final 2013 ordinary dividend payable
14 August*	Announcement of 2014 half-year results
5 December*	Interim 2014 ordinary dividend payable

* Provisional dates

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 8 30 am to 5 30 pm, UK time) Alternatively, you can email shareholder services@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, 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 http //www fca org uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-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 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

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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 20 to 23 of this document

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130 Wilton Road
London SW1V 1LQ

Telephone +44 (0) 20 7216 6800
Facsimile +44 (0) 20 7216 6950

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