

Balfour Beatty

CONNECTING COMMUNITIES

Annual Report and
Accounts 2013



BALFOUR BEATTY ANNUAL REPORT AND ACCOUNTS 2013 INTERACTIVE PDF

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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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FINANCIAL PERFORMANCE

Group revenue

+1%

2013	£8,745m
2012	£8,656m
2011	£8,654m

Pre-tax profit¹

-32%

2013	£187m
2012	£277m
2011	£292m

Underlying earnings per share¹

-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:

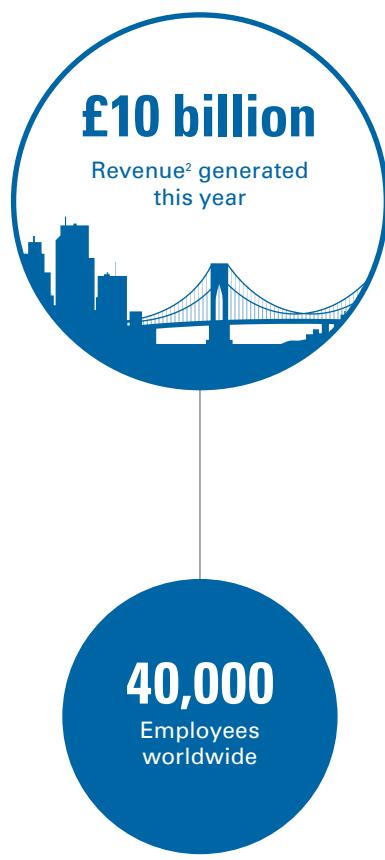
Infrastructure

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

Complex buildings

- Commercial
- Social

↳ Business Model p6



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



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
Revenue²

£21m
Profit from operations¹

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
Revenue²

£55m
Profit from operations¹

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
Revenue²

£132m
Pre-tax result¹

¹ From continuing operations before non-underlying items.

² From continuing operations including joint ventures and associates.

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.



SUSTAINABILITY a collective responsibility

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

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](#)

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:

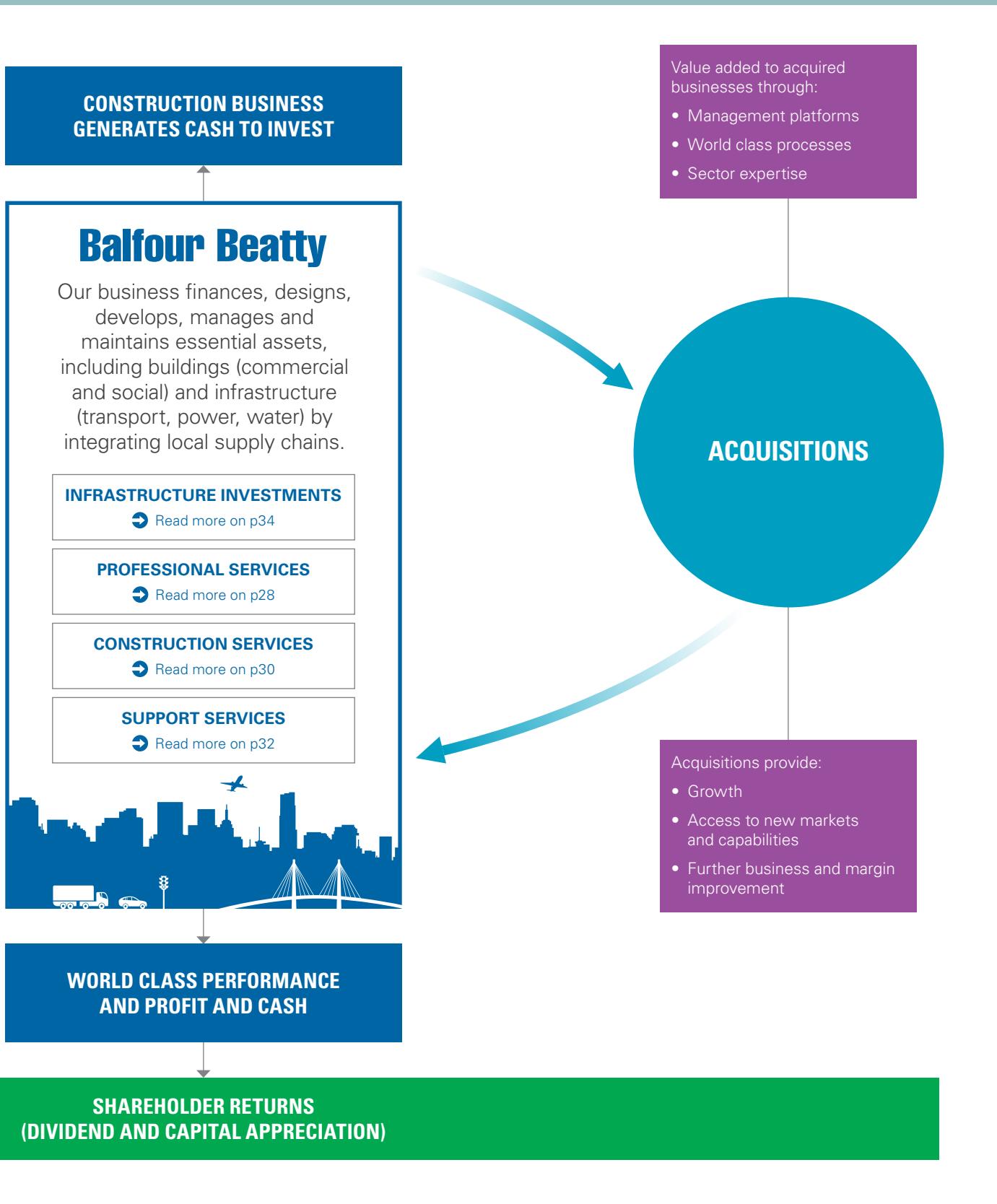
- Higher win rates
- Greater delivery reliability

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.



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 trillion¹.

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 2012² in the final five months of the year and forecasters are now, on average, expecting the construction market to grow by 7% pa to 2016³. 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 2050⁴) which increases infrastructure requirements. Non-OECD markets are forecast to rise from 55% of global infrastructure spending in 2013 to 70% in 2025⁵. GDP growth will certainly outperform in the medium term, with forecasts expecting +3% pa over mature markets to 2018⁶.

£12 trillion

Over the next five years alone, the global infrastructure market is estimated to be worth £12 trillion¹.



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.

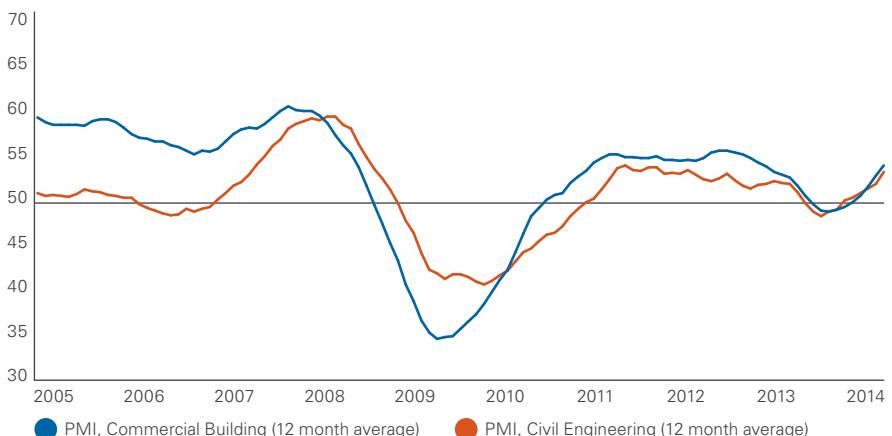
² Markit/CIPS, UK Construction Purchasing Manager's Index, December 2013.

