Helping communities thrive

Balfour Beatty

Annual report and accounts 2011

Performance highlights

Pre-tax profit[1]

+9%

	Pre-tax profit
11	**£334m**
10	£306m
09	£244m
08	£227m
07	£186m

Underlying earnings per share[1]

+9%

	Underlying earnings per share
11	**35.5p**
10	32.7p
09	30.7p
08	30.6p
07	27.0p

Dividends per share

+9%

	Dividends per share
11	**13.8p**
10	12.7p
09	12.0p
08	11.15p
07	10.0p

Financial summary

(£m unless otherwise specified)	**2011**	2010	Change (%)
Revenue including joint ventures and associates	**11,035**	10,473	+5
Group revenue	**9,494**	9,236	+3
Profit from continuing operations			
– underlying[1]	**330**	325	+2
– reported	**242**	220	+10
Pre-tax profit from continuing operations			
– underlying[1]	**334**	306	+9
– reported	**246**	201	+22
Earnings per share from continuing operations			
– underlying[1]	**35.5p**	32.7p	+9
– basic	**26.7p**	23.0p	+16
Dividends per share	**13.8p**	12.7p	+9
Financing			
– net cash before PPP subsidiaries (non-recourse)	**340**	518	
– net borrowings of PPP subsidiaries (non-recourse)	**(332)**	(270)	

2010 financial statements have been re-presented for the classification of Barking Power as a discontinued operation (see Note 10).

1 Before non-underlying items.

Balfour Beatty is an integrated infrastructure services group, operating in more than 80 countries, and across the lifecycle of infrastructure assets.

We believe that there has never been a more important role for infrastructure to support the economic growth we all need.

We use our knowledge and capabilities, in partnership with our clients, to deliver society's infrastructure, and to help our communities thrive.

View our online report at:
http://annualreport11.balfourbeatty.com

Join Balfour Beatty's eShareholder programme at www.balfourbeatty-shares.com

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from community partnerships

We listened with care to the concerns of a community divided by an ever-present highway in their midst. Throughout the decade-long Hindhead project our relationship with the client, the UK Highways Agency, was anchored on partnership. We worked together to engineer value, minimise environmental impact and protect community interests.

Read more: case study on page 33.

to emerging partnerships

To win great projects and do them well, you need exceptional skills. And also local know-how: if you're not a local, it helps to have a partner who is and who shares your customer focus and values. So we've formed a partnership in this vibrant and exciting market to pursue new business opportunities with one of India's largest and most respected companies, Tata.

Read more: case study on page 16.

from network transformation

Denver's rail system is already at capacity. With its population set to grow another 50% by 2035, the region needs to transform its commuter network fast. A truly international Balfour Beatty team, which included Parsons Brinckerhoff, secured a major part of Denver's US$2.4bn Eagle P3 Commuter Rail project to engineer, build and operate 35 miles of new lines under America's first rail public private partnership. Good progress was made on the design phase in 2011.

to journey transformation

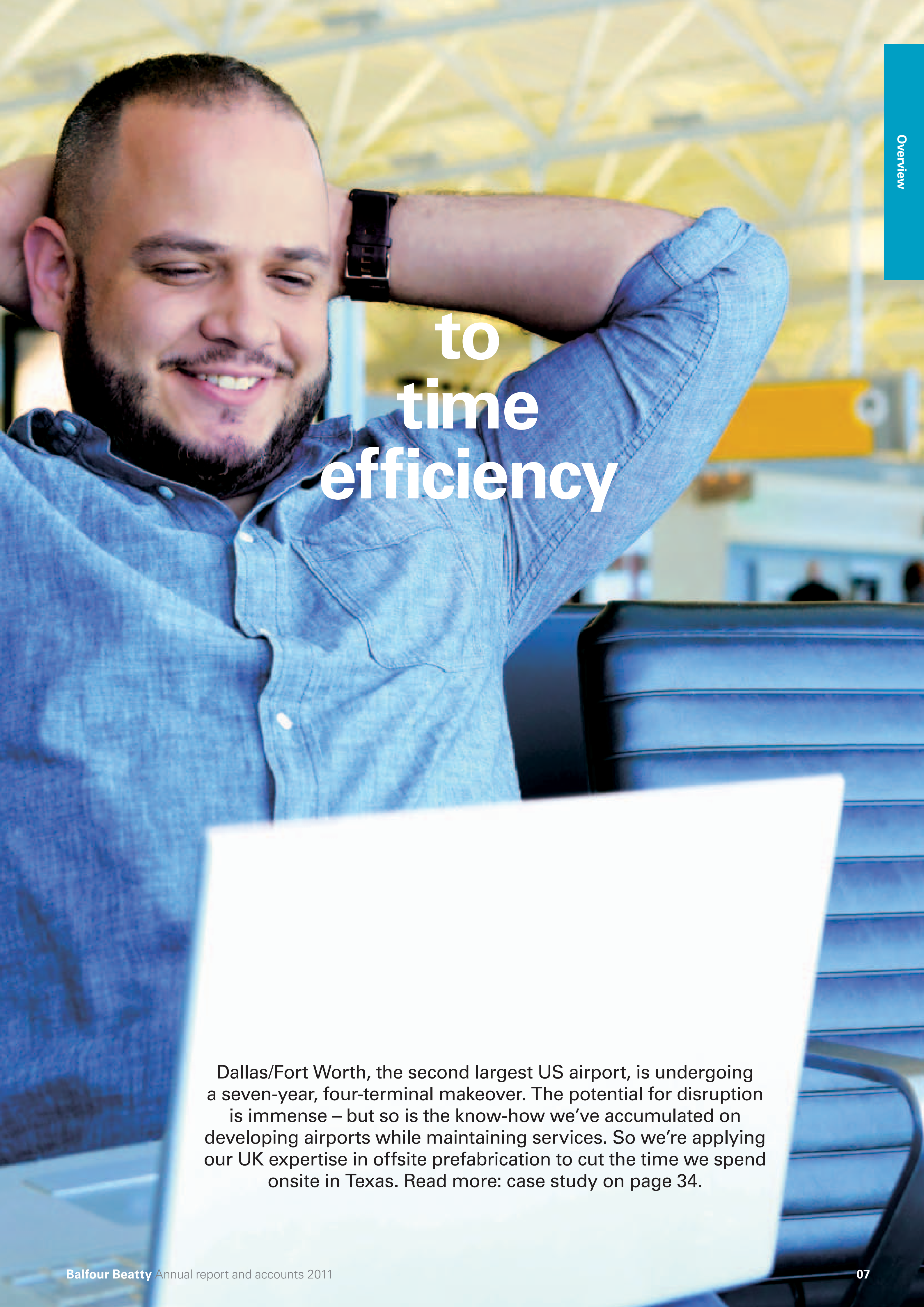
Aligning our international rail expertise with our established professional services presence in Parsons Brinckerhoff's business in Australia has created the formula to help us penetrate new markets. Our integrated offer helped win an AUS$835m contract to design and build a new line in Melbourne that will transform the daily commute for thousands of passengers.

Read more: case study on page 18.

from technical efficiency

Soaring passenger demand means airports keep expanding. But customers don't like the disruption caused by endless work. At London's Heathrow we're extending Terminal 2 with unprecedented speed. Building parts of the project offsite in a factory is smarter and delivers cost savings shared with our customer, BAA. It's this kind of approach that has made us one of BAA's core long-term partners.

Read more: case study on page 19.



to time efficiency

Dallas/Fort Worth, the second largest US airport, is undergoing a seven-year, four-terminal makeover. The potential for disruption is immense – but so is the know-how we've accumulated on developing airports while maintaining services. So we're applying our UK expertise in offsite prefabrication to cut the time we spend onsite in Texas. Read more: case study on page 34.

Group at a glance

Focused on growth markets

The global infrastructure market is estimated at £8trn over the next four years, with higher growth rates in Australia and Asia, South America, Africa and Middle East.

Organic growth and recent acquisitions have added to our global scale; we are now one of the largest players in infrastructure by revenue. Our international reach and ability to access growth markets have been greatly enhanced in recent years, particularly with the addition of professional services capability. We are already in Asia and the Middle East, and we are intensifying our focus on geographies and sectors such as the ones below where we see opportunities for growth.

Growth markets
- Brazil
- India

Resource economies
- Australia
- Canada

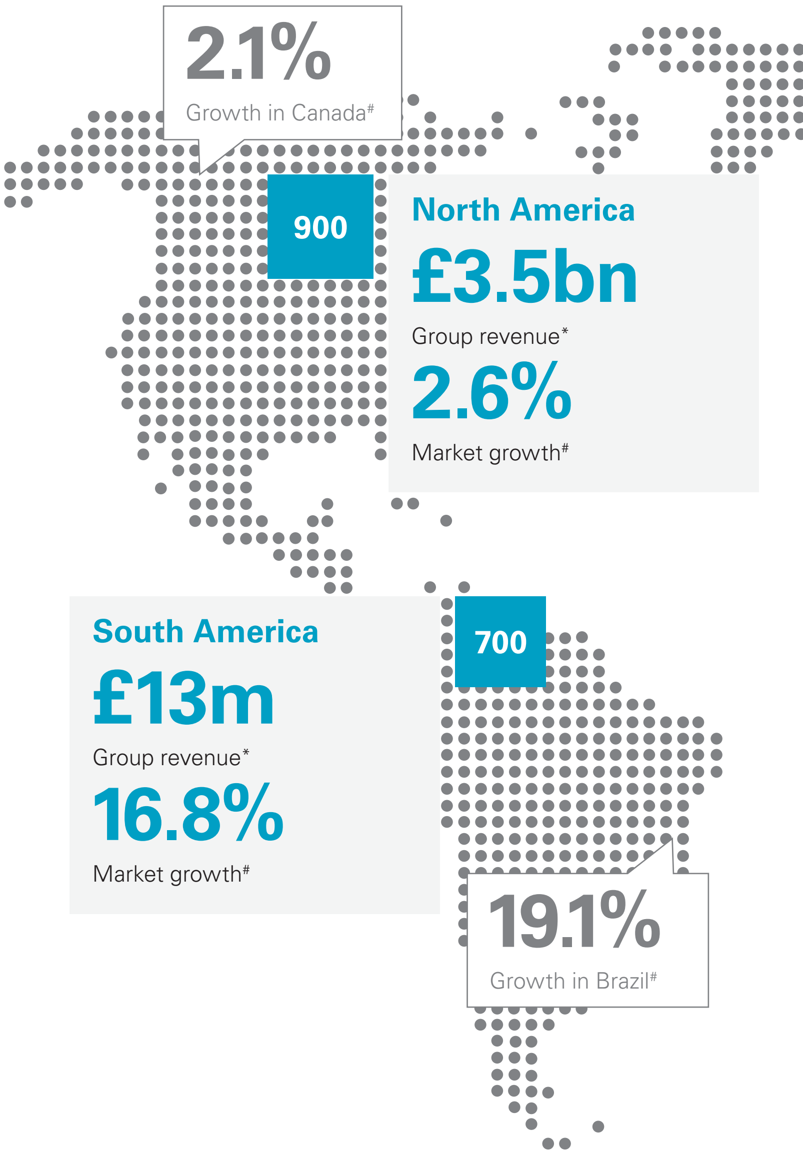
High-growth sectors
- Power
- Rail
- Mining
- Transportation

£8trn
Estimated global infrastructure spend in 2012–2015

9%
Average annual growth rate in global infrastructure spend

£11bn
Revenue generated this year

80+
Presence in over 80 countries



Structured for competitive advantage

Breadth of capability

With more comprehensive capabilities than our international peers, we can address a broader range of infrastructure markets and customers. For management purposes our businesses are structured into four complementary divisions:

- Professional Services (see page 28)
- Construction Services (see page 32)
- Support Services (see page 37)
- Infrastructure Investments (see page 40)

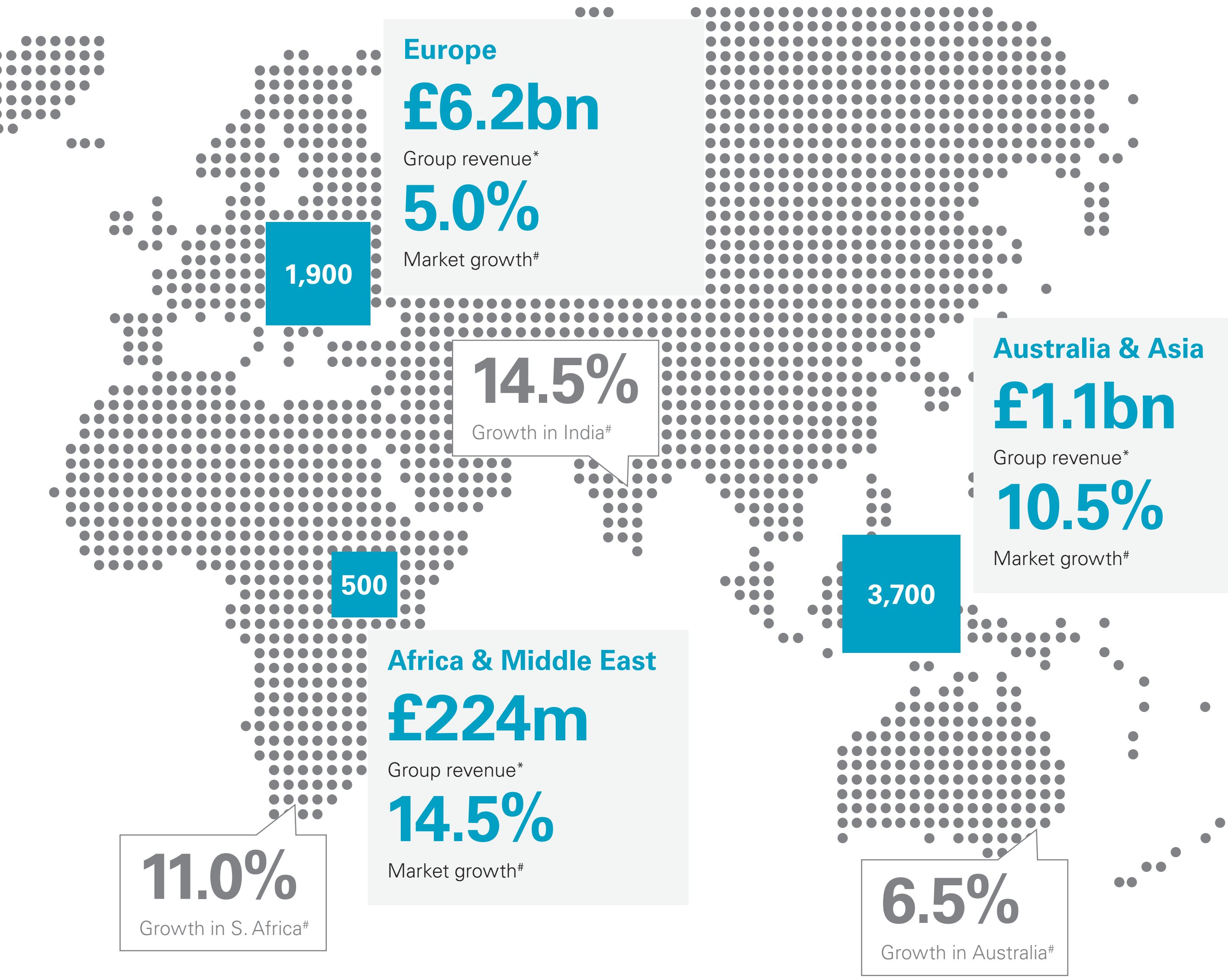
Our ability to build project teams integrating capabilities from across these divisions gives us real competitive edge, providing a strong platform for growth and value creation.

Focus on customers' assets

Our customers are owners of large and complex assets. They view their assets strategically and often want to work with people who can share the big picture with them.

Increasingly our organisation is structured to identify customers' strategic objectives and to deliver our collective services to meet these objectives. This is about focusing on our customers and their assets which goes beyond our work on any single project.

By capturing and sharing our knowledge across the whole asset lifecycle and deploying this knowledge for our customers, we differentiate ourselves from competitors and maximise value both for those customers and for the Group.



* Group revenue is total revenue including joint ventures and associates.
\# Compounded annual market growth rates for the four-year period 2012–2015 by Global Insight.
■ Non-residential infrastructure market size for the four-year period 2012–2015 by Global Insight (£7,700bn).

Efficiency

Through broadening the scope of our current cost efficiency programme over the next few years, we will capture efficiencies from a larger cost base. Cost efficiency will be targeted at the highest possible organisational and geographical level and will not jeopardise our focus on customers or asset knowledge.

£50m

Estimated annual savings by 2015

Balance sheet strength

Infrastructure projects are long term and large in value. Being able to demonstrate that we have the financial strength to complete them is fundamental. We maintain positive cash and PPP assets to balance against our pension deficit and negative working capital.

£200m

Cash[1]

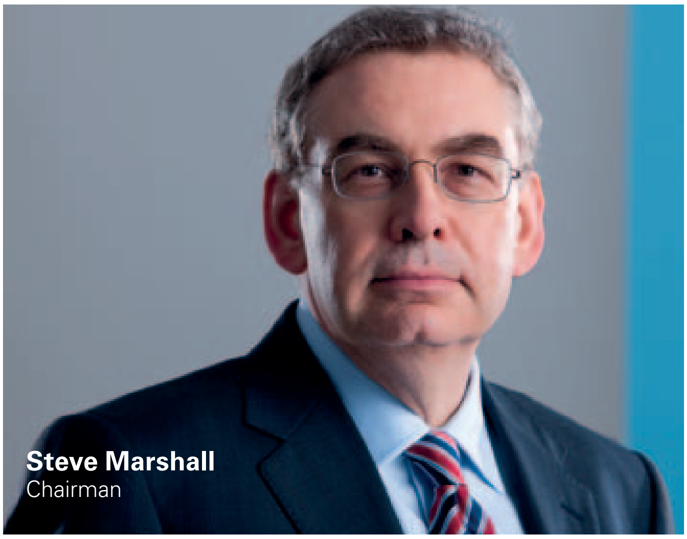
£743m

PPP assets[2]

1 Average net cash for the year 2011, excluding PPP subsidiaries.
2 Directors' valuation of PPP concessions at 31 December 2011.

Chairman's message

Real growth opportunities both in existing and new markets



Steve Marshall
Chairman

"Balfour Beatty continued to perform strongly during 2011. This was despite difficult trading conditions in our two largest markets."

Underlying earnings per share

+9%

Underlying earnings per share[1] up by 2.8p to 35.5p (2010: 32.7p)

Dividends per share

+9%

Final dividend of 8.5p per ordinary share, giving a total dividend for 2011 of 13.8p (2010: 12.7p)

1 From continuing operations, before non-underlying items.

View our online report at:
http://annualreport11.balfourbeatty.com

Balfour Beatty continued to perform strongly during 2011. This was despite difficult trading conditions in our two largest markets.

A relentless focus on operational delivery for our customers and on enhancing the Group's reputation enabled us to successfully deliver numerous high-profile project commitments – such as the Aquatics Centre for the 2012 London Olympics – and also to maintain a strong forward order book into 2012 and beyond. Efforts to accelerate the realisation of the Group's long-term strategy, based on deploying and sharing our combined expertise worldwide, have also been a major focus. The Chief Executive's review summarises these.

Go to **P12 – P21** for more information on the Chief Executive's review and our strategy

This combination of strategic focus and development of new opportunities enabled Balfour Beatty to withstand the impact of tough economic conditions in our two largest markets – the UK and US. As a result, the business at year-end was again able to report an order book of more than £15bn for the second successive year, a significant achievement given prevailing economic conditions, which included major cuts in public spending on both sides of the Atlantic. In addition, underlying profit from continuing operations has been resilient, as we reported year-on-year growth of £5m or 2%.

As you will hear from Ian Tyler later in this report, despite the tough economic backdrop, there are real growth opportunities both in existing and new markets. Balfour Beatty is investing significant efforts in positioning itself to take advantage of these. As a Group, we operate across the infrastructure lifecycle. This gives us a unique insight into the performance of our customers' critical assets. Progressively, this will enable us to add value to our customers in a way that others cannot, differentiating Balfour Beatty from its competitors in its chosen markets.

In 2012, the Group will be focusing on three key strategic priorities: delivering greater customer value, particularly via knowledge sharing and collaboration; seeking out superior growth market opportunities in developing geographies and market sectors; and ensuring that our operating structure is as efficient as it can be. You will find more on these points in Ian's review.

Dividend

In line with its existing progressive dividend policy, the Board is proposing a final dividend of 8.5p per ordinary share. This will give a total dividend for 2011 of 13.8p, an increase of 9% on 2010.

The Board

Our Board has been stable throughout the year. Our most recent non-executive appointments, Rob Amen and Iain Ferguson, have contributed rapidly and strongly with Iain taking on the chairmanship of the Remuneration Committee during the year. With Balfour Beatty's increasingly diverse global and sector reach, it is important that we continue to ensure the aggregated experience of the Board reflects the nature of these markets. We are still an all-male Board, and we are taking active steps to address this during 2012, albeit any selected Board appointment must have the best overall credentials to contribute, irrespective of gender.

Our people and reputation

It is our people that make this business a successful one. The Group's hard-won reputation for delivering for its customers reflects the hard work and dedication of all of our people. I extend my thanks to all of them for their commitment and skill in helping us navigate our way through the current choppy waters.

While Balfour Beatty's core markets continue to provide the bulk of the Group's revenue, the make-up of the business and its involvement in new areas of opportunity is also creating a sense of change in the way in which the business operates. This is to be welcomed.

We have seen a good performance in our professional services business and, in turn, people here have worked hard alongside colleagues in other businesses to secure important pieces of work in areas that would not otherwise have been seen as opportunities for Balfour Beatty.

This welcome development reinforces the importance of engaging with our customers at a very early stage in the planning process. Embedding greater efficiency and an effective cross-team working culture translates into enhanced value for customers and the business as a whole. In turn, this ensures we maintain a strong focus on sustainability and in this year's report we have sought to ensure we reflect this critical area throughout the narrative. It is a core part of what we do and there is more information on this in "the way we work".

Go to **P48 – P51** for more information on "the way we work"

Safety continues to be an area of unrelenting attention for the Board and the management team, and over the course of 2012, the goal of delivering on our Zero Harm vision takes on an even sharper level of focus.

Very significant steps have been taken to improve safety performance, nevertheless the fact is that the sector in which our business operates is one where risk remains a constant and it is with sadness that the Board learned of five fatalities during the course of the year, all of which were in our business in Hong Kong. Steps are being taken to address this with our joint venture partner.

As I mentioned above, the economic challenges facing our traditional markets continue. With these challenges it is vital that we maximise efficiencies throughout the Group. This will be an ongoing theme for the coming period. A Group-wide culture of efficiency is critical if our broad ambitions are to be realised.

Looking ahead

We remain confident that Balfour Beatty is well positioned to take advantage of the inevitable growth in long-term infrastructure investment, in existing as well as in new and exciting markets. It is clear that the proportion of work we do away from the traditional markets and sectors will grow, albeit in a timely and controlled fashion. Pace of change and momentum is also important in a business as diverse as ours. Management will be redoubling its efforts to capture Group-wide efficiencies and to accelerate market development plans. We will also work and collaborate ever more closely with our key customers, as we increasingly demonstrate the benefits of our Group-wide reach and capabilities, both to our customers – existing and prospective – and to our investors.

We have every reason to be confident of playing a larger international leadership role across our chosen infrastructure sectors in the years ahead. Near-term market pressures are however likely to continue, requiring continuing focus on operational delivery and on increasing the contribution from Group-wide efficiencies.

Chief Executive's review

Our knowledge and capability across the infrastructure market differentiates us from our competition

Ian Tyler
Chief Executive

"As a business growing into new geographies and markets, delivering ever greater value and efficiency to customers, we look forward with confidence."

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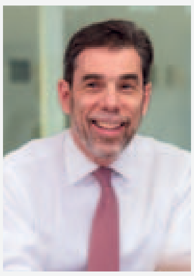
http://annualreport11.balfourbeatty.com

Our executive leadership team

Duncan Magrath
Chief Financial Officer

Andrew McNaughton
Chief Operating Officer



Anthony Rabin
Deputy Chief Executive

Peter Zinkin
Planning and Development Director

Kevin Craven
Chief Executive Officer, Support Services

Manfred Leger
International Business director

John Moore
Chief Executive Officer, Rail

Our differentiation comes from collaborative thinking by drawing on the whole breadth of our knowledge. We start with strategic planning, develop through design and financing, and deliver construction and operation.

It is the many differences that come from daily ingenuity; our people working with our clients to solve the toughest problems; combining decades of experience with new ideas and techniques – all to ensure that our clients achieve ever better outcomes for themselves and for society.

The strategy we have been pursuing has enabled us to build a world-class infrastructure business with global reach. We continue to develop the strategy in response to changing economic conditions and our own constantly expanding capabilities.

Our business model and the opportunities we are pursuing are detailed in the Chief Operating Officer's review on page 24.

In a more uncertain world we aim to maximise opportunities for continued growth by making best use of the unique mix of capabilities we now possess. So we are focusing on three key strategic areas:

Growth markets and sectors

While we continue to expand internationally, around 80% of our business still comes from the UK and US. Over the next 10 years, the infrastructure sector in those markets is expected to grow at an annual rate of around 4%. By contrast, the comparable growth in emerging markets is expected to be 10%–12%.

Emerging economies like India and Brazil are investing significantly in infrastructure. Others which are rich in natural resources, such as Australia and Canada, have the economic firepower to procure large new infrastructure projects.

We already have capability in many of these markets and have been stepping-up our activity. Recently, for example, we announced a new rail contract win in Australia, a significant new infrastructure project in Qatar and a partnership agreement with Tata Projects in India. We have strengthened both our presence and our senior management resources in India and Brazil.

Customer value

The customers who present the biggest opportunities are large-scale owners of complex infrastructure assets. We believe that increasingly, these customers need partners who can join with them in addressing their true goals. Typically, they are concerned not just with the assets themselves but with the beneficial outcomes those assets will deliver to the communities they serve. They need partners who are equipped with the experience, knowledge and breadth of vision to see the big picture and help them to devise and engineer optimal solutions.

Our breadth of capabilities, whole-lifecycle experience and insight into customers' underlying concerns give us considerable competitive advantage. This relies on having the knowledge sharing and integration capability to turn those elements into effective teamwork with customers. This is the way to add real value. Not many companies can do this.

Operational efficiency

Generating good profits and converting them into cash is imperative for us. We have big aspirations for growth and we need to be able to fund them. Our customers embarking on a long-term, high-value relationship want to be sure they are partnering with a robust and sustainable business. And our investors expect no less. So we have no intention of relaxing our declared margin improvement targets, despite the current economic and market conditions.

Over the past couple of years we have begun to realise substantial cost savings by adopting a more joined-up approach to back office services and procurement – another way in which we benefit from better integration across the Group. We are currently working on broadening these programmes into other support functions.

The future looks good

By addressing these three key issues – and adhering to our values of integrity, excellence, respect and teamwork – we can differentiate ourselves in ways that matter to customers.

Our executive leadership team featured below is energised by the changes taking place at Balfour Beatty.

In the following pages we set out our strategic objectives and our progress towards them. As a business growing into new geographies and markets, delivering ever greater value and efficiency to customers, we look forward with confidence.

Brian Osborne
International Business director

Mike Peasland
Chief Executive Officer, Construction Services UK

George Pierson
Chief Executive Officer, Professional Services

Robert Van Cleave
Chief Executive Officer, Construction Services US

Paul Raby
Human Resources director

Chris Vaughan
Chief Corporate Officer

Our strategy

Our strategy, which evolves with our competitive landscape, sets our direction and determines our objectives for each year.

It is crucial that we are able to measure the achievement of our key strategic objectives and to report on our key performance indicators for our own benefit as well as the benefit of our stakeholders.

For more information on our strategic objectives and key performance indicators go to **P16 – P21**

Our strategic objectives

1. Grow in new markets and vertical sectors

We are already one of the largest global players in infrastructure by revenue. To achieve further growth we are working to develop our position in new geographies and resource-rich economies such as Brazil, India, Australia and Canada and we are intensifying our focus on high-growth sectors such as power, rail, mining and transportation.

2. Deliver greater value to the customer

Many of our customers own complex and critical assets that enable societies to function by providing transport, energy, water, natural resources, schools, hospitals and local services.

For them, providing an asset is not an end in itself. They are concerned to provide education rather than schools, healthcare rather than hospitals, mobility rather than roads or railways. We help them achieve their true goals by working in partnership with them – bringing together teams that have the know-how and talent to understand the underlying issues and solve the toughest infrastructure challenges.

3. Improve operational performance and cost-effectiveness

Our unique breadth of capabilities and our wide geographical reach are the results of a sustained period of expansion. Much of this expansion has come through acquisitions, and we will continue to acquire businesses that enhance our capabilities or expand our territorial coverage – as described in objective 1 above. But it is not enough to build the platform; we must also operate it as efficiently and profitably as possible.

4. Continue to show leadership in values and behaviour

To be recognised as the leading provider of infrastructure services – and to secure a sustainable, long-term future for the Group – we must also be a leader in areas such as ethics, safety and the environment.

Our key performance indicators

Order book and revenue are good indicators of top-line growth, with order book growth leading revenue growth by six to 12 months in our business. Increased revenue in higher-growth markets (outside Europe and North America) is evidence of our focus on new geographies. In a difficult year overshadowed by governments' austerity measures, we kept our order book stable and increased our revenue, particularly in higher-growth markets.

0% Order book	**+5%** Revenue[1]	**+12%** Revenue[1] in higher-growth markets

Every year, Roads and Bridges magazine in the US surveys 10,000 government officials and asks them which design firm they prefer to work with. In the industry, this is called the Go-To List.

While they only cover our professional services business, these rankings are a good example of the strength of our track record and reputation with our customers. In 2011, there was a slight deterioration in the rankings, although we are still in an enviable No. 1 or No. 2 position in four categories.

Go-To List rankings for Parsons Brinckerhoff

No.1 in the Road & Highway (=) and Airport categories	**No.2** in the Bridge and Mass Transit (=) categories	**No.4** in the Design-Build category

We aim to increase Group operating margin to a level of 3.5%–4% by 2015 mainly through better utilisation of resources, efficiency savings and improved business mix.

While our £30m cost reduction programme is on course, our margin progress in 2011 was hindered by difficult market conditions in our major established markets.

3.0%
Group operating margin[1,2]

The safety of our people and everyone we come into contact with remains a key priority although our safety performance was disappointing in 2011.

We have challenged ourselves to reduce our impact on the environment. In 2011, we made good headway in water and waste, but our CO_2e emissions made little progress due to energy-intensive projects.

+6% Accident Frequency Rate (AFR)	**-1%** Greenhouse gas emissions (tonnes CO_2e/£m revenue)

1 Including joint ventures and associates.
2 Before non-underlying items.

Principal risks

Economic environment
- Changes in general economic conditions and the impact on customers' investment plans

Expansion into new territories and by acquisition
- Failure to address associated risks

Legal and regulatory
- Breaches of local law and regulations

Business conduct
- Not observing the highest standards of integrity and conduct in dealing with customers, supply chain and other stakeholders

People
- Failure to recruit and retain appropriate skilled people to deliver specific contracts and the Group's future growth

Bidding
- Not adequately estimating risks and costs associated with contract terms and conditions

Project execution
- Not executing projects to customers' requirements and on a timely basis

Health, safety and sustainability
- Failure to manage risks associated with health, safety and sustainability and hence exposing our people and the public to injury or harm

Go to **P58 – P62** for more information on how the Group manages risk

Reward

A world-leading infrastructure business differentiated by asset knowledge

Superior growth and value for stakeholders

Strategic performance

This is how we addressed our four strategic priorities in 2011:

1. Grow in new markets and vertical sectors

We are already one of the largest global players in infrastructure by revenue. To achieve further growth we are working to develop our position in new geographies and resource-rich economies such as Brazil, India, Australia and Canada, and we are intensifying our focus on high-growth sectors such as power, rail, mining and transportation.

Why is this important?

We do not want our growth to be constrained by the pace of growth in our traditional markets. The breadth of our capabilities and the extent of our international reach give us access to an exceptionally broad range of markets and customers. We will exploit this by increasing the focus of our activity in markets where opportunities are bigger and growth rates higher.

What are we doing?

Infrastructure markets around the globe are growing at different rates. We are harnessing our unique combination of capabilities, particularly in professional services and project finance, to build our position in selected geographic markets and sectors that have superior growth rates.

In emerging economies, infrastructure markets are driven by economic growth and changing demographics, and also by government-led market reforms. We are focusing on those with sufficient scale, a good competitive environment and appropriate ethical standards, and approach them cautiously as we consider the implications for health and safety and corruption risk.

In 2011 we began making inroads into India and Brazil, our priority emerging markets. Both countries represent larger infrastructure markets than the UK, are allowing private capital to play a growing role in infrastructure provision, and are making determined efforts to reduce corruption.

The Indian government aims to invest 8% of GDP in infrastructure. It targeted a total spend of US$494bn in the five years to 2012, and aims to spend double this amount over the next five years. To maintain this pace of investment it is actively promoting public private partnerships (“PPP”).

In 2011 Brazil began a four-year Growth Acceleration Programme to invest over US$500bn in logistics (including transportation), energy and social development. It is also encouraging for us to see the government’s endeavours to ensure the financing of this growth. Brazil has been letting infrastructure concessions since 1995 and introduced PPP in 2004.

Inevitably our entry into these markets is a long-term proposition, but the prospects are very attractive.

The developed economies tend to commit a reasonably consistent proportion of GDP to maintaining and developing their infrastructure. However, we expect an increase in the proportion of GDP committed to their infrastructure over the next 10–15 years as the need to renew ageing post-war assets becomes critical.

Gaining a head start in India

With infrastructure spending expected to reach nearly 10% of GDP over the next five years, India is one of the principal markets where we are looking to expand our presence and earnings.

The challenge for us is to turn this market potential into a substantial business. While we do not have downstream construction activity in India, we have a valuable bridgehead through Parsons Brinckerhoff’s established presence. We can complement our professional services capability with PPP project finance and development expertise, offering technical and financial solutions to infrastructure challenges.

And in October 2011 we took an important step forward by collaborating with Tata, the infrastructure engineering and construction arm of one of India’s largest and most respected companies.

In partnership with Tata we will jointly identify and pursue infrastructure opportunities in India and sub-Saharan Africa. Our initial focus will be on the power transmission, railways, mining infrastructure and water/wastewater markets – all areas where we have transferable expertise across the Group.

We also anticipate some changes in the pattern of spending. In the UK, for example, we expect a shift of emphasis from social infrastructure (such as schools and hospitals) to civil infrastructure. This includes utilities such as water and power, and segments such as nuclear and renewable energy that will be boosted by developed economies' increasing concerns about sustainability.

Resource-rich countries, buoyed by rising demand for commodities, present clear opportunities for us. Australia and Canada in particular have the scale, economic growth rates and market structure that suit our model. We are working to expand our existing position in both these territories.

In addition to these geographic targets, we have identified target vertical sectors such as power, rail and mining amongst others in certain geographies. Growth in all three of these is being driven by current trends such as sustainability, urbanisation and globalisation.

The power market has three strong drivers: asset renewal; demand growth; and carbon reduction. Many developed countries need to renew transmission lines built in the 1960s that are reaching the end of their useful lives. In the case of the UK, some 20% of power generation capacity has to be retired by 2020. Emerging countries need to generate more power to support their growing economies. And the carbon agenda is driving demand for more clean energy plants – including nuclear, biomass and renewables – and new transmission lines to connect them to the grid.

Carbon concerns are also stimulating the rail market – favouring rail over roads, encouraging electrification of existing lines and increasing the pressure for mass transit systems that support urbanisation while minimising congestion.

In resource-rich countries, there is a synergy between all three sectors. Increased extraction activity to support economic growth leads to growing demand for power to mine the resources and rail to transport them. We are ideally placed to meet this demand – particularly since the customers are typically multinationals who expect their specialist suppliers to work with them in multiple territories.

For more information on our markets go to **P24 – P27**

How are we performing?

Order book

11	**£15.2bn**	**0%**
10	£15.2bn	
09	£14.1bn	

Revenue[1]

11	**£11,035m**	**+5%**
10	£10,473m	
09	£10,254m	

Revenue[1] in higher-growth markets

11	**£1,374m**	**+12%**
10	£1,224m	
09	£930m	

1 Including joint ventures and associates.

What's next?

In the year ahead, we aim to:

- leverage our US footprint in US construction to gain market share
- exploit opportunities in regulated power and rail markets, and in commercial property in the UK
- develop our presence in Australia and Canada
- pursue opportunities in India and Brazil
- develop our capabilities in power, rail, mining, water and transportation in geographies where we see opportunities.

2. Deliver greater value to the customer

Many of our customers own complex and critical assets that enable societies to function by providing transport, energy, water, natural resources, schools, hospitals and local services.

For them, providing an asset is not an end in itself. They are concerned to provide education rather than schools, healthcare rather than hospitals, mobility rather than roads or railways. We help them achieve their true goals by working in partnership with them – bringing together teams that have the know-how and talent to understand the underlying issues and solve the toughest infrastructure challenges.

Why is this important?

Our large and complex customers view their assets strategically and holistically. They often want to work with people who can share the big picture with them, understand their strategic objectives, marshal the appropriate resources and deliver a solution rather than just an asset. For them, that is what adds true value.

Our ability to work this way can give us real competitive advantage. Few companies can do it to the extent that we can. By capturing, sharing and deploying asset knowledge across the Group, we differentiate ourselves from competitors and maximise value both for our customers and for the Group.

What are we doing?

We have built a group of differentiated people businesses on a global scale. These give us unrivalled ability to put together teams uniting diverse talents across all aspects of asset ownership from development and delivery through to operation.

The key to adding real value for customers is not just breadth of knowledge but the ability to share and deploy that knowledge effectively. So that, for example, what we learn from operating and maintaining existing assets informs the way we design new ones. We are continuing to make progress in managing and enhancing these information flows.

Strategic performance continued

Taking the fast track in Australia

Commuters and rail travellers to Melbourne share a problem. Their trains – local and regional – have to use the same tracks. So late-running fast trains get stuck behind frequently-stopping metro trains; and one late metro train can clog the regional network.

Adding an extra line to separate the services will clear the bottleneck, increasing the capacity and reliability of public transport around the city. But making it happen, with minimal disruption to crucial services, will be tricky.

By combining the resources of Parsons Brinckerhoff in Australia and our global rail business, we've won a position in an alliance with construction partners Thiess and design partners Sinclair Knight Merz to design and construct an AUS$835m key section of the new line.

In the Australian rail market our combination of skills is seen as unique, and our ability to integrate design with delivery brought real value to our partner. The win shows the effectiveness of integrating Group capabilities to manage complexity for customers, and accelerates our progress in Australia's buoyant rail market.

Putting together teams for ever more complex bespoke projects has highlighted the need for better processes to capture, share and deploy asset knowledge routinely and systematically. Over the past couple of years we have invested significant time and money in Building Information Modelling ("BIM") to capture and utilise our knowledge of assets through their lifecycle. We are now among the leaders in using BIM to facilitate knowledge sharing and provide insight for creating and managing building and infrastructure projects faster, more economically, and with less environmental impact. Customers are becoming increasingly alert to the promise of BIM, and the UK Government plans to require its use on public building projects from 2016.

In late 2011 we formed a £7.5m strategic partnership with Autodesk, the world leader in 3D design technology, that will expand our use of BIM to set the pace in project integration. This partnership, the first of its kind and size in the infrastructure industry, sets us apart from our competitors.

We can only collaborate fully with our customers to help them reach their goals if we really understand what they want, and have real insight into the needs of their end-customers and other stakeholders. Increasingly, we will be organised, managed and incentivised to understand customers' assets and needs, and to use our expertise to collaborate constructively towards better solutions. The next steps will be to define and foster a customer-centred culture across the Group by building our performance metrics, incentives and management around customer outcomes and delivery performance.

How are we performing?

Go-To List rankings for Parsons Brinckerhoff

No. 1	No. 2	No. 4
in the Road & Highway (=) and Airport categories	in the Bridge and Mass Transit (=) categories	in the Design-Build category

What's next?

In the year ahead, we aim to:

- improve our asset knowledge by developing platforms to capture, share and deploy it
- develop a culture to aid collaboration and delivery to customers
- leverage our customer relationships across divisions and geographies.

3. Improve operational performance and cost-effectiveness

Our unique breadth of capabilities and our wide geographical reach are the results of a sustained period of expansion. Much of this expansion has come through acquisitions, and we will continue to acquire businesses that enhance our capabilities or expand our territorial coverage – as described in objective 1 on page 16. But it is not enough to build the platform; we must also operate it as efficiently and profitably as possible.

Why is this important?

Generating good profits and converting them to cash is an imperative for us, not least because we have big aspirations. We want to be able to fund organic growth – and future acquisitions when attractive opportunities arise – as well as maintain our progressive dividend policy. Our goal set in 2010 remains to raise margins to 3.5%–4.0% by 2015. To achieve this in challenging economic and market conditions, with competition intensifying, we must work systematically to enhance our cost-effectiveness across the board.

What are we doing?

All our divisions have margin targets appropriate to the characteristics of their business. These targets are backed by cost and efficiency plans and recognise changes foreseen in the mix of their business. However, there were some headwinds in 2011.

In Professional Services, deteriorating market conditions in the UK reduced volume, and operating margins. The large number of new contracts in Support Services, one of our highest organic growth areas, meant considerable start-up costs. As a result, the progress our teams made with active management of cost in these divisions was partly offset by these adverse impacts.

In Construction Services margins deteriorated, primarily due to very competitive markets in the US, where we suffered a marked reduction in the number of niche higher-margin projects. The business has reached a level of margin which we are protecting with financial discipline and underpinning with the cost reduction measures we announced at the end of 2010.

So, while it is not easily apparent in the movement in margins, the Group-wide cost efficiency programme made good progress in 2011. Operational efficiency has benefited from the opening of our UK shared service centre ("SSC") in early 2011. The SSC now has over 230 employees and provides eight of our operating companies, representing £3.0bn or 50% of UK revenue, with their accounting and employee transactional services. On the procurement side, we are now delivering benefits by managing £300m of spend centrally. Operational cost savings reached an annual run-rate of some £15m by the end of 2011, and we are on target for £30m of gross savings by 2013 as forecast.

The achievements of 2011, and what we have learned, give us confidence to broaden these programmes this year into other back office functions and into territories outside the UK. We are targeting to deliver a further £50m of savings per annum by 2015

The best place for 21st century precision building engineering work isn't a construction site. It's a factory, like this one that we operate in the English Midlands.

We've pioneered the use of prefabricated modules, built offsite, because they offer efficiency and cost benefits. Quality control is tighter, onsite health and safety risks are reduced, and we can cut the time we spend onsite.

In the UK we've been refining our modularisation capability for some years. We built complete bathroom pods for hospitals – and bedhead units with all the electrical equipment and medical gas systems preinstalled and tested, resolving several challenges related to quality control and commissioning. Then, drawing on our experience of operating hospitals and of building modelling, we developed complete prefabricated operating theatres. We're currently using similar techniques in buildings ranging from schools to airport terminals.

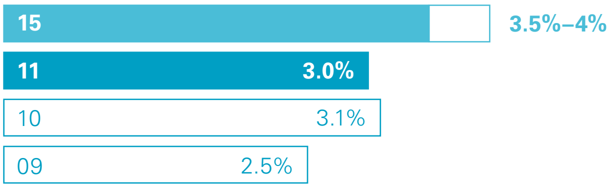
We're also transferring our expertise internationally. After successful trials with a facility in Dubai, we've opened a factory in Abu Dhabi that services mechanical and electrical engineering installations in the Middle East. And in the US our first facility is already using modularisation on hospital and airport projects.

Strategic performance continued

for a one-off cost expected to be in a range of 1 to 1.5 times the annual savings. We aim to see some modest savings in 2012 with a major portion coming through in 2013 and the residual element in 2014.

How are we performing?

Group operating margin[1]



1 Profit from continuing operations before non-underlying items as a percentage of revenue including JVs and associates.

What's next?

In the year ahead, we aim to:

- continue to implement procurement and back office initiatives
- enhance margins further at Parsons Brinckerhoff by focusing on better utilisation of resources
- expand the cost efficiency programme by broadening its scope.

4. Continue to show leadership in values and behaviour

To be recognised as the leading provider of infrastructure services – and to secure a sustainable, long-term future for the Group – we must also be a leader in areas such as ethics, safety and the environment.

Why is this important?

Our reputation is crucial to winning new business, attracting and retaining the best people, and building high-quality business partnerships. To build and protect a reputation, we have been on a journey to embed our ethical and sustainable approach among our own 50,000 people and our wider 500,000-strong community of partners, subcontractors and suppliers. In addition, the emergence and increasingly aggressive enforcement of anti-corruption legislation with global reach makes ethical rigour a critical risk management issue. As we grow into new markets, we must work harder to maintain our high standards.

Setting standards for a new generation

In the UK alone, we work with a substantial number of supply chain partners every year and they are key to our success.

And what better way to do that than by sharing the way we train the next generation of workers? Through our Balfour Beatty Apprenticeships scheme, we're pioneering a shared apprenticeship model in which we employ young trainees and place them with companies in our supply chain. By moving around different sites and host employers, Balfour Beatty's apprentices can be sure of sufficient continuous employment to become fully qualified. And for smaller companies that can't easily commit to providing such a long period of continuous employment, it's a low-risk way of participating in apprenticeship training.

Last year the scheme recruited 27 apprentices – alongside the 450 already working in Balfour Beatty – and we expect the numbers to rise significantly this year as more suppliers join in. In this way, we're taking a lead in developing a future skilled workforce that's grown up with the quality and safety standards we set for our own people.

What are we doing?

We have a major ethics, values and compliance programme, centred on the Code of Conduct we published in 2009 and two online training modules that all office-based and supervisory staff are required to take. In 2011 we published a Code of Conduct for subcontractors, suppliers and partners, as part of an ongoing drive to embed appropriate procedures and controls in the supply chain.

Since 2008 our Zero Harm programme has been working towards our safety goal of eliminating deaths and permanently disabling injuries to employees and contractors, injuries to members of the public and long-term harm to anyone's health. This has had a real impact, and our overall accident frequency rate is already down by some two-thirds compared with 10 years ago.

However, in 2011 the pace of improvement stalled. There were five fatalities – in our Hong Kong joint venture, Gammon – the same unacceptably high figure as we saw in 2010, and our accident frequency rate marginally increased. In 2012 we are redoubling our efforts to ensure that we return to the steady progress required by our Zero Harm vision.

It is almost three years since we set out our vision for sustainability, with a roadmap outlining where we want to be by 2020. All our operating companies have drawn up action plans and in 2011 we asked KPMG to conduct an independent review of their progress in implementing these plans. The review has identified some 180 examples of good practice which we have shared across the Group. We continue to raise our employees' sustainability awareness, and in 2011 over 15,000 of them received online sustainability training.

In 2011, we made little progress in reducing our CO_2e emissions due to the increase in more energy-intensive projects in our Hong Kong joint venture. We achieved our water reduction target in 2011. We are also on track to halve our waste to landfill by 2012 and have procured 34% of our UK major materials from recognised responsible sourcing schemes.

For the fourth consecutive year, we asked an external stakeholder panel to review our reporting practices and provide an independent opinion of our sustainability performance and recommendations for where we could improve. This panel of 10 experienced sustainability and corporate responsibility practitioners comprises both public and private sector customers, an investor, supplier, trade association and third sector organisations. We believe that this approach to assurance is unique for our sector.

We help to influence the market to adopt more sustainable outcomes. From thought leadership on the natural environment, and industry partnerships, through to the development of innovative water footprinting and climate change adaptation tools, we are playing our part. For the UK Government's Natural Environment White Paper in 2011, we provided both written and oral evidence to the Environment, Food and Rural Affairs Committee and encouraged the Government to use the procurement process to move from ecological protection to enhancement. We also sponsored the development of the UK Green Building Council's leadership course for a sustainable built environment which was launched last year for senior executives.

You can read more about our efforts to demonstrate leadership in values and behaviour in "the way we work" and in our sustainability report 2011 – available online at www.balfourbeatty.com/sr11.

Go to **P48 – P51** for more information on "the way we work"

How are we performing?

Accident Frequency Rate ("AFR")

+6%

Target	0.10[1]
11	**0.17**
10	0.16
09	0.17

Greenhouse gas emissions (tonnes CO_2e/£m revenue)

Target	37.5[2]
11	**41.4**
10	41.7[3]
09	36.3

1 Or lower by end of 2012.
2 10% reduction by 2012 and 50% by 2020, both against the 2010 baseline.
3 Restated due to more comprehensive data.

What's next?

In the year ahead, we aim to:

- refresh our sustainability roadmap, developing new targets for 2015
- continue to roll out sustainability training to involve an increasing number of employees in our 2020 vision
- participate in Business in the Community's corporate responsibility index for the first time
- sponsor Ecobuild 2012, the construction sector's largest event, to share our knowledge on BIM, offsite construction, energy efficiency and whole-life carbon modelling
- continue to embed our ethics, values and compliance programme and leverage it to support the Group's growth strategy as we enter new and sometimes higher-risk markets.

from essential services

We're used to ensuring complex buildings fit within local communities to deliver essential services. It's a delicate balance: focus on the technology and you can lose sight of the people. Capturing and acting on feedback is vital. Hospitals are a case in point, as we learned from those we've financed, designed and built – and then gone on to operate, like this one in Salford which opened in 2011.

to energy services

We've used the knowledge and skills acquired through Group-wide collaboration to make ourselves highly competitive in new markets. This led to us being chosen as preferred bidder for waste schemes in Essex and Gloucestershire. The latter benefits young and old alike by turning 91% of Gloucestershire's municipal waste into energy – enough to power 25,000 homes.

Read more: case study on page 42.

Chief Operating Officer's review

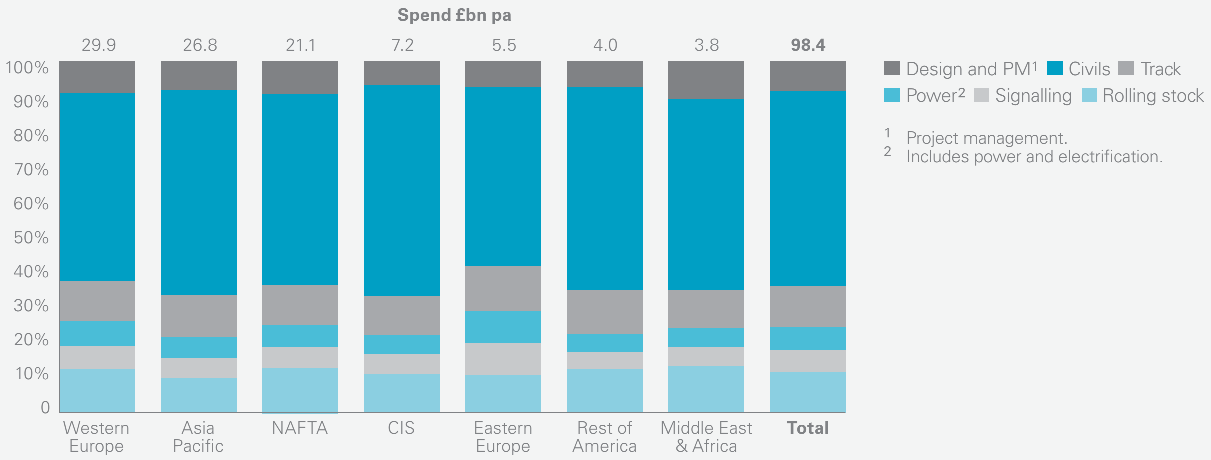
A route to lasting customer confidence

Andrew McNaughton
Chief Operating Officer

"We have accelerated the international reach of our business and increased our focus on markets where demand is expanding faster."

For more information go online:
http://annualreport11.balfourbeatty.com

Total annual spend on rail infrastructure 2015 (£bn)



Source: Association of the European Rail Industry (UNIFE) projections.

Our strategy has built Balfour Beatty into one of the world's largest players in infrastructure – a market characterised by sustained strong growth in both developed and emerging economies.

Mature economies need to renew ageing assets and to adopt technologies that satisfy changing environmental, sustainability and energy security criteria. These pressures are sufficient to maintain moderate growth despite current economic and fiscal constraints. However, the pace of growth is very much faster in emerging markets – driven by rapidly rising populations, economic expansion and the more sophisticated demands of increasingly urbanised and affluent populations.

Our business model – focused on infrastructure

To satisfy this demand we have built – through organic growth and acquisitions – a Group with world-class expertise across the entire infrastructure lifecycle. Our capabilities extend from financing and designing assets to constructing, operating and maintaining them.

This enables us to engage with asset owners at any stage in the life of their assets. We can also build project teams that draw skills and resources from across the Group. For management purposes we have structured our businesses into divisions representing four broad areas of capability: Infrastructure Investments, Professional Services, Construction Services and Support Services.

At present some 80% of our business is in the UK and US, although we have a presence in more than 80 countries around the world. In recent years, as the economic crisis slowed market growth in the US and UK, we have accelerated the international reach of our business and increased our focus on markets where demand is expanding faster.

Our customers – seeing a bigger picture

Historically, asset owners have viewed projects in isolation and tendered them largely on price. But over the past decade many of our customers have moved to a broader view involving much closer engagement with us. Rather than focusing narrowly on building or upgrading an asset, they want to collaborate on achieving a desired outcome or finding the best solution to a challenge. They understand the risks and are willing to share them. Often they look to us to manage costs and share the savings.

Customers who buy a single service in a single geography still account for the majority of our revenue. But a growing proportion want to buy more than one capability and seek a combination that delivers a better solution and reduces interface risk between suppliers. They are more concerned with obtaining outcome value than with price per se.

An increasing number are taking the next logical step, and looking beyond single projects. They want to work with partners who grasp the complex challenges they face; understand their true objectives; and deliver a solution rather than just an asset. Sharing risk related to outcome increasingly plays a part in our engagement with core customers. So where a traditional highway owner might contract for potholes to be repaired cost-effectively, these customers would seek value in outcomes such as reliable journey times with minimal negative impacts on external stakeholders. Equally, where a regulated utility provider in the water sector, for example, seeks reliable infrastructure performance the onus is on both parties to perform and share outcome risk.

Over time we will significantly reshape our organisation, business model and strategic direction to satisfy these more sophisticated customers. Increasingly, we will be organised, managed and incentivised to understand their assets and needs, and to collaborate constructively towards better solutions. We have begun to foster a more customer-centred culture across the Group by building performance metrics, incentives and management around customer outcomes and delivery performance.

Our approach – sharing knowledge and innovating

For more discerning customers, our broad capabilities and collective asset knowledge are powerful competitive strengths. But the key to adding real value for them is the ability to share and deploy our knowledge effectively – so that, for example, what we learn from operating and maintaining existing assets informs the way we design new ones. We have made world-class knowledge management a strategic priority – one reason why we have become leaders in seeking to maximise the technological capabilities offered by tools such as Building Information Modelling ("BIM"), as described on page 18.

BIM also facilitates the innovation that customers expect from us and we have moved to enhance our skills in this important area. We see a culture of innovation as another competitive strength, addressing it systematically through three linked initiatives.

Innovation as One aims to make us a leader in integrated solutions by joining our strengths with those of our partners and supply chains. Focused on markets where this integrated approach will deliver disproportionate value to clients, it launches in 2012. **Innovation Everywhere** aims to develop a culture of innovation at every level. We are investing in tools such as BIM that will support this by providing insight for creating and managing projects faster, more economically and with less environmental impact. **Open Innovation** aims to harness the creativity of our supply chain and strategic partners to develop ideas that yield mutual benefits as well as value to our clients.

Growth sectors – opportunity and advantage

Customers with more complex and sophisticated requirements are central to our main strategic goal of growing and creating value. We are focusing on the sectors where they are prevalent and our broad capabilities and asset knowledge give us competitive advantage.

