Balfour Beatty

# BALFOUR BEATTY PLC RESULTS FOR THE FULL-YEAR ENDED 31 DECEMBER 2014

25 March 2015

| (£ million unless otherwise specified) | 2014 Underlying[3] | Non-underlying Certain ES contracts | Non-underlying Other | 2014 Total | 2013[4] Underlying[3] | 2013[4] Total |
|---|---|---|---|---|---|---|
| Revenue[1,2] | 8,440 | 62 | 291 | 8,793 | 8,478 | 8,852 |
| (Loss)/profit from operations[2] | (58) | (88) | (135) | (281) | 146 | (33) |
| Net financing costs[2] | (22) | - | (1) | (23) | (15) | (16) |
| Pre-tax (loss)/profit[2] | (80) | (88) | (136) | (304) | 131 | (49) |
| Profit from discontinued operations | 24 | - | 218 | 242 | 44 | 18 |
| Total loss/(profit) for the year | (54) | - | (5) | (59) | 147 | (35) |
| (Loss)/earnings per share – continuing | (11.5p) | | | (43.9p) | 15.3p | (7.5p) |
| (Loss)/earnings per share –basic (total Group) | (8.0p) | | | (8.6p) | 21.5p | (5.1p) |
| Dividends per share | | | | 5.6p | | 14.1p |
| Operating cash flow | | | | (372) | | (175) |
| Net assets | | | | 1,230 | | 1,035 |
| Pension deficit | | | | (128) | | (434) |
| Net cash/(borrowings) | | | | | | |
| - recourse | | | | 219 | | (66) |
| - non-recourse | | | | (445) | | (354) |

## Summary

- Total revenue[1,2] of £8.8 billion, up 2% at constant exchange rates (CER); order book[2] at £11.4 billion (2013: £11.8 billion), down 7% at CER.
- Total loss for the year of £59 million (2013: £35 million).
- UK construction losses include a further £118 million write-down, following an assessment of the existing risk provisions by the Board.
- International construction revenues up 24% at CER to £1.0 billion, predominantly due to Hong Kong based joint venture; Middle East construction underlying losses of £15 million.
- Investments delivers consistently strong performance, with underlying profit from operations increased to £127 million (2013: £102 million). Directors' valuation of Investments portfolio at £1,300 million (2013: £766 million).
- Strengthened balance sheet with £219 million net cash. Net assets increased to £1,230 million (2013: £1,035 million), including a £306 million reduction in the pension deficits to £128 million.
- The Board decided not to recommend a final dividend, to ensure balance sheet strength is maintained, but expects to reinstate the dividend at an appropriate level, by March 2016.
- 'Build to Last' business transformation programme has gained early momentum. Phase 1 is 24 months of self-help: to deliver £200 million cash flow improvement and £100 million cost savings versus 2014.
- Significant progress in first 12 weeks of 2015 with Board changes, senior leadership appointments, programme work streams established and consolidation of UK support functions already underway.

**Notes:**

[1] including share of joint ventures and associates
[2] from continuing operations
[3] before non-underlying items (Note 8)
[4] re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations; to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items, and to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 3.5 and 10)

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

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

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

"I remain convinced that all our operations can achieve industry-standard performance as markets improve. The real prize is a sustainable return to profitable growth, built on the Group's unique capabilities, underpinned by leaner, stronger processes and flawless execution. Longer term we believe that as a leader in its core markets Balfour Beatty should be able to deliver superior returns to the benefit of its customers, employees and shareholders."

## DIVISIONAL HIGHLIGHTS:

| **2014** **(£ million unless otherwise specified)** | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|
| Order book[1,2,3] – underlying | £7.9bn | £3.5bn | - | - | £11.4bn |
| Revenue[1,2,3] – underlying | 6,597 | 1,273 | 570 | - | 8,440 |
| (Loss)/profit from operations[2,3] – underlying | (209) | 50 | 127 | (26) | (58) |
| Non-underlying - certain ES contracts[2] | (88) | - | - | - | (88) |
| Non-underlying - other[2] | (94) | (27) | (9) | (5) | (135) |
| (Loss)/profit from operations[2] | (391) | 23 | 118 | (31) | (281) |
| Net financing costs[2] | | | | | (23) |
| Pre-tax loss[2] | | | | | (304) |

| **2013[4]** **(£ million unless otherwise specified)** | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|
| Order book[1,2,3] – underlying | £7.7bn | £4.1bn | - | - | £11.8bn |
| Revenue[1,2,3] – underlying | 6,594 | 1,265 | 608 | 11 | 8,478 |
| (Loss)/profit from operations[2,3] – underlying | 18 | 55 | 102 | (29) | 146 |
| Non-underlying - certain ES contracts[2] | - | - | - | - | - |
| Non-underlying - other[2] | (121) | (15) | (7) | (36) | (179) |
| (Loss)/profit from operations[2] | (103) | 40 | 95 | (65) | (33) |
| Net financing costs[2] | | | | | (16) |
| Pre-tax loss[2] | | | | | (49) |

**Construction Services**

- Underlying revenue[1,2,3] flat at £6.6 billion.
- Underlying loss[2,3] for the year of £209 million (2013: profit £18 million) reflecting a very poor performance from the UK construction business. Total loss[2] for the year of £391 million (2013: £103 million).
- UK construction revenues[1,2,3] fell by 6% to £2.35 billion. Growth in Major Projects was more than offset by reductions elsewhere. The business remains focused on implementing the recommendations of the KPMG review, to return to profitability and peer group margins.
- Senior leadership within the UK Regional and Engineering Services businesses will be strengthened by the introduction of a new chief operating officer.
- US revenues[1,2] remained flat in the year at £3.0 billion (up 5% at constant exchange rates). Order book at CER maintained flat as a result of good order intake. In 2014, the business was the third-largest building market contractor in the US by revenue.
- Revenues from the international business[1,2] grew by 24% at CER to £1.0 billion, predominantly due to Gammon, the Hong Kong based joint venture.
- Middle East construction underlying losses of £15 million largely due to two specific contract positions within the mechanical and electrical engineering joint venture.

**Support Services**

- Revenue[1,2] for the year was up 1% at £1,273 million, with a 35% increase in transportation revenues being largely offset by expected revenue decline in the power sector.
- Underlying profit[2,3] from operations was down 9% at £50 million (2013: £55 million), with an underlying operating margin of 3.9% (2013: 4.3%). Good performances in the water sector, including the settlement of multi-year commercial issues, and the transportation sector, were offset by lower volumes in power.

**Infrastructure Investments**

- Infrastructure Investments achieved record financial results, with future value underpinned by Investments portfolio.
- Directors' valuation increased to £1,300 million (2013: £766 million) despite realising £159 million of disposal proceeds and £92 million of other distributions.
- Underlying pre-tax profits[3] increased to £162 million (2013: £132 million), driven by increases in profits on disposal, pre-disposals operating profits and net interest income.
- Number of investments within the portfolio increased to 66 (2013: 61) as the portfolio continued to expand into new sectors and geographies.
- Group has a strong pipeline of new investment opportunities and expects to invest over £300 million over the next five years. Directors estimate the value of the future pipeline at an additional 10%-15% of the Directors' valuation of the Investments portfolio.

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**Analyst presentation:**

A presentation to analysts and investors will be made at London Stock Exchange, The Forum, 10 Paternoster Square, London EC4M 7LS at 08:30 (UK time) on 25 March 2015.
There will be a live webcast of this presentation on www.balfourbeatty.com/webcast

## 2014 FULL YEAR RESULTS PRESS RELEASE

1. RESULTS OVERVIEW
2. GROUP CHIEF EXECUTIVE'S REPORT
3. OPERATING REVIEWS
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## RESULTS OVERVIEW

Underlying revenue from continuing operations including joint ventures and associates was broadly in line with last year at £8,440 million (2013: £8,478 million), and up 2% at constant exchange rates (CER). The order book declined by 4% to £11.4 billion (2013: £11.8 billion), down 7% at CER.

Total loss from continuing operations for the year, including non-underlying items, was £281 million (2013: £33 million). The results of certain legacy Engineering Services (ES) contracts where there has been poor management and in regions where ES has withdrawn from tendering for third-party work, have been classified as non-underlying items as the exceptional size and nature of the losses distorts the underlying performance of the Group. Total loss from continuing operations includes £88 million of losses on these legacy ES contracts (2013: £nil) and £53 million of trading and impairment charges in Rail Germany (2013: £60 million). The underlying loss from operations was £58 million (2013: £146 million profit).

Net finance costs of £23 million increased by £7 million on the prior year (2013: £16 million) due to the convertible bonds issued in December 2013 and an increase in pension net interest expense.

Total reported loss before tax from continuing operations was £304 million (2013: £49 million). Profit from discontinued operations of £242 million (2013: £18 million), including a net gain on the disposal of Parsons Brinckerhoff of £234 million, resulted in a total loss for the year of £59 million (2013: £35 million).

The financial results include additional write-downs affecting the financial performance of the Construction Services division, which can be summarised as follows:

- In January 2015, having just received the results of the KPMG review on the operational issues in the UK construction business, the Board announced £70 million of contract write-downs and that it would also assess the overall level of contract risk provisions in that business – the outcome of which would be announced at the full-year results in March 2015. The Board has now completed this process and concluded that further risk provisions of £118 million are appropriate. In line with KPMG's recommendations this assessment was essentially completed in two parts.

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

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

- Middle East construction underlying losses of £15 million largely due to two specific contract positions within the mechanical and electrical engineering joint venture business.

The Group's net cash position at 31 December 2014 was £219 million (2013: net debt £66 million), excluding net cash in discontinued businesses of £15 million (2013: £19 million) and £445 million (2013: £354 million) of non-recourse net borrowings held in wholly owned infrastructure concessions. In addition the liability component of the preference shares totals £96 million.

The pension deficits included on the Group's balance sheet reduced by £306 million to £128 million (2013: £434 million). The Group recorded net actuarial gains on those schemes totalling £237 million (2013: losses £117 million).

Underlying loss per share for continuing operations was 11.5 pence (2013: earnings 15.3 pence), which along with underlying earnings per share from discontinued operations of 3.5 pence (2013: 6.2 pence) gave an underlying loss per share for total operations of 8.0 pence (2013: earnings 21.5 pence). Total loss per share for continuing operations was 43.9 pence (2013: 7.5 pence). Total loss per share for the Group was 8.6 pence (2013: 5.1 pence).

Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending a final dividend payable for 2014. This results in a total dividend for the year of 5.6 pence (2013: 14.1 pence). The Board will look to reinstate the dividend in March 2016, at an appropriate level.

## GROUP CHIEF EXECUTIVE'S REPORT

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

### Understanding the problems

Over the last few months, independent reviews have been underway on operations that account for 70% of the Group by turnover and the remainder should be underway by the end of the summer. Already it is clear from the outputs – as well as from wide-ranging discussions with senior operational leaders – that the root cause lies in the Group's rapid fourfold revenue expansion since 2000, largely by acquisitions which were insufficiently integrated. This resulted in an overly complex, devolved organisation with poor controls and weak disciplines in cost control and project bidding. Following a major industry downturn, the UK construction business was extensively restructured in successive waves and began to exhibit serious project issues which, together with other factors, resulted in substantial operating losses for the Group. The cost base remains too high, with current Group-wide overheads approximately 1% of revenue above industry benchmarks.

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

**Build to Last**

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

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

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

TRUSTED: Delivering on business promises through strengthening the successful execution of projects and services through disciplined stage-gated bidding, contracting and risk review processes. Metric: customer satisfaction.

SAFE: Nothing is more important. If Balfour Beatty is not safe it is not in business. Safety is a non-negotiable licence to operate – at all levels and for all employees, subcontractors, customers and communities. Metric: Zero Harm.

**Phase One financial targets**

The initial phase of Build to Last specifically aims within 24 months to improve operating cash flow by £200 million and achieve £100 million of overhead and procurement cost savings, against 2014 levels. The key is the determination to address this through self-help and Build to Last is already gaining rapid traction. In addition, the Investments portfolio will provide the financial flexibility of both reliable income and the sale of maturing assets into a strong market.

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

Longer term the aim is that, as a leader in its core markets, Balfour Beatty should be able to deliver superior returns to the benefit of its customers, employees and shareholders.

**Actions underway**

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

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

## OPERATING REVIEWS

### Construction Services

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

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

Underlying revenue[2] was flat at £6,597 million (2013: £6,594 million). The Construction Services order book[2] at the end of the year stood at £7.9 billion (2013: £7.7 billion), up 2% from a year ago, but down 3% at constant currency. The order book in the UK ended the period at £2.6 billion, down 5%.

| £m | 2014 Revenue[1] | 2014 Profit from operations[2] | 2013[4,5] Revenue[1] | 2013[4,5] Profit from operations[2] |
|---|---|---|---|---|
| US | 2,996 | 29 | 2,997 | 27 |
| UK (excluding ES) | 2,229 | (180) | 2,373 | (9) |
| ES | 121 | (49) | 136 | (11) |
| Rail UK & International | 368 | (6) | 388 | (12) |
| Overseas joint ventures | | | | |
| - Middle East | 177 | (15) | 129 | 6 |
| - Far East | 706 | 12 | 571 | 17 |
| Underlying[3] | 6,597 | (209) | 6,594 | 18 |
| Non-underlying – ES | 62 | (88) | 76 | - |
| Non-underlying – other | 291 | (94) | 298 | (121) |
| Total | 6,950 | (391) | 6,968 | (103) |

[1] *including share of joint ventures and associates*
[2] *from continuing operations*
[3] *before non-underlying items (Note 8)*
[4] *re-presented to include the results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items (Notes 3.5 and 10)*
[5] *re-presented to include Heery Inc which was previously included in Professional Services*

**UK**

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

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

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

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

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

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

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

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

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

**US**

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

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

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

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

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

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

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

**International joint ventures**

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

The order book in the Group's Hong Kong and Singapore joint venture, Gammon, remained stable. Revenues were up 22% in the year (30% at constant currency) however the Group's share of joint venture profits for the year decreased by £4 million to £12 million, as the long-term nature of recent civil project wins means it will take time for these to feed into financial performance. A small number of these contracts, which are recorded at break-even, have incorporated significant judgements over contractual entitlements.