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 2013–2014⁷. 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 2011–2012⁸.

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 2011⁹, as well as the IMF forecasting >5% nominal GDP growth to 2018¹⁰, 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 2018¹⁰. 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 US¹¹.

⁷ ACIF, Australian Construction Forecast, September 2013.

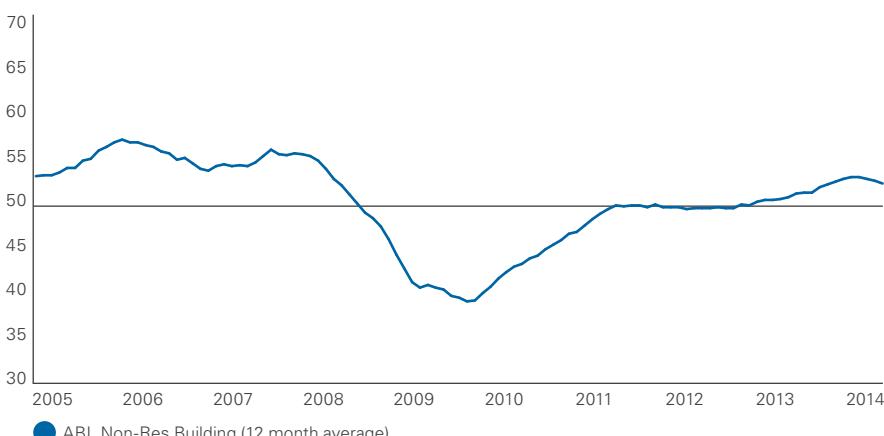
⁸ Australian Bureau of Statistics, Engineering Work Done, December 2013.

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.

Figure 2: American Institute of Architects, US Architecture Billings Index



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%



Revenue¹ from target market sectors (transport, power & energy, water and mining) as Group %.

+1%



Revenue¹ from higher growth markets (outside Europe and North America) as Group %.

+0%



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**
7.4 out of 10

(2012: 7.7, 2011: 8.0)

**Construction
US**
4.5 out of 5

(2012: 4.6, 2011: 4.6)

**Infrastructure
Investments**
3.7 out of 5

(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

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

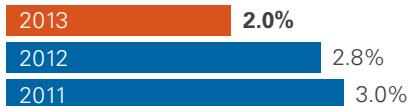
How do we measure progress and how are we performing?

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%

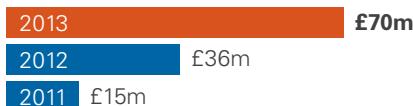


Cost efficiencies

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



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%



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%



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 CO₂e/£m).

Read more on p41

-12%



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

+4%
increase in order book in target sectors

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.

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

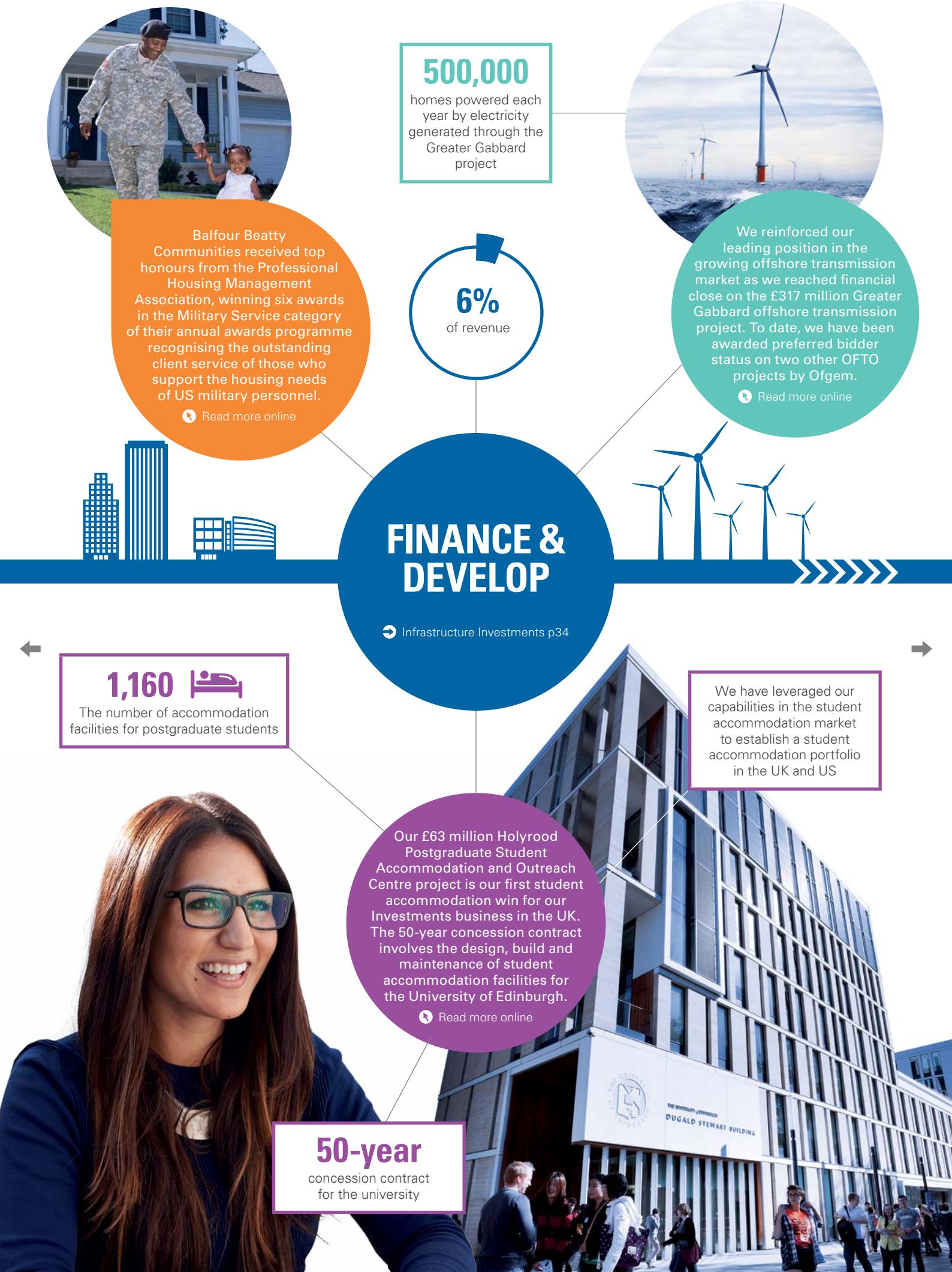


Image courtesy of
Shanghai Tower
Construction
Development
Co., Ltd



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](#)



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](#)



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

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

Strategic objective

DELIVER GREATER VALUE TO CLIENTS

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



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

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.