Considering the infrastructure landscape in terms of complexity, growth potential, global leverage and our current presence, we see particular potential in the rail, power and mining sectors – plus, in some geographies, transportation and water.

Rail

In many developing markets, rapid urbanisation is fuelling a surge in demand for urban transit systems. At the same time, unprecedented growth in commodity prices has spurred an increase in mining activity – driving increased private sector investment in rail to transport commodities from mine to market. In major mature markets, constrained public finances are creating pressure to reduce public spending on rail investments, which are seen as desirable but costly – but this can create opportunities for new and innovative financing structures.

Overall, we expect growth of £15bn in annual rail infrastructure spend worldwide from 2008, reaching some £100bn by 2015.

This market is increasingly global, creating opportunity for international players like us to participate in emerging markets. But there is also rising competition from low-cost Chinese providers, who increasingly bring project finance with them.

The opportunity for Balfour Beatty is the trend towards multidisciplinary projects encompassing all elements from programme management; civil engineering; routine and operational maintenance; track and electrification; and signalling and rolling stock. These are increasing in proportion and offering higher margins. We have had considerable success in this area, with projects such as Denver Eagle, the recent Denmark Rail signalling upgrade and the welcome decision taken by the state government in Victoria to involve us in an upgrade of a critical section of Melbourne's urban rail network.

Chief Operating Officer's review continued

Power

Balfour Beatty's heritage is built on this core sector. This is what we do – and it is no coincidence that the first construction contract secured by our fledgling business 102 years ago was to build a new generating plant and lay new track and lighting in Dunfermline, Scotland. Since then our knowledge and reach throughout the sector has continued apace. That reach is now truly international with major projects currently underway in South Africa, New Zealand, Arizona and elsewhere. Globally, this is a vast market with generation capacity currently totalling some 5,000GW. Most of this is fossil-fuelled, particularly in developing countries.

Investment is driven by growing demand in developing markets, replacement of ageing infrastructure in developed markets and green agendas. The market opportunity is very significant: US$9trn of capital investment is forecast between now and 2035 – around US$350bn a year – with developing countries accounting for about 60%. The technology mix is expected to see a growing proportion of renewables and nuclear as coal's share reduces.

In transmission and distribution we are already working with asset owners National Grid in the US; in Australia through our joint venture with UGL; and in Indonesia through our joint venture with Sakti. We intend to develop our position further in these markets.

Brazil, the largest South American market, presents significant opportunities. Investment totalled £400m in 2010 and is set to grow at 10% annually. The whole network was state owned but auctions have brought private companies into the market.

India is another attractive market – the second largest in Asia. Annual spending on transmission is over £3bn, forecast to grow at 12% a year to 2014. While most assets are publicly owned, nearly all construction and some professional services are outsourced. The government is encouraging PPP in transmission and six lines have been awarded to private companies over the past year.

Our activities in power globally have gained momentum in recent years. We are now preferred bidder for two offshore wind assets and a waste PPP project. In addition to our partnerships in the US, Australia and New Zealand, we are one of three preferred bidders for an EDF nuclear new-build project in the UK.

Mining

In resource-rich countries there is synergy between rail, power and mining. Increased extraction activity requires power to mine the resources and rail to transport them. We are ideally placed to meet this demand – particularly since the customers are typically multinationals who favour suppliers that can work with them holistically in multiple territories.

The mining construction market is large and is growing fast (16% a year 2009–2012). Most projects are procured via umbrella Engineering, Procurement and Construction Management (EPCM) contracts, and the few large players capable of providing these services dominate the market. Parsons Brinckerhoff currently provides infrastructure design and project management services in Australia and Africa to clients on smaller projects, or as a subcontractor to EPCMs.

This could be a springboard to a far greater opportunity. We have already begun extending Parsons Brinckerhoff's current services organically to new geographies and commodities, increasing the addressable market from US$1.1bn to US$3.4bn. Beyond this, as we develop our EPCM capability, we could gain access to the whole US$8.4bn professional services market. An integrated offer combining professional services with our construction capabilities would open the door to the related US$5.8bn rail and power construction markets.

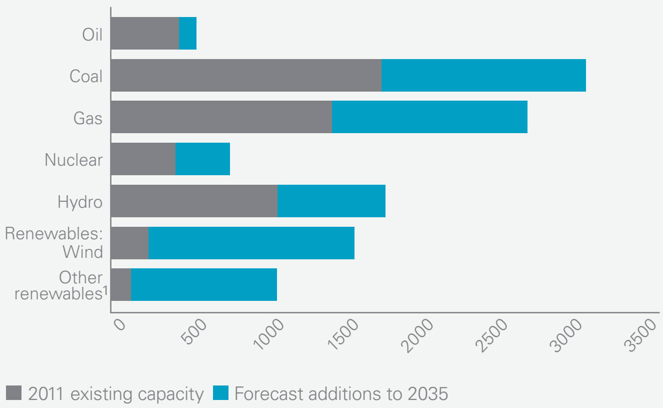
Growth economies – extending our reach

Our desire to expand in these sectors draws us towards economically buoyant countries such as South Africa, India and Brazil. We have taken important steps in recent months in establishing a presence in both India and Brazil while further leveraging our footprint in South Africa where we also see significant opportunities. Elsewhere, in highly developed markets such as Canada and Australia, we have a good understanding of these countries and their business models. Buoyed by rising demand for commodities, they do present clear opportunities for us – while their scale, economic growth rates and market structures suit our model.

Australia

Australia is an attractive market with enormous potential, founded on a steady economy weighted towards infrastructure. The Australian market already accounts for some £300m of the Group's

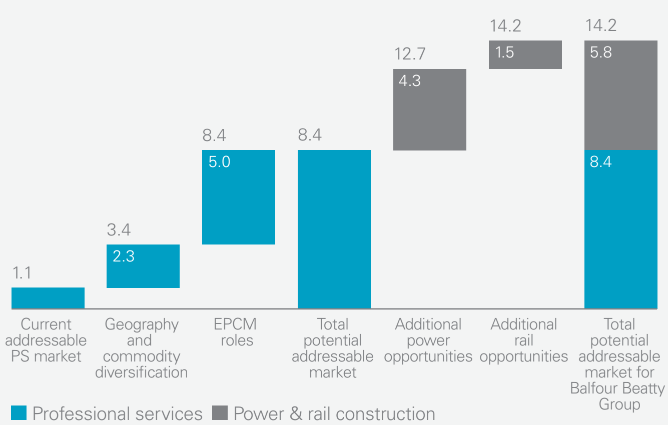
Global power generation 2011–2035 (GW)



[1] Other renewables include biomass and waste, geothermal, solar PV, CSP and marine.

Source: IEA World Energy Outlook 2011, and Balfour Beatty estimates.

Potential addressable mining market (US$bn)



Source: Balfour Beatty research.

revenue. We have a long and proud record here with a growing presence reflecting a strong pipeline of work with hotspots in mining, power and transportation. All these projects are reliant on commodity markets, but are currently suffering from delays in the public sector. The country has a sophisticated procurement model including lifecycle contracts providing PPP and services opportunities relating to key infrastructure projects in markets we understand such as water, highways maintenance and rail.

The US$200bn Australian construction market accounts for 14% of GDP. This above-average proportion is due to significant market-sector led infrastructure investment, which accounts for 40% of construction. While the public sector accounts for 60% of civil infrastructure spend, private customers make up 100% of mining spend and 50% of power spend. Annual growth rates are forecast at 5% to 2015, though we are mindful that this reflects commodity demand and the current hiatus in public spend.

Canada

We acquired Halsall, a Canadian professional services firm, in 2010 as a base for developing a transportation and power business.

Canada's GDP ranks ninth in the world. Relative to other developed economies, its underlying fundamentals are very strong. Its infrastructure market is forecast to grow 3% annually to reach US$132bn by 2020. We see attractive drivers: a well-established PPP market and strong prospects in power and rail. There is a suitable competitive structure on the supply side and business ethics are excellent.

Emerging markets

In addition to these existing markets, we are targeting emerging economies with favourable growth dynamics – typically driven by economic growth, changing demographics and government-led market reforms. We are focusing on those with sufficient scale, a good competitive environment and appropriate ethical standards.

In 2011 we began making inroads into India and Brazil, our priority emerging markets. We already have an office in Brazil; in India we opened a Balfour Beatty office to complement Parsons Brinckerhoff's presence and signed a memorandum of understanding with Tata Projects. Both countries have larger infrastructure markets than the UK, are welcoming private capital into infrastructure provision and are making determined efforts to eliminate endemic corruption.

India's long-term growth outlook is strong, buoyed by a growing working-age population and high domestic demand that will soon lift the country into the world's top five consumer markets. Infrastructure spending is expected to account for 10% of GDP by the end of the government's 12th Five Year Plan in 2017 – up from 5% in the 2002–2007 Plan. If policy and regulatory reforms go ahead as expected, private investment's share of the total is expected to rise from 30% to 50%. PPP is gaining traction – seen initially as a way of bringing in private funds to offset government shortfalls, it is now recognised as a major catalyst for infrastructure development.

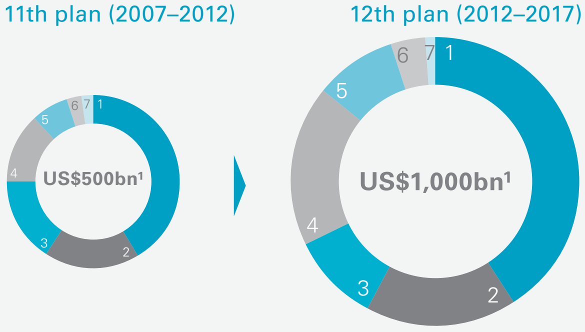
Brazil's GDP has recently overtaken the UK's to rank sixth in the world. It now outvalues all the other South American economies combined. Real GDP growth is forecast at 4% a year to 2016. The construction market, worth US$140bn (7% of GDP) in 2011, is forecast to grow at a similar pace, as strong growth in infrastructure and mining offsets a reduction in oil and gas spending. The government is ramping up its own investment in infrastructure through its Growth Acceleration Programme. It is committed to US$596bn in the 2011–2014 second phase, compared with US$349bn in the 2007–2010 first phase.

Our "home" markets – still hold growth opportunities

In our UK and US "home" markets, demand for infrastructure continues to rise, albeit more slowly than in the growth markets we have identified. In the operating review which follows we outline developments in these cyclical, low-risk markets, as well as some of the actions taken in 2011 to reach into our newer target markets.

The overall picture is one of continuing growth, building on our cash-generative core building markets. They continue to offer a strong platform on which to demonstrate our capabilities. Sharing knowledge built on our skills and experience affords a sound basis to pursue the opportunities we see emerging in other markets.

India's infrastructure investment

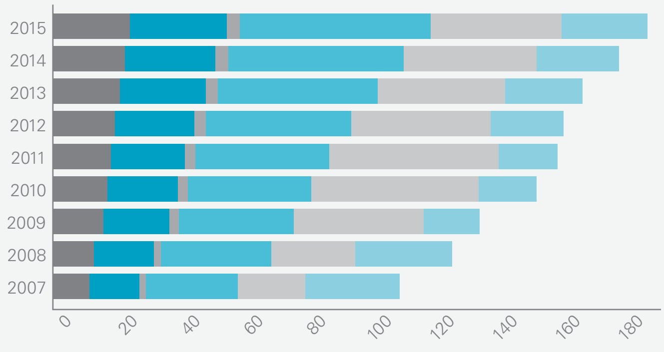


1 Electricity
2 Roads & bridges
3 Irrigation
4 Railways
5 Water supply & sanitation
6 Ports
7 Airports

1 Total (including other sectors such as telecom, urban, etc).

Source: Planning Commission, Government of India, www.infrastructure.gov.in, KPMG Analysis.

Brazil construction market 2007–2015F (real US$bn)



Source: Balfour Beatty research.

Operating review

Professional Services

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

What's happened?
- Integration of Halsall in Canada was completed
- Recognition for excellence by industry bodies
- Significant growth in Australia
- Award of first major contract in Qatar
- Two large rail contracts in collaboration with the rail division

What's next?
- Exploiting growth opportunities in emerging markets and growth sectors
- Continuing cost and utilisation initiatives to ensure margin expansion

The success of our business relies on winning work on the strength of our track record of technical expertise and execution, while maximising staff utilisation to increase billable hours. We are encouraged by our robust order book and market developments in higher-growth regions – particularly Australia, Asia and Southern Africa – and expect the professional services business to remain resilient.

How we performed

Order book

11	£1.6bn
10	£1.5bn
09	£1.4bn

+7%

Revenue including JVs and associates

11	£1,645m
10	£1,613m*
09	£558m

+2%

Profit before non-underlying items

11	£87m
10	£85m*
09	£13m

+2%

KPI

Billability
Billability is a good measure of resource utilisation, and hence profitability, in what is essentially a billable hours business.

11	58.7%
10	58.7%
09	57.7%

Computes Parsons Brinckerhoff's total direct labour cost charged to projects divided by total labour cost of employees.

* Parsons Brinckerhoff was consolidated for the full year for the first time.

Our strategy

Professional Services, trading under the brand name Parsons Brinckerhoff, is a fee-based consultancy business. Its success relies on winning work on the strength of its track record of technical expertise and execution, while maximising staff utilisation to increase billable hours.

Professional Services is at the heart of the Group's growth strategy. Knowledge is much more mobile than downstream capability; so in growth markets where we currently lack a local presence in construction, we look to Professional Services (and, often, Infrastructure Investments) to provide access routes. Some of these markets are developing countries where our rigorous health, safety and ethics standards make it difficult for us to compete effectively for work on the ground; however, we can work ethically and safely as a professional services provider.

Professional Services is an area where we are targeting further growth by acquisition. Gaps in our coverage that could be filled more readily through acquisition rather than organic growth include power and federal services in the US, mining in resource-rich geographies and transportation in certain geographies where there may be gaps in our skill set.

In 2010 we identified a number of areas in Professional Services where there was scope for increasing profitability. Over the past year we have acted on this, reducing costs in several territories by increasing our organisational efficiency – although this effort was partially offset by a drop in the volume of work in the UK. We will continue our efforts to reduce costs while also shifting our business towards higher-margin services and projects such as programme management, design-build and public private partnerships. We also aim to retain a higher proportion of gross revenue by subcontracting less.

Our marketplace

Americas

In the US, stalemate on the Transportation Bill has delayed the commissioning of large, long-term public infrastructure projects. Federal transportation funding is caught in the crossfire between politicians and is unlikely to be resolved until after the next presidential election. We expect to continue working with short-term extensions to funding that keep the level of spending stable but do not offer the certainty of long-term funding for large projects.

However, a new model is taking hold. Local governments are implementing various taxation methods specifically to respond to the need for infrastructure investment as federal support is reduced. Alternative means of funding are also developing such as PPP, with an increasing number of states – 31 so far – putting PPP legislation in place.

In this difficult environment we continued to win work as a result of our strong customer relationships, track record and strength in feasibility work at the early stages of potential projects. By maintaining stable revenues we believe we have gained market share.

The US power market presented opportunities in the year. Our volume of work doubled, albeit from a small base, and we are encouraged about the future. The US team has also leveraged its skill set in EPC (Engineering, Procurement and Construction) delivery into New Zealand.

We operate in Canada through our recently acquired business, Halsall. Halsall is giving us a good platform on which to develop a transportation and power business; we have recently been selected for two transportation projects in the country.

Europe, Middle East and Northern Africa (“EuMENA”)

The UK business faced a shortage of public sector consultancy work following the Government’s Comprehensive Spending Review announced in October 2010. The market was also weak in Dubai.

However, we are actively addressing the opportunities presented by countries such as Qatar, Kuwait and Saudi Arabia, which are looking to upgrade their national infrastructure significantly as part of recently revised national vision programmes.

Asia, Australia-Pacific and Southern Africa (“AAPSA”)

Australia is currently a buoyant market, particularly in the minerals and power sectors. Our healthy order book development there reflects strong customer relationships and our reputation for technical expertise.

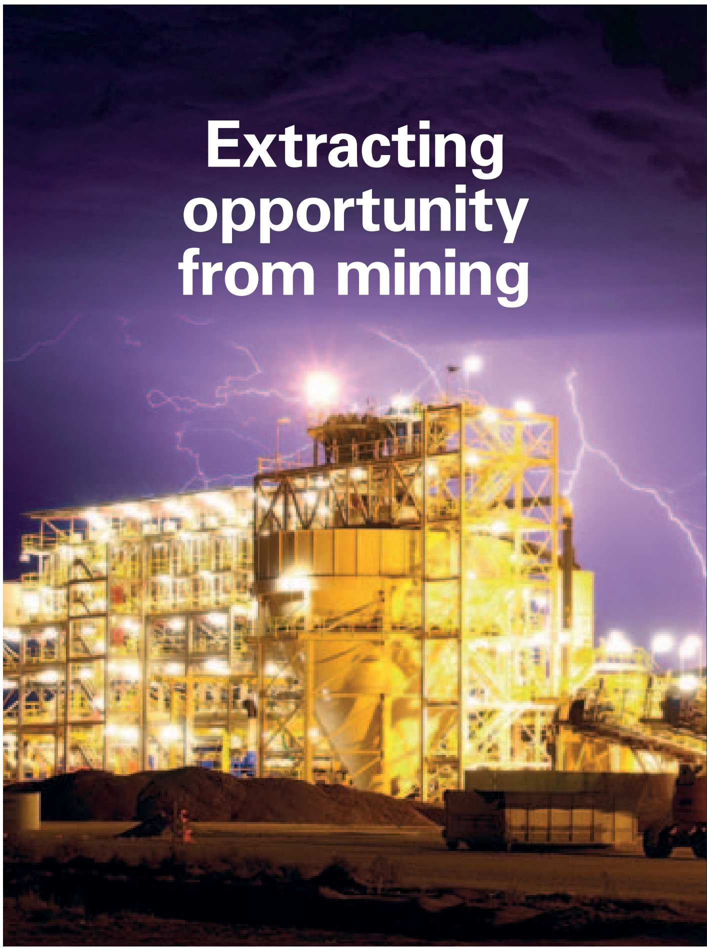
Financial performance

The order book increased in the year from £1.5bn to £1.6bn with reductions in the UK and the US more than offset by wins in the rest of the world, primarily in South Africa and Qatar.

The impact of the acquisition of Halsall, increased revenue in Australia, particularly in the mining sector, partly offset by revenue decline in the UK, resulted in overall revenue growth of £32m, or 2%.

The improvement in profit from operations is particularly noteworthy. The division’s underlying profit from operations of £87m was ahead of the £85m in 2010. Excluding the effect of the additional £8m incentive income in 2010, underlying operating margin improved from 4.8% in 2010 to 5.3% in 2011.

Extracting opportunity from mining



The rapid industrial growth of economies such as China and India is driving strong global demand for mineral resources – and for the kind of mining project expertise that we are already demonstrating in eastern and southern Australia.

Worldwide, investment by mining companies was estimated at about US$150bn in 2010 – of which US$8.4bn was spent on professional services alone. And the market is still growing apace.

Building on Parsons Brinckerhoff’s four decades’ experience in Australia, we now aim to build a global mineral resources business – operating across coal, iron ore, and base and precious metals and integrating the broader skills available across Balfour Beatty. The business has expanded its geographical footprint to Western Australia, building on the success of projects like the award-winning AUS$420m Jacinth-Ambrosia Mineral Sands Mine in South Australia (pictured).

We are now making further inroads into Africa, South America and Asia by extending our existing relationships with mining companies – going with them to support efficient, safe and sustainable operations at their other locations around the world.

Operating review continued

Operational performance

Professional recognition

Parsons Brinckerhoff's world-class technical expertise and global reputation are significant assets for the Group – both operationally and as a key factor in differentiating us from competitors. That is why we use Parsons Brinckerhoff's Go-To List rankings as a KPI for the strength of our core skills.

It was therefore encouraging to receive another crop of prestigious awards in 2011. For geotechnology and tunnelling these included a Platinum Award in Engineering Excellence from the New York Chapter of the American Consulting Engineers Council, ENR New York's Regional Infrastructure Project of the Year award and New Civil Engineer's International Award for Tunnel Programme Manager of the Year. Jim Monsees received the Golden Beaver Award, the highest honorary recognition given to a tunnelling professional, and a Lifetime Achievement medal from Tunnels and Tunneling magazine.

Parsons Brinckerhoff was also named Professional Services Firm of the Year by the Hispanic American Contractors Industry Association.

Americas

In the US, transportation accounts for some 80% of our professional services revenue and the funding of transportation projects is crucial to the availability of work. However, the contracts we won throughout the year demonstrate that despite the failure to agree a new six-year federal funding budget for transportation, individual states have found innovative ways to finance projects and bring them to market.

We won three major contracts on the Los Angeles rapid transit system: Phase 2 of the Expo light rail extension of the Green Line light rail to Los Angeles International Airport; and the regional connector linking the Metro Gold and Blue Lines with the new Expo light rail. As the lead member of the Eastside LRT Partners joint venture, Parsons Brinckerhoff has been providing planning, design and construction engineering services to the Los Angeles Metro for the Eastside extension for 20 years. These projects have included six street-level stations, two underground stations and a 2.7km tunnel through Boyle Heights.

We led a team which was selected to provide project management, construction management and management consulting services to Valley METRO Rail in Phoenix, Arizona for its five-year capital programme.

In the power sector, the Coolidge Generating Station in Phoenix, Arizona – completed ahead of schedule and under budget – was hailed as a success by all stakeholders. We provided full design and engineering support in joint venture for the fixed-price engineering, procurement and construction delivery of the 500MW plant.

Our expertise in sustainable structures and construction is an increasingly important factor in winning new business. To ensure that we maintain high sustainability standards in our own activities and operations, we established a new Sustainability Council for our Americas business in 2011.

EuMENA

In the UK, we have shifted our emphasis towards the delivery of complex and specialist solutions, and away from commodity services. This approach has helped us to secure large contracts across a number of market sectors, including a significant power transmission contract in the second half. In parallel, a rigorous cost saving programme has ensured that we remain competitive in the challenging market conditions.

A series of high-profile wins in the rail sector has boosted our order book for 2012. Secured contracts include Northern Hub, where we are providing programme management for multiple infrastructure and operational projects, and engineering consultancy services for the enhancement of the central Manchester section. Our rail team also gained a place on the newly created High Speed 2 frameworks, through which the engineering design services will now be procured.

While the UK power market remains slow, with few new-build projects initiated, we have picked up significant study and development work including an Industrial Emissions Directive study for the Department for Environment, Food and Rural Affairs, a Plant Costing Study for the Department of Energy and Climate Change, and a recently completed Transmission Technology Costing Study for the Infrastructure Planning Commission.

The UK highways sector is particularly depressed following Government spending reductions, but we continue to win new work. Our new contracts include the Department for Transport's Technical and Engineering Advice framework, through which we will deliver services across the road and rail sectors to the national government. Other major projects in progress in this sector include numerous Olympic contracts, focused on the delivery of complex planning, design and operational support services on behalf of the London Organising Committee for the Olympic Games, the Olympic Delivery Authority and Transport for London.

In the Middle East our work is shifting from Dubai and Abu Dhabi, where opportunities are currently limited, to other Gulf States such as Qatar, Saudi Arabia and Kuwait. We see these as growth markets which are integral to our expansion strategy and we have been mobilising some of our UK technical expertise to meet demand in these countries.

In November we were awarded the programme management consultancy contract on a £5bn roads and drainage scheme in Qatar. Under the £104m, five-year commission we will have overall responsibility for management and co-ordination of all construction, logistics and supply chain interfaces with Ashghal, Qatar's public works authority. We will also oversee general engineering consultants for each of Qatar's five geographic zones. And Qatar Rail has selected us as strategic programme manager for its multibillion-dollar Qatar Integrated Rail Programme.

In Saudi Arabia, important commissions included serving as owner's engineer for the Saudi Electric Company ("SEC") on its Rabigh thermal power plant project. This 2,800MW plant is a vital part of SEC's plans for meeting growth in electricity demand and supporting major economic development.

Responding to an ongoing demand for additional specialist resources in the Middle East, many UK-based employees are now engaged on projects throughout the wider region.

Taking the heat in Arizona

Power is a critically important sector for Balfour Beatty globally. The nature of the challenge varies from market to market.

In Phoenix, Arizona, temperatures vary wildly – from sub-zero in winter to a summer daily average of over 38°C. As a result, power demand also fluctuates sharply. It peaks on hot summer afternoons when air conditioners are working flat out. The new Coolidge Generating Station, for which Parsons Brinckerhoff provided all the engineering services, is one of the largest "peaking" power plants in the US. When demand spikes, it is designed to go from standstill to its full 512MW output in just 10 minutes.

That enables the local utility company to operate baseload generation more efficiently. It also enhances the reliability and flexibility of the local grid by providing back-up when other plants are down for maintenance – and when weather conditions reduce output from wind and solar sources. Peaking plants' ability to power up rapidly enables utilities to bring more renewable capacity onto the grid without risking security of supply.

Sustainability features of the Coolidge plant, opened ahead of schedule and under budget in 2011, include systems to eliminate wastewater discharges and cut NO_x emissions to well below present or likely future requirements.

AAPSA

Strong revenue growth in Australia and parts of Asia helped to drive profitable growth in the region.

An alliance in which Balfour Beatty has a 35% share was awarded an AUS$835m (£535m) contract for works on the Footscray to Deer Park section of the Regional Rail Link project in Melbourne. We will play a vital role in the alliance, with Thiess and Sinclair Knight Merz, by combining our professional services with Balfour Beatty's rail infrastructure capabilities.

As part of the Well-Connected consortium, we were chosen to form an alliance with the New Zealand Transport Agency to deliver the Waterview Connection linking two motorways in Auckland. The 4.5km link, including 2.5km of six-lane, twin-bore tunnel, is New Zealand's biggest and most complex road project.

In Singapore the Circle Line, the island's fourth mass rapid transport line, opened in October. We were the lead consultant on 11 underground stations.

Looking forward

Despite the continuing difficulties in US transportation funding and constraints on UK public sector spending, we look forward with optimism. With 150 offices worldwide, we are well-diversified and able to direct resources to the markets that present the greatest opportunities.

We are encouraged by our robust order book and expect favourable market developments in higher-growth regions – particularly Australia, Asia and Southern Africa. Collectively, these positive developments are expected to benefit Professional Services and ensure that we continue to make further progress in 2012.

Operating review continued

Construction Services

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

What's happened?
- Difficult market conditions leading to lower volumes and competitive pricing
- Completion of a number of iconic projects in the UK such as the Olympic Aquatics Centre and A3 Hindhead tunnels and dual carriageway
- Won two waste contracts in the UK working with Investments
- Award of Britain's Most Admired Company in the heavy construction sector
- Acquisition of Howard S. Wright in the US
- 44th place for our US business in Fortune magazine's 100 Best Companies to Work For list
- Record order book in Hong Kong for the second year running

What's next?
- Continue to develop private and regulated market opportunities in the US and the UK
- Leverage customer relationships and capabilities in the context of our expanded footprint in the US
- Build on position in Hong Kong and adjacent markets

Over the past year we have made good progress in differentiating Balfour Beatty as an integrated construction provider with superior asset knowledge. In 2012 we aim to build on this positioning in the UK and internationally – seeking in particular large and complex projects while continuing to serve our current customers effectively.

How we performed

Order book

11	£8.5bn	-8%
10	£9.2bn	
09	£8.2bn	

Revenue including JVs and associates

11	£7,050m	+5%
10	£6,734m*	
09	£7,482m*	

Profit before non-underlying items

11	£169m	-16%
10	£201m*	
09	£197m*	

KPI

Secured orders and ABNC as % of revenue
The secured order book and the awarded but not contracted orders ("ABNC") are leading indicators of future revenue.

11	177%	-11%
10	188%	
09	156%	

* Re-presented to reflect the change in the group management structure (see Note 38.3).

Our strategy
The strength of our construction business lies in our ability to integrate and manage local supply chains to deliver projects on budget and on time. Our asset knowledge, supplemented by Parsons Brinckerhoff's professional services capabilities, is crucial in meeting the complex needs of infrastructure customers. We see our knowledge of customer assets and our integrator capability as competitive advantages that differentiate us from our peers.

Our strategy for the UK construction business is to seek growth right across the available market by deploying the collective strength of the division rather than working in silos. To this end we have already joined up the management structures of the division's operating companies; and this also makes it easier to deliver an even broader range of capabilities by joining forces with other divisions. This approach is particularly relevant in vertical markets such as power and rail, where projects and customers are large and complex. To maintain margins we manage risk carefully and focus closely on cost and operational performance.

During 2011 we completed our desired footprint in US construction by acquiring Howard S. Wright in the Northwest. There are clear opportunities to leverage our capabilities from one region into another, particularly now we have combined our building, rail and civil businesses across the country. We have launched programmes to achieve synergies and efficiencies while differentiating ourselves in a very competitive market.

Rail is a significant component of our integrated offering. Our rail business has always been a strong contender in infrastructure projects as main contractor or supplier of rail systems including signalling and electrification; now, working jointly with Parsons Brinckerhoff, we are emerging as a significant player in the integrated design and construction of complex rail projects.

We will continue to develop our business where we see growth opportunities, particularly in the Group's focus markets such as Australia, Canada, Brazil and India.

Our marketplace

UK

At the start of the year expectations had been dampened by the UK Government's 2010 Comprehensive Spending Review. As expected, the overall UK market has been contracting – although some sectors have fared better than others.

The volume of work has been lower – particularly in health and education. This has increased competition in the market, with a consequent adverse impact on margins. In these conditions, our diversity has been a particular strength – enabling us to shift resources into more promising sectors such as energy-from-waste, nuclear new build and Crossrail.

However, during the year the Government made a series of encouraging announcements about its commitment to infrastructure as a key component of economic growth. This found expression in additional spending and new policy measures announced in the Autumn Statement.

US

US construction markets, where our strength is in building, were adversely impacted throughout the year by the lack of federal and private funding. Nevertheless, we increased our revenue while US public construction contracted by 7% according to the US Census Bureau, gaining market share and achieving organic growth in our order book.

We are strongly differentiated from competitors in the delivery of major projects – such as large data centres, hospitals and vertical housing. However, current constraints on federal spending and bank financing have reduced the number of such projects, focusing the market on smaller projects which are subject to intense competition. Throughout the year there have been signs of recovery in parts of the commercial marketplace, but it is still too early to point to a trend.

International

We have a 50% interest in Gammon Construction, the market-leading contractor in Hong Kong. Gammon has seen a continuing shift of spend from Hong Kong's weak private building market to the public sector. This has been buoyant in both social and civil infrastructure segments, particularly in mass transit rail, roads, and sewerage schemes. This trend plays to our strengths and we expect continued growth.

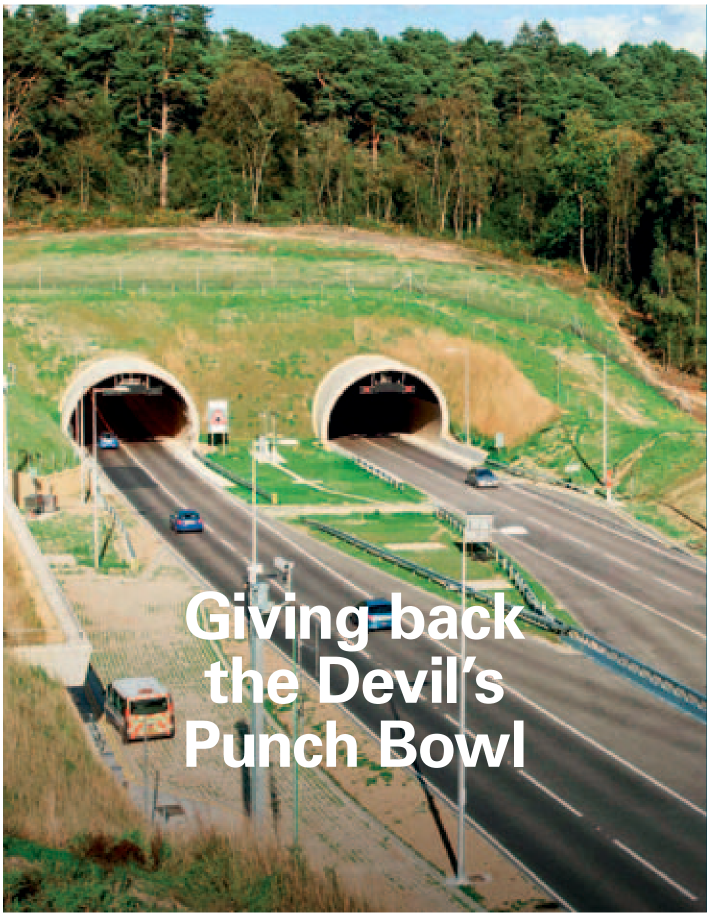
Gammon also has a presence in Singapore, where opportunities have been reasonably good but very competitive market conditions have constrained our growth. Macau continues to provide opportunities for Gammon and Vietnam remains a target market for growth.

While Dubai and Abu Dhabi remain quiet, there are growth opportunities in Qatar, Saudi Arabia and Kuwait – where governments are increasing spending on infrastructure to support their growing economies.

In the rail sector the German market remained stable. However, as in the previous year, conditions in Southern Europe continued to be difficult.

Financial performance

Performance was impacted by the full-year effect of the reduction in public spending as well as low volumes in commercial property development in our major markets. Against this background, our order book declined by 8% to £8.5bn, including £0.4bn from acquisitions.



Giving back the Devil's Punch Bowl

For decades, planners were bedevilled by the UK's A3 trunk road at the Devil's Punch Bowl.

Passing through the peaceful Surrey hills, traffic sliced through an environmentally sensitive beauty spot, cut the village of Hindhead in half and ground to a timewasting halt in perpetual queues around a set of traffic lights. But a succession of proposed solutions proved too costly, too difficult or environmentally unacceptable.

Now peace has returned to the Punch Bowl and the old road is being restored to the heathland byway it was before 1830, creating a new natural wilderness for all to enjoy. Community engagement at every level was critical to successful delivery of the scheme, alongside effective teamwork between our client the Highways Agency, the consultant Mott MacDonald and Balfour Beatty.

Building the 1.8km twin-bored tunnel through sandstone rock began in February 2008 and three and a half years later the new route was opened to acclaim from drivers, neighbours and visitors alike.

Some of the project site sits on National Trust land and it was vital to ensure great care and sensitivity was maintained in planting, general landscaping and the right environment for wildlife, while 85% of site waste in total was recycled.

Operating review continued

Delivering Dallas from the disco era

"Travelers, get ready for seven-plus years of yellow tape, orange cones and detours at Dallas/Fort Worth International Airport, where four terminals are overdue to get upgraded out of the disco era."

So said the Dallas Morning News last year, at the launch of a US$1.9bn programme to update the original terminals of the second largest airport in the US – all dating from the 1970s. Its forebodings were doubtless shared by many travellers familiar with the chaos of airport expansion.

But the airport's management is determined to minimise passenger inconvenience. This is a key concern for our joint venture, currently at work on a US$900m pre-construction and construction management contract on two of the terminals. The project involves radically modernising both terminals and building a station for future rail connections to both Dallas and Fort Worth metro systems.

To minimise impact on passenger flows and facilities, work is being carefully phased to affect only small parts of each terminal at any time. Also, we are applying our UK expertise by prefabricating sections in an offsite factory for quick installation onsite.

Revenue grew overall by 5% to £7.1bn for the year. This was made up of mixed performances from different parts of the business and can be summarised by very good growth in Hong Kong and the US, which was partly offset by a 1% decline in the UK, particularly in civil infrastructure.

The reduction in underlying margins from 3.0% to 2.4% is due to a number of factors. Margins in US construction, which had been buoyed in the past by higher-margin niche projects, have come down to market levels in 2011 due to fierce competition for lower levels of available work. In the UK, the market was competitive and average project sizes were smaller relative to those in the recent past. In this difficult environment, margins in UK construction held up reasonably well at 2010 levels. This performance was helped by the cost reduction initiatives we have been implementing in back office and procurement in parts of the UK business. Our rail business had a solid performance overall, although a small number of projects in Germany and Scandinavia held back overall profitability.

Operational performance

UK

Our operational delivery was excellent during the year. We completed and handed over a number of projects – most notably the Olympic Aquatics Centre, finished and delivered on time to the Olympic Delivery Authority in July.

We are also very proud to have received Britain's Most Admired Company award in the heavy construction sector from Management Today magazine for the sixth year running.

We completed the construction of 42 education projects across the UK with a total value of almost £500m, continued to win academy contracts under the national framework agreement and secured further student accommodation contracts. This positions us well for the PFI Priority Schools Programme which we will be bidding with the Investments division. We have made a very determined move into the student accommodation market and Multi-build, our hotel and leisure fit-out contractor, plans to diversify into this market in 2012.

In healthcare we handed over major construction phases of four hospitals in Tameside, Salford, Pinderfields and Kirkcaldy.

Roger Frost, Project Director for the Queen Elizabeth Hospital Birmingham, won the Construction Manager of the Year award for his stewardship of this mighty hospital. The hospital took 14 million man-hours to build and all 34 sectional handovers were completed on or ahead of time.

Our in-house mechanical and electrical ("M&E") manufacturing facility, Modular Systems+, delivered many of the M&E components for Kirkcaldy's Victoria Hospital in Fife including over 270 self-contained bathroom pods. We see modular systems as a powerful differentiator that enables faster, cheaper and safer construction.

In the transportation sector the 6.5km A3 Hindhead road project, including a 1.8km twin-bore road tunnel, opened to the public in May with a community walk-through for 7,000 people. The project was hailed as a success for congestion relief and an environmental breakthrough that reunites the Devil's Punch Bowl Site of Special Scientific Interest bisected by the previous road.

A further six major road construction schemes are due for full handover in 2012, including sections 1 and 4 of the M25 widening. We have hit all the major project milestones on time for this crucial project, which is on track to be handed over in time for the London Olympics. Our work has achieved the highest-ever CEEQUAL (Civil Engineering Environmental Quality Assessment and Award Scheme) score for a highways project, and 99.5% of all materials on the project have been recycled.

Balfour Beatty came first out of 21 contractors in the sustainability category of the Highways Agency's Strategic Alignment Review Tool ("StART") assessment. We were very pleased to be commended for demonstrating clear understanding of a key customer's agenda and influencing their thinking.

Our redevelopment of Blackfriars Station – part of Thameslink and the first rail station to span a bridge over the River Thames – was completed in February 2012 on schedule, despite the challenge of keeping the rail station operational throughout the project.

Crossrail provided two additional high-profile wins for us during 2011. In January we secured the Whitechapel and Liverpool Street Station tunnels contract in joint venture, and construction has started. In November we added the Whitechapel Station contract.

At London's Heathrow Airport we are delivering the £592m Terminal 2B satellite pier for BAA which draws on the skills and know-how from across the Group. We recently completed the ground engineering element of T2B, Europe's largest ground engineering project. We are using advanced collaborative working techniques and information technology to improve efficiency, decision making and safety visualisation – the project is currently one of the UK's best examples of applying Building Information Modelling ("BIM") technology.

Signs of recovery in the UK commercial sector, particularly in London, offer us opportunities. We have recently announced commercial awards totalling £100m. In the City of London we won a two-phase contract to construct AXA Real Estate's Sixty London prime office development and a contract to deliver an 11-storey office building. In Glasgow, Land Securities awarded us a contract for a new five-storey residential and retail scheme. On both London schemes, a high percentage of the building services engineering will be delivered using BIM and offsite prefabrication to reduce waste and increase efficiency.

We made great progress in generating revenue from framework agreements. Over the year we secured or renewed places on 14 frameworks, offering revenues worth an estimated £2bn over their lifetimes.

In the pursuit of future growth, the energy sector is as much a focus for the Construction division as it is for the Group as a whole. We aim to support a broad range of power generation options and continue to develop our capabilities in new and cleaner technologies. In recent years we have dedicated particular resource to waste-to-energy projects. In 2012 we won preferred bidder status for a waste-to-energy project for Gloucestershire Council as well as a waste treatment project for Essex Council. These projects, in joint venture with Urbaser, are together worth £1.3bn.

In nuclear new build, another energy market with high potential value, we have a joint venture with Vinci and are Areva's construction partners in the UK. We are currently one of three bidders for the main civil works at Hinkley Point C, one of the UK's eight designated sites for nuclear power. Our customer, EDF, is expected to reduce the number of bidders in early 2012. Our consortium with Areva is one of two bidders to Horizon (a joint venture between E.ON UK and RWE npower) for the Wylfa B Project in Wales. A selection is likely to be made in the near future.

Balfour Beatty won a "Big Tick" award from Business in the Community for its role in "Get Into Construction", a five-year programme which has supported over 2,000 young people with employment and training opportunities.

US

After several years of acquisitions, culminating with Howard S. Wright ("HSW") in June, we completed our target US construction footprint. This allowed us to undertake a significant year of reorganisation and consolidation while successfully pursuing growth in a very competitive market.

Having restructured the business to leverage our construction, rail and civil engineering capabilities across the US, we organised our management into regions. SpawMaxwell, Barnhart and Charter now trade as Balfour Beatty Construction in their respective regions and HSW covers the Northwest.

HSW operates across a wide range of sectors including corporate offices, healthcare, education, data centres and multi-family housing. It has a reputation for quality and is a leader in sustainable building. Its strong presence in northern California and the Pacific Northwest – now emerging from the downturn – makes a perfect geographic fit, and the addition of HSW makes us the third largest construction business in the US general building market according to 2010 revenues. Just before the acquisition, Engineering News-Record had ranked us fourth in its US General Building Top 400.

HSW's integration has gone smoothly and our combined team is already pursuing projects. We have had a number of wins and prequalifications which are evidence of the revenue synergies we expected from the acquisition.

We completed the acquisition of Fru-Con in June, significantly enhancing our strength in the US water sector.

Important completions during the year included Florida Atlantic University Stadium delivered through PPP and Lady Bird Johnson Middle School – the first public school in Texas and largest in the US to be "net zero", generating all the energy it needs without fossil fuels.

Significant business wins included the contract to design and build the new US$221.5m San Diego County Women's Detention Facility. The 1,216-bed complex will comprise 34 buildings across 45 acres. Completion is scheduled for October 2015. This project will incorporate building techniques and materials to meet the US Green Building Council's LEED® Gold standard.

We continued to extend our LEED® credentials in 2011 – receiving Platinum certification for Wounded Warrior Barracks in California, and Gold and Silver certification for our own environmentally friendly new office buildings in Fairfax, Virginia and Charlotte, North Carolina respectively.

We also continued to raise our profile as an employer of choice. In Fortune magazine's 100 Best Companies to Work For list we ranked 44th in 2011.

Operating review continued

International

In Hong Kong, 2011 was a heavy tendering period that ended in a record order book for the second year running. Gammon won its fourth major contract from public transport operator MTR Corporation. The £724m contract, in which Gammon has a 50% share, covers the construction of a major terminus in the West Kowloon district and part of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, which forms part of China's strategic national express rail network.

As we sought new opportunities in the Middle East, we had particular success in winning M&E work in Qatar despite intense competition from other international companies. Historically, our core markets in the region have been Dubai and Abu Dhabi. There are early signs of improvement in the Dubai market in terms of awards. Abu Dhabi has grown less than expected but we remain active, both in M&E and construction.

In Indonesia, the World Trade Centre has progressed well and is due for completion in the second quarter of 2012. In West Java, Indonesia we are also building a cosmetics factory that will be L'Oréal's largest facility in the world.

In line with the Group strategy of extending into new growth markets, we started two new ventures in the year. In India we opened a new office to complement Parsons Brinckerhoff's existing presence by bringing the Group's full capability to the country. We also signed a Memorandum of Understanding with Tata Projects to jointly identify and pursue infrastructure opportunities in India and sub-Saharan Africa. The initial focus will be on power generation and transmission, railways, mining, and water and wastewater sectors.

Our second key target was Brazil, where we appointed a country manager to promote Balfour Beatty's capabilities in mining, power and rail. Our aim is to build on our relationships with mining companies that have already worked with us in our existing markets.

Rail

Tendering opportunities for our rail business have continued to be plentiful. Although traditional work in southern Europe has been constrained by project delays, PPP activities in Spain started with Balfour Beatty Rail participation.

We have formed a discrete business unit to develop major rail projects globally – typically those requiring integration of resources from across the Group. We believe this is a market offering considerable opportunity, and the combination of our construction and professional services capabilities gives us a strong competitive position.

In December an alliance in which Balfour Beatty has a 35% share was awarded an AUS$835m (£535m) contract for works on the Footscray to Deer Park section of the Regional Rail Link project in Melbourne, Australia. We will play a vital role in the alliance, with Thiess and Sinclair Knight Merz, by combining our rail infrastructure capabilities with Parsons Brinckerhoff's professional services.

In January 2012, our joint venture with Thales signed the signalling contract for west Denmark with a value to the Group of £90m. Balfour Beatty's role in the contract involves us adopting an integrated approach to the project by combining signalling installation and programme management services from Parsons Brinckerhoff.

Signalling Solutions Limited ("SSL"), our joint venture with Alstom, secured involvement in seven of the eight geographical regions covered by Network Rail's seven-year "New Signalling Frameworks". In three of these regions, SSL is primary supplier.

In the US, we made significant progress in the design, procurement and utility relocations on the Eagle P3 commuter rail project in Denver.

In April we sold our UK trackwork manufacturing business to a subsidiary of Caterpillar. The business designs and manufactures manganese steel castings, track panels, turnouts and crossings at five sites in the UK. Changes in our major UK rail clients' procurement model over recent years had eliminated the competitive advantage of owning our own manufacturing capability, decreasing the strategic importance of the business for us.

Looking forward

Over the past year we have made good progress in differentiating Balfour Beatty as an integrated construction provider with superior asset knowledge. In 2012 we aim to build on this positioning in the UK and internationally – seeking in particular large and complex projects while continuing to serve our current customers effectively.

With public sector spending likely to continue shrinking in many developed countries, we will look for growth in the regulated and private sectors – as well as economies where governments are spending on infrastructure to support their economic development.

In the UK we are pursuing growth particularly in the power, rail and commercial sectors. We also see continuing opportunity in parts of the public sector, such as the new PFI priority schools programme.

In the US we can now compete from a position of strength as one of only a few players with national capability. We are looking to capitalise on this position by leveraging customer relationships and capability from one region to another.

The public sector infrastructure market in Hong Kong is expected to remain strong. While the private sector building market remains subdued, public sector spending on residential, leisure and government buildings will take up the slack to some extent.

We expect the reduction in the US margin to continue in 2012. Given the increasing proportion of our business from the US, this will reduce the overall margin for the division. The UK should remain reasonably steady, benefiting from the cost reduction plans we announced in 2010.

Support Services

What do we do?

- Upgrade and maintenance of water, gas and electricity networks
- Total facilities management, business services outsourcing and energy services
- Highways network management, operation and maintenance
- Rail renewals

What's happened?

- Significant organic growth
- Local authority order book up by some 60%
- Awards of power transmission and utilities contracts
- Acquisition of an energy consultancy to enhance skills
- Excellent customer retention rates with extensions to Royal Mail and National Grid contracts

What's next?

- Benefit from contract liquidity in public sector outsourcing
- Expand internationally in power transmission and distribution
- Continue to fill gaps in capability

We will continue to target segments of the UK public sector market where an integrated model delivers attractive solutions to complex challenges. We are one of only a handful of companies with the ability and capacity to offer this approach to complex customers such as local authorities.

How we performed

Order book

11	£5.1bn	+13%
10	£4.5bn	
09	£4.5bn	

Revenue including JVs and associates

11	£1,584m	+10%
10	£1,443m*	
09	£1,452m*	

Profit before non-underlying items

11	£67m	+8%
10	£62m*	
09	£65m*	

KPI

Customer retention

Retained customer revenue is a key measure for Support Services, as it shows how well we have leveraged our existing customer relationships.

11	108.2%	+13%
10	95.2%*	
09	87.0%*	

Defined as the revenue from existing customers retained from one year to the next. Based on Balfour Beatty WorkPlace and Utility Solutions revenue; includes Balfour Beatty Living Places in 2010 and 2011.

* Re-presented to reflect the change in the group management structure (see Note 38.3).

Our strategy

Support Services helps customers to maximise their organisational efficiency and the value they generate from their infrastructure while maintaining continuity of service. We maintain and enhance all aspects of social and civil infrastructure assets, delivering a broad range of services including facilities management ("FM") and the construction, upgrading and maintenance of utility and transport networks.

Our customers trust us to deal directly with their end-users and stakeholders. The quality and closeness of customer relationships underpin our organic growth by enabling us to extend the length and breadth of successful contracts.

As a services integrator we bring together a diversity of capabilities to meet customer needs. Integrating our teams with suppliers and our customer's stakeholders is an everyday part of our business, and part of our strategy is to increasingly draw capabilities from other parts of Balfour Beatty.

The majority of our business comes from the public and regulated sectors in the UK. Pressure on spending in these areas is driving innovation and creating new opportunities with central and local government as well as other public entities. As a full-service provider we aim to benefit from the continuing trend towards integrated contracts, where we are competitively advantaged.

Support Services is at the forefront of the Group's offering to the power sector. Its leading capabilities in extra high voltage transmission and distribution networks are in increasing demand internationally, and its other areas of expertise include helping clients to meet their energy reduction targets.

Operating review continued

Our marketplace

Although the UK Government's Comprehensive Spending Review aimed to reduce public sector spending overall, it has opened up new kinds of opportunity. Local authorities are changing the way they work in order to be more cost efficient. They are bringing more services into the marketplace, integrating contracts and lengthening contract terms. This has created a window of opportunity to build order books. As a strongly differentiated full-service supplier with a wide range of capabilities, we are particularly well placed to benefit.

A similar pattern is evident in the outsourced facilities management ("FM") market. While the reduction in discretionary spend since the 2008 financial crisis has made this market extremely competitive at the single-service end, there is significant potential for profitable work in the bundled FM and total FM segments that we target.

The regulated utilities sectors in the UK and elsewhere have substantial investment programmes driven by rising energy demand and the need to renew ageing assets. Growing consumer demand and the privatisation of network ownership mean that much of this investment is insulated from government spending reviews. As well as asset renewal and construction we also undertake asset maintenance, providing a steady business stream alongside the investment cycles.

Utility contracts are typified by long-term frameworks, with clients now letting longer-duration contracts that span investment cycles. The UK water sector is currently mid cycle, with investment levels holding steady. The energy regulator, Ofgem, has ratified ongoing investment in replacing the UK's gas distribution network – work for which we hold two UK frameworks.

Internationally, all markets are seeing significant investment in electricity networks to support a shift towards renewable generation and to meet rising energy demand from consumers and the resources sector. This applies particularly in emerging markets, where robust energy networks are seen as a cornerstone of economic growth in which energy-intensive resource mining is often a key factor. We have power network contracts in the US, Australasia, Hong Kong and Indonesia, where we operate domestic businesses in joint ventures. We are now reviewing opportunities in these and other international markets such as Canada where we have past experience and there is a demand for our skilled resources and capabilities in managing supply chain relationships.

Financial performance

The order book grew to a record level in the year in all activities except in water where we are working through the AMP5 water cycle. Our order book of £5.1bn, up 13% from 2010, promises good growth for the future.

Revenue improved in transport, power and buildings, each of which represents around 30% of the division, while water revenue recovered from the low level last year with over 40% growth. Overall, revenue reached £1,584m, up 10% from that in 2010.

Underlying profit from operations increased by 8% to £67m in the year, resulting in an underlying operating margin of 4.2% compared to 4.3% in 2010. This was a good result in view of numerous new contracts which are typically less profitable at the start of the contract period due to mobilisation costs.

UK business costs for gas and electricity are up 77% since 2004, and we forecast a further 81% increase over the coming decade. For the public and private sectors combined, that will push up the annual energy bill by £8.4bn to £18.7bn.

Rising prices have made energy management a board-level issue. And Government plans to cut emissions and improve energy security will increase this trend. Small wonder that more and more organisations are turning to us for advice and support in cutting their energy costs and carbon footprint.

To broaden our capability, in 2011 we acquired Power Efficiency, a leading player in carbon consultancy, energy management and procurement. Integrated with our WorkPlace facilities management business, it enables us to offer a complete energy service from carbon footprint planning to procurement, project implementation, operation and maintenance.

The benefits can be startling: for a London Docklands client, Power Efficiency saved £6.3m in its first four years. Its skills gain further value when combined with our ability to improve or replace inefficient energy-consuming assets – and further strengthen the business case for clients to form long-term strategic partnerships with us.

Rising to the challenge of energy costs

When the games end, the park begins

As the athletes and media depart, London's Olympic site will start preparing for its reopening in 2013 as the Queen Elizabeth Olympic Park. It will be no ordinary park, and our custodianship will be no ordinary estates and facilities management job.

To do it, we've formed a Community Interest Company with environmental regeneration charity Groundwork London and community-led economic development specialist Renaisi. It's called Our Parklife.

Our aim is to manage a park that's a sustainable, world-class amenity for the communities that live around it. But there's more. It will actively engage local residents in the way it is run. It will provide opportunities to learn about sustainability and launch environmental initiatives both in the park and in local neighbourhoods. It will provide training and work experience for local job seekers who need particular help in preparing for long-term employment.

Some of the funding for these activities will come from managing commercial concessions and events in the park. Attractions will include the 114 metres tall ArcelorMittal Orbit – the UK's tallest sculpture, offering views across the city. And our own charitable foundation, Building Better Futures, has also pledged £90,000 of support.

Operational performance

Power is an area of strategic focus for the Group, and Support Services has a major part to play – both in our current core markets and internationally. During the year we won power-related contracts with a significant impact on the scale of our operations, our international reach and the capabilities we deploy.

These included a £290m contract from Scottish and Southern Energy to replace the electricity transmission line between Beauly and Wharry Burn, 20km north of Denny. This involves the project development, design and construction of a 200km double-circuit 400kV overhead line and associated civil and access works, including construction of temporary access roads and improvements to some private roads.

Our international utilities business took an important step forward with a £414m nine-year contract, in joint venture, from Bord Gais in the Irish Republic. This covers the installation and maintenance of vital gas transmission and distribution networks across Ireland, including the delivery of new construction, emergency response and planned maintenance services.

For over a decade we have worked with the UK's National Grid on its capital programmes and the long-term maintenance of its gas and electricity networks. In December, National Grid extended our electricity alliance for another five years under a contract potentially worth £750m. This contract – involving design, programme management, construction and technical support – draws on a wide range of skills and resources. It provides convincing evidence of the breadth of the Group's infrastructure capabilities, particularly in areas where clients face large and complex challenges.

Building on this work, we are seeking opportunities to deploy our combined capabilities in other markets, both in the UK and internationally.

To enhance our full-service energy offering, we acquired UK energy consultant Power Efficiency in March 2011. This company's work in risk-managed energy procurement, invoice validation, carbon management and technical services gives us an exciting additional offer to our existing FM clients, who are increasingly concerned to manage high energy costs.

Through Balfour Beatty Living Places we provide managed services to local authorities and other public sector bodies. During the year this business progressed extremely well, gaining contracts worth £475m – half in highways and half in integrated contracts. With a win rate better than 1 in 2.5, it increased its order book by some 60% to over £800m.

In a competitive environment for FM, we demonstrated our ability to create bespoke solutions – offering quality, innovation and value for money – built around talented people and national capability. In a record year for both revenue and order intake, new clients included Care UK, BBC Wales, Crossrail, Greenwich Leisure, Camden and Islington NHS Trust, University of Salford and the North of the Thames Region of the London Fire and Emergency Planning Authority.

We extended our relationship with Royal Mail in a new deal worth up to £900m over 10 years. This involved restructuring Romec, our joint venture with Royal Mail, in a way that deepens our relationship to provide solutions in areas that include energy, FM and the cost of change in a reducing estate.