In the year significant wins included the new S$210 million (£100 million) Havelock Station award for Singapore's Mass Rapid Transit system. In July Gammon won two building contracts in Hong Kong with a combined value of HK$3,910 million (£300 million) to build a public rental housing development and a research office.

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

**Rail**

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

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

## Support Services

Revenue for the year was up 1% at £1,273 million, with a 35% increase in transportation revenues being largely offset by expected revenue decline in the power sector. The Support Services order book ended the year at £3.5 billion, down 14% from a year ago (2013: £4.1 billion). The increase in order book in the water sector has been more than offset by the expected contraction in the power and transportation order books, as the division continues to execute on long-term contracts. Further awards were made in the water sector after the year end, which will benefit the 2015 order book.

Underlying profit from continuing operations was down 9% at £50 million (2013: £55 million), resulting in an underlying operating margin of 3.9% (2013: 4.3%). Good performances in the water sector, including the settlement of multi-year commercial issues, and in the transportation sector were offset by lower volumes in power.

| **Support Services** | 2014 | 2013 | Actual growth (%) |
|---|---|---|---|
| Order book (£bn) | 3.5 | 4.1 | (14) |
| Revenue[1] (£m) | 1,273 | 1,265 | 1 |
| Profit from operations[2] (£m) | 50 | 55 | (9) |
| Margin[2] (%) | 3.9% | 4.3% | |

[1] *including joint ventures and associates*
[2] *before non-underlying items (Note 8)*

Support Services is a leading provider of specialist renewal and maintenance services in three key sectors – power, water and transportation. The division continues to provide a wide range of essential services and deliver projects for customers across the regulated and public sectors, all of whom need to manage financial pressures, whilst improving the quality of the infrastructure that facilitates public life. This will continue to provide opportunities, as customers look to outsource work, and seek innovative solutions in the provision of that work, but also presents challenges in an increasingly competitive environment.

### Power

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

In March 2014 the power business was appointed to two major National Grid power infrastructure frameworks. The first is the overhead lines design and build framework, over a four-year contract length with two optional two-year extensions. The total work available for panel members is worth up to £2.5 billion. The second is for National Grid’s onshore underground cable framework, over a four-year contract length with an optional two-year extension, worth a total of up to £800 million.

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

Elsewhere on existing power sector contracts there was good progress on the Beauly-Denny replacement electricity transmission line contract for Scottish and Southern Energy, the Gas

Distribution Strategic Partnership contracts with National Grid and the joint venture contract in the Republic of Ireland to replace and extend the gas network on behalf of state operator Bord Gais.

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

**Water**

The water business order book benefited from new contracts tendered under the AMP 6 regulatory cycle, which controls capital expenditure across the network from April 2015 through to 2020. In May it was awarded approximately £115 million of work by Anglian Water as part of its investment programme. In addition the business has also won a new contract award from United Utilities valued at £125 million.

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

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

**Transportation**

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

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

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

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

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

### Infrastructure Investments

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

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

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

| **Infrastructure Investments** | 2014 | 2013 |
|---|---|---|
| Pre-disposals operating profit (£m) | 34 | 20 |
| Gain on disposals (£m) | 93 | 82 |
| Profit from operations[1] (£m) | 127 | 102 |
| Net interest income from PPP concessions[2] (£m) | 35 | 30 |
| Pre-tax result from operations[1] (£m) | 162 | 132 |
| Directors' valuation of PPP concessions (£m) | 1,300 | 766 |

*[1] before non-underlying items (Note 8)*
*[2] subordinated debt interest receivable and net interest income from PPP subsidiaries (Notes 6 and 7)*

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

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

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

The Investments business continues to see significant opportunities for future investment. There is an identified global pipeline of opportunities over the next five years that represents £35 billion of capital value, spread across multiple sectors in four countries. Over the next five years, the Investments business expects to invest over £300 million in equity and generate over £2 billion of new work for the Group's Construction Services and Support Services businesses, which have historically delivered higher margins when working in conjunction with the Investments business.

**UK and Australia – new investment activity**

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

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

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

In addition, the Investments business reached financial close on its first project in Australia, at Wollongong University, for the design and construction of a 1,050 new bed development and a 39-year maintenance licence for the university's entire existing accommodation facilities, of 1,905 beds.

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

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

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

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

**North America – new investment activity**

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

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

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

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

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

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

**Asset sales**

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

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

### Investment management business

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

## FINANCIAL SUMMARY

### Underlying items

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

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

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

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

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

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

### Non-underlying items

Non–underlying items for continuing operations comprise pre-tax losses of £224 million (2013: £180 million).

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

### Continuing operations

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

### Taxation

The underlying tax credit for continuing operations for the year of £2 million (2013: £28 million charge), excluding the Group's share of results of joint ventures and associates, equates to an effective tax rate of 1.5% (2013: 46.7%). This represents a tax credit on a loss before tax. The rate of credit is lower than the UK statutory rate, principally due to significant non-recognition of deferred tax assets on losses incurred in the year. In 2013, the rate of 46.7% (tax charge on a profit) was higher than the UK statutory rate principally due to writing down deferred tax balances following the reduction in the UK corporation tax rate to 20% and the proportion of profits in higher tax jurisdictions, offset by the benefit of the profit from non-taxable investment sales.

### Discontinued operations

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

### Overall result for the year

The results, including both underlying and non-underlying items for continuing and discontinued operations, show a total reported loss of £59 million (2013: £35 million).
Given the scale of the losses incurred in UK construction in 2014, consideration has been given as to whether any of the losses incurred in 2014 should have been identified and accounted for in previous periods. The results of the exercise showed that the vast majority of the losses were due to operational issues in 2014, and appropriately accounted for in that year, and for the year ended 31 December 2013 the aggregate impact of any errors was not material. Accordingly the 2013 accounts have not been restated. There were, however, certain contracts at 27 June 2014 where there were errors principally due to unrealistic cost and scope assumptions. As a consequence when we publish our half-year accounts for the period ending 26 June 2015 we intend to restate the comparatives for the half-year ended 27 June 2014, to reduce the profits from UK construction by £16 million.

### Earnings per share

Underlying loss per share from continuing operations was 11.5 pence (2013: earnings 15.3 pence), which along with underlying earnings per share from discontinued operations of 3.5 pence (2013: 6.2 pence), gave an underlying loss per share for total operations of 8.0 pence (2013: earnings 21.5 pence). Total loss per ordinary share was 8.6 pence (2013: 5.1 pence).

### Dividends

Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending a final dividend payable for 2014. This results in a total dividend for the year of 5.6 pence (2013: 14.1 pence). The Board will look to reinstate the dividend in March 2016, at an appropriate level.

### Goodwill and intangible assets

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

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

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

### Pensions – balance sheet movement

The Group's balance sheet includes aggregate deficits of £128 million (2013: £434 million) for the Group's pension schemes.

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

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

### Balance sheet and capital structure

The Group looks to achieve a balance between the favourable/negative working capital, liquid funds and facilities and the Investments portfolio. During 2014 there was, as anticipated, a reduction in negative working capital in the first half of the year, with a small improvement before the impact of year end contract write-downs. In the second half, there was an increase in negative working capital in Construction Services. Liquid funds were significantly boosted by the sale of PB. The Directors' valuation of the Investments portfolio increased to £1,300 million, despite the continuing asset sales. Overall the Group finished the year with a strong balance sheet.

### Cash flow performance

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

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

### Working capital

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

Total working capital as a percentage of annualised revenue (WCPR) at the end of the year was (9.9)% (2013: (8.5)%). The most significant component of negative working capital relates to Construction Services, which ended the year with WCPR of (12.2)% (2013: (9.7)%).

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

### Banking facilities

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

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

### Foreign currency risk

The Group is exposed to foreign currency risk primarily in the US, Asia-Pacific, and the Middle East although this is now significantly reduced following the sale of PB. The average exchange rate for 2014 was US$1.65:£1 (2013: US$1.57:£1). Sterling steadily weakened from the middle of the year, and ended the year with a closing rate of US$1.56:£1 (2013: US$1.65:£1).

### Financial risk factors and going concern

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

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling twelve-month basis as at the June and December reporting dates. At 31 December 2014, both these covenant tests were passed as the Group had net cash and net interest income from a covenant test perspective, so the Group's poor trading performance and consequent low level of EBIT had no impact on these tests.

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

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

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

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

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

## Responsibility statement

This responsibility statement below has been prepared in connection with the Company's Annual Report and Accounts 2014. Certain parts thereof are not included within this announcement.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union 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; and

- the annual report and financial statements, 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.

This responsibility statement was approved by the Board of Directors on 24 March 2015 and is signed on its behalf by:

**D J Magrath**
Chief Financial Officer

**P J L Zinkin**
Planning and Development Director

**ENDS**

## Forward-looking statements

This announcement 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 announcement 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, and failure in Balfour Beatty's health, safety or environmental policies.

No representation or warranty is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Forward-looking statements speak only as at the date of this announcement and Balfour Beatty plc and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this announcement. No statement in the announcement is intended to be, or intended to be construed as, a profit forecast or profit estimate or to be interpreted to mean that earnings per Balfour Beatty plc share for the current or future financial years will necessarily match or exceed the historical earnings per Balfour Beatty plc share. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

**Additional information**

The Annual Report and Accounts 2014 will be available on the Company's website www.balfourbeatty.com, in due course.

The Company's AGM is scheduled to be held at Park Plaza Victoria, 239 Vauxhall Bridge Road, London SW1V 1EQ at 11:00 on 14 May 2015.

A preference dividend of 5.375p gross (4.8375p net at current tax rate) per cumulative convertible redeemable preference share will be paid on 1 July 2015 in respect of the six months ending 30 June 2015 to holders of these shares on the register on 22 May 2015 by direct credit or, where no mandate has been given, by cheque posted on 30 June 2015 payable on 1 July 2015. The preference shares will be quoted ex-dividend on 21 May 2015.

The Company's statutory accounts for the year ended 31 December 2014 comply with the Disclosure and Transparency Rules of the Financial Services Authority in respect of the requirement to produce an annual financial report. Those financial statements are the responsibility of, and were approved by the Directors, on 24 March 2015.

# Group Income Statement

## For the year ended 31 December 2014

| | Notes | 2014 Underlying Items[1] £m | 2014 Non-underlying items (Note 8) £m | 2014 Total £m | 2013[2,3,4] Underlying items[1] £m | 2013[2,3,4] Non-underlying items (Note 8) £m | 2013[2,3,4] Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Revenue including share of joint ventures and associates** | | **8,440** | **353** | **8,793** | 8,478 | 374 | 8,852 |
| Share of revenue of joint ventures and associates | 15 | **(1,490)** | **(39)** | **(1,529)** | (1,360) | (4) | (1,364) |
| **Group revenue** | | **6,950** | **314** | **7,264** | 7,118 | 370 | 7,488 |
| Cost of sales | | **(6,723)** | **(410)** | **(7,133)** | (6,665) | (388) | (7,053) |
| **Gross profit/(loss)** | | **227** | **(96)** | **131** | 453 | (18) | 435 |
| Gain on disposals of interests in investments | 21.3 | **93** | **–** | **93** | 82 | – | 82 |
| Amortisation of acquired intangible assets | | **–** | **(11)** | **(11)** | – | (17) | (17) |
| Other net operating expenses | | **(433)** | **(114)** | **(547)** | (460) | (144) | (604) |
| **Group operating (loss)/profit** | | **(113)** | **(221)** | **(334)** | 75 | (179) | (104) |
| Share of results of joint ventures and associates | 15 | **55** | **(2)** | **53** | 71 | – | 71 |
| **(Loss)/profit from operations** | | **(58)** | **(223)** | **(281)** | 146 | (179) | (33) |
| Investment income | 6 | **64** | **–** | **64** | 63 | – | 63 |
| Finance costs | 7 | **(86)** | **(1)** | **(87)** | (78) | (1) | (79) |
| **(Loss)/profit before taxation** | | **(80)** | **(224)** | **(304)** | 131 | (180) | (49) |
| Taxation | 9 | **2** | **1** | **3** | (28) | 24 | (4) |
| **(Loss)/profit for the year from continuing operations** | | **(78)** | **(223)** | **(301)** | 103 | (156) | (53) |
| Profit/(loss) for the year from discontinued operations | 10 | **24** | **218** | **242** | 44 | (26) | 18 |
| **(Loss)/profit for the year** | | **(54)** | **(5)** | **(59)** | 147 | (182) | (35) |
| **Attributable to** | | | | | | | |
| Equity holders | | **(55)** | **(5)** | **(60)** | 147 | (182) | (35) |
| Non-controlling interests | | **1** | **–** | **1** | – | – | – |
| **(Loss)/profit for the year** | | **(54)** | **(5)** | **(59)** | 147 | (182) | (35) |

[1] Before non-underlying items (Note 8).
[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 8).

| | Notes | 2014 pence | 2013[2,3] pence |
|---|---|---|---|
| **Basic (loss)/earnings per ordinary share** | | | |
| - continuing operations | 11 | **(43.9)** | (7.5) |
| - discontinued operations | 11 | **35.3** | 2.4 |
| | 11 | **(8.6)** | (5.1) |
| **Diluted (loss)/earnings per ordinary share** | | | |
| - continuing operations | 11 | **(43.9)** | (7.5) |
| - discontinued operations | 11 | **35.3** | 2.4 |
| | 11 | **(8.6)** | (5.1) |
| **Dividends per ordinary share proposed for the year** | 12 | **5.6** | 14.1 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).