Apprenticeships

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



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](#)

65%
of revenue

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](#)



CONSTRUCT & COMMISSION

Construction Services p30

1.6km

The Southern Connection Viaduct Section includes a 1.6km dual two-lane sea viaduct

1,500

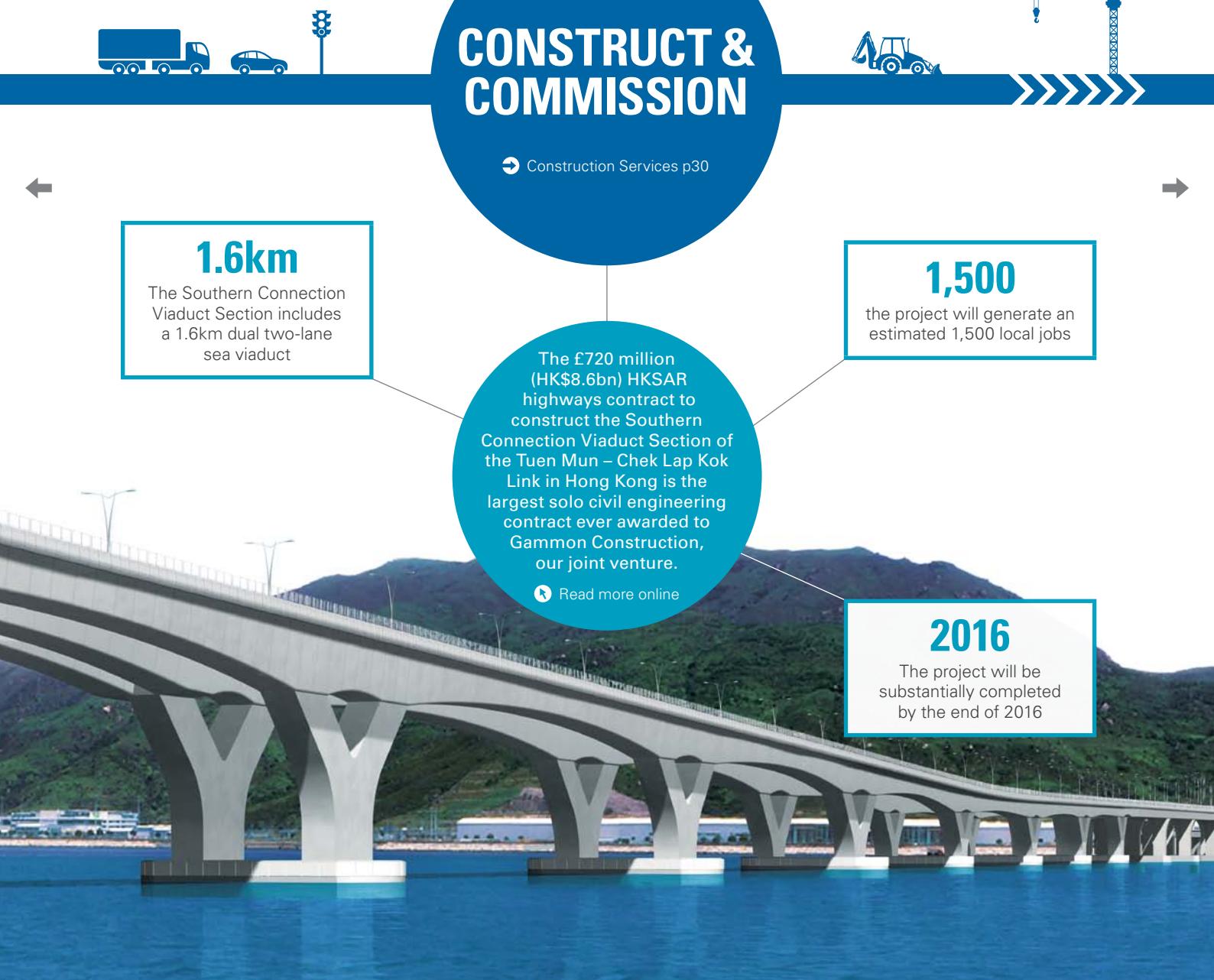
the project will generate an estimated 1,500 local jobs

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](#)

2016

The project will be substantially completed by the end of 2016



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

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

£91 million

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

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



13%
of revenue

 Read more online



55 tonnes

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

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

 Read more online

 Read more online

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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



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: <ul style="list-style-type: none"> • 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.	

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: <ul style="list-style-type: none"> • 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	What impact it might have	
<p>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.</p>	<p>What impact it might have</p> <p>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.</p> <p>In the event of disagreement with, failure of, or poor delivery performance by a joint venture partner, we could face financial and reputational risks.</p> <p>If any of the assumptions behind investment decisions prove incorrect, the profitability of those investments could be reduced.</p>	
How the risk may manifest itself	How it is mitigated	
<ul style="list-style-type: none"> • 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. 	<p>All bids are subject to rigorous estimating and tendering processes within a defined framework.</p> <p>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).</p> <p>Governance p61</p> <p>We conduct reviews following successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders.</p> <p>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.</p> <p>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.</p>	

PROJECT EXECUTION		No change to Risk ➔
Risk description	What impact it might have	
<p>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.</p> <p>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.</p>	<p>What impact it might have</p> <p>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.</p> <p>Execution failure on a high profile project could result in significant reputational damage and costs.</p>	
How the risk may manifest itself	How it is mitigated	
<ul style="list-style-type: none"> • 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. 	<p>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.</p> <p>We monitor the performance of joint ventures, joint venture partners, sub contractors and suppliers throughout the life of a project.</p>	

PRINCIPAL RISKS CONTINUED

SUPPLY CHAIN RISKS		Increased Risk ↑
<p>Risk description</p> <p>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.</p>	<p>What impact it might have</p> <p>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.</p> <p>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.</p> <p>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.</p>	
<p>How the risk may manifest itself</p> <ul style="list-style-type: none"> 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. 	<p>How it is mitigated</p> <p>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.</p> <p>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.</p>	

IMPORTANT RISKS WE FACE, COMMON TO MANY OTHER BUSINESSES.

PEOPLE		Increased Risk ↑
<p>Risk description</p> <p>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.</p>	<p>What impact it might have</p> <p>Failure to recruit and retain appropriately skilled people could harm our ability to win or perform specific contracts and grow our business.</p>	
<p>How the risk may manifest itself</p> <ul style="list-style-type: none"> 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. 	<p>How it is mitigated</p> <p>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.</p> <p>↳ The way we work p40</p>	

BUSINESS CONDUCT/COMPLIANCE		Increased Risk ↑
<p>Risk description</p> <p>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.</p>	<p>What impact it might have</p> <p>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.</p> <p>↳ The way we work p39</p>	
<p>How the risk may manifest itself</p> <ul style="list-style-type: none"> 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. 	<p>How it is mitigated</p> <p>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.</p> <p>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.</p>	

LEGAL AND REGULATORY		No change to Risk
Risk description <p>We operate in diverse territories and our businesses are subject to a variety of complex, demanding and evolving legal, tax and regulatory requirements.</p>	What impact it might have <p>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.</p>	
How the risk may manifest itself <ul style="list-style-type: none"> • 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 <p>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.</p> <p>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.</p>	

EXPANSION INTO NEW TERRITORIES AND MARKETS AND BY ACQUISITION		Reduced in Risk
Risk description <p>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.</p>	What impact it might have <p>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.</p> <p>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.</p>	
How the risk may manifest itself <p>New geographies</p> <ul style="list-style-type: none"> • 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 <p>New sectors and work-types</p> <ul style="list-style-type: none"> • Higher risk/higher return design/build projects <p>Acquisitions and partnerships</p> <ul style="list-style-type: none"> • Integration of acquisitions and performance to business plan • Partner performance, creditworthiness and ethics <p>Inherited liabilities</p> <ul style="list-style-type: none"> • Problem liabilities • Unethical past practice • Unaccounted for liabilities eg tax. 	How it is mitigated <p>New geographies</p> <p>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.</p> <p>Acquisitions and partnerships</p> <p>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.</p>	

SUSTAINABILITY		Increased Risk
Risk description <p>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.</p>	What impact it might have <p>Failure to address these risks and to execute projects sustainably could result in significant potential liabilities, reputational damage and inability to win future work.</p>	
How the risk may manifest itself <ul style="list-style-type: none"> • 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 <p>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.</p> <p>↳ The way we work p41 to p42</p>	

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).