As part of this new agreement we acquired Romec's external trading business, which provides mobile engineering and maintenance services to third-party customers such as Sainsbury's, Asda, BBC, British Museum and Camelot. This gives us a highly-skilled technical services business with scale and a nationwide footprint, significantly enhancing our ability to serve customers and achieve our growth plans.

Operating review continued

We have started 2012 well, with prestigious new business wins in FM including a 10-year contract to run services and facilities for the future Queen Elizabeth Olympic Park in East London, and contracts for UK Power Networks and EDF Energy's offices estate.

Our PPP operation and maintenance activity continues to grow as the Group completes construction of new schools and hospitals under existing PPP contracts. During the year we added six hospitals and nine schools to the portfolio, taking the total to 20 hospitals and 191 schools. This means that we now generate £126m of FM revenue from hospital and school assets, a 26% increase on 2010.

Our rail renewal activities for Network Rail were adversely impacted by a 24% planned reduction in volume. Efficiency improvements and gain-share payments offset part of this impact.

In highway maintenance, our contract for Area 2 was not renewed during the year. We are currently bidding to secure the contract for Area 10.

Balfour Beatty WorkSmart, which manages our UK shared service centre for transactional accounting, payroll and procurement, is a key element in our strategic aim of increasing operational efficiency. From a standing start in August 2010, it is now issuing 17,700 payslips per month, and providing transactional processing for 50% of UK revenue and supply chain management for £300m of spend. The implementation of Oracle was successfully completed in the fourth quarter. The savings realised are summarised on page 19.

Looking forward

We expect 2012 to be another year of progress for Support Services, with the current order book supporting good revenue growth. We expect the continuation of reductions in rail and highways volumes to have a negative impact on margins, although this is expected to be offset by the positive impact on margins from recent contracts which will have bedded down.

We will continue to target segments of the UK public sector market where an integrated model delivers attractive solutions to complex challenges. We are one of only a handful of companies with the ability and capacity to offer this approach to complex customers such as local authorities.

The utilities sector works through regulatory cycles. We are working on implementation of the water industry's current 2010–2015 asset management plan as well as ramping up to the electricity work for the recently extended National Grid contract.

International power transmission and distribution remains an area where technical resources are scarce. We are mobilising the Group's resources and using our global footprint to develop other service opportunities.

We will also leverage our capabilities in energy by finding new ways to make our customers' assets more energy efficient. This calls for innovation both in the way we deploy technology and in the way we structure our relationships to help customers balance capital and operating costs.

Infrastructure Investments

What do we do?

- Operate a portfolio of long-term PPP concessions in the UK, primarily in the education, health, roads/street lighting and renewables sectors
- Operate a portfolio of long-term military accommodation PPP concessions in the US
- Have interests in non-PPP assets at Blackpool and Exeter International airports

What's happened?

- Disposal of a 60% interest in the A50 road and our stake in Blackburn hospital, realising £20m of disposal gains
- Disposal of Barking power station
- Award of all three remaining military housing projects in the US
- Developments in energy with preferred bidder positions won for the Greater Gabbard OFTO and an energy-from-waste project

What's next?

- Diversify into new geographies such as Canada
- Broaden into new sectors such as energy
- Continue with the developer model by crystallising value in the current portfolio and investing in new projects

We invest principally in infrastructure, and in geographies where the Group has a presence. We apply skills available within the Group to make investments that deliver superior returns; our strength lies in being a knowledgeable and intelligent owner.

How we performed

Revenue including JVs and associates*

11	**£756m**
10	£682m*
09	£744m*

+11%

Pre-tax result before non-underlying items*#

11	**£71m**
10	£30m*
09	£29m*

+137%

KPI

Directors' valuation

While there are numerous factors that contribute to the movement in Director's valuation of PPP concessions it is a good indicator of the value we create in our portfolio.

11	**£743m**
10	£671m
09	£605m

* Re-presented to reflect the classification of Barking Power Ltd as a discontinued operation from 2 March 2011.

\# Including subordinated debt interest income and net interest income from PPP subsidiaries (see Notes 6 and 7).

Our strategy

We started our investments business some 15 years ago in response to opportunities in the UK public sector. Over time the business has become a major value generator for the Group.

Our strategy is to earn fees and returns from activities that complement and integrate with other Group activities. So we invest principally in infrastructure, and in geographies where the Group has a presence. We apply skills available within the Group to make investments that deliver superior returns: our strength lies in being a knowledgeable and intelligent owner.

We seek projects where we have the asset knowledge to determine and influence asset performance, and hence to control costs and service delivery. We focus on projects where income is based on availability – taking demand risk only when we are well placed to assess demand, as with our investments in airports.

In November 2010 we announced our intention to recycle our portfolio on a active basis and use the proceeds to help fund future investment. These more regular asset disposals will release some of the accumulated value in our portfolio, generating additional income and cash for the Group. We sold interests in two PPP assets in 2011 in excess of Directors' valuation.

Our marketplace

UK

Our principal market remains the UK. In 2010 a change of government led to a re-examination of the role of private finance in UK infrastructure development. The UK Chancellor has since reaffirmed the importance of public private partnership ("PPP") and other forms of private finance, but we recognise that priorities may change and we will adjust our focus accordingly.

We see opportunities both in social and civil infrastructure projects. We look forward to an announcement from the Government for the PFI Priority Schools Programme and expect continued focus on renewable and sustainable energy, particularly offshore, where we have already achieved considerable success.

Although there is plenty of equity financing looking to invest in infrastructure assets, debt financing is more constrained than in the recent past. Against this background, we remain confident that there is sufficient liquidity to finance our investments going forward.

Secondary markets remain strong and we expect to continue our programme of selective UK PPP asset disposals this year.

North America

In the US we have been among the most successful participants in the privatisation of military housing. The family housing programme is now in its final stages although we hope that opportunities will open up in single soldier housing in the next few years. The wider PPP/P3 environment remains fragmented, although there are signs that a number of transportation projects will emerge at state level over the coming year. We do not expect accommodation projects to emerge along UK lines, but do see scope to apply our military housing skills in other markets, including student accommodation.

In Canada, where the procurement model more closely resembles the UK's, the market remains buoyant. We are currently pursuing accommodation opportunities in Ontario, Alberta and British Columbia.

Rest of the world

In line with the Group's strategy of expansion into new markets, we are actively looking at projects in Australia and India, where we anticipate significant future opportunities.

Financial performance

At 31 December 2011, Balfour Beatty had 64 PPP projects, eight of which were at preferred bidder stage.

Infrastructure Investments delivered a sharply increased underlying pre-tax result from continuing operations up to £71m (2010: £30m), including net interest income. The growth in the portfolio in recent years has started to provide increased returns in the PPP operating profit results but also in the subordinated debt interest income, reflecting the increased investment. In addition to this, the more active recycling of the portfolio delivered disposal gains of £20m. Bid costs were down in the year, partly reflecting a move away from the more complex bids, such as hospitals, but also reflecting increased crystallised bid cost recoveries.

We sold two mature assets in line with our strategy of realising value from the PPP portfolio. The disposal of a 60% interest in Connect A50, reducing our holding to 25%, yielded proceeds of £16m. The sale of our 50% stake in Blackburn Hospital yielded proceeds of £12m. Both interests realised proceeds in excess of Directors' valuation. The total £20m book gain has been accounted for as part of our underlying profits and supports our progressive dividend policy.

Following our previously announced decision to dispose of our 25.5% effective interest in Barking Power, we sold the asset to the Balfour Beatty Pension Fund at its £55m book value in December 2011.

Overall, despite the sale of assets, the Directors' valuation of the PPP portfolio rose in the year to £743m (2010 restated: £671m).

Go to **P44 – P45** for the Directors' valuation of PPP concessions

Operational performance

The division had an excellent year in 2011 – in business wins, project completions and progress towards its strategic goals. The projects won in 2011 secured future investment of £70m, as well as generating around £700m of construction work and a number of FM contracts.

One of our strategic goals is to generate more income from the skills accumulated in the Investments business – and the asset knowledge in the Group, which has been significantly enhanced by the addition of Parsons Brinckerhoff. To that end we have established an infrastructure funds management business, which made good progress in the year.

UK

In education, despite the Government's abandonment of the Building Schools for the Future ("BSF") programme, projects we have secured continued into the next stages of development. Hertfordshire Schools BSF reached financial close and four schools across Islington, Southwark and Blackburn were completed and handed over.

In February 2012, we disposed of our 50% interest in the North Lanarkshire schools PPP concession for £18m, resulting in a disposal gain of £8m.

In the healthcare market we completed four hospitals – Pinderfields, Pontefract, Salford and Fife – on time and to budget. The buildings have been handed over to clients, with our Support Services division taking responsibility for maintenance and operation.

Operating review continued

Northwest Fire and Rescue and street lighting projects in Cambridgeshire and Northamptonshire also reached financial close. The latter brought our total of PPP street lighting concessions to six: the four existing projects in Sunderland, South Tyneside, Derby and Coventry are all proceeding successfully.

In 2010 we were chosen as preferred bidder to acquire the transmission assets of the Thanet offshore wind farm, the last and largest of nine lots in the UK's first competitive tender of Offshore Transmission Owner ("OFTO") licences. In 2011 we were also named as preferred bidder for Greater Gabbard, the last and largest project in this round. Combined with Thanet, Greater Gabbard makes us the leading investor by value in this new and growing market, with responsibility for £480m of OFTO transmission assets. The UK regulator, Ofgem, has also selected us to participate in the next round of bidding for three further OFTO assets with a combined capital value of around £1bn.

Energy-from-waste is another growth area we have been targeting in the last two years. It fits with the Group's strategic focus on power and plays to the investment strengths we have been developing in renewables. We have been selected as preferred bidder for an energy-from-waste project for Gloucestershire Council as well as a waste treatment project for Essex Council.

North America

In 2011 we were chosen as "highest-ranked offeror" (preferred bidder) for three more family housing projects for the US Air Force: Western Group; Northern Group; and ACC Group. With these, the final projects in the military housing privatisation programme, we will have reinforced our market leadership and broadened our footprint across the US to 55 military installations in 25 states. While the ending of the programme makes it unlikely that we will add any further bases, we will be managing the development, construction, renovation, operation and maintenance of the assets in this portfolio for many years to come.

Our responsibilities extend beyond the bricks and mortar to the residents. Our exclusive LifeWorks @Balfour Beatty Communities programme – an important differentiator for us in the US military housing market – helps military personnel and their families to get fit, live healthily, develop their mental skills and share social activities.

In 2011 we made significant progress in transferring our successful military housing model to other accommodation investments. We are pleased to have attracted experienced and skilled people to help us address the higher education market. With work now completed on our first student accommodation project in Florida, we are bidding for further projects and expect these efforts to bear fruit in 2012.

Using waste to generate power brings local authority clients a double benefit: less landfill and a cut in the use of fossil fuels.

Balfour Beatty's approach to the waste sector is a great example of how we harness knowledge and skills from different parts of the Group to meet our customers' requirements – and break into a key target area for new business. But we can't do it all on our own despite project capabilities which include development and investment support; management and planning services; as well as engineering, construction and supply chain expertise. Our strategy recognises the importance of partnering to create a winning offer. So we've teamed up with waste specialist Urbaser and, together, we have won preferred bidder status on two waste projects in England: a major waste treatment scheme in Essex, and Gloucestershire's ambitious scheme to generate energy from waste, while recovering recyclable materials such as aggregates and metals. The energy generated from this project alone is sufficient to power 25,000 homes in the community.

We see these wins as forerunners of things to come. Balfour Beatty is already working in partnership on other exciting opportunities such as power generation projects which use renewable biomass fuels to deliver green energy.

Founded on respect

We're building a reputation for the way we engage with local communities. And in US military housing, where we're one of the market leaders, that's been recognised – and welcomed.

Our LifeWorks programme makes a significant contribution to the wellbeing of service families. And our non-profit Balfour Beatty Communities Foundation is dedicated to honouring military personnel – active, disabled and fallen. We do this because we feel it is the right thing to do.

At Fort Bliss, for example, the new Field of Honor Memorial has become a focal point for reflection – marking a lasting tribute to soldiers from the base killed in Iraq and Afghanistan.

The Foundation supports military personnel and their families in practical ways, reflecting the wider engagement across the military housing estate we manage.

Looking forward

Our focus for the future is on diversification. We operate in complex markets and are continually developing our skills to address them effectively.

We aim to generate an increasing proportion of income outside the public sector and to partner with a wider range of organisations to meet increasingly complex client demands. University accommodation is a good example of this strategy both in the US and the UK. Over time, we expect this broadening of horizons to reduce our reliance on traditional sectors such as education, health and transportation.

In line with overall Group strategy we are also broadening our geographical reach. Our ability to manage and invest in PPP projects is an increasingly valuable differentiator for the Group in many of the markets it is now targeting.

The success of our disposal programme so far and the active secondary markets we are currently experiencing have led to the decision to accelerate our disposal programme with a target of £40m of gains on disposals in 2012.

Directors' valuation of PPP concessions

In the UK we have built a leading position in the Private Finance Initiative (PFI) and public private partnerships (PPPs). In 2008 we acquired a US business, now renamed Balfour Beatty Communities, giving us a strong position in privatised military housing, America's most developed PPP market. Building on this platform, we have also invested in student housing in Florida.

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

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

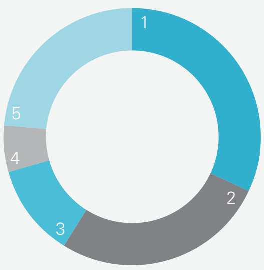
The values are calculated on a discounted cash flow basis, discounting all future cash flows to Balfour Beatty at a fixed rate. This rate is 9.5% before shareholder tax for the UK portfolio and 12% before shareholder tax for the US portfolio. This is a change from previous years, when we applied an after-tax rate of 8% across both portfolios. The move to a pre-tax basis for the valuation is in line with the methodology used by the market to value such assets and more accurately reflects the portfolio's potential market value. The pre-tax rates used this year are broadly consistent with the effective pre-tax rates used in 2010; nevertheless, the 2010 values have been restated in order to aid comparison.

As the chart below left shows, we promote, develop and invest in assets in three main sectors. We construct new roads, upgrade and maintain existing roads and replace and maintain street lighting. We build hospitals and provide them with non-medical facilities management services. And we design, and build or refurbish schools, and provide them with non-educational services.

We have a number of concessions in other sectors such as energy and are actively looking to transfer our experience from the more traditional PPP sectors into other sectors.

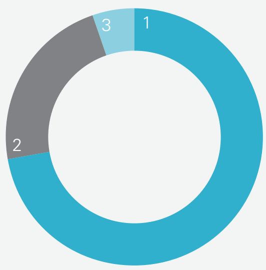
Portfolio valuation: December 2011

Value by sector



	No. of projects	**2011 £m**	2010 restated £m	2010 £m
1 Roads	13	**239**	233	240
2 Hospitals	8	**202**	185	190
3 Schools	14	**86**	81	75
4 Other	8	**42**	26	28
5 BB Communities	21	**174**	146	146
Total		**743**	671	679

Value by phase



	No. of projects	**2011 £m**	2010 restated £m	2010 £m
1 Operations	45	**538**	469	476
2 Construction	11	**166**	193	193
3 Preferred bidder	8	**39**	9	10
Total		**743**	671	679

Movement in value £m

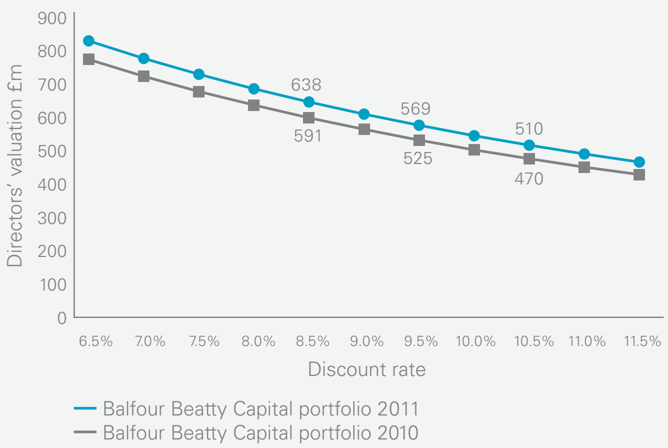
	2010	2010 restated	Equity invested	Distri-butions received	Disposal proceeds	Unwind of discount	Rebased	New project wins	Gain on disposals	Operational perfor-mance gains	FX translation	**2011**
BB Capital	533	525	42	(44)	(28)	52	547	13	4	5	–	**569**
BB Communities	146	146	10	(26)	–	17	147	19	–	7	1	**174**
Total	679	671	52	(70)	(28)	69	694	32	4	12	1	**743**

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

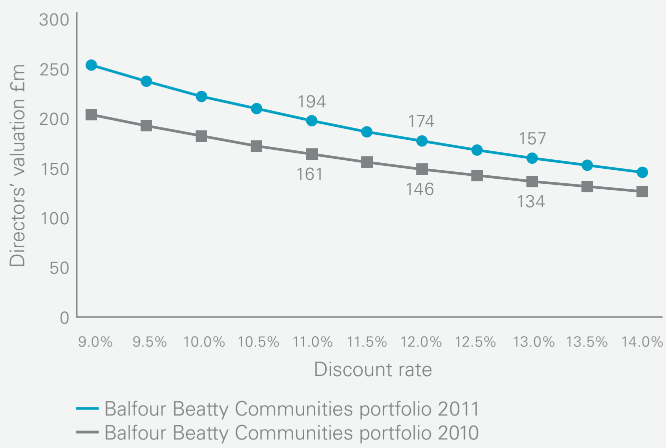
- the 2010 valuation, and the restated values calculated with the 2011 discount rates
- PLUS equity invested during the year
- LESS distributions received during the year
- LESS the sale value of disposals during the year. During the year we sold our stakes in two projects: a 60% interest in the A50 project and a 50% interest in Blackburn Hospital
- PLUS the "discount unwind" – the increase in value as time passes, bringing future distributions closer
- together, these changes give us the "rebased" figure
- PLUS new project wins during the year – five in Balfour Beatty Capital and three in Balfour Beatty Communities. So far, only one of these contracts has reached financial close and little of the equity has been invested – so their valuation is still relatively low
- PLUS the gains we made from disposals during the year, over and above the Directors' valuation of those projects
- PLUS operational performance gains, which reflect improvements or reductions in the performance of the investments – these may be due to higher inflation, better performance, changes in demand, revisions to costs and other factors. Balfour Beatty Capital is showing a small net gain on performance this year with increases due to higher inflation and lower tax. Balfour Beatty Communities is also showing a net increase; the movements include increases in project scope, changes to rental rates and underlying cost movements
- PLUS the effect of foreign exchange movements on our portfolio value
- together, these give us the valuation of the 64 projects in our portfolio at the end of 2011.

Balfour Beatty PPP concessions' valuation range

Balfour Beatty Capital



Balfour Beatty Communities



These graphs give the value of the portfolio over a range of pre shareholder tax discount rates enabling the reader to revalue the US and UK portfolios at a discount rate of their choice.

from olympic needs

Zaha Hadid's Aquatics Centre design certainly met the "iconic structure" brief for London 2012. Our job was to bring it to life sustainably and on time. Integrating Parsons Brinckerhoff's design expertise with our core engineering and construction skills transformed the environmental footprint, meaning less hardwood, while saving 1,600 metres of steelwork.

to future needs

The true value of London 2012 will be judged by what it leaves behind. Stadia like the Aquatics Centre will be a facility for the capital, with community use at its heart. We're now tasked with helping transform the wider area into the Queen Elizabeth Olympic Park. Our goal is to create a special place for generations to come, built on social responsibility.

Read more: case study on page 39.

The way we work

Trust in business has declined in recent times. At Balfour Beatty we are committed to operating responsibly and have developed significant programmes of activity in five key areas which are embedded across our whole organisation.

1. Ethics and values
Values-based businesses are high performing businesses, and our values underpin everything we do. We live by these values.

2. Sustainability
We have a clear vision for operating sustainably, with specific goals. You will find evidence of this throughout this report and in more detail within our sustainability report 2011 at www.balfourbeatty.com/sr11.

3. People
Our business is a people business. Recruiting and retaining the best people is a key focus for us.

4. Health and safety
We passionately believe that every employee has the right to go home without injury and that no member of the public should be harmed as a result of our work. Our Zero Harm programme has delivered good results, but as ever, we must continuously seek out improvements across the business.

5. Respecting our communities
We touch many communities all over the world, wherever we operate. We engage directly with those communities and in particular have a strong commitment to get young people into the job market through skills training. Our charitable activities are geared towards this goal.

1. Ethics and values

Our values

We have embedded our values across the business to ensure that all our people act consistently and make the right decisions, day in day out. **Integrity** requires us to be honest and transparent and always do what is right. **Teamwork** means seeing ourselves as part of a bigger picture in the way we work with colleagues across the Group – and with customers and suppliers. **Respect** shapes the way we treat people inside and outside the business – and the wider community and environment. **Excellence** is the standard of performance people are entitled to expect from a leader.

Our commitment to integrity

Our ethics, values and compliance programme is designed to embed ethics and integrity across our business. It covers not only bribery, fraud and competition law, but also data protection, human rights and other areas addressed in our Code of Conduct. To earn the confidence and trust of clients and other stakeholders, and to support our business strategy, we must conduct our business ethically and with integrity across all these activities and at all times. We must play our part in helping to eradicate corruption and uphold good business practices wherever we work. And we must ensure that, wherever we operate, we comply with local and applicable international laws – or our own ethical standards, if higher.

In 2009 we published our comprehensive Code of Conduct. During 2011 we continued to embed this, building on the two online training modules that all office-based and supervisory staff are required to take. We also continued a series of visits to our business units to assess and raise awareness of ethical risks associated with specific sectors and countries. To date 30,000 employees have completed the first module of the training and we will report on completion of the second module in next year's report. In 2012 we are also rolling-out an ethical training programme for site operatives.

We continue to encourage employees and others to report actual or suspected unethical behaviour to their managers or via our Ethics Helpline or other channels. As expected, last year we saw another significant increase in the number of cases of potential breaches of the Code of Conduct (whether reported or through such channels or detected by management), from 176 in 2010 to 284 in 2011.

We have many thousands of subcontractors and suppliers, consultants, and joint venture and consortium partners. To reduce third-party risk and protect both suppliers and ourselves, we launched a new Code of Conduct for Subcontractors, Suppliers and Partners in 2011.

Our priorities for 2012 and beyond are to continue embedding appropriate procedures and controls for managing the supply chain and other third-party risks to support our growth strategy in new and often higher-risk markets.

Independent review of anti-corruption measures

During 2011, the Global Infrastructure Anti-Corruption Centre ("GIACC") continued its detailed review of the anti-corruption compliance programme across our operating companies. This included sample risk and commercial management assessments, and interviews with senior management and compliance officers.

GIACC's main conclusions in its 2011 report are as follows:

- overall, Balfour Beatty has developed and is implementing a best practice anti-corruption compliance programme throughout the organisation
- the leadership from the Board and senior management in relation to the importance of ethical compliance is clear and unequivocal
- major steps have been taken during 2011 to improve the compliance programme, and good momentum is being maintained
- there are differences in the strength and level of implementation of the programme between different operating companies. However, these have been identified, and appropriate action is being taken
- GIACC believes that Balfour Beatty is committed to continuing to implement and improve its compliance programme on a long-term basis.

At the end of 2011 GIACC completed its detailed review of all our operating companies apart from Parsons Brinckerhoff, whose review will be complete at the end of 2012.

2. Sustainability

Sustainability – respecting the bigger picture

As a business we have set out a clear path to embed sustainability into everything we do by 2020. Our Vision and Roadmap defines where we want to be in 10 key focus areas: customers, influence, our people, our supply chain, the communities we serve, climate change, waste, water, materials and ecology, and how we intend to get there. We have made significant progress in 2011.

Assessing our progress

During the year KPMG completed its independent review of our operating companies' progress in implementing their sustainability action plans. Its consultants visited more than 20 operating companies in seven countries. They interviewed 380 managers and senior leaders, and identified 180 examples of good practice which we shared across the Group. Parsons Brinckerhoff completed and launched its own action plan during the year.

We continued our programme to engage employees on sustainability through awareness training and appraisals. Over 17,000 employees completed our comprehensive e-learning module in 2011. We also received over 60,000 pledges of personal commitment to change behaviour for more sustainable outcomes.

To be considered a leader in sustainability we need to be seen to be benchmarked against other companies. To that end we will participate in the Business in the Community Corporate Responsibility Index in 2012.

Delivering sustainability for our customers

For us, sustainability is not only a business goal. It is also a product that we can offer our customers, by helping them to make more sustainable choices.

The "green economy" presents growing opportunities for us. Our capabilities across the infrastructure lifecycle mean we are well positioned to provide more sustainable solutions for our customers, and we are winning increasing amounts of business in this area.

We are making particular progress in three areas:

- renewable energy infrastructure, particularly offshore wind
- municipal waste management facilities
- greening existing buildings through energy consulting services and retrofitting low-carbon technologies.

"Balfour Beatty are to be commended on their approach to stakeholder engagement and the reporting of sustainability performance. They have set out a challenging roadmap on sustainability and are clearly committed to open dialogue with their stakeholders on their sustainability journey. There is always more that can be done and the stakeholder panel have set out further recommendations on where Balfour Beatty can improve. This is timely given the revision process underway to develop new roadmap targets for 2015."

Paul Edwards,
Head of Sustainability, Hammerson plc
(and chair of the 2011 stakeholder panel)

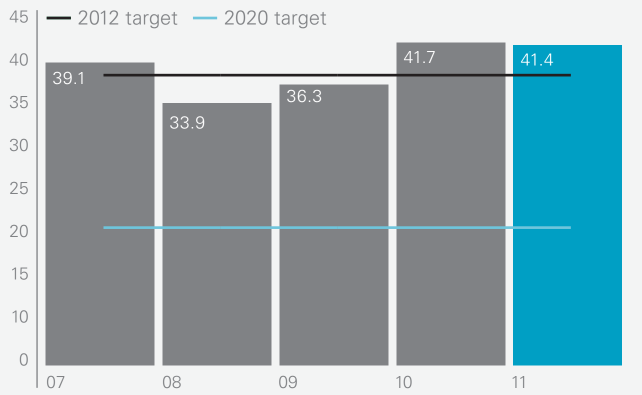
This is a natural field for collaboration between our businesses and we have been strengthening the teamwork involved in our approach to winning new business. During the year we held workshops in Atlanta and London for our business development and sustainability teams to share best practice and experience in exploiting these new growth opportunities.

Our Group-wide approach is enabling us to develop innovative new tools that sharpen our competitive edge. For example, we have developed a cutting-edge water footprinting tool to measure the amount of water embedded in building materials, and a climate change adaptation framework which allows us to assess adaptation measures right across the infrastructure lifecycle.

We are also applying our expertise to play a more influential role in heightening market awareness of sustainability issues. Examples in 2011 included responding to the UK Government's Natural Environment White Paper to encourage biodiversity enhancement through better infrastructure procurement, and our involvement in the Strategic Forum for Construction and UK Contractors' Group to disseminate best practice on saving water in construction and piloting the Environment Agency's carbon calculator on building projects.

The way we work continued

Global equivalent tonnes CO_2 per £m revenue (excluding air travel data)



Environmental performance

We have made good progress against a number of environmental targets in our roadmap. We reduced our use of water, are on track to halve our waste to landfill by 2012 and in the UK procured 34% of our major materials from recognised responsible sourcing schemes. Reducing our energy consumption continues to be challenging, but overall in 2011 our CO_2 emissions decreased slightly to 41.4 tonnes/£m (2011: 41.7 tonnes/£m following restatement due to more comprehensive data). Improvements in our UK businesses were partially offset by a growth in more energy-intensive projects in Hong Kong. Further details are available in our sustainability report 2011 online.

Environmental governance and compliance

Strategic environmental issues are reviewed by the sustainability working group. An environmental managers' forum also reviews key topics and shares best practice across the Group. Environmental performance is audited regularly.

Six minor environmental incidents resulted in enforcement action and fines in 2011 across the Group (2010: five) totalling £18,800 equivalent. These ranged from exceeding noise limits, to waste violations and a minor oil spill. Corrective actions have been completed for each violation.

We are currently developing our approach to responsible procurement, and intend to implement a global procurement model in 2012. During the year we also intend to finish refreshing our sustainability roadmap with new targets for 2015, to embed sustainability into our leadership framework, and to introduce a measurement tool for assessing the impact of our community investment programme.

We will also be able to report progress against the key safety and environmental targets set for 2012 in the roadmap and our Zero Harm vision.

3. People

Working together, fulfilling potential and enhancing capabilities

At the heart of our strategy is recognition that the skills and potential of our people and their ability to team effectively with each other, our customers and the supply chain will be a crucial differentiator for the Group. As well as enhancing the quality of the solutions we develop, building and sustaining strong relationships will help us improve our services and drive operational efficiency.

Already, our commitment to individual and team development has enabled us to share a range of efficiency improvements with customers, introduce more flexible working arrangements, promote transparency in the way we work, understand our customers and develop innovative, value-add solutions. Our focus on the whole picture, the full lifecycle of the asset, means we can deliver more complete and sustainable solutions for our customers and we intend to take this further. In the future, we want all our people to understand that they are part of a broad community of interest across the Group, unconstrained by the boundaries of our existing business and ways of working. We are committed to evolving a culture in which everyone actively promotes the free exchange of knowledge and openly demonstrates collaboration with colleagues and customers. And we will support this with technology, implementing an integrated platform that allows the Group to share information across the business and work together effectively to common goals.

Supporting our people in realising their potential and maximising the know-how, skills and capability available to the organisation is central to the delivery of our growth strategy. Our demonstrable, ongoing commitment to high-quality development and leadership will help us to attract and retain the high-quality skills and attributes we need in the business.

Unlocking this potential and realising the value of our people also requires a more progressive approach to diversity and inclusion. Building on a strong platform of local activities and accreditation, the Group is now looking to define its standing as an employer and, working with partners like Opportunity Now and Global Diversity Practice, to promote our strong commitment to diversity internally and in the market. We recently approved a broad range of measures covering the way in which we attract, recruit, develop and promote people to support the progression of under-represented groups in the organisation. The global scale and scope of our business creates a growing range of exciting opportunities for personal and career development for our people, offering more of them the chance to work across industry, geographic and cultural boundaries.

In 2011, we continued to enhance our graduate proposition and development programmes (and improved our standing as a Times' best graduate employer from 69th to 66th). We also refreshed our suite of management and leadership development programmes to support a more integrated approach to career development. Finally, we improved our comprehensive annual Group-wide Succession and Talent Review clarifying the link between identifying potential and the provision of opportunities for development. The application of a broad "diversity lens" to the review is just one of the measures in place to both accelerate the progression of our most talented people and ensure appropriate and tailored support is in place.

4. Health and safety

Ensuring people's health and safety

The health and safety of all our people and everyone affected by our activities is fundamental.

Our vision is to achieve Zero Harm with zero deaths, zero injuries to the public and zero ruined lives among all our people. This means no seriously disabling injuries, no long-term harm to health and the goal of a zero accident frequency rate by the end of 2012.

A bold vision like Zero Harm does not come easily; it demands real leadership, a consistent focus on risk elimination and unrelenting attention to detail.

For the most part the campaign made good progress in 2011. Our overall Group performance improved, with most businesses making further strides towards Zero Harm.

Of the 189 major injuries reported in 2011, five were permanently disabling, compared with two in 2010. The Group Accident Frequency Rate ("AFR") increased to 0.17 in 2011 from 0.16 in 2010 which is disappointing but driven by the particular safety challenges in Gammon. There were significant improvements in many parts of the Group with 16 out of 27 businesses showing either an improved AFR or remaining at zero AFR in 2011 compared with 2010 and the overall Group AFR has reduced by 67% since 2001.

There were 158 injuries to members of the public in 2011, compared with 159 in 2010.

However, we regret that, tragically, there were five worker fatalities during the year, all in our Hong Kong joint venture business, Gammon Construction. Every fatal accident is subject to a thorough investigation and review by the Balfour Beatty Board. A detailed plan is in place. Further details are available in our sustainability report 2011 online.

In 2012 we are re-energising our approach to ensure that we achieve our Zero Harm vision. This will include a focus on planning work through a Zero Harm lens – Zero Harm thinking needs to permeate all aspects of design and planning well before work starts onsite. We seek to eliminate risk early in the design and planning process as only then can we be sure that people will not be harmed.

Leadership

Zero Harm has brought some encouraging results – and this is always where individuals at any level have gone the extra mile to make Zero Harm a reality on their patch. They take real ownership, live Zero Harm and actively drive out risks. Our priority is to re-energise our leadership of Zero Harm and focus on risk elimination. We will also extend our Leading Change: Driving the Safety Agenda programme to the next layer of management.

5. Respecting our communities

Respecting the communities around us

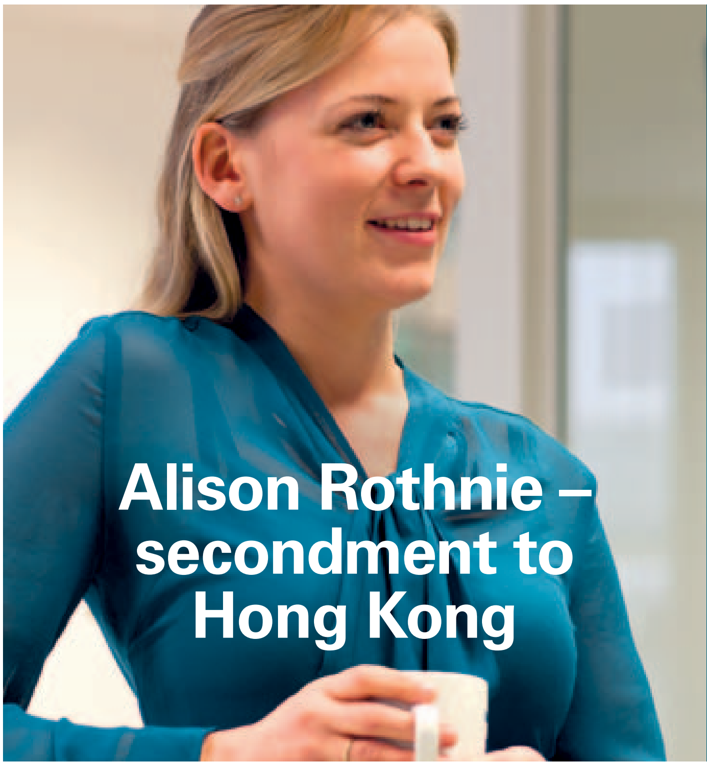
By its nature, our business is centred on communities and brings them significant benefits: we improve people's everyday lives around the world by creating and caring for efficient, high-quality civil and social amenities.

However, we also recognise the importance of engaging more directly with the communities where we operate. Because our operations are so widely dispersed, we do this in a decentralised way through local initiatives that fit with the individual objectives of our businesses and provide motivation and engagement for their employees. Across the Group there is a high degree of commitment to and activity in community investment.

At Group level we work, often in partnership with customers, to support organisations and activities that aim to improve social cohesion and inclusion. These have included the London Youth Games and the Prince's Trust with its Get Into Construction scheme. We also donate cash and the energies of our employees to selected charitable causes. In late 2008 we formed our own charitable trust, Building Better Futures, which has donated over £1.5m to disadvantaged young people's charities.

In 2011 we carried out a strategic review of our community objectives and policies to take account of the Group's increasing size and geographical spread and to fulfil our desire to align our community programmes more closely with key social issues and our core business activities. As a result of this we are developing a Group-wide programme branded as Balfour Beatty – Building Better Futures. It will focus on three themes: young people's employability and employment; helping the most disadvantaged young people in society; and health, sport and wellbeing.

We also want to build a volunteering culture and will be conducting a Group-wide review to help us achieve this. This will include a review of divisional HR policies to encourage volunteering, as well as working with our business and charitable partners to identify opportunities for our staff to become involved.



Alison Rothnie – secondment to Hong Kong

As Balfour Beatty continues to grow and become more international, so do the opportunities for our employees to work in different countries and cultures.

Alison has worked for Balfour Beatty for four years. During her "day job" on the M25, London's orbital motorway, she is advising on the implementation of the 2020 sustainability vision and roadmap in terms of its maintenance and operation.

Alison completed a four-month secondment during 2011 working for Gammon Construction, our Hong Kong-based joint venture business. Not only was Alison able to work on some major road schemes on the other side of the world such as the Tolo Highway, she also shared some of the sustainability tools used in the UK such as carbon footprinting and CEEQUAL.

"Working in Hong Kong was the experience of a lifetime. Opportunities such as this are a great way to share sustainability knowledge around the Group."

Alison Rothnie,
Sustainability Manager, Connect Plus Services

from powering today

We have a long history of providing the assets needed to create and distribute power. Now climate change, energy costs and diminishing fossil fuel supplies are growing concerns for governments and our customers. Buildings generate over half of all greenhouse gas emissions, and our energy-efficiency expertise is already a powerful lever in winning new-build business.

Read more: case study on page 31.

to powering tomorrow

Societies everywhere want to generate more power more sustainably. We are focusing on the segments where we can apply our skills in renewable energy infrastructure, particularly for onshore and offshore wind and municipal waste management facilities including waste-to-energy.

Chief Financial Officer's review

Twelve years of uninterrupted dividend growth

Duncan Magrath
Chief Financial Officer

"Despite difficult trading conditions we have delivered 9% growth in underlying EPS and dividends."

For more information go online:
http://annualreport11.balfourbeatty.com

Results for the year

	2011	2010	Percentage increase
Revenue including joint ventures and associates	**£11,035m**	£10,473m	+5%
Group revenue	**£9,494m**	£9,236m	+3%
Profit from continuing operations			
– underlying	**£331m**	£325m	+2%
– reported	**£242m**	£220m	+10%
Pre-tax profit from continuing operations			
– underlying	**£334m**	£306m	+9%
– reported	**£246m**	£201m	+22%
Earnings per share from continuing operations			
– underlying	**35.5p**	32.7p	+9%
– basic	**26.7p**	23.0p	+16%

2010 accounts re-presented for the classification of Barking Power as a discontinued operation.

Group trading performance

2011 saw good operating and financial performance in a year impacted by cutbacks in government spending.

Professional Services performed well, managing to grow its order book from £1.5bn to £1.6bn, increase its revenue by 2% and increase its underlying profit by 2% to £87m. Indeed, if the unusually large incentive income from 2010 is excluded, profit growth was 13% and operating margin percentage improved from 4.8% to 5.3%. Geographically, performance was good in the US despite continued delays in reauthorisation of the Highways Bill, weak in the UK, where government cuts continued to hamper recovery and further cost reductions were implemented, and strong in the rest of the world, particularly Australia.

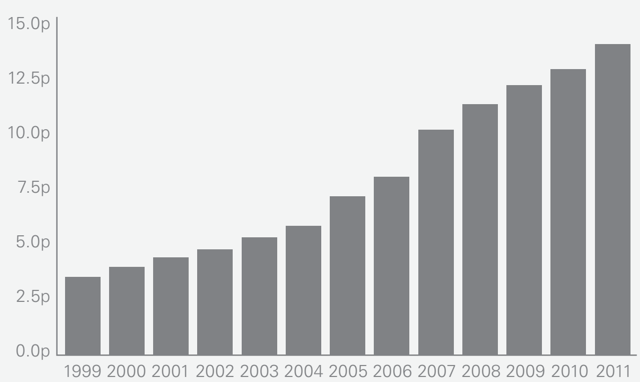
2011 saw the anticipated reduction in underlying profitability of Construction Services, down to £169m (2010: £201m) largely on the back of reduced margin performance in the US and also within our European rail business. Strong order intake in 2010 in the US and Hong Kong, along with the impact of acquisitions, drove 2011 revenue growth of 5%, or 2% excluding acquisitions and disposals. Order books declined by 8% to £8.5bn, with the UK down 25% since December 2010, and the US up 12% since December 2010 as a result of acquisitions. However, this decline is compensated by the increase in orders we have won, but not yet signed, which are therefore excluded from our order book.

For Support Services 2011 was a year of good growth in order book, up 13% to £5.1bn, revenue, up 10%, and underlying profit, up 8%. At the same time we strengthened our service offering with the acquisition of Romec Services, which provides a national mobile FM capability, and Power Efficiency, which provides an increasingly important energy consulting capability.

Infrastructure Investments delivered a sharply increased underlying pre-tax profit from continuing operations up to £71m (2010: £30m). The growth in the portfolio in recent years has started to provide increased returns through both PPP results and also subordinated debt interest income, reflecting the increased investment. In addition to this, the more active recycling of the PPP portfolio delivered disposal gains of £20m. Bid costs were down in the year, partly reflecting a move away from the more complex bids, such as hospitals but also reflecting increased crystallised bid cost recoveries.

See pages 28 to 45 for more detailed comments on performance by segment.

Dividends per share



Dividends per ordinary share restated for the bonus element of the 2009 rights issue.

Financial review

Revenue including joint ventures and associates increased 5% in the year to £11,035m (2010: £10,473m). The impact of acquisitions was relatively modest in the year, and was partially offset by the loss of revenue from the disposals of the UK specialist rail manufacturing business and PPP assets. Excluding the impact of currency and acquisitions and disposals, underlying revenue growth was 4% compared with the underlying decline of 11% experienced in 2010.

Our share of underlying post-tax profits from continuing joint ventures and associates increased to £75m from £72m last year, principally due to increased profits from our UK roads concessions offset by reduced profits from overseas rail joint ventures.

Underlying profit from continuing operations increased by 2% to £331m (2010: £325m), including the benefit of £20m of gains from PPP disposals.

Net finance income of £3m was up significantly on the prior year (2010: net cost £19m), largely as a result of an £18m reduction in the net finance cost on pension schemes. Additional investment into PPP projects resulted in a £6m increase in subordinated debt interest income.

Underlying pre-tax profit from continuing operations therefore increased 9% to £334m (2010: £306m).

The underlying tax charge for continuing operations for the year of £91m (2010: £83m), excluding the Group's share of the results of joint ventures and associates, equates to an effective tax rate of 35.1% (2010: 35.5%). Eliminating the preference share dividends, which do not attract tax relief, the Group's effective tax rate would have been 33.7% (2010: 33.9%). Adjusting further to include tax in associates and joint ventures, and comparing this to pre-tax profits for the continuing Group and associates and joint ventures, the effective tax rate was 29.2% (2010: 29.7%).

Non-underlying items

Non-underlying items of £88m (2010: £105m) before tax were charged to the income statement for continuing operations. This comprised amortisation of acquired intangible assets of £62m (2010: £82m) and other items of £26m (2010: £23m). This amortisation charge declined in the year as some intangible assets became fully written down and more than offset the increase from new acquisitions. Other items comprised £7m for acquisition related costs (2010: £31m) and £12m for the cost of implementing the UK shared service centre (2010: £12m), which remains on track for annual gross savings of £30m by 2013 as forecast. In 2011 we also had a £7m loss on disposal of the UK specialist rail manufacturing business, including a goodwill write-off of £7m. In 2010 PPP disposal gains of £20m were included in non-underlying items.

Earnings per share

Underlying earnings per share for continuing businesses of 35.5p were up 9% on last year (2010: 32.7p).

Discontinued operations

The Group's effective 25.5% interest in Barking Power was classified as a discontinued operation from 2 March 2011 and was sold in December 2011 to the Balfour Beatty Pension Fund at its carrying value of £55m.

Cash flow performance

Cash generated from operations of £35m (2010: £169m) was impacted by a working capital outflow of £201m. Including the impact of acquisitions and exchange, negative working capital decreased from £1,248m at the end of 2010 to £1,085m at the end of 2011. Of this decrease of £163m, the two biggest components were reductions of £122m in Construction Services and £67m in Professional Services. In Construction the reduction in negative working capital was largely due to changes in the mix of business, away from larger more complex projects, which have the potential

Chief Financial Officer's review continued

for more favourable terms, to smaller projects. The Professional Services movement largely relates to a decrease in negative working capital on some Asian contracts, which was anticipated at the time of the acquisition of Parsons Brinckerhoff.

Cash from operations was also impacted by the regular pension deficit payments of £58m (2010: £41m).

As shown in the diagram below, average cash in the second half of the year was £104m, although the Group's net cash at 31 December 2011 was in excess of that at £340m (2010: £518m), before taking into account the consolidation of £332m (2010: £270m) of non-recourse net debt held in wholly owned PPP project companies.

More detailed analysis on the movements in net cash is shown in Note 36.

Goodwill and intangible assets
Total consideration for acquisitions in the year amounted to £120m. Goodwill arising on these acquisitions amounted to £87m and a further £34m of intangible assets were recognised. As a result, and after exchange adjustments, the goodwill on the Group's balance sheet at 31 December 2011 increased to £1,279m (2010: £1,196m) and other intangible assets, net of amortisation of £66m (2010: £82m), reduced to £239m (2010: £251m).

Impairment reviews have been carried out, and none of the goodwill has been impaired. Details of the calculations and assumptions are shown in Note 13.

Balance sheet and capital structure
Balfour Beatty has a somewhat unusual balance sheet structure which is further complicated by the varying characteristics of the businesses within the Group. The diagram below tries to give a visual representation of the major elements that we think of when considering the shape of the balance sheet.

Excluding intangible assets, there are two significant sources of asset strength, the Directors' value of the PPP investments portfolio and net cash. These balance the liabilities of negative working capital and pensions. During 2011 there were a number of factors that affected the absolute levels of those balances, and despite a reduction in the absolute level of cash we consider the year-end position overall to be as strong as at the start of the year.

These items are considered further below.

Infrastructure investments
During 2011, the Group invested £52m (2010: £73m) in a combination of equity and shareholder loans to PPP project companies and at the end of the year had committed to provide a further £87m from 2012 onwards, with some £65m expected in addition for projects at preferred bidder stage.

During the year total proceeds of £28m were received from the disposal of a 60% interest in Connect A50, and the Group's 50% interest in Blackburn Hospital, realising £4m in excess of Directors' valuation.

At 31 December 2011, the Group's share of non-recourse net debt within Balfour Beatty Capital's continuing PPP project companies amounted to £2,127m (2010: £1,886m), comprising £1,795m (2010: £1,616m) in relation to joint ventures and associates as disclosed in Note 16.2 and £332m (2010: £270m) on the Group balance sheet in relation to wholly owned project companies as disclosed in Note 24.1.

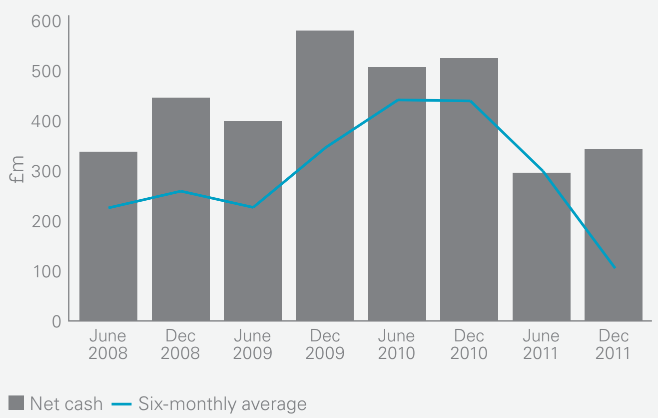
The Directors have carried out a valuation of the Group's PPP concessions, including the PPP concessions of Balfour Beatty Communities, and this is set out on pages 44 and 45. This shows that the value of the portfolio has increased during the year from a restated £671m to £743m, despite the £28m of disposals.

Working capital
Negative working capital reduced from £1,248m to £1,085m, so total working capital as a percentage of annualised revenue ("WCPR") at the end of the year was (10.9)% (2010: (13.5)%). The most significant component of negative working capital relates to Construction Services, which ended the year with WCPR of (14.7)% (2010: (17.6)%).

We have seen a shift of our business away from larger and more complex construction projects, many of which are project financed, to shorter-term smaller projects, which tend to have less scope for favourable payment terms. We anticipate this trend will continue in 2012, and so expect the WCPR for Construction Services to reduce further by 1% to 2%.

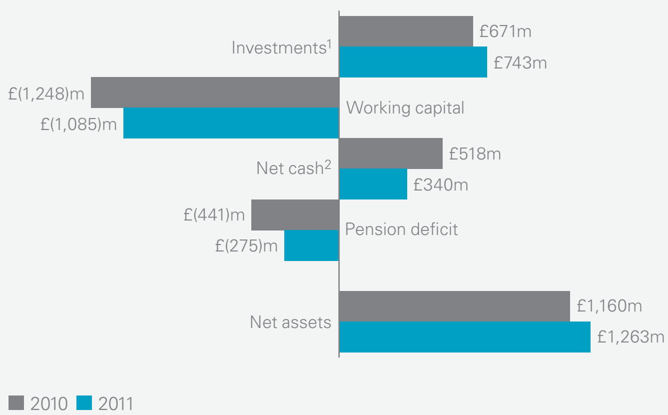
In Professional Services we have seen a shift from a small negative WCPR of (2.4)% last year-end to a positive 1.9% at the end of 2011. This is due to the unwinding of some particularly favourable projects in the Asia Pacific region, anticipated at the time of acquisition. This segment is expected to trend toward a positive 5% working capital business over the next 18 months, which is the norm for a professional services business, where the largest element of cost is salaries.

Net cash balances†



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

Balance sheet elements



1 Directors' valuation of PPP concessions.
2 Excluding net debt of PPP subsidiaries (non-recourse).

Pensions – balance sheet movement

The Group's balance sheet includes aggregate deficits of £275m (2010: £441m) for the Group's pension funds. Note 26 sets out the assumptions used and a sensitivity analysis which identifies the impact on the balance sheet from changes in those assumptions.

The Group recorded net actuarial gains for 2011 on those funds totalling £60m (2010: £86m), with the effects of the lower discount rates applied to the funds' liabilities more than offset by better than expected returns on the assets held by the funds and the rebasing of some benefits from RPI to CPI. Movements in the pension deficit are illustrated in the diagram below.

A formal actuarial valuation of the Balfour Beatty Pension Fund ("BBPF") was carried out at 31 March 2010 and showed a funding position of 85%. A funding plan was agreed to eliminate that deficit over eight years, comprising an initial one-off payment of £40m, which was paid in December 2010, and regular monthly payments of £4.0m starting from April 2010. The monthly payments increase each April by the growth in CPI up to a cap of 5%, plus 50% of any increase in the Company's dividend in excess of CPI. Monthly deficit payments from April 2011 were £4.2m, and an additional one-off contribution of £55m was made in December 2011.

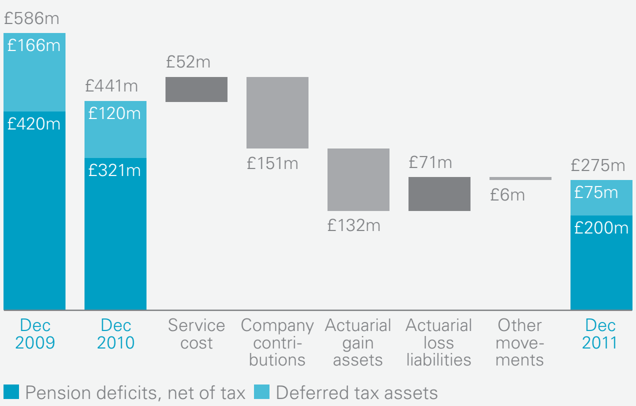
During 2011, various measures were taken within the BBPF asset portfolio to improve the matching of changes in interest rates and inflation rates on the value of the assets with corresponding changes in the value of the liabilities, with a consequent improvement in the resilience of the funding level of the BBPF. It is estimated that in the absence of these measures the BBPF deficit at 31 December 2011 would have been some £25m higher.

Dividends

The Board has recommended a final dividend of 8.5p in respect of 2011, giving a full-year dividend of 13.8p (2010: 12.7p), up 9% on last year. This will be the 12th year in a row that the dividend will have increased. Underlying dividend cover, taking into account PPP disposal profits, for 2011 is 2.6 times, slightly lower than last year's cover of 2.7 times, but the Board believes that this is reasonable given the strength of the Group's cash reserves and future prospects.

To appreciate the prospects for the Group as a whole, the complete annual report and accounts 2011 needs to be read.

Pensions – balance sheet movement



Cumulative contributions for deficit funding since December 2009 of £194m.

Banking facilities

The Group has no significant net debt, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

In November 2011 the Group's existing bilateral committed facilities were replaced by a five-year revolving syndicated facility at £850m with similar covenants. The purpose of this facility, 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.

In the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities (commonly referred to as "bonds"). Such bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from Balfour Beatty plc. As at 31 December 2011, contract bonds in issue by financial institutions under uncommitted facilities covered £3.7bn (2010: £3.8bn) of contract commitments of the Group.

Financial risk factors and going concern

The financial risk factors for the Group remain largely unchanged, with one exception noted below, and are discussed in Note 21 along with details of financial instruments. The one exception is the increased risk of economic events in Europe leading to a disruption to the euro, possible sovereign default, banking instability and the impact that these events could have on economic growth rates. A relatively small part of our Group operates in countries at the centre of the euro crisis. We currently have no activity in Greece, and aggregate revenue in 2011 across Portugal, Spain, Italy and Ireland was less than 1%. Our cash deposits are well diversified, and our new five-year bank facility provides us with significant headroom, such that we are able to cope with at least two banks being unable to satisfy committed facilities. As such we assess the risk to the Group in the short term from these events does not impact the views on going concern noted below. Whilst infrastructure spending tends to be relatively resilient to economic downturns, a sustained crisis would likely lead to reduced growth rates in Europe and also probably the UK, and this would likely lead to reduced growth rates for our business. As identified in Note 13, the carrying value of the goodwill in our European rail business could be impaired if the growth rates fall 100bp below our assumptions.

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, and good forward visibility
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates
- the Group has an increasingly diversified business model that gives resilience to the business and
- the Group had £340m net cash at 31 December 2011, and was strongly supported by the banking market in November 2011 when a new five-year £850m syndicated credit facility was put in place.

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 accounts.

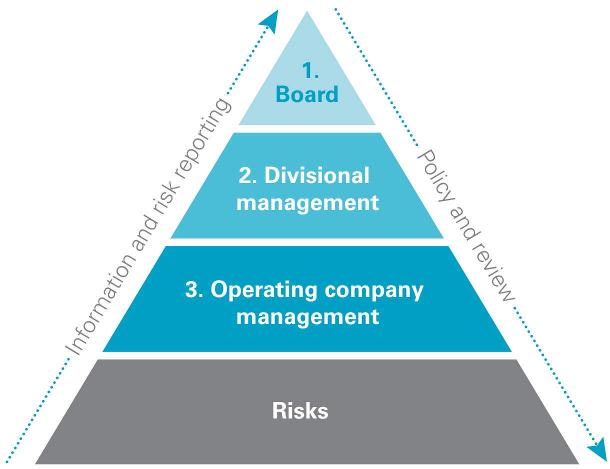
Managing risk

Risk management

Effective risk management is fundamental to how we run our business and underpins the delivery of the Group's objectives. It is essential in helping us achieve sustainable shareholder value and in protecting our reputation.

The Group's approach to risk management is to identify, at an early stage, key risks and then to develop actions to eliminate or mitigate, to an acceptable level, the impact and likelihood of those risks.

Risk management processes are embedded throughout the Group, at all levels, and assist management in identifying and understanding the risks they face in delivering business objectives and the status of the key controls they have in place to manage those risks. These processes form an integral part of the day-to-day business activities of the Group.



Roles and responsibilities

The Board is responsible for the Group's system of risk management and internal control.

The Board determines and sets the degree of risk which is considered appropriate and acceptable in pursuit of the Group's strategic objectives and the level of risk which can be taken by Group, divisional and operating company management without specific Board approval. This is managed through a small number of Group policies and delegated authority levels set by the Board. These delegated policies and authorities provide the means by which risks are reviewed and escalated to the appropriate level within the Group, up to and including the Board, for consideration and approval.

