We work for you

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Balfour Beatty

Annual Report and Accounts 2012

Performance Highlights

Pre-tax profit[1]

–7%

2012	**£310m**
2011	**£334m**
2010	**£306m**

Underlying earnings per share[1]

–1%

2012	**35 0p**
2011	**35 5p**
2010	**32 7p**

Dividends per share

+2%

2012	**14 1p**
2011	**13 8p**
2010	**12 7p**

Financial Summary

(£m unless otherwise specified)	**2012**	2011	Change (%)
Revenue including joint ventures and associates	**10,896**	11,035	(1)
Group revenue	**9,483**	9,494	–
Profit from continuing operations			
– underlying[1]	**309**	331	(7)
– reported	**74**	243	(70)
Pre-tax profit from continuing operations			
– underlying[1]	**310**	334	(7)
– reported	**75**	246	(70)
Earnings per share from continuing operations			
– underlying[1]	**35 0p**	35 5p	(1)
– basic	**6 5p**	26 7p	(76)
Dividends per share	**14 1p**	13 8p	2
Financing			
– net cash before PPP subsidiaries (non-recourse)	**35**	340	
– net borrowings of PPP subsidiaries (non-recourse)	**(368)**	(332)	

[1] From continuing operations before non-underlying items

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Balfour Beatty differentiates itself through strong local businesses, global sector expertise and end-to-end capabilities including the ability to develop and finance

Ian Tyler
Chief Executive

Go online to watch our film
www balfourbeatty com/
AR2012

Overview

We work Day in, day out around the world, Balfour Beatty teams are working with their clients and partners to fund, design, deliver, operate and maintain infrastructure efficiently and safely.

For you For everyone. Our business is creating the infrastructure assets that help communities, society and nations to live, thrive and grow.

For the future We are focused on geographical regions and key market sectors that will enable us to prosper today and grow sustainably for years to come.

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Watch film online

Group at a Glance

We draw on our global knowledge, across the infrastructure lifecycle to develop innovative assets to create and support tomorrow's communities, today.

Balfour Beatty is a global infrastructure group that delivers world class services essential to the development, creation and care of infrastructure assets, from finance and development, through design and project management to construction and maintenance

Our businesses draw on more than 100 years of experience to deliver the highest levels of quality, safety and technical expertise to our clients principally in the UK, the US, Southeast Asia, and the Middle East We continue to develop our business in key growth markets in South Africa, Australia, Canada, Brazil and India

With proven expertise in delivering infrastructure critical to support communities and society today and in the future, our key market sectors include transportation (roads, rail and aviation), power and energy, mining, water and social infrastructure such as hospitals and schools

£11trn

Estimated value of global infrastructure market in 2013–2017[3]

£11bn

Revenue[2] generated this year

80+

Presence in over 80 countries

50,000

Employees worldwide

Professional Services

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

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

Key highlights
- Increased transportation market share in Americas
- Significant highways wins in US following approval of Transportation Bill
- Acquisition of Subsurface Group to expand energy storage capability
- Highways, rail and power transmission contract wins involving other Group businesses totalling £2 billion

£1.6bn

Order book

£1,668m

Revenue[2]

£98m

Profit from operations[1]

1 Before non-underlying items
2 Including joint ventures and associates
3 Global Insight

Construction Services

We manage market leading construction businesses in the UK, the US, Hong Kong and the Middle East

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

Key highlights
- UK and US organisations streamlined and restructured
- US business recognised as a national leader in sustainable construction, with "green" sales of over US$2 billion
- Major wins for Hong Kong business, including biggest solo contract

£8.0bn
Order book

£6,959m
Revenue[2]

£122m
Profit from operations[1]

Support Services

Our Support Services business is focused on infrastructure and well established as a provider of facilities management, business services outsourcing, utility infrastructure, and rail renewals and highways management

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

Key highlights
- Continued growth across the majority of market segments
- Won new gas distribution contracts worth £1 1 billion in the UK and started work on first contract in Ireland
- Further increase in share of UK highways maintenance market
- Major wins for local authority unit
- Facilities management unit appointed to run services for the Olympic Park

£5.7bn
Order book

£1,633m
Revenue[2]

£52m
Profit from operations[1]

Infrastructure Investments

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

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

Key highlights
- Leveraged US military housing experience to establish a student accommodation portfolio in the US and UK
- Made significant progress in UK waste and energy projects
- Successfully disposed of two assets, achieving £84 million of proceeds and £52 million of profit
- Completed first round of fundraising for managed investment fund

£734m
Directors' valuation

£636m
Revenue[2]

£97m
Pre-tax result[1]

Chairman's Welcome

Balfour Beatty's success is very much dependent on its people, and never more so than in challenging times.