# Group Statement of Comprehensive Income

**For the year ended 31 December 2014**

| | | 2014 £m | 2013 £m |
|---|---|---|---|
| **Loss for the year** | | **(59)** | (35) |
| **Other comprehensive income/(expense) for the year** | | | |
| Items which will not subsequently be reclassified to the income statement | | | |
| Actuarial gains/(losses) on retirement benefit liabilities | | **232** | (114) |
| Tax on above | | **(48)** | 17 |
| | | **184** | (97) |
| Items which will subsequently be reclassified to the income statement | | | |
| Currency translation differences | | **32** | (14) |
| Fair value revaluations | – PPP financial assets | **303** | (192) |
| | – cash flow hedges | **(156)** | 120 |
| | – available-for-sale investments in mutual funds | **2** | 7 |
| Recycling of revaluation reserves to the income statement on disposal^ | | **11** | (21) |
| Tax on above | | **(29)** | 20 |
| | | **163** | (80) |
| **Total other comprehensive income/(expense) for the year** | | **347** | (177) |
| **Total comprehensive income/(expense) for the year** | | **288** | (212) |
| **Attributable to** | | | |
| Equity holders | | **287** | (212) |
| Non-controlling interests | | **1** | – |
| **Total comprehensive income/(expense) for the year** | | **288** | (212) |

^ Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.

# Group Statement of Changes in Equity

**For the year ended 31 December 2014**

| | Called-up share capital £m | Share premium account £m | Special reserve £m | Share of joint ventures' and associates' reserves £m | Other reserves £m | Retained profits £m | Non-controlling interests £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 344 | 63 | 25 | 337 | 289 | 252 | 3 | 1,313 |
| Total comprehensive (expense)/income for the year | – | – | – | (17) | 11 | (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 | (2) | 1 | – | – |
| At 31 December 2013 | 344 | 64 | 24 | 278 | 323 | – | 2 | 1,035 |
| Total comprehensive income for the year | **–** | **–** | **–** | **142** | **69** | **76** | **1** | **288** |
| Ordinary dividends | **–** | **–** | **–** | **–** | **–** | **(96)** | **–** | **(96)** |
| Joint ventures' and associates' dividends | **–** | **–** | **–** | **(56)** | **–** | **56** | **–** | **–** |
| Issue of ordinary shares | **1** | **–** | **–** | **–** | **–** | **–** | **–** | **1** |
| Movements relating to share-based payments | **–** | **–** | **–** | **–** | **(3)** | **5** | **–** | **2** |
| Reserve transfers relating to joint venture and associate disposals | **–** | **–** | **–** | **(24)** | **–** | **24** | **–** | **–** |
| Other transfers | **–** | **–** | **(1)** | **–** | **(249)** | **250** | **–** | **–** |
| At 31 December 2014 | **345** | **64** | **23** | **340** | **140** | **315** | **3** | **1,230** |

# Group Balance Sheet
## At 31 December 2014

| | Notes | 2014 £m | 2013 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets – goodwill | 13 | **826** | 1,048 |
| – other | 14 | **216** | 204 |
| Property, plant and equipment | | **171** | 208 |
| Investments in joint ventures and associates | 15 | **759** | 666 |
| Investments | | **51** | 95 |
| PPP financial assets | | **559** | 455 |
| Trade and other receivables | 16 | **111** | 113 |
| Deferred tax assets | | **52** | 122 |
| | | **2,745** | 2,911 |
| **Current assets** | | | |
| Inventories and non-construction work in progress | | **170** | 135 |
| Due from construction contract customers | | **562** | 631 |
| Trade and other receivables | 16 | **966** | 1,190 |
| Cash and cash equivalents – infrastructure concessions | 20.2 | **40** | 65 |
| – other | 20.2 | **691** | 539 |
| Current tax assets | | **8** | 8 |
| Derivative financial instruments | | **2** | 2 |
| | | **2,439** | 2,570 |
| Assets held for sale | 10 | **60** | 231 |
| | | **2,499** | 2,801 |
| **Total assets** | | **5,244** | 5,712 |
| **Current liabilities** | | | |
| Due to construction contract customers | | **(350)** | (360) |
| Trade and other payables | 17 | **(1,959)** | (2,046) |
| Provisions | | **(120)** | (100) |
| Borrowings – non-recourse loans | 20.3 | **(14)** | (9) |
| – other | 20.3 | **(4)** | (170) |
| Current tax liabilities | | **(5)** | (33) |
| Derivative financial instruments | | **(14)** | (19) |
| | | **(2,466)** | (2,737) |
| Liabilities held for sale | 10 | **(47)** | (219) |
| | | **(2,513)** | (2,956) |
| **Non-current liabilities** | | | |
| Trade and other payables | 17 | **(134)** | (182) |
| Provisions | | **(77)** | (93) |
| Borrowings – non-recourse loans | 20.3 | **(471)** | (410) |
| – other | 20.3 | **(468)** | (435) |
| Liability component of preference shares | | **(96)** | (94) |
| Retirement benefit liabilities | 18 | **(128)** | (434) |
| Deferred tax liabilities | | **(49)** | (18) |
| Derivative financial instruments | | **(78)** | (55) |
| | | **(1,501)** | (1,721) |
| **Total liabilities** | | **(4,014)** | (4,677) |
| **Net assets** | | **1,230** | 1,035 |
| **Equity** | | | |
| Called-up share capital | | **345** | 344 |
| Share premium account | | **64** | 64 |
| Special reserve | | **23** | 24 |
| Share of joint ventures' and associates' reserves | | **340** | 278 |
| Other reserves | | **140** | 323 |
| Retained profits | | **315** | – |
| **Equity attributable to equity holders of the parent** | | **1,227** | 1,033 |
| Non-controlling interests | | **3** | 2 |
| **Total equity** | | **1,230** | 1,035 |

# Group Statement of Cash Flows

**For the year ended 31 December 2014**

| | | Notes | 2014 £m | 2013[2,3,4,5] £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash (used in)/generated from: | | | | |
| - continuing operations – underlying[1] | | 20.1 | **(192)** | (135) |
| – non-underlying | | 20.1 | **(114)** | (81) |
| - discontinued operations | | 20.1 | **(46)** | 54 |
| Income taxes paid | | | **(20)** | (13) |
| **Net cash used in operating activities** | | | **(372)** | (175) |
| **Cash flows from investing activities** | | | | |
| Dividends received from: | - joint ventures and associates | | **56** | 47 |
| | - discontinued operations | | **–** | 1 |
| Interest received – infrastructure concessions[6] | | | **23** | 25 |
| Interest received – other[6] | | | **5** | 3 |
| Acquisition of businesses, net of cash and cash equivalents acquired | | 21.1 | **(3)** | (14) |
| Purchases of: | - intangible assets – infrastructure concessions[6] | | **(28)** | (20) |
| | - intangible assets – other[6] | | **(35)** | (18) |
| | - property, plant and equipment – infrastructure concessions[6] | | **(23)** | (11) |
| | - property, plant and equipment – other[6] | | **(43)** | (71) |
| | - other investments | | **(8)** | (12) |
| Investments in and long-term loans to joint ventures and associates | | | **(40)** | (51) |
| Short-term loans to joint ventures and associates | | | **(4)** | – |
| Loans repaid from joint ventures and associates | | | **2** | 2 |
| PPP financial assets cash expenditure | | | **(232)** | (62) |
| PPP financial assets cash receipts | | | **37** | 59 |
| Disposals of: | - investments in joint ventures | 21.3 | **117** | 103 |
| | - subsidiaries net of cash disposed, separation and transaction costs | | **735** | 152 |
| | - property, plant and equipment – underlying[1] | | **16** | 11 |
| | - property, plant and equipment – non-underlying | | **–** | 8 |
| | - other investments | | **12** | 20 |
| **Net cash from investing activities** | | | **587** | 172 |
| **Cash flows from financing activities** | | | | |
| Purchase of ordinary shares | | | **(2)** | (2) |
| Proceeds from: | - issue of ordinary shares | | **1** | 1 |
| | - convertible bonds | | **–** | 246 |
| | - US private placement | 20.4 | **–** | 231 |
| | - other new loans – infrastructure concessions[6] | 20.4 | **236** | 110 |
| | - other new loans – other[6] | 20.4 | **11** | – |
| | - finance leases | 20.4 | **1** | 1 |
| Repayments of: | - loans – infrastructure concessions[6] | 20.4 | **(7)** | (12) |
| | - loans – other[6] | 20.4 | **(83)** | (396) |
| | - finance leases | 20.4 | **(3)** | (2) |
| Ordinary dividends paid | | 12 | **(96)** | (96) |
| Other dividends paid – non-controlling interest | | 12 | **–** | (1) |
| Interest paid – infrastructure concessions[6] | | | **(21)** | (29) |
| Interest paid – other[6] | | | **(29)** | (27) |
| Preference dividends paid | | | **(11)** | (11) |
| **Net cash (used in)/from financing activities** | | | **(3)** | 13 |
| **Net increase in cash and cash equivalents** | | 20.4 | **212** | 10 |
| Effects of exchange rate changes | | | **(12)** | 3 |
| Cash and cash equivalents at beginning of year | | | **526** | 532 |
| Net decrease/(increase) in cash within assets held for sale | | 10 | **1** | (19) |
| **Cash and cash equivalents at end of year** | | 20.2 | **727** | 526 |

[1] Before non-underlying items (Note 8).
[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 8).
[5] Re-presented to separately identify cash flows from underlying and non-underlying operations and discontinued operations.
[6] Re-presented to separately identify cash flows from infrastructure concessions and other.

# Notes to the financial statements

### 1 Basis of accounting

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2014. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 24 March 2015, does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2014 accounts; the report is unqualified, did not draw attention to any matters by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements for the Group and the Company that comply with IFRS in April 2015

### 2 Going concern

The Directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009 and consider it reasonable to assume that the Group has 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. Further information is provided within the Financial Summary on page 20.

### 3 Accounting policies

#### 3.1 Judgements and key sources of estimation uncertainty

The Group’s principal judgements and key sources of uncertainty are set out in Note 2.27 of the Annual Report and Accounts 2014.

Given the scale of the UK construction business losses incurred in 2014, consideration has been given as to whether any of the losses incurred in 2014 should have been identified and accounted for in previous periods in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The results of the exercise showed that for the accounts for the year ended 31 December 2013, the aggregate impact of any errors was not material and accordingly the 2013 accounts have not been restated. Further information is provided within the Financial Summary on page 17.

In respect of the available-for-sale financial assets, in addition to judgement on discount rates, judgement is also required when assessing the non-market related cash flows within the infrastructure concessions.

## 3 Accounting policies continued

### 3.2 Change in accounting estimate

Following the UK construction business contract reviews the Group has reassessed its accounting for construction contracts and taken a more prudent position in estimating contract completion costs. This is a prospective change in accounting estimate and has resulted in a £51m expense in the current year.

In respect of the Group's PPP financial assets, movements in the fair value of PPP financial assets attributable to non-market related changes in future cash flow assumptions are recognised in the income statement. At December 2014 this has given rise to a fair value gain of £15m (2013: £nil) which has been recognised within underlying profit from operations.

### 3.3 Adoption of new and revised standards

The following accounting standards, interpretations and amendments have been adopted by the Group in the current period:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRIC 21: Levies
- Amendments to the following standards:
    - IFRS 10, IFRS 11 and IFRS 12: Investment Entities
    - IFRS 10, IFRS 11 and IFRS 12: Transition Guidance
    - IAS 27 Separate Financial Statements
    - IAS 28 Investments in Associates and Joint Ventures
    - IAS 39 Novation of Derivatives and Continuation of Hedge Accounting.

The above new and amended standards do not have a material quantitative effect on the Group.

## 3 Accounting policies continued

### 3.4 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2014:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- Amendments to the following standards:
  - IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  - IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
  - IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
  - IAS 1: Disclosure Initiative
  - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
  - IAS 16 and IAS 41: Agricultural: Bearer Plants
  - IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions
  - IAS 27: Equity Method in Separate Financial Statements.

Of these, IFRS 9 is expected to have the most significant effect.

The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

### 3.5 Re-presentation of comparative information

#### Discontinued operations

The Income Statement has been re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations. Refer to Note 10.

Rail Germany has been reclassified from discontinued operations in 2014 and its performance has been included within non-underlying items as part of continuing operations. The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit. Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014. As a result, Rail Germany does not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation and the prior year comparatives have been restated accordingly. Refer to Note 10.

## 3 Accounting policies continued

### 3.5 Re-presentation of comparative information continued

#### Engineering Services

The performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work has also been included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group. ES has stopped bidding external work in London, South East and the South West. At 31 December 2014, 12 of these contracts were still active, with the last of these contracts currently scheduled to complete in January 2016. Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group. Performance on these contracts including any claims recovery will be presented in non-underlying items through to their completion. Prior year comparatives have been restated accordingly.

#### Segmental analysis

The Group no longer presents a Professional Services segment following the sale of Parsons Brinckerhoff on 31 October 2014 which constituted the vast majority of this segment. Refer to Note 5. The remaining continuing operations, principally comprising the operations of Heery Inc. which were previously reported in Professional Services, now report into Construction Services management and consequently have been re-presented within the Construction Services segment. Prior year comparatives have been restated accordingly.

The 2013 segmental analysis has also been re-presented to include the net non-recourse borrowings directly attributable to Infrastructure Investments within the Infrastructure Investments segment. All other net debt is classified within Corporate activities.

## 4 Exchange rates

The following key exchange rates were applied in these financial statements.

**Average rates**

| £1 buys | **2014** | 2013 | Change |
|---|---|---|---|
| US$ | **1.65** | 1.57 | 5.1% |
| Euro | **1.24** | 1.18 | 5.1% |

**Closing rates**

| £1 buys | **2014** | 2013 | Change |
|---|---|---|---|
| US$ | **1.56** | 1.65 | (5.5)% |
| Euro | **1.28** | 1.20 | 6.7% |

### 5 Segment analysis

Reportable segments of the Group:

**Construction Services** – activities resulting in the physical construction of an asset.

**Support Services** – activities which support existing assets or functions such as asset maintenance and refurbishment.

**Infrastructure Investments** – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, schools, student accommodation, military housing, offshore transmission networks and other concessions.

Refer to Note 3.5 for a description of the prior year re-presentations.