The roles and responsibilities of the Board, its Committees, divisional and operating company management are set out below with details of how those roles and responsibilities are discharged.

Roles and responsibilities

	Responsibilities	Actions undertaken
1. Board	• Responsible for the Group's systems of risk management and internal control • Determining the nature and extent of the significant risks the Group is willing to take in achieving its strategic objectives	• Issue and review the Group's risk management policy • Annual review of the effectiveness of the Group's risk management and internal control systems • Review and consideration of the Group's key risks and responses thereto
Audit Committee	• To review the effectiveness of the Group's internal controls, including systems established to identify, assess, manage and monitor risks	• Receive regular reports on the results of internal and external audit and other assurance activities • Annual assessment of the Group's system of risk management and internal control • Review of risk management and assurance activities and processes
Business Practices Committee	• Review the Group's performance in managing risks associated with health and safety, sustainability, employee engagement, corporate values, ethics and the Group's Code of Conduct	• Receive regular reports on the implementation of the Group's health and safety, sustainability and ethics and compliance programmes as well as the Group's HR policies • Review the effectiveness of the Group's helpline procedures and other mechanisms for raising concerns
2. Divisional management	• Responsible for risk management and internal control systems within their division • Ensure that operating companies' responsibilities are discharged	• Monthly review of key risks and mitigation plans • Review and challenge of operating company assurance plans • Review of results of assurance activities • Elevating key risks to Group management and Board
3. Operating company management	• Maintain an effective system of risk management and internal control within their businesses	• Maintain and regularly review project, functional and strategic risk registers • Review of mitigation plans • Planning and executing assurance activities

Risk management process

Identification
- Identify business objectives
- Risks identified at Group, divisional, operating company, functional and project level
- Financial and non-financial risks recorded in risk registers
- Risk owners identified

Analysis & evaluation
- Risks analysed as to likelihood and impact
- Risk evaluation recorded in risk register

Reporting & monitoring
- Risk and mitigation plans subject to regular and rigorous review
- Key issues elevated, as appropriate, through management reporting structures

Mitigation
- Action plans developed and implemented to mitigate/eliminate risks
- Action owners and timescales defined

Risk management process

The Group's risk management policy requires all divisions and the operating companies within them to identify and assess the risks to which they are exposed and which could impact their ability to deliver their and the Group's objectives.

Risk registers are used to record the risk events identified, their causes and possible consequences. Risks are then analysed as to the likelihood of occurrence and also the potential impact on the business.

Actions are then developed and put in place to mitigate or eliminate unwanted exposures. Individuals are allocated responsibility for evaluating and managing risks identified to an agreed timescale.

Risk registers and relevant action plans are regularly reviewed, at various levels throughout the business, to identify new risks as they arise, update mitigation plans, and to remove risks that are no longer relevant.

Reporting structures ensure that risks are continually monitored and that mitigation plans are subject to review within the Group. Established business reporting systems ensure that significant risk exposures are escalated from project level to operating company management to divisional management and ultimately to the Chief Executive and the Board, as appropriate, via monthly/quarterly performance and operational reviews.

The Company's risk management policy and standards also require all divisions and operating companies to have in place appropriate assurance mechanisms to ensure that the controls and actions put in place to mitigate and eliminate risks are operating effectively. A range of procedures are used to monitor the effective application of internal controls and these include management assurance, risk management processes and independent assurance provided by internal audit reviews and other specific reviews conducted by specialist third parties.

The Board has concluded that the Group maintained sound risk management and internal control systems throughout the year and has reviewed their effectiveness.

Principal risks

The Group operates in many business environments and across a number of territories in which risks and uncertainties exist, not all of which are necessarily within its control. Whilst acknowledging that it is not possible to eliminate such risks and uncertainties completely, established risk management and internal control systems and procedures exist within the Group to mitigate their impact.

The Board recognises that there may be other risks and uncertainties which are currently unknown to it or which could become material in the future. However, it believes that the Group's established risk management and internal control systems have helped and will continue to help it in identifying and responding to such risks and to the changing business environment and challenges it faces.

The Group faces a number of risks and uncertainties which are common to many companies, for example, financial and treasury risks, information technology and information security risks and the management of pension liabilities, which are significant. The Group has established controls and systems in place to manage such risks.

Set out on pages 60 to 62 is a description of those principal risks facing the Group which could adversely impact its profitability and its ability to achieve its strategic objectives. The Group operates predominantly in the UK and North America with significant operations in Australasia and the Middle East and is seeking to expand into new territories.

Managing risk continued

Economic environment

The continued effect of the global economic downturn may cause the Group's customers to cancel, postpone or reduce spending on existing or future infrastructure projects. This is particularly relevant in certain key markets where many of our clients are in the public or regulated sectors. The current economic conditions also increase the Group's exposure to counterparty credit risk of its customers, subcontractors, joint venture partners, financial institutions and other suppliers.

Impact	Mitigation
Any significant changes in the level or timing of customer spending or investment plans could adversely impact the Group's order book. Such changes could arise from a change in government policy or from a failure of customers to secure financing for future projects.	The Group has a broad exposure to various infrastructure markets across the globe. This and the continued need for infrastructure spending mitigates the effect of changes in spending in any one market. The Group maintains a high level of engagement with its customers to understand and respond effectively to their evolving requirements at all phases of the infrastructure lifecycle. The Group has identified and continues to identify new infrastructure markets as they develop (eg power, mining, Brazil and India).
Failure of a customer, including any government or public sector body, could result in non-collection of amounts owed.	The financial solvency and strength of counterparties is always considered prior to the signing of contracts and is a specific focus in the current economic climate. During the life of a contract such assessments are updated and reviewed whenever possible. The Group seeks to ensure that it is not over-reliant on any one counterparty.
Failure of a subcontractor or supplier would result in the Group having to find a replacement or undertaking the task itself which could result in time delays and additional costs.	The Group seeks to develop long-term relationships with a number of key subcontractors by understanding their operations and working with them. Contingency plans are developed to address the eventuality of the failure of a subcontractor. In addition, project retentions, bonds and/or letters of credit will be obtained, where appropriate, from subcontractors to mitigate the impact of any insolvency.

Reporting and monitoring

- Monthly/quarterly finance and performance review
- Strategic roadmap process
- Budgetary process

Expansion into new territories and by acquisition

The Group, in pursuit of its strategic objectives, will seek to enter into new territories and continue to make acquisitions. Failure to identify and manage the risks associated with either of these could impact the ability of the Group to meet its strategic objectives and result in loss and reputational damage.

Impact	Mitigation
Failure to identify, understand and evaluate the risks of conducting business in a new territory could lead to significant financial loss and reputational damage.	As part of the decision making process to enter into a new territory, a detailed country risk assessment will be undertaken. These will consider and assess the prevailing economic, political, regulatory, ethical, health, safety and sustainability conditions to ensure that the Group is able to operate in that territory consistent with its own values and standards.
Failure to realise the expected benefits from acquisitions and to integrate successfully the businesses acquired into the Group's processes could result in an adverse impact on the Group's strategic objectives, future prospects, financial conditions and profitability.	Detailed due diligence is undertaken on all potential acquisitions to ensure that the acquired businesses' values and their approach to health, safety and sustainability aligns with those of the Group. In addition, valuation models are prepared on all potential acquisitions drawing upon both internal and external resources. Due diligence also includes an assessment of the ability to integrate the acquired businesses successfully into the Group. When a business is acquired, detailed integration plans are developed and monitored to ensure the successful integration of the business into the Group and its internal control framework.

Reporting and monitoring

- Board/divisional review and approval
- Monthly/quarterly finance and performance reviews
- Board review and approval of initiatives involving entering a new country

Legal and regulatory

The Group operates in a number of diverse territories and its businesses are subject to a number of complex, demanding and evolving legal, tax and regulatory requirements. Such requirements will only increase in complexity as the Group enters new countries.

Impact	Mitigation
A breach of these local laws and regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business, ranging from additional costs incurred on a project, to potential debarment and reputational damage.	The Group monitors and responds to legal and regulatory developments in the territories in which it operates. A country's legal and regulatory framework is considered as part of any Group decision to conduct business in a new country.

Reporting and monitoring

- Monthly/quarterly performance reviews
- Strategic roadmap process

Business conduct

The Group operates in various international markets with partners and supply chains which may have inherent risks relating to business conduct including but not limited to fraud, bribery and corruption.

Impact

Failure by the Group and its employees to observe the highest standards of integrity and conduct in dealing with customers, suppliers and other stakeholders could result in civil and/or criminal penalties, debarment and reputational damage.

Mitigation

Throughout the Group there is a vigorous approach to assessing corruption risks. The Group has a number of programmes dealing with compliance with the Group's Code of Conduct, competition law, data protection etc. E-learning courses have been developed and are used throughout the Group to raise awareness of and to embed many of those compliance programmes. Each operating company has appointed a compliance officer who is responsible for ensuring the application and monitoring of these programmes.

Reporting and monitoring

- Business Practices Committee
- Monthly/quarterly performance and operations reviews

People

The success of the Group depends on its ability to recruit and retain the best management and employees who have the appropriate competencies and also share the Group's values and behaviours.

Impact

Failure to recruit and retain appropriately skilled people could have an adverse impact on the Group's ability to deliver specific contracts and its future growth.

Mitigation

All key roles in the organisation have a competency and leadership framework against which potential recruits are measured. Organisation and people reviews are undertaken by each division and its operating companies to review the role, competencies, performance and potential of personnel. A well-developed succession planning process exists within the Group to identify and develop high-potential/calibre personnel to fill key roles that arise. These plans are reviewed and discussed at all levels within the organisation and by the Board on a regular basis. Appropriate remuneration and incentive packages are in place to assist in the attraction and retention of key employees.

Reporting and monitoring

- Monthly operations and performance reviews
- Annual succession planning review
- Board review
- Remuneration Committee
- Nominations Committee

Bidding

The Group, through its operating companies, seeks to win work through a large number of bids each year. In executing certain of these bids the Group may seek to engage in joint ventures with carefully selected partners especially in those instances where the Group may not possess the necessary expertise or knowledge of the territory.

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

Impact	Mitigation
Failure to estimate accurately risks, costs, the impact of inflation and the contractual terms being entered into and how best to manage them could have an adverse impact on the profitability of such contracts.	All bids are subject to rigorous estimating and tendering processes within a defined framework. Defined delegated authority levels exist for the approval of all tenders and infrastructure investments, with all major and significant contracts in excess of those authority levels being subject to Group review and approval by the Group Tender and Investment Committee ("GTIC").
In the event of a disagreement with, or the failure, or poor performance of a joint venture partner to deliver, the Group could be exposed to financial and reputational damage.	The Group has procedures in place to review the relevant skills, experience, resources and values of joint venture partners to understand how they complement those of the Group. The performance of joint ventures and joint venture partners is monitored throughout the life of the project.
If any of the assumptions made on investment decisions prove to be incorrect it could have an adverse impact on the profitability of those investments.	Investment appraisals are performed and reviewed by experienced professionals. The risks associated with revenues and costs are analysed and, where appropriate, contractual and other risk mitigations are established.

Reporting and monitoring

- Monthly/quarterly operations, performance and financial reviews
- Board review of GTIC activities

Our business

Managing risk continued

Project execution

The Group is engaged in a number of complex design, engineering, construction, facilities management and asset management projects. The successful delivery of many of these projects is dependent on the combined availability and effective management of subcontractors and other service providers.

The Group's ability to execute these projects to its customers' requirements and on a timely basis exposes it, in the event it were to fail to do so, to the risk of financial loss and reputational damage.

Impact	Mitigation
Failure to manage or deliver against contracted customer requirements to an appropriate quality and on a timely basis could result in a number of issues (ie contract disputes, unagreed claims, design issues, cost overruns, failure to achieve customer savings) which could adversely impact the profitability and reputation of the Group.	Each operating company has a number of defined operating procedures designed to address the risks inherent in project delivery. In addition, the Group's risk management framework facilitates the identification of specific risks on projects and the mitigating actions required. Projects are subject to management review at all levels to monitor progress and to review steps put in place to address specific risks identified on those projects.
The failure of a subcontractor to perform to an appropriate standard and quality could result in delays to a project and adversely impact the ability of the Group to meet its contractual commitments and damage its reputation.	The Group seeks to develop long-term relationships with a number of its key subcontractors whilst at the same time not becoming over-reliant on any one. As part of its selection criteria, the Group seeks to partner with subcontractors/suppliers which share its values.

Reporting and monitoring

- Monthly/quarterly operations and performance review

Health, safety and sustainability

Further information on the Group's health, safety and sustainability activities are given on pages 48 to 51.

The Group is involved in significant and complex projects which require the continuous monitoring and management of health and safety risks. A major catastrophic incident in relation to one of the Group's projects (eg structural collapse or accident arising from work performed) could result in harm to the public or workforce and partners and could expose the Group to significant losses and reputational damage.

The Group, through its activities, is aware of the impact it can have on the world in which it operates and the communities with which it comes into contact. In addition, for a number of its customers the impact of projects on communities during their execution and operation in both the short term and the long term is a key consideration when evaluating bids. A failure to meet these requirements could result in a loss of work, reputational damage or financial loss.

Impact	Mitigation
Failure to manage these risks could expose the public or our people to injury/harm and the Group to significant potential liabilities and reputational damage.	Detailed health and safety policies and procedures exist to minimise such risks and are subject to review and monitoring by both operating companies and divisional management. Within each operating company there are experienced health and safety advisers who provide advice and support to line management and also undertake regular reviews.
Failure to execute projects in a sustainable manner could result in significant potential liabilities, reputational damage and not being able to win future work.	The Group has developed and implemented a sustainability strategy covering its operations until 2020 in terms of profitable markets, healthy communities and environmental limits. Sustainability issues (eg specific customer requirements, climate change adaptation) are considered in risk management activities undertaken at an operating company as well as project level.

Reporting and monitoring

- Monthly/quarterly operations reviews
- Business Practices Committee
- Sustainability working group
- Executive Committee
- Board review

Our governance

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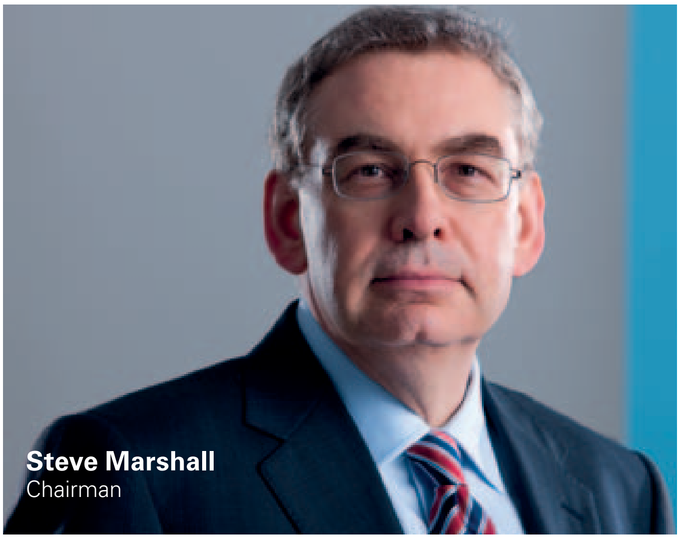
Chairman's introduction

We are committed to the highest standards of corporate governance



Steve Marshall
Chairman

"Formulating the Group's strategy, monitoring the financial performance of the Group, and setting the values and ethical standards of the organisation are key areas of focus for the Board."

Areas of focus in 2011

Board composition, evaluation and continuous improvement

Enhanced investor relations programme

Areas of focus in 2012

Succession planning and diversity

Strategy implementation

Operational delivery and performance

Dear Shareholder

Balfour Beatty is committed to applying the very highest standards of corporate governance in whichever jurisdiction the Group is operating.

The UK Corporate Governance Code published in June 2010 was welcomed by your Board, who decided to implement all the provisions immediately, including putting forward all the Directors for annual re-election at our Annual General Meeting in May 2011. The Code's change of tone, signalling the importance of general principles guiding boardroom behaviours, was particularly welcomed, as was the continuing validation of the "comply or explain" principle.

Turning to each of the main principles of the Code, I wanted to highlight how these are being applied in practice.

Leadership and effectiveness – The formulation of the Group's strategy, monitoring the financial performance of the Group, and health and safety are key areas of focus for the Board during each annual meeting cycle. In addition, the Board undertakes a pivotal role in setting the values and the ethical standards the organisation employs. Further information on these values and ethical standards is set out on pages 48 to 51 and is also contained in the Company's sustainability report 2011 at www.balfourbeatty.com/sr11.

In pursuing the principle that non-executive Directors should constructively challenge and help in the development of strategy, we have continued to encourage our non-executive Directors to obtain in-depth knowledge of the key strategic imperatives facing the organisation. We provided them with the opportunity throughout the year to meet with the senior management teams in the Group's strategically important businesses, to gain knowledge of the sectors and markets in which they are operating and gain a thorough understanding of these businesses' key priorities. We believe this leads to enhanced debate and ultimately to better and more informed decision making. For further information on this, I refer you to page 71 of this report.

Having served as chairman of the Remuneration Committee for eight years, Robert Walvis retired as chairman in July 2011 and was succeeded by Iain Ferguson. I would like to thank Robert for his leadership of the Committee over this time and for steering it through review cycles culminating in the 2011 remuneration review. Robert continues as Senior Independent Director having now served on the Board for over ten years. I would like to draw your attention to the deliberations of his colleagues on the Board concerning his continuing independence, which is set out on page 68.

Turning to the report by Lord Davies on Women on Boards, published in June, the Board considered the issues raised and published its diversity statement in September 2011. The Directors strongly support greater diversity in all its forms, not least gender diversity, as an important objective for the Group. Throughout the business, this needs to be achieved whilst also retaining the overall balance of essential skills and experience. The Davies Report is right to challenge the historic basis of these. For example, at Board level, less weight can reasonably be given to prior listed company boardroom experience, and more to a candidate's intrinsic personal characteristics. Equally, commercial, operational and functional expertise in depth must continue to be fully represented within the Company's non-executive Director ranks. Given the uncertain supply of external candidates, and the Company's business sector, the Board does not believe it is appropriate to target the precise percentage of women who should become members of the Board by 2013. However, every effort will be made to increase the level of diversity on the Board, and in particular, the representation of women over that period. The Board also believes that the Davies Report's longer-term objectives can only be met and sustained if the proportion of women occupying senior executive positions throughout corporate life can be substantially increased. In this context, the Company is redoubling its efforts to encourage more women to stay within its workforce and progress through the ranks to senior positions. In relation to the pipeline of women to the Board, as a percentage of our workforce, women make up approximately 28%, whilst at junior managerial level women make up approximately 50% of employees. At the more senior managerial levels, women comprise 12% of senior managers and 8% of executives (our most senior management level).

Accountability – During 2011, the Board has spent considerable time in developing the Group's strategy. Directors have engaged in discussions both at Board meetings and in smaller working groups and I would like to thank the non-executive Directors, in particular, for the significant commitment they have shown in steering management through this important phase. The output from the strategy review has been referred to on pages 12 to 21. The Company's policies and procedures are all geared towards enabling the Board to present a balanced and understandable assessment of the Group's position and prospects.

Remuneration – Our last strategic review of executive remuneration was carried out in 2010 in recognition of the significant changes which have occurred in the scale, scope and complexity of our business. The acquisition of Parsons Brinckerhoff also provides the Group with a presence across the whole lifecycle of major infrastructure assets on a global basis.

The proposals arising from this review were approved by shareholders at the 2011 AGM and the Remuneration Committee will continue to monitor the policy and its constituent elements to ensure they remain appropriate as the organisation continues to evolve. For more details on the new policy, please refer to the remuneration report on pages 82 to 92.

Relations with shareholders – Engagement with our investors, amongst other stakeholders, is critically important and we have continued to focus on this through 2011. Further information on our investor relations programme is given on page 79.

We are taking initiatives to build the level of shareholding amongst US investors in recognition that a significant proportion of our overall business is conducted in the US, or is driven from the US, through our Professional Services division headquartered in New York and our Construction Services US division based in Dallas. At December 2011, nearly 15% of the Company's issued share capital was held by US investors compared with around 9% at December 2010. To add further momentum, we are planning to launch an ADR programme in the US in 2012.

Following an invitation issued to our largest shareholders, I have had the opportunity to meet with several of them over the past few months on matters of governance and strategy.

Steve Marshall
Chairman

Board of Directors

Chairman and executive Directors

1 Steve Marshall
Non-executive Chairman

Age 55. Appointed a Director in 2005 and Chairman in May 2008. He is a non-executive director of Halma p.l.c., and was appointed non-executive chairman of Wincanton plc in December 2011. He is a former chairman of Delta, Torex Retail and Queens' Moat Houses. He was chief executive of Thorn and of Railtrack Group, having also served as group finance director at each company. His earlier career included a wide range of corporate and operational roles at Grand Metropolitan, Black & Decker, BOC and Burton Group. He is a Fellow of the Chartered Institute of Management Accountants.

2 Ian Tyler
Chief Executive

Age 51. A Director since 1999, he became Chief Executive in January 2005, having been Chief Operating Officer since 2002 and prior to that, Finance Director. He joined Balfour Beatty in 1996 from the Hanson Group where he was finance director of ARC, one of its principal subsidiaries. A former non-executive director of VT Group, he is a non-executive director of Cable & Wireless Communications Plc and president of Construction Industry Relief, Assistance and Support for the Homeless Ltd, the construction and property industry charity for the homeless. He is a chartered accountant.

3 Anthony Rabin
Deputy Chief Executive

Age 56. A Director since 2002, he became Deputy Chief Executive in 2008, having previously been Finance Director. He is responsible for the Group's worldwide infrastructure investments business, and before 2002 had been managing director of Balfour Beatty Capital. Prior to joining the Group in 1995, he was a partner at Coopers & Lybrand and before that, a senior assistant director at Morgan Grenfell. He was appointed a non-executive director of Colt Group S.A. in July 2011. He is a Fellow of the Institute of Chartered Accountants and a barrister.

4 Andrew McNaughton
Chief Operating Officer

Age 48. Appointed to the Board as Chief Operating Officer in 2009. He joined Balfour Beatty in 1997, having spent 12 years with the Kier Group, and held the position of managing director of Balfour Beatty Civil Engineering from 2004 to 2007, when he became Group managing director with responsibility for civil engineering in the UK and the Group's interests in the Middle East. He is a Fellow of the Institution of Civil Engineers, a Liveryman in the Worshipful Company of Engineers and a Vice-President of the Institution of Civil Engineers.

5 Duncan Magrath
Chief Financial Officer

Age 47. Appointed to the Board in 2008 as Finance Director. He joined Balfour Beatty in 2006 as Deputy Finance Director from Exel. He spent 13 years at Exel in a number of senior finance roles in both the UK and US, latterly as director of investor relations and financial strategy. Prior to this he worked at Price Waterhouse. He is a Fellow of the Institute of Chartered Accountants, and was appointed a non-executive director of Brammer plc in March 2012.

6 Peter Zinkin
Planning and Development Director

Age 58. Joined the Group in 1981 and became Planning and Development Director in 1991 after a series of senior positions in the finance function. He is responsible for the Group's merger, acquisition and divestment activities as well as the development of Group strategy. Previously, he worked at the London Business School and UMIST. He is a governor of Birkbeck College, University of London.

Non-executive Directors

7 Robert Amen
Non-executive Director

Age 62. Appointed a Director in 2010. Until 2009, he was chairman and chief executive officer of International Flavors & Fragrances Inc ("IFF"). Prior to joining IFF in 2006, he spent over 25 years at International Paper Company in a succession of roles culminating in his appointment as president and member of the board. He was also a director of Wyeth, the US pharmaceutical and healthcare company, until its acquisition by Pfizer in October 2009. A US national, he currently serves as an executive-in-residence at Columbia Business School.

8 Mike Donovan
Non-executive Director

Age 58. Appointed a Director in 2006. He was chief operating officer of Marconi from 2001 to 2005. Prior to that, he was chief executive officer of Marconi Systems and was previously responsible for managing major divisions of British Aerospace, Vickers and the Rover Group.

9 Iain Ferguson CBE
Non-executive Director

Age 56. Appointed a Director in 2010. Until 2009, he was chief executive of Tate & Lyle. Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development. He is a non-executive director of Greggs plc and also Berendsen plc, where he will become non-executive chairman in April 2012, and is chairman of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office. He is also lead independent director at the Department for Environment, Food and Rural Affairs. He was formerly a non-executive director of Sygen International.

10 Hubertus Krossa
Non-executive Director

Age 64. Appointed a Director in 2008. Until 2008, he was chief executive officer of KION Group GmbH, a leading international material handling equipment manufacturer. Prior to that, he spent seven years on the main board of Linde AG, the worldwide producer and supplier of industrial and medical gases. He was previously a member of the European management board of Whirlpool Europe and was also chairman of its German operating company, and has previously held non-executive directorships in the UK for Wassall and Thorn Lighting Group. He is currently chairman of the supervisory boards of Eckelmann AG and Bauknecht Hausgeraete GmbH and deputy chairman of United Power Technology AG.

11 Graham Roberts
Non-executive Director

Age 53. Appointed a Director in 2009. He was finance director of The British Land Company between 2002 and 2011. Prior to that, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors. He is a Fellow of the Institute of Chartered Accountants.

12 Robert Walvis
Senior Independent Director

Age 65. Appointed a Director in 2001. He was previously with the Royal Dutch Shell Group, latterly as chairman of the Global Corporate Centre. He is a non-executive director of Associated British Ports Holdings Limited, and chairman of the supervisory board of Allianz Nederland Groep NV.

Directors' report

Compliance with the Code

The UK Corporate Governance Code 2010 (the "Code") took effect from 29 June 2010, replacing the Combined Code on Corporate Governance 2008 as the standard of good corporate governance practice in the UK. The Financial Services Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year. Further information on the Code is publicly available on the Financial Reporting Council's website at www.frc.org.uk. The Company has complied with the requirements of the Code throughout the accounting period, other than in respect of:

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

Director's independence

Having considered the position of Robert Walvis, who has completed more than 10 years on the Board, the Directors specifically considered those factors which they believed were relevant in determining whether Mr Walvis should continue to be regarded as being independent. The following factors were taken into consideration.

Constructive challenge

The Board considered the strength of his engagement and the robustness of his challenge and critique around the boardroom table. As Senior Independent Director, Mr Walvis has provided an effective sounding board for the Chairman and the other Directors who value the insight he brings to a range of topics.

During his period as chairman of the remuneration committee, Mr Walvis also displayed independent leadership in the development of the executive remuneration policy and in its application on a fair and consistent basis.

Remuneration

Mr Walvis's fees as a Director are disclosed in the remuneration report on page 88 and his remuneration is not considered excessive in the context of directors' fees paid in FTSE 250 companies.

Shareholding

At 31 December 2011, Mr Walvis held 14,285 Balfour Beatty ordinary shares, and this interest is not considered substantial.

Conflicting interest

None of his disclosed interests were thought to conflict with his role as a member of the Balfour Beatty Board.

Other

None of the other independence measures listed in the Code, other than his term of office, were considered relevant by the Board.

At its Board meeting in March 2012, as part of its annual audit of corporate governance, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them, including Mr Walvis, continues to be independent.

The Board

The Board currently comprises 12 Directors, of whom seven, including the Chairman, are non-executive. There were no changes to the composition of the Board during the year. The Directors believe that the Board continues to include an appropriate balance of skills and retains the ability to provide effective leadership to the Group.

Matters reserved for the Board

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

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

The Board reviewed its list of reserved matters in 2011 and, most recently, at its meeting in March 2012. The terms of reference of the Board and the Board Committees are available on request from the Company Secretary and are also displayed on the Company's website www.balfourbeatty.com. Descriptions of the specific responsibilities which have been delegated to the principal Board Committees are also provided on pages 72 to 77.

Board composition

The names of the Directors at the year-end are shown on pages 66 and 67 together with brief biographical details. Full details of Directors’ service agreements, emoluments and share interests are shown in the remuneration report starting on page 82.

The following blend of skills is exhibited by the Directors through their respective professional backgrounds:

Chairman and Chief Executive

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

Specifically, their roles comprise the following principal responsibilities:

Chairman

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

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

Chief Executive

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

Senior Independent Director

Robert Walvis is the Senior Independent Director, and his principal responsibilities are to ensure that the views of the other non-executive Directors are properly considered and to provide an additional communication channel between the non-executive Directors and the shareholders and other stakeholders, as required. Mr Walvis meets with the other non-executive Directors without the Chairman or executive Directors being present at least once a year.

Directors’ interests

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

The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive scheme (the Performance Share Plan), the deferred bonus plan and share options, are set out in the tables in the remuneration report commencing on page 82.

There have been no changes in their respective interests since 31 December 2011.

Directors' report continued

Directors' indemnities

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

Board meetings

Procedures for Board meetings remain largely unchanged from previous years. Since the beginning of 2011, the Board has been using an electronic portal to receive papers and to share information. The Company Secretary is responsible for advising the Board on appropriate governance matters, ensuring good information flow and for ensuring that Board procedures are followed. He also provides updates on legal matters of relevance to the Group and is available to individual Directors for advice on Board procedures.

2011 meeting programme

In 2011 nine Board meetings were held at the Company's head office, whilst two meetings were held outside London. These latter meetings provided the Directors with the opportunity to meet management and other staff at Balfour Beatty WorkSmart's offices in Newcastle and at Balfour Beatty Capital. Included during each visit were presentations on each of these businesses and the principal strategic issues they were facing. In the case of Balfour Beatty Capital, the Board also visited one of the Building Schools for the Future projects in west London, which was then under construction, to see the integrated capability of the various Balfour Beatty businesses who were engaged in the delivery of this project.

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

On the evening preceding a Board meeting, the Directors generally meet for dinner and sometimes take the opportunity to discuss predetermined developmental themes, led by one of the executive Directors, other senior managers or a specialist external speaker. For example, in 2011, the themes included public affairs, the Balfour Beatty infrastructure fund and investor relations. One of the dinners each year is attended by the Chairman and the non-executive Directors only, whilst a second includes the Chief Executive, but none of the other executive Directors.

Each meeting addresses two or more key strategic topics which enable the Directors to engage in in-depth reviews. The Board also reviews at each of its meetings monthly updates from the Chief Executive, Chief Operating Officer and Chief Financial Officer. Regular reports are also provided on health, safety and environment, risk management and assurance and investor relations. The following topics were also addressed by the Board during 2011 under each of the themes shown opposite.

Finance

- Budget 2011
- Annual and half-year results
- Corporate broking review
- Pensions
- Tax and treasury policies

Operational performance

- Business reviews, including:
  - Infrastructure Investments (UK and US)
  - Construction Services UK
  - Support Services including the UK shared service centre in Newcastle

Strategy

- Group strategy development (a recurring topic throughout 2011)
- Offshore wind

Mergers, acquisitions and divestments

- Acquisition of Howard S. Wright in the US
- Sale of UK specialist rail manufacturing business
- Disposal of interest in Barking Power to Balfour Beatty Pension Fund

Corporate governance

- HR planning, talent and succession management
- Re-election of Directors at 2011 AGM
- Board Committees' terms of reference
- Board evaluation
- Diversity and the Davies Report
- Legal matters including litigation and the UK Bribery Act

2011 Board and Board Committee meetings

Details of the number of meetings and attendance at the Board meetings and meetings of the Audit, Business Practices, Nomination and Remuneration Committees during the year are set out in the following table:

Name of Director	Board	Audit	Business Practices	Nomination	Remuneration
R M Amen	11 (11)	4 (4)	2 (2)	3 (3)	
M J Donovan	11 (11)	4 (4)	2 (2)	3 (3)	
I G T Ferguson	11 (11)		2 (2)	3 (3)	4 (4)
G E H Krossa	11 (11)	4 (4)	2 (2)	3 (3)	4 (4)
D J Magrath	11 (11)				
S Marshall	11 (11)		2 (2)	3 (3)	4 (4)
A J McNaughton	10 (11)				
A L P Rabin	10 (11)				
G C Roberts	11 (11)	4 (4)		3 (3)	4 (4)
I P Tyler	11 (11)			3 (3)	
R J W Walvis	11 (11)	4 (4)		3 (3)	4 (4)
P J L Zinkin	10 (11)				

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships).

Non-attendance at meetings was due to illness and prior business commitments. In each case, where the Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman, or the Committee chairman, as appropriate.

Any Director who is not a Committee member has an open invitation to attend any Committee meeting and a number of the Directors take this opportunity.

Further information about the work of each of the Board's Committees may be found on pages 72 to 77 and 82 to 92.

Board portal

Since the beginning of 2011, Board papers have been distributed by way of a secure electronic portal. Documents are made available on the portal at least three business days in advance of the meeting. The portal has helped to improve Board operating efficiencies by enabling the Directors to receive papers quickly and to review these at any time convenient to them. It houses a secure reading room in which key data and documents are kept. This reading room is maintained by the Company Secretary and regularly updated. Information held in the reading room includes audit, market and competitor data, strategy papers, investor relations and analysts' reports, as well as the Group's principal policies relating to HR, legal, and health and safety.

Board development

Induction

Directors undertake a thorough induction programme and receive a range of information about the Company when they join the Board, including access to the Board portal, which includes Balfour Beatty's Code of Conduct and ethics, processes for dealing in Balfour Beatty shares and Board procedures, as well as the minutes and papers of past Board and Board Committee meetings. In addition, they also take part in a series of one-to-one meetings with other members of the Board and senior executives which include briefings on the Company's business strategy, financial procedures, business development, legal and other key issues.

Professional development

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

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

Normally, such meetings take place for each non-executive Director four times each year, although some Directors have not been able to attend all the sessions whilst others have been able to participate in more meetings.

During 2011, the non-executive Directors visited the following businesses and undertook detailed strategic business reviews of:

- Rail International including Balfour Beatty Rail GmbH, Germany
- Parsons Brinckerhoff International including the power market
- Construction Services US including US Rail and Infrastructure strategic reviews
- Construction Services UK incorporating a focus on Balfour Beatty Major Civil Engineering and Balfour Beatty Construction Scottish & Southern
- Support Services including Balfour Beatty Living Places and its partnership with North East Lincolnshire Council.

Board evaluation

Introduction

In keeping with the Code, the Board receives external evaluations normally every three years with internal evaluations in the intervening two years. The last external evaluation was carried out in 2010.

2011 evaluation

For 2011, the Board conducted its own internal evaluation using an online structured questionnaire covering the operation of the Board and its principal Committees. Questionnaires were also issued, in the case of each of the Board Committees, to those other participants who regularly attend these meetings. The questionnaires were supplemented by individual interviews with the Directors carried out by the Company Secretary, where appropriate, and the findings were summarised and presented to the Board in March 2011.

Directors' report continued

The principal themes arising from the 2011 evaluation comprised:

- **Board size and composition**
  Marginally on the large size, but this was not thought to be an issue. From the mix of skills currently represented on the Board, a background in infrastructure and professional or support services could be useful adjuncts, as would more significant emerging markets experience. Introducing greater diversity on to the Board would be addressed when a vacancy occurred.

  Status: These points would be considered when the next non-executive director recruitment was under way. The Board's diversity statement was published in September 2011 and incorporated into Board succession plans.

- **Board papers**
  The agenda and supporting papers were judged to be appropriate although in some instances these could be made more concise, focused on key issues and oriented towards action points. There were no deficiencies highlighted in the advisory support received by the Board.

  Status: In progress.

- **Strategy**
  A focus on developing the Group strategy through 2011.

  Status: Completed.

- **Committees**
  Committee chairmen should be provided with a regular opportunity to feed back to the other Directors on recent meetings.

  Status: Completed – standing Board agenda item.

Conclusions
Board strategy meetings allow Directors to receive in-depth reviews on topics crucial to the development of the business and organisation. The non-executive Director visit programme focused on the principal strategic issues, was considered to be a positive development.

The output from the evaluation also revealed that, in the opinion of the Directors, the acquisition of Parsons Brinckerhoff had been well handled by management, as had the introduction of the new divisional structure.

The following matters were identified where Directors believed a different approach could have been followed and possibly where more progress could have been made: the development of the Group strategy after the Parsons Brinckerhoff acquisition and Board diversity.

The top three priorities identified for 2011 were Group strategy development, succession planning and people development (in particular around diversity in its broadest sense), and embedding the divisional organisation structure.

During the course of 2011, each of the three priorities was addressed. The Board has received regular progress updates and is satisfied significant progress has been made.

For each of the Board Committees a list of emerging key themes was discussed at the Board meeting in March 2011 and although none of these were significant in themselves, each of the Committee chairmen have determined to address the matters during the year. For example, the Audit Committee identified the need to gain greater insight into the risk management and assurance policies and procedures within each of the new divisions. This process has already started with Rail and Support Services.

Board Committees

Audit Committee

"This year, the Committee has focused on risk management and assurance in the divisions. Our programme of in-depth reviews has started and will be continued through 2012."

Graham Roberts – chairman

Meetings in 2011: 4

Members
- Graham Roberts – chairman
- Robert Amen
- Mike Donovan
- Hubertus Krossa
- Robert Walvis

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

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council. The terms of reference were updated in December 2011. The main responsibilities of the Audit Committee are summarised below:

- monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance
- review the Group's internal controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by the internal and external auditor

- monitor and review the effectiveness of the internal audit function including its work programme
- make recommendations to the Board in relation to the appointment of the external auditor and approve the remuneration and terms of engagement of the external auditor
- assess the independence, objectivity and effectiveness of the external auditor and develop and implement policy on the engagement of the external auditor to supply non-audit services.

Graham Roberts, a Fellow of the Institute of Chartered Accountants and a former finance director of The British Land Company PLC, has been identified by the Board as having recent and relevant financial experience. At the Board meeting following each meeting of the Committee, the Committee chairman provides an oral report on the work of the Committee and any significant issues that may have arisen. The minutes of Committee meetings are circulated to all members of the Board.

At the invitation of the Committee, partners from the external auditor, the Head of Group Risk Management and Assurance, the Deputy Chief Executive and the Chief Financial Officer regularly attend each meeting. In addition, any independent non-executive Director who is not a Committee member has an open invitation to attend meetings. The Committee also invites other executives from within the Group to participate in Committee discussions, most notably in 2011 the Chief Executive and Finance Director of each of the Rail and Support Services divisions.

In 2011, the Committee's work programme included the following principal topics in addition to the standing agenda items which comprise reports on:

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

February

- 2010 annual report and accounts and preliminary results announcement
- Key contract valuation and accounting judgements
- Quality of earnings review
- Directors' valuation of PPP concessions
- Going concern review
- Commissions report
- Incidents of dishonest acts
- Annual review of internal audit work and findings
- Impact of the new divisional structure on the internal audit function
- Directors' expenses

June

- External audit and interim review plan for 2011, audit fees, assessment of 2010 audit process
- Risk management and assurance review: Rail division
- Results of the external review of the effectiveness and resourcing of the internal audit function (conducted by a third party) which confirmed that the function was fit for purpose

August

- 2011 half-year financial report
- The UK shared service centre in Newcastle and the operation of accounts payable

December

- Group litigation and insurance
- External audit plan for 2012 and audit fees
- Internal audit plan for 2012
- Risk management and assurance review: Support Services division
- Committee terms of reference

Although the above provides an outline of the topics on which the Committee focused its attention during the year, at its meetings the following topics were reviewed in detail:

- **Goodwill**
  A comprehensive assessment of the composition of goodwill across the Group.
- **Significant contracts**
  The key contract valuations and judgements including monitoring progress of the principal projects, as well as accounting controls and territory risks.
- **Revenue recognition**
  The Group's approach which was in line with market practice and the impact of the IASB's revenue recognition accounting standard.
- **Pensions**
  IAS19 accounting assumptions survey, benchmarking the Balfour Beatty Pension Fund against a significant number of other pension schemes and valuation judgements.

Throughout 2011, the Committee has continued to review the Group's risk management and internal control systems and processes. As a result, the Committee recommended to the Board that it could properly conclude that the Group continued to maintain sound systems of risk management and internal control and that a review of the effectiveness of these systems had been completed.

External auditor independence and effectiveness

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

Non-audit work

Compliance with the Company's policy is tested each year. At each meeting, the Committee also reviews the non-audit work which has been carried out by the external auditor and that planned, together with the associated fees. The objective set out in the Company's policy is to ensure that the external auditor is not placed in a position where its independence is, or might be seen to be, compromised. Under no circumstances will any assignment be given to the external auditor, when the result is that:

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

Directors' report continued

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

There is no inconsistency between the Accounting Practices Board ("APB") standards and the Company's policy. The Committee considered the changes to the APB's ethical standards for auditors published in 2010 and concluded that no adjustments were required to the existing policy and that there were appropriate checks and balances in place.

In 2011 the external auditor was appointed to carry out various non-audit related work, including the provision of tax and compliance advice in Australia, Europe, India and the US, together with advice on fiscal restructuring following the acquisition of Parsons Brinckerhoff.

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

Annual internal assessment

A detailed internally prepared assessment of the previous year's external audit process, together with any identified improvement recommendations. In carrying out this assessment, each division and operating company within the Group is required to evaluate the performance of the assigned external audit team and to compare that performance against the previous year.

External auditor's assessment

An assessment was carried out by the external auditor in consultation with the operating companies using a structured questionnaire.

The external auditor's annual transparency report for the year ended 31 May 2011 was reviewed. This was prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 made by the Professional Oversight Board (POB) of the Financial Reporting Council. The report addresses all the elements contained in the POB's audit quality framework.

External auditor rotation

Audit partners are rotated every five years. The advisory partner changed in 2010 and the audit engagement partner changed in 2011.

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

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

Nomination Committee

"Diversity has been on the Committee's agenda this year and will remain so as the composition of the Board continues to be assessed."

Steve Marshall – chairman

Meetings in 2011: 3

Members
- Steve Marshall – chairman
- Robert Amen
- Mike Donovan
- Iain Ferguson
- Hubertus Krossa
- Graham Roberts
- Ian Tyler
- Robert Walvis

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

In 2011, the Committee's work programme comprised the following principal topics:

- review of the skills and experience requirements for non-executive Directors, including developing an approach to diversity, in light of the Davies Report
- assessment of the current status and internal succession options for executive Directors and senior operational and functional leaders, including external benchmarking.

Remuneration Committee

"Embedding the new remuneration policy has been a key agenda topic for the Committee. Ensuring the policy (and the underlying incentive arrangements) continue to do their job as the organisation develops will remain a focal point."

Iain Ferguson – chairman

Meetings in 2011: 4

Members
- Iain Ferguson – chairman (from 14 July 2011)
- Hubertus Krossa
- Steve Marshall
- Graham Roberts
- Robert Walvis – chairman (to 14 July 2011)

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

Information about the work of the Committee during the financial year is set out in the remuneration report starting on page 82.

Business Practices Committee

"Corporate reputation is a precious asset and maintaining it is a key obligation of the Directors and management alike."

Mike Donovan – chairman

Meetings in 2011: 2

Members
- Mike Donovan – chairman
- Robert Amen
- Iain Ferguson
- Hubertus Krossa
- Steve Marshall

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

The Committee focuses significant attention on health and safety, values, ethics and compliance. The Committee also addresses the Group's Code of Conduct and the training which ensures that the Group's business principles are properly embedded throughout the business. In addition, a review of stakeholder and community engagement and operational excellence was a particular area of focus for the Committee in 2011.

At each of its meetings, the Committee receives detailed updates on health and safety performance and specifically the current status of the Group's Zero Harm initiative, including statistical data and trends, accident reporting, and high-potential incidents as well as occupational health. The Committee also reviews the output from the independent health and safety audit carried out across the Group.

Directors' report continued

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

March

- Consideration of the fatality review carried out in 2010, lessons learned and actions taken
- An update on the UK Bribery Act, a review of the external monitor's anti-corruption compliance report for 2010 and embedding the Code of Conduct
- Reputational risk issues and the relationship between the Company and its key stakeholders
- A review of the draft sustainability report 2010

October

- High-potential incidents and the associated reporting procedures
- Zero Harm progress and plans to expand beyond 2012
- Progress on the 2020 Sustainability Vision and the 2012 workplan
- A review of the assurance processes and the findings of the external monitor on the output of his monitoring activities across each of the businesses
- Consideration of the role of the Committee in relation to the policies, processes and behaviours exhibited across the Group and their consistency with the Group strategy
- Approval of the charity and community engagement proposals for 2012 following an in-depth review during 2011

The Committee will continue to monitor its terms of reference to determine whether it should expand its remit.

Group Tender and Investment Committee

"Key considerations typically include programme and resources, risks (including ethical conduct), safety, joint venture arrangements, cash flows and margins."

Ian Tyler – chairman

Meetings in 2011: Numerous

Members

- Ian Tyler – chairman
- Duncan Magrath
- Andrew McNaughton
- Anthony Rabin
- Peter Zinkin
- Kevin Craven
- Manfred Leger
- John Moore (from 1 February 2012)
- Brian Osborne
- Mike Peasland
- George Pierson
- Robert Van Cleave

Responsibilities

- Major contract approvals
- Acquisitions and disposals
- Capital expenditure

This Committee is chaired by the Chief Executive, or in his absence by one of the other executive Directors. Its main purpose is to review all major proposed contracts with projected values above specified levels. The Committee also has authority to approve capital expenditure applications and any proposed acquisitions or disposals over certain specified limits determined by the Board. For example, currently the Committee's terms of reference require contracts for construction or services in the UK of a value exceeding £100m to be submitted for review, whilst other limits vary according to geography and nature of the contract. In addition, irrespective of the financial scale of the contract, the Committee also reviews tenders in territories which are classified as high risk (above 35) in Transparency International's Corruption Perceptions Index or where there may be a security risk to employees in that territory. Minutes of Committee meetings are made available to all the Directors.

Finance and General Purposes Committee

Meetings in 2011: Numerous

Members

- Ian Tyler – chairman
- Duncan Magrath
- Andrew McNaughton
- Anthony Rabin
- Peter Zinkin

Responsibilities

- Banking facilities and other treasury matters
- Share options

The Committee is chaired by the Chief Executive, or in his absence by one of the other executive Directors. Its principal purpose is to approve various routine banking and treasury matters, grants and exercises of employee share options and other matters relating to share capital. A summary of the business conducted at the meetings is provided to all the Directors.

Risk management and assurance

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Group's principal risks and how they are mitigated are summarised on pages 58 to 62. The Board continued to assess the effectiveness of the risk management processes and internal controls during 2011 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

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

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

Central to the Group's systems of internal control are its processes and framework for risk management. These accord with the Turnbull Guidance on internal controls and were in place throughout the year and up to the date of signing this report.

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

- the annual review of the strategy and plans of each division and of the Group as a whole in order to identify the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and line management, including particular areas of business or project risk. This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control the risks identified
- individual tender and project review procedures starting at operating company and divisional levels, progressing to Board Committee level if value, or perceived exposure, exceeds certain thresholds
- regular reporting, monitoring and review of health, safety and environmental matters
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself
- the review of specific material areas of Group-wide risk and the formulation and monitoring of risk mitigating actions
- the formulation and review of properly documented policies and procedures, updated to address the changing risks of the business
- specific policies set out in the Group Finance Manual, covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls
- a Group-wide risk management framework which is embedded throughout the Group. Under it, key risks are identified and assessed and action plans are developed to mitigate or eliminate unwanted exposures. The results of these reviews are placed on risk registers and are subject to regular review
- reviews and tests by the internal audit team of critical business financial processes and controls and specific reviews in areas of perceived high business risk
- the Group's policy in relation to staff being able to raise concerns, in confidence, about possible improprieties on matters of financial reporting and other issues.

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

The Head of Group Risk Management and Assurance is responsible for ensuring that a comprehensive framework of assurance (including internal audit) exists within operating companies and for co-ordinating the risk management activities across the Group. No significant failings or weaknesses have been identified by the Board in carrying out its review of the effectiveness of the risk management and internal control systems.

Directors' report continued

Other disclosures

Business and financial review

The Chairman's message on pages 10 and 11, the Chief Executive's strategic review on pages 12 to 21, the Chief Operating Officer's review on pages 24 to 27, the operating review on pages 28 to 45, "the way we work" on pages 48 to 51 and the Chief Financial Officer's review on pages 54 to 57 are incorporated by reference into the Directors' report.

Results and dividends

The results for the year are shown in the audited financial statements presented on pages 95 to 161 and are explained more fully in the Chief Executive's and Chief Operating Officer's reviews, the operating review and the Chief Financial Officer's review. An interim dividend payment of 5.3p (net) per ordinary share was approved by the Board on 16 August 2011 and a final dividend of 8.5p (net) per ordinary share will be recommended at the Annual General Meeting giving a total of 13.8p (net) per ordinary share, which compares with a total dividend per ordinary share of 12.7p (net) in 2010. Preference dividends totalling 10.75p (gross) per preference share were paid in 2011 (2010: 10.75p (gross) per preference share).

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

Innovation, research and development

The Group remains committed to enhancing stakeholder value through thought leadership and innovation. Developed with our strategic partner, Imperial College, a co-ordinated and strategic innovation approach directs investment to meet our customers' needs, encourages a culture of entrepreneurship and knowledge sharing and leverages our relationships with partners and suppliers. The growing importance of integrated design, construction and operation and Building Information Modelling is at the heart of the Group's innovation strategy, as evidenced by its relationships with the University of Bristol and the University of Salford, as well as the Group's success on the Heathrow Terminal 2B project.

The Group's innovation forum will continue to evolve through 2012 into targeted centres of excellence, developing thought leadership and building on the existing integration between operating companies. An innovation outreach programme will engage our customers, equipping the Group with the deep understanding of the issues they face, to better meet their current and future needs. This will be underpinned by a single technology platform that will provide the Group with the channels it needs to access its comprehensive lifecycle knowledge of infrastructure assets.

Details of the Group's 2011 research and development expenditure are given in Note 4.1 on page 110.

Share capital and shareholders

Details of the share capital of the Company as at 31 December 2011, including the rights attaching to each class of share, are set out in Note 28 on pages 143 and 144. During the year to 31 December 2011 no ordinary or preference shares were repurchased for cancellation. 665,516 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 302,586 ordinary shares were issued following the exercise of options held under the Company's executive share option scheme.

At 31 December 2011, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2011 to purchase through the market 68,649,797 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the Class Meeting of preference shareholders which will follow the 2012 AGM or on 1 July 2012 whichever is earlier.

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

Details of employee share schemes are set out in the remuneration report starting on page 82. Shares held by the Balfour Beatty Employee Share Ownership Trust are not voted.

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

As at 31 December 2011, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

	Number of ordinary shares held	Percentage of ordinary shares held
Standard Life Investments Limited	41,130,821	5.98
Prudential plc	35,103,707	5.11
BlackRock, Inc	33,808,307	4.92
Legal & General Group plc	26,889,659	3.91

Since 1 January 2012, the Company has received further notifications advising that the interest of Standard Life Investments Limited has reduced to 4.94%.

Auditor

Deloitte LLP has indicated its willingness to continue as auditors to the Company and a resolution for its re-appointment will be proposed at the AGM.

Honorary President

Viscount Weir is Honorary President of the Company. He was appointed to this position in May 2003, following his retirement as Chairman after 26 years on the Board.

Relations with shareholders

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

The Company has continued its long-established programme of communication with institutional investors and brokers throughout 2011. Presentations of the half-year and annual results were made in accordance with the practice of previous years. Through the year 220 meetings were held at regular intervals (2010: approximately 200) with institutional shareholders, brokers and analysts including five hosted events. These comprised:

- a presentation to analysts on Support Services at the National Operations Centre in Manchester
- an informal meeting in the UK with US management for investors and analysts
- a site visit to the ongoing Heathrow Terminal 2B project to which analysts and major investors were invited
- two conferences for existing and prospective investors.

The Chairman held three meetings with major investors on corporate governance matters and five further meetings were held with major shareholders by senior executives as part of our ongoing engagement.

We will maintain this communications programme and expand it where appropriate, subject to the constraints of regulation and practice. The 2012 investor programme will focus on ensuring our investors and the analyst community fully understand the strategic direction of the Group following completion of the Board's strategy review.

Given the recent growth of the Group and the broadening shareholder base, the Board reviewed the Company's broking arrangements in order to evaluate the qualifications of other brokers in the market alongside the corporate brokers with whom the Company had enjoyed an excellent relationship over many years. At the conclusion of the process in June, the Board decided to appoint Bank of America Merrill Lynch and Goldman Sachs International as joint corporate brokers.

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

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

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

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders. The chairmen of the Board Committees attend the AGM each year as well as the other Directors and are available to answer questions from shareholders.

The website www.balfourbeatty.com is an important source of information on the Group, including financial press releases, shareholder documentation, annual and half-year results presentations and the terms of reference of the principal Board Committees. The website was relaunched in the third quarter of 2011 to enable it to become an even more effective source of information for investors.

Political donations

At the AGM held on 12 May 2011, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2012 AGM.

In the US and Canada, donations totalling £182,000 were made by operating companies during 2011. Most of these donations were made by Parsons Brinckerhoff Group Inc; they were small and all were permitted by law. In the main, they relate to support given for local campaigns, public bond financing or similar referenda to promote investment in infrastructure. Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct. A review of existing practices was undertaken during 2011.

Parsons Brinckerhoff Group Inc sponsors a Political Action Committee ("PAC"). A PAC is an independently administered committee which receives voluntary contributions from Parsons Brinckerhoff's US employees and allocates the funds received, whatever they may be, to US political candidates and other eligible stakeholders who support investment in infrastructure markets generally. Contributions are entirely voluntary from employees and are kept completely separate from company funds. Decisions taken by the PAC are independent of influence by Balfour Beatty. Total PAC contributions in 2011 were £79,062.

Corporate responsibility

A full description of our approach to sustainability, including information on the Group's community engagement programme, appears on pages 48 to 51.

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

Further information on each of these policies and the progress which has been made during the year is provided in the sustainability report 2011 at www.balfourbeatty.com/sr11.

Directors' report continued

Employment

As the Group operates across a number of business sectors in different environments, it has evolved a decentralised management structure, with employment policies designed to suit the needs of individual businesses. However, each employing company is expected to comply with certain key principles in its design and practice of employment policy.

These are:

- to provide an open, challenging and participative environment
- to enable all employees to use their talents and skills to the full, through appropriate encouragement, training and development
- to communicate a full understanding of the objectives and performance of the Group and the opportunities and challenges facing it
- to provide pay and other benefits which reflect good local practices and reward individual and collective performance
- to ensure that all applicants receive equal treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
- to ensure that all employees similarly receive equal treatment particularly in relation to training, development and career progression.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Throughout the Group we use a variety of methods to communicate key business goals and issues to employees and also consult and involve employees through local publications, briefing groups, consultative meetings, training programmes and working groups to assist the process of continuous improvement in the way business is conducted. Regular publications inform employees of major business and technical achievements.

Events after the reporting date

Details of events after the reporting date are set out in Note 35 on page 151.

Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities. Disclosure in this report of information about any of those third parties is not considered necessary for the understanding of the development, performance or position of the Group's business.

Change of control provisions

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

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

Some other commercial agreements, entered into in the normal course of business, include change of control provisions.

The Group's share and incentive plans include usual provisions relating to change of control.

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

Payment of creditors

In the UK, the Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions; to seek to ensure that suppliers are aware of the terms of payment; and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. At 31 December 2011, the year-end creditors' days of the Company were 28 (2010: 27).

Financial instruments

The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are detailed in Note 21 on pages 124 to 130.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation and they have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU and Article 4 of the IAS Regulation, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the operating review and Chief Financial Officer's review, which are incorporated into the Directors' report, include 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.

Statements of Directors as to disclosure of information to auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Directors' report
By order of the Board

Chris Vaughan
Chief Corporate Officer and Company Secretary

7 March 2012

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

Remuneration report

Introductory letter

Dear Shareholder

I am pleased to present the Remuneration Committee's report on Directors' remuneration for 2011.