	2013 £m	2012 £m
Year ended 31 December		
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.

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

	2013	2012	Change (%)
Results for the year from continuing operations			
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)%

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

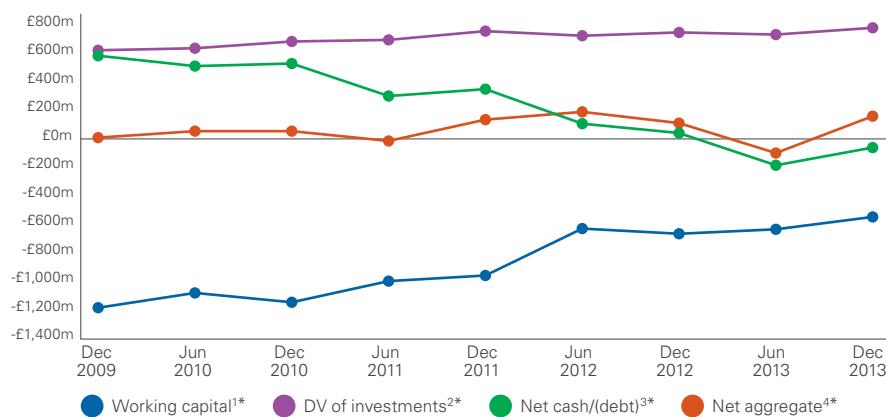
The Group is exposed to foreign currency risk primarily in the US, Asia-Pacific, and the Middle East. Based on the geographical split of the Group a one cent movement in the US\$:£ exchange rate would impact profit from operations by approximately £0.8 million. The average exchange rate for 2013 was \$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

Maintaining strength



1 June 2013 and earlier figures restated to exclude provisions greater than 1 year.

2 Directors' valuation of PPP concessions.

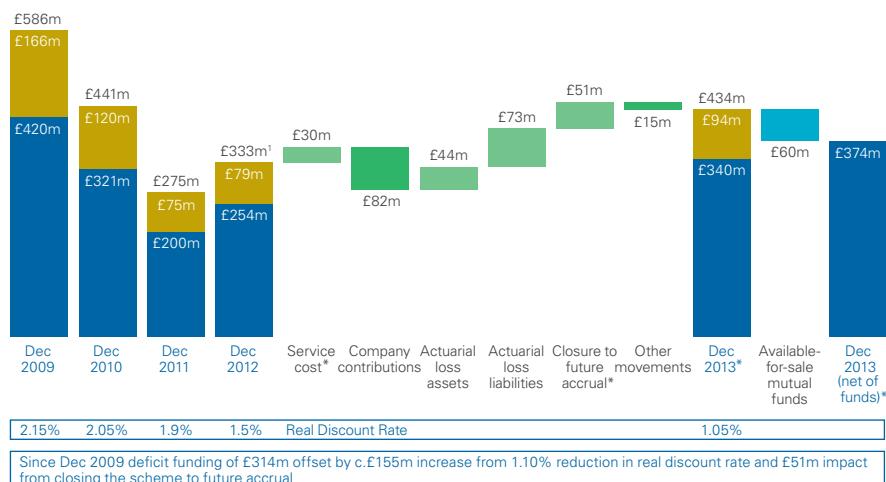
3 Excluding net debt of PPP subsidiaries (non-recourse).

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



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.

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.

Performance review

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 Mashaer.

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 (\$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

\$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

Performance review

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.

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 Gáis.

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

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



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

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

£82m

strong financial performance
including £82 million
in disposal gains

can suffer from planning delays. 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, Bassettlaw, 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

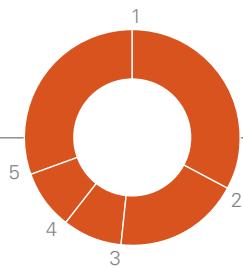
Birmingham), 50% shareholdings in two hospitals (Tameside and Salford), 75% of our 100% shareholding in Carlisle Northern Development Route and 65% of our 85% shareholding in the A30/A35 concession. In each case the value realised was substantially above the Directors' valuation.

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.

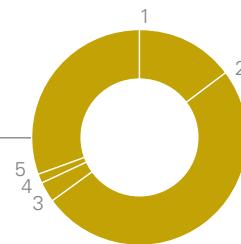
We were also appointed preferred bidder on two student accommodation projects in the US but these have not been included in the Directors' valuation

Portfolio valuation December 2013

Value by sector



Value by phase



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

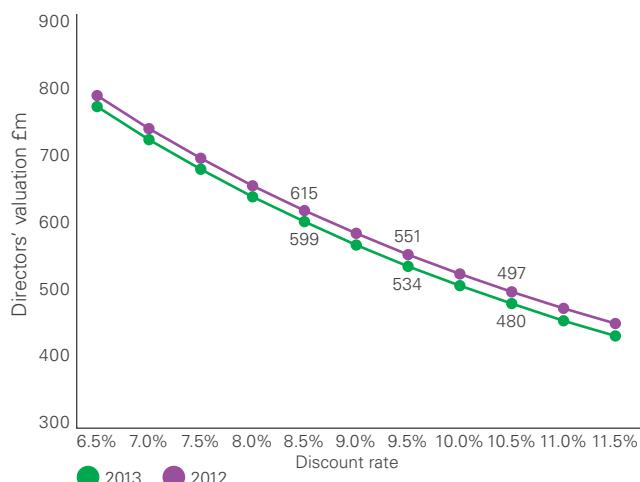
- LESS the effect of foreign exchange movements on our portfolio value.

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).

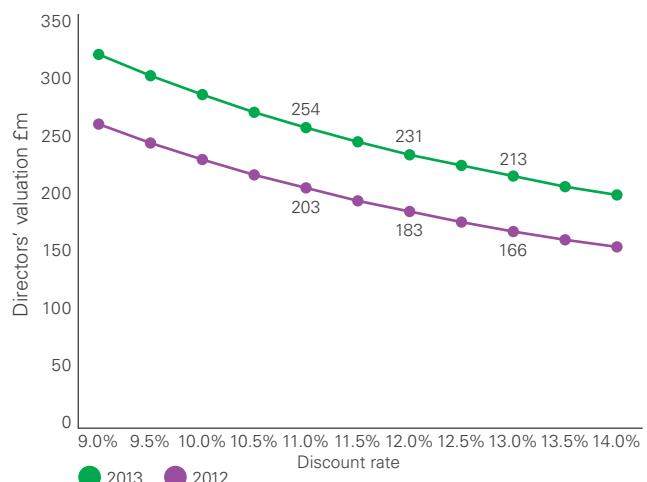
The graphs below give the value of each portfolio over a range of pre shareholder tax discount rates.