### 5.1 Total Group

| Income statement – performance by activity from continuing operations | Construction Services+ | Support Services | Infrastructure Investments+ | Corporate activities | Total | Rail Germany | Certain legacy ES contracts | Total |
|---|---|---|---|---|---|---|---|---|
| | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m | 2014 £m |
| Revenue including share of joint ventures and associates | 6,597 | 1,273 | 570 | – | 8,440 | 291 | 62 | 8,793 |
| Share of revenue of joint ventures and associates | (1,168) | (26) | (296) | – | (1,490) | (39) | – | (1,529) |
| Group revenue | 5,429 | 1,247 | 274 | – | 6,950 | 252 | 62 | 7,264 |
| Group operating (loss)/profit^ | (217) | 49 | 81 | (26) | (113) | (22) | (88) | |
| Share of results of joint ventures and associates | 8 | 1 | 46 | – | 55 | (1) | – | |
| (Loss)/profit from operations^ | (209) | 50 | 127 | (26) | (58) | (23) | (88) | |
| Non-underlying items | | | | | | | | |
| - include results from certain legacy ES contracts within Construction Services | (88) | – | – | – | (88) | | | |
| - include results from Rail Germany within Construction Services | (23) | – | – | – | (23) | | | |
| - amortisation of acquired intangible assets | (5) | – | (6) | – | (11) | | | |
| - other non-underlying items | (66) | (27) | (3) | (5) | (101) | | | |
| | (182) | (27) | (9) | (5) | (223) | | | |
| (Loss)/profit from operations | (391) | 23 | 118 | (31) | (281) | | | |
| Investment income | | | | | 64 | | | |
| Finance costs | | | | | (87) | | | |
| Loss before taxation | | | | | (304) | | | |

^ Presented before non-underlying items for underlying operations (Note 8).
^ £10m of costs relating to the acceleration of the completion of construction works has been included within Infrastructure Investments. Refer to page 13.

## 5 Segment analysis continued

### 5.1 Total Group continued

| Income statement – performance by activity from continuing operations | Construction Services 2013[2,3,4,7] £m | Support Services 2013 £m | Infrastructure Investments 2013 £m | Corporate activities 2013 £m | Total 2013[2,3,4] £m | Rail Germany 2013[3] £m | Certain legacy ES contracts 2013[4] £m | Total 2013[2,3] £m |
|---|---|---|---|---|---|---|---|---|
| Revenue including share of joint ventures and associates | 6,594 | 1,265 | 608 | 11 | 8,478 | 298 | 76 | 8,852 |
| Share of revenue of joint ventures and associates | (971) | (33) | (356) | – | (1,360) | (4) | – | (1,364) |
| Group revenue | 5,623 | 1,232 | 252 | 11 | 7,118 | 294 | 76 | 7,488 |
| Group operating (loss)/profit^ | (19) | 54 | 69 | (29) | 75 | (22) | – | |
| Share of results of joint ventures and associates | 37 | 1 | 33 | – | 71 | – | – | |
| Profit/(loss) from operations^ | 18 | 55 | 102 | (29) | 146 | (22) | – | |
| Non-underlying items | | | | | | | | |
| - include results from Rail Germany within Construction Services | (22) | – | – | – | (22) | | | |
| - amortisation of acquired intangible assets | (10) | – | (7) | – | (17) | | | |
| - other non-underlying items | (89) | (15) | – | (36) | (140) | | | |
| | (121) | (15) | (7) | (36) | (179) | | | |
| (Loss)/profit from operations | (103) | 40 | 95 | (65) | (33) | | | |
| Investment income | | | | | 63 | | | |
| Finance costs | | | | | (79) | | | |
| Loss before taxation | | | | | (49) | | | |

^ Presented before non-underlying items for underlying operations (Note 8).
2 Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
3 Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).
4 Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 8).
7 Re-presented to include Heery Inc. which was previously included in Professional Services.

| Assets and liabilities by activity | Construction Services 2014[^,+] £m | Support Services 2014 £m | Infrastructure Investments 2014 £m | Corporate activities 2014 £m | Total 2014 £m |
|---|---|---|---|---|---|
| Due from construction contract customers | **406** | **156** | **–** | **–** | **562** |
| Due to construction contract customers | **(317)** | **(33)** | **–** | **–** | **(350)** |
| Inventories and non-construction work in progress | **82** | **84** | **–** | **4** | **170** |
| Trade and other receivables – current | **807** | **104** | **55** | **–** | **966** |
| Trade and other payables – current | **(1,596)** | **(278)** | **(75)** | **(10)** | **(1,959)** |
| Provisions – current | **(89)** | **(15)** | **–** | **(16)** | **(120)** |
| Working capital from continuing operations* | **(707)** | **18** | **(20)** | **(22)** | **(731)** |
| Classified as net assets held for sale (Note 10) | **(2)** | **–** | **–** | **–** | **(2)** |
| Adjusted working capital* | **(709)** | **18** | **(20)** | **(22)** | **(733)** |

* Includes non-operating items and current working capital.

| | | | | | |
|---|---|---|---|---|---|
| Total assets | **2,419** | **491** | **1,530** | **804** | **5,244** |
| Total liabilities | **(2,274)** | **(365)** | **(701)** | **(674)** | **(4,014)** |
| Net assets | **145** | **126** | **829** | **130** | **1,230** |

^ Includes net assets held for sale of £13m relating to the Rail disposal group (Note 10).
+ Includes Heery Inc. representing net assets of £11m.

## 5 Segment analysis continued

### 5.1 Total Group

| Assets and liabilities by activity | Professional Services | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|---|
| | 2013[+] £m | 2013[^,+] £m | 2013 £m | 2013[#] £m | 2013[#] £m | 2013 £m |
| Due from construction contract customers | 179 | 316 | 136 | – | – | 631 |
| Due to construction contract customers | (115) | (192) | (53) | – | – | (360) |
| Inventories and non-construction work in progress | 1 | 62 | 71 | – | 1 | 135 |
| Trade and other receivables – current | 285 | 703 | 142 | 50 | 10 | 1,190 |
| Trade and other payables – current | (234) | (1,445) | (283) | (58) | (26) | (2,046) |
| Provisions - current | (4) | (58) | (10) | (2) | (26) | (100) |
| Working capital from continuing operations* | 112 | (614) | 3 | (10) | (41) | (550) |
| Classified as net assets held for sale (Note 10) | – | (17) | – | – | – | (17) |
| Adjusted working capital* | 112 | (631) | 3 | (10) | (41) | (567) |

* Includes non-operating items and current working capital.

| | Professional Services | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|---|
| Total assets | 776 | 2,190 | 486 | 1,278 | 982 | 5,712 |
| Total liabilities | (453) | (2,102) | (458) | (613) | (1,051) | (4,677) |
| Net assets/(liabilities) | 323 | 88 | 28 | 665 | (69) | 1,035 |

^ Includes net assets held for sale of £12m relating to the Rail disposal group (Note 10).
+ Re-presented to include Heery Inc. within Construction Services, representing negative working capital of £27m and net assets of £11m.
\# Re-presented to include the net non-recourse borrowings directly attributable to Infrastructure Investments which were previously included within Corporate activities.

| Other information – continuing operations | Construction Services | Support Services | Infrastructure Investments | Corporate activities | Total |
|---|---|---|---|---|---|
| | **2014 £m** | **2014 £m** | **2014 £m** | **2014 £m** | **2014 £m** |
| Capital expenditure on property, plant and equipment | **15** | **11** | **23** | **–** | **49** |
| Depreciation | **25** | **15** | **2** | **1** | **43** |
| Gain on disposals of interests in investments (Note 21.3) | **–** | **–** | **93** | **–** | **93** |
| | 2013[2,3,7] £m | 2013 £m | 2013 £m | 2013 £m | 2013[2,3,7] £m |
| Capital expenditure on property, plant and equipment | 19 | 11 | 11 | 7 | 48 |
| Depreciation | 18 | 18 | 2 | 1 | 39 |
| Gain on disposals of interests in investments | – | – | 82 | – | 82 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).
[7] Includes Heery Inc. which was previously included in Professional Services.

| Performance by geographic destination – continuing operations | United Kingdom | United States | Rest of World | Total |
|---|---|---|---|---|
| | **2014 £m** | **2014 £m** | **2014 £m** | **2014 £m** |
| Revenue including share of joint ventures and associates | **4,271** | **3,123** | **1,399** | **8,793** |
| Share of revenue of joint ventures and associates | **(329)** | **(180)** | **(1,020)** | **(1,529)** |
| Group revenue | **3,942** | **2,943** | **379** | **7,264** |
| Non-current assets excluding financial assets and deferred tax assets | **1,135** | **709** | **128** | **1,972** |
| | 2013 £m | 2013[2] £m | 2013[2,3] £m | 2013[2,3] £m |
| Revenue including share of joint ventures and associates | 4,452 | 3,174 | 1,226 | 8,852 |
| Share of revenue of joint ventures and associates | (436) | (167) | (761) | (1,364) |
| Group revenue | 4,016 | 3,007 | 465 | 7,488 |
| Non-current assets excluding financial assets and deferred tax assets | 1,057 | 854 | 215 | 2,126 |
| Classified as assets held for sale (Note 10) | – | – | 52 | 52 |
| Adjusted non-current assets excluding financial assets and deferred tax assets | 1,057 | 854 | 267 | 2,178 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).

## 5 Segment analysis continued

### 5.2 Infrastructure Investments

| Underlying profit from operations[1] | Group 2014 £m | Share of joint ventures and associates+ (Note 15) 2014 £m | Total 2014 £m | Group 2013 £m | Share of joint ventures and associates+ (Note 15) 2013 £m | Total 2013 £m |
|---|---|---|---|---|---|---|
| UK ^ | **2** | **40** | **42** | 2 | 27 | 29 |
| North America | **15** | **6** | **21** | 21 | 6 | 27 |
| Infrastructure Fund | **–** | **–** | **–** | (2) | – | (2) |
| Infrastructure | **(2)** | **–** | **(2)** | (3) | – | (3) |
| Gain on disposals of interests in investments | **93** | **–** | **93** | 82 | – | 82 |
| | **108** | **46** | **154** | 100 | 33 | 133 |
| Bidding costs and overheads | **(27)** | **–** | **(27)** | (31) | – | (31) |
| | **81** | **46** | **127** | 69 | 33 | 102 |

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Singapore and Australia.
1 Before non-underlying items (Note 8).

## 6 Investment income

| Continuing operations | 2014 £m | 2013[2,3] £m |
|---|---|---|
| Subordinated debt interest receivable | **29** | 25 |
| Interest receivable on PPP financial assets | **26** | 33 |
| Other interest receivable and similar income | **9** | 5 |
| | **64** | 63 |

2 Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
3 Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).

## 7 Finance costs

| Continuing operations | | 2014 £m | 2013[2,3] £m |
|---|---|---|---|
| Non-recourse borrowings | – bank loans and overdrafts | **20** | 28 |
| Preference shares | – finance cost | **11** | 10 |
| | – accretion | **2** | 2 |
| Convertible bonds | – finance cost | **5** | 1 |
| | – accretion | **6** | – |
| US private placement | – finance cost | **10** | 9 |
| Other interest payable | – loans under committed facilities | **6** | 9 |
| | – other bank loans and overdrafts | **–** | 3 |
| | – commitment fees | **5** | 4 |
| | – other finance charges | **6** | 4 |
| Net finance cost on pension scheme assets and liabilities (Note 18) | | **16** | 9 |
| | | **87** | 79 |

2 Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
3 Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).

## 8 Non–underlying items

| | 2014 £m | 2013[2,3,4] £m |
|---|---|---|
| **Items (charged against)/credited to profit** | | |
| **8.1 Continuing operations** | | |
| **8.1.1** Trading results from Rail Germany (including £15m (2013: £4m) of other net operating expenses and £1m (2013: £1m) of finance cost) | **(23)** | (23) |
| **8.1.1** Results of certain legacy ES contracts | **(88)** | – |
| **8.1.3** Amortisation of acquired intangible assets | **(11)** | (17) |
| **8.1.4** Other non-underlying items: | | |
| – restructuring and reorganisation costs relating to continuing businesses | **(23)** | (37) |
| – cost of implementing the shared service centre in the UK | **(14)** | (7) |
| – impairment of assets within Rail Germany | **(30)** | – |
| – goodwill impairment in respect of Rail Germany | **–** | (38) |
| – Rail Germany regulatory matters | **(6)** | (2) |
| – cost incurred in relation to the aborted merger discussions with Carillion plc | **(7)** | – |
| – impairment of Oracle R12 intangible asset | **(21)** | – |
| – pension fund settlement gain | **2** | – |
| – pension curtailment charges and related costs | **–** | (52) |
| – post-acquisition integration, reorganisation and other costs | **–** | (3) |
| – cost associated with the liquidation of Blackpool Airport | **(1)** | – |
| – loss on disposal of Stassfurt Signalling Workshop | **–** | (1) |
| Total other non-underlying items from continuing operations | **(100)** | (140) |
| | **(222)** | (180) |
| **8.1.5** Share of results of joint ventures and associates – goodwill impairment in respect of Middle East | **(1)** | – |
| **8.1.6** Share of results of joint ventures and associates – trading results of Rail Germany | **(1)** | – |
| **Charged against profit before taxation from continuing operations** | **(224)** | (180) |
| **8.1.7** Tax on items above | **1** | 24 |
| **Non-underlying items charged against profit for the year from continuing operations** | **(223)** | (156) |
| **8.2 Discontinued operations** | | |
| **8.2.1** Amortisation of acquired intangible assets | **(8)** | (15) |
| **8.2.2** Other non-underlying items: | | |
| – gain on disposal of Parsons Brinckerhoff | **234** | – |
| – goodwill impairment in respect of Rail Italy | **(24)** | – |
| – impairment of assets within Rail Italy | **(2)** | – |
| – UK facilities management business disposal gain | **–** | 16 |
| – restructuring charges in respect of discontinued businesses | **(1)** | (21) |
| – net loss on disposals of Rail Spain | **–** | (4) |
| – cost of implementing the shared service centre in the US | **–** | (10) |
| – pension curtailment charges | **–** | (2) |
| – post-acquisition integration, reorganisation and other costs | **–** | (1) |
| Total other non-underlying items from discontinued operations | **207** | (22) |
| **Credited to/(charged against) profit before taxation from discontinued operations** | **199** | (37) |
| **8.2.3** Tax on items above | **19** | 11 |
| **Non-underlying items credited to/(charged against) profit for the year from discontinued operations** | **218** | (26) |
| **Charged against profit for the year** | **(5)** | (182) |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations.
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items.