We closed the year reporting revenue, including joint ventures and associates, of £10,896 million, down 1%, and profit from underlying operations of £309 million, down 7% We retain a strong balance sheet with a neutral cash position, despite working capital impacts reflecting reduced volume and changing mix in Construction Services

Our UK and US construction businesses were held back by tough economic conditions in 2012 But as a Group we were able to mitigate the impact through our diverse portfolio, ongoing operational efficiency and focus on new growth geographies and market sectors

Tough trading conditions persisted in most of our major construction markets, particularly in the second half of the year US construction markets remained depressed, the performance of our UK construction business was weaker than anticipated and structural problems in Mainland European rail markets added to the challenges

Against this challenging economic background, our Professional Services and Infrastructure Investments businesses demonstrated resilience and strength

Throughout the year, we maintained our relentless focus on operational efficiency We have made progress in restructuring both the UK and US construction businesses, which helped to offset some of the impact of volume and margin pressure We have concluded an operational and strategic review of our Mainland European rail business and will be divesting all of this business over time

As you will read later in this report, in the near term we are addressing current market conditions by seeking additional efficiencies while continuing to focus on customer value We expect this focus will also address some of the operational issues we have experienced in certain areas of the business For mid to long term growth we are also stepping up implementation of our strategy to target growth geographies and market sectors You can read more about this on pages 10 and 11

Board

We have made a number of boardroom changes over the past year We announced in January 2013 that our Chief Executive, Ian Tyler, would hand over to Andrew McNaughton at the end of March 2013 Over his eight-year tenure Ian led a transformation of the business it has trebled in size, extended its global reach and capabilities, and in particular developed a strong professional services business following the acquisition of Parsons Brinckerhoff in 2009 He will remain with the Group until 30 April 2013 to ensure a smooth transition

Andrew McNaughton has an excellent understanding of all areas of the Group and is supported by a strong team In his previous capacity as Deputy Chief Executive and Chief Operating Officer he has already shown that he has both the skills and the experience to take on the leadership of the business Andrew has been instrumental in developing the strategy that we are now implementing It is encouraging that Balfour Beatty has the depth of management talent to ensure a smooth succession with a high calibre internal candidate

During the year we also announced the retirement in June 2012 of Deputy Chief Executive Anthony Rabin, who had been with the Group for 17 years. And Senior Independent Director Robert Walvis retired from the Board at the end of the year after over 11 years' service.

We were pleased to welcome our first female non-executive to the Board with the appointment of Maureen Kempston Darkes in May 2012. Until her retirement at the end of 2009, Maureen was group vice-president for General Motors' Latin America, Africa and Middle East operations. After qualifying as a lawyer she joined General Motors in 1975 and held a series of increasingly senior roles there.

Within the senior executive ranks, after almost 40 years of distinguished service, Brian Osborne retired from the Group at the end of 2012. Brian had worked in various parts of the business in roles that included managing director of Balfour Beatty Civil Engineering, Group managing director for civil engineering and most recently International Business director.

Our people and reputation
Balfour Beatty's success is very much dependent on its people, and never more so than in challenging times. In some areas of the business, our people have had to contend with tough markets while adapting to ongoing internal change. I extend my thanks to all of them for their commitment, dedication and skill in helping us navigate today's business environment.

As the Group embarks on its new strategic direction, collaboration and knowledge sharing assumes ever greater importance. Our capacity to harness the wide range of skills, knowledge and human potential across the business is key to securing competitive advantage.

Another crucial concern is the safety of our people, our suppliers and the general public. In 2012, the Group Accident Frequency Rate (AFR) improved to 0.16 (2011: 0.17), where the AFR is a ratio relating the number of major injuries to the total hours worked. There were significant improvements in many parts of the Group in relation to safety, however it is with deep regret that there were eight employee fatalities during 2012 – three in the UK, two in North America, two in Australia and one in Indonesia. Every fatal accident is subject to a thorough investigation and review by the Balfour Beatty Board. Lessons learnt are shared across the Group to help improve future performance and our focus in this area remains vigilant.

As a consequence, in 2013 and beyond we are reinvigorating our Zero Harm efforts, setting clear health and safety expectations for all of our businesses, redoubling our efforts to pursue the elimination of fatal risk and increasing the level of personal accountability for safety. Read more about this on page 48

Dividend
The Board believes that it remains appropriate to retain our longer term policy of progressive dividends. In recognition of shorter term earnings pressure, we are proposing to hold the final dividend at 8.5p per ordinary share to give a total dividend for 2012 of 14.1p – an increase of 2% on 2011.

Looking forward
Looking forward we can point to a number of favourable dynamics. We expect to see the full impact of our efficiencies coming through in 2014. We believe our transition to focus on growth geographies and sectors will position us well for the mid term.