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

2013	276
2012	273
2011	280

Number of Ethics Helpline cases (excluding HR grievances)

205

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.

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



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.

	Male	Female	Total	% male	% female
PLC board	8	2	10	80	20
Directors of subsidiaries	423	42	465	91	9
Senior Management¹	163	24	187	87	13
Group	30,117	8,495	38,612²	78	22

¹ Members of Group Head Office and Divisional Senior Leadership teams.

² Excluding discontinued operations.

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 2¹ emissions by 31,459 tonnes of CO₂ equivalent (CO₂e) by 7%.

Our CO₂e emissions/£m turnover dropped from 42.4 tonnes of CO₂e/£m to 35.6 tonnes of CO₂e/£m since 2010.

In the UK, our Scope 1 and 2 emissions have come down from 264,343 tonnes of CO₂e in 2010 to 192,231 tonnes of CO₂e 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 CO₂ 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 ₂ e			
	Base year 2010	2011	2012	2013
Scope 1	347,011	361,994	331,823	305,398^a
Scope 2	119,058	135,830	133,938	129,212^a
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 CO₂e/£m).

-12%



CDP

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

+12%



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%



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%



THE WAY WE WORK CONTINUED

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 (CO₂e).

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](#)



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.



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.

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.



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.

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.

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

Andrew McNaughton
Chief Executive



SUSTAINABILITY Healthy Communities
balfourbeatty.com/sustainability

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

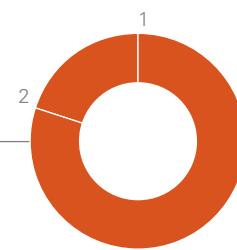
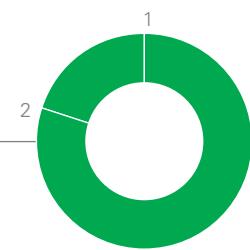
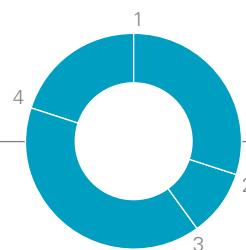
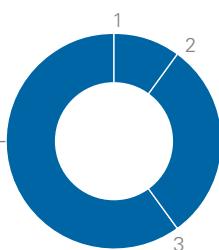
1 0–2 years	3
2 2–4 years	1
3 4–6 years	4
4 6+ years	2

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	●					

DIRECTORS' REPORT CONTINUED

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

DIRECTORS' REPORT CONTINUED

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	<p>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.</p> <p>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.</p>
Development of competitive benchmarking	<p>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.</p>
Improvements to forecasting, the oversight of risk and the internal audit function	<p>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.</p> <p>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.</p>

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.

DIRECTORS' REPORT CONTINUED

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

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.

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

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](#)

DIRECTORS' REPORT CONTINUED

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

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.

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

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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.

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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.

DIRECTORS' REPORT CONTINUED

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	<ul style="list-style-type: none"> Responsible for the Group's systems of risk management and internal control Determines Group appetite for risk in achieving its strategic objectives 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Regularly reviews the effectiveness of Group internal controls, including systems to identify, assess, manage and monitor risks 	<ul style="list-style-type: none"> Receives regular reports on internal and external audit and other assurance activities Annually assesses Group risk management and internal control systems
Business Practices Committee	<ul style="list-style-type: none"> Reviews Group management of non-financial risks such as health and safety, sustainability, employee engagement, values, ethics and compliance 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Reviews and approves tenders and investments, triggered by certain financial thresholds or other risk factors 	<ul style="list-style-type: none"> Critically appraises significant tender proposals and investment/divestment opportunities, with a specific focus on risk
2. Group management	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Strategic plan and annual budget process Reviews risk management and assurance activities and processes Monthly/quarterly finance and performance reviews
3. Divisional management	<ul style="list-style-type: none"> Responsible for risk management and internal control systems within their division Ensures that business units' responsibilities are discharged 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Maintains an effective system of risk management and internal control within their business unit and projects 	<ul style="list-style-type: none"> 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

DIRECTORS' REPORT CONTINUED

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](#)

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



DIRECTORS' REPORT CONTINUED

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:

- ➊ Consideration of shareholders' views p69
- ➋ Consideration of employment conditions elsewhere in the Group p69
- ➌ Summary Directors' remuneration policy from the 2014 AGM onwards p70 and p71
- ➍ Remuneration scenarios for executive Directors p72
- ➎ Recruitment and promotion policy for executive Directors p72
- ➏ Service agreements and payments for loss of office for executive Directors p73
- ➐ External appointments of executive Directors p73
- ➑ Appointment of non-executive Directors p73

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.

DIRECTORS' REMUNERATION POLICY REPORT CONTINUED

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: <ul style="list-style-type: none">• 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:

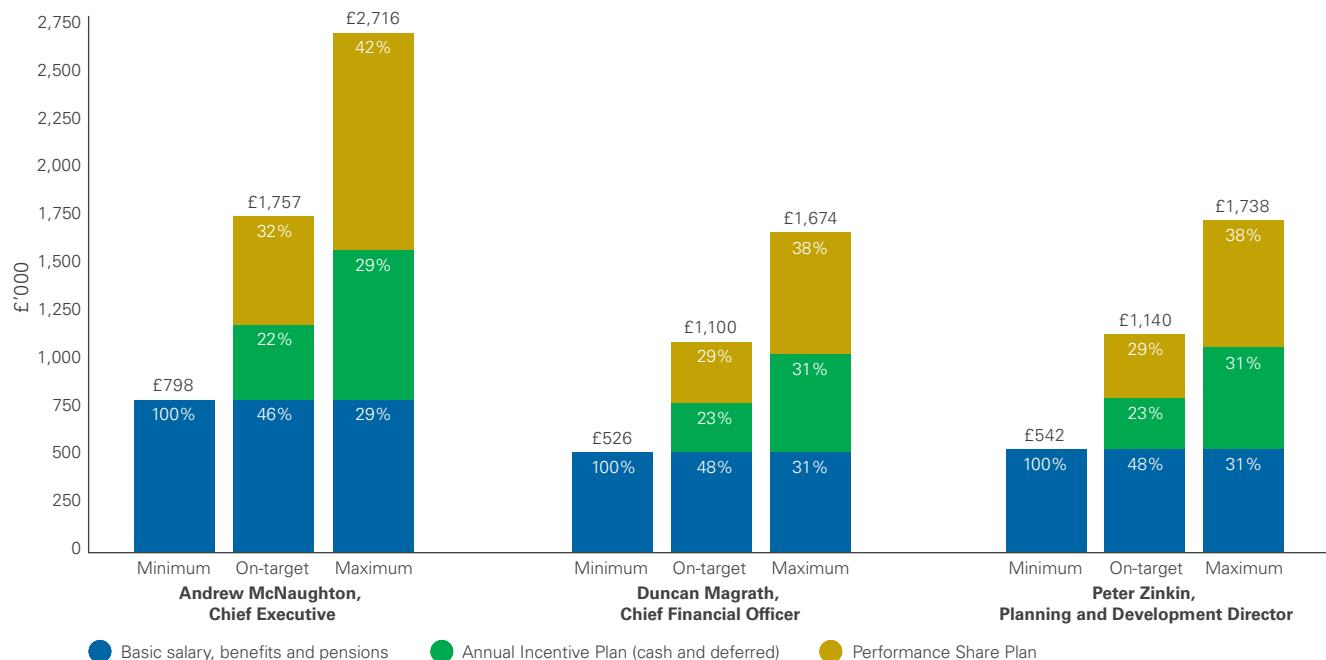
1. Directors may also participate in the all-employee share schemes up to prevailing HMRC Limits.
2. The AIP is primarily, if not solely, based on PBT although other Group-based measures which are set to reflect the business strategy may be included. The Remuneration Committee reviews these measures 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
<p>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.</p> <p>Current salary levels are disclosed on page 75.</p>	<p>A number of factors are considered, notably market competitiveness, business and personal performance.</p>
<p>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.</p>	<p>None</p>
<p>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.</p> <p>If a salary supplement alone is taken, this is equivalent to 20% of base salary.</p>	<p>None</p>
<p>Maximum annual incentive opportunity is 120% of base salary.</p>	<p>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.</p> <p>Measures are reviewed each year and varied as appropriate to reflect the strategy.</p>
<p>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.</p>	<p>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.</p> <p>There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance.</p>
<p>-</p>	<p>None</p>