## 8 Non–underlying items continued

### Continuing operations

**8.1.1** Rail Germany has been reclassified from discontinued operations in the year and is now being presented as part of the Group's non-underlying items within continuing operations. This is because Rail Germany no longer meets the definition of discontinued operations at 31 December 2014 under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, however the Group remains committed to exiting the business. In 2014, Rail Germany generated a loss before tax excluding share of joint ventures and associates of £23m (2013: £23m).

**8.1.2** The Group has presented the results of certain external legacy Engineering Services (ES) contracts as non-underlying in the year. This is because the performance of these ES contracts is linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work due to the problematic delivery of these contracts and the size and nature of the losses are exceptional to the extent that they distort the underlying performance of the Group. These contracts resulted in a loss before tax for the Group of £88m in 2014 (2013: £nil). No tax credit has been recognised on this loss.

**8.1.3** The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £6m (2013: £9m); customer relationships £4m (2013: £6m); and brand names £1m (2013: £2m).

**8.1.4.1** The Group continued to implement its plan to restructure a number of its businesses in order to increase its focus on the needs of customers and upon growth sectors, further integrate its service offering to these customers, and realise operational efficiencies.

In 2014 restructuring costs of £23m were incurred (2013: £37m) relating to: Construction Services UK £11m (2013: £14m), where six business units have been streamlined and restructured into one business with three business streams; Support Services UK £nil (2013: £5m); other UK entities £3m (2013: £7m); and other non-UK entities £9m (2013: £11m).

The 2014 restructuring costs comprise: redundancy costs £13m (2013: £16m); external advisers £5m (2013: £7m); reversal of impairment of land and buildings £nil (2013 £(3)m); gain on sale of property £nil (2013: £(3)m); other property related costs £1m (2013: £4m); pension curtailment cost £nil (2013: £1m); and other restructuring costs £4m (2013: £15m).

**8.1.4.2** In 2014, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £14m (2013: £7m).

**8.1.4.3** An assessment of the carrying value of assets within Rail Germany was carried out in the year, which resulted in an impairment of £30m (2013: £nil). The impairment charge was recognised on the parts of Rail Germany which were sold to Rhomberg Sersa Rail Group in January 2015. Refer to Note 25. These assets have been included in assets held for sale at 31 December 2014. No impairment charge was recognised on the remaining parts of Rail Germany.

**8.1.4.4** In 2013, a goodwill impairment charge of £38m was recognised in respect of Rail Germany.

## 8 Non–underlying items continued

### Continuing operations continued

**8.1.4.5** During 2014, Rail Germany booked costs of £6m (2013: £2m) in relation to allegations of historical anti-competitive behaviour occurring in Schreck-Mieves GmbH, a company acquired by Balfour Beatty in 2008.

**8.1.4.6** In 2014, costs of £7m (2013: £nil) were incurred in relation to the aborted merger discussions with Carillion plc.

**8.1.4.7** In 2014, an impairment charge of £21m (2013: £nil) was recorded to write down the cost capitalised in relation to the Oracle R12 software within intangible assets. Refer to Note 14.

**8.1.4.8** A settlement gain of £2m (2013: £nil) was recognised in relation to the Balfour Beatty Pension Fund following a commutation exercise performed in 2014. Refer to Note 18.

**8.1.4.9** On 31 August 2013 the majority of members of the Balfour Beatty Pension Fund ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge of £51m with associated costs of £1m being incurred in 2013.

**8.1.4.10** Post-acquisition reorganisation costs of £3m were incurred in 2013 relating to Howard S. Wright.

**8.1.4.11** Blackpool Airport Ltd went into creditors' voluntary liquidation on 16 October 2014 which resulted in costs of £1m (2013: £nil).

**8.1.4.12** On 1 August 2013, as the initial step in disposing of Rail Germany, the Group disposed of the Stassfurt Signalling Workshop to its local management for €1 resulting in a loss of £1m.

**8.1.5** In 2014, a goodwill impairment charge of £1m (2013: £nil) was recognised in relation to one of the Group's investments in a joint venture in the Middle East.

**8.1.6** In 2014, joint ventures and associates within Rail Germany generated a loss of £1m for the Group (2013: £nil).

**8.1.7** The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £1m comprising: £4m charge on the results of Rail Germany and £nil on certain legacy Engineering Services contracts; £4m credit on amortisation of acquired intangible assets and £1m credit on other non-underlying items (2013: £24m credit comprising: £2m charge on the results of Rail Germany; £5m credit on amortisation of acquired intangible assets and £21m credit on other non-underlying items).

### Discontinued operations

**8.2.1** The amortisation of acquired intangible assets from discontinued operations comprises: customer contracts £1m (2013: £2m); customer relationships £2m (2013: £6m); and brand names £5m (2013: £7m).

## Discontinued operations continued

**8.2.2.1** On 31 October 2014, the Group disposed of its 100% interest in Parsons Brinckerhoff, resulting in a gain on disposal of £234m. Refer to Notes 21.3.5. Included within the gain on disposal are costs of £2m in relation to the impairment of software intangible assets.

**8.2.2.2** Rail Italy met the criteria to be classified as held for sale at 27 June 2014. Rail Italy is carried at the lower of cost and net realisable value which resulted in a goodwill impairment of £24m in 2014, of which £4m arose after its transfer to assets held for sale. Refer to Note 13.

**8.2.2.3** In 2014, an assessment of the carrying value of assets within Rail Italy was carried out in the year which resulted in an impairment of £2m (2013: £nil).

**8.2.2.4** On 13 December 2013 the Group disposed of the UK facilities management business, Balfour Beatty WorkPlace (BBW), resulting in a net estimated gain of £16m being recognised in 2013. Refer to Note 21.4.10. In 2014, the Group finalised the cash consideration due on this disposal, which resulted in a non-underlying gain on disposal of £6m. This was fully offset by an impairment charge for an intangible asset of £6m (refer to Note 14). The net non-underlying gain on disposal recognised in 2014 was therefore £nil. Refer to Note 21.3.6.

**8.2.2.5** Restructuring costs of £1m (2013: £21m) were incurred in respect of discontinued businesses relating to: Rail Italy £1m (2013: £nil); Parsons Brinckerhoff Australia £nil (2013: £20m); and other Parsons Brinckerhoff entities £nil (2013: £1m).

The 2014 restructuring costs comprise: redundancy costs £1m (2013: £13m) and onerous leases £nil (2013: £8m).

**8.2.2.6** On 1 March 2013 the Group disposed of Rail Spain for a net loss of £4m.

**8.2.2.7** In 2013, the implementation of Parsons Brinckerhoff's shared service centre in Lancaster, Pennsylvania with the transfer of roles from New York led to costs of £10m.

**8.2.2.8** On 31 August 2013 the majority of members of the Balfour Beatty Pension Fund ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge of £2m being incurred in relation to Balfour Beatty WorkPlace employees.

**8.2.2.9** Post-acquisition reorganisation cost of £1m were incurred in 2013 relating to Parsons Brinckerhoff.

**8.2.3** The non-underlying items charged against profit from discontinued operations gave rise to a tax credit of £19m comprising: £2m on amortisation of acquired intangible assets and £17m on other non-underlying items (2013: £11m comprising: £4m on amortisation of acquired intangible assets and £7m on other non-underlying items).

## 9 Taxation – continuing operations

| | Underlying Items[1] 2014 £m | Non-underlying items (Note 8) 2014 £m | Total 2014 £m | Total 2013[2,3] £m |
|---|---|---|---|---|
| Total UK tax | **(16)** | **1** | **(15)** | (9) |
| Total non-UK tax | **14** | **(2)** | **12** | 13 |
| **Total tax (credit)/charge** | **(2)** | **(1)** | **(3)** | 4 |
| | | | | |
| **Continuing operations[x]** | | | | |
| **UK current tax** | | | | |
| – corporation tax for the year at 21.5% (2013: 23.25%) | **1** | **–** | **1** | 2 |
| – adjustments in respect of previous periods | **(14)** | **–** | **(14)** | (11) |
| | **(13)** | **–** | **(13)** | (9) |
| **Non-UK current tax** | | | | |
| – non-UK tax on profits for the year | **20** | **(14)** | **6** | (5) |
| – adjustments in respect of previous periods | **(19)** | **(1)** | **(20)** | (3) |
| | **1** | **(15)** | **(14)** | (8) |
| | | | | |
| **Total current tax** | **(12)** | **(15)** | **(27)** | (17) |
| **UK deferred tax** | | | | |
| – current year (credit)/charge | **(7)** | **1** | **(6)** | (16) |
| – adjustments in respect of previous periods | **3** | **–** | **3** | 10 |
| – UK corporation tax rate change | **1** | **–** | **1** | 6 |
| | **(3)** | **1** | **(2)** | – |
| **Non-UK deferred tax** | | | | |
| – current year (credit)/charge | **(3)** | **12** | **9** | 19 |
| – adjustments in respect of previous periods | **16** | **1** | **17** | 2 |
| | **13** | **13** | **26** | 21 |
| | | | | |
| **Total deferred tax** | **10** | **14** | **24** | 21 |
| | | | | |
| **Total tax (credit)/charge from continuing operations** | **(2)** | **(1)** | **(3)** | 4 |

[x] Excluding joint ventures and associates
[1] Before non-underlying items (Note 8).
[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 15), except where tax is levied at the Group level.

In addition to the Group tax credit, tax of £77m is charged (2013: £37m credited) directly to other comprehensive income, comprising: a deferred tax charge of £54m (2013: £9m credit) and a deferred tax charge in respect of joint ventures and associates of £23m (2013: £28m credit).

## 10 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.

On 28 June 2013 it was probable that Rail Germany and Rail Scandinavia would be disposed within a year and therefore met the criteria to be classified as an asset held for sale, with a £38m goodwill impairment in respect of Rail Germany recognised as a non-underlying item.

On 1 August 2013, as the initial step in disposing of Rail Germany, the Group disposed of the Stassfurt Signalling Workshop to its local management for €1 resulting in a net loss of £1m and closed its Switches and Crossings manufacturing facility during the year.

On 8 January 2014 the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m. The disposal resulted in a £nil gain being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed, including cash disposed of £9m, a £1m gain on recycling currency translation reserves to the income statement, and costs incurred and indemnity provisions of £1m. Refer to Note 21.3.1.

On 27 June 2014, following progression of talks with potential purchasers, it became highly probable that Rail Italy would be disposed within a year and met the criteria to be classified as an asset held for sale. Accordingly a £24m goodwill impairment charge was recognised in the year as a non-underlying item. Refer to Note 8.2.2.2. On 11 March 2015, the Group completed the sale of Rail Italy for a net consideration of £3m. Refer to Note 25.

Rail Germany has been reclassified from discontinued operations in 2014 and its performance has been included within non-underlying items as part of continuing operations. The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit. Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014. As a result, Rail Germany does not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation and the prior year comparatives have been restated accordingly.

At 31 December 2014, Rail Italy constitutes the Rail disposal group within discontinued operations. In 2013, discontinued operations included Rail Scandinavia and Rail Spain.

The Rail disposal group was part of the Construction Services segment.

## 10 Discontinued operations continued

### UK facilities management disposal group

Balfour Beatty WorkPlace (BBW) was the Group's only significant buildings facilities management business in the UK and represented a separate major line of business. The Group disposed of BBW to GDF Suez Energy Services on 13 December 2013.

During the year the Group finalised the cash consideration due on disposal of BBW, giving rise to additional consideration for the Group of £1m. At the same time, an agreement was reached to discharge the Group’s obligation for which a provision of £14m had been made in return for a payment by the Group of £9m. This resulted in a non-underlying gain on disposal of £6m, which was fully offset with an impairment charge of an intangible asset of £6m (refer to Note 14). The net non-underlying gain on disposal recognised in the year was therefore £nil (2013: £16m gain). Costs of £6m which were incurred in 2013 were paid in 2014. Refer to Note 21.3.6.

BBW was part of the Support Services segment.

### Parsons Brinckerhoff

On 28 October 2014 shareholder approval was granted for the disposal of the Group’s 100% interest in Parsons Brinckerhoff. The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m with the proceeds being received on that day. The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations after incurring separation costs of £24m and transaction costs of £45m. The net gain comprises a gain of £314m before disposal costs in respect of the fair value of net assets disposed and a £11m loss in respect of reserves recycled to the income statement. This disposal includes cash disposed of £42m. Refer to Note 21.3.5.

Parsons Brinckerhoff represented the majority of the Group’s Professional Services segment. As a result of its disposal, the Group no longer presents this segment. The remaining continuing operations that were presented within Professional Services now report into Construction Services management and consequently are now presented in the Construction Services segment. Refer to Note 5.

## 10 Discontinued operations continued

### Results of the discontinued operations included within the Group Income Statement

| | Parsons Brinckerhoff 2014 £m | Rail disposal group 2014 £m | Total discontinued operations 2014 £m | Parsons Brinckerhoff 2013[2] £m | Rail disposal group 2013[2,3] £m | UK facilities management disposal group 2013 £m | Total discontinued operations 2013[2,3] £m |
|---|---|---|---|---|---|---|---|
| **Revenue including share of joint ventures and associates** | **1,266** | **23** | **1,289** | 1,536 | 134 | 470 | 2,140 |
| Share of revenue of joint ventures and associates | **(13)** | **–** | **(13)** | (13) | – | (45) | (58) |
| **Group revenue** | **1,253** | **23** | **1,276** | 1,523 | 134 | 425 | 2,082 |
| **Underlying group operating profit/(loss)** | **38** | **1** | **39** | 55 | (2) | 19 | 72 |
| Share of results of joint ventures and associates | **–** | **–** | **–** | – | – | – | – |
| **Underlying profit/(loss) from operations** | **38** | **1** | **39** | 55 | (2) | 19 | 72 |
| Net finance costs | **–** | **–** | **–** | (1) | (1) | (1) | (3) |
| **Underlying profit/(loss) before tax** | **38** | **1** | **39** | 54 | (3) | 18 | 69 |
| Taxation on underlying profit/(loss) | **(14)** | **(1)** | **(15)** | (21) | (2) | (2) | (25) |
| **Underlying profit/(loss) after tax** | **24** | **–** | **24** | 33 | (5) | 16 | 44 |
| Non-underlying items: | | | | | | | |
| – amortisation of acquired intangible assets | **(8)** | **–** | **(8)** | (13) | – | (2) | (15) |
| – gain/(loss) on disposal | **234** | **–** | **234** | – | (4) | 16 | 12 |
| – other non-underlying items | **–** | **(27)** | **(27)** | (32) | – | (2) | (34) |
| | **226** | **(27)** | **199** | (45) | (4) | 12 | (37) |
| Taxation on non-underlying items | **13** | **6** | **19** | 10 | – | 1 | 11 |
| **Non-underlying profit/(loss) after tax** | **239** | **(21)** | **218** | (35) | (4) | 13 | (26) |
| **Profit/(loss) for the year from discontinued operations** | **263** | **(21)** | **242** | (2) | (9) | 29 | 18 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).