Steve Marshall
Chairman

www.balfourbeatty.com

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In the third quarter of 2012, we launched our global intranet "360" is now available to over 70% of our online employees worldwide and is designed to enable more effective collaboration and knowledge sharing. More employees will receive access during 2013.

Chief Executive's Review

We are realigning our business to sharpen our focus on growth markets in key geographies and industry sectors. Combined with our spread of capabilities across the lifecycle of the infrastructure asset, this will differentiate us from competitors and allow us to benefit from markets where growth is buoyant.

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For the past 15 years, we have been on a journey from a UK-based construction business to a leading, global infrastructure provider. I am proud to have led the Group on this journey and I am confident Balfour Beatty will continue to go from strength to strength as it continues this journey in the future.

For the past 15 years, we have been on a journey from a UK-based construction business to a leading, global infrastructure provider This journey has had, and continues to have, a profound effect on how we deliver value to our clients when we operate in this way, and on our exposure to higher growth markets

We have focused on economic infrastructure as we believe this will drive investment in the long term Infrastructure markets are resilient because sustainable economic growth will always require infrastructure investment In developed economies this will be driven by ageing infrastructure which needs replacing and the sustainability/carbon agenda, in emerging economies it will be driven by urbanisation and economic growth Infrastructure is high on government policy agendas virtually everywhere

Our long term vision

Our strategy for growth remains based on building a platform of asset knowledge and capabilities that span the infrastructure lifecycle with the ability to finance and develop projects, focusing on strategic market sectors Our services are delivered via local country businesses, harnessed together to deliver value to infrastructure owners around the world

These asset owners are predominantly national or regional organisations that generally own assets in a single market sector To deliver our strategic vision we must be structured better to suit their needs So we are reshaping our operations into country led business units that deliver a full range of services in specific infrastructure market sectors

These business units will be able to put our global expertise at their clients' disposal We connect them through efficient knowledge transfer and support them with the necessary specialist skills and resources from market sector experts leadership for specific sectors is being provided on a global basis

Focusing on growth markets

The reshaping of our business will continue through 2013 as we focus it more closely on our chosen growth geographies and industry sectors We have already made good progress with building our credentials in these markets Successes in 2012 included significantly increased activity in the power and water sectors and in growth geographies such as Australia

Our traditional markets in the UK and the US remain a bedrock on which the business will be based In these markets our construction businesses were impacted by the continuing economic downturn, which has reduced the number of larger, more complex and higher margin projects where we excel But the impact was mitigated by the broadening of our capabilities beyond construction, and our Professional Services and Infrastructure Investments businesses finished the year with performance in line with expectations This reinforces our view that our focus on infrastructure is sound even when markets become less buoyant, and that it will remain so as we expand into other geographies at different stages of the cycle

In mature markets we are particularly targeting opportunities where we can provide end-to-end services rather than just being part of the value chain In emerging markets where we anticipate significant long term investment in infrastructure, such as India, Brazil and South Africa, we are establishing relationships and showcasing our skills to future clients, particularly in the transportation, mining, and power and energy markets

The resilient performance of our Professional Services and Infrastructure Investments businesses gives us confidence that over the medium to long term our position in infrastructure markets, our competitive advantage in our focus market sectors of transportation, power and energy, water and mining, and our initiatives to expand our current access in growing markets such as Australia, Canada, South Africa, Brazil and India will deliver sustainable growth and a more robust business base

Addressing short term pressures
Meanwhile, for the near term we have been managing our business on the basis that market conditions would be tough, and this has proved an effective strategy We have concluded an operational and strategic review of our Mainland European rail business and we will be divesting all of this business over time

In August 2010, we announced the creation of a shared service centre in the UK, with a target of £30 million of annual savings by the end of 2012 This programme was realised as planned and has reached its targeted run rate at the end of 2012 The second phase of our cost efficiency activity was announced in March 2012 This programme is broader and deeper and targets an additional £50 million of annual savings by 2015

We have already made good progress in Phase 2 The UK construction business has been rationalised into three business streams, with a structure of regional delivery units We are gaining efficiency and flexibility by reducing back office support functions and the number of offices we occupy

The US construction business is moving to a unified operating model, encompassing buildings, rail and infrastructure operations They have reorganised from five to three regional business streams As part of the structural realignment, a national Capability Centre was also formed to harness expertise, capture best practices and deploy that knowledge across the national business The new structure focuses on sharing resources and contributes savings

Our Support Services business is currently implementing cost reduction measures and our Professional Services business is transferring its support functions from New York City to Lancaster, Pennsylvania to improve cost efficiency