As you are aware, the Committee carried out a comprehensive review of the Company's remuneration arrangements during 2010 and a number of important changes were implemented in 2011 following shareholder consultation and approval. These were set out in last year's report, which received a strong vote in favour at the 2011 AGM.

Whilst we will continue to monitor our remuneration practice to ensure we have the correct alignment with the business strategy, Company performance and shareholder interests, the Committee does not envisage making any further changes at this stage.

This year's report sets out the proposed policy for 2012, together with the required disclosures on payments made in 2011. In this context I would like to stress that we are committed to ensuring that rewards for executives are closely aligned to the interests of shareholders through having share price performance reflected clearly in our long-term incentive programmes. Also, that all our incentive arrangements are underpinned by challenging performance targets, which are reviewed annually, to ensure that there is a transparent link between performance and reward.

We have also endeavoured to reflect the economic background in which the Company operates and the approach taken on pay for employees across the Group. With challenging conditions in many of our markets and cost pressures impacting many of our businesses, there is an inevitable focus on remuneration budgets. However, it is important to strike the right balance between ensuring that the level of remuneration is market competitive and motivational and, at the same time, ensuring it is affordable. I believe we have set that balance correctly.

As the incoming Committee chairman, I would like to take this opportunity to thank Robert Walvis, who stepped down as chairman in July, for his contribution over the past eight years. During this time significant changes have taken place in the scale and geographical reach of the Company's operations, the pay market and the scope of governance responsibilities. Throughout this period, the Company has maintained a balanced and measured approach to pay which has meant that we have been able to recruit and retain the senior management talent we need to successfully achieve our strategy, whilst at the same time maintaining remuneration levels well within market norms. As the new Committee chairman, my intention is to maintain this philosophy.

I hope you will support the resolution at the AGM seeking approval of this remuneration report.

Yours sincerely

Iain Ferguson
Chairman of the Remuneration Committee

Introduction

This report has been prepared in accordance with Section 420 of the Companies Act 2006 and Schedules 5 and 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the AGM of the Company.

Remuneration Committee

The Remuneration Committee of the Board ("RemCo") is primarily responsible for determining the remuneration policy and conditions of service for executive Directors and the Chairman of the Company. It also reviews and monitors the level and structure of remuneration for certain senior managers immediately below the level of the Board. The terms of reference of the RemCo, which were last reviewed in January 2012, can be found on the Company's website www.balfourbeatty.com.

The RemCo has been chaired by Iain Ferguson since July 2011. Its other members during the year were Hubertus Krossa, Steve Marshall, Robert Walvis (the previous Committee chairman) and Graham Roberts. No member of the RemCo has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group.

During 2011, the Chief Executive, Ian Tyler, and the Human Resources director, Paul Raby, were invited to join meetings of the RemCo, when appropriate. The role of secretary of the RemCo is fulfilled by the Head of Secretariat. No Director has any involvement in any decisions relating to his own remuneration.

The RemCo is responsible for appointing external independent consultants to advise on executive remuneration matters. This advice and assistance has been provided throughout the year by New Bridge Street ("NBS"). The Human Resources director has also provided advice to the RemCo.

Remuneration policy and Company strategy

The RemCo pays particular attention to ensuring that the remuneration policy, as summarised below, continues to be closely aligned to the business strategy.

- Remuneration levels must be positioned to provide a competitive level of remuneration that enables the recruitment and retention of high-calibre management. It is vital that we continue to be able to attract, retain and motivate those individuals who can lead the business so as to achieve its short- and long-term goals. To meet this objective we need to ensure that remuneration levels are appropriately positioned against the external market and that compensation packages are seen as fair and reasonable. The Committee is, however, aware of the risk of an upward ratchet in remuneration levels through over-reliance on comparative survey data
- The commercial environment is a demanding one and it is critical that incentives are in place for executives to be rewarded for the achievement of specific and measurable performance goals. Where these goals are not met, it is also appropriate that this is recognised in a considerably reduced level of remuneration received. Accordingly, the annual bonus and long-term incentives make up a significant part of each executive Director's compensation package
- Incentive arrangements are structured so as to motivate participants to deliver high standards of performance, without encouraging excessive risk-taking. Managing risk is a critical issue for the Company, particularly in relation to the type of work the Group is engaged in and the need to ensure that in all of its systems and working practices, the highest safety and ethical standards are maintained. As a result, we take particular care to ensure that the targets and objectives which are set do not compromise that goal
- In rewarding performance, the emphasis should be on clear and verifiable "output" measures, in particular profit measured over annual and longer-term performance periods. Other performance goals including those relating to social, environmental and governance responsibilities are assessed through the normal management review process. Overall, the RemCo maintains its commitment to performance measures which are objective, transparent and easy to understand so that they remain motivational to participants
- Earnings Per Share ("EPS") and relative Total Shareholder Return ("TSR") remain the most appropriate "output"-based measures of longer-term performance. Executives should be motivated and rewarded in relation to the earnings performance of the Group. However, it is also appropriate that executives should be incentivised to achieve strong stock market performance to align their interests with those of shareholders. The continued use of EPS and TSR meets both these goals. The share-based elements of the package, including share ownership guidelines and the significant deferral of the annual bonus in shares, drive performance over the longer term and align the interests of senior management with those of shareholders
- General trends in pay and conditions throughout the Group are taken into account when setting the pay of the executive Directors.

Basic salaries

The policy is to set basic salaries at levels which are competitive given the size and complexity of the Group, as well as the broad business sectors in which it operates. To assist in market comparisons, NBS provides data and independent advice on remuneration levels in companies considered to be comparable in terms of market capitalisation, industry sector and revenue. The RemCo aims to position basic salaries around mid-market levels, taking into account the performance of the Group's business and individual Directors.

The basic salaries for the executive Directors are reviewed annually on 1 July.

At the review in 2011, the salaries of Duncan Magrath and Andrew McNaughton were increased by 5.2% and 4.9% respectively. These increases continue the process whereby the salaries for the more recent appointments to the Board are progressively aligned over time with the other executive Directors and the external market. The basic salaries of Ian Tyler, Anthony Rabin and Peter Zinkin were increased in line with the general level of awards across the Group in 2011 and normal market movement at this level. The salary increase for all executive Directors in July averaged 3.7%.

Name of Director	Salary at 1 July 2011	Salary at 1 July 2010
D J Magrath	£405,000	£385,000
A J McNaughton	£430,000	£410,000
A L P Rabin	£450,000	£437,000
I P Tyler	£668,000	£648,000
P J L Zinkin	£430,000	£417,000

Our governance

Remuneration report continued

Annual incentive plan
Each executive Director participates in an annual incentive plan, under which predetermined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2011 was 120% of basic salary and the performance indicator chosen was profit before tax and non-underlying items. A bonus of 60% of basic salary would have been earned for the achievement of performance in line with target. One-half of any bonus achieved for 2011 is payable in cash, whilst the remaining half is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan ("DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time. Bonuses are non-pensionable. The profit for the year ended 31 December 2011 resulted in a bonus of 78.4% of basic salary for each executive Director. Further details on the actual result in relation to the targets set and the bonus payouts for 2011 are shown in Note (iii) to the Directors' remuneration table on page 88.

Long-term incentive scheme
During 2011, awards were made under the Performance Share Plan ("PSP") approved by shareholders at the 2011 AGM. Award levels were 175% and 150% of salary for the Chief Executive and other executive Directors respectively. These awards are subject to two performance conditions, each applying to separate halves of the award and each measured over a period of three financial years. One half of the award is subject to an EPS growth range, as set out in the table below.

EPS growth over three years	Proportion of award vesting
Less than 15%	Zero
15%	25%
45%	100%
Between 15% and 45%	Between 25% and 100% pro-rata

The RemCo believes that the proposed range is appropriately stretching, providing a balance between a requirement for outstanding performance and ensuring that undue risk-taking is not encouraged.

The EPS target range will be reviewed carefully for each subsequent award.

The other half of the award is subject to a performance condition measuring the Company's TSR compared to a comparator group of UK listed companies ranked 51–150 by market capitalisation in the FTSE All Share Index (excluding Investment Trusts) on 1 January 2011.

If Balfour Beatty's TSR is equivalent to the company whose TSR performance is at the median, 25% of the award will vest, with full vesting if Balfour Beatty's TSR is equivalent to, or above, that of the company whose TSR performance is at the upper quartile. The scale of vesting is shown in the table below:

TSR comparison over three years	Proportion of award vesting
Below median	Zero
Median	25%
Upper quartile	100%
Between median and upper quartile	Between 25% and 100% pro-rata

Details of outstanding awards and the performance conditions are contained later in this report under the table headed Directors' long-term incentives: the Performance Share Plan.

TSR and EPS performance will be independently verified and approved by the RemCo.

The awards vest, subject to the achievement of performance conditions, three years after the date of grant, together with an additional award of shares in lieu of the value of dividends on the vested shares.

EPS and TSR performance conditions continue to provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market out-performance, which aligns strongly with shareholder interests.

Performance-related remuneration
In line with the intention of motivating the executive Directors to deliver high levels of performance, the proportion of overall compensation that is performance related increased in 2011 with the change in levels of bonus and share awards. Under the new incentive arrangements, if target performance is achieved, basic salary will represent around 40% of total earnings. If maximum is achieved, which would involve a superior level of performance, significantly in excess of the business plan, basic salary will represent just over 20% of total earnings.

Clawback
In line with best practice, a clawback provision is included in the annual incentive plan (including the deferred element) and the PSP. This provision enables the Company to reduce unvested awards, or reclaim payments made, in the event of a material misstatement or error in the financial results, or where the participant has engaged in misconduct leading to a higher award or payment than would otherwise have been made.

Remuneration and risk

As part of the remuneration review, the RemCo also considered the relationship between remuneration and risk, and remains satisfied that the policies operated are appropriate and do not encourage undue risk taking as:

- total remuneration is appropriately balanced between fixed elements (eg basic salary and pension contribution) and incentive pay. Basic salary levels are targeted at around mid-market levels and are reviewed annually. As described earlier in the report, variable pay does not represent a disproportionately high level of overall remuneration
- annual bonuses are capped and targeted to ensure that performance incentives and rewards are set at an appropriate level
- a significant proportion of annual bonus is deferred in shares for three years, thereby providing a longer-term performance horizon for the annual bonus
- PSP awards are granted annually, rather than on a one-off basis, meaning that no undue emphasis is placed on performance in any one particular financial year
- sliding scale performance targets are used for all performance pay, providing incremental awards for additional performance delivered
- clawback provisions are included in the annual incentive plan (including the deferred element) and the PSP.

Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and certain other senior managers are subject to share ownership guidelines. Executive Directors are required to accumulate a holding of ordinary shares in the Company to the value of 100% of their basic salary at a reference date, with other senior managers at 50% of basic salary. In order to achieve this, those subject to the share ownership guidelines will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the PSP and the DBP, until the required level of ownership has been reached.

Share Incentive Plan

A Share Incentive Plan ("SIP") was approved by shareholders at the 2011 AGM. The first offer under this new scheme will be effective in March 2012. The SIP will allow employees, including executive Directors, to purchase Company shares from pre-tax salary subject to a limit of the lower of £1,500 pa or 10% of salary, in line with HMRC rules. It is not currently the intention to make awards of matching or free shares under the SIP.

Share options

The Executive Share Option Scheme expired in 2011 and the scheme was not renewed.

The Company has previously operated an HMRC approved savings-related share option scheme ("SAYE") under which executive Directors and employees are granted an option to purchase ordinary shares in the Company in either three or five years' time. This scheme reached the end of its 10-year life in 2011 and a new SAYE scheme was approved by shareholders at the 2011 AGM. No SAYE offer was made to employees in 2011.

Pensions

The Company provides pension benefits to eligible UK employees principally through the Balfour Beatty Pension Fund (the Fund), which has both defined benefit ("DB") and defined contribution ("DC") sections. The various DB sections provide for the build-up of pension benefits based on different accrual rates (typically determined by legacy factors such as date of joining the Fund or historic membership of an acquired company's pension scheme or as required by contractual terms and conditions) and offers life cover, disability and spouse/dependants pension benefits. The DC section is the default arrangement for newly eligible employees and provides money purchase pension benefits based on a range of three contribution rates from which members can choose.

A range of liability mitigation measures have been introduced within the Fund. The most significant is that basic salary used for calculating DB benefits was frozen in many of the DB sections with effect from January 2011. All DB members have the option of opting out of their DB section of the Fund and joining the DC section of the Fund if they wish.

A Fund-specific earnings cap has been maintained for those members who were previously subject to the HMRC earnings cap in order to control defined benefit pension liabilities. This cap applies to members of the DB and the DC sections of the Fund. A discretionary cash supplement is paid in lieu of pension provision above the earnings cap.

The Company is not compensating any member of the Fund (or any other pension scheme operated by the Company) for any additional tax which is payable as a result of changes to government policy. However, since the lowering of the Annual Allowance threshold in April 2011 members do have the opportunity to voluntarily give up some of their pension benefits in order to avoid incurring Annual Allowance tax charges. To the extent that benefits are given up voluntarily the Company will pay a discretionary cash supplement in lieu of pension provision given up.

A salary sacrifice arrangement for the payment of employee pension contributions (called SMART pensions) was introduced in November 2009 in order to reduce National Insurance contributions payable by the Company and the members.

The specific pension arrangements for executive Directors are outlined in more detail in the Directors' pensions section on pages 91 and 92.

Remuneration report continued

Service contracts

It remains the Company's policy and practice to include in executive Directors' contracts a 12-months' rolling notice period from the Company and six-months' notice on the part of the Director. This policy will continue.

Details of the service contracts of the executive Directors are shown in the table below.

Name of Director	Date of contract	Notice period from Company (months)
D J Magrath	11 April 2008	12
A J McNaughton	15 December 2008	12
A L P Rabin	31 March 2008	12
I P Tyler	22 December 2004	12
P J L Zinkin	16 January 2004	12

Service contracts of executive Directors do not include provision for specific payment in the event of early termination, nor do they provide for extended notice periods or compensation in the event of a change of control. It is not the RemCo's intention to introduce such provisions. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period. The RemCo would seek to ensure that the Director fulfils his obligation to mitigate his losses and would also give consideration to phased payments where appropriate.

In accordance with the UK Corporate Governance Code, all Directors submit themselves for re-election at the AGM.

External appointments

The RemCo recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. With the approval of the Board in each case, executive Directors may therefore accept one external appointment and retain any related fees. Ian Tyler was appointed as a non-executive director of Cable & Wireless Communications Plc, effective 1 January 2011 and Anthony Rabin was appointed as a non-executive director of Colt Group S.A. effective 20 July 2011. The fees that each Director received in 2011 for these roles are set out in Note (v) to the Directors' remuneration table on page 88. On 1 March 2012 Duncan Magrath was appointed as a non-executive director of Brammer plc.

Non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. The Chairman's remuneration falls within the remit of the RemCo and is approved by the Board. The Board determines the terms on which the services of other non-executive Directors are provided. All non-executive Directors are appointed for a term of three years. In accordance with the UK Corporate Governance Code, all Directors submit themselves for re-election at the AGM. The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes. None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause.

The dates of the letters of appointment or re-appointment of the non-executive Directors are shown in the table below.

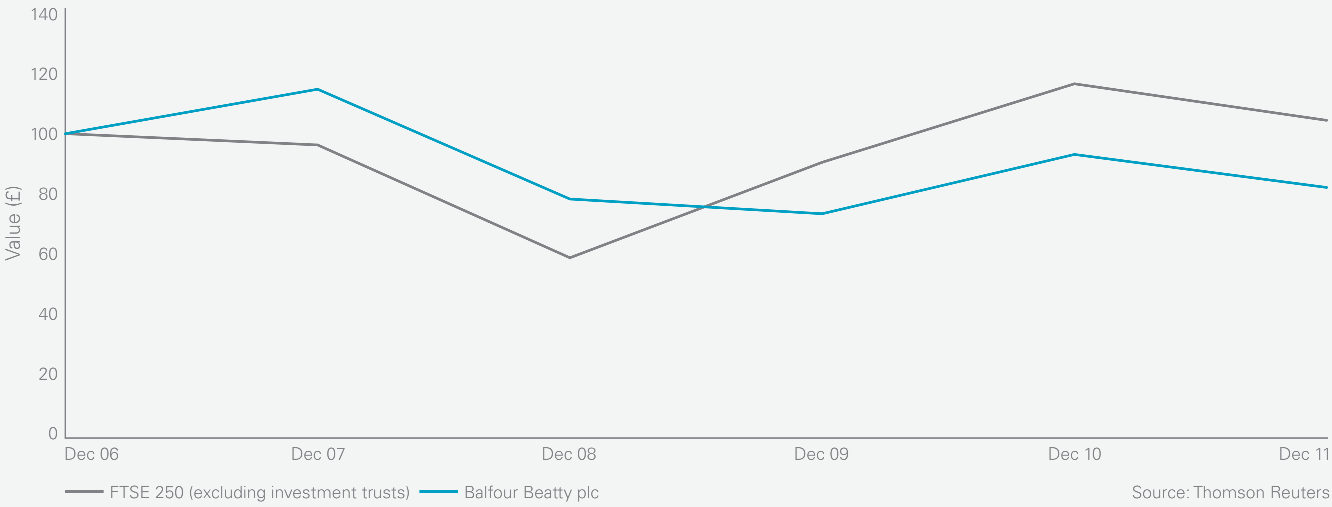
Name of Director	Date of appointment or re-appointment	Unexpired period at December 2011 (months)
R M Amen	10 June 2010	17
M J Donovan	1 July 2009	6
I G T Ferguson	1 January 2010	12
G E H Krossa	9 September 2011	32
S Marshall	16 May 2011	28
G C Roberts	1 January 2012	36
R J W Walvis	26 September 2010	21

The fees of the non-executive Directors are reviewed from time to time; the last review took effect from 1 July 2011. The annual fee level for the non-executive Directors (excluding the Chairman) was increased from £52,000 to £54,000 and for Steve Marshall as Chairman from £250,000 to £258,000. The annual fee for chairing Board Committees is unchanged at £10,000. In addition, the annual fee for the Senior Independent Director ("SID") remains at £10,000. Where the SID was also the chairman of a Board Committee, as was the case for part of the year for Robert Walvis, there is no additional fee. For non-executive Directors based outside Europe, an additional fee of £2,500 is paid for each visit made on Company business to the UK, or to any other country (excluding their home country).

An annual fee is payable to Hubertus Krossa for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH. This fee was €34,000 in 2011 as set out in Note (iv) to the Directors' remuneration table on page 88.

Performance graph

The graph below shows Balfour Beatty's TSR performance compared to the FTSE 250 Index (excluding investment trusts) TSR over the five financial years ended 31 December 2011.



This graph shows the spot value by 31 December 2011 of £100 invested in Balfour Beatty plc on 31 December 2006 compared with the value of £100 invested in the FTSE 250 (excluding investment trusts) Index. The intermediate points are the spot values on the Company's financial year-ends.

As in previous reports, the RemCo has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, and have been calculated using 30 trading-day average values.

The detailed information about the Directors' remuneration, set out below and on pages 88 to 92 has been audited by the Company's independent auditors, Deloitte LLP.

Directors' interests

The interests of the Directors and connected persons (including, amongst others, members of the Director's immediate family) in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below.

	Number of ordinary shares	
Name of Director	At 1 January 2011*	**At 31 December 2011**
R M Amen	5,000	**10,000**
M J Donovan	10,000	**10,000**
I G T Ferguson	25,000	**25,000**
G E H Krossa	7,142	**7,142**
D J Magrath	84,258	**102,579**
S Marshall	7,142	**7,142**
A J McNaughton	91,253	**100,601**
A L P Rabin	258,651	**183,651**
G C Roberts	7,142	**15,000**
I P Tyler	354,096	**376,156**
R J W Walvis	14,285	**14,285**
P J L Zinkin	286,359	**301,751**

* or date of appointment, if later.

Notes:
(i) All interests at the dates shown are beneficial and are in respect of 50p ordinary shares in Balfour Beatty plc. There were no changes between 31 December 2011 and 7 March 2012.
(ii) Peter Zinkin was also interested at 1 January 2011 and 31 December 2011 in 325 cumulative convertible redeemable preference shares of 1p each of Balfour Beatty plc.

Our governance

Remuneration report continued

Directors' remuneration earned in 2011

Name of Director	Basic salary £	Fees £	Pension supplement £	Benefits in kind £	Annual bonus £	Total remuneration 2011 £	Total remuneration 2010 £
R M Amen	–	**73,000**	–	–	–	**73,000**	39,000
M J Donovan	–	**63,000**	–	–	–	**63,000**	59,000
I G T Ferguson	–	**57,451**	–	–	–	**57,451**	50,000
G E H Krossa	–	**82,565**	–	–	–	**82,565**	79,310
D J Magrath	**395,000**	–	**53,380**	**15,550**	**158,760**	**622,690**	580,781
S Marshall	–	**254,000**	–	–	–	**254,000**	245,000
A J McNaughton	**420,000**	–	**43,401**	**15,550**	**168,560**	**647,511**	605,035
A L P Rabin	**443,500**	–	**77,391**	**20,301**	**176,400**	**717,592**	689,783
G C Roberts	–	**63,000**	–	–	–	**63,000**	59,000
I P Tyler	**658,000**	–	**78,236**	**26,298**	**261,856**	**1,024,390**	979,994
R J W Walvis	–	**63,000**	–	–	–	**63,000**	59,000
P J L Zinkin	**423,500**	–	**59,080**	**10,146**	**168,560**	**661,286**	584,027
Former Director	–	–	–	–	–	–	50,000
Total	**2,340,000**	**656,016**	**311,488**	**87,845**	**934,136**	**4,329,485**	4,079,930

Notes:

(i) Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors. In practice, the basic salaries paid to Andrew McNaughton and Peter Zinkin have been reduced due to their participation in the Company's SMART Pensions salary sacrifice arrangement. The salary reductions in 2011 were £1,545 and £6,405 for Andrew McNaughton and Peter Zinkin respectively. These correspond to their contributions to the Balfour Beatty Pension Fund, which are now met directly by the Company as part of this arrangement.

(ii) All executive Directors received taxable cash supplements in lieu of some pension provision. Further details are set out in the section on Directors' pensions on pages 91 and 92.

(iii) The performance measure for annual bonus was profit before tax and non-underlying items. The targets were set at the start of the year ended 31 December 2011, based on a sliding scale from threshold to target profit and from target profit to maximum. The performance scale is reviewed annually to ensure that it remains stretching, with 60% of salary paid for achieving target profit. The profit for the year ended 31 December 2011 resulted in a bonus of 78.4% of basic salary for each executive Director. 50% of this bonus is payable in cash and these are the amounts shown in the table above. The remaining 50% is deferred in the form of ordinary shares in the Company which will be released to the Director on 30 March 2015, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 30 March 2012.

(iv) Hubertus Krossa received a fee of €34,000 (included above) for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.

(v) In addition, Ian Tyler received a fee of £68,000 for his services as a non-executive director of Cable & Wireless Communications Plc and Anthony Rabin received a fee of €33,750 for his services as a non-executive director of Colt Group S.A.

(vi) Benefits in kind are calculated in terms of UK taxable values. All executive Directors receive private medical insurance for the Director and his immediate family. Ian Tyler and Anthony Rabin receive a fully expensed car and a fuel card. Peter Zinkin receives a fully expensed car only. Duncan Magrath and Andrew McNaughton receive a car allowance of £14,000 pa.

(vii) No Director receives any expense allowance.

(viii) Awards made under the Performance Share Plan in 2008 to Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin vested during the year. At the date of vesting on 15 April 2011 the closing market price was 330.0p and the total values of the awards which vested, including shares received in lieu of dividends, were £151,668, £74,085, £62,093, £82,804 and £82,804 respectively.

(ix) Awards made under the Deferred Bonus Plan in 2008 to Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin vested during the year. At the date of vesting on 31 March 2011 the closing market price was 343.8p and the total values of the awards which vested were £144,860, £52,938, £67,808, £94,903 and £94,903 respectively.

(x) Peter Zinkin exercised savings-related share options during the year. The closing market price on the date of exercise was 312.0p and the value realisable on exercise was £382.

Directors' long-term incentives: the Performance Share Plan

		Maximum number of shares subject to award					
Name of Director	Date granted	At 1 January 2011	Awarded during the year	Vested during the year	Lapsed during the year	**At 31 December 2011**	Exercisable from
D J Magrath	15 April 2008	108,646	–	19,990	88,656	**–**	April 2011
	15 April 2009	124,069	–	–	–	**124,069**	April 2012
	15 April 2010	133,826	–	–	–	**133,826**	April 2013
	1 June 2011	–	181,729	–	–	**181,729**	June 2014
A J McNaughton	15 April 2008	91,070	–	16,756	74,314	**–**	April 2011
	15 April 2009	135,017	–	–	–	**135,017**	April 2012
	15 April 2010	143,120	–	–	–	**143,120**	April 2013
	1 June 2011	–	193,530	–	–	**193,530**	June 2014
A L P Rabin	15 April 2008	121,428	–	22,342	99,086	**–**	April 2011
	15 April 2009	155,087	–	–	–	**155,087**	April 2012
	15 April 2010	157,989	–	–	–	**157,989**	April 2013
	1 June 2011	–	206,274	–	–	**206,274**	June 2014
I P Tyler	15 April 2008	222,406	–	40,922	181,484	**–**	April 2011
	15 April 2009	275,874	–	–	–	**275,874**	April 2012
	15 April 2010	281,036	–	–	–	**281,036**	April 2013
	1 June 2011	–	356,850	–	–	**356,850**	June 2014
P J L Zinkin	15 April 2008	121,428	–	22,342	99,086	**–**	April 2011
	15 April 2009	147,789	–	–	–	**147,789**	April 2012
	15 April 2010	150,555	–	–	–	**150,555**	April 2013
	1 June 2011	–	196,834	–	–	**196,834**	June 2014

Notes:

(i) All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.

(ii) For the awards in April 2009, April 2010 and June 2011, the performance periods are the three years ending 31 December 2011, 31 December 2012 and 31 December 2013 respectively. 50% of each award is subject to an EPS growth target. The maximum number of shares subject to this performance condition will only vest if EPS growth exceeds the retail prices index ("RPI") by 39% for the April 2009 award and 36% for the April 2010 award and if EPS growth exceeds 45% for the June 2011 award. If EPS growth exceeds RPI by 9% for the April 2009 award and 6% for the April 2010 award and if EPS growth exceeds 15% for the June 2011 award, then 25% of this part of the awards will vest. For growth in EPS between these points, vesting will be on a pro-rata basis. No shares will vest from this part of the award if EPS growth exceeds RPI by less than 9% and 6% for the April 2009 and April 2010 awards respectively or if EPS growth is less than 15% for the June 2011 award. The other 50% of each award is subject to a total shareholder return ("TSR") target under which the TSR of the Company is compared to a comparator group at the start of the performance period. For the 2009 and 2010 award, the comparator group was based on a bespoke group of companies (as previously disclosed). For the 2011 award, the comparator group was the FTSE 51-150 (excluding investment trusts). The maximum number of shares subject to this performance condition will only vest if the Company's TSR is in the upper quartile of the comparator group. If the Company's TSR is equal to that of the median of the comparator group, then 25% of this part of the award will vest. No shares from this part of the award will vest if the Company's TSR is below that of the median of the comparator group. For TSR performance between median and upper quartile, vesting will be on a pro-rata basis. There is no provision for re-testing of either of the performance conditions.

(iii) The average middle market price of ordinary shares in the Company for the three dealing dates before the award dates, which was used for calculating the number of awards granted, was 449.17p for the 2008 award, 354p for the 2009 award, 302.63p for the 2010 award and 317.78p for the 2011 award. The closing middle market price of ordinary shares on the date of the awards was 450p, 352.25p, 302.8p and 312.4p respectively.

(iv) The performance period for the awards made in April 2009 was completed on 31 December 2011. The growth in EPS for this period did not exceed the RPI + 9% required for threshold vesting. The Company's TSR for this period ranked below the median of the comparator group. The combined effect of these performance measures is that each participant's conditional award will lapse on 15 April 2012.

(v) The performance period for the awards made in April 2008 was completed on 31 December 2010. The growth in EPS for this period (with adjustments in relation to the rights issue for EPS in 2007 and PPP asset disposals and the acquisition of Parsons Brinckerhoff for EPS in 2010) exceeded RPI by 19.75%, exceeding the RPI + 15% required for threshold vesting. The Company's TSR for this period ranked just below the median of the comparator group. The combined effect of these performance measures is that 18.4% of each participant's conditional award vested on 15 April 2011. Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin also received 5,038, 2,460, 2,060, 2,750 and 2,750 shares respectively in lieu of the dividends which would have been payable on the shares which vested. The closing middle market price of ordinary shares on the vesting date was 330.0p. The monetary values of the PSP award which vested in 2011 are disclosed in Note (viii) to the Directors' remuneration table on page 88.

(vi) On 1 June 2011 for all participants in the PSP, a maximum of 3,235,874 conditional shares were awarded which are normally exercisable in June 2014.

Remuneration report continued

Directors' Deferred Bonus Plan awards

		Number of shares awarded							
				Awarded during the year in respect of dividends					
Name of Director	Date of initial award	At 1 January 2011	Awarded during the year	Final 2010	Interim 2011	Exercised during the year	Lapsed during the year	**At 31 December 2011**	Vesting date
D J Magrath	31 March 2008	15,398	–	–	–	15,398	–	**–**	31 March 2011
	31 March 2009	31,170	–	752	676	–	–	**32,598**	31 March 2012
	31 March 2010	20,719	–	500	449	–	–	**21,668**	31 March 2013
	31 March 2011	–	20,814	494	430	–	–	**21,738**	31 March 2014
A J McNaughton	31 March 2008	19,723	–	–	–	19,723	–	**–**	31 March 2011
	31 March 2009	27,962	–	675	607	–	–	**29,244**	31 March 2012
	31 March 2010	22,158	–	535	481	–	–	**23,174**	31 March 2013
	31 March 2011	–	22,166	526	458	–	–	**23,150**	31 March 2014
A L P Rabin	31 March 2008	27,604	–	–	–	27,604	–	**–**	31 March 2011
	31 March 2009	38,964	–	941	845	–	–	**40,750**	31 March 2012
	31 March 2010	24,460	–	590	531	–	–	**25,581**	31 March 2013
	31 March 2011	–	23,626	561	488	–	–	**24,675**	31 March 2014
I P Tyler	31 March 2008	42,135	–	–	–	42,135	–	**–**	31 March 2011
	31 March 2009	57,760	–	1,395	1,254	–	–	**60,409**	31 March 2012
	31 March 2010	36,260	–	875	787	–	–	**37,922**	31 March 2013
	31 March 2011	–	35,033	832	724	–	–	**36,589**	31 March 2014
P J L Zinkin	31 March 2008	27,604	–	–	–	27,604	–	**–**	31 March 2011
	31 March 2009	37,132	–	896	806	–	–	**38,834**	31 March 2012
	31 March 2010	23,310	–	563	506	–	–	**24,379**	31 March 2013
	31 March 2011	–	22,544	535	465	–	–	**23,544**	31 March 2014

Notes:

(i) All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.

(ii) The initial awards made in 2009, 2010 and 2011 will vest on 31 March 2012, 31 March 2013 and 31 March 2014 respectively, providing the Director is still employed by the Company at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).

(iii) The initial awards made in 2008 vested on 31 March 2011. The closing middle market price of ordinary shares in the Company on the vesting date was 343.8p. The monetary values of the Deferred Bonus Plan award which vested in 2011 are disclosed in Note (ix) to the Directors' remuneration table on page 88.

(iv) The shares awarded on 31 March 2008, 31 March 2009, 31 March 2010 and 31 March 2011 were purchased at average prices of 476.454p, 365.801p, 300.32p and 343.417p respectively.

(v) For the initial awards made in 2009 and 2010, the shares awarded on 5 July 2011 and 9 December 2011 in lieu of the final 2010 and interim 2011 dividends respectively were allocated at average prices of 316.73p and 250.0p respectively. For the initial awards made in 2011, the shares awarded on 5 July 2011 and 12 October 2011 (in lieu of the final 2010 and interim 2011 dividends respectively), were allocated at average prices of 322.0p and 262.5p respectively.

(vi) On 31 March 2011, for all participants in the Deferred Bonus Plan, a maximum of 738,975 conditional shares were awarded which will normally be released on 31 March 2014. On 5 July 2011 a further 54,862 conditional shares were awarded in lieu of entitlements to the final 2010 dividend and on 9 December 2011 a further 46,804 conditional shares were awarded in lieu of entitlements to the interim 2011 dividend.

Directors' Savings-Related Share Option Scheme grants

		Number of options						Exercisable	
Name of Director	Date granted	At 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	**At 31 December 2011**	Exercise price	From	To
D J Magrath	7 May 2008	1,073	–	–	–	**1,073**	315.2p	July 2013	December 2013
	18 May 2009	628	–	–	–	**628**	249.0p	July 2014	December 2014
	11 May 2010	1,291	–	–	–	**1,291**	236.0p	July 2015	December 2015
A L P Rabin	3 May 2006	1,114	–	–	1,114	**–**	265.6p	July 2011	December 2011
	2 May 2007	1,140	–	–	–	**1,140**	338.7p	July 2012	December 2012
	7 May 2008	368	–	–	368	**–**	315.2p	July 2011	December 2011
I P Tyler	7 May 2008	762	–	–	762	**–**	315.2p	July 2011	December 2011
	18 May 2009	439	–	–	–	**439**	249.0p	July 2012	December 2012
	11 May 2010	676	–	–	–	**676**	236.0p	July 2013	December 2013
P J L Zinkin	3 May 2006	823	–	823	–	**–**	265.6p	July 2011	December 2011
	2 May 2007	1,352	–	–	–	**1,352**	338.7p	July 2012	December 2012
	7 May 2008	804	–	–	–	**804**	315.2p	July 2013	December 2013
	18 May 2009	366	–	–	–	**366**	249.0p	July 2012	December 2012
	11 May 2010	246	–	–	–	**246**	236.0p	July 2013	December 2013

Notes:
(i) All options are granted for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
(ii) The closing market price of the Company's ordinary shares on 31 December 2011 was 264.8p. During the year the highest and lowest closing market prices were 357.3p and 214.6p respectively.
(iii) Options granted to Anthony Rabin in May 2006 and May 2008, exercisable at 265.6p and 315.2p respectively, and Ian Tyler in May 2008 exercisable at 315.2p, lapsed unexercised in December 2011.
(iv) The monetary values realisable from options exercised are disclosed in Note (x) to the Directors' remuneration table on page 88.

Directors' pensions

Executive Directors participate in the Balfour Beatty Pension Fund (the "Fund"). The Fund provides for a pension at a normal retirement age of 62 for pension purposes and each Director pays an annual contribution equal to 5% of contributory salary except where the Director participates in the Company's SMART Pensions salary sacrifice arrangement as outlined in Note (iii) to the second table on page 92. The defined benefit pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to Fund limits which have their origin in the former HMRC limits. Peter Zinkin opted out of the Fund on 31 December 2010 and started to receive his pension benefits from 1 January 2011, and has therefore not accrued any further defined benefit pension in the Fund during 2011. He has however participated in the defined contribution section of the Fund since 1 January 2011, and the Company's contributions to this arrangement are shown in Note (iii) to the first table on page 92.

The Fund operates a Fund-specific earnings cap for pension purposes. The pensionable earnings of each Director were subject to the Fund-specific earnings cap and details of the Company's allowances paid in lieu of pension contributions on earnings above the Fund-specific earnings cap are noted in the Directors' remuneration table on page 88. Andrew McNaughton elected to have his pensionable earnings restricted further to a personal earnings cap and details of the Company's allowance paid in lieu of pension contributions on earnings above his personal earnings cap are noted in the Directors' remuneration table.

Remuneration report continued

The table below sets out the accrued deferred pension which would be paid annually from the Fund at normal retirement age based on each Director's service to 31 December 2011 as well as the additional pension benefit secured in respect of service during the year (where applicable – see Note (iii) below).

Name of Director	Age at 31 December 2011 Years	Pensionable service at 31 December 2011 Years	Accrued deferred pension at 31 December 2010 £ pa	Increase in accrued deferred pension during the year: As a result of inflation £ pa	Increase in accrued deferred pension during the year: Increase in excess of inflation £ pa	Accrued deferred pension at 31 December 2011 £ pa	Transfer value corresponding to increase in excess of inflation at 31 December 2011 less Director's contributions (Note i) £
D J Magrath	**47**	**5**	19,688	906	4,331	**24,925**	**62,205**
A J McNaughton	**48**	**14**	36,639	1,685	3,138	**41,462**	**44,124**
A L P Rabin (see Note ii)	**56**	**18**	71,089	3,270	6,431	**80,790**	**140,139**
I P Tyler	**51**	**15**	46,275	2,129	3,407	**51,811**	**59,007**
P J L Zinkin (see Note iii)	**58**	**29**	225,949	n/a	n/a	**n/a**	**n/a**

Notes:

(i) These amounts represent the value at 31 December 2011 of the increase in excess of inflation (where inflation is measured using the Retail Prices Index between September 2009 and 2010) of each Director's deferred pension and associated benefits over the period calculated in accordance with the transfer value regulations, using the transfer value basis then stipulated by the Trustee of the Fund, less the value of any Directors' contributions.

(ii) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

(iii) Peter Zinkin started to receive his defined benefit pension from the Fund on 1 January 2011 and has not accrued any further defined benefits in the Fund during 2011. The period of pensionable service shown for Mr Zinkin is for the period prior to 31 December 2010 only. The Company has however paid £21,603 into the defined contribution section of the Fund for Mr Zinkin during the year, in addition to his SMART Pensions salary sacrifice of £6,405.

The table below sets out the transfer value at 31 December 2011 of each executive Director's accrued deferred pension at that date (where applicable – see Note (vii) below) as well as the movement in that transfer value over the period. The transfer values represent the cash equivalent values that would have been payable from the Fund had the Directors left service on the dates shown, and reflect each Director's age and benefit entitlement. The Trustees of the Fund increased the level of prudence in the transfer value basis during 2011 which served to increase transfer values, all other things being equal. The table below illustrates the impact of the change in the transfer value basis.

Name of Director	Age at 31 December 2011 Years	Pensionable service at 31 December 2011 Years	Transfer value at 31 December 2010 (Note i) £	Transfer value reflecting change in status at 1 January 2011 (Note ii) £	Contributions made by Director during the year (Note iii) £	Increase in transfer value during the year using previous Trustee basis (Note iv) £	Increase in transfer value as a result of new Trustee basis (Note v) £	Transfer value at 31 December 2011 (Note i) £
D J Magrath	**47**	**5**	239,119	–	6,638	75,815	57,390	**378,962**
A J McNaughton	**48**	**14**	441,896	–	6,275	82,884	90,792	**621,847**
A L P Rabin (Note vi)	**56**	**18**	1,240,145	–	6,638	292,442	233,941	**1,773,166**
I P Tyler	**51**	**15**	666,494	–	6,638	136,677	136,360	**946,169**
P J L Zinkin (Note vii)	**58**	**29**	4,295,588	4,530,870	n/a	19,578	702,809	**5,253,257**

Notes:

(i) These amounts represent the present value of the accrued deferred pension and associated benefits at the relevant date, calculated using the transfer value basis then in force. All benefits shown exclude the value of Directors' AVC benefits in the Fund.

(ii) This amount represents the value of Peter Zinkin's immediate pension in payment of £192,565 pa from 1 January 2011 after drawing a lump sum benefit and having a Lifetime Allowance tax charge paid to HMRC by the Fund (see Note vii below).

(iii) Andrew McNaughton has participated in the Company's SMART Pensions salary sacrifice arrangement during 2011. His contributions figure includes £1,545 paid via this arrangement.

(iv) These amounts represent the difference between the transfer value of each Director's accrued benefits at the end and the beginning of the period ignoring the change in transfer value basis adopted by the Trustee during the year, less the value of the Director's contributions paid during the period.

(v) These amounts represent the difference between the transfer value of each Director's accrued benefits at the end of the period using the new transfer value basis in force at the end of the period and the transfer value of the accrued benefits at the end of the period using the transfer value basis in force prior to the Trustee's change.

(vi) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

(vii) Peter Zinkin had drawn a lump sum benefit of £300,000 from the Balfour Beatty Pension Fund on 1 January 2011 and also elected to have a Lifetime Allowance tax charge of £142,279 paid to HMRC by the Fund. He has received a pension of £192,565 pa from the Fund since 1 January 2011. The period of pensionable service shown for Mr Zinkin is for the period prior to 31 December 2010 only. The transfer value at 31 December 2011 represents the value at that date using assumptions which are consistent with the Trustees' more prudent transfer value basis then in force of his pension of £192,565 pa payable from that date. The increase of £702,809 is entirely as a result of this increase in prudence in the Trustees' transfer value basis. He has participated in the defined contribution section of the Fund since 1 January 2011, and the Company paid £21,603 into this arrangement during the year, in addition to his SMART Pensions salary sacrifice of £6,405.

Remuneration report
By order of the Board

Iain Ferguson
Chairman of the Remuneration Committee
7 March 2012

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Independent auditor's report to the members of Balfour Beatty plc

We have audited the financial statements of Balfour Beatty plc for the year ended 31 December 2011 which comprise the Group and Company income statements, the Group and Company statements of comprehensive income, the Group and Company statements of financial position, the Group and Company statements of changes in equity, the Group and Company statements of cash flows, and the related Notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2011 and of the Group's and the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, contained within the Directors' Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

John Adam
Senior Statutory Auditor

For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

7 March 2012

Group income statement

For the year ended 31 December 2011

	Notes	2011 Underlying items[1] £m	2011 Non-underlying items (Note 8) £m	2011 Total £m	2010[2] Underlying items[1] £m	2010[2] Non-underlying items (Note 8) £m	2010[2] Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**11,035**	**–**	**11,035**	10,473	–	10,473
Share of revenue of joint ventures and associates	16.2	**(1,541)**	**–**	**(1,541)**	(1,237)	–	(1,237)
Group revenue	2	**9,494**	**–**	**9,494**	9,236	–	9,236
Cost of sales		**(8,358)**	**–**	**(8,358)**	(8,132)	–	(8,132)
Gross profit		**1,136**	**–**	**1,136**	1,104	–	1,104
Net operating expenses							
– amortisation of acquired intangible assets		**–**	**(62)**	**(62)**	–	(82)	(82)
– other		**(880)**	**(26)**	**(906)**	(851)	(23)	(874)
Group operating profit/(loss)		**256**	**(88)**	**168**	253	(105)	148
Share of results of joint ventures and associates	16.2	**75**	**–**	**75**	72	–	72
Profit/(loss) from operations	4	**331**	**(88)**	**243**	325	(105)	220
Investment income	6	**57**	**–**	**57**	46	–	46
Finance costs	7	**(54)**	**–**	**(54)**	(65)	–	(65)
Profit/(loss) before taxation		**334**	**(88)**	**246**	306	(105)	201
Taxation	9	**(91)**	**27**	**(64)**	(83)	39	(44)
Profit/(loss) for the year from continuing operations		**243**	**(61)**	**182**	223	(66)	157
Profit/(loss) for the year from discontinued operation	10	**–**	**4**	**4**	13	(27)	(14)
Profit for the year		**243**	**(57)**	**186**	236	(93)	143
Attributable to							
Equity holders		**243**	**(57)**	**186**	236	(93)	143
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit for the year		**243**	**(57)**	**186**	236	(93)	143

1 Before non-underlying items (Notes 1.11 and 8).
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

	Notes	2011 Pence	2010[2] Pence
Basic earnings per ordinary share			
– continuing operations	11	**26.7**	23.0
– discontinued operation	11	**0.6**	(2.0)
	11	**27.3**	21.0
Diluted earnings per ordinary share			
– continuing operations	11	**26.7**	22.9
– discontinued operation	11	**0.6**	(2.0)
	11	**27.3**	20.9
Dividends per ordinary share proposed for the year	12	**13.8**	12.7

2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

Group statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Profit for the year		**186**	143
Other comprehensive income/(expense) for the year			
Currency translation differences		**4**	43
Actuarial movements on retirement benefit obligations		**53**	87
Fair value revaluations – PPP financial assets		**204**	61
– PPP cash flow hedges		**(239)**	(67)
– other cash flow hedges		**–**	(2)
– available-for-sale investments in mutual funds	17.1	**(2)**	4
Tax relating to components of other comprehensive income		**(12)**	(25)
Total other comprehensive income for the year		**8**	101
Total comprehensive income for the year	29.1	**194**	244
Attributable to			
Equity holders		**194**	244
Non-controlling interests		**–**	–
Total comprehensive income for the year	29.1	**194**	244

Our accounts

Group statement of changes in equity

For the year ended 31 December 2011

	Notes	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Share of joint ventures' and associates' reserves (Note 16.5) £m	Other reserves (Note 29.1) £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2010		343	57	16	32	157	288	102	4	999
Total comprehensive income for the year	29.1	–	–	–	–	53	46	145	–	244
Ordinary dividends	12	–	–	–	–	–	–	(84)	–	(84)
Joint ventures' and associates' dividends	16.1	–	–	–	–	(62)	–	62	–	–
Issue of ordinary shares	28.1	–	2	–	–	–	–	–	–	2
Recycling of revaluation reserves to the income statement on disposal	29.1	–	–	–	–	(4)	–	–	–	(4)
Acquisition of non-controlling interest		–	–	–	–	–	–	(1)	–	(1)
Movements relating to share-based payments		–	–	–	–	–	–	4	–	4
Transfers		–	–	–	(2)	–	–	2	–	–
At 31 December 2010		343	59	16	30	144	334	230	4	1,160
Total comprehensive income/(expense) for the year	29.1	**–**	**–**	**1**	**–**	**60**	**(18)**	**151**	**–**	**194**
Ordinary dividends	12	**–**	**–**	**–**	**–**	**–**	**–**	**(88)**	**–**	**(88)**
Joint ventures' and associates' dividends	16.1	**–**	**–**	**–**	**–**	**(54)**	**–**	**54**	**–**	**–**
Issue of ordinary shares	28.1	**1**	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**3**
Recycling of revaluation reserves to the income statement on disposal	16.5	**–**	**–**	**–**	**–**	**(6)**	**–**	**–**	**–**	**(6)**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**–**	**(5)**	**5**	**–**	**–**
Transfers		**–**	**–**	**–**	**(3)**	**–**	**–**	**3**	**–**	**–**
At 31 December 2011		**344**	**61**	**17**	**27**	**144**	**311**	**355**	**4**	**1,263**

Company income statement

For the year ended 31 December 2011

	Notes	2011 Underlying items[1] £m	2011 Non-underlying items (Note 8) £m	2011 Total £m	2010[2] Underlying items[1] £m	2010[2] Non-underlying items (Note 8) £m	2010[2] Total £m
Revenue	2	**13**	**–**	**13**	22	–	22
Net operating expense		**(21)**	**(1)**	**(22)**	(23)	(8)	(31)
Loss from operations		**(8)**	**(1)**	**(9)**	(1)	(8)	(9)
Investment income	6	**6**	**–**	**6**	6	–	6
Finance costs	7	**(29)**	**–**	**(29)**	(28)	–	(28)
Loss before taxation		**(31)**	**(1)**	**(32)**	(23)	(8)	(31)
Taxation	9	**5**	**–**	**5**	7	1	8
Loss for the year from continuing operations		**(26)**	**(1)**	**(27)**	(16)	(7)	(23)
Profit for the year from discontinued operation	10	**–**	**59**	**59**	9	–	9
(Loss)/profit for the year attributable to equity holders		**(26)**	**58**	**32**	(7)	(7)	(14)

1 Before non-underlying items (Notes 1.11 and 8).
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

Company statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Profit/(loss) for the year		**32**	(14)
Other comprehensive income/(expense) for the year			
Actuarial movements on retirement benefit obligations		**6**	5
Tax relating to components of other comprehensive income	25.3	**(2)**	–
Total other comprehensive income for the year		**4**	5
Total comprehensive income/(expense) for the year attributable to equity holders	29.2	**36**	(9)

Company statement of changes in equity

For the year ended 31 December 2011

	Notes	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Other reserves (Note 29.2) £m	Retained profits £m	Total £m
At 1 January 2010		343	57	16	32	317	473	1,238
Total comprehensive expense for the year	29.2	–	–	–	–	–	(9)	(9)
Ordinary dividends	12	–	–	–	–	–	(84)	(84)
Issue of ordinary shares	28.1	–	2	–	–	–	–	2
Movements relating to share-based payments		–	–	–	–	4	–	4
Transfers		–	–	–	(2)	–	2	–
At 31 December 2010		343	59	16	30	321	382	1,151
Total comprehensive income for the year	29.2	**–**	**–**	**1**	**–**	**–**	**35**	**36**
Ordinary dividends	12	**–**	**–**	**–**	**–**	**–**	**(88)**	**(88)**
Issue of ordinary shares	28.1	**1**	**2**	**–**	**–**	**–**	**–**	**3**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**2**	**1**	**3**
Transfers		**–**	**–**	**–**	**(3)**	**–**	**3**	**–**
At 31 December 2011		**344**	**61**	**17**	**27**	**323**	**333**	**1,105**

Statements of financial position

At 31 December 2011

	Notes	Group 2011 £m	Group 2010[3] £m	Company 2011 £m	Company 2010[3] £m
Non-current assets					
Intangible assets – goodwill	13	**1,279**	1,196	**–**	–
– other	14	**239**	251	**–**	–
Property, plant and equipment	15	**288**	320	**–**	–
Investments in joint ventures and associates	16	**466**	488	**–**	–
Investments	17	**96**	95	**1,742**	1,742
PPP financial assets	18	**457**	327	**–**	–
Deferred tax assets	25	**105**	163	**–**	2
Derivative financial instruments	21	**–**	–	**1**	1
Trade and other receivables	22	**87**	70	**25**	30
		3,017	2,910	**1,768**	1,775
Current assets					
Inventories	19	**140**	89	**–**	–
Due from customers for contract work	20	**604**	591	**–**	–
Derivative financial instruments	21	**1**	4	**2**	6
Trade and other receivables	22	**1,410**	1,197	**1,295**	1,114
Current tax assets		**5**	4	**–**	14
Cash and cash equivalents – PPP subsidiaries	24	**18**	18	**–**	–
– other	24	**577**	566	**–**	–
		2,755	2,469	**1,297**	1,134
Total assets		**5,772**	5,379	**3,065**	2,909
Current liabilities[3]					
Trade and other payables	23	**(2,426)**	(2,232)	**(1,594)**	(1,562)
Due to customers for contract work	20	**(576)**	(651)	**–**	–
Derivative financial instruments	21	**(10)**	(2)	**(2)**	(6)
Current tax liabilities		**(30)**	(29)	**–**	–
Borrowings – PPP non-recourse loans	24	**(21)**	(8)	**–**	–
– other	24	**(231)**	(37)	**(236)**	(55)
Provisions[3]	27	**(107)**	(135)	**–**	(1)
		(3,401)	(3,094)	**(1,832)**	(1,624)
Non-current liabilities[3]					
Trade and other payables	23	**(142)**	(144)	**(25)**	(25)
Derivative financial instruments	21	**(120)**	(45)	**(1)**	(1)
Borrowings – PPP non-recourse loans	24	**(329)**	(280)	**–**	–
– other	24	**(6)**	(11)	**–**	–
Deferred tax liabilities	25	**(15)**	(8)	**(1)**	–
Liability component of preference shares	28	**(91)**	(89)	**(91)**	(89)
Retirement benefit obligations	26	**(275)**	(441)	**(4)**	(13)
Provisions[3]	27	**(130)**	(107)	**(6)**	(6)
		(1,108)	(1,125)	**(128)**	(134)
Total liabilities		**(4,509)**	(4,219)	**(1,960)**	(1,758)
Net assets		**1,263**	1,160	**1,105**	1,151
Equity					
Called-up share capital	28	**344**	343	**344**	343
Share premium account	29	**61**	59	**61**	59
Equity component of preference shares	29	**17**	16	**17**	16
Special reserve	29	**27**	30	**27**	30
Share of joint ventures' and associates' reserves	29	**144**	144	**–**	–
Other reserves	29	**311**	334	**323**	321
Retained profits	29	**355**	230	**333**	382
Equity attributable to equity holders of the parent		**1,259**	1,156	**1,105**	1,151
Non-controlling interests	29	**4**	4	**–**	–
Total equity		**1,263**	1,160	**1,105**	1,151

3 Re-presented to reflect the disclosure of provisions between current liabilities and non-current liabilities (Note 38.2).

On behalf of the Board

Steve Marshall
Director

Duncan Magrath
Director

7 March 2012

Statements of cash flows

For the year ended 31 December 2011

	Notes	Group 2011 £m	Group 2010[2] £m	Company 2011 £m	Company 2010[2] £m
Cash flows from operating activities					
Cash generated from/(used in) underlying operations	36.1	**54**	212	**(99)**	(56)
Cash used in non-underlying operations	36.1	**(19)**	(43)	**(1)**	(8)
Income taxes (paid)/received		**(18)**	(21)	**9**	(6)
Net cash from/(used in) operating activities		**17**	148	**(91)**	(70)
Cash flows from investing activities					
Dividends received from joint ventures and associates		**54**	53	**12**	21
Dividends received from discontinued operation		**5**	9	**5**	9
Dividends received from subsidiaries		**–**	–	**1**	1
Interest received		**23**	19	**6**	6
Acquisition of businesses, net of cash and cash equivalents acquired	30.1	**(100)**	(44)	**–**	–
Purchase of intangible assets – other	14	**(19)**	(14)	**–**	–
Purchase of property, plant and equipment	15	**(77)**	(85)	**–**	(1)
Purchase of other investments	17	**(21)**	(13)	**–**	–
Investments in and loans made to joint ventures and associates		**(41)**	(56)	**–**	–
Investments in PPP financial assets		**(40)**	(22)	**–**	–
Disposal of investments in joint ventures		**28**	24	**–**	–
Disposal of other business	30.4	**37**	–	**–**	–
Disposal of property, plant and equipment		**21**	13	**–**	–
Disposal of other investments		**19**	7	**–**	–
Net cash (used in)/from investing activities		**(111)**	(109)	**24**	36
Cash flows from financing activities					
Proceeds from issue of ordinary shares	28	**3**	2	**3**	2
Purchase of ordinary shares		**(4)**	(3)	**–**	(3)
Proceeds from new loans	36.3	**282**	49	**212**	–
Repayment of loans	36.3	**(8)**	(30)	**–**	–
Proceeds from new finance leases	36.3	**–**	4	**–**	–
Repayment of finance leases	36.3	**(4)**	(5)	**–**	–
Ordinary dividends paid	29	**(88)**	(84)	**(88)**	(84)
Interest paid		**(44)**	(31)	**(18)**	(15)
Preference dividends paid		**(11)**	(11)	**(11)**	(11)
Net cash from/(used in) financing activities		**126**	(109)	**98**	(111)
Net increase/(decrease) in cash and cash equivalents	36.3	**32**	(70)	**31**	(145)
Effects of exchange rate changes	36.3	**(2)**	12	**–**	–
Cash and cash equivalents at beginning of year		**550**	608	**(55)**	90
Cash and cash equivalents at end of year	36.2	**580**	550	**(24)**	(55)

[2] Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

Notes to the accounts

1 Principal accounting policies

1.1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on page 57 and in accordance with International Financial Reporting Standards ("IFRS") adopted for use in 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 and International Financial Reporting Interpretations Committee and adopted by the European Union relevant to its operations and effective for accounting periods beginning on 1 January 2011.

The financial statements have been prepared under the historical cost convention, except as described under Note 1.19. The functional and presentational currency of the Company and the presentational currency of the Group is sterling.

Changes in accounting policies

IAS 24 Related Party Disclosures (revised 2009); IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments; Improvements to IFRSs (issued May 2010); and the amendments to: IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters; IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets; and IFRIC 14 Prepayments of a Minimum Funding Requirement came into effect and were adopted in the current year but had no effect on the Group financial statements.