## 10 Discontinued operations continued

### Major classes of assets and liabilities included within net assets held for sale

| | **Rail disposal group 2014 £m** | Rail disposal group 2013 £m |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets – other | **–** | 2 |
| Property, plant and equipment | **–** | 42 |
| Investments in joint ventures and associates | **–** | 8 |
| Deferred tax asset | **1** | – |
| | **1** | 52 |
| **Current assets** | | |
| Inventories and non-construction work in progress | **2** | 13 |
| Due from construction contract customers | **14** | 73 |
| Trade and other receivables | **24** | 74 |
| Current tax asset | **1** | – |
| Cash | **18** | 19 |
| | **59** | 179 |
| **Total assets classified as held for sale** | **60** | 231 |
| **Current liabilities** | | |
| Due to construction contract customers | **(1)** | (47) |
| Trade and other payables | **(39)** | (120) |
| Provisions | **(2)** | (10) |
| Borrowings | **(3)** | – |
| Current tax liabilities | **–** | (3) |
| | **(45)** | (180) |
| **Non-current liabilities** | | |
| Trade and other payables | **–** | (4) |
| Provisions | **–** | (3) |
| Retirement benefit liabilities | **(2)** | (30) |
| Deferred tax liabilities | **–** | (2) |
| | **(2)** | (39) |
| **Total liabilities classified as held for sale** | **(47)** | (219) |
| **Net assets of disposal group** | **13** | 12 |

**Reconciliation of net assets classified as held for sale**

| | **Rail disposal group 2014 £m** |
|---|---|
| At 1 January 2014 | 12 |
| Rail Germany reclassified from net assets held for sale into continuing operations^ | **(7)** |
| Rail Italy reclassified into net assets held for sale | **8** |
| At 31 December 2014 | **13** |

^ Includes impairment charge of £30m. Refer to Note 8.1.4.3.

Included within the Group's cash flows for the year ended 31 December 2014 are: net £1m operating cash outflows (2013: £10m); net £9m investing cash outflows (2013: £10m); and net £nil financing cash outflows (2013: £1m) relating to the Rail disposal group.

Included within the Group's cash flows for the year ended 31 December 2014 are: net £43m operating cash outflows; net £703m investing cash inflows; and net £1m financing cash outflows relating to Parsons Brinckerhoff.

Included within the Group's cash flows for the year ended 31 December 2014 are: net £nil operating cash inflows (2013: £7m) and net £14m investing cash outflows (2013: £139m inflows) relating to the UK facilities management disposal group.

## 11 Earnings per ordinary share

| Earnings | 2014 Basic £m | 2014 Diluted £m | 2013[2,3,4] Basic £m | 2013[2,3,4] Diluted £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Loss | **(302)** | **(302)** | (53) | (53) |
| Amortisation of acquired intangible assets – net of tax credit of £4m (2013[2,3,4]: £5m) | **7** | **7** | 12 | 12 |
| Other non-underlying items – net of tax charge of £3m (2013[2,3,4]: credit £19m) | **216** | **216** | 144 | 144 |
| Underlying (loss)/earnings | **(79)** | **(79)** | 103 | 103 |
| **Discontinued operations** | | | | |
| Earnings | **242** | **242** | 18 | 18 |
| Amortisation of acquired intangible assets – net of tax credit of £2m (2013[2,3]: £4m) | **6** | **6** | 11 | 11 |
| Other non-underlying items – net of tax credit of £17m (2013[2,3]: £7m) | **(224)** | **(224)** | 15 | 15 |
| Underlying earnings | **24** | **24** | 44 | 44 |
| **Total operations** | | | | |
| Loss | **(60)** | **(60)** | (35) | (35) |
| Amortisation of acquired intangible assets – net of tax credit of £6m (2013[2,3,4]: £9m) | **13** | **13** | 23 | 23 |
| Other non-underlying items – net of tax credit of £14m (2013[2,3,4]: £26m) | **(8)** | **(8)** | 159 | 159 |
| Underlying (loss)/earnings | **(55)** | **(55)** | 147 | 147 |

| | 2014 Basic m | 2014 Diluted m | 2013 Basic m | 2013 Diluted m |
|---|---|---|---|---|
| Weighted average number of ordinary shares | **686** | **686** | 685 | 686 |

| Earnings per share | 2014 Basic pence | 2014 Diluted pence | 2013 Basic pence | 2013 Diluted pence |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Loss per ordinary share | **(43.9)** | **(43.9)** | (7.5) | (7.5) |
| Amortisation of acquired intangible assets | **1.1** | **1.1** | 1.8 | 1.8 |
| Other non-underlying items | **31.3** | **31.3** | 21.0 | 21.0 |
| Underlying (loss)/earnings per ordinary share | **(11.5)** | **(11.5)** | 15.3 | 15.3 |
| **Discontinued operations** | | | | |
| Earnings per ordinary share | **35.3** | **35.3** | 2.4 | 2.4 |
| Amortisation of acquired intangible assets | **0.8** | **0.8** | 1.6 | 1.6 |
| Other non-underlying items | **(32.6)** | **(32.6)** | 2.2 | 2.2 |
| Underlying earnings per ordinary share | **3.5** | **3.5** | 6.2 | 6.2 |
| **Total operations** | | | | |
| Loss per ordinary share | **(8.6)** | **(8.6)** | (5.1) | (5.1) |
| Amortisation of acquired intangible assets | **1.9** | **1.9** | 3.4 | 3.4 |
| Other non-underlying items | **(1.3)** | **(1.3)** | 23.2 | 23.2 |
| Underlying (loss)/earnings per ordinary share | **(8.0)** | **(8.0)** | 21.5 | 21.5 |

[2] Re-presented to classify Parsons Brinckerhoff and Rail Italy as discontinued operations (Note 10).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 8).
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 8).

## 12 Dividends on ordinary shares

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Per share pence** | **Amount £m** | Per share pence | Amount £m |
| **Proposed dividends for the year** | | | | |
| Interim – current year | **5.60** | **38** | 5.60 | 38 |
| Final – current year | **–** | **–** | 8.50 | 58 |
| | **5.60** | **38** | 14.10 | 96 |
| **Recognised dividends for the year** | | | | |
| Final – prior year | | **58** | | 58 |
| Interim – current year | | **38** | | 38 |
| | | **96** | | 96 |

The interim 2014 dividend was paid on 5 December 2014. Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending a final dividend payable for 2014. This results in a total dividend for the year of 5.6 pence (2013: 14.1 pence). The Board will look to reinstate the dividend payments in March 2016, at an appropriate level.

| | **2014 £m** | 2013 £m |
|---|---|---|
| Dividends on ordinary shares of the Company | **96** | 96 |
| Other dividends to non-controlling interests | **–** | 1 |
| **Total recognised dividends for the year** | **96** | 97 |

## 13 Intangible assets – goodwill

| | Cost £m | Accumulated impairment losses £m | Carrying amount £m |
|---|---|---|---|
| At 1 January 2014 | 1,091 | (43) | 1,048 |
| Currency translation differences | **24** | **5** | **29** |
| Impairment charges in respect of Mainland European rail businesses (Note 8.2.2.2) | **–** | **(20)** | **(20)** |
| Reclassified from assets held for sale relating to Rail Germany | **113** | **(113)** | **–** |
| Reclassified to assets held for sale relating to Rail Italy | **(24)** | **20** | **(4)** |
| Reclassified to assets held for sale and subsequently sold | **(227)** | **–** | **(227)** |
| At 31 December 2014 | **977** | **(151)** | **826** |

### Carrying amounts of goodwill by cash generating unit

| | **2014 £m** | **Pre-tax discount rate 2014 %** | 2013[+] £m | Pre-tax discount rate 2013[+] % |
|---|---|---|---|---|
| Parsons Brinckerhoff | **–** | **–** | 219 | 12.5 |
| Construction Services UK | **260** | **10.4** | 260 | 10.7 |
| Balfour Beatty Construction Group Inc. | **356** | **12.6** | 338 | 12.8 |
| Support Services | **129** | **8.7** | 129 | 9.1–12.7 |
| Other | **81** | **8.7–12.8** | 102 | 9.1–12.1 |
| Group total | **826** | | 1,048 | |

[+] Re-presented to align 2013's carrying amount of goodwill to 2014's CGU allocation as a result of changes in management reporting structure. Construction Services US has also been split into two CGUs being Balfour Beatty Construction Group Inc. and Balfour Beatty Infrastructure Inc., the latter being included within 'Other'.

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected workload of each cash-generating unit (CGU), giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three Year Plan, which covers the period from 2015 to 2017 and includes a stabilisation of performance in the Construction Services UK business. The cash flow forecasts for each CGU were compiled from each of its constituent business units as part of the Group's annual financial planning process.

### 13 Intangible assets – goodwill continued

The other key inputs in assessing each CGU are its long-term growth rate and discount rate. The discount rates have been calculated using the Weighted Average Cost of Capital (WACC) method, which takes account of the Group's capital structure (financial risk) as well as the nature of each CGU's business (operational risk). Long-term growth rates are assumed to be the estimated future GDP growth rates based on published independent forecasts for the country or countries in which each CGU operates, less 1.0% to reflect current economic uncertainties and their consequent estimated effect on public sector spending on infrastructure.

In the derivation of each CGU's value-in-use, a terminal value is assumed based on a multiple of earnings before interest and tax. The multiple is applied to a terminal cash flow, which is the normalised cash flow in the last year of the forecast period. The EBIT multiple is calculated using the Gordon Growth Model and is a factor of the discount rate and growth rate for each CGU. The nominal terminal value is discounted to present value.

| | **Construction Services UK 2014 %** | **Balfour Beatty Construction Group Inc. 2014 %** | **Support Services 2014 %** | **Other 2014 %** | Professional Services+ 2013 % | Construction Services UK 2013 % | Balfour Beatty Construction Group Inc. 2013+ % | Support Services 2013+ % | Other 2013+ % |
|---|---|---|---|---|---|---|---|---|---|
| Inflation rate | **1.9** | **1.9** | **1.9** | **1.9** | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Real growth rate | **1.3** | **1.7** | **1.3** | **1.7** | 1.7 | 1.2 | 1.7 | 1.2 | 1.2 |
| Nominal long-term revenue growth rate applied | **3.2** | **3.6** | **3.2** | **3.6** | 4.1 | 3.6 | 4.1 | 3.6 | 3.6 |

+ Re-presented to align 2013's carrying amount of goodwill to 2014's CGU allocation as a result of changes in management reporting structure. Construction Services US has also been split into two CGUs being Balfour Beatty Construction Group Inc. and Balfour Beatty Infrastructure Inc., the latter being included within 'Other'.

### Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the discount rate and the long-term revenue growth rate.

In light of the significant losses incurred within Construction Services UK in 2014 the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in that CGU and concluded that it is not the case. The stabilisation and recovery of Construction Services UK to more normal levels of performance is however a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

Except as noted below, a reasonable possible change in a single assumption will not give rise to an impairment in any of the Group's CGUs.

Using a pre-tax discount rate of 12.6% and revenue growth rate of 3.6% the recoverable amount of the remaining goodwill in Balfour Beatty Construction Group Inc. is £443m based on value in use, with consequent headroom of £87m. A 1.0% increase in the discount rate and a 1.0% reduction in the growth rate would lead to an impairment of £13m.

The recoverable amount of goodwill on Blackpool International Airport is £4m with £nil headroom, based on the fair value of the land. Any decrease in the fair value of the land will lead to an equivalent impairment of the goodwill. Blackpool Airport Ltd went into creditors' voluntary liquidation on 16 October 2014.

### 14 Intangible assets – other

| | Cost £m | Accumulated amortisation £m | Carrying Amount £m |
|---|---|---|---|
| At 1 January 2014 | 490 | (286) | 204 |
| Currency translation differences | **17** | **(11)** | **6** |
| Additions | **63** | **–** | **63** |
| Charge for the year – continuing operations | **–** | **(17)** | **(17)** |
| Charge for the year – discontinued operations | **–** | **(8)** | **(8)** |
| Impairment charge – continuing operations | **–** | **(21)** | **(21)** |
| Impairment charge – discontinued operations | **–** | **(8)** | **(8)** |
| Reclassified from property, plant and equipment | **4** | **–** | **4** |
| Reclassified from assets held for sale (Note 10) | **4** | **(4)** | **–** |
| Reclassified to assets held for sale (Note 10) | **(1)** | **1** | **–** |
| Reclassified to assets held for sale and subsequently sold | **(137)** | **130** | **(7)** |
| At 31 December 2014 | **440** | **(224)** | **216** |

Other intangible assets comprise: acquired intangible assets of customer contracts, customer relationships, and brand names; Infrastructure Investments' intangible assets on student accommodation project in which the Group has demand risk; software and other, including internally generated software.

In 2014, an impairment charge of £27m was recognised against internally generated software intangible assets, of which £6m relates to discontinued operations. This represents capitalised costs in the development and implementation of the Oracle R12 business suite. Due to curtailments in the scope of the roll-out of this asset, it is not expected to provide service potential as originally planned, which represents a significant change in the extent to which the asset is to be used and as such the future benefits expected to be generated are reduced. The impairment was recognised as a non-underlying charge.