These initiatives have already reached £36 million of savings in 2012 We are aiming for a total of £80 million of savings by the end of 2015

Leading change
It has been my privilege to shape Balfour Beatty over the past few years Andrew McNaughton has worked alongside me in developing our strategy and future business model Now is the time for me to hand over to Andrew and let him continue to evolve the business to being a truly global organisation, recognised as one of the world's leading infrastructure businesses and acclaimed for the quality of service that we deliver to our clients The end-to-end knowledge that we have across the whole infrastructure lifecycle differentiates us from our competition Our strength as an asset owner and in our developing country led organisations will allow us to build relationships with clients which will continue to change our industry

It goes without saying that I have been proud to lead this business I have worked with a great team of dedicated people at all levels of the business and a supportive Board and senior management team I am confident the Group will continue to go from strength to strength in the future under Andrew's leadership

Ian Tyler
Chief Executive

www balfourbeatty com

We hang overhead lines

Last year our Rail business in Australia strengthened our presence in Queensland by securing a contract with Bombardier Transportation to provide part of the state's first contemporary light rail network being delivered by the GoldLinQ consortium

The Gold Coast Light Rail system aims to reduce congestion and improve public transport at the Gold Coast – one of Australia's fastest growing cities Our Rail business working with Parsons Brinckerhoff will design, procure, construct and commission the 750V overhead catenary system for Stage One of the system, which will be a key component of the transport network for the 2018 Commonwealth Games

10,000
People an hour

13km
Length of Stage One system

You hang ten

From 2014, you'll be able to ride safely to Surfers Paradise from one of the 16 stations – with your surfboard onboard The 14 new Bombardier Flexity trams can carry up to 10,000 people an hour, each carriage with 80 seats and dedicated space for wheelchairs and prams

Gold Coast Light Rail will run 24 hours from Friday to Sunday night, with services every 7–8 minutes at peak times Expected benefits include fast, safe journeys, a 10% reduction in private vehicle trips, a boost to commerce and a 114,000 tonne cut in greenhouse gas emissions in the first 10 years

309
Passengers per tram

10%
Reduction in private vehicle trips

Focusing on Growth Markets

Balfour Beatty is an infrastructure player with capabilities in many geographies. Our distinctive combination of deep asset knowledge and broad local presence gives us particular competitive strength in infrastructure markets – notably transport, mining, water, power and energy.

Where the money is being spent
Over the next five years (2013–2017) the global infrastructure market is estimated to be worth approximately £11 trillion[1] 85%[2] of this spend will come from the transport, power and energy, and water sectors Growth in these sectors continues to be stronger in emerging markets and resource rich economies, with spend from non-OECD markets rising from around 35% today to 60% in 2025[1]

Infrastructure is a good place to be
Infrastructure markets, particularly economic infrastructure, are relatively resistant to economic shocks and cycles Governments recognise infrastructure investment as a prerequisite for sustainable economic growth – and by generating employment and economic activity helps create a virtuous circle in which increased government revenues help finance further investment

In developed economies, investment is being driven by the need to replace ageing infrastructure – amplified by concerns over sustainability and carbon reduction

In most emerging economies, such as India, Brazil and South Africa, infrastructure investment is accelerating and accounting for a growing proportion of construction expenditure The key drivers include the need to support urbanisation and remove constraints on economic growth Over the medium term we also expect growing commodity demand from emerging markets to stimulate investment in resource rich economies

Going where the growth is
We are maintaining our strong foundation in the UK and US and using it as a basis to build our infrastructure business in growth economies Currently, a significant proportion of our profits come from our construction businesses in the UK and US markets, however both are feeling the effects of the current economic downturn In the US, the building market has recently stabilised with more encouraging signs in economic infrastructure, where we have won significant new business recently

In UK construction, market volumes continue to be constrained by reductions in both public and private sector investment and delays in projects awaiting certainty on government policy in areas such as energy These factors have particularly affected the flow of large, technically complex and higher margin projects where we excel

In the long term, to be a leading player we have to expand our presence in emerging economies Their infrastructure spending is growing faster than in developed economies, and by 2025 they are expected to account for the majority of global investment in economic infrastructure

www balfourbeatty com/growthmarkets

1 Global Insight
2 Balfour Beatty Investor Day December 2012

Rio de Janiero, Brazil

Key growth economies[2]

Today, we have a good presence in a number of growth markets In addition, we have identified target geographies offering particular opportunities for future development Australia and Canada, where we already have a significant presence through our Professional Services business, and South Africa, India and Brazil

In all five, economic infrastructure is a key sector where investment is gaining traction All have the potential to be substantial infrastructure markets, most of them larger than the UK, in the next decade