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 p75
- ⌚ Remuneration received by Directors for the year ended 31 December 2013 p76
- ⌚ AIP awards for the year ended 31 December 2013 p77
- ⌚ Vesting of PSP awards for the year under review p77
- ⌚ Outstanding share awards p78
- ⌚ Long term incentive awards granted during the year p79
- ⌚ Payments for loss of office p79
- ⌚ Payments to past Directors p79
- ⌚ Statement of Directors' shareholdings and share interests p80
- ⌚ Performance graph p80
- ⌚ Chief Executive's remuneration table p81
- ⌚ Percentage change in Chief Executive's remuneration p81
- ⌚ Relative importance of spend on pay, dividends and underlying pre tax profit p81
- ⌚ Directors' pensions and pension allowances p82 and p83
- ⌚ External appointments of executive Directors p84
- ⌚ Consideration by the Directors of matters relating to Directors' remuneration p84
- ⌚ Statement of shareholder voting at AGM p84



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:

	1 July 2012 ¹ £	1 July 2013 £	% increase
Base salary			
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 ⁶ £	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 £220m Budget £245m Maximum £294m	£187.0m	84%	0	0	0
Delivery of cost efficiencies ¹	Threshold £54.8m Maximum £64.8m	£61.0m	12%	9.72%	0	9.72%
Strength of order book ²	Threshold £8,184m Budget £9,093m Maximum £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	Maximum number of shares subject to award					Exercisable and/or vesting from	Exercise price
			At 1 January 2013	Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2013		
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.

ANNUAL REPORT ON REMUNERATION CONTINUED

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.

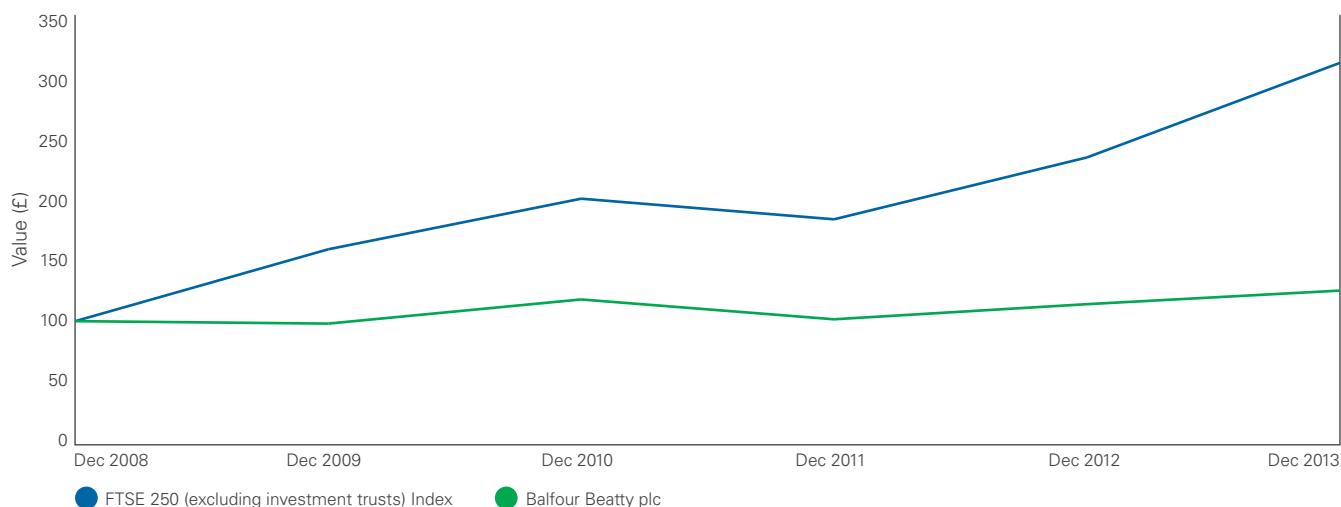
⁴ As at 5 March 2014, there have been no changes to the above other than in respect of investments under the Share Incentive Plan which increased by 83 shares for each of Duncan Magrath, Andrew McNaughton and Peter Zinkin.

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.

	2009	2010	2011	2012	Year ending in 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	650²	(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.

ANNUAL REPORT ON REMUNERATION CONTINUED

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.

ANNUAL REPORT ON REMUNERATION CONTINUED

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

£12 trillion

Estimated value of global infrastructure market in 2014–2018¹



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£10 billion

Revenue² generated this year

-37%

underlying³ earnings per share from continuing operations

-32%

pre-tax underlying³ 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.	<p>Our work on the recognition of contract revenue, margin and related receivables and liabilities included:</p> <ul style="list-style-type: none"> • 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			2012 ²³	
		Underlying items ¹ £m	Non-underlying items (Note 10) £m	Total £m	Underlying items ¹ £m	Non-underlying items (Note 10) £m
Continuing operations						
Revenue including share of joint ventures and associates		10,118	–	10,118	9,966	–
Share of revenue of joint ventures and associates	18.2	(1,373)	–	(1,373)	(1,310)	–
Group revenue	4	8,745	–	8,745	8,656	–
Cost of sales		(7,882)	–	(7,882)	(7,667)	–
Gross profit		863	–	863	989	–
Gain on disposals of interests in investments	32.3/32.4	82	–	82	52	–
Amortisation of acquired intangible assets	16	–	(30)	(30)	–	(39)
Other net operating expenses		(813)	(125)	(938)	(849)	(91)
Group operating profit/(loss)		132	(155)	(23)	192	(130)
Share of results of joint ventures and associates	18.2	71	–	71	92	–
Profit/(loss) from operations	6	203	(155)	48	284	(130)
Investment income	8	65	–	65	62	–
Finance costs	9	(81)	–	(81)	(69)	–
Profit/(loss) before taxation		187	(155)	32	277	(130)
Taxation	11	(50)	35	(15)	(61)	35
Profit/(loss) for the year from continuing operations		137	(120)	17	216	(95)
(Loss)/profit for the year from discontinued operations	12	(15)	(37)	(52)	15	(101)
Profit/(loss) for the year		122	(157)	(35)	231	(196)
Attributable to						
Equity holders		122	(157)	(35)	231	(196)
Non-controlling interests		–	–	–	–	–
Profit/(loss) for the year		122	(157)	(35)	231	(196)

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 ²³ 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.

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

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).