A further impairment charge of £2m was also recognised against the Group's knowledge sharing and collaboration assets which arises on the loss of future economic benefits associated with Parsons Brinckerhoff. This has been recognised as a non-underlying loss as part of the gain on disposal of Parsons Brinckerhoff.

## 15 Joint ventures and associates

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | Infrastructure Investments | | | |
| | Construction Services £m | Support Services £m | UK ^ £m | North America £m | Infrastructure Fund £m | Total £m |
| **Continuing operations** | | | | | | |
| Revenue | 1,168 | 26 | 249 | 47 | – | 1,490 |
| Underlying operating profit [1] | 10 | 1 | 11 | 8 | – | 30 |
| Investment income | 1 | – | 176 | 2 | – | 179 |
| Finance costs | – | – | (135) | (4) | – | (139) |
| Profit before taxation[1] | 11 | 1 | 52 | 6 | – | 70 |
| Taxation | (3) | – | (12) | – | – | (15) |
| Profit after taxation before non-underlying items | 8 | 1 | 40 | 6 | – | 55 |
| Share of results within non-underlying items | (2) | – | – | – | – | (2) |
| Profit after taxation | 6 | 1 | 40 | 6 | – | 53 |
| | | | | | | |
| Intangible assets: | | | | | | |
| - goodwill | 29 | – | – | – | – | 29 |
| - Infrastructure Investments intangible | – | – | 24 | – | – | 24 |
| - other | – | – | 6 | – | – | 6 |
| Property, plant and equipment | 41 | – | 16 | 4 | – | 61 |
| Investment in joint ventures and associates | 5 | – | – | – | – | 5 |
| PPP financial assets | – | – | 2,326 | 33 | – | 2,359 |
| Military housing projects | – | – | – | 91 | – | 91 |
| Infrastructure Fund Investment | – | – | – | – | 20 | 20 |
| Net cash/(borrowings) | 208 | 2 | (1,456) | (24) | – | (1,270) |
| Other net liabilities | (160) | – | (394) | (12) | – | (566) |
| Net assets | 123 | 2 | 522 | 92 | 20 | 759 |

^ Including Singapore and Australia.
[1] Before non-underlying items (Note 8).

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.

## 15 Joint ventures and associates continued

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Infrastructure Investments | | | |
| | Professional Services[2] £m | Construction Services[+,2] £m | Support Services £m | UK ^ £m | North America £m | Infrastructure Fund £m | Total[+,2] £m |
| **Continuing operations** | | | | | | | |
| Revenue | – | 971 | 33 | 356 | – | – | 1,360 |
| Underlying operating profit [1] | – | 38 | 1 | 11 | 6 | – | 56 |
| Investment income | – | 2 | – | 164 | – | – | 166 |
| Finance costs | – | – | – | (142) | – | – | (142) |
| Profit before taxation[1] | – | 40 | 1 | 33 | 6 | – | 80 |
| Taxation | – | (3) | – | (6) | – | – | (9) |
| Profit after taxation | – | 37 | 1 | 27 | 6 | – | 71 |
| | | | | | | | |
| Intangible assets: | | | | | | | |
| - goodwill | – | 29 | – | – | – | – | 29 |
| - Infrastructure Investments intangible | – | – | – | 23 | – | – | 23 |
| - other | – | – | – | 6 | – | – | 6 |
| Property, plant and equipment | – | 43 | – | 8 | – | – | 51 |
| Investment in joint ventures and associates | – | 2 | – | – | – | – | 2 |
| PPP financial assets | – | – | – | 2,292 | – | – | 2,292 |
| Military housing projects | – | – | – | – | 83 | – | 83 |
| Infrastructure Fund investment | – | – | – | – | – | 11 | 11 |
| Net cash/(borrowings) | 2 | 191 | 3 | (1,599) | – | – | (1,403) |
| Other net liabilities | (1) | (130) | – | (297) | – | – | (428) |
| Net assets | 1 | 135 | 3 | 433 | 83 | 11 | 666 |

^ Including Singapore.
[+] Re-presented to reflect the change in IFRS 11 for joint arrangements within the Group's joint ventures and associates.
[1] Before non-underlying items (Note 8).
[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 10).

## 16 Trade and other receivables

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Current** | | |
| Trade receivables | **583** | 827 |
| Less: provision for impairment of trade receivables | **(26)** | (26) |
| | **557** | 801 |
| Other receivables | **56** | 76 |
| Due from joint ventures and associates | **33** | 28 |
| Due from joint operations | **29** | 3 |
| Contract retentions receivable[+] | **210** | 198 |
| Accrued income | **39** | 21 |
| Prepayments | **42** | 47 |
| Due on acquisitions | **–** | 16 |
| | **966** | 1,190 |
| **Non-current** | | |
| Trade receivables | **–** | 2 |
| Other receivables | **7** | 2 |
| Due from joint ventures and associates | **16** | 11 |
| Due from joint operations | **4** | – |
| Contract retentions receivable[+] | **84** | 98 |
| | **111** | 113 |
| Total trade and other receivables | **1,077** | 1,303 |

[+] Including £291m (2013: £295m) construction contract retentions receivable.

## 17 Trade and other payables

| | 2014 £m | 2013 £m |
|---|---|---|
| **Current** | | |
| Trade and other payables | **905** | 857 |
| Accruals | **961** | 1,044 |
| Deferred income | **5** | 6 |
| Advance payments on contracts* | **1** | 14 |
| VAT, payroll taxes and social security | **79** | 115 |
| Due to joint ventures and associates | **–** | 1 |
| Dividends on preference shares | **5** | 5 |
| Due on acquisitions | **3** | 4 |
| | **1,959** | 2,046 |
| **Non-current** | | |
| Trade and other payables | **65** | 112 |
| Accruals | **24** | 20 |
| Deferred income | **3** | 7 |
| Due to joint ventures and associates | **27** | 27 |
| Due on acquisitions | **15** | 16 |
| | **134** | 182 |
| Total trade and other payables | **2,093** | 2,228 |

* Including £nil (2013: £11m) advances on construction contracts.

## 18 Retirement benefit liabilities

IAS 19 Employee Benefits 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 investment strategy of the Balfour Beatty Pension Fund (BBPF) is to hold assets of appropriate liquidity and marketability to generate income and capital growth. The BBPF invests partly in a diversified range of assets including equities and hedge funds in anticipation that, over the longer term, they will grow in value faster than the obligations. The equities are in the form of pooled funds and are a combination of UK, other developed market and emerging market equities. The remaining BBPF assets are principally fixed and index-linked bonds and swaps in order to match the duration and inflation exposure of the obligations and enhance the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2013. As a result the Group agreed with effect from April 2013 to make ongoing deficit payments of £50m per annum, increasing to: £55m per annum from April 2016; £60m per annum from April 2017; and £65m per annum from April 2018 to May 2020, increasing each year by CPI (minimum 0% and capped at 5%) plus (in the period before the next actuarial valuation is agreed) 200% of any increase in the Company's dividend in excess of capped CPI. If the Company makes any one-off return of value to shareholders such as a special dividend, share buy-back, capital payment or similar before the next actuarial valuation is agreed, there will be an additional increase in the deficit payment for the following year only, calculated as the regular deficit payment for that year multiplied by 75%, multiplied by the value of the one-off return of value, divided by the total of the regular dividends for the year prior to the year in which the one-off return was made.

### 18 Retirement benefit liabilities continued

This agreement constitutes a minimum funding requirement under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Under the terms of the trust deed and subject to the agreement of the trustee (who would need to balance their responsibility to set contribution rates in accordance with the trust rules together with the interests of the beneficiaries at the time), the Group has the ability to use surplus funds, should they arise, in the defined benefit section of the BBPF to pay its contributions towards further service benefits in the defined benefit and defined contribution sections of the scheme. The Directors consider that, as the Group are permitted to assume that they would not be required to make contributions to maintain a surplus, should one arise, these further service benefits will exceed the minimum funding requirement.

In 2014, the Group commenced a commutation exercise for pensioner members and dependants. This gave members the option to extinguish their benefits within the BBPF in exchange for a cash lump sum and was offered to all pensioner members and dependants with benefits with a value of less than £10,000 and £18,000, respectively. The acceptance of this offer by certain members and dependants gave rise to a settlement event resulting in a decrease in liabilities of £2m, which was recognised in non-underlying income. Refer to Note 8.1.4.8.

In anticipation of the disposal of Parsons Brinckerhoff and the then proposed £200m return of capital to shareholders, and following the scheme apportionment arrangement made in relation to the disposal of Balfour Beatty WorkPlace, agreement was reached on 24 September 2014 with the trustee of the BBPF for additional deficit payments of £100m in 2015, of which £15m was in respect of Balfour Beatty WorkPlace and £85m was in respect of Parsons Brinckerhoff. In February 2015, this agreement was varied and it is anticipated that £85m of infrastructure concession assets will be transferred into a Scottish limited partnership in which the BBPF will participate. The £15m is being paid to the BBPF in 2015 in agreed monthly instalments. The BBPF will receive the £85m deficit payments over the period to 2023, with the first payment of £4m due in 2016.

### Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes

| | | **2014** | | 2013 |
|---|---|---|---|---|
| | **Balfour Beatty Pension Fund %** | **Railways Pension Scheme %** | Balfour Beatty Pension Fund % | Railways Pension Scheme % |
| Discount rate | **3.60** | **3.60** | 4.35 | 4.35 |
| Inflation rate – RPI | **2.95** | **2.95** | 3.30 | 3.30 |
| – CPI | **1.55** | **1.55** | 2.10 | 2.10 |
| Future increases in pensionable salary | **1.55** | **1.55** | 2.10 | 2.10 |
| Rate of increase in pensions in payment (or such other rate as is guaranteed) | **2.80** | **1.80** | 3.05 | 2.25 |

| | **Number** | **Number** | Number | Number |
|---|---|---|---|---|
| Total number of defined benefit members | **34,264** | **3,123** | 36,217 | 3,214 |

In December 2014, following independent advice from the Group's actuaries based on further announcements by the Office for National Statistics, the Group reassessed the difference between RPI and CPI measures of price inflation from 1.2% in January 2014 to 1.4% reducing the pension liability by a further £31m which was recognised in the Statement of Comprehensive Income.

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (47,073 members at 31 December 2014) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes.

## 18 Retirement benefit liabilities continued

The mortality assumptions as at 31 December 2014 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2004 to 31 March 2014. The mortality tables adopted for the 2014 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2013: SAPS S1 tables) with a multiplier of 102% for all male and female members (2013: 101%) and 109% for female widows and dependants (2013: 110%); all with future improvements in line with the CMI 2014 core projection model (2013: 2012 core projection model), with long-term improvement rates of 1.25% pa and 1.00% pa for males and females respectively (2013: 1.25% pa and 1.00% pa).

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Average life expectancy at 65 years of age** | | Average life expectancy at 65 years of age | |
| | **Male** | **Female** | Male | Female |
| Members in receipt of a pension | **22.2** | **24.0** | 22.4 | 24.4 |
| Members not yet in receipt of a pension (current age 50) | **23.5** | **25.1** | 23.7 | 25.6 |

### Amounts recognised in the Balance Sheet

| | **2014** | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Balfour Beatty Pension Fund £m** | **Railways Pension Scheme £m** | **Other schemes ^ £m** | **Total £m** | Balfour Beatty Pension Fund £m | Railways Pension Scheme £m | Other schemes ^ £m | Total £m |
| Present value of obligations | **(3,140)** | **(319)** | **(59)** | **(3,518)** | (2,964) | (191) | (74) | (3,229) |
| Fair value of plan assets | **3,128** | **261** | **1** | **3,390** | 2,641 | 153 | 1 | 2,795 |
| Liabilities in the balance sheet | **(12)** | **(58)** | **(58)** | **(128)** | (323) | (38) | (73) | (434) |

^ Other schemes include the Rail Germany pension scheme in 2014 which was held as a liability held for sale in 2013. Available-for-sale investments in mutual funds of £20m (2013: £60m) are held by the Group to satisfy the Group's deferred compensation obligations.

The defined benefit obligation comprises £58m (2013: £73m) arising from wholly unfunded plans and £3,460m (2013: £3,156m) arising from plans that are wholly or partly funded.

| **Movements in the retirement benefit liabilities for the year** | | **2014 £m** |
|---|---|---|
| At 1 January 2014 | | (434) |
| Currency translation differences | | **(1)** |
| Current service cost – continuing operations | | **(7)** |
| Finance cost – continuing operations | | **(135)** |
| Income statement costs relating to discontinued operations | | **(5)** |
| Interest income – continuing operations | | **119** |
| Actuarial movements | – on obligations from reassessing the difference between RPI and CPI | **31** |
| | – on obligations from changes to other financial assumptions | **(372)** |
| | – on obligations from changes in demographic assumptions | **11** |
| | – on obligations from experience gains/(losses) | **(7)** |
| | – on assets | **574** |
| Contributions from employer | – regular funding | **5** |
| | – ongoing deficit funding – continuing operations | **49** |
| Benefits paid | | **9** |
| Settlements | | **5** |
| Reclassified to liabilities held for sale for Rail Italy | | **1** |
| Reclassified from liabilities held for sale for Rail Germany | | **(21)** |
| Reclassified to liabilities held for sale and subsequently sold | | **50** |
| At 31 December 2014 | | **(128)** |

### 18 Retirement benefit liabilities continued

The BBPF includes a defined contribution section with 12,809 members at 31 December 2014 (2013: 13,238 members) with £49m (2013: £29m) of contributions paid from continuing operations and charged in the income statement in respect of this section. Costs relating to discontinued operations in respect of this section were £4m (2013: £9m).

The total net pension cost recognised in the income statement in respect of employee service for defined benefit and defined contribution schemes was £94m (2013: £158m), of which £21m (2013: £35m) relates to discontinued operations.