In these geographies we see opportunities across multiple infrastructure segments, this is key to creating scale, achieving efficiencies and building a strong, resilient business In most of them, infrastructure investment is further underpinned by resource related spending and we anticipate a growing role for the PPP model, an area where we have extensive experience

Australia's economic infrastructure market is worth around £38 billion per annum and has been growing strongly for over a decade It is underpinned by a large volume of work in the resources sector, where recent heady growth rates are now reaching more sustainable levels

Canada's economic infrastructure spend closely matches Australia's Its economy was relatively unscathed by the banking crisis and it has a good spread of growth drivers, including population, economic growth, environmental pressures and a large, diverse resources sector Canada has a functioning PPP market, on a very similar model to the UK's, and we are seeing an increase in design-build projects

South Africa has a significant need for infrastructure, and the public sector's need for assistance in managing large scale infrastructure programmes presents clear opportunities for companies such as Balfour Beatty We see potential across the infrastructure spectrum – especially in power generation and transmission and the mining sector

India's economic growth and relentless urbanisation provide strong long term growth drivers with significant opportunities coming through the 12th National Development Plan We see particular potential in power transmission infrastructure, including PPPs, and the accelerating investment in oil and gas In transportation, specifically rail, we see opportunities in urban transit due to India's ambitious programme to build dedicated freight corridors to relieve pressure on its national rail network

Brazil has all the infrastructure growth drivers associated with a rapidly developing and urbanising economy Its Growth Acceleration Programme envisages US$526 billion of infrastructure investment between 2011 and 2014 Other significant drivers include the next World Cup and Olympics, and a buoyant resources sector

Our sectors for growth[2]

We are focusing our attention on four sectors transport, power and energy, water and mining

These are characterised by strong growth drivers and large, complex projects that demand our broad range of knowledge and capabilities Increasing project scale and complexity are driving new approaches to procurement, as clients seek greater efficiency through partnering with suppliers who can deliver a solution rather than just an asset

The **transport** market – including highways, rail, ports and aviation – is worth around £710 billion per annum, globally Strong growth drivers in both developed and emerging economies include capacity constraints, environmental targets and the poor state of existing networks Procurement trends are positive, with growth in design-build and PPP contracts, more outsourcing of operations and maintenance, and increasingly sophisticated client-supplier relationships

Power is another large, sustainable market It is worth around £440 billion per annum, split roughly equally between generation and transmission Growth drivers are the carbon agenda and the need to replace ageing assets in developed markets, and economic and population growth in developing countries Whatever the generation technology, demand for new and strengthened transmission networks will remain strong worldwide

Water abstraction, treatment and distribution projects are worth some £360 billion per annum Growth is driven by urbanisation, demographics and rising environmental standards – and public providers are increasingly seeking private sector involvement The UK benefits from a mature regulatory regime and high visibility from five-year planning cycles, and US activity is benefiting from an upturn in residential building Emerging markets are growing equally strongly as many developed and emerging economies face water shortages, which are driving demand for desalination

The **mining** market is easing after a decade of very strong growth, but still has positive long term growth drivers Large clients are typically multinationals that favour suppliers they can work with in multiple territories and most procure major projects under umbrella engineering, procurement and construction management (EPCM) contracts This represents a significant opportunity for us as we develop our EPCM capability – particularly since mining developments, notably for coal and iron, typically require major investment in power, rail, ports and water assets where we provide expertise and delivery capability

Our Strategy

Having built a world class infrastructure business with global reach, we now aim to sustain this and grow it into new areas.

Over the past 18 months we have been working to implement the strategy for growth, based on applying our knowledge across the lifecycle of infrastructure assets and harnessing the broad platform that we have evolved around the world to deliver greater value to infrastructure owners around the world

Our vision is to become a truly global organisation, recognised as one of the world's leading infrastructure businesses and acclaimed for the quality of service that we deliver to our clients The end-to-end knowledge that we have accumulated across the whole infrastructure lifecycle differentiates us from our competition, which, added to our strength as an asset owner, will allow us to build relationships with, and offer leading services to clients

Our clients are predominantly local or national organisations that own assets in a single market sector and rarely venture across borders We recognise that we are at our best when we are involved with creating assets which are critical to the delivery of the service our clients provide in their community, and we are adapting our business to better support our clients in this respect

Ian Tyler has positioned our business to take advantage of the opportunities we have in new growth markets Over the next few years I will continue to pursue our strategy, which is built around operating across the lifecycle of infrastructure assets and focuses on key geographies and market sectors Now is the time to inject even more pace into our strategic development