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
		(177)	99
Total other comprehensive (expense)/income for the year	30.1	(212)	134
Total comprehensive (expense)/income for the year			
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.

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

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.

For the year ended 31 December 2013

COMPANY INCOME STATEMENT

	Notes	Underlying items ¹ £m	Non-underlying items (Note 10) £m	Total £m	2013	Underlying items ¹ £m	Non-underlying items (Note 10) £m	Total £m	2012
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			
Tax on above	27.3	1 (1) –	(3) 1 (2)
Items which will subsequently be reclassified to the income statement			
Currency translation differences			
Tax on share based payments transferred			
Tax on preference shares due to change in rate	27.3	(1) (2) 1 (2)	– – – –
Total other comprehensive expense for the year		(2)	(2)
Total comprehensive income for the year attributable to equity holders		30.2	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		Company	
		2013 £m	2012 ² £m	2013 £m	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
Equity⁵					
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

5 March 2014

Duncan Magrath

Director

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		Company	
		2013 £m	2012 ⁶ £m	2013 £m	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 following key exchange rates were applied in these financial statements.

Average rates

	2013	2012	Change
£1 buys			
US\$	1.57	1.59	(1.3)%
Euro	1.18	1.23	(4.1)%

Closing rates

	2013	2012	Change
£1 buys			
US\$	1.65	1.62	1.9%
Euro	1.20	1.23	(2.4)%

4 REVENUE

	Group 2013 £m	Group 2012 ³ £m	Company 2013 £m	Company 2012 £m
Continuing operations				
Revenue from the provision of services*	8,709	8,639	—	—
Revenue from manufacturing activities	11	13	—	—
Proceeds from sale of development land	25	4	7	—
Dividends from subsidiaries	—	—	84	127
Dividends from joint ventures and associates	—	—	6	3
Total revenue	8,745	8,656	97	130
Investment income (Note 8)	65	62	5	6
Total revenue and investment income	8,810	8,718	102	136

³ Re-presented to classify certain Mainland European rail businesses and the UK facilities management business as discontinued operations (Notes 12 and 38).

* Includes IAS 11 construction contract revenue of £7,872m (2012: £7,668m re-presented³).

5 SEGMENT ANALYSIS

Reportable segments of the Group:

- **Professional Services** – the provision of project management, architectural, design or other technical services performed by the Group as a consultant
- **Construction Services** – activities resulting in the physical construction of an asset
- **Support Services** – activities which support existing assets or functions such as asset maintenance and refurbishment
- **Infrastructure Investments** – acquisition, operation and disposal of infrastructure assets such as PPP concessions, student accommodation and airports.

5.1 Total Group

Income statement – performance by activity from 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
Revenue including share of joint ventures and associates	1,661	6,573	1,265	608	11	10,118
Share of revenue of joint ventures and associates	(13)	(971)	(33)	(356)	—	(1,373)
Group revenue	1,648	5,602	1,232	252	11	8,745
Underlying group operating profit/(loss) ¹	54	(16)	54	69	(29)	132
Share of results of joint ventures and associates	—	37	1	33	—	71
Underlying profit/(loss) from operations ¹	54	21	55	102	(29)	203
Non-underlying items						
– amortisation of acquired intangible assets	(13)	(10)	—	(7)	—	(30)
– other non-underlying items	(28)	(45)	(15)	—	(37)	(125)
Profit/(loss) from operations	13	(34)	40	95	(66)	48
Investment income						65
Finance costs						(81)
Profit before taxation						32
	2012 £m	2012 ^{2,3} £m	2012 ³ £m	2012 £m	2012 £m	2012 ^{2,3} £m
Revenue including share of joint ventures and associates	1,668	6,511	1,151	636	—	9,966
Share of revenue of joint ventures and associates	(21)	(818)	(44)	(427)	—	(1,310)
Group revenue	1,647	5,693	1,107	209	—	8,656
Underlying group operating profit/(loss) ¹	97	70	28	29	(32)	192
Share of results of joint ventures and associates	1	49	2	40	—	92
Underlying profit/(loss) from operations ¹	98	119	30	69	(32)	284
Non-underlying items						
– amortisation of acquired intangible assets	(19)	(12)	—	(8)	—	(39)
– other non-underlying items	(13)	(49)	(14)	(12)	(3)	(91)
Profit/(loss) from operations	66	58	16	49	(35)	154
Investment income						62
Finance costs						(69)
Profit before taxation						147

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).

5 SEGMENT ANALYSIS CONTINUED

5.1 Total Group continued

Assets and liabilities by activity	Professional Services	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total
	2013 £m	2013 ¹ £m	2013 £m	2013 £m	2013 £m	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 ²	(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 ²	(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	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total
	2013 £m	2013 £m	2013 £m	2013 £m	2013 £m	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	United States	Rest of world	Total
	2013 £m	2013 £m	2013 £m	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

	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
Underlying profit from operations¹						
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)

	2013 £m	2012 ³ £m
Continuing operations		
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 (Impairment reversal)/impairment of property, plant and equipment	(2)	(13)
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

	2013 £m	2012 £m
Employee costs during the year		
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.

	2013 Number	2012 ³ Number
Average number of Group employees		
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

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Continuing operations				
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

	Group 2013 £m	Group 2012 ^{2,3} £m	Company 2013 £m	Company 2012 ² £m
Continuing operations				
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^x						
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)

^x 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 2012² £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

	Rail disposal group 2013 £m	Notes
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
Current tax liabilities	(3)
	(180)

Non-current liabilities

Trade and other payables	(4)
Provisions	25
Retirement benefit liabilities	28
Deferred tax liabilities	(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

	Basic 2013 £m	Diluted 2013 £m	Basic 2012 ^{2,3} £m	Diluted 2012 ^{2,3} £m
Earnings				
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				
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				2012			
	United Kingdom £m	United States £m	Rest of world £m	Total £m	United Kingdom £m	United States £m	Rest of world £m	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		Pre-tax discount rate %	2012		Pre-tax discount rate %
	£m	%		£m	%	
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				2012			
	Professional Services %	Construction Services UK %	Construction Services US %	Other %	Professional Services %	Construction Services UK %	Construction Services US %	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

				Group
	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	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 [§]	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

[§] 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

	Professional Services 2013 £m	Construction Services 2013 £m	Support Services 2013 £m	UK [^] 2013 £m	Infrastructure Investments			Total 2013 £m	Total 2013 £m
					North America 2013 £m	Infrastructure Fund 2013 £m	Total 2013 £m		
Income statement – continuing operations									
Revenue	13	971	33	356	–	–	356	1,373	
Underlying operating profit¹	–	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

	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
Income statement – continuing operations								
Revenue	21	818	44	422	–	5	427	1,310
Underlying operating profit¹	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	Total £m	Group	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	Total 2013 £m	Group	Contract provisions 2012 £m	Employee provisions 2012 £m	Other provisions 2012 £m	Total 2012 £m	Group	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.