**Sensitivity of the Group's retirement benefit obligations at 31 December 2014 to different actuarial assumptions**

| Obligations | Percentage points/years | (Decrease)/ increase in obligations % | (Decrease)/ increase in obligations £m |
|---|---|---|---|
| Increase in discount rate | **0.5%** | **(7.8)** | **(271)** |
| Increase in market expectation of RPI inflation | **0.5%** | **5.6** | **192** |
| Increase in salary growth | **0.5%** | **0.1** | **3** |
| Increase in life expectancy | **1 year** | **3.7** | **126** |

**Sensitivity of the Group's retirement benefit assets at 31 December 2014 to changes in market conditions**

| Assets | Percentage points | (Decrease)/ increase in assets % | (Decrease)/ increase in assets £m |
|---|---|---|---|
| Increase in interest rates | **0.5%** | **(8.1)** | **(273)** |
| Increase in market expectation of RPI inflation | **0.5%** | **4.7** | **160** |

### 19 Share capital

During the year ended 31 December 2014, 101,540 (2013: 386,386) ordinary shares were issued following the exercise of savings-related share options and 318,840 (2013: 270,895) ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £1m (2013: £1m).

## 20 Notes to the statement of cash flows

### 20.1 Cash (used in)/generated from operations

| | Continuing operations Underlying items[1] 2014 £m | Continuing operations Non-underlying items 2014 £m | Discontinued Operations 2014 £m | Total 2014 £m | Total 2013 £m |
|---|---|---|---|---|---|
| (Loss)/profit from operations | **(58)** | **(223)** | **238** | **(43)** | 1 |
| Share of results of joint ventures and associates | **(55)** | **2** | **–** | **(53)** | (71) |
| Dividends received – discontinued operation | **–** | **–** | **–** | **–** | (1) |
| Depreciation of property, plant and equipment | **33** | **10** | **11** | **54** | 56 |
| Amortisation of other intangible assets | **6** | **11** | **8** | **25** | 35 |
| Impairment of Oracle R12 intangible asset | **–** | **21** | **–** | **21** | – |
| Pension deficit payments: | | | | | |
| – ongoing deficit | **(49)** | **–** | **–** | **(49)** | (52) |
| – conditional deficit funding | **–** | **–** | **–** | **–** | (7) |
| Pension curtailment charges | | | | | |
| – ceasing future accrual | **–** | **–** | **–** | **–** | 53 |
| – restructuring | **–** | **–** | **–** | **–** | 1 |
| Pension fund settlement gain | **–** | **(2)** | **–** | **(2)** | – |
| Movements relating to share-based payments | **5** | **–** | **–** | **5** | 6 |
| Profit on disposal of investments in infrastructure concessions | **(93)** | **–** | **–** | **(93)** | (82) |
| Profit on disposal of property, plant and equipment | **(7)** | **–** | **–** | **(7)** | (6) |
| Contingent consideration for acquisitions | **–** | **–** | **–** | **–** | (4) |
| Net gain on disposal of other businesses | **–** | **–** | **(234)** | **(234)** | (11) |
| Goodwill impairment in respect of Mainland European rail businesses | **–** | **–** | **24** | **24** | 38 |
| Impairment of assets in Rail Germany | **–** | **30** | **–** | **30** | – |
| Impairment of assets in Rail Italy | **–** | **–** | **2** | **2** | – |
| Impairment of other intangible assets | **–** | **–** | **–** | **–** | 2 |
| Impairment/(impairment reversal) of property, plant and equipment | **1** | **–** | **–** | **1** | (3) |
| Impairment of inventory | **–** | **–** | **–** | **–** | 1 |
| Other non-cash items | **(1)** | **(1)** | **–** | **(2)** | (1) |
| Operating cash flows before movements in working capital | **(218)** | **(152)** | **49** | **(321)** | (45) |
| Decrease/(increase) in operating working capital | **26** | **38** | **(95)** | **(31)** | (117) |
| Inventories and non-construction work in progress | **(22)** | **(1)** | **(7)** | **(30)** | 2 |
| Due from construction contract customers | **(104)** | **54** | **(42)** | **(92)** | (81) |
| Trade and other receivables | **(69)** | **20** | **6** | **(43)** | (191) |
| Due to construction contract customers | **70** | **(8)** | **(12)** | **50** | 33 |
| Trade and other payables | **135** | **(19)** | **(31)** | **85** | 148 |
| Provisions | **16** | **(8)** | **(9)** | **(1)** | (28) |
| Cash used in operations | **(192)** | **(114)** | **(46)** | **(352)** | (162) |

[1] Before non-underlying items (Note 8).

### 20.2 Cash and cash equivalents

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and deposits | **653** | 472 |
| Term deposits | **38** | 67 |
| | **691** | 539 |
| Bank overdrafts | **(4)** | (78) |
| | **687** | 461 |
| Cash balances within Infrastructure concessions | **40** | 65 |
| | **727** | 526 |

### 20.3 Analysis of net borrowings

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and cash equivalents, excluding cash balances and overdrafts within infrastructure concessions | **691** | 539 |
| Bank overdrafts | **(4)** | (78) |
| US private placement | **(224)** | (212) |
| Liability component of convertible bonds | **(227)** | (221) |
| Other loans | **(16)** | (91) |
| Finance leases | **(1)** | (3) |
| | **219** | (66) |
| Non-recourse Infrastructure concessions project finance loans at amortised cost with final maturity between 2027 and 2037 | **(485)** | (419) |
| Infrastructure concessions cash | **40** | 65 |
| | **(445)** | (354) |
| Net borrowings | **(226)** | (420) |

## 20 Notes to the statement of cash flows continued

| 20.4 Analysis of movement in net (borrowings)/cash | Infrastructure concessions non-recourse project finance 2014 £m | Other 2014 £m | Total 2014 £m | Total 2013 £m |
|---|---|---|---|---|
| Opening net borrowings | (354) | (66) | (420) | (333) |
| Currency translation differences | – | (21) | (21) | 3 |
| Net (decrease)/increase in cash and cash equivalents | (25) | 237 | 212 | 10 |
| Proceeds from US private placement | – | – | – | (231) |
| Proceeds from convertible bonds and accretion | – | (6) | (6) | (221) |
| Proceeds from new loans | (236) | (11) | (247) | (110) |
| Proceeds from new finance leases | – | (1) | (1) | (1) |
| Repayments of loans | 7 | 83 | 90 | 408 |
| Repayments of finance leases | – | 3 | 3 | 2 |
| Disposal of non-recourse borrowings | 163 | – | 163 | 72 |
| Net decrease/(increase) in cash within assets held for sale (Note 10) | – | 1 | 1 | (19) |
| Closing net (borrowings)/cash | (445) | 219 | (226) | (420) |

### 20.5 Borrowings

During the year ended 31 December 2014 the significant movements in borrowings were: a net increase in cash (excluding cash held in infrastructure concession projects) of £237m (2013: £68m net increase in overdrafts); a net repayment of short-term loans of £83m (2013: £396m); an increase of £236m (2013: £110m increase) in non-recourse loans funding the development of financial assets in infrastructure concession subsidiaries; disposal of non-recourse borrowings in Transform Schools (Knowsley) Holdings Ltd £163m (2013: £72m on disposal of Connect CNDR Ltd); and repayment of £7m (2013: £12m) of non-recourse loans.

## 21 Acquisitions and disposals

### 21.1 Current and prior year acquisitions

**21.1.1** There were no material acquisitions during the years ended 31 December 2014 and 2013.

**21.1.2** Deferred consideration paid during 2014 in respect of acquisitions completed in earlier years was £3m, £1m relating to the acquisition of Subsurface Group Inc. (Subsurface) and £2m relating to other acquisitions.

### 21.2 Contingent consideration arrangements

| Contingent consideration recoverable/(payable) | Parsons Brinckerhoff Inc. £m | Subsurface £m | Total £m |
|---|---|---|---|
| At 1 January 2014 | 16 | (1) | 15 |
| (Recovered)/paid during the year | (15) | 1 | (14) |
| Released to the income statement | (1) | – | (1) |
| At 31 December 2014 | – | – | – |

## 21 Acquisitions and disposals continued

### 21.3 Current year disposals

| Notes | Disposal date | Entity/business | | Percentage disposed % | Cash consideration £m | Net assets disposed £m | Amount recycled from reserve £m | Direct costs incurred, indemnity provisions created and fair value uplift £m | Underlying gain £m | Non-underlying gain £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **21.3.1** | 8 January 2014 | Rail Scandinavia | * | 100 | 2 | (2) | 1 | (1) | – | – |
| **21.3.2** | 22 May 2014 | Consort Healthcare (Durham) Holdings Ltd | ^ | 50 | 55 | (43) | 15 | – | 27 | – |
| **21.3.3** | 30 May 2014 | Transform Schools (Knowsley) Holdings Ltd | * | 100 | 42 | (10) | (8) | – | 24 | – |
| **21.3.4** | 1 October 2014 | Consort Healthcare (Mid Yorkshire) Holdings Ltd | ^ | 50 | 62 | (12) | (8) | – | 42 | – |
| **21.3.5** | 31 October 2014 | Parsons Brinckerhoff | * | 100 | 812 | (498) | (11) | (69) | – | 234 |
| | | | | | **973** | **(565)** | **(11)** | **(70)** | **93** | **234** |

* Subsidiary.
^ Joint venture.

**21.3.1** On 8 January 2014 the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m. The disposal resulted in a £nil gain/loss being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed and a £1m gain on recycling currency translation reserves to the income statement. Costs of disposal incurred and indemnity provisions of £1m were charged to the income statement which resulted in the overall £nil gain/loss. The disposal included cash disposed of £9m.

**21.3.2** On 22 May 2014 the Group disposed of its 50% interest in Consort Healthcare (Durham) Holdings Ltd (CHDHL) for an agreed cash consideration of £55m, including a settlement of short-term loans due from joint ventures of £5m. On this date the Group ceased to jointly control CHDHL by virtue of a put/call structure with a preferred bidder. The disposal was completed on 30 June 2014 and the proceeds were received in July 2014. This disposal resulted in a net gain of £27m being recognised within underlying operating profit in the income statement, comprising a gain of £12m in respect of the disposal of the investment in the joint venture and a £15m gain in respect of revaluation reserves recycled to the income statement.

**21.3.3** On 30 May 2014 the Group disposed of its 100% interest in Transform Schools (Knowsley) Holdings Ltd (TSKHL) for an agreed cash consideration of £42m. On this date the Group ceased to jointly control TSKHL by virtue of a put/call structure with a preferred bidder. The disposal of the subsidiary was completed on 12 June 2014. This disposal resulted in a net gain of £24m being recognised within underlying operating profit, comprising a gain of £32m in respect of the fair value of net assets disposed and an £8m loss in respect of revaluation reserves recycled to the income statement. The disposal included cash disposed of £8m.

**21.3.4** On 1 October 2014 the Group disposed of its 50% interest in Consort Healthcare (Mid Yorkshire) Holdings Ltd for an agreed cash consideration of £62m. This disposal was completed on 1 October 2014 and resulted in a gain of £42m being recognised within underlying operating profit, comprised of a £50m gain in respect of the disposal of the investment in the joint venture and an £8m loss in respect of revaluation reserves recycled to the income statement.

## 21 Acquisitions and disposals continued

**21.3.5** On 28 October 2014 shareholder approval was granted for the disposal of the Group's 100% interest in Parsons Brinckerhoff. The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m with the proceeds being received on that day. The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations after incurring separation costs of £24m and transaction costs of £45m. The net gain comprises a gain of £314m before disposal costs in respect of the fair value of net assets disposed and a £11m loss in respect of reserves recycled to the income statement. This disposal includes cash disposed of £42m. Additional consideration may be received based on the agreement of the final working capital position of Parsons Brinckerhoff.

**21.3.6** During the year the Group finalised the cash consideration due on the disposal of its UK facilities management business, Balfour Beatty WorkPlace (BBW), amounting to an additional consideration for the Group of £1m. At the same time, an agreement was reached to discharge the Group's obligation for which a provision of £14m had been made in return for a payment by the Group of £9m. This resulted in a non-underlying gain on disposal of £6m, which was fully offset with an impairment charge for an intangible asset of £6m (refer to Note 14). The net non-underlying gain on disposal recognised in the year was therefore £nil (2013: £16m gain). Costs of £6m incurred in 2013 were subsequently settled in 2014.

## 22 Contingent liabilities

The Group and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of their share of certain contractual obligations of joint ventures and associates and certain retirement benefit liabilities of the Balfour Beatty Pension Fund and the Railways Pension Scheme. Guarantees are treated as contingent liabilities until such time as it becomes probable payment will be required under the terms of the guarantee.

Provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

### 23 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £673m (2013: £777m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed within Notes 16 and 17 respectively.

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £7m in 2014 (2013: £8m).

### 24 Principal risks and uncertainties

The nature of the principal risks and uncertainties which could adversely impact the Group's profitability and ability to achieve its strategic objectives include: external risks arising from the continued or residual effects of the global economic downturn and the complex and evolving legal and regulatory environments in which the Group operates; strategic risks which may arise as the Group moves into new territories and expands through acquisitions; organisation and management risks including business conduct and people related risks; and operational risks arising from bidding, project execution, supply chain and health, safety and sustainability matters.

### 25 Events after the reporting date

On 31 January 2015, the Group completed the sale of Jumbotec, Austria and Track (which constituted parts of Rail Germany) to Rhomberg Sersa Rail Group for a net consideration of £nil after taking into account cash that will transfer with the business. The deal was announced on 14 November 2014, and a non-underlying loss on disposal was estimated at that time at £25m. At 31 December 2014, in light of the consideration expected to be received on completion of the deal, the Group recognised an impairment of £30m to write down the net assets of these businesses to the consideration expected. This has been recognised as a non-underlying item. Refer to Note 8.1.4.3.

On 16 February 2015, the Group announced the sale of an 80% interest in the Thanet offshore transmission (OFTO) project for £40m to Equitix. The consideration is consistent with the Directors' valuation at 31 December 2014. The Group retains a 20% interest in the joint venture.

On 18 February 2015, the Group announced the acquisition of the Gwynt y Môr offshore transmission (OFTO) project, in which the Group will be joint venture partners with Equitix. The Group's stake is £28m which represents 60% of equity required.

On 11 March 2015, the Group completed the sale of Rail Italy for net cash consideration of £3m to Alpiq InTec AG. The consideration reflected the Group's carrying value of the business at 31 December 2014.