Andrew McNaughton
Deputy Chief Executive
and Chief Operating Officer

www balfourbeatty com/mcnaughton2012

Key to risk

Increased risk

No change to risk

Strategic Imperative 1

Grow in New Geographies and Market Sectors

We are already one of the largest global infrastructure players, but the growth opportunities in our traditional UK and US markets are currently limited To achieve further growth we are looking to increase our footprint to faster growing geographies and sectors We already have a significant presence in the Middle East and Asia, now we are looking to expand our reach further into other growth economies – Australia and Canada, where we already have a presence through Professional Services, and South Africa, India and Brazil – and intensify our focus on the buoyant transport, power and energy, water and mining sectors

In 2012, we have seen progress in these areas in line with our expectations

Key Performance Indicators

63%

Group order book in target market sectors (transport, power and energy, water, mining) as Group % (2011 59%)

48%

Revenue[1] from target market sectors (transport, power and energy, water, mining) as Group % (2011 48%)

14%

Revenue[1] from higher growth markets (outside Europe and North America) as Group % (2011 12%)

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

Risk

Economic environment
Expansion into new territories and by acquisition
Legal and regulatory
Bidding

Strategic Imperative 2

Deliver Greater Value to Clients

We deliver greater value to clients by leveraging our end-to-end asset knowledge This allows us to better understand our clients' own strategic objectives and contribute through the infrastructure solutions we create It enables us to develop infrastructure solutions that are better value, better quality and faster and safer to create and maintain It means we can offer a full range of services – from finance and development, through design and project management to construction and maintenance

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 clients

Go-To List rankings for Parsons Brinckerhoff

No.1

In the Road & Highway and Airport categories (2011 No 1)

No.2

In the Bridge and Mass Transit categories (2011 No 2)

No.3

In the Design-Build category (2011 No 4)

55 awards

During 2012 the Group received 55 awards from customers and industry bodies in recognition of its achievements (2011 29)

Risk

- Bidding
- Project execution
- Health, safety and sustainability

Strategic Imperative 3

Improve Operational Performance and Cost Effectiveness

In recent years, our unique breadth of capabilities and geographical reach has been a result of a sustained period of expansion including a number of successful acquisitions In 2012, recognising the more difficult macroeconomic conditions, we focused on generating efficiencies across all our operations and back office support functions to ensure we operate as efficiently and as profitably as possible

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

Our cost reduction programmes remain on course, but margin progress in 2012 was hindered by difficult market conditions in our traditional UK and US markets and 2013 is expected to be similarly affected We also experienced operational issues in some areas of the business which hindered progress

Key Performance Indicators

2.8%

Group operating margin[1,2] (2011 3 0%)

£36m

Achieved in cost efficiencies by the end of 2012 (2011 £15m)

Risk

- Economic environment
- Bidding
- Project execution
- Health, safety and sustainability

Strategic Imperative 4

Continue to Show Leadership in Values and Behaviour

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

The safety of our people and everyone we come into contact with remains a key imperative and is embedded across our business However, whilst most areas of the business improved in relation to safety performance in 2012, we still have progress to make and our Zero Harm activity has been reinvigorated for 2013

We have challenged ourselves to reduce our impact on the environment In 2012, we made good headway in water and waste, but our target to reduce CO_2 emissions made little progress due to the mix of energy intensive projects we have worked on

Key Performance Indicators

–6%

Accident Frequency Rate decreased by 6% to 0 16% (2011 AFR 0 17%)

–13%

Greenhouse gas emissions reduced by 13%

Risk

- Legal and regulatory
- Business conduct
- People
- Project execution
- Health, safety and sustainability

We hit the ground running

At Heathrow we are delivering Terminal 2b as a single point of service for Heathrow Airport Limited, combining design, construction, ground engineering, specialist mechanical and electrical expertise and Parsons Brinckerhoff's professional services

At £592 million, Terminal 2b is one of the largest airside projects in Heathrow's history Terminal 2b will provide pier served tunnel links to the main terminal The result Phase 1 was completed in November 2009 on time and on budget and our integrated approach on Phase 2 enabled our client to open three aircraft stands three months early, helping them to ease stand congestion

£592m
Value of Terminal 2b contract

3
Months early

You get off to a flying start

Airports must keep expanding and improving to meet increasing passenger demand Integrated delivery, stakeholder and risk management are key to opening new capacity for airlines and their passengers with minimal disruption

Through an integrated single point of service to our client we have successfully delivered Phase 1 and on Phase 2 we are on programme to deliver the completed project to Heathrow Airport Limited in October 2013, delivering 10 more new stands ready for operation in 2014 As a founding member of the Heathrow Sustainability Partnership we are working together to build a more sustainable Heathrow

40%
More carbon efficient than the old building

10
More aircraft stands under construction

Grow in New Geographies and Market Sectors

How are we performing?