	Convertible bonds 2013 £m
Liability component recognised in the Balance Sheet	
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

	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
Deferred tax assets							
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				
		Preference shares £m	Share-based payments £m	Retirement benefit liabilities £m	Provisions £m	Total £m
Deferred tax assets and liabilities						
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		2012	
	Average life expectancy at 65 years of age	Male	Female	Average life expectancy at 65 years of age
Members in receipt of a pension	22.4	22.4	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 [†] 2013 £m	Total 2013 £m	Balfour Beatty Pension Fund ² 2012 £m	Railways Pension Scheme ² 2012 £m	Other schemes ^{†,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)

[†] 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									
Other financial actuarial movements	62	12	–	74	(20)	(5)	–	–	(25)
Actuarial movements from changes in demographic assumptions	(126)	(13)	4	(135)	(165)	(5)	2	(8)	(176)
Experience gains/(losses)	(25)	(3)	–	(28)	45	4	–	–	49
Total actuarial movements	26	(1)	(9)	16	(34)	(5)	–	(3)	(42)
Contributions from members	(63)	(5)	(5)	(73)	(174)	(11)	2	(11)	(194)
Benefits paid	(1)	–	–	(1)	(1)	–	–	–	(1)
Parsons Brinckerhoff Scheme merger	139	7	8	154	124	6	4	8	142
Reclassified to liabilities held for sale (Note 12)	–	–	–	–	(185)	–	185	–	–
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

	Issued	
	Million	£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

	Issued	
	Million	£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

	Called-up share capital 2013 £m	Share premium account 2013 £m	Special reserve (Note 18.5) 2013 £m	Equity				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 2013 £m
				Share of joint ventures' and associates' and convertible bonds reserves 2013 £m	Hedging reserves 2013 £m	Preference shares 2013 £m	Other reserves							
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	–	–	–	(167)	–	–	(25)	–	–	–	–	–	(192)	
– PPP financial assets	–	–	–	65	–	55	–	–	–	–	–	–	120	
– cash flow hedges	–	–	–	–	–	–	–	–	–	–	–	–	–	
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	–	7	–	–	7	
Recycling of revaluation reserves to the income statement on disposal ²	–	–	–	(15)	–	10	(15)	(1)	–	–	–	–	(21)	
Tax on items recognised in other comprehensive income ²	–	–	–	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	

² 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	Share of joint ventures' and associates' reserves ⁴ (Note 18.5) 2012 £m	Equity component of preference shares and convertible bonds reserves 2012 £m	Hedging bonds reserves 2012 £m	PPP financial assets 2012 £m	Currency translation reserve 2012 £m	Merger reserve 2012 £m	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	–	–	–	374	–	–	31	–	–	–	–	–	405
– PPP financial assets	–	–	–	(7)	–	(12)	–	–	–	–	–	–	(19)
– cash flow hedges	–	–	–	–	–	–	–	–	–	–	–	–	–
– 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

^④ 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	Equity component of preference shares and convertible bonds £m	Merger reserve £m	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

	Notes	Continuing operations			Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
		Underlying items ¹ 2013 £m	Non- underlying items (Note 10) 2013 £m	Discontinued operations (Note 12) 2013 £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	Revaluation reserve £m	Direct costs incurred, amount recycled from created and indemnity provisions	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)	–	–	–	–	–
		Connect A30/A35								
32.3.8	4 November 2013	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)
Indemnity liabilities raised on disposal		120	16	5	141
Fair value uplift of retained investment in CNDR		10	–	–	10
Reserves recycled to the income statement		–	(4)	–	(4)
Costs directly related to the sale		–	(5)	(1)	(6)
		9	–	–	9
Net cash consideration		139	7	4	150
(Gain)/loss on disposal		(155)	(26)	–	(181)
		(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 the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no 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.

	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
Income statement				
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 profit¹	212	–	(20)	192
Share of results of joint ventures and associates	97	(1)	(4)	92
Underlying profit/(loss) from operations¹	309	(1)	(24)	284
Investment income	62	–	–	62
Finance costs	(61)	(9)	1	(69)
Underlying profit/(loss) before taxation from continuing operations¹	310	(10)	(23)	277
Taxation on underlying profit from continuing operations	(70)	2	7	(61)
Underlying profit/(loss) for the period from continuing operations¹	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).

	pence	pence	pence	pence
Earnings per share				
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 – tax	(126)	11	–	(115)
	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					Loans and receivables				
	at amortised cost, cash and cash equivalents	Financial liabilities at amortised cost	Available-for-sale financial assets	Held to maturity financial assets	Derivatives	at amortised cost, cash and cash equivalents	Financial liabilities at amortised cost	Available-for-sale financial assets	Held to maturity financial assets	Derivatives
	2013 £m	2013 £m	2013 £m	2013 £m	2013 £m	2012 £m	2012 £m	2012 £m	2012 £m	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
Foreign currency contracts										
Held for trading at fair value through profit and loss	2	–	2	(4)	–	(4)	1	–	1	(1)
Designated as cash flow hedges	–	–	–	(1)	–	(1)	–	–	–	(1)
Interest rate swaps										
Designated as cash flow hedges	–	–	–	(14)	(55)	(69)	–	–	–	(18)
	2	–	2	(19)	(55)	(74)	1	–	1	(20)

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	2013				2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £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	Financial liabilities at amortised cost	Available-for-sale financial assets	Held to maturity financial assets	Derivatives	Loans and receivables at amortised cost, cash and cash equivalents	Financial liabilities at amortised cost	Available-for-sale financial assets	Held to maturity financial assets	Derivatives		
	2013 £m	2013 £m	2013 £m	2013 £m	2013 £m	2012 £m	2012 £m	2012 £m	2012 £m	2012 £m		
Financial assets												
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												
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												
Derivatives												
Financial assets												
Financial assets												
	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		
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	US
Balfour Beatty Construction Group Inc	Scotland
Balfour Beatty Engineering Services Ltd	US
Balfour Beatty Group Ltd	Germany
Balfour Beatty Infrastructure Inc	US
Balfour Beatty Rail GmbH	US
Balfour Beatty Rail Inc	Italy
Balfour Beatty Rail Ltd	Singapore
Balfour Beatty Rail SpA	Hong Kong
Balfour Beatty Utility Solutions Ltd	Australia
Mansell Construction Services Ltd	US
Parsons Brinckerhoff (Asia) Ltd	US
Parsons Brinckerhoff Australia Pty Ltd	US
Parsons Brinckerhoff Group Inc	US
Parsons Brinckerhoff Inc	Singapore
Parsons Brinckerhoff International Pte Ltd	Isle of Man
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
Carl R. Darnall Army Medical Center	US
Parkland Acute Care Hospital	US
DFW Terminal Development Program	US

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)		Total project funding £m	Financial close	Duration years	Construction completion
	Bases				
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
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.

Capita IRG Trustees Limited is authorised and regulated by the Financial Conduct Authority and is also authorised to conduct cross-border business within the EEA under the provisions of the EU Markets in Financial Instruments Directive.

London Stock Exchange Codes

The London Stock Exchange Daily Official List (SEDOL) codes are: Ordinary shares: 0096162. Preference shares: 0097820.

The London Stock Exchange ticker codes are: Ordinary shares: BBY. Preference shares: BBYB.

Capital gains tax (CGT)

For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

Consolidated tax vouchers

Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank accounts. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars. A copy of the consolidated tax voucher may be downloaded from the Share Portal at www.balfourbeatty-shares.com.

Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

Balfour Beatty plc Registered Office:
130 Wilton Road, London SW1V 1LQ
Registered in England Number 395826

Forward-looking statements

This document may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'plans', 'anticipates', 'targets', 'aims', 'continues', 'expects', 'intends', 'hopes', 'may', 'will', 'would', 'could' or 'should' or in each case, their negative or other various or comparable terminology. These statements are made by the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this report and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under 'Principal Risks' on pages 20 to 23 of this document.

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