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been released by the IASB but have either not been adopted by the European Union or are not yet effective in the European Union at 31 December 2011: IFRS 9 Financial Instruments; IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interests in Other Entities; IFRS 13 Fair Value Measurement; IAS 27 Separate Financial Statements; IAS 28 Investments in Associates and Joint Ventures; IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine; and the amendments to: IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities; IAS 1 Presentation of Items in Other Comprehensive Income; IAS 12 Deferred Tax: Recovery of Underlying Assets; IAS 19 Employee Benefits; and IAS 32 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. Of these, IFRS 9 and IAS 19 are expected to have the most significant effect.

IFRS 9 is expected to replace IAS 39 Financial Instruments: Recognition and Measurement from 2015, subject to EU adoption. IFRS 9 in issue as at 31 December 2011 only concerns the classification and measurement of financial assets and financial liabilities. New requirements for de-recognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2012. The requirements of IFRS 9 in issue as at 31 December 2011 would result in the Group's PPP financial assets being reclassified from "available-for-sale", which is a category that will no longer exist under the new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. As a result, movements in the fair value of PPP financial assets would no longer be recognised in other comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings. The effect within the Group's reserves would be a transfer of £67m from PPP financial asset reserves to retained earnings. The effect within the share of joint ventures' and associates' reserves would be a transfer of £181m from PPP financial asset reserves to retained earnings.

Adopting amendments to IAS 19 Employee Benefits would have increased the 2011 net finance charge by £17m. The effect on 2012 would be to increase the net finance charge by £13m.

1.2 Re-presentation of comparative information

On 2 March 2011 the Directors resolved to dispose of the Group's effective 25.5% interest in Barking Power Ltd ("Barking"), subject to receiving a satisfactory offer. Barking's carrying value was expected to be recovered principally through a sale transaction within one year rather than through continuing use and accordingly the Group's interest in Barking has been classified as a discontinued operation held for sale from 2 March 2011. The sale was subsequently completed on 21 December 2011. As a result the financial statements for the 2010 year-end have been re-presented to show all amounts relating to Barking as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Refer to Note 10.

The income statement has been re-formatted to reflect the re-presentation of "Exceptional items" as "Non-underlying items" in order to clarify the nature of these items, resulting in "Before exceptional items" being classified as "Underlying items". Refer to Note 8.

The statement of financial position has been re-formatted to reflect the disclosure of provisions between current and non-current liabilities which was previously only shown within the provisions note.

Remuneration of key personnel has been restated to include non-executive Directors. Refer to Note 34.

Revision to segmentation

The Group's segmentation was revised following a change in the Group management structure on 1 January 2011 when Balfour Beatty Plant and Fleet Services was transferred from Construction Services into Support Services. The information for the 2010 year-end disclosed in Note 3 has been re-presented based on the new Group management structure as disclosed in Note 38.3.

1.3 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities over which the Group has control, being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or sold in the year are consolidated from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the fair value of the assets and liabilities recognised.

1 Principal accounting policies continued

1.3 Basis of consolidation continued

a) Subsidiaries continued

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. Associates are entities over which the Group is in a position to exercise significant influence, but does not control or exercise joint control, through participation in the financial and operating policy decisions of the investee.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The equity return from the military housing joint ventures of Balfour Beatty Capital US is contractually limited to a maximum pre-agreed level of return, beyond which Balfour Beatty Capital US does not share in any further return.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the statement of financial position at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Jointly controlled operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and statement of financial position.

1.4 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Significant exchange rates used in the preparation of these financial statements are shown in Note 1.28.

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date. Currency translation differences arising are transferred to the Group's foreign currency translation reserve and are recognised in the income statement on disposal of the underlying investment.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward exchange contracts. Refer to Note 1.20(c) for details of the Group's accounting policies in respect of such derivative financial instruments.

1.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales-based taxes, after eliminating revenue within the Group. Revenue is recognised as follows:

- revenue from construction and service activities represents the value of work carried out during the year, including amounts not invoiced;
- revenue from manufacturing activities is recognised when title has passed;
- interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount; and
- dividend income is recognised when the equity holder's right to receive payment is established.

1.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision-maker and therefore the segmental disclosures provided in Note 3 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into four reportable segments. A description of each reportable operating segment is provided in Note 3. Further information on the business activities of each reportable operating segment is set out on pages 106 to 109.

Working capital is the statement of financial position measure reported to the chief operating decision-maker. The profitability measure used to assess the performance of the Group is underlying profit from operations.

Segment results represent the contribution of the different segments after the allocation of attributable corporate overheads. Transactions between segments are conducted at arm's-length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable.

Major customers are defined as customers contributing more than 10% of the Group's external revenue.

Notes to the accounts continued

1 Principal accounting policies continued

1.7 Construction and service contracts
When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date. The stage of completion is measured by the proportion of the value of work done to the total value of work under the contract. Full provision is made for all known or expected losses on individual contracts once such losses are foreseen. Revenue in respect of variations to contracts, claims and incentive payments is recognised when it is probable it will be agreed by the client. Profit for the year includes the benefit of claims settled on contracts completed in previous years.

1.8 Pre-contract bid costs and recoveries
Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written-off are deferred and amortised over the life of the contract.

For construction and services projects, the relevant contract is the construction or services contract respectively. With respect to PPP projects, there are potentially three contracts over which the recovered costs could be amortised, the concession itself, the construction contract or the services contract. An assessment is made as to which contractual element the pre-contract costs relate to, in order to determine which is the relevant period for amortisation. When PPPs were first evolving this was deemed to be the concession. Now that the PPP market is established, the relevant contract is either the construction contract that ultimately gives rise to a financial or intangible asset; or the services contract where there is no initial construction.

1.9 Profit from operations
Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

1.10 Finance costs
Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method.

1.11 Non-underlying items
Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will affect the absolute amount of the results for the period and the trend of results. Underlying items are items before non-underlying items.

Non-underlying items include gains and losses on the disposal of businesses, investments and property, plant and equipment, unless this is part of a programme of releasing value from the disposal of similar businesses or investments; costs of restructuring and reorganisation of existing businesses; costs of integrating newly acquired businesses; acquisition and similar costs related to business combinations; impairment and amortisation charges on intangible assets arising on business combinations ("amortisation of acquired intangible assets"); and impairment of goodwill. These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group. From 1 January 2011, amortisation charges in respect of software are included in underlying items.

1.12 Taxation
The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also dealt with in equity. Current tax is based on the profit for the year.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.13 Intangible assets
a) Goodwill
Goodwill arises on the acquisition of subsidiaries and other businesses, joint ventures and associates and represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written-off or discount arising on acquisition credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets
Other intangible assets are stated at cost less accumulated amortisation and impairment losses.

c) Research and development
Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Other research expenditure is written-off in the period in which it is incurred.

1 Principal accounting policies continued

1.14 Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes expenditure associated with bringing the asset to its operating location and condition. Certain land and buildings were revalued under UK GAAP. On transition to IFRS, the Group has elected to use the revalued amount as deemed cost.

1.15 Leasing
Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value, or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease, and depreciation is provided accordingly. The liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant effective rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

1.16 Impairment of assets
Goodwill arising on acquisitions and other assets that have an indefinite useful life and are not subject to amortisation are reviewed at least annually for impairment. Other intangible assets and property, plant and equipment are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

1.17 Investments
Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Available-for-sale investments are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Held to maturity investments are measured at subsequent reporting dates at amortised cost.

1.18 Assets held for sale
Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Held for sale assets are measured at the lower of their carrying amount or fair value less costs to sell.

1.19 Inventories
Inventories are valued at the lower of cost and net realisable value.

Cost includes an appropriate proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.20 Financial instruments
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

a) Classification of financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

b) Cumulative convertible redeemable preference shares
The Company's cumulative convertible redeemable preference shares are a compound instrument, comprising a liability component and an equity component. The fair value of the liability component was estimated using the prevailing market interest rate at the date of issue for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the embedded option to convert the liability into the Company's ordinary shares, is included in equity. The interest expense on the liability component is calculated by applying the market interest rate for similar non-convertible debt prevailing at the date of issue to the liability component of the instrument. The difference between this amount and the dividend paid is added to the carrying amount of the liability component and is included in finance charges, together with the dividend payable.

c) Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies and commodity prices in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 21.

Derivatives are initially recognised in the statement of financial position at fair value on the date the derivative transaction is entered into and are subsequently remeasured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Notes to the accounts continued

1 Principal accounting policies continued

1.20 Financial instruments continued

c) Derivative financial instruments and hedge accounting continued

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded on the statement of financial position at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the statement of financial position are recognised in the income statement as they arise.

d) PPP concession companies

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets.

In the construction phase, income is recognised by applying an attributable profit margin on the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on those costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method, giving rise to interest income. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty.

In the construction phase the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin on the construction costs representing the fair value of construction services performed. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using assumptions in respect of the discount rates which are based on long-term gilt rates adjusted for the risk levels associated with the assets. The subsequent movements in the fair value are taken to equity. Amounts accumulated in equity are transferred to the income statement upon disposal of the asset.

1.21 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts.

1.22 Trade payables

Trade payables are not interest-bearing and are stated at their nominal value. Advance payments on contracts are included in trade payables and relate to advances received on contracts which are in progress.

1.23 Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to income on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

1.24 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution retirement and other long-term employee benefit schemes the majority of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the statement of financial position comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the plan assets. Actuarial gains and losses are recognised in full in the period in which they occur outside the income statement in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

1.25 Provisions

Provisions for legal claims, faults and warranties, environmental restoration, onerous leases, and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability. Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

1.26 Share-based payments

Employee services received in exchange for the grant of share options, performance share plan awards and deferred bonus plan awards since 7 November 2002 are charged in the income statement on a straight-line basis over the vesting period, based on the fair values of the options or awards at the date of grant and the numbers expected to become exercisable. The credits in respect of the amounts charged are included within separate reserves in equity until such time as the options or awards are exercised, when the proceeds received in respect of share options are credited to share capital and share premium or the shares held by the employee trust are transferred to employees in respect of performance share plan awards and deferred bonus plan awards.

1.27 Judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may therefore differ from these judgements, estimates and assumptions. The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group within the next financial year are discussed below.

a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in Notes 1.5 and 1.7, are central to how the Group values the work it has carried out in each financial year.

These policies require forecasts to be made of the outcomes of long-term professional services, construction services and support services contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes, maintenance liabilities and changes in costs.

b) Recoverable value of recognised receivables

The Group has recognised trade receivables with a carrying value of £1,065m (2010: £893m). The recoverability of trade receivables is regularly reviewed and specific provisions are recognised for balances considered to be irrecoverable in the light of the available economic information specific to each receivable.

1 Principal accounting policies continued

1.27 Judgements and key sources of estimation uncertainty continued

c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash-generating unit and the application of a suitable discount rate in order to calculate the present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash-generating unit. The carrying value of goodwill at 31 December 2011 was £1,279m (2010: £1,196m).

d) Available-for-sale financial assets

Assets constructed by the Group's PPP subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" and at 31 December 2011 had a value of £1,897m. The fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates, varying from 4.83% to 7.83%, is used which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. A £204m gain was taken to equity in 2011 and a cumulative fair value gain of £342m had arisen on these financial assets as a result of movements in the fair value of these financial assets at 31 December 2011.

e) PPP derivative financial instruments

The Group's PPP subsidiary, joint venture and associate companies use derivative financial instruments, principally swaps, to manage the interest rate and inflation rate risks to which the concessions are exposed by their long-term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each reporting date at their fair value. The fair value of derivatives constantly changes in response to prevailing market conditions. A loss of £239m was taken to equity in 2011 and a cumulative fair value loss of £449m had arisen on these financial instruments at 31 December 2011.

f) Impairment of investments in joint ventures and associates

Investments in joint ventures and associates are reviewed for impairment at the reporting date. Determining whether an investment balance is impaired requires an estimation of the value in use of the joint venture or associate. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the joint venture or associate and the application of a suitable discount rate in order to calculate the present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the joint venture or associate.

g) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 26, including tables showing the sensitivity of the Group pension scheme obligations and assets to different actuarial assumptions. At 31 December 2011, the defined benefit liability recognised on the Group's statement of financial position was £275m (2010: £441m). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2011 the Group recognised net actuarial gains of £53m in equity (2010: £87m), including its share of the actuarial gains and losses arising in joint ventures and associates.

h) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

As set out in Note 1.12 above, deferred tax is accounted for on temporary differences using the liability method, with deferred tax liabilities generally being provided for in full and deferred tax assets being recognised to the extent that it is judged probable that future taxable profit will be available against which the temporary differences can be utilised.

i) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group has recognised provisions at 31 December 2011 of £237m (2010: £242m).

1.28 Exchange rates

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

Average rates

£1 buys	**2011**	2010	Change
US$	**1.60**	1.55	3.2%
EUR	**1.15**	1.16	(0.9)%

Closing rates

£1 buys	**2011**	2010	Change
US$	**1.55**	1.56	(0.6)%
EUR	**1.20**	1.16	3.4%

2 Revenue

	Group 2011 £m	Group 2010 £m	**Company 2011 £m**	Company 2010[2] £m
Revenue from the provision of services*	**9,460**	9,148	**–**	–
Revenue from manufacturing activities	**33**	87	**–**	–
Proceeds from sale of development land	**1**	1	**–**	–
Dividends from subsidiaries	**–**	–	**1**	1
Dividends from joint ventures and associates	**–**	–	**12**	21
Total revenue	**9,494**	9,236	**13**	22
Investment income (Note 6)	**57**	46	**6**	6
Total revenue and investment income	**9,551**	9,282	**19**	28

* Includes IAS 11 construction contract revenue of £8,098m (2010: £7,034m)
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

Our accounts

Notes to the accounts continued

3 Segment analysis

Reportable segments of the Group

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

3.1 Total Group

Performance by activity	Professional Services 2011 £m	Construction Services 2011 £m	Support Services 2011 £m	Infrastructure Investments 2011 £m	Corporate activities 2011 £m	Total 2011 £m
Revenue including share of joint ventures and associates	1,645	7,050	1,584	756	–	11,035
Share of revenue of joint ventures and associates	(1)	(849)	(140)	(551)	–	(1,541)
Group revenue	1,644	6,201	1,444	205	–	9,494
Underlying group operating profit/(loss)[1]	87	141	63	–	(35)	256
Share of results of joint ventures and associates	–	28	4	43	–	75
Underlying profit/(loss) from operations[1]	87	169	67	43	(35)	331
Amortisation of acquired intangible assets	(30)	(17)	(4)	(11)	–	(62)
Other non-underlying items	(1)	(11)	(14)	–	–	(26)
Profit/(loss) from operations	56	141	49	32	(35)	243
Investment income						57
Finance costs						(54)
Profit before taxation						246

1 Before non-underlying items (Notes 1.11 and 8).

Assets and liabilities	Professional Services 2011 £m	Construction Services 2011 £m	Support Services 2011 £m	Infrastructure Investments 2011 £m	Corporate activities 2011 £m	Total 2011 £m
Due from customers for contract work	165	412	27	–	–	604
Due to customers for contract work	(151)	(415)	(10)	–	–	(576)
Inventories	1	69	69	–	1	140
Trade and other receivables – current	309	794	233	49	25	1,410
Trade and other payables – current	(272)	(1,679)	(355)	(52)	(68)	(2,426)
Provisions	(22)	(156)	(36)	(2)	(21)	(237)
Working capital	30	(975)	(72)	(5)	(63)	(1,085)
Total assets	858	2,519	581	1,041	773	5,772
Total liabilities	(566)	(2,414)	(430)	(249)	(850)	(4,509)
Net assets/(liabilities)	292	105	151	792	(77)	1,263
Other information						
Capital expenditure	9	31	34	2	1	77
Depreciation	12	29	26	2	1	70
Gain on disposals of interests in PPP joint ventures	–	–	–	20	–	20

Performance by geographic destination	United Kingdom 2011 £m	United States 2011 £m	Rest of world 2011 £m	Total 2011 £m
Revenue including share of joint ventures and associates	5,700	3,413	1,922	11,035
Share of revenue of joint ventures and associates	(675)	(112)	(754)	(1,541)
Group revenue	5,025	3,301	1,168	9,494
Non-current assets excluding financial assets and deferred tax assets	999	882	396	2,277

Major customers

Included in Group revenue are revenues of £2,626m (2010: £2,811m) from the UK Government and £2,093m (2010: £1,940m) from the US Government, which are the Group's two largest customers. These revenues are included in the results across all four reported segments.

3 Segment analysis continued

3.1 Total Group continued

Performance by activity	Professional Services 2010 £m	Construction Services[4] 2010 £m	Support Services[4] 2010 £m	Infrastructure Investments[2] 2010 £m	Corporate activities 2010 £m	Total[2] 2010 £m
Revenue including share of joint ventures and associates	1,613	6,734	1,443	682	1	10,473
Share of revenue of joint ventures and associates	(4)	(616)	(131)	(486)	–	(1,237)
Group revenue	1,609	6,118	1,312	196	1	9,236
Underlying group operating profit/(loss)[1]	84	170	57	(23)	(35)	253
Share of results of joint ventures and associates	1	31	5	35	–	72
Underlying profit/(loss) from operations[1]	85	201	62	12	(35)	325
Amortisation of acquired intangible assets	(50)	(18)	(1)	(13)	–	(82)
Other non-underlying items	(25)	(6)	(12)	20	–	(23)
Profit/(loss) from operations	10	177	49	19	(35)	220
Investment income						46
Finance costs						(65)
Profit before taxation						201
Assets and liabilities						
Due from customers for contract work	148	389	54	–	–	591
Due to customers for contract work	(187)	(453)	(11)	–	–	(651)
Inventories	1	48	39	–	1	89
Trade and other receivables – current	275	695	161	45	21	1,197
Trade and other payables – current	(244)	(1,628)	(246)	(48)	(66)	(2,232)
Provisions	(30)	(148)	(44)	(1)	(19)	(242)
Working capital	(37)	(1,097)	(47)	(4)	(63)	(1,248)
Total assets	842	2,339	469	934	795	5,379
Total liabilities	(579)	(2,454)	(428)	(171)	(587)	(4,219)
Net assets/(liabilities)	263	(115)	41	763	208	1,160
Other information						
Capital expenditure	13	37	32	1	2	85
Depreciation	11	34	26	2	1	74

1 Before non-underlying items (Notes 1.11 and 8).
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).
4 Re-presented to reflect the change in the group management structure (Notes 1.2 and 38.3).

Performance by geographic destination	United Kingdom[2] 2010 £m	United States 2010 £m	Rest of world 2010 £m	Total 2010 £m
Revenue including share of joint ventures and associates	5,602	3,090	1,781	10,473
Share of revenue of joint ventures and associates	(611)	(18)	(608)	(1,237)
Group revenue	4,991	3,072	1,173	9,236
Non-current assets excluding financial assets and deferred tax assets*	1,018	827	411	2,256

2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).
* Re-presented for goodwill segment allocation (Note 13).

Notes to the accounts continued

3 Segment analysis continued

3.2 Infrastructure Investments (Balfour Beatty Capital UK and Balfour Beatty Capital US)

Underlying profit from operations[1]	Group 2011 £m	Share of joint ventures and associates (Note 16.2)[5] 2011 £m	Total 2011 £m	Group 2010 £m	Share of joint ventures and associates (Note 16.2)[2,5] 2010 £m	Total[2] 2010 £m
PPP UK^	**21***	**37**	**58**	1*	30	31
PPP US	**12**	**7**	**19**	14	6	20
Infrastructure	**(3)**	**(1)**	**(4)**	(4)	(1)	(5)
	30	**43**	**73**	11	35	46
Bidding costs and overheads	**(30)**	**–**	**(30)**	(34)	–	(34)
	–	**43**	**43**	(23)	35	12

* Includes gains on the disposals of interests in PPP joint ventures of £20m (2010: £nil).
^ Including Singapore.
1 Before non-underlying items (Notes 1.11 and 8).
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).
5 The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.

Net assets	Group 2011 £m	Share of joint ventures and associates (Note 16.2) 2011 £m	Total 2011 £m	Group 2010 £m	Share of joint ventures and associates (Note 16.2) 2010 £m	Total 2010 £m
PPP UK^	**329**	**299**	**628**	278	274	552
PPP US	**144**	**56**	**200**	163	45	208
Infrastructure	**3**	**5**	**8**	6	62	68
	476	**360**	**836**	447	381	828
Infrastructure investments central functions	**(44)**	**–**	**(44)**	(65)	–	(65)
Total infrastructure investments net assets	**432**	**360**	**792**	382	381	763
Net borrowings in relation to PPP subsidiaries	**(332)**	**–**	**(332)**	(270)	–	(270)
	100	**360**	**460**	112	381	493

^ Including Singapore.

3 Segment analysis continued

3.3 PPP concession subsidiaries

The Group has a 100% interest in nine UK PPP concessions through its shareholdings in Connect Roads Sunderland Holdings Ltd, Connect Roads South Tyneside Holdings Ltd, Connect Roads Derby Holdings Ltd, Transform Schools (Knowsley) Holdings Ltd, Connect CNDR Holdings Ltd, Connect Roads Coventry Holdings Ltd, Balfour Beatty Fire and Rescue NW Holdings Ltd, Connect Roads Cambridgeshire Holdings Ltd, and Connect Roads Northamptonshire Holdings Ltd. The performance of the wholly owned PPP concessions and their statements of financial position are summarised below.

	2011 £m	2010 £m
Income statement		
Group revenue	**90**	68
Profit from operations	**1**	1
Investment income	**25**	19
Finance costs	**(25)***	(20)
Profit before taxation	**1**	–
Taxation	**–**	–
Profit for the year	**1**	–
Statement of cash flows		
Profit from operations	**1**	1
(Increase)/decrease in working capital	**(1)**	4
Income taxes paid	**–**	–
Net cash inflow from operating activities	**–**	5
Net cash outflow from investing activities	**(40)**	(22)
Net cash outflow from financing activities	**(22)**	(5)
Net cash outflow	**(62)**	(22)
Net borrowings at beginning of year	**(270)**	(248)
Net borrowings at end of year	**(332)**	(270)
Statement of financial position		
PPP financial assets (Note 18)	**457**	327
Derivative financial instruments	**(128)**	(44)
Other net current liabilities	**–**	(5)
	329	278
Cash and cash equivalents	**18**	18
Non-recourse term loans	**(350)**	(288)
Net (liabilities)/assets	**(3)**	8

* Includes £3m subordinated debt interest payable by PPP subsidiaries to their holding companies.

Our accounts

Notes to the accounts continued

4 Profit/(loss) from operations

4.1 Profit/(loss) from operations is stated after charging/(crediting)

	2011 £m	2010 £m
Research and development costs	**6**	4
Depreciation of property, plant and equipment	**70**	74
Amortisation of intangible assets	**66**	82
Impairment of trade receivables	**–**	9
Gain on disposal of property, plant and equipment	**(4)**	(2)
Gain on disposals of interests in PPP joint ventures	**(20)**	–
Loss on disposal of UK specialist rail manufacturing business	**7**	–
Cost of inventory recognised as an expense	**172**	156
Exchange gains	**(2)**	(1)
Auditor's remuneration	**6**	7
Hire charges for plant and equipment	**114**	94
Other operating lease rentals	**113**	120

4.2 Analysis of auditor's remuneration

	2011 £m	2010 £m
Services as auditor to the Company	**0.8**	0.8
Services as auditor to Group subsidiaries	**4.3**	4.3
Total audit fees	**5.1**	5.1
Audit related assurance fees	**0.5**	0.4
Taxation compliance fees	**0.3**	0.3
Taxation advisory fees	**0.4**	0.9
Other services	**0.1**	0.6
Total non-audit fees	**1.3**	2.2
Total fees in relation to audit and other services	**6.4**	7.3

5 Employee costs

5.1 Group

Employee costs during the year	2011 £m	2010 £m
Wages and salaries	**2,121**	2,064
Redundancy	**17**	33
Social security costs	**214**	195
Pension costs (Note 26.2)	**105**	105
Share-based payments (Note 31)	**6**	8
	2,463	2,405

Average number of Group employees	2011 Number	2010[4] Number
Professional Services	**13,819**	13,642
Construction Services	**18,292**	19,387
Support Services	**16,534**	15,923
Infrastructure Investments	**1,337**	1,359
Corporate	**213**	213
	50,195	50,524

[4] Re-presented to reflect the change in the group management structure (Notes 1.2 and 38.3).

At 31 December 2011, the total number of Group employees was 50,301 (2010: 50,042).

5.2 Company

The average number of employees of Balfour Beatty plc was 125 (2010: 156). Total employee costs of Balfour Beatty plc were £22m (2010: £27m). Total employee costs comprise wages and salaries £17m (2010: £19m), social security costs £2m (2010: £2m), pension costs £1m (2010: £3m) and share-based payments £2m (2010: £3m).

6 Investment income

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
PPP subordinated debt interest receivable	**25**	19	**2**	2
PPP interest on financial assets	**25**	19	**–**	–
Interest receivable from subsidiaries	**–**	–	**3**	3
Other interest receivable and similar income	**7**	8	**1**	1
	57	46	**6**	6

7 Finance costs

		Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Preference shares	– finance cost	**12**	12	**12**	12
PPP non-recourse	– bank loans and overdrafts	**22**	20	**–**	–
Net finance cost on pension scheme assets and liabilities (Note 26.2)		**3**	21	**–**	1
Interest payable to subsidiaries		**–**	–	**9**	10
Other interest payable	– bank loans and overdrafts	**9**	7	**4**	1
	– commitment fees	**4**	4	**4**	4
	– other loans	**4**	1	**–**	–
		54	65	**29**	28

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid on 1 July 2011 in respect of the six months ended 30 June 2011 to holders of these shares on the register on 27 May 2011. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share was paid on 1 January 2012 in respect of the six months ended 31 December 2011 to holders of these shares on the register on 25 November 2011.

8 Non-underlying items

	Group 2011 £m	Group[2] 2010 £m	Company 2011 £m	Company 2010 £m
8.1 Operating expenses (charged against)/credited to profit				
Continuing operations				
8.1.1 Amortisation of acquired intangible assets	**(62)**	(82)	**–**	–
8.1.2 Other non-underlying items				
– cost of implementing UK shared service centre	**(12)**	(12)	**(1)**	–
– loss on disposal of UK specialist rail manufacturing business	**(7)**	–	**–**	–
– post-acquisition integration, reorganisation and other costs	**(4)**	(29)	**–**	(8)
– acquisition related expenses	**(3)**	(2)	**–**	–
– gain on disposal of investments in joint ventures	**–**	20	**–**	–
Total other non-underlying items	**(26)**	(23)	**(1)**	(8)
Charged against profit before taxation	**(88)**	(105)	**(1)**	(8)
8.2 Tax on items above	**27**	39	**–**	1
Non-underlying items charged against profit for the year from continuing operations	**(61)**	(66)	**(1)**	(7)
Discontinued operation				
8.3 Barking				
– dividends received	**5**	–	**5**	–
– (loss)/gain on disposal of Barking	**(1)**	–	**54**	–
– share of joint ventures and associates – impairment of Barking Power Station	**–**	(27)	**–**	–
	4	(27)	**59**	–
(Charged against)/credited to profit for the year	**(57)**	(93)	**58**	(7)

2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

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Notes to the accounts continued

8 Non-underlying items continued

In addition to the items included above during the year, a net £nil non-underlying item arose in respect of Romec Services Ltd comprising: revaluation of the existing 49% stake on step acquisition £13m; service credit (£4m); and preference dividend to Royal Mail Group (£9m). Refer to Note 30.1.2.

8.1.1 The amortisation of acquired intangible assets comprises: customer contracts £24m (2010: £34m); customer relationships £27m (2010: £34m); and brand names £11m (2010: £12m).

8.1.2 The UK specialist rail manufacturing business was sold during the first half of 2011. A loss of £7m arose on the sale which comprises: a loss on the disposal of the rail business operations of £4m, including writing-off £7m goodwill; and an onerous lease liability of £3m due to a property becoming vacant. Refer to Note 30.4.1.

During 2011, the implementation of the UK shared service centre in Newcastle-upon-Tyne led to incremental costs of £12m (2010: £12m) being incurred, of which £1m (2010: £nil) were incurred by the Company.

Reorganisation and integration costs of £4m (2010: £29m) have been incurred: £1m (2010: £23m) relating to Parsons Brinckerhoff; £1m (2010: £1m) relating to SpawMaxwell; £1m (2010: £3m) relating to Rok; £1m (2010: £nil) relating to various other acquisitions; and £nil (2010: £2m) relating to Schreck-Mieves.

During 2011, costs of £1m directly attributable to the acquisition of Romec Services Ltd, £1m directly attributable to the acquisition of Fru-Con, and £1m directly attributable to the acquisition of Howard S. Wright were incurred. During 2010, costs of £2m directly attributable to the acquisition of Halsall were incurred.

During 2010, the Group disposed of its 50% interest in Aberdeen Environmental Services (Holdings) Ltd and a 23.9% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd. The Group retains a 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd following the transaction. The aggregate consideration received was £24m. The disposals resulted in a total gain of £20m being realised, comprising £16m in respect of gains on disposal of the investments in the joint ventures and £4m in respect of revaluation reserves recycled to the income statement. Subsequent to these transactions, and following the development of the Group's strategy to release regularly the value contained in the PPP portfolio, from 2011 gains or losses from disposals of PPP investments are treated as part of underlying profits.

8.2 The non-underlying items charged against Group operating profit have given rise to a tax credit of £27m, comprising: £23m on amortisation of acquired intangible assets; and £4m on other non-underlying items (2010: £39m comprising: £27m on amortisation of acquired intangible assets; and £12m on other non-underlying items).

8.3 On 2 March 2011 it was resolved to dispose of the Company's effective 25.5% interest in Barking Power Ltd ("Barking"), which became a discontinued operation with all items from this date classified as non-underlying items. Subsequent to 2 March 2011, dividends of £5m were received by the Company. On 21 December 2011 the Company disposed of its interest in Barking which resulted in a loss on disposal of £1m for the Group after transaction costs and a gain of £54m for the Company. Refer to Note 10. In 2010, a post-tax impairment charge of £27m was incurred in respect of writing-down the value of the assets held by Barking.

9 Taxation

9.1 Taxation charge

	Group					
	Underlying items[1] 2011 £m	**Non-underlying items (Note 8) 2011 £m**	**Total 2011 £m**	Group 2010 £m	**Company 2011 £m**	Company 2010 £m
Total UK tax	**31**	**(6)**	**25**	21	**(5)**	(8)
Total non-UK tax	**60**	**(21)**	**39**	23	**–**	–
Total tax charge/(credit)	**91**	**(27)**	**64**	44	**(5)**	(8)
Comprising						
UK current tax						
– corporation tax for the year at 26.5% (2010: 28%)	**–**	**–**	**–**	4	**(10)**	(13)
– adjustments in respect of previous periods	**–**	**–**	**–**	3	**4**	3
	–	**–**	**–**	7	**(6)**	(10)
Non-UK current tax						
– non-UK tax on profits for the year	**24**	**–**	**24**	34	**–**	–
– adjustments in respect of previous periods	**(8)**	**–**	**(8)**	3	**–**	–
	16	**–**	**16**	37	**–**	–
Total current tax	**16**	**–**	**16**	44	**(6)**	(10)
UK deferred tax						
– current year charge/(credit)	**28**	**(6)**	**22**	14	**3**	2
– adjustments in respect of previous periods	**1**	**–**	**1**	(1)	**(2)**	–
– rate change	**2**	**–**	**2**	1	**–**	–
	31	**(6)**	**25**	14	**1**	2
Non-UK deferred tax						
– current year charge/(credit)	**33**	**(19)**	**14**	1	**–**	–
– adjustments in respect of previous periods	**11**	**(2)**	**9**	(15)	**–**	–
	44	**(21)**	**23**	(14)	**–**	–
Total deferred tax	**75**	**(27)**	**48**	–	**1**	2

[1] Before non-underlying items (Notes 1.11 and 8).

9 Taxation continued

9.1 Taxation charge continued

The Group tax charge above excludes amounts for joint ventures and associates (refer to Note 16.2), except where tax is levied at the Group level.

In addition to the Group tax charge above is £12m of tax charged (2010: £25m charged) directly to equity, comprising a deferred tax charge of £12m (2010: £28m charge), a current tax charge of £1m (2010: £nil) and a tax credit in respect of joint ventures and associates of £1m (2010: £3m credit).

In addition to the Company tax credit is £2m of deferred tax charged (2010: £nil) directly to equity.

The weighted average applicable tax rate is 29% (2010: 35%) based on underlying profit before taxation, excluding the results of joint ventures and associates.

9.2 Taxation reconciliation

	Group 2011 £m	Group 2010[2] £m	**Company 2011 £m**	Company 2010[2] £m
Profit/(loss) before taxation	**246**	201	**(32)**	(31)
Less share of results of joint ventures and associates	**(75)**	(72)	**–**	–
Profit/(loss) before taxation	**171**	129	**(32)**	(31)
Add non-underlying items charged excluding share of joint ventures and associates	**88**	105	**1**	8
Underlying profit/(loss) before taxation and the results of joint ventures and associates[1]	**259**	234	**(31)**	(23)
Tax on profit/(loss) before taxation at standard UK corporation tax rate of 26.5% (2010: 28%)	**69**	66	**(8)**	(6)
Effects of				
Expenses not deductible for tax purposes	**4**	11	**2**	–
Dividend income not taxable	**–**	–	**(4)**	(7)
Non-taxable disposals	**(5)**	–	**–**	–
Tax on share of joint ventures' and associates' profits levied at Group level	**7**	3	**–**	–
Preference share dividends not deductible	**3**	3	**3**	3
Losses not available for offset	**6**	3	**–**	–
Recognition of losses not previously recognised	**(1)**	(3)	**–**	–
Higher tax rates on foreign earnings	**2**	9	**–**	–
Statutory rate change	**2**	1	**–**	–
Adjustments in respect of previous periods	**4**	(10)	**2**	3
Total tax charge/(credit) on underlying profit/(loss)	**91**	83	**(5)**	(7)
Less tax credit on non-underlying items	**(27)**	(39)	**–**	(1)
Total tax charge/(credit) on profit/(loss)	**64**	44	**(5)**	(8)

1 Before non-underlying items (Notes 1.11 and 8).
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

10 Discontinued operation

On 2 March 2011 the Directors resolved to dispose of the Company's effective 25.5% interest in Barking Power Ltd ("Barking") and accordingly, from 2 March 2011, the Company's interest in Barking was classified as a discontinued operation held for sale.

Barking was previously accounted for as an associate using the equity method. Subsequent to classification as a discontinued operation, equity accounting was no longer applied and all income and expenses relating to Barking were classified as non-underlying items.

On 21 December 2011 the Company disposed of its effective 25.5% interest in Barking to the Balfour Beatty Pension Fund for its carrying value of £55m. Transaction costs of £1m were incurred in respect of the disposal resulting in a £1m loss on disposal for the Group and a £54m gain for the Company.

The £55m proceeds from the disposal of Barking to the BBPF and the £55m one-off BBPF deficit contribution were net settled.

Barking was part of the Infrastructure Investments segment.

Barking results included in the income statement	**Group 2011 £m**	Group 2010 £m	**Company 2011 £m**	Company 2010 £m
Share of revenue of joint ventures and associates	**8**	68	**–**	–
Underlying operating profit[1]	**–**	18	**–**	9
Taxation	**–**	(5)	**–**	–
Share of underlying results of joint ventures and associates/profit from operations[1]	**–**	13	**–**	9
Non-underlying items – impairment of Barking Power Station (Note 8)	**–**	(27)	**–**	–
Share of results of joint ventures and associates/profit from operations	**–**	(14)	**–**	9
Non-underlying items – dividends received (Note 8)	**5**	–	**5**	–
Non-underlying items – (loss)/gain on disposal (Note 8)	**(1)**	–	**54**	–
Profit/(loss) for the year from discontinued operation	**4**	(14)	**59**	9

1 Before non-underlying items (Notes 1.11 and 8).

Notes to the accounts continued

11 Earnings per ordinary share

	Basic 2011 £m	Diluted 2011 £m	Basic 2010[2] £m	Diluted 2010[2] £m
Continuing operations				
Earnings	**182**	**182**	157	157
Amortisation of acquired intangible assets – net of tax credit of £23m (2010: £27m)	**39**	**39**	55	55
Other non-underlying items – net of tax credit of £4m (2010: £12m)	**22**	**22**	11	11
Underlying earnings	**243**	**243**	223	223
Discontinued operation				
Earnings	**4**	**4**	(14)	(14)
Other non-underlying items – net of tax of £nil (2010: £nil)	**(4)**	**(4)**	27	27
Underlying earnings	**–**	**–**	13	13
Total operations				
Earnings	**186**	**186**	143	143
Amortisation of acquired intangible assets – net of tax credit of £23m (2010: £27m)	**39**	**39**	55	55
Other non-underlying items – net of tax credit of £4m (2010: £12m)	**18**	**18**	38	38
Underlying earnings	**243**	**243**	236	236

[2] Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

	Basic 2011 £m	Diluted 2011 £m	Basic 2010 £m	Diluted 2010 £m
Weighted average number of ordinary shares	**683**	**684**	682	683

	Basic 2011 Pence	Diluted 2011 Pence	Basic 2010[2] Pence	Diluted 2010[2] Pence
Continuing operations				
Earnings per ordinary share	**26.7**	**26.7**	23.0	22.9
Amortisation of acquired intangible assets	**5.7**	**5.7**	8.1	8.1
Other non-underlying items	**3.1**	**3.1**	1.6	1.6
Underlying earnings per ordinary share	**35.5**	**35.5**	32.7	32.6
Discontinued operation				
Earnings per ordinary share	**0.6**	**0.6**	(2.0)	(2.0)
Other non-underlying items	**(0.6)**	**(0.6)**	4.0	4.0
Underlying earnings per ordinary share	**–**	**–**	2.0	2.0
Total operations				
Earnings per ordinary share	**27.3**	**27.3**	21.0	20.9
Amortisation of acquired intangible assets	**5.7**	**5.7**	8.1	8.1
Other non-underlying items	**2.5**	**2.5**	5.6	5.6
Underlying earnings per ordinary share	**35.5**	**35.5**	34.7	34.6

[2] Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

12 Dividends on ordinary shares

	Per share 2011 Pence	Amount 2011 £m	Per share 2010 Pence	Amount 2010 £m
Proposed dividends for the year				
Interim – current year	**5.30**	**36**	5.05	35
Final – current year	**8.50**	**58**	7.65	52
	13.80	**94**	12.70	87
Recognised dividends for the year				
Final – prior year		**52**		49
Interim – current year		**36**		35
		88		84

The interim 2011 dividend was paid on 9 December 2011. Subject to approval at the Annual General Meeting on 10 May 2012, the final 2011 dividend will be paid on 6 July 2012 to holders on the register on 27 April 2012 by direct credit or, where no mandate has been given, by cheque posted on 5 July 2012 payable on 6 July 2012. The ordinary shares will be quoted ex-dividend on 25 April 2012.

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2010	1,189	(44)	1,145
Currency translation differences	21	(2)	19
Businesses acquired	32	–	32
At 31 December 2010	1,242	(46)	1,196
Currency translation differences	**1**	**–**	**1**
Businesses acquired (Notes 30.1.1 and 30.3)	**89**	**–**	**89**
Business disposed (Note 30.4.1)	**(7)**	**–**	**(7)**
At 31 December 2011	**1,325**	**(46)**	**1,279**

Carrying amounts of goodwill by segment	**United Kingdom 2011 £m**	**United States 2011 £m**	**Rest of world 2011 £m**	**Total 2011 £m**	United Kingdom 2010 £m	United States 2010 £m	Rest of world 2010 £m	Total 2010 £m
Professional Services	**10**	**166**	**61**	**237**	10	165	59	234
Construction Services	**329**	**379**	**162**	**870**	330	326	166	822
Support Services	**125**	**–**	**–**	**125**	93	–	–	93
Infrastructure Investments	**4**	**43**	**–**	**47**	4	43	–	47
Group	**468**	**588**	**223**	**1,279**	437	534	225	1,196

The 2010 segment analysis has been re-presented.

The recoverable amount of goodwill is based on value in use. Cash flow forecasts are based on the expected workload of each cash-generating unit (CGU) giving consideration to the current level of confirmed orders and anticipated orders. Cash flow forecasts for the next four years (2010: three years) are based on the Group's 2012 budget and strategic road map. The other key inputs in assessing each CGU are its revenue growth rate and discount rate. The revenue growth rate has been applied to cash flows after four years (2010: three years) into perpetuity and reflects published GDP growth rates for the economic environment of each CGU. The cash flows assume a residual value based on a multiple of earnings before interest and tax.

The cash flows have been discounted using a pre-tax discount rate in the range of 10.3% to 13.4% (2010: 11.0% to 11.7%). The discount rates are revised annually applying updated market inputs to the capital asset pricing model.

			2011			2010
	United Kingdom	**United States**	**Rest of world**	United Kingdom	United States	Rest of world
Inflation rate	**2.0%**	**1.7%**	**2.0%**	2.9%	2.5%	2.0%
GDP growth rate	**1.7%**	**2.4%**	**0.5%**	1.3%	1.7%	1.0%
Nominal long-term revenue growth rate applied	**3.7%**	**4.1%**	**2.5%**	4.2%	4.2%	3.0%

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 revenue growth rate.

Except as noted below, a reasonably possible change in a single assumption will not give rise to impairment in any of the Group's CGUs. The Balfour Beatty Capital US goodwill is £43m and the key assumption is the discount rate of 10.3%, at which the fair value of the CGU exceeds the carrying value by £49m or 25%. The fair value is equal to the carrying value at a discount rate of 11.9%. The Rail Power Systems Europe goodwill is £165m and the key assumption is the revenue growth rate of 2.5%, at which the fair value of the CGU exceeds the carrying value by £26m or 10%. The fair value is equal to the carrying value at a revenue growth rate of 1.5%.

Notes to the accounts continued

14 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Software* £m	Total £m
Cost					
At 1 January 2010	216	114	49	6	385
Currency translation differences	8	5	1	–	14
Additions	–	–	–	14	14
Businesses acquired	3	5	1	–	9
At 31 December 2010	227	124	51	20	422
Currency translation differences	**2**	**1**	**–**	**–**	**3**
Additions	**–**	**–**	**–**	**19**	**19**
Businesses acquired (Note 30.1)	**7**	**20**	**7**	**–**	**34**
At 31 December 2011	**236**	**145**	**58**	**39**	**478**
Accumulated amortisation					
At 1 January 2010	(61)	(17)	(8)	(1)	(87)
Currency translation differences	(2)	–	–	–	(2)
Charge for the year	(34)	(34)	(12)	(2)	(82)
At 31 December 2010	(97)	(51)	(20)	(3)	(171)
Currency translation differences	**(1)**	**(1)**	**–**	**–**	**(2)**
Charge for the year	**(24)**	**(27)**	**(11)**	**(4)**	**(66)**
At 31 December 2011	**(122)**	**(79)**	**(31)**	**(7)**	**(239)**
Carrying amount					
At 31 December 2011	**114**	**66**	**27**	**32**	**239**
At 31 December 2010	130	73	31	17	251

* Includes internally generated software with a cost and carrying value of £3m (2010: £2m) and accumulated amortisation of £nil (2010: £nil).

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to 10 years for customer relationships, three to seven years for software, and up to five years for brand names, except for customer contracts and relationships relating to Parsons Brinckerhoff, Barnhart and Balfour Beatty Capital US which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships. These contracts have a duration of up to eight years for customer contracts and relationships relating to Parsons Brinckerhoff and Barnhart and up to 50 years for customer contracts relating to Balfour Beatty Capital US. The software for the UK shared service centre and the operating companies is amortised on a basis matching its usage profile over its seven-year life.

15 Property, plant and equipment

15.1 Movements

	Group Land and buildings £m	Group Plant and equipment £m	Group Assets in course of construction £m	Group Total £m	Company Plant and equipment £m
Cost or valuation					
At 1 January 2010	122	541	3	666	4
Currency translation differences	2	4	–	6	–
Additions	10	74	1	85	1
Disposals	(3)	(41)	–	(44)	(4)
Transfers	1	–	(1)	–	(1)
Businesses acquired	–	2	–	2	–
At 31 December 2010	132	580	3	715	–
Currency translation differences	**–**	**(2)**	**–**	**(2)**	**–**
Additions	**7**	**69**	**1**	**77**	**–**
Disposals	**(2)**	**(54)**	**–**	**(56)**	**–**
Businesses disposed	**(17)**	**(34)**	**–**	**(51)**	**–**
Businesses acquired (Note 30.1)	**2**	**3**	**–**	**5**	**–**
At 31 December 2011	**122**	**562**	**4**	**688**	**–**
Accumulated depreciation					
At 1 January 2010	(27)	(324)	–	(351)	(3)
Currency translation differences	–	(2)	–	(2)	–
Charge for the year	(10)	(64)	–	(74)	–
Disposals	–	32	–	32	3
At 31 December 2010	(37)	(358)	–	(395)	–
Currency translation differences	**–**	**1**	**–**	**1**	**–**
Charge for the year	**(12)**	**(58)**	**–**	**(70)**	**–**
Disposals	**1**	**38**	**–**	**39**	
Businesses disposed	**3**	**22**	**–**	**25**	**–**
At 31 December 2011	**(45)**	**(355)**	**–**	**(400)**	**–**
Carrying amount					
At 31 December 2011	**77**	**207**	**4**	**288**	**–**
At 31 December 2010	95	222	3	320	–

The carrying amount of the Group's land and buildings and property, plant and equipment held under finance leases was £9m (2010: £12m). The Company has no land and buildings and no property, plant and equipment held under finance leases.

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated over their expected useful lives, on a straight-line basis at rates of 2.5% for buildings or over the term of the lease, and on a straight-line basis at rates of 4% to 33% for plant and equipment.

15.2 Analysis of carrying amount of land and buildings

	Group 2011 £m	Group 2010 £m
Freehold	**40**	58
Long leasehold – over 50 years unexpired	**5**	4
Short leasehold	**32**	33
	77	95

Notes to the accounts continued

16 Investments in joint ventures and associates

16.1 Movements

	Net assets £m	Loans £m	Provisions £m	Total £m
At 1 January 2010	349	202	(100)	451
Currency translation differences	5	–	–	5
Income recognised	58	–	–	58
Fair value revaluation of PPP financial assets	36	–	–	36
Fair value revaluation of PPP cash flow hedges	(47)	–	–	(47)
Fair value revaluation of other cash flow hedges	(3)	–	–	(3)
Actuarial gains on retirement benefit obligations	1	–	–	1
Tax on items taken directly to equity	3	–	–	3
Dividends	(62)	–	–	(62)
Additions	3	–	–	3
Disposals	(5)	(5)	–	(10)
Loans advanced	–	55	–	55
Loans repaid	–	(2)	–	(2)
Provisions utilised	–	(9)	9	–
At 31 December 2010	338	241	(91)	488
Currency translation differences	**3**	**–**	**–**	**3**
Income recognised	**75**	**–**	**–**	**75**
Fair value revaluation of PPP financial assets	**140**	**–**	**–**	**140**
Fair value revaluation of PPP cash flow hedges	**(154)**	**–**	**–**	**(154)**
Fair value revaluation of other cash flow hedges	**2**	**–**	**–**	**2**
Actuarial losses on retirement benefit obligations	**(7)**	**–**	**–**	**(7)**
Tax on items taken directly to equity	**1**	**–**	**–**	**1**
Dividends	**(54)**	**–**	**–**	**(54)**
Additions	**10**	**–**	**–**	**10**
Barking disposal	**(55)**	**–**	**–**	**(55)**
Other disposals	**(6)**	**(8)**	**–**	**(14)**
Loans advanced	**–**	**32**	**–**	**32**
Loans repaid	**–**	**(1)**	**–**	**(1)**
At 31 December 2011	**293**	**264**	**(91)**	**466**

Principal joint ventures and associates are shown in Note 37. The original cost of the Group's investments in joint ventures and associates was £187m (2010: £177m). The Group's share of borrowings of joint ventures and associates is shown in Note 16.2. The amount which was supported by the Group and the Company was £1m (2010: £2m), relating to the Group's share of guaranteed borrowings. The borrowings of Regional & City Airports (Exeter) Ltd and the PPP joint venture and associate entities are repayable over periods extending up to 2044. As disclosed in Note 32, the Group has committed to provide its share of further equity funding of joint ventures and associates in PPP projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction has been completed. As is customary in such projects, dividend payments and other distributions are restricted to ensure certain banking covenants are met.

16 Investments in joint ventures and associates continued

16.2 Share of results and net assets of joint ventures and associates

	Professional Services 2011 £m	Construction Services 2011 £m	Support Services 2011 £m	Infrastructure Investments UK PPP^ 2011 £m	US PPP[6] 2011 £m	Infrastructure 2011 £m	Total 2011 £m	Total 2011 £m
Revenue	1	849	140	536	2	13	551	1,541
Underlying operating profit[1]	–	31	4	12	7	1	20	55
Investment income	–	1	–	184	–	–	184	185
Finance costs	–	–	–	(148)	–	(3)	(151)	(151)
Profit/(loss) before taxation	–	32	4	48	7	(2)	53	89
Taxation	–	(4)	–	(11)	–	1	(10)	(14)
Profit/(loss) after taxation	–	28	4	37	7	(1)	43	75
Non-current assets								
Intangible assets – goodwill	–	31	–	–	–	24	24	55
– PPP concession assets	–	–	–	19	–	–	19	19
– other	–	–	–	1	–	–	1	1
Property, plant and equipment	–	42	1	–	–	11	11	54
PPP financial assets	–	–	–	2,481	–	–	2,481	2,481
Military housing projects	–	–	–	–	55	–	55	55
Other non-current assets	–	13	–	41	–	11	52	65
Current assets								
Cash and cash equivalents	3	193	9	199	–	2	201	406
Other current assets	3	360	42	96	1	2	99	504
Total assets	6	639	52	2,837	56	50	2,943	3,640
Current liabilities								
Borrowings	–	(47)	–	(79)	–	–	(79)	(126)
Other current liabilities	(3)	(285)	(41)	(187)	–	(8)	(195)	(524)
Non-current liabilities								
Borrowings	–	(1)	–	(1,915)	–	(37)	(1,952)	(1,953)
Other non-current liabilities	(2)	(212)	–	(357)	–	–	(357)	(571)
Total liabilities	(5)	(545)	(41)	(2,538)	–	(45)	(2,583)	(3,174)
Net assets	1	94	11	299	56	5	360	466

^ Including Singapore.
1 Before non-underlying items (Notes 1.11 and 8).
6 The Group's investment in military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Capital expenditure authorised and contracted which has not been provided for in the financial statements of the joint ventures and associates amounted to £2m (2010: £4m). The military housing joint ventures and associates have total non-recourse net borrowings of £1,717m (2010: £1,603m). Note 37(e) details the Group's military housing projects.

Notes to the accounts continued

16 Investments in joint ventures and associates continued

16.2 Share of results and net assets of joint ventures and associates continued

	Professional Services 2010 £m	Construction Services 2010 £m	Support Services 2010 £m	Infrastructure Investments UK PPP^ 2010 £m	US PPP[6] 2010 £m	Infrastructure[2] 2010 £m	Total[2] 2010 £m	Total[2] 2010 £m
Revenue	4	616	131	473	1	12	486	1,237
Underlying operating profit[1]	1	35	6	11	6	1	18	60
Investment income	–	–	–	159	–	–	159	159
Finance costs	–	–	–	(128)	–	(3)	(131)	(131)
Profit/(loss) before taxation	1	35	6	42	6	(2)	46	88
Taxation	–	(4)	(1)	(12)	–	1	(11)	(16)
Profit/(loss) after taxation	1	31	5	30	6	(1)	35	72
Non-current assets								
Intangible assets – goodwill	–	31	–	–	–	24	24	55
– PPP concession assets	–	–	–	21	–	–	21	21
– other	–	–	–	1	–	–	1	1
Property, plant and equipment	–	36	2	–	–	68	68	106
PPP financial assets	–	–	–	2,121	–	–	2,121	2,121
Military housing projects	–	–	–	–	45	–	45	45
Other non-current assets	–	4	–	30	–	2	32	36
Current assets								
Cash and cash equivalents	4	176	5	196	–	19	215	400
Other current assets	9	364	28	90	–	19	109	510
Total assets	13	611	35	2,459	45	132	2,636	3,295
Current liabilities								
Borrowings	–	(38)	–	(69)	–	(4)	(73)	(111)
Other current liabilities	(9)	(296)	(25)	(134)	–	(28)	(162)	(492)
Non-current liabilities								
Borrowings	–	(3)	–	(1,743)	–	(38)	(1,781)	(1,784)
Other non-current liabilities	(3)	(178)	–	(239)	–	–	(239)	(420)
Total liabilities	(12)	(515)	(25)	(2,185)	–	(70)	(2,255)	(2,807)
Net assets	1	96	10	274	45	62	381	488

^ Including Singapore.
1 Before non-underlying items (Notes 1.11 and 8).
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).
6 The Group's investment in military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

16 Investments in joint ventures and associates continued

16.3 PPP investments

	Net investment 2011 £m	**Reserves 2011 £m**	**Total 2011 £m**	Net investment 2010 £m	Reserves 2010 £m	Total 2010 £m
Roads	**99**	**(15)**	**84**	87	13	100
Hospitals	**80**	**75**	**155**	88	45	133
Schools	**47**	**5**	**52**	39	(3)	36
Other concessions	**2**	**6**	**8**	2	3	5
PPP UK^	**228**	**71**	**299**	216	58	274
PPP US (military housing)	**45**	**11**	**56**	48	(3)	45
PPP investments	**273**	**82**	**355**	264	55	319

^ Including Singapore.

16.4 Cash flow from/(to) joint ventures and associates

Cash flows from investing activities	**UK PPP^ 2011 £m**	**US PPP 2011 £m**	**Other 2011 £m**	**Total 2011 £m**	UK PPP^ 2010 £m	US PPP 2010 £m	Other 2010 £m	Total[2] 2010 £m
Dividends from joint ventures and associates	**26**	**6**	**22**	**54**	27	9	17	53
Subordinated debt interest received	**18**	**–**	**–**	**18**	9	–	–	9
Investments in and loans to joint ventures and associates	**(31)**	**(10)**	**–**	**(41)**	(54)	–	(2)	(56)
Disposal of joint ventures	**28**	**–**	**–**	**28**	24	–	–	24
Net cash flow from/(to) joint ventures and associates	**41**	**(4)**	**22**	**59**	6	9	15	30

^ Including Singapore.
2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

Investments in and loans to joint ventures and associates	**UK PPP^ 2011 £m**	**US PPP 2011 £m**	**Total 2011 £m**	UK PPP^ 2010 £m	Other 2010 £m	Total 2010 £m
Investments in						
– equity	**–**	**(10)**	**(10)**	–	(3)	(3)
– subordinated debt	**(32)**	**–**	**(32)**	(55)	–	(55)
– subordinated debt repaid	**1**	**–**	**1**	1	–	1
– other loans	**–**	**–**	**–**	–	1	1
Total investments in joint ventures and associates	**(31)**	**(10)**	**(41)**	(54)	(2)	(56)

^ Including Singapore.