63%

Group order book in target market sectors (transport, power and energy, water, mining) as Group % (2011 59%)

48%

Revenue[1] from target market sectors (transport, power and energy, water, mining) as Group % (2011 48%)

14%

Revenue[1] from higher growth markets (outside Europe and North America) as Group % (2011 12%)

What's next?
In the year ahead, we aim to

- increase our revenues in target geographies
- increase our share of business in target sectors

We are already one of the largest global infrastructure players, but the growth opportunities in our traditional UK and US markets are currently limited To achieve further growth we are looking to increase our footprint to faster growing geographies and sectors We already have a significant presence in the Middle East and Asia where we are seeing growth, now we are looking to expand our reach further in growth economies – Australia and Canada, where we already have a presence through Professional Services and South Africa, India and Brazil – and intensify our focus on the buoyant transport, power and energy, water and mining sectors

Why is this important?
We do not want our growth to be limited by the economic and cyclical constraints 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 clients Our aim is to focus more of our activity where there are medium to long term opportunities for global infrastructure But to avoid spreading our resources too thinly we need to be selective The rationale behind our choice of target geographies and sectors is set out in the market overview on pages 10 and 11

What are we doing in our target growth geographies?
Our chosen geographies are not virgin territory for us They are all areas where Parsons Brinckerhoff has been active, or at least preparing the ground, for some years Parsons Brinckerhoff's presence, as well as our understanding of these markets provides the platform for Group expansion in these regions

In each target geography, our Professional Services platform gives us a basis for development It gives us in-depth client knowledge and intimacy, and an understanding of the local business environment and supply chain Over time, we can broaden our Professional Services offering into new areas by transferring capability and knowledge from elsewhere across the Group At the same time, we can capture progressively greater value from the local markets by drawing on the Group's world class delivery capability to broaden our offering to those clients

This approach ensures that, wherever we operate, we will be increasing the leverage from our existing businesses to maximise the value we can bring to each project It also helps us manage risk effectively and allows us to target the opportunities where we can command higher returns more keenly

This is the strategy for all of our growth geographies, but we are at different stages of implementation At one end of the scale is Australia, where we have a sizeable Professional Services platform and have been taking delivery risk selectively for some time, at the other is Brazil, where we are still seeking to establish a platform

In **Australia**, the majority of our 3,000 employees work in Professional Services, where we are a top five player The nature of engagement between clients and suppliers is sophisticated and plays to our strengths – especially given the strategic relationships Parsons Brinckerhoff has with many of its clients Outsourcing opportunities are opening up in highways, rail and water – as we have seen in the UK – giving us the opportunity to transfer best practice between geographies

Until recently our at-risk delivery work has been limited, with a small presence through our rail construction and power transmission businesses Given the competition from large local general contracting groups in the broader construction market, we are initially targeting sectors where our existing presence and global capabilities will differentiate us We are making significant headway, leveraging the strong client relationships that Parsons Brinckerhoff has already built up and importing specific global capabilities that add value to the local market

For example, on our major Melbourne Rail project, Parsons Brinckerhoff held the local client relationship and its reputation won us the right local partner We added to the mix our experience of delivery in complex rail environments – particularly the UK's East London Line In power transmission we partner with UGL as the local provider and draw on our international power transmission business, and in current power generation projects we are drawing on delivery skills from the US

[1] Including joint ventures and associates

This approach is opening up a pipeline of opportunities We are currently bidding new projects in power generation, expect to be bidding for a New South Wales outsourced highways contract, and see emerging opportunities in rail and end-to-end services for a number of mining companies

In **Canada**, our professional services platform is based on a leading firm in the building sector, Halsall, which we acquired in 2010 The purpose of our acquisition of Halsall was to use this platform to grow in the Canadian market benefiting from knowledge transfer from elsewhere in the Group

We have already been able to broaden our local offering beyond buildings By supplementing the original Halsall platform with Parsons Brinckerhoff expertise, we have secured several important transportation contracts, including the role of general engineering consultant on the CAN$818 million (£508 million) light rail transit in Waterloo, Ontario, one of the largest infrastructure projects ever undertaken in the Waterloo region – won by combining local knowledge with transport expertise from both the US and the UK

Having broadened and strengthened our Professional Services platform, we are now actively moving into at-risk delivery work, again combining local knowledge with global capability We see downstream opportunities in power generation and transmission, as well as transportation In recent months an increase in the number of PPP projects coming to market has allowed us to move into this area as well

In **South Africa**, we have 400 people working in Professional Services, focused mainly on power and mining The major opportunity is the country's huge need for infrastructure and its public sector's limited capacity to manage large scale infrastructure projects For example, at Medupi we are on the team building the world's fourth largest coal-fired power station in partnership with local electricity utility Eskom – which last built a power station 20 years ago Our role on this world scale project demonstrates the results we can achieve by importing delivery capability, whilst at the same time working alongside local non-governmental organisations (NGOs) to increase local capacity We are targeting further opportunities in the management of large scale infrastructure programmes and in at-risk delivery across the infrastructure spectrum – particularly in our target market sectors