Notes to the accounts continued

16 Investments in joint ventures and associates continued

16.5 Share of joint ventures' and associates' reserves

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total £m
Balance at 1 January 2010	162	(87)	68	14	157
Currency translation differences	–	–	–	5	5
Income recognised	58	–	–	–	58
Fair value revaluation of PPP financial assets	–	–	36	–	36
Fair value revaluation of PPP cash flow hedges	–	(47)	–	–	(47)
Fair value revaluation of other cash flow hedges	–	(3)	–	–	(3)
Actuarial gains on retirement benefit obligations	1	–	–	–	1
Tax on items taken directly to equity	–	13	(10)	–	3
Dividends paid	(62)	–	–	–	(62)
Recycling of revaluation reserves to the income statement on disposal	–	11	(15)	–	(4)
Balance at 31 December 2010	159	(113)	79	19	144
Currency translation differences	**–**	**–**	**–**	**3**	**3**
Income recognised	**75**	**–**	**–**	**–**	**75**
Fair value revaluation of PPP financial assets	**–**	**–**	**140**	**–**	**140**
Fair value revaluation of PPP cash flow hedges	**–**	**(154)**	**–**	**–**	**(154)**
Fair value revaluation of other cash flow hedges	**–**	**2**	**–**	**–**	**2**
Actuarial losses on retirement benefit obligations	**(7)**	**–**	**–**	**–**	**(7)**
Tax on items taken directly to equity	**1**	**32**	**(32)**	**–**	**1**
Dividends	**(54)**	**–**	**–**	**–**	**(54)**
Recycling of revaluation reserves to the income statement on disposal	**–**	**–**	**(6)**	**–**	**(6)**
Balance at 31 December 2011	**174**	**(233)**	**181**	**22**	**144**

17 Investments

17.1 Group

	Held to maturity bonds £m	Available-for-sale investments in mutual funds £m	Total £m
Balance at 1 January 2010	42	41	83
Currency translation differences	–	3	3
Fair value movements	–	4	4
Additions	7	5	12
Maturities/disposals	(3)	(4)	(7)
Balance at 31 December 2010	46	49	95
Currency translation differences	**–**	**1**	**1**
Fair value movements	**–**	**(2)**	**(2)**
Additions	**14**	**7**	**21**
Maturities/disposals	**(14)**	**(5)**	**(19)**
Balance at 31 December 2011	**46**	**50**	**96**

The held to maturity bonds are held by Delphian Insurance Company Ltd, the Group's captive insurance company, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 2.08% (2010: 2.25%) and weighted average life of 3.2 years (2010: 2.7 years). The fair value of the bonds is £48m (2010: £45m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2011 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The available-for-sale investments in mutual funds comprise holdings in a number of funds in respect of the deferred compensation obligations of the Group as disclosed in Note 26. Investments are made based on employees' investment elections. The fair value of the available-for-sale investments is £50m (2010: £49m), determined by the market price of each fund at the reporting date.

17.2 Company

	2011 £m	2010 £m
Investment in subsidiaries	**1,877**	1,871
Investment in joint ventures and associates	**3**	14
Provisions	**(138)**	(143)
	1,742	1,742

18 PPP financial assets

	Schools £m	Roads £m	Other £m	Total £m
Balance at 1 January 2010	175	85	–	260
Income recognised in the income statement				
– construction contract margin	–	1	–	1
– interest income	11	8	–	19
Gains recognised in the statement of comprehensive income				
– fair value movements	13	12	–	25
Other movements				
– cash expenditure	7	50	–	57
– cash received	(16)	(19)	–	(35)
Balance at 31 December 2010	190	137	–	327
Income recognised in the income statement				
– construction contract margin	**–**	**1**	**–**	**1**
– interest income	**11**	**13**	**1**	**25**
Gains recognised in the statement of comprehensive income				
– fair value movements	**22**	**42**	**–**	**64**
Other movements				
– cash expenditure	**8**	**47**	**24**	**79**
– cash received	**(16)**	**(23)**	**–**	**(39)**
Balance at 31 December 2011	**215**	**217**	**25**	**457**

Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets and are denominated in sterling. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets. There were no disposals or impairment provisions in 2011 or 2010.

19 Inventories

	2011 £m	2010 £m
Unbilled work in progress	**47**	27
Raw materials and consumables	**62**	45
Manufacturing work in progress	**6**	5
Finished goods and goods for resale	**8**	6
Development and housing land and work in progress	**17**	6
	140	89

20 Construction contracts

Contracts in progress at reporting date	**2011 £m**	2010 £m
Due from customers for contract work	**604**	591
Due to customers for contract work	**(576)**	(651)
	28	(60)

The aggregate amount of costs incurred; plus recognised profits; less recognised losses; for all contracts in progress that had not reached practical completion at the reporting date was £16,910m (2010: £18,839m).

Notes to the accounts continued

21 Financial instruments

21.1 Capital risk management

The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group and Company comprises: equity attributable to equity holders of Balfour Beatty plc, consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 28 and 29; preference shares as disclosed in Note 28; and cash and cash equivalents and borrowings as disclosed in Note 24.

The Group and Company maintain or adjust their capital structure through the payment of dividends to equity holders, issue of new shares and buy-back of existing shares, and issuing new borrowings or repaying existing borrowings. The Group's and Company's policy is to carry no significant net debt, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

The Group's and Company's overall capital risk management strategy remains unchanged from 2010.

21.2 Group
Categories of financial instruments

Group	Loans and receivables at amortised cost, cash and cash equivalents 2011 £m	Financial liabilities at amortised cost 2011 £m	Available-for-sale financial assets 2011 £m	Held to maturity financial assets 2011 £m	Derivatives 2011 £m	Loans and receivables at amortised cost, cash and cash equivalents 2010 £m	Financial liabilities at amortised cost 2010 £m	Available-for-sale financial assets 2010 £m	Held to maturity financial assets 2010 £m	Derivatives 2010 £m
Financial assets										
Fixed rate corporate bonds and gilts	**–**	**–**	**–**	**46**	**–**	–	–	–	46	–
Mutual funds	**–**	**–**	**50**	**–**	**–**	–	–	49	–	–
PPP financial assets	**–**	**–**	**457**	**–**	**–**	–	–	327	–	–
Cash and cash equivalents	**595**	**–**	**–**	**–**	**–**	584	–	–	–	–
Trade and other receivables	**1,434**	**–**	**–**	**–**	**–**	1,179	–	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**1**	–	–	–	–	4
Total	**2,029**	**–**	**507**	**46**	**1**	1,763	–	376	46	4
Financial liabilities										
Liability component of preference shares	**–**	**(91)**	**–**	**–**	**–**	–	(89)	–	–	–
Trade and other payables	**–**	**(2,326)**	**–**	**–**	**–**	–	(2,139)	–	–	–
Unsecured borrowings	**–**	**(229)**	**–**	**–**	**–**	–	(36)	–	–	–
Secured borrowings	**–**	**(8)**	**–**	**–**	**–**	–	(12)	–	–	–
PPP non-recourse term loans	**–**	**(350)**	**–**	**–**	**–**	–	(288)	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**(130)**	–	–	–	–	(47)
Total	**–**	**(3,004)**	**–**	**–**	**(130)**	–	(2,564)	–	–	(47)
Net	**2,029**	**(3,004)**	**507**	**46**	**(129)**	1,763	(2,564)	376	46	(43)
Current year comprehensive income/(expense)	**19**	**(38)**	**221**	**–**	**(237)**	7	(33)	80	–	(68)

Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2011 £m	Non-current 2011 £m	Total 2011 £m	Current 2011 £m	Non-current 2011 £m	Total 2011 £m	Current 2010 £m	Non-current 2010 £m	Total 2010 £m	Current 2010 £m	Non-current 2010 £m	Total 2010 £m
Foreign currency contracts												
At fair value through profit and loss – held for trading	**1**	**–**	**1**	**(1)**	**–**	**(1)**	2	–	2	(2)	–	(2)
Designated as cash flow hedges	**–**	**–**	**–**	**(1)**	**–**	**(1)**	2	–	2	–	(1)	(1)
Interest rate swaps												
Designated as cash flow hedges	**–**	**–**	**–**	**(8)**	**(120)**	**(128)**	–	–	–	–	(44)	(44)
	1	**–**	**1**	**(10)**	**(120)**	**(130)**	4	–	4	(2)	(45)	(47)

21 Financial instruments continued

21.2 Group continued

Non-derivative financial liabilities gross maturity

The following table details the remaining contractual maturity for the Group's non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that have not been included in the carrying value of the financial liability.

Maturity profile of the Group's non-derivative financial liabilities at 31 December

	PPP non-recourse project finance 2011 £m	**Other borrowings 2011 £m**	**Other financial liabilities 2011 £m**	**Total non-derivative financial liabilities 2011 £m**	**Total discount 2011 £m**	**Carrying value 2011 £m**
Due on demand or within one year	**(24)**	**(231)**	**(2,204)**	**(2,459)**	**14**	**(2,445)**
Due within one to two years	**(16)**	**(1)**	**(43)**	**(60)**	**15**	**(45)**
Due within two to five years	**(65)**	**–**	**(65)**	**(130)**	**62**	**(68)**
Due after more than five years	**(610)**	**(5)**	**(224)**	**(839)**	**393**	**(446)**
	(715)	**(237)**	**(2,536)**	**(3,488)**	**484**	**(3,004)**
Discount	**365**	**–**	**119**	**484**		
Carrying value	**(350)**	**(237)**	**(2,417)**	**(3,004)**		

	PPP non-recourse project finance 2010 £m	Other borrowings 2010 £m	Other financial liabilities 2010 £m	Total non-derivative financial liabilities 2010 £m	Total discount 2010 £m	Carrying value 2010 £m
Due on demand or within one year	(12)	(38)	(2,024)	(2,074)	13	(2,061)
Due within one to two years	(23)	(3)	(47)	(73)	18	(55)
Due within two to five years	(49)	(1)	(58)	(108)	58	(50)
Due after more than five years	(490)	(6)	(231)	(727)	329	(398)
	(574)	(48)	(2,360)	(2,982)	418	(2,564)
Discount	286	–	132	418		
Carrying value	(288)	(48)	(2,228)	(2,564)		

Derivative financial liabilities gross maturity

The following table details the Group's expected maturity for its derivative financial liabilities. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that require gross settlement (foreign exchange contracts). When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves existing at the reporting date.

Maturity profile of the Group's derivative financial liabilities at 31 December

	Payable 2011 £m	**Receivable 2011 £m**	**Net payable 2011 £m**	Payable 2010 £m	Receivable 2010 £m	Net payable 2010 £m
Due on demand or within one year	**(89)**	**75**	**(14)**	(81)	68	(13)
Due within one to two years	**(22)**	**7**	**(15)**	(13)	3	(10)
Due within two to five years	**(51)**	**4**	**(47)**	(23)	2	(21)
Due after more than five years	**(124)**	**–**	**(124)**	(24)	–	(24)
Total	**(286)**	**86**	**(200)**	(141)	73	(68)

Notes to the accounts continued

21 Financial instruments continued

21.2 Group continued
Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign currency and commodity price risk, including:

- forward foreign exchange contracts and options to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company;
- commodity forward contracts to manage the commodity price risk associated with the Group's operational requirements for certain commodities, such as fuel; and
- interest rate swaps to mitigate the cash flow variability associated with variable interest rates on borrowings in PPP concessions.

There has been no material change to the Group's exposure to market risks and there has been no change in how the Group manages those risks since 2010.

(i) Foreign currency risk management
The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros, Australian dollars, Hong Kong dollars and United Arab Emirate dirhams. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above pre-set materiality levels determined by the Chief Financial Officer whenever a current or future foreign currency exposure is identified with sufficient reliability. Hedge accounting is applied to these transactions.

Details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures are set out on page 124.

As at 31 December 2011, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £116m (2010: £151m). The period during which the cash flows are expected to occur is up to three years. This will affect the income statement throughout the same periods.

The Group has designated forward exchange contracts against highly probable capital expenditure which is expected to occur in up to three years with a notional principal amount of £26m (2010: £23m) as cash flow hedges. Fair value gains of £nil (2010: £2m gains) have been taken to hedging reserves within equity in relation to these contracts. The cumulative amounts deferred in the hedging reserves relating to cash flow hedges at year-end is £nil (2010: £2m).

The Group's investments in foreign operations are exposed to foreign currency translation risks. These were previously managed by hedging significant net assets denominated in currencies other than sterling principally using forward foreign exchange contracts. The Group's policy was amended in prior years and the Group currently no longer enters into forward foreign exchange contracts to hedge foreign currency denominated assets. There has been no change to the hedging policies since 2010.

The hedging policy is reviewed periodically.

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the income statement in relation to any foreign exchange cash flow hedges.

21 Financial instruments continued

21.2 Group continued

(a) Market risk continued

(ii) Interest rate risk management

Interest rate risk arises in the Group's PPP concessions which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets.

Floating rate borrowings expose the Group to cash flow interest rate risk. Group policy is to swap floating rate interest to fixed rate, using interest rate swaps, to hedge the cash flow variability of the interest.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps is determined by discounting the future cash flows using the applicable yield curve at the reporting date. The net effect of a movement in interest rates on income would therefore be immaterial.

During 2011 and 2010, the Group's PPP subsidiaries' borrowings at variable rates of interest were denominated in sterling.

The notional principal amounts of the outstanding PPP subsidiaries' interest rate swaps outstanding at 31 December 2011 were £365m (2010: £297m) with maturities that match the maturity of the underlying borrowings ranging from one year to 25 years. At 31 December 2011, the fixed interest rates range from 4.2% to 5.1% (2010: 4.5% to 5.1%) and the principal floating rates are LIBOR plus a fixed margin.

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £19m (2010: £6m) increase and a £21m (2010: £6m) decrease in amounts taken directly by the Group to equity in relation to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its PPP subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and non-PPP borrowings. A 50 basis point increase/decrease in the interest rate of each currency in which these financial instruments are held would lead to a £1m (2010: £3m) increase and a £nil (2010: £3m) decrease in the Group's net investment income.

(iii) Price risk management

The Group's principal price risk exposure arises in its PPP concessions. At the commencement of the concession an element of the unitary payment by the client is indexed to offset the effect of inflation on the concession's costs. To the extent that inflation differs from the index used, the Group is exposed to a price risk.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and cash equivalents, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and cash equivalents and derivative financial instruments the Group has a policy of only depositing funds with independently rated counterparties with a minimum long-term credit rating of A. At 31 December 2011 £32m (2010: £37m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances. No losses are anticipated from non-performance of these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or quasi-public sector entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at 31 December is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 24.1. The maturity profile of the Group's financial liabilities is set out on page 125.

Notes to the accounts continued

21 Financial instruments continued

21.2 Group continued
Fair value estimation

The Group holds a number of financial instruments on the statement of financial position at their fair values. The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities. The Group holds available-for-sale investments in mutual funds which are traded in active markets and valued based on the closing market price at 31 December.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising applicable year-end yield curves. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts.

Level 3 – The fair value is based on unobservable inputs. The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin that reflects the fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets. The subsequent movement in the fair value is taken to equity.

There have been no transfers between these categories in the current or preceding year.

Financial instruments measured at fair value

	Fair value measurement 2011				Fair value measurement 2010			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale mutual fund financial assets	**50**	**–**	**–**	**50**	49	–	–	49
Available-for-sale PPP financial assets	**–**	**–**	**457**	**457**	–	–	327	327
Financial assets – foreign currency contracts	**–**	**1**	**–**	**1**	–	4	–	4
Total assets measured at fair value	**50**	**1**	**457**	**508**	49	4	327	380
Financial liabilities – foreign currency contracts	**–**	**(2)**	**–**	**(2)**	–	(3)	–	(3)
Financial liabilities – interest rate swaps	**–**	**(128)**	**–**	**(128)**	–	(44)	–	(44)
Total liabilities measured at fair value	**–**	**(130)**	**–**	**(130)**	–	(47)	–	(47)

In respect of the Level 3 PPP financial assets, a change in the discount rate would have a significant effect on the value of the asset and a 50 basis points increase/decrease, which represents management's assessment of a reasonably possible change in the risk adjusted discount rate, would lead to a £16m (2010: £14m) change in the fair value of the assets taken through equity. Refer to Note 18 for a reconciliation of the movement of the opening balance to the closing balance.

The carrying values less impairment provision of trade and other receivables and payables approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

21 Financial instruments continued

21.3 Company
Categories of financial instruments

Company	Loans and receivables at amortised cost, cash and cash equivalents 2011 £m	Financial liabilities at amortised cost 2011 £m	Available-for-sale financial assets 2011 £m	Held to maturity financial assets 2011 £m	Derivatives 2011 £m	Loans and receivables at amortised cost, cash and cash equivalents 2010 £m	Financial liabilities at amortised cost 2010 £m	Available-for-sale financial assets 2010 £m	Held to maturity financial assets 2010 £m	Derivatives 2010 £m
Financial assets										
Trade and other receivables	**1,313**	**–**	**–**	**–**	**–**	1,141	–	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**3**	–	–	–	–	7
Total	**1,313**	**–**	**–**	**–**	**3**	1,141	–	–	–	7
Financial liabilities										
Liability component of preference shares	**–**	**(91)**	**–**	**–**	**–**	–	(89)	–	–	–
Trade and other payables	**–**	**(1,603)**	**–**	**–**	**–**	–	(1,571)	–	–	–
Unsecured borrowings	**–**	**(236)**	**–**	**–**	**–**	–	(55)	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**(3)**	–	–	–	–	(7)
Total	**–**	**(1,930)**	**–**	**–**	**(3)**	–	(1,715)	–	–	(7)
Net	**1,313**	**(1,930)**	**–**	**–**	**–**	1,141	(1,715)	–	–	–

Derivatives

	Financial assets			**Financial liabilities**			Financial assets			Financial liabilities		
	Current 2011 £m	**Non-current 2011 £m**	**Total 2011 £m**	**Current 2011 £m**	**Non-current 2011 £m**	**Total 2011 £m**	Current 2010 £m	Non-current 2010 £m	Total 2010 £m	Current 2010 £m	Non-current 2010 £m	Total 2010 £m
At fair value through profit and loss – held for trading	**2**	**1**	**3**	**(2)**	**(1)**	**(3)**	6	1	7	(6)	(1)	(7)

The Company is responsible for executing all of the Group's external derivative contracts, except for those in relation to PPP concessions. The Company's external derivative contracts are matched with derivative contracts issued by the Company to the Group's operating companies. The Company's financial assets and financial liabilities measured at fair value are the foreign currency contracts shown in the table above. The fair value of these foreign currency contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts.

The Company's derivatives are classified as Level 2 in the fair value estimation hierarchy detailed above.

Notes to the accounts continued

21 Financial instruments continued

21.3 Company continued

Non-derivative financial liabilities gross maturity

Maturity profile of the Company's non-derivative financial liabilities at 31 December

	Borrowings 2011 £m	Other financial liabilities 2011 £m	Total non-derivative financial liabilities 2011 £m	Total discount 2011 £m	Carrying value 2011 £m
Due on demand or within one year	**(236)**	**(1,591)**	**(1,827)**	**13**	**(1,814)**
Due within one to two years	**–**	**(11)**	**(11)**	**11**	**–**
Due within two to five years	**–**	**(34)**	**(34)**	**32**	**(2)**
Due after more than five years	**–**	**(173)**	**(173)**	**59**	**(114)**
	(236)	**(1,809)**	**(2,045)**	**115**	**(1,930)**
Discount	**–**	**115**	**115**		
Carrying value	**(236)**	**(1,694)**	**(1,930)**		

	Borrowings 2010 £m	Other financial liabilities 2010 £m	Total non-derivative financial liabilities 2010 £m	Total discount 2010 £m	Carrying value 2010 £m
Due on demand or within one year	(55)	(1,558)	(1,613)	13	(1,600)
Due within one to two years	–	(11)	(11)	11	–
Due within two to five years	–	(33)	(33)	33	–
Due after more than five years	–	(186)	(186)	71	(115)
	(55)	(1,788)	(1,843)	128	(1,715)
Discount	–	128	128		
Carrying value	(55)	(1,660)	(1,715)		

Derivative financial liabilities gross maturity

Maturity profile of the Company's derivative financial liabilities at 31 December

	Payable 2011 £m	Receivable 2011 £m	Payable 2010 £m	Receivable 2010 £m
Due on demand or within one year	**(132)**	**130**	(169)	163
Due within one to two years	**(10)**	**9**	(3)	3
Due within two to five years	**(6)**	**6**	(3)	2
Total	**(148)**	**145**	(175)	168

Financial risk factors

(a) Market risk

(i) Foreign currency risk management

For the Company, there would be no material effect of any strengthening/weakening in US dollar, euro, Australian dollar, Hong Kong dollar or United Arab Emirates dirham exchange rates against sterling. The Company's external forward foreign exchange contracts hedge the currency risk on foreign currency loans entered into with Group companies or are offset by forward foreign exchange contracts with the Group's operating companies where Group Treasury is hedging the exchange rate risk arising on trading activities on their behalf.

(ii) Interest rate risk management

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £5m (2010: £3m) decrease/increase in the Company's investment income. This is mainly attributable to the Company's exposure to UK interest rates on its cash and cash equivalents and term deposits and amounts due to and from its subsidiaries. There would be no effect on amounts taken directly by the Company to equity.

(b) Credit risk

The Company bears credit risk in respect to trade receivables and payables due from/to subsidiaries. There were no amounts past due at the reporting date. The maximum exposure is the carrying value of the financial assets recorded in the financial statements.

22 Trade and other receivables

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Current				
Trade receivables	**1,094**	928	**8**	5
Less: Provision for impairment of trade receivables	**(46)**	(48)	**–**	–
	1,048	880	**8**	5
Due from subsidiaries	**–**	–	**1,285**	1,106
Due from joint ventures and associates	**24**	25	**–**	–
Due from jointly controlled operations	**2**	4	**–**	–
Contract retentions	**244**	176	**–**	–
Accrued income	**34**	25	**–**	–
Prepayments	**58**	87	**2**	3
	1,410	1,197	**1,295**	1,114
Non-current				
Trade receivables	**17**	13	**–**	–
Due from joint ventures and associates	**2**	1	**20**	30
Contract retentions	**47**	39	**–**	–
Prepayments	**5**	1	**5**	–
Due on acquisitions	**16**	16	**–**	–
	87	70	**25**	30
Total trade and other receivables	**1,497**	1,267	**1,320**	1,144
Comprising				
Financial assets	**1,434**	1,179	**1,313**	1,141
Non-financial assets – prepayments	**63**	88	**7**	3
	1,497	1,267	**1,320**	1,144

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, management believe no further credit risk provision is required in respect of trade receivables.

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. The fair value of non-current trade and other receivables amounts to £83m (2010: £68m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

Notes to the accounts continued

22 Trade and other receivables continued

Movement in the provision for impairment of trade receivables

	Group 2011 £m	Group 2010 £m
Balance at 1 January	**(48)**	(41)
Currency translation differences	**–**	(1)
Credited/(charged) to the income statement		
– additional provisions	**(11)**	(15)
– unused amounts reversed	**11**	6
Used during the year	**2**	3
Balance at 31 December	**(46)**	(48)

Maturity profile of impaired receivables

	Group 2011 £m	Group 2010 £m
Up to three months	**2**	3
Three to six months	**1**	1
Six to nine months	**1**	2
Nine to 12 months	**5**	6
More than 12 months	**37**	36
	46	48

At 31 December 2011, trade receivables of £194m (2010: £155m) were past due but not impaired. These relate to a number of individual customers where there is no reason to believe that the receivable is not recoverable.

Maturity profile of trade receivables past due but not impaired

	Group 2011 £m	Group 2010 £m
Up to three months	**137**	95
Three to six months	**27**	26
Six to nine months	**13**	14
Nine to 12 months	**11**	12
More than 12 months	**6**	8
	194	155

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

23 Trade and other payables

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Current				
Trade and other payables	**1,183**	992	**8**	8
Accruals	**1,052**	1,010	**7**	15
Deferred income	**32**	35	**1**	1
Advance payments on contracts*	**18**	68	**–**	–
VAT, payroll taxes and social security	**114**	98	**15**	15
Due to subsidiaries	**–**	–	**1,558**	1,518
Due to joint ventures and associates	**8**	17	**–**	–
Dividends on preference shares	**5**	5	**5**	5
Due on acquisitions	**14**	7	**–**	–
	2,426	2,232	**1,594**	1,562
Non-current				
Trade and other payables	**69**	70	**–**	–
Accruals	**19**	18	**–**	–
Deferred income	**6**	7	**–**	–
Advance payments on contracts	**2**	2	**–**	–
Due to joint ventures and associates	**25**	25	**25**	25
Due on acquisitions	**21**	22	**–**	–
	142	144	**25**	25
Total trade and other payables	**2,568**	2,376	**1,619**	1,587
Comprising				
Financial liabilities	**2,326**	2,139	**1,603**	1,571
Non-financial liabilities				
– accruals not at amortised cost	**90**	97	**–**	–
– deferred income	**38**	42	**1**	1
– VAT, payroll taxes and social security	**114**	98	**15**	15
	2,568	2,376	**1,619**	1,587

* Includes £12m (2010: £66m) advances on construction contracts.

Maturity profile of the Group's non-current trade and other payables at 31 December

	Trade and other payables 2011 £m	Due on acquisitions 2011 £m	Accruals 2011 £m	Deferred income 2011 £m	Due to joint ventures and associates 2011 £m	Advance payments on contracts 2011 £m	Total 2011 £m	Trade and other payables 2010 £m	Due on acquisitions 2010 £m	Accruals 2010 £m	Deferred income 2010 £m	Due to joint ventures and associates 2010 £m	Advance payments on contracts 2010 £m	Total 2010 £m
Due within one to two years	**23**	**3**	**6**	**1**	**–**	**2**	**35**	23	3	8	1	–	2	37
Due within two to five years	**13**	**7**	**10**	**3**	**1**	**–**	**34**	9	7	4	4	–	–	24
Due after more than five years	**33**	**11**	**3**	**2**	**24**	**–**	**73**	38	12	6	2	25	–	83
	69	**21**	**19**	**6**	**25**	**2**	**142**	70	22	18	7	25	2	144
Fair values	**57**	**21**	**16**	**5**	**17**	**1**	**117**	50	22	16	6	13	2	109

The fair value of non-current trade and other payables has been determined by using yield curves and exchange rates prevailing at the reporting date and discounting future cash flows at interest rates prevailing at the reporting date.

Notes to the accounts continued

24 Cash and cash equivalents and borrowings

24.1 Group

	Current 2011 £m	Non-current 2011 £m	Total 2011 £m	Current 2010 £m	Non-current 2010 £m	Total 2010 £m
Unsecured borrowings at amortised cost						
– bank overdrafts	**(15)**	**–**	**(15)**	(34)	–	(34)
– other loans	**(212)**	**(2)**	**(214)**	–	(2)	(2)
Secured borrowings at amortised cost						
– finance leases	**(4)**	**(4)**	**(8)**	(3)	(9)	(12)
	(231)	**(6)**	**(237)**	(37)	(11)	(48)
Cash and deposits at amortised cost	**574**	**–**	**574**	518	–	518
Term deposits at amortised cost	**3**	**–**	**3**	48	–	48
Non-PPP cash and cash equivalents	**577**	**–**	**577**	566	–	566
	346	**(6)**	**340**	529	(11)	518
PPP non-recourse term loans at amortised cost						
– sterling floating rate term loan (2008–2027)	**–**	**(22)**	**(22)**	(1)	(22)	(23)
– sterling floating rate term loan (2011–2030)	**(1)**	**(24)**	**(25)**	(3)	(22)	(25)
– sterling floating rate term loan (2012–2031)	**(3)**	**(21)**	**(24)**	–	(19)	(19)
– sterling floating rate term loan (2010–2034)	**(6)**	**(161)**	**(167)**	(4)	(158)	(162)
– sterling floating rate term loan (2016–2035)	**–**	**(7)**	**(7)**	–	(3)	(3)
– sterling floating rate term loan (2016–2035)	**–**	**(3)**	**(3)**	–	–	–
– sterling floating rate term loan (2016–2036)	**–**	**(3)**	**(3)**	–	–	–
– sterling floating rate term loan (2012–2037)	**(11)**	**(65)**	**(76)**	–	(56)	(56)
– sterling floating rate term loan (2013–2037)	**–**	**(23)**	**(23)**	–	–	–
	(21)	**(329)**	**(350)**	(8)	(280)	(288)
PPP cash and cash equivalents	**18**	**–**	**18**	18	–	18
	(3)	**(329)**	**(332)**	10	(280)	(270)
Net cash/(borrowings)	**343**	**(335)**	**8**	539	(291)	248

The PPP project finance sterling term loans arise under non-recourse facilities in the subsidiary concession companies. The borrowings are secured by fixed and floating charges over each concession company's right, title and interest in certain assets and/or revenues and over each concession company's shares held by their immediate parent companies detailed in Note 3.3.

A significant part of the PPP non-recourse project finance floating rate term loans has been swapped into fixed rate debt by the use of interest rate swaps.

Restricted cash included in cash and cash equivalents amounts to £10m (2010: £8m) held by the Group's captive insurance company Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations, and £18m (2010: £18m) relating to amounts held by certain PPP concession subsidiaries.

Cash, deposits and term deposits include the Group's share of amounts held by jointly controlled operations of £243m (2010: £221m).

The Group's undrawn committed borrowing facilities in respect of which all conditions precedent were satisfied at 31 December

	PPP non-recourse project finance 2011 £m	Other borrowings 2011 £m	Total 2011 £m	PPP non-recourse project finance 2010 £m	Other borrowings 2010 £m	Total 2010 £m
Expiring in one year or less	**64**	**20**	**84**	33	165	198
Expiring in more than one year but not more than two years	**42**	**154**	**196**	18	197	215
Expiring in more than two years	**91**	**670**	**761**	38	246	284
	197	**844**	**1,041**	89	608	697

24 Cash and cash equivalents and borrowings continued

24.1 Group continued

Maturity profile of the Group's borrowings at 31 December

	PPP non-recourse project finance 2011 £m	**Finance leases 2011 £m**	**Other borrowings 2011 £m**	**Total 2011 £m**	PPP non-recourse project finance 2010 £m	Finance leases 2010 £m	Other borrowings 2010 £m	Total 2010 £m
Due on demand or within one year	**(21)**	**(4)**	**(227)**	**(252)**	(8)	(3)	(34)	(45)
Due within one to two years	**(12)**	**(1)**	**–**	**(13)**	(17)	(3)	–	(20)
Due within two to five years	**(36)**	**–**	**–**	**(36)**	(24)	(1)	–	(25)
Due after more than five years	**(281)**	**(3)**	**(2)**	**(286)**	(239)	(5)	(2)	(246)
	(350)	**(8)**	**(229)**	**(587)**	(288)	(12)	(36)	(336)

The book values of the Group's borrowings are equal to the fair values at 31 December 2010 and 2011. The fair values are determined by using yield curves and exchange rates prevailing at the reporting date and discounting future cash flows at interest rates prevailing at the reporting date.

24.2 Company

	Current 2011 £m	**Non-current 2011 £m**	**Total 2011 £m**	Current 2010 £m	Non-current 2010 £m	Total 2010 £m
Unsecured borrowings at amortised cost						
– bank overdrafts	**(24)**	**–**	**(24)**	(55)	–	(55)
– other loans	**(212)**	**–**	**(212)**	–	–	–
Net borrowings	**(236)**	**–**	**(236)**	(55)	–	(55)

The bank overdrafts are sterling denominated, variable rate instruments and repayable on demand. Other loans comprise £180m (2010: £nil) sterling denominated borrowings and US$50m borrowings (2010: US$nil) which are variable rate instruments repayable within one year.

25 Deferred tax

25.1 Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The net deferred tax position at 31 December

	Group 2011 £m	Group 2010 £m	**Company 2011 £m**	Company 2010 £m
Deferred tax assets	**105**	163	**–**	2
Deferred tax liabilities	**(15)**	(8)	**(1)**	–
	90	155	**(1)**	2

Movement for the year in the net deferred tax position

	Group £m	Company £m
At 1 January 2010	182	4
Currency translation differences	2	–
Charged to income statement	–	(2)
Charged to equity	(28)	–
Businesses acquired	(1)	–
At 31 December 2010	155	2
Charged to income statement[7]	**(48)**	**(1)**
Charged to equity[7]	**(12)**	**(2)**
Businesses acquired	**(5)**	–
At 31 December 2011	**90**	**(1)**

7 Group includes £2m charged (2010: £1m) to the income statement and £4m charged (2010: £3m) to equity in relation to the reduction in the UK corporation tax rate. The Company includes £1m credited (2010: £nil) to equity in relation to the reduction in the UK corporation tax rate.

Notes to the accounts continued

25 Deferred tax continued

25.2 Group

The major deferred tax assets and liabilities recognised and the movements thereon during the year

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Derivatives £m	Total £m
Deferred tax assets							
At 1 January 2010	14	166	3	3	40	5	231
Currency translation differences	–	–	–	–	3	–	3
Reclassifications/transfers	(1)	–	12	–	(3)	–	8
(Charged)/credited to income statement[7]	–	(17)	(1)	–	7	–	(11)
(Charged)/credited to equity[7]	–	(29)	–	2	–	(1)	(28)
Businesses acquired	–	–	–	–	(1)	–	(1)
At 31 December 2010	13	120	14	5	46	4	202
Currency translation differences	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Reclassifications/transfers	**(1)**	**–**	**1**	**–**	**(3)**	**1**	**(2)**
Credited/(charged)to income statement[7]	**5**	**(28)**	**–**	**–**	**(26)**	**–**	**(49)**
(Charged)/credited to equity[7]	**–**	**(17)**	**–**	**(2)**	**1**	**5**	**(13)**
At 31 December 2011	**17**	**75**	**15**	**3**	**17**	**10**	**137**

7 Group includes £2m charged (2010: £1m) to the income statement and £4m charged (2010: £3m) to equity in relation to the reduction in the UK corporation tax rate. The Company includes £1m credited (2010: £nil) to equity in relation to the reduction in the UK corporation tax rate.

	Revaluation of properties £m	Goodwill £m	Preference shares £m	Fair value adjustments £m	Loss of IBAs £m	Total £m
Deferred tax liabilities						
At 1 January 2010	(1)	(9)	(7)	(29)	(3)	(49)
Currency translation differences	–	–	–	(1)	–	(1)
Reclassifications/transfers	–	–	–	(8)	–	(8)
(Charged)/credited to income statement	–	(1)	–	12	–	11
At 31 December 2010	(1)	(10)	(7)	(26)	(3)	(47)
Currency translation differences	**–**	**–**	**–**	**1**	**–**	**1**
Reclassifications/transfers	**–**	**–**	**–**	**2**	**–**	**2**
Credited to equity	**–**	**–**	**1**	**–**	**–**	**1**
Credited to income statement	**–**	**–**	**–**	**–**	**1**	**1**
Businesses acquired	**–**	**–**	**–**	**(5)**	**–**	**(5)**
At 31 December 2011	**(1)**	**(10)**	**(6)**	**(28)**	**(2)**	**(47)**

Total net deferred tax asset	**90**

The Finance Act 2011 was enacted on 19 July 2011 implementing a reduction to the main UK corporation tax rate from 27% to 25% effective from 1 April 2012. The effect of the reduction in the UK tax rate reduced the Group's net deferred tax asset by £6m with £2m being charged to the income statement and £4m being charged to equity.

In the 2011 Budget it was announced, although not enacted, that there will be a further 1% reduction in the main corporation tax rate in each of the two subsequent years to bring the rate down to 23% from 1 April 2014. Should the future UK corporation tax rate reductions be enacted, based on the latest forecasts, this will give rise to a further reduction in the Group's net deferred tax asset of £6m by 2014 with £2m being charged to the income statement and £4m being charged to reserves.

At the reporting date, the Group had unused tax losses that arose over a number of years of approximately £273m (2010: £240m) which are available for offset against future profits. £26m (2010: £31m) will expire 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2021. The remaining losses may be carried forward indefinitely.

At the reporting date, the undistributed reserves of subsidiaries for which deferred tax liabilities have not been recognised was £924m (2010: £850m) and for joint ventures and associates was £110m (2010: £95m). No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated.

25 Deferred tax continued

25.3 Company

The major deferred tax assets and liabilities recognised by the Company and the movements thereon during the year

	Deferred tax liability	Deferred tax assets						
	Preference shares £m	Share-based payments £m	Retirement benefit obligations £m	Provisions £m	Accelerated tax depreciation £m	Total £m	Net deferred tax assets/(liability) £m
At 1 January 2010	(7)	2	5	3	1	11	4
Charged to income statement	–	–	(1)	–	(1)	(2)	(2)
Credited/(charged) to equity	–	1	(1)	–	–	–	–
At 31 December 2010	(7)	3	3	3	–	9	2
Charged to income statement	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**(1)**
Credited/(charged) to equity	**1**	**(1)**	**(2)**	**–**	**–**	**(3)**	**(2)**
At 31 December 2011	**(6)**	**2**	**1**	**2**	**–**	**5**	**(1)**

26 Retirement benefit obligations

26.1 Group

The Group, through trustees, operates a number of defined contribution and defined benefit pension schemes.

Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

Defined benefit schemes are schemes other than defined contribution schemes and provide benefits based on employees' pensionable service and their pensionable salary. The majority of the Group's defined benefit schemes are funded.

Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

The Group's main scheme is the Balfour Beatty Pension Fund ("BBPF"), which includes defined contribution and defined benefit sections. The defined benefit sections are closed to new members with the exception of employees transferring under certain agreed arrangements.

On 21 December 2011, the BBPF acquired the Group's effective 25.5% interest in Barking Power Ltd at its carrying value of £55m. Refer to Note 10.

During the year ended 31 December 2011 the Group made a pension increase exchange ("PIE") offer to certain current pensioners, widows and widowers of the BBPF to forego their entitlement to future non-statutory inflationary increases in return for a higher pension than their current entitlement. At 31 December 2011, 509 members had accepted the PIE offer, resulting in a £2m reduction in liabilities and a consequential past service cost credit of £2m.

During the year ended 31 December 2010 the Group offered certain deferred members of the BBPF enhanced benefits to leave the BBPF and transfer to a freestanding defined contribution scheme. 1,641 deferred members took up the option of the enhanced benefits, resulting in a £42m reduction in assets, a £50m reduction in liabilities and a settlement gain of £8m. A net gain of £2m was recognised after payments of £6m of enhancements and other expenses.

A formal funding valuation of the BBPF was carried out as at 31 March 2010. As a result of the funding valuation the Group agreed to an additional one-off deficit funding contribution of £40m, paid in December 2010, and to increase the amount of ongoing deficit payments to the BBPF to £48m per annum from April 2010, increasing each year by CPI (capped at 5%) plus 50% of any increase in the Company's dividend in excess of capped CPI. A further one-off deficit funding contribution of £55m was made in December 2011.

The investment strategy of the BBPF is to hold assets of appropriate liquidity and marketability to generate income and capital growth to meet, together with any contributions from the Group, the cost of current and future benefits. 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 liabilities. 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 liabilities and enhance the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

Notes to the accounts continued

26 Retirement benefit obligations continued

26.1 Group continued

Certain Group employees are members of the Balfour Beatty Shared Cost section of the Railways Pension Scheme ("Railways Pension Scheme"), which is closed to new members with the exception of employees transferring under certain agreed arrangements. The economic interest of the Group in this shared cost scheme is approximately 60% of the scheme's assets and liabilities, based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing. Parsons Brinckerhoff Ltd operates a defined benefit scheme, which is closed to new members ("Parsons Brinckerhoff Scheme"). The Parsons Brinckerhoff Scheme has a legal charge over a Group leasehold property with a book value of £4m (2010: £4m).

With the exception of the Parsons Brinckerhoff Scheme, active members continue to accrue benefits for future service. Other schemes comprise funded and unfunded post-retirement benefit obligations in Europe and North America, the majority of which are closed to new entrants, and deferred compensation schemes in the US, where an element of employees' compensation is deferred and invested in available-for-sale assets (as disclosed in Note 17.1) for the ultimate benefit of the employees in a trust, the assets of which are available to the Group's creditors in the event of insolvency.

On 30 November 2010 the UK Government published the Occupational Pensions (Revaluation) Order 2010 which, with effect from 1 January 2011, changed the basis of UK general statutory pension indexation from the retail prices index ("RPI") to the consumer prices index ("CPI"). The benefits of certain members of the Group's schemes are defined by reference to the statutory measure of inflation rather than being specifically linked by the scheme rules to RPI. In the year ended 31 December 2011, the Group reassessed the difference between the RPI and CPI measures of price inflation from 0.50% to 0.90%. The increase was applied following consideration of research published by the Office for National Statistics and independent advice received from the Group's actuaries. These changes in assumptions gave rise to a £35m (2010: £52m) actuarial reduction in liabilities which is credited to equity in the statement of comprehensive income.

Membership of the principal schemes

	Balfour Beatty Pension Fund 2011		**Railways Pension Scheme 2011**		**Parsons Brinckerhoff Scheme 2011**		Balfour Beatty Pension Fund 2010		Railways Pension Scheme 2010		Parsons Brinckerhoff Scheme 2010	
	Number of members	**Defined benefit obligations £m**	**Number of members**	**Defined benefit obligations £m**	**Number of members**	**Defined benefit obligations £m**	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m
Defined benefit												
– active members	**3,892**	**587**	**287**	**45**	**–**	**–**	4,494	579	314	48	–	–
– deferred pensioners	**11,105**	**600**	**1,514**	**47**	**998**	**95**	11,198	543	1,550	47	1,075	85
– pensioners, widow(er)s and dependants	**20,882**	**1,278**	**1,436**	**82**	**1,192**	**92**	20,685	1,223	1,387	80	1,149	91
Defined contribution	**8,953**	**–**	**–**	**–**	**1,735**	**–**	7,985	–	–	–	1,781	–
Total	**44,832**	**2,465**	**3,237**	**174**	**3,925**	**187**	44,362	2,345	3,251	175	4,005	176

IAS 19 prescribes the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on a high-quality corporate bond. The pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net finance cost arising from the expected return on plan assets and the interest on scheme obligations is included in finance charges. Actuarial gains and losses are reported in full in the statement of comprehensive income. The IAS 19 accounting valuation is set out in 26.2.

A different calculation is used for the regular valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme liabilities. The principal difference between the two methods is that under the funding basis the liabilities are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on a high-quality corporate bond as required by IAS 19 for the financial statements. Details of the latest formal funding basis valuations are set out in 26.3.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of the Group. The Parsons Brinckerhoff Scheme has an interest in a property under an operating lease that is occupied under an operating sublease by a Group company which pays an annual rental of £0.2m (2010: £0.2m).

26 Retirement benefit obligations continued

26.2 IAS 19 accounting valuation

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

	Balfour Beatty Pension Fund 2011 %	**Railways Pension Scheme 2011 %**	**Parsons Brinckerhoff Scheme 2011 %**	Balfour Beatty Pension Fund 2010 %	Railways Pension Scheme 2010 %	Parsons Brinckerhoff Scheme 2010 %
Discount rate on obligations	**4.85**	**4.85**	**4.85**	5.45	5.45	5.45
Expected return on plan assets	**5.20**	**5.85**	**5.30**	6.10	7.10	6.45
Inflation rate – RPI	**2.95**	**2.95**	**2.95**	3.40	3.40	3.40
– CPI	**2.05**	**2.05**	**2.05**	2.90	2.90	2.90
Future increases in pensionable salary						
– certain members of the BBPF whose increase in pensionable pay is limited	**–**	**–**	**–**	–	–	–
– other members	**4.45**	**3.95**	**–**	4.90	4.90	–
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.85**	**2.05**	**3.00**	3.30	2.90	3.00

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 (44,832 members at 31 December 2011) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes.

The mortality tables adopted for the 2011 and 2010 IAS 19 valuations are the SAPS tables with a multiplier of 94% and an improvement rate of 1.5% pa from 2003 to 2010, plus future improvements from 2010 in line with the CMI core projection model applicable to each member's year of birth with a long-term rate of 1.5% pa.

	2011 Average life expectancy at 65 years of age		2010 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**22.0**	**24.6**	21.8	24.5
Members not yet in receipt of a pension (current age 50)	**23.8**	**26.5**	23.7	26.4

The demographic of the members of the Parsons Brinckerhoff Scheme is different to the other schemes and allowance has been made for approximately three further years of life expectancy for members of this scheme compared to members of the other schemes.

The BBPF defined contribution employer contributions paid and charged to the income statement have been separately identified in the table below and the defined contribution section assets and liabilities amounting to £150m (2010: £124m) have been excluded from the tables on pages 139 to 142. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

Amounts recognised in the income statement

	Balfour Beatty Pension Fund 2011 £m	**Railways Pension Scheme 2011 £m**	**Parsons Brinckerhoff Scheme 2011 £m**	**Other schemes 2011 £m**	**Total 2011 £m**	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m
Current service cost	**(42)**	**(3)**	**(1)**	**(6)**	**(52)**	(42)	(3)	(1)	(7)	(53)
Past service cost credit	**2**	–	–	–	**2**	–	–	–	–	–
Defined contribution charge	**(33)**	–	**(5)**	**(17)**	**(55)**	(30)	–	(5)	(17)	(52)
Included in employee costs (Note 5)	**(73)**	**(3)**	**(6)**	**(23)**	**(105)**	(72)	(3)	(6)	(24)	(105)
Expected return on plan assets	**126**	**9**	**8**	–	**143**	112	9	8	1	130
Interest cost	**(124)**	**(8)**	**(10)**	**(4)**	**(146)**	(128)	(9)	(9)	(5)	(151)
Net investment income/(finance cost) (Note 7)	**2**	**1**	**(2)**	**(4)**	**(3)**	(16)	–	(1)	(4)	(21)
Total charged to income statement	**(71)**	**(2)**	**(8)**	**(27)**	**(108)**	(88)	(3)	(7)	(28)	(126)

Notes to the accounts continued

26 Retirement benefit obligations continued

26.2 IAS 19 accounting valuation continued

Amounts recognised in the statement of comprehensive income

	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes 2011 £m	Total 2011 £m	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m
Actuarial (losses)/gains on pension scheme obligations	**(68)**	**4**	**(10)**	**3**	**(71)**	(26)	7	(9)	(5)	(33)
Actuarial gains/(losses) on pension scheme assets	**141**	**(8)**	**(2)**	**–**	**131**	106	6	7	–	119
Total actuarial gains/(losses) recognised in the statement of comprehensive income (Note 29.1)	**73**	**(4)**	**(12)**	**3**	**60**	80	13	(2)	(5)	86
Cumulative (losses)/gains recognised in reserves	**(237)**	**(24)**	**(8)**	**(3)**	**(272)**	(310)	(20)	4	(6)	(332)

The actual return on plan assets was a gain of £274m (2010: £249m).

Amounts recognised in the statement of financial position

	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes† 2011 £m	Total 2011 £m	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes† 2010 £m	Total 2010 £m
Present value of obligations	**(2,465)**	**(174)**	**(187)**	**(89)**	**(2,915)**	(2,345)	(175)	(176)	(89)	(2,785)
Fair value of plan assets	**2,370**	**141**	**127**	**2**	**2,640**	2,072	145	125	2	2,344
Liability in the statement of financial position	**(95)**	**(33)**	**(60)**	**(87)**	**(275)**	(273)	(30)	(51)	(87)	(441)

† Available-for-sale investments in mutual funds of £50m (2010: £49m) are held by the Group to satisfy the Group's deferred compensation obligations (Note 17.1).

The defined benefit obligation comprises £87m (2010: £87m) arising from wholly-unfunded plans and £2,828m (2010: £2,698m) arising from plans that are wholly or partly funded.

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes 2011 £m	Total 2011 £m	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m
At 1 January	(2,345)	(175)	(176)	(89)	(2,785)	(2,325)	(177)	(166)	(89)	(2,757)
Currency translation	**–**	**–**	**–**	**1**	**1**	–	–	–	(3)	(3)
Service cost	**(42)**	**(3)**	**(1)**	**(6)**	**(52)**	(42)	(3)	(1)	(7)	(53)
Past service cost credit	**2**	**–**	**–**	**–**	**2**	–	–	–	–	–
Interest cost	**(124)**	**(8)**	**(10)**	**(4)**	**(146)**	(128)	(9)	(9)	(5)	(151)
Actuarial gains from rebasing certain pension obligations to CPI	**23**	**10**	**2**	**–**	**35**	35	13	4	–	52
Other actuarial (losses)/gains	**(91)**	**(6)**	**(12)**	**3**	**(106)**	(61)	(6)	(13)	(5)	(85)
Total actuarial (losses)/gains	**(68)**	**4**	**(10)**	**3**	**(71)**	(26)	7	(9)	(5)	(33)
Contributions from members	**(1)**	**–**	**–**	**–**	**(1)**	(1)	–	–	–	(1)
Benefits paid	**113**	**8**	**10**	**6**	**137**	127	7	9	6	149
Settlements	**–**	**–**	**–**	**–**	**–**	50	–	–	14	64
At 31 December	**(2,465)**	**(174)**	**(187)**	**(89)**	**(2,915)**	(2,345)	(175)	(176)	(89)	(2,785)

26 Retirement benefit obligations continued

26.2 IAS 19 accounting valuation continued

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes 2011 £m	Total 2011 £m	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m
At 1 January	2,072	145	125	2	2,344	1,911	134	113	13	2,171
Currency translation	–	–	–	–	–	–	–	–	1	1
Expected return on plan assets	**126**	**9**	**8**	**–**	**143**	112	9	8	1	130
Actuarial gains/(losses)	**141**	**(8)**	**(2)**	**–**	**131**	106	6	7	–	119
Contributions from employer										
– regular funding	**37**	**2**	**–**	**–**	**39**	38	2	–	–	40
– ongoing deficit funding	**51**	**1**	**6**	**–**	**58**	33	1	6	1	41
– one-off deficit funding	**55**	**–**	**–**	**–**	**55**	40	–	–	–	40
Contributions from members	**1**	**–**	**–**	**–**	**1**	1	–	–	–	1
Benefits paid	**(113)**	**(8)**	**(10)**	**–**	**(131)**	(127)	(7)	(9)	–	(143)
Settlements	**–**	**–**	**–**	**–**	**–**	(42)	–	–	(14)	(56)
At 31 December	**2,370**	**141**	**127**	**2**	**2,640**	2,072	145	125	2	2,344

Fair value and expected rates of return on the assets held by the schemes at 31 December

	Balfour Beatty Pension Fund		Railways Pension Scheme		Parsons Brinckerhoff Scheme		Other schemes		Total	
	Expected rate of return 2011 %	Value 2011 £m	Expected rate of return 2011 %	Value 2011 £m	Expected rate of return 2011 %	Value 2011 £m	Expected rate of return 2011 %	Value 2011 £m	Expected rate of return 2011 %	Value 2011 £m
Return-seeking(i)	**8.34**	**835**	**7.14**	**92**	**7.30**	**69**	**–**	**–**	**8.16**	**996**
Liability matching bond-type assets(ii)	**3.69**	**1,273**	**2.90**	**35**	**2.92**	**54**	**–**	**–**	**3.64**	**1,362**
Property	**–**	**–**	**4.90**	**14**	**–**	**–**	**–**	**–**	**4.90**	**14**
Other(iii)	**2.55**	**262**	**2.55**	**–**	**2.55**	**4**	**2.55**	**2**	**2.55**	**268**
Rate of return/total	**5.20**	**2,370**	**5.85**	**141**	**5.30**	**127**	**2.55**	**2**	**5.24**	**2,640**
	Expected rate of return 2010 %	Value 2010 £m	Expected rate of return 2010 %	Value 2010 £m	Expected rate of return 2010 %	Value 2010 £m	Expected rate of return 2010 %	Value 2010 £m	Expected rate of return 2010 %	Value 2010 £m
Return-seeking(i)	8.00	808	8.20	98	8.20	70	–	–	8.03	976
Liability matching bond-type assets(ii)	4.88	1,154	4.40	33	4.26	47	–	–	4.84	1,234
Property	–	–	6.10	14	–	–	–	–	6.10	14
Other(iii)	3.90	110	3.90	–	3.90	8	3.90	2	3.90	120
Rate of return/total	6.10	2,072	7.10	145	6.45	125	3.90	2	6.13	2,344

(i) Includes investments in developed market equities; emerging market equities; debt and currency; and hedge funds.
(ii) Includes investments in corporate bonds; fixed-interest gilts; and index-linked gilts.
(iii) Includes cash and net current assets.

The expected rates of return on scheme assets were determined as the average of the expected returns on the assets held by the scheme on 31 December.

Rates of return for each class

- Return seeking assets and property – the long-term rates of return on these assets are derived from current risk-free rates of return with the addition of an appropriate future risk premium from an analysis of historic returns, current market conditions and forward looking views from market participants.
- Bonds – the rate has been set to reflect the yields available on the gilts and corporate bond holdings held at 31 December.
- Cash and other net assets – the rate adopted reflects current short-term returns on cash deposits.

Notes to the accounts continued

26 Retirement benefit obligations continued

26.2 IAS 19 accounting valuation continued

Estimated amounts of contributions expected to be paid to the principal defined benefit schemes during 2012

	Balfour Beatty Pension Fund 2012 £m	Railways Pension Scheme 2012 £m	Parsons Brinckerhoff Scheme 2012 £m	Total 2012 £m
Regular funding	**35**	**2**	**–**	**37**
Ongoing deficit funding	**52**	**1**	**6**	**59**
Total	**87**	**3**	**6**	**96**

Sensitivity of the Group's retirement benefit obligations at 31 December 2011 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)**	**(221)**
Increase in RPI inflation expectations	**0.5%**	**6.5**	**183**
Increase in salary above inflation	**0.5%**	**0.2**	**7**
Increase in life expectancy	**1 year**	**3.3**	**92**

Sensitivity of the Group's retirement benefit assets at 31 December 2011 to changes in market conditions

Assets	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	**(5.9)**	**(155)**
Increase in market expectation of RPI inflation	**0.5%**	**3.9**	**104**

Year-end historical information for the Group's post-retirement defined benefit schemes

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Obligation at end of year	**(2,915)**	(2,785)	(2,757)	(2,102)	(2,444)
Fair value of assets at end of year	**2,640**	2,344	2,171	1,841	2,158
Funded status at end of year	**(275)**	(441)	(586)	(261)	(286)
Experience adjustment for liabilities	**(11)**	62*	(9)	(17)	(56)
Experience adjustment for assets	**131**	119	137	(432)	(21)

* As re-presented.

26.3 Funding valuations

The latest formal funding valuations are detailed below.

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Parsons Brinckerhoff Scheme £m
Date of last formal funding valuation	31/03/2010	31/12/2010	31/08/2008
Scheme deficit			
Market value of assets	2,070	260	119
Present value of scheme liabilities	(2,445)	(268)	(169)
Deficit in defined benefit scheme	(375)	(8)	(50)
Funding level	84.6%	97.0%	70.6%

26.4 Company

Certain employees of the Company are members of the BBPF. Assets, liabilities, income and expenditure relating to this fund are allocated to Group companies participating in the scheme in proportion to pensionable payroll for the year. The Company's share of the net IAS 19 deficit was £4m (2010: £13m).

27 Provisions

	Employee provisions £m	Contract provisions £m	Other provisions £m	Group Total £m	Company Other provisions £m
At 1 January 2010	36	123	68	227	9
Currency translation differences	–	3	1	4	–
Charged to the income statement					
– additional provisions	5	55	28	88	1
– unused amounts reversed	(2)	(23)	(16)	(41)	(3)
Utilised during the year	(10)	(13)	(13)	(36)	–
At 31 December 2010	29	145	68	242	7
Currency translation differences	**–**	**–**	**1**	**1**	**–**
Charged to the income statement					
– additional provisions	**8**	**42**	**12**	**62**	**–**
– unused amounts reversed	**(2)**	**(23)**	**(11)**	**(36)**	**(1)**
Utilised during the year	**(5)**	**(16)**	**(10)**	**(31)**	**–**
Businesses disposed	**–**	**(1)**	**–**	**(1)**	**–**
At 31 December 2011	**30**	**147**	**60**	**237**	**6**

	Group				Group				**Company**	Company
	Employee provisions 2011 £m	**Contract provisions 2011 £m**	**Other provisions 2011 £m**	**Total 2011 £m**	Employee provisions 2010 £m	Contract provisions 2010 £m	Other provisions 2010 £m	Total 2010 £m	**Other provisions 2011 £m**	Other provisions 2010 £m
Due within one year	**12**	**73**	**22**	**107**	11	94	30	135	**–**	1
Due within one to two years	**9**	**38**	**15**	**62**	8	24	18	50	**1**	–
Due within two to five years	**7**	**30**	**18**	**55**	7	22	16	45	**5**	5
Due after more than five years	**2**	**6**	**5**	**13**	3	5	4	12	**–**	1
	30	**147**	**60**	**237**	29	145	68	242	**6**	7

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's captive insurance company. Contract provisions include construction insurance liabilities retained in the Group's captive insurance company and construction fault and warranty provisions. Other provisions principally comprise environmental provisions, legal claims and costs and onerous lease and other commitments.

Provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes actuarial advice in respect of provisions in the Group's captive insurance company.

28 Share capital

28.1 Ordinary shares of 50p each

	Authorised Million	Authorised £m	Issued Million	Issued £m
At 1 January 2010	996	498	685	343
Shares issued	–	–	1	–
At 31 December 2010	996	498	686	343
Shares issued	**–**	**–**	**1**	**1**
At 31 December 2011	**996**	**498**	**687**	**344**

All issued ordinary shares are fully paid. Ordinary shares carry no right to fixed income, but each share carries the right to one vote at general meetings of the Company.

Notes to the accounts continued

28 Share capital continued

28.1 Ordinary shares of 50p each continued

Ordinary shares issued during the year credited as fully paid	Ordinary shares 2011 Number	Consideration 2011 £m	Ordinary shares 2010 Number	Consideration 2010 £m
Savings-related share options exercised	**665,516**	**2**	657,138	1
Executive share options exercised	**302,586**	**1**	472,928	1
	968,102	**3**	1,130,066	2

At 31 December 2011 there were 6,200,690 share options outstanding under the savings-related share option scheme (SAYE) which were granted between 2006 and 2010 (2010: 9,014,115 granted between 2005 and 2010). The weighted average exercise price is 263.5p (2010: 269.9p). No options were granted under the SAYE in 2011.

At 31 December 2011 there were 924,010 share options outstanding under the executive share options scheme (ESOS) which were granted between 2001 and 2004 (2010: 1,258,736 granted between 2001 and 2004). These options are normally exercisable between three and 10 years after the grant date. Performance conditions have been met for all outstanding options under the ESOS. The weighted average exercise price is 203.9p (2010: 200.6p). No options have been granted under the ESOS since 2004.

28.2 Cumulative convertible redeemable preference shares of 1p each

	Authorised		Issued	
	Million	£m	Million	£m
At 31 December 2010 and 2011	**177**	**2**	**112**	**–**

All issued preference shares are fully paid. During the current and prior year, no preference shares were repurchased for cancellation by the Company.

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. Any preference shares still outstanding are redeemable on 1 July 2020 at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2011 (2010: £112m).

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 24.69136 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances. The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30-day period exceeds 810p, subject to adjustment in certain circumstances.

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding-up of the Company. On winding-up the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares.

The preference shares are a compound instrument, comprising an equity and a liability component. The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13.5% for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in equity holders' equity, net of deferred tax.

Liability component recognised in the statement of financial position	2011 £m	2010 £m
Redemption value of shares in issue at 1 January	**112**	112
Equity component	**(17)**	(16)
Deferred tax and interest element	**(5)**	(8)
Liability component at 1 January at amortised cost	**90**	88
Interest accretion	**1**	1
Liability component at 31 December at amortised cost	**91**	89

The fair value of the liability component of the preference shares at 31 December 2011 amounted to £140m (2010: £147m). The fair value is determined by using the market price of the preference shares at the reporting date.

Interest expense on the preference shares is calculated using the effective interest method.

29 Movements in equity

29.1 Group

						Other reserves							
	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Hedging reserves £m	PPP financial assets £m	Currency translation reserve £m	Merger reserve £m	Other £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2010	343	57	16	32	157	(17)	–	36	249	20	102	4	999
Profit for the year	–	–	–	–	58	–	–	–	–	–	85	–	143
Currency translation differences	–	–	–	–	5	–	–	38	–	–	–	–	43
Actuarial gains on retirement benefit obligations	–	–	–	–	1	–	–	–	–	–	86	–	87
Fair value revaluations													
– PPP financial assets	–	–	–	–	36	–	25	–	–	–	–	–	61
– PPP cash flow hedges	–	–	–	–	(47)	(20)	–	–	–	–	–	–	(67)
– other cash flow hedges	–	–	–	–	(3)	1	–	–	–	–	–	–	(2)
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	–	4	–	–	4
Tax on items taken directly to equity	–	–	–	–	3	5	(6)	–	–	(1)	(26)	–	(25)
Total comprehensive income/(expense) for the year	–	–	–	–	53	(14)	19	38	–	3	145	–	244
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(84)	–	(84)
Joint ventures' and associates' dividends	–	–	–	–	(62)	–	–	–	–	–	62	–	–
Issue of ordinary shares	–	2	–	–	–	–	–	–	–	–	–	–	2
Recycling of revaluation reserves to the income statement on disposal	–	–	–	–	(4)	–	–	–	–	–	–	–	(4)
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	–	(1)	–	(1)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	–	4	–	4
Transfers	–	–	–	(2)	–	–	–	–	–	–	2	–	–
At 31 December 2010	343	59	16	30	144	(31)	19	74	249	23	230	4	1,160
Profit for the year	**–**	**–**	**–**	**–**	**75**	**–**	**–**	**–**	**–**	**–**	**111**	**–**	**186**
Currency translation differences	**–**	**–**	**–**	**–**	**3**	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**4**
Actuarial (losses)/gains on retirement benefit obligations	**–**	**–**	**–**	**–**	**(7)**	**–**	**–**	**–**	**–**	**–**	**60**	**–**	**53**
Fair value revaluations													
– PPP financial assets	**–**	**–**	**–**	**–**	**140**	**–**	**64**	**–**	**–**	**–**	**–**	**–**	**204**
– PPP cash flow hedges	**–**	**–**	**–**	**–**	**(154)**	**(85)**	**–**	**–**	**–**	**–**	**–**	**–**	**(239)**
– other cash flow hedges	**–**	**–**	**–**	**–**	**2**	**(2)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– available-for-sale investments in mutual funds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Tax on items taken directly to equity	**–**	**–**	**1**	**–**	**1**	**21**	**(16)**	**–**	**–**	**1**	**(20)**	**–**	**(12)**
Total comprehensive income/(expense) for the year	**–**	**–**	**1**	**–**	**60**	**(66)**	**48**	**1**	**–**	**(1)**	**151**	**–**	**194**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(88)**	**–**	**(88)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**–**	**(54)**	**–**	**–**	**–**	**–**	**–**	**54**	**–**	**–**
Issue of ordinary shares	**1**	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3**
Recycling of revaluation reserves to the income statement on disposal	**–**	**–**	**–**	**–**	**(6)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**5**	**–**	**–**
Transfers	**–**	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**–**	**–**
At 31 December 2011	**344**	**61**	**17**	**27**	**144**	**(97)**	**67**	**75**	**249**	**17**	**355**	**4**	**1,263**

Our accounts

Notes to the accounts continued

29 Movements in equity continued

29.2 Company

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Other reserves: Special reserve £m	Other reserves: Merger reserve £m	Other reserves: Other £m	Retained profits £m	Total £m
At 1 January 2010	343	57	16	32	249	68	473	1,238
Loss for the year	–	–	–	–	–	–	(14)	(14)
Actuarial gains on retirement benefit obligations	–	–	–	–	–	–	5	5
Tax on items taken directly to equity	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–	(9)	(9)
Ordinary dividends	–	–	–	–	–	–	(84)	(84)
Issue of ordinary shares	–	2	–	–	–	–	–	2
Movements relating to share-based payments	–	–	–	–	–	4	–	4
Transfers	–	–	–	(2)	–	–	2	–
At 31 December 2010	343	59	16	30	249	72	382	1,151
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**32**	**32**
Actuarial gains on retirement benefit obligations	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Tax on items taken directly to equity	**–**	**–**	**1**	**–**	**–**	**–**	**(3)**	**(2)**
Total comprehensive income for the year	**–**	**–**	**1**	**–**	**–**	**–**	**35**	**36**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(88)**	**(88)**
Issue of ordinary shares	**1**	**2**	**–**	**–**	**–**	**–**	**–**	**3**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**2**	**1**	**3**
Transfers	**–**	**–**	**–**	**(3)**	**–**	**–**	**3**	**–**
At 31 December 2011	**344**	**61**	**17**	**27**	**249**	**74**	**333**	**1,105**

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £3m occurred in 2011 (2010: £2m).

29.3 The retained profits in the Group and the retained profit of the Company are stated net of investments in Balfour Beatty plc ordinary shares acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Balfour Beatty performance share plan and the Balfour Beatty deferred bonus plan. In 2011, 1.2m (2010: 0.9m) shares were purchased at a cost of £3.9m (2010: £2.6m). The market value of the 3.7m (2010: 3.7m) shares held by the Trust at 31 December 2011 was £9.7m (2010: £11.6m). The carrying value of these shares is £12.3m (2010: £12.4m). Following confirmation of the performance criteria at the end of the performance period in the case of the performance share plan, and at the end of the vesting period in the case of the deferred bonus plan, the appropriate number of shares will be unconditionally transferred to participants. In 2011, 0.5m shares were transferred to participants in relation to the April 2008 awards under the performance share plan (2010: 0.9m shares for the April 2007 awards), and 0.7m shares were transferred to participants in relation to awards under the deferred bonus plan. The trustees have waived the rights to dividends on shares held by the Trust. Other reserves in the Group and the Company include £4.8m relating to unvested performance share plan awards (2010: £6.4m), £4.3m relating to unvested share options (2010: £5.2m), and £4.2m relating to unvested deferred bonus plan awards (2010: £4.3m).

30 Acquisitions and disposals

30.1 Current year acquisitions

Notes	Acquisition date	Subsidiary	Percentage acquired	Cash consideration £m	Contingent consideration £m	Fair value of net assets acquired £m	Goodwill arising on acquisition £m	Costs (ii) £m
30.1.1	First half 2011	Various Rok contracts (iii)		–	–	(1)	1	–
30.1.2	30 March 2011	Romec Services Ltd	100%	29	–	5	24	1
30.1.3	7 April 2011	Power Efficiency Holdings Ltd	100%	18	–	10	8	–
30.1.4	15 June 2011	Fru-Con Construction LLC (i)(iii)	100%	14	–	6	8	1
30.1.5	30 June 2011	Howard S. Wright (i)(iii)	100%	44	7	10	41	1
30.1.6	22 August 2011	Office Projects Group Ltd	100%	8	–	3	5	–
				113	**7**	**33**	**87**	**3**

(i) As at 31 December 2011 the fair values of acquired assets, liabilities and goodwill for these businesses have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.
(ii) Costs directly attributable to each acquisition have been expensed within non-underlying items, refer Note 8.
(iii) Goodwill is expected to be deductible for income tax purposes in respect of Rok, Fru-Con, and the majority of Howard S. Wright.

30.1.1 In the first half of 2011 additional contracts were transferred in respect of certain operations of Rok's business which extend the Group's capabilities in the affordable new-build housing market. In addition, management reassessed contracts that were acquired on 19 November 2010, resulting in additional liabilities of (£3m), intangibles arising of £2m and goodwill of £1m.

30.1.2 On 30 March 2011 an associate, Romec Ltd, in which Royal Mail Group ("RMG") and the Group hold 51% and 49% respectively, agreed a new facilities management contract for a further 10 years whereby Romec Ltd will provide a wide range of technical and building services to RMG worth £0.9bn with further variable scope for works worth £0.9bn over the 10-year term. In addition Romec Ltd credited RMG with £10m in respect of the previous 10-year management contract and a special dividend of £19m was paid on a class of preference shares owned 100% by RMG. The Group's share of these items is disclosed in non-underlying items.

On 30 March 2011, the Group acquired 100% of Romec Services Ltd ("RSL") from Romec Ltd for a cash consideration of £29m. RSL provides services to third-party customers and will enhance the Group's mobile engineering and maintenance services capabilities. The fair value of net assets acquired was £2m, intangible assets arising net of deferred tax were £3m and goodwill of £24m has been recognised. A gain of £13m disclosed in non-underlying items arose on the revaluation of the Group's existing 49% interest in RSL.

30.1.3 On 7 April 2011 the Group acquired 100% of Power Efficiency Holdings Ltd, a leader in the energy management market, for consideration of £18m, of which £14m was paid in cash to the vendors and £4m was paid into an escrow account distributable over two years subject to certain provisions of the purchase agreement. The acquisition strengthens the Group's ability to maintain large complex energy portfolios and deliver end-to-end energy and carbon management services. The fair value of net assets acquired was £3m, intangible assets arising net of deferred tax were £7m and goodwill of £8m has been recognised.

30.1.4 On 15 June 2011 the Group acquired 100% of Fru-Con Construction LLC ("Fru-Con"), a water and wastewater infrastructure contractor, for a cash consideration of £14m. The acquisition of Fru-Con enhances the Group's expertise in water infrastructure projects. The provisional fair value of net assets acquired was £1m, intangible assets arising were £5m and goodwill of £8m has been recognised.

30.1.5 On 30 June 2011 the Group acquired 100% of Howard S. Wright ("HSW") for a cash consideration of £44m with a further estimated £7m contingent consideration payable on the satisfaction of certain financial projections. HSW provides pre-construction, general contracting and construction management services and enhances the Group's presence in Northern California and the US Pacific Northwest. The provisional fair value of net liabilities acquired was (£3m), intangible assets arising were £13m and goodwill of £41m has been recognised.

30.1.6 On 22 August 2011 the Group acquired 100% of Office Projects Group Ltd ("OPL") for a cash consideration of £8m of which £1m has been paid into an escrow account to be released after an 18-month retention period. OPL manages and delivers commercial interior and exterior fit-out and refurbishment projects for a range of blue-chip UK customers. The fair value of net assets acquired was £2m, intangible assets arising net of deferred tax were £1m and goodwill of £5m has been recognised. The acquisition extends the Group's capabilities in the fit-out and refurbishment markets.

30.1.7 The following summary presents the Group as if the businesses acquired had been acquired on 1 January 2011. The amounts include the results of the acquired businesses, depreciation of the acquired net assets and amortisation of the intangible assets recognised on acquisition. The amounts do not include any possible synergies from the acquisition. The results of acquired companies and contracts for the period before acquisition have not been adjusted to reflect the Group's accounting policies nor to reflect the fair value adjustments made on acquisition. The information is provided for illustrative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of the combined companies and contracts.

	Total* £m
Group revenue	10,016
Profit for the year	195

* Total Group figures had the acquisitions occurred on 1 January 2011.

The businesses acquired during the year contributed £255m to Group revenue and £4m to profit for the year in the current year.

Notes to the accounts continued

30 Acquisitions and disposals continued

30.1 Current year acquisitions continued

	Recognised amounts of identifiable assets acquired and liabilities assumed £m
Net assets acquired	
Intangible assets – customer contracts	**7**
Intangible assets – customer relationships	**20**
Intangible assets – brand names	**7**
Property, plant and equipment	**5**
Deferred taxation	**(5)***
Current tax	**–**
Working capital	**(15)**
Cash and cash equivalents	**16**
Other net liabilities	**(4)**
Identifiable net assets	**31**
Goodwill	**89***
Total consideration	**120**

* Includes prior year amendments to Halsall's acquisition fair values as detailed in Note 30.3.

Satisfied by	
Cash consideration	**113**
Contingent consideration	**7**
Total consideration transferred	**120**

	Net cash flow on acquisitions £m
Cash consideration	**113**
Cash and cash equivalent balances acquired	**(16)**
Net cash outflow on acquisitions completed in 2011	**97**
Deferred consideration paid during 2011 in respect of acquisitions completed in earlier years	**3**
Net cash outflow on acquisitions	**100**

30.2 Contingent consideration arrangements

Contingent consideration (payable)/recoverable	SpawMaxwell £m	Parsons Brinckerhoff Inc. £m	Howard S. Wright £m	Total £m
At 31 December 2010	(3)	16	–	13
Additions	**–**	**–**	**(7)**	**(7)**
At 31 December 2011	**(3)**	**16**	**(7)**	**6**

The fair value of the contingent consideration arrangements is estimated by applying the provisions of the purchase agreement to management's assessment of possible outcomes and discounting the expected contract costs and insurance claim proceeds to their present value. The maximum amount that the Group could be required to pay or receive under the terms of the contingent consideration arrangements is £11m payable or £16m receivable in respect of Parsons Brinckerhoff, £3m payable in respect of SpawMaxwell, and £15m payable in respect of Howard S. Wright.

In addition to the amounts shown above, at 31 December 2011 £4m and £1m relating to the acquisitions of Power Efficiency and OPL respectively are held in escrow to be paid over two years and 18 months respectively subject to certain provisions of the purchase agreement.

30.3 Prior year acquisitions

The fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional for Ethos56 Ltd ("Halsall") have been finalised in the current year resulting in a £2m deferred tax liability and an increase in goodwill of £2m. These amounts are not considered material and are shown in the current year.

There are no other changes to the acquisition fair values disclosed in the 2010 financial statements.

30.4 Current year disposals

30.4.1 On 3 May 2011, the Group disposed of its UK specialist rail manufacturing business for £37m. The fair value of net assets disposed comprise property, plant and equipment £26m; and working capital £8m. No cash and cash equivalents was disposed. The business generated revenue of £55m in 2010 and had profit from operations of £4m. A total loss on disposal of £7m, including £7m goodwill written-off and an onerous lease provision of £3m, was recognised within non-underlying items.

30 Acquisitions and disposals continued

30.4 Current year disposals continued

30.4.2 On 23 June 2011 the Group disposed of a 60% interest in its Connect Roads Ltd joint venture for a cash consideration of £16m. Connect Roads Ltd holds a 100% interest in Connect A50 Ltd. The disposal resulted in a total gain of £14m being recognised in underlying operating profit, comprising £8m in respect of the gain on disposal of the investment in the joint venture and £6m in respect of revaluation reserves recycled to the income statement. The Group retains a 25% interest in Connect Roads Ltd following the transaction.

30.4.3 On 7 November 2011 the Group disposed of its 50% interest in the shares and loan notes issued by Consort Healthcare Blackburn (Holdings) Ltd for a cash consideration of £12m. This resulted in a gain on disposal of £6m being recognised in underlying operating profit. There were no revaluation reserves relating to Consort Healthcare Blackburn (Holdings) Ltd.

30.4.4 On 21 December 2011 the Group disposed of its effective 25.5% interest in Barking Power Ltd at its carrying value of £55m. Transaction costs of £1m were incurred resulting in a £1m loss on disposal being recognised within non-underlying items.

31 Share-based payments

The Company operates four equity-settled share-based payment arrangements, namely the savings-related share option scheme (SAYE), the executive share option scheme (ESOS), the performance share plan (PSP) and the deferred bonus plan (DBP). The Group recognised total expenses relating to equity-settled share-based payment transactions since 7 November 2002 of £6.2m in 2011 (2010: £8.3m). Refer to the remuneration report for details of the various schemes and to Note 28.1.

31.1 Movements in share options

	SAYE options				ESOS options			
	2011 Number	**Weighted average exercise price 2011 Pence**	2010 Number	Weighted average exercise price 2010 Pence	**2011 Number**	**Weighted average exercise price 2011 Pence**	2010 Number	Weighted average exercise price 2010 Pence
Outstanding at 1 January	**9,014,115**	**269.9**	8,901,502	287.0	**939,706**	**201.6**	1,244,920	198.9
Granted during the year	**–**	**–**	3,073,128	236.0	**–**	**–**	–	–
Forfeited during the year	**(1,526,224)**	**280.1**	(1,212,810)	282.0	**(1,482)**	**189.0**	(15,425)	196.3
Exercised during the year	**(665,516)**	**273.8**	(657,138)	217.7	**(183,000)**	**197.2**	(289,789)	190.2
Expired during the year	**(621,685)**	**304.1**	(1,090,567)	332.2	**–**	**–**	–	–
Outstanding at 31 December	**6,200,690**	**263.5**	9,014,115	269.9	**755,224**	**203.2**	939,706	201.6
Exercisable at 31 December	**161,899**	**296.2**	105,633	300.8	**755,224**	**203.2**	939,706	201.6

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 309.6p (2010: 251.9p) and the weighted average remaining contractual life of SAYE options outstanding at 31 December 2011 is 2.1 years (2010: 2.7 years).

The weighted average share price at the date of exercise for those ESOS options exercised during the year was 303.4p (2010: 284.5p) and the weighted average remaining contractual life of ESOS options outstanding at 31 December is 2.0 years (2010: 3.0 years).

31.2 Movements in share plans

	PSP conditional awards		DBP conditional awards	
	2011 Number	2010 Number	**2011 Number**	2010 Number
Outstanding at 1 January	**8,171,418**	6,863,134	**2,247,952**	1,933,946
Granted during the year	**3,235,874**	2,982,241	**738,975**	769,581
Awards in lieu of dividends	**–**	–	**101,666**	106,024
Forfeited during the year	**(464,604)**	(105,633)	**(71,671)**	(47,321)
Exercised during the year	**(412,560)**	(784,170)	**(724,970)**	(514,278)
Expired during the year	**(1,829,804)**	(784,154)	**–**	–
Outstanding at 31 December	**8,700,324**	8,171,418	**2,291,952**	2,247,952
Exercisable at 31 December	**–**	–	**–**	–

The share price at the date of exercise for those PSP awards exercised during the year was 330.0p (2010: 293.2p) and the weighted average remaining contractual life of those PSP awards outstanding at 31 December 2011 is 1.4 years (2010: 1.4 years).

The weighted average share price at the date of exercise for those DBP awards exercised during the year was 333.8p (2010: 290.4p) and the weighted average remaining contractual life of DBP awards outstanding at 31 December 2011 is 1.2 years (2010: 1.3 years).

The principal assumptions, including expected volatility determined from the historic weekly share price movements over the three-year period immediately preceding the award date, used by the consultants in the stochastic model for the 50% of the PSP awards in 2011 subject to market conditions, were:

Award date	**Closing share price before award date Pence**	**Expected volatility of shares %**	**Expected term of awards Years**	**Risk-free interest rate %**	**Calculated fair value of an award Pence**
1 June 2011	**321.9**	**28.0**	**3.0**	**1.29**	**205.4**

For the 50% of the PSP awards in 2011 subject to non-market conditions and for the DBP awards in 2011, the fair value of the awards is the closing share price before award date.

Notes to the accounts continued

32 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £12m (2010: £31m) in the Group and £nil (2010: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt of joint ventures and associates in PPP projects amounting to £34m (2010: £70m), £37m (2010: £21m) in respect of PPP subsidiaries and £15m (2010: £24m) in respect of the Balfour Beatty Capital US military housing concessions. The future cash flow profile of the Group's share of further equity funding and subordinated debt is shown in Note 37(g).

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement is disclosed in Note 4.1.

Future operating lease expenditure commitments

	Land and buildings 2011 £m	**Other 2011 £m**	Land and buildings 2010 £m	Other 2010 £m
Group				
Due within one year	**81**	**49**	73	38
Due between one and five years	**197**	**56**	181	57
Due after more than five years	**61**	**–**	49	–
	339	**105**	303	95
Company				
Due within one year	**3**	**–**	4	–
Due between one and five years	**7**	**–**	10	–
Due after more than five years	**–**	**–**	–	–
	10	**–**	14	–

Future committed operating lease income

	Land and buildings 2011 £m	Land and buildings 2010 £m
Group		
Due within one year	**3**	3
Due between one and five years	**6**	9
Due after more than five years	**–**	–
	9	12
Company		
Due within one year	**3**	3
Due between one and five years	**6**	9
	9	12

33 Contingent liabilities

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

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

34 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £898m (2010: £972m). 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 to or from joint ventures and associates at 31 December are disclosed within trade and other receivables and trade and other payables in Notes 22 and 23 respectively.

On 30 March 2011 the Group acquired Romec Services Ltd from its associate Romec Ltd for a cash consideration of £29m. Refer to Note 30.1.2.

Pension schemes

The Group recharged the Balfour Beatty Pension Fund ("BBPF") with the costs of administration and advisers' fees borne by the Group amounting to £5.7m in 2011 (2010: £5.2m).

On 21 December 2011 the BBPF, acting through its Trustees, purchased the Group's effective 25.5% interest in Barking Power Ltd at its carrying value of £55m which was considered to be its fair value. Refer to Note 10.

Key personnel

Remuneration of key personnel of Balfour Beatty plc	**2011 £m**	2010[7] £m
Short-term benefits	**4.329**	4.080
Post-employment benefits	**0.305**	0.427
Share-based payments	**1.395**	2.024
	6.029	6.531

7 Restated to include non-executive Directors' remuneration

Key personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors. The remuneration included above is that paid in respect of the period of the year during which the individuals were Directors. Further details of Directors' emoluments, post-employment benefits and interests are set out in the remuneration report on pages 82 to 92.

35 Events after the reporting date

On 1 February 2012, the Group sold its 50% interest in Transform Schools (North Lanarkshire) Holdings Ltd for a cash consideration of £18m. The disposal resulted in a £8m gain being recognised within underlying operating profit.

Notes to the accounts continued

36 Notes to the statements of cash flows

	Underlying 2011 £m	Non-underlying 2011 £m	Group 2011 £m	Group 2010[2] £m	Underlying 2011 £m	Non-underlying 2011 £m	Company 2011 £m	Company 2010[2] £m
36.1 Cash generated from/(used in) operations								
Profit/(loss) from continuing operations	**331**	**(88)**	**243**	220	**(8)**	**(1)**	**(9)**	(9)
Profit/(loss) from discontinued operation	**–**	**4**	**4**	(14)	**–**	**59**	**59**	9
Share of results of joint ventures and associates – continuing operations	**(75)**	**–**	**(75)**	(72)	**–**	**–**	**–**	–
Share of results of joint ventures and associates – discontinued operation	**–**	**–**	**–**	14	**–**	**–**	**–**	–
Dividends received – continuing operations	**–**	**–**	**–**	–	**(13)**	**–**	**(13)**	(22)
Dividends received – discontinued operation	**–**	**(5)**	**(5)**	–	**–**	**(5)**	**(5)**	(9)
Depreciation of property, plant and equipment	**70**	**–**	**70**	74	**–**	**–**	**–**	–
Amortisation of other intangible assets	**4**	**62**	**66**	82	**–**	**–**	**–**	–
Pension deficit payments								
– ongoing deficit funding	**(58)**	**–**	**(58)**	(41)	**(3)**	**–**	**(3)**	(1)
– one-off deficit funding	**–**	**–**	**–**	(40)	**–**	**–**	**–**	–
Past service cost credit	**(2)**	**–**	**(2)**	–	**–**	**–**	**–**	–
Movements relating to share-based payments	**6**	**–**	**6**	8	**–**	**–**	**–**	5
Profit on disposal of investments in joint ventures	**(20)**	**–**	**(20)**	(20)	**–**	**–**	**–**	–
Profit on disposal of property, plant and equipment	**(4)**	**–**	**(4)**	(2)	**–**	**–**	**–**	–
Loss/(gain) on disposal of Barking	**–**	**1**	**1**	–	**–**	**(54)**	**(54)**	–
Loss on disposal of business	**–**	**7**	**7**	–	**–**	**–**	**–**	–
Other non-cash items	**3**	**–**	**3**	(8)	**–**	**–**	**–**	–
Operating cash flows before movements in working capital	**255**	**(19)**	**236**	201	**(24)**	**(1)**	**(25)**	(27)
Increase in working capital	**(201)**	**–**	**(201)**	(32)	**(75)**	**–**	**(75)**	(37)
Cash (used in)/generated from operations	**54**	**(19)**	**35**	169	**(99)**	**(1)**	**(100)**	(64)

2 Re-presented for the classification of Barking Power as a discontinued operation (Note 10).

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
36.2 Cash and cash equivalents				
Cash and deposits	**574**	518	**–**	–
Term deposits	**3**	48	**–**	–
PPP cash balances	**18**	18	**–**	–
Bank overdrafts	**(15)**	(34)	**(24)**	(55)
	580	550	**(24)**	(55)

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

	PPP 2011 £m	Other 2011 £m	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
36.3 Analysis of movement in net cash/(borrowings)						
Opening net cash	**(270)**	**518**	**248**	324	**(55)**	90
Currency translation differences	**–**	**(2)**	**(2)**	12	**–**	–
Net increase/(decrease) in cash and cash equivalents	**–**	**32**	**32**	(70)	**31**	(145)
Proceeds from new loans	**(70)**	**(212)**	**(282)**	(49)	**(212)**	–
Repayment of loans	**8**	**–**	**8**	30	**–**	–
Proceeds from new finance leases	**–**	**–**	**–**	(4)	**–**	–
Repayment of finance leases	**–**	**4**	**4**	5	**–**	–
Closing net cash/(borrowings)	**(332)**	**340**	**8**	248	**(236)**	(55)

36.4 Borrowings

During the year to 31 December 2011 the significant movements in borrowings were an increase of £70m (2010: £49m increase) in non-recourse borrowings funding the development of financial assets in PPP subsidiaries, a draw down of other short-term loans of £212m (2010: £nil), a £19m net decrease (2010: £24m increase) in bank overdrafts and repayment of £8m (2010: £19m) non-recourse PPP loans.

37 Principal subsidiaries, joint ventures and associates

	Country of incorporation or registration
(a) Principal subsidiaries	
Professional, Construction and Support services	
Balfour Beatty Civil Engineering Ltd	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Construction Northern Ltd	
Balfour Beatty Construction Scottish & Southern Ltd	Scotland
Balfour Beatty Engineering Services Ltd	Scotland
Balfour Beatty Group Ltd	
Balfour Beatty Infrastructure Inc	US
Balfour Beatty Rail GmbH	Germany
Balfour Beatty Rail Inc	US
Balfour Beatty Rail Ltd	
Balfour Beatty Rail SpA	Italy
Balfour Beatty Utility Solutions Ltd	
Balfour Beatty WorkPlace Ltd	
Mansell plc	
Parsons Brinckerhoff (Asia) Ltd	Hong Kong
Parsons Brinckerhoff Group Inc	US
Parsons Brinckerhoff Inc	US
Parsons Brinckerhoff International Pte Ltd	Singapore
Parsons Brinckerhoff Ltd	
PB Australia Pty Ltd	Australia
Infrastructure Investments	
PPP (refer Note 37 (d) and (e))	
Balfour Beatty Capital Ltd	
Balfour Beatty Capital Group Inc	US
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Other	
Balfour Beatty LLC	US
Balfour Beatty Group Inc	US
Balfour Beatty Investment Holdings Ltd*	
Delphian Insurance Company Ltd*	Isle of Man

	Country of incorporation or registration	Ownership interest %
(b) Principal joint ventures and associates		
Professional, Construction and Support services		
BK Gulf LLC	Dubai	49.0
Dutco Balfour Beatty LLC	Dubai	49.0
Gammon China Ltd	Hong Kong	50.0
Monteray Ltd		24.5
Romec Ltd		49.0

Refer to Note 37 (d), (e) and (f) for details of the Group's Infrastructure Investments companies at 31 December 2011.

(c) Principal jointly controlled operations

The Group carries out a number of its larger contracts in joint arrangement with other contractors so as to share resources and risk. The principal joint construction projects in progress are shown below.

South-East England Roads		65.0
South-West England Roads		73.0
M25 DBFO		50.0
M25 Maintenance		52.5
M74 Motorway	Scotland	25.0
Scotland Transerv	Scotland	70.0
Gotthard Base Tunnel	Switzerland	25.0
Fort Riley Replacement Hospital	US	70.0
Carl R. Darnall Army Medical Center	US	50.0
Walter Reed Army Medical Center	US	40.0
Parkland Acute Care Hospital	US	40.0
Utah Data Center	US	40.0

Notes

(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.

(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.

* Indicates held directly by Balfour Beatty plc.

Notes to the accounts continued

37 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital UK PPP concessions

Roads

Summary Balfour Beatty is a promoter, developer and investor in 12 road and street lighting projects under Balfour Beatty's Connect brand: to construct new roads; to upgrade and maintain existing roads; and to replace and maintain street lighting.

Project descriptions The road projects comprise the design, construction, operation, maintenance and associated financing of the following roads: the M1-A1 link road; A30 Honiton to Exeter and A35 Tolpuddle to Puddletown bypass; A50 Stoke-Derby; M77 Fenwick to Malletsheugh and the Glasgow Southern Orbital; the M25 Junction 16 to Junction 23, Junction 27 to Junction 30 and A1(M) Hatfield Tunnel and maintenance of the entire M25; and the Carlisle Northern Development Route (CNDR). The road concessions typically run for 30 years and reached financial close at various dates between March 1996 and July 2009. The street lighting projects are for the replacement, maintenance and associated financing over a 25-year period of the street lighting and highway signs in Sunderland, South Tyneside, Derby, Coventry, Cambridgeshire and Northamptonshire. All construction is new build rather than refurbishment except for the work undertaken on the M25 and A1(M) Hatfield Tunnel.

Contractual arrangements The principal contract in the roads concessions is the project agreement with the governmental highway authority setting out the obligations for the construction, operation and maintenance of the roads including lifecycle replacement by Connect for the life of the concession to specified standards. In the case of M1-A1, A30/A35 and A50 the inflation indexed payment is related to traffic volumes. In the case of M77/GSO and CNDR, the inflation indexed payment is partly based on availability and partly on traffic volumes, and is subject to any performance related deductions. In the case of M25, the inflation indexed payment is wholly based on availability and is subject to any performance related deductions. Construction of the roads was subcontracted to construction joint ventures in which Balfour Beatty had a 50% interest or, in the case of the M77/GSO and CNDR, 100% to Balfour Beatty subsidiaries. On the street lighting projects, payment is by a periodic inflation indexed availability payment subject to performance deductions and the replacement and maintenance obligations have been subcontracted to a Balfour Beatty subsidiary. There are no provisions to reprice the contracts and all assets transfer to the client at the end of the concessions.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Connect M1-A1 Ltd	M1-A1 30km road	290	50%	March 1996	30	1999
Connect A50 Ltd	A50 57km road	42	25%	May 1996	30	1998
Connect A30/A35 Ltd (ii)	A30/A35 102km road	127	85%	July 1996	30	2000
Connect M77/GSO plc (ii)	M77/GSO 25km road	167	85%	May 2003	32	2005
Connect Roads Sunderland Ltd	Street lighting apparatus in Sunderland	27	100%	August 2003	25	2008
Connect Roads South Tyneside Ltd	Street lighting apparatus in South Tyneside	28	100%	December 2005	25	2010
Connect Roads Derby Ltd	Street lighting apparatus in Derby	36	100%	April 2007	25	2012
Connect Plus (M25) Ltd	M25 J16 – J23, J27 –J30 and A1(M) Hatfield Tunnel	1,309	40%	May 2009	30	2012
Connect CNDR Ltd	Carlisle Northern Development Route	176	100%	July 2009	30	2012
Connect Roads Coventry Ltd	Street lighting apparatus in Coventry	56	100%	August 2010	25	2015
Connect Roads Cambridgeshire Ltd	Street lighting apparatus in Cambridgeshire	51	100%	April 2011	25	2016
Connect Roads Northamptonshire Ltd	Street lighting apparatus in Northamptonshire	64	100%	August 2011	25	2016

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Connect M77/GSO plc which conducts its principal operations in Scotland.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors are of the opinion that, as at the reporting date, the Group did not control this company and it has been accounted for as a joint venture.

37 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital UK PPP concessions continued

Hospitals

Summary Balfour Beatty is a promoter, developer and investor in eight hospital projects, of which seven are under Balfour Beatty's Consort Healthcare brand, comprising the building of hospital accommodation and the provision of certain non-medical facilities management services over the concession period.

Project descriptions The projects comprise: University Hospital of North Durham; Edinburgh Royal Infirmary; University College London Hospital; University Hospital Birmingham; Pinderfields and Pontefract Hospitals in mid-Yorkshire; Hope Hospital Salford; Tameside General Hospital; and Victoria Hospital in Kirkcaldy, Fife. Construction is new build rather than refurbishment.

Contractual arrangements The principal contract is the project agreement between the concession company and the NHS Trust. An inflation indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. Construction of the hospitals has been subcontracted to construction joint ventures in which Balfour Beatty subsidiaries participated 100% (University Hospital of North Durham, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford, Tameside General Hospital and Victoria Hospital Kirkcaldy), 85% (Edinburgh Royal Infirmary), and 50% (University College London Hospital). In the case of Edinburgh Royal Infirmary, University Hospital of North Durham, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford, Tameside General Hospital and Victoria Hospital Kirkcaldy, facilities management has been subcontracted to a Balfour Beatty subsidiary. The payments for the facilities management services are repriced every five years. All assets transfer to the client at the end of the concession, with the exception of Edinburgh Royal Infirmary, where the client has the option to terminate the arrangement for the provision of the hospital and services in 2028.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Consort Healthcare (Durham) Ltd	Teaching hospital	90	50%	March 1998	30	2001
Consort Healthcare (Edinburgh Royal Infirmary) Ltd	Teaching hospital and medical school	220	50%	August 1998	30	2003
Health Management (UCLH) Ltd	University College London teaching hospital	282	33.3%	July 2000	40	2008
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	June 2006	40	2011
Consort Healthcare (Mid Yorkshire) Ltd	Pinderfields and Pontefract general hospitals	311	50%	June 2007	35	2010
Consort Healthcare (Salford) Ltd	Teaching hospital and medical school	136	50%	September 2007	35	2012
Consort Healthcare (Tameside) Ltd	General hospital	77	50%	September 2007	34	2011
Consort Healthcare (Fife) Ltd	General hospital	170	50%	April 2009	30	2011

Notes
(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Consort Healthcare (Edinburgh Royal Infirmary) Ltd and Consort Healthcare (Fife) Ltd which are registered in Scotland and conduct their principal operations in Scotland.

Notes to the accounts continued

37 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital UK PPP concessions continued

Schools

Summary Balfour Beatty is a promoter, developer and investor in 14 schools projects principally under Balfour Beatty's Transform Schools brand to design, build or refurbish schools and to provide certain non-educational services over the concession period.

Project descriptions The projects comprise: 98 schools in the city of Stoke-on-Trent; 15 schools in Rotherham; 21 schools in North Lanarkshire; six new schools, two post-16 learning centres and two leisure centres in Bassetlaw, Nottinghamshire; 12 schools in Birmingham; 16 schools in the first two phases in Newcastle; seven learning centres in Knowsley; a total of six schools over two phases in Islington; a total of six schools over two phases in Southwark; 15 schools in Blackburn with Darwen and Bolton; one school in Derby; one school in Ealing and one school in Oldham. Construction in North Lanarkshire, Bassetlaw, Newcastle, Knowsley, Blackburn & Darwen, Ealing, Derby, Oldham and Southwark is all new build. On Stoke, construction comprises £16m of new build and £63m of refurbishment; on Rotherham, £78m of new build and £21m of refurbishment; on Birmingham, £69m of new build and £5m of refurbishment; on Islington, £93m of new build and £6m of refurbishment; and on Hertfordshire, £43m of new build.

Contractual arrangements The principal contract is the project agreement between the concession company and the local authority that provides for an inflation indexed availability based payment subject to any performance related deductions. For projects other than Aura Newcastle Ltd, construction is subcontracted to construction joint ventures of Balfour Beatty subsidiaries and the facilities management services are subcontracted to a Balfour Beatty subsidiary. Construction and facilities management services on Aura Newcastle are carried out by subsidiaries of other shareholders. The payments for the facilities management services are repriced every five years. All assets transfer to the client at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Transform Schools (Stoke) Ltd	Grouped schools project in Stoke-on-Trent	84	50%	October 2000	25	2005
Transform Schools (Rotherham) Ltd	Grouped schools project in Rotherham	113	50%	June 2003	31	2006
Transform Schools (North Lanarkshire) Ltd (iii)	Grouped schools project in North Lanarkshire	140	50%	June 2005	32	2008
Transform Schools (Bassetlaw) Ltd	Grouped schools project in Bassetlaw, Notts	127	50%	July 2005	27	2007
Transform Schools (Birmingham) Ltd	Grouped schools project in Birmingham	89	50%	March 2006	33	2009
Aura Newcastle Ltd	BSF project in Newcastle-upon-Tyne	47	20%	July 2007	25	2012
Transform Schools (Knowsley) Ltd	BSF project in Knowsley	163	100%	December 2007	27	2010
Transform Islington Ltd (ii)	BSF project in Islington	77	80%	July 2008	26	2013
4 Futures Ltd (ii)	BSF project in Southwark	70	80%	May 2009	26	2014
Blackburn with Darwen and Bolton LEP Ltd (ii)	BSF project in Blackburn	85	80%	January 2010	25	2011
Derby City BSF Partnership Ltd (ii)	BSF project in Derby	39	80%	December 2010	25	2012
Future Ealing Ltd (ii)	BSF project in Ealing	36	80%	December 2010	25	2012
Oldham Education Partnership Ltd (ii)	BSF project in Oldham	40	90%	December 2010	25	2012
Hertfordshire Schools Building Partnership Ltd (ii)	BSF project in Hertfordshire	55	80%	January 2011	25	2012

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Transform Schools (North Lanarkshire) Ltd which conducts its principal operations in Scotland.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors are of the opinion that, as at the reporting date, the Group did not control this company and it has been accounted for as a joint venture.

(iii) On 1 February 2012, the Group sold its 50% interest in Transform Schools (North Lanarkshire) Holdings Ltd for a cash consideration of £18m. The disposal resulted in a £8m gain being recognised within underlying operating profit.

37 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital UK PPP concessions continued

Other concessions

Summary Balfour Beatty is a promoter, developer and investor in a number of other concessions.

Project descriptions The Powerlink project comprises two companies: UK Power Networks Services Powerlink Ltd ("UKPNSPL"), which operates the London Underground high voltage power system under a 30-year contract and was responsible for procuring various new power assets, and Power Asset Development Company Ltd ("PADCO"), which constructed the new-build power assets and is leasing them to UKPNSP. Pevensey Coastal Defence Ltd ("PCDL") has a 25-year contract with the Environment Agency which requires PCDL to maintain sea defences consisting of a shingle bank that extends 9 km between Eastbourne and Bexhill-on-Sea in East Sussex. Gammon Capital (West) Pte Ltd has a contract to design, build and finance the new Institute of Technical Education ("ITE") College West in Singapore and provide long-term facilities management services for the remainder of the 27-year project. Balfour Beatty Fire and Rescue NW Ltd is contracted to design, construct, fund and provide facilities for 16 community fire stations in Merseyside, Cumbria and Lancashire.

Contractual arrangements For the Powerlink project the principal project agreement is the power services contract between UKPNSPL and London Underground Ltd that provides for an inflation indexed availability payment subject to any performance deductions. UKPNSPL operates and maintains the power network using its own staff and is leasing the new power assets from PADCO, which subcontracted construction to a construction joint venture in which a Balfour Beatty subsidiary had a 40% interest. There are no provisions to reprice contracts and all assets transfer to the client at the end of the concession. PCDL's principal contract is the flood defence services agreement with the Environment Agency that provides for an inflation indexed payment subject to any performance related deductions. For the Singapore project, the principal agreement is the project agreement with the ITE of Singapore that provides for an inflation indexed availability based payment subject to any performance deductions. Construction is subcontracted to Gammon Pte Ltd, a wholly owned subsidiary of Gammon China Ltd in which the Group has a 50% interest. The facilities management services under the ITE agreement are provided by a third party. The principal contract for Balfour Beatty Fire and Rescue NW Ltd is the project agreement between the concession company and Cumbria County Council, Lancashire Combined Fire Authority and Merseyside Fire and Rescue Authority. This agreement provides for an inflation indexed availability based payment subject to any performance related deductions. Construction and facility management services are subcontracted to Balfour Beatty subsidiaries.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
UK Power Networks Services Powerlink Ltd (ii) /Power Asset Development Company Ltd	London Underground power system	184	10%/25%	August 1998	30	2006
Pevensey Coastal Defence Ltd	Flood defences	3	25%	July 2000	25	n/a
Gammon Capital (West) Pte Ltd	Technical education college	100	50%	August 2008	27	2010
Balfour Beatty Fire and Rescue NW Ltd	Community fire stations	55	100%	February 2011	25	2013

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Gammon Capital (West) Pte Ltd which is registered in Singapore and conducts its principal operations in Singapore.

(ii) The Group exercises significant influence through its participation in the management of UK Power Networks Services Powerlink Ltd and therefore accounts for its interest as an associate.

Notes to the accounts continued

37 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Capital US PPP concessions

Military housing

Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 43 military bases which includes 43 military family housing communities and one unaccompanied personnel housing community that provide speciality housing to US military personnel and their families.

Project descriptions The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), covering 16 Army bases; four projects with the United States Department of the Air Force (Air Force), covering nine Air Force bases and two projects with the United States Department of the Navy (Navy), covering 18 Navy bases. In addition, there is one unaccompanied personnel housing (UPH) project at Fort Stewart, located in Hinesville, Georgia. These projects in operation cover 43 domestic bases located in 21 states and Washington, DC and Balfour Beatty Communities expects them to contain approximately 33,000 end-state housing units once full development, construction and renovation have been completed. The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. For each project, Balfour Beatty Communities creates a special purpose entity to serve as the owner of the project, which is typically either a limited liability company or general partnership. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); and, whereas the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC.

Contractual arrangements On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, potentially could extend for up to an additional 25 years. The 50-year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the US Government.

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual, minimum preferred rate of return. On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project. During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return. The unpaid amounts generally will accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the US Government in accordance with the terms of the project agreements.

Allocation of remaining operating cash flows Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the US Government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military branch.

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, as applicable, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the Army, Navy or Air Force, as applicable.

37 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Capital US PPP concessions continued

Military housing continued

Military privatisation project (i)(ii)	Project	Total project funding £m	Financial close	Duration years	Construction completion
Fort Carson	Army base	113	November 2003	46	2004
– Fort Carson expansion phase		82	November 2006	43	2010
– Fort Carson expansion phase II		66	April 2010	39	2013
Fort Stewart/Hunter Airfield	Two army bases	241	November 2003	50	2012
– Fort Stewart UPH		20	January 2008	50	2010
Fort Hamilton	Army base	35	June 2004	50	2009
Walter Reed Army Medical Center/Fort Detrick	Two army bases	58	July 2004	50	2008
Navy Northeast Region	Seven navy bases	311	November 2004	50	2010
Fort Eustis/Fort Story	Two army bases	111	March 2005	50	2011
– Fort Eustis expansion		5	July 2010	45	2011
Fort Bliss/White Sands Missile Range	Two army bases	269	July 2005	50	2011
– Fort Bliss expansion phase I		34	December 2009	46	2011
– Fort Bliss expansion phase II		102	July 2011	44	2014
Fort Gordon	Army base	70	May 2006	50	2012
Carlisle/Picatinny	Two army bases	53	July 2006	50	2011
AETC Group 1	Four Air Force bases	195	February 2007	50	2012
Navy Southeast Region	11 Navy bases	334	November 2007	50	2013
Vandenberg	Air Force base	107	November 2007	50	2012
Fort Leonard Wood	Army base	153	Acquired June 2008	47	2014
AMC West	Three Air Force bases	264	July 2008	50	2015
West Point	Army base	138	August 2008	50	2016
Fort Jackson	Army base	109	October 2008	50	2013
Lackland	Air Force base	125	Acquired December 2008	50	2013

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US.
(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

Student accommodation

Student accommodation project (i)	Project	Total project funding £m	Financial close	Duration years	Construction completion
Florida Atlantic University	Student housing	63	March 2010	30	2011

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US.

Notes to the accounts continued

37 Principal subsidiaries, joint ventures and associates continued

(f) Non-PPP infrastructure investments

Summary: Balfour Beatty is an investor in, and a promoter and developer of, non-PPP infrastructure investments.

Project descriptions: Exeter and Devon Airport Ltd owns and operates Exeter International Airport. Blackpool Airport Ltd owns and operates Blackpool International Airport.

Company (i)	Project	Total project funding £m	Shareholding	Financial close
Exeter and Devon Airport Ltd	Exeter International Airport	£60m	60%	January 2007
Blackpool Airport Ltd (ii)	Blackpool International Airport	£14m	95%	May 2008

Notes
(i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales.
(ii) Shareholding quoted is economic interest.

(g) Total committed equity and debt funding

The future cash flow profile of committed equity and debt funding for the PPP concession companies listed above

Concessions	2012 £m	2013 £m	2014 £m	2015 onwards £m	Total £m
Roads	**25**	**–**	**–**	**17**	**42**
Hospitals	**–**	**–**	**–**	**–**	**–**
Schools	**18**	**3**	**4**	**–**	**25**
Other	**–**	**–**	**5**	**–**	**5**
Military housing	**8**	**2**	**3**	**2**	**15**
Total	**51**	**5**	**12**	**19**	**87**

38 Prior year comparisons

38.1 The 2010 income statement has been re-presented to reflect the classification of Barking Power Ltd as a discontinued operation from 2 March 2011. Refer to Note 10.

38.2 The 2010 statement of financial position has been re-presented to reflect the disclosure of provisions between current liabilities and non-current liabilities which was previously within the provisions note. This had the following effect.

	As re-presented 2010 £m	As previously reported 2010 £m	Net effect £m
Current liabilities	(135)	–	(135)
Non-current liabilities	(107)	(242)	135
Total provisions	(242)	(242)	–

38.3 On 1 January 2011 management responsibility for Balfour Beatty Plant and Fleet Services ("BBPFS") was transferred from Construction Services to Balfour Beatty WorkPlace ("BBW") in Support Services, to enhance its growth prospects utilising BBW's customer base. Amounts in 2010 presented for Construction Services and Support Services have been re-presented accordingly.

	Construction Services as re-presented 2010 £m	Construction Services as previously reported 2010 £m	Support Services as re-presented 2010 £m	Support Services as previously reported 2010 £m
Performance by activity				
Revenue including share of joint ventures and associates	6,734	6,743	1,443	1,434
Share of revenue of joint ventures and associates	(616)	(616)	(131)	(131)
Group revenue	6,118	6,127	1,312	1,303
Underlying group operating profit	170	181	57	46
Share of results of joint ventures and associates	31	31	5	5
Underlying profit from operations	201	212	62	51
Amortisation of acquired intangible assets	(18)	(18)	(1)	(1)
Other non-underlying items	(6)	(6)	(12)	(12)
Profit from operations	177	188	49	38
Assets and liabilities				
Due from customers for contract work	389	389	54	54
Due to customers for contract work	(453)	(453)	(11)	(11)
Inventories	48	50	39	37
Trade and other receivables – current	695	720	161	136
Trade and other payables – current	(1,628)	(1,640)	(246)	(234)
Provisions	(148)	(148)	(44)	(44)
Working capital	(1,097)	(1,082)	(47)	(62)
Total assets	2,339	2,412	469	396
Total liabilities	(2,454)	(2,519)	(428)	(363)
Net (liabilities)/assets	(118)	(107)	41	33
Other information				
Capital expenditure	37	52	32	17
Depreciation	34	48	26	12

Shareholder information

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Group five-year summary

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Income					
Revenue (including share of joint ventures and associates)	**11,035**	10,473	10,254	9,395	7,430
Share of revenue of joint ventures and associates	**(1,541)**	(1,237)	(1,300)	(1,134)	(964)
Group revenue from continuing operations	**9,494**	9,236	8,954	8,261	6,466
Underlying profit from continuing operations	**330**	325	259	208	163
Underlying net investment income/(finance costs)	**4**	(19)	(15)	19	23
Underlying profit before taxation	**334**	306	244	227	186
Amortisation of acquired intangible assets	**(62)**	(82)	(48)	(27)	(9)
Other non-underlying items	**(26)**	(23)	48	48	(35)
Profit from continuing operations before taxation	**246**	201	244	248	142
Taxation on profit from continuing operations	**(64)**	(44)	(54)	(74)	12
Profit from continuing operations after taxation	**182**	157	190	174	154
Profit/(loss) from discontinued operations after taxation	**4**	(14)	21	19	(4)
Profit for the year attributable to equity holders	**186**	143	211	193	150
Capital employed					
Equity holders' funds	**1,259**	1,156	995	857	493
Liability component of preference shares	**91**	89	88	87	87
Net cash	**(8)**	(248)	(324)	(297)	(313)
	1,342	997	759	647	267

	2011 Pence	2010 Pence	2009 Pence	2008 Pence	2007 Pence
Statistics					
Underlying earnings per ordinary share from continuing operations*	**35.5**	32.7	30.7	30.6	27.0
Basic earnings per ordinary share	**26.7**	23.0	33.4	33.3	27.6
Diluted earnings per ordinary share	**26.7**	22.9	33.3	33.1	27.3
Proposed dividends per ordinary share	**13.80**	12.70	11.99	11.15	10.02
Underlying profit from continuing operations before net investment income/(finance costs) including share of joint ventures and associates as a percentage of revenue (including share of joint ventures and associates)	**3.0%**	3.1%	2.5%	2.2%	2.2%

Notes
The comparative figures for the years 2007 to 2010 have been re-presented to reflect the classification of Barking Power Ltd as a discontinued operation from 2 March 2011. Refer to Note 10.

* Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group's underlying trading performance.

Shareholder information

Financial calendar

	2012
25 April	Ex-dividend date for final 2011 ordinary dividend
27 April	Final 2011 ordinary dividend record date
10 May	Annual General Meeting
23 May	Ex-dividend date for July 2012 preference dividend
25 May	July 2012 preference dividend record date
6 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
6 July*	Final 2011 ordinary dividend payable
15 August*	Announcement of 2012 half-year results
7 December*	Interim 2012 ordinary dividend payable

* Provisional dates.

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state the shareholder's registered address and, if available, the full shareholder reference number. Please write to:

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone: 0871 664 0300 from the UK (calls cost 10p per minute plus network extras) and +44 20 8639 3399 from outside the UK (Monday to Friday 8.30 am to 5.30 pm, UK time). Alternatively, you can email at: ssd@capitaregistrars.com.

They can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; record the death of a shareholder.

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System ("BACS"). The Registrars can provide a dividend mandate form. A dividend reinvestment plan ("DRIP") is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at www.balfourbeatty-shares.com.

International payment service

Shareholders outside the UK may elect to receive dividends paid direct into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars on +44 20 8639 3405 (from outside the UK) or 0871 664 0385 from the UK (calls cost 10p per minute plus network extras). Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

Shareholder information on the internet and electronic communications

Our website (www.balfourbeatty.com) provides a range of information about the Company, its people and businesses and its policies on corporate governance and corporate responsibility. The share price can also be found there. It should be regarded as your first point of reference for information on any of these matters.

In conjunction with Capita Registrars, you can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to: view your holdings and indicative share price and valuation; view movements on your holdings and your dividend payment history; register a dividend mandate to have your dividends paid directly into your bank account; change your registered address; sign-up to receive e-communications or access the online proxy voting facility; download and print shareholder forms.

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: shareportal@capita.co.uk.

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports. Any shares that you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £15m has been given to more than 1,750 charities. The relevant share transfer form may be obtained from the Registrars. For more information visit www.ShareGift.org.

Share dealing services

Capita Share Dealing Services (a trading name of Capita IRG Trustees Limited) provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, telephone: 0871 664 0364 from the UK (calls cost 10p per minute plus network extras) and +44 20 3367 2686 from outside the UK (Monday to Friday 8.00 am to 4.30 pm, UK time). Alternatively, you can log on to www.capitadeal.com.

Capita IRG Trustees Limited is authorised and regulated by the Financial Services Authority.

London Stock Exchange Codes

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

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

Capital gains tax (CGT)

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

Enquiries

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

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Forward-looking statements

This document may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or in each case, their negative or other various or comparable terminology. These statements are made by the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this report and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under "managing risk" on pages 58 to 62 of this document.

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

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