In **India**, we have an established professional services presence with 300 people and eight offices in key cities We have substantially enhanced our local connections and influence by forming a joint venture with the engineering procurement and construction business, Tata Projects, one of India s leading companies This will differentiate us further in pursuing urban infrastructure opportunities We are focusing on opportunities in power transmission infrastructure, including PPP investment opportunities and rail development

In **Brazil**, we are at a very early stage of development We established our São Paulo office in 2012 and have five employees there However, the massive investment in infrastructure envisaged by the country's Growth Acceleration Programme is already well underway To take full advantage of these opportunities we need to build scale quickly through joint venture or acquisition We are actively investigating our options in both these respects

In South Africa, India and Brazil the ethical, social, and health and safety environments require careful attention and management We will need to be selective in the work we undertake and be mindful of the potential risks in this respect Despite this, we are convinced of the potential of these markets and our ability to grow successfully whilst offering our leadership standard for conduct and behaviour

We emphasise that our drive into these growth geographies does not mean neglecting our more established "home" markets in the US, UK, Middle East and Hong Kong The capabilities present in our core businesses in these "home" markets will be instrumental in accessing new territories, whether by organic growth or acquisition

Australian highways

Balfour Beatty has established a partnership in Australia with Transfield Services to target state government outsourcing opportunities in highways maintenance on the east coast of Australia Experience developed in the UK is being mobilised to develop best practice in Australia

www balfourbeatty com

Targeting waste projects

Building our capability in the waste sector, we have closed both Essex waste and Gloucestershire energy-from-waste projects We have taken the expertise we learnt from these projects and are applying it to other waste projects

www balfourbeatty com/investments

What are we doing in our target growth sectors?
Of the high growth markets that we are targeting, transportation and power and energy present particular opportunities because we already have substantial platforms and track records to build on

In the **transportation** market, we are already a key player It is a sector that engages the whole Group, in markets all round the world and in all stages of the asset lifecycle We have deep understanding of the sector, its clients and asset types, particularly in highways, rail and aviation

Our strategy is to leverage this depth of knowledge, along with our local presence in specific geographies, to target major projects In our more established 'home' markets in the UK, US, Middle East and Hong Kong – where we have a strong local construction presence – we offer a full service model embracing integrated projects and standalone services In our "growth geographies", we lead on professional services and take on selective delivery risk, drawing on our asset knowledge and delivery experience from our home markets Increasingly we are concentrating on major projects and programmes, where our end-to-end expertise adds most value

In **highways** there are still significant opportunities in integrated projects in the UK and US In our growth geographies we are addressing opportunities where we have competitive advantage and avoiding smaller projects that are better served by local businesses In particular we look to export our skills in operation and maintenance (O&M) and asset management as outsourcing gains momentum around the world

In **aviation** we have built a strong track record in integrated projects in the UK and US already and have the benefits of best practice We are also very well positioned in Hong Kong, with a sizeable project pipeline and have recently announced a £64 million contract at Dubai airport, over the coming years we aim to build on this to exploit aviation opportunities arising in other parts of Southeast Asia – initially through our Professional Services business We have already had success in this area in Taiwan

In **rail**, we are targeting integrated and complex projects in our home markets, and focusing our international activities on our target growth geographies

The operational and strategic review of our Mainland European rail business, which we started in the fourth quarter, has concluded that maintaining a rail presence in Mainland Europe is not consistent with our strategy which calls for building a strong local presence in our geographies in a number of market sectors In Mainland Europe, we essentially operate only in rail Therefore, we will be divesting all of our Mainland European rail businesses through a process that ensures that the businesses and their customers continue to receive full support

These factors were offset by considerable success in major international projects where we have a strong specialist position that we can combine with our Professional Services design capability to differentiate our offering

Our strategy for the **power and energy** sector has a strong and well established international capability to build on In professional services we are already a top 10 global player We have a strong track record in transmission projects, both in the UK, where we are market leader, and internationally, with current operations in the US, Indonesia, Hong Kong, Australia and New Zealand Alongside this delivery capability we have been building an investment and development portfolio in the UK, notably in the biomass and energy -from-waste sectors and offshore transmission assets

As with transport, our strategy is to combine local presence with global expertise In power we are using our engineering and procurement capability to take on, and manage more, delivery risk selectively We also aim to extend our relationships with international power and natural resource clients, in particular by harnessing our experience in PPP investment, in tandem with our skills as a project developer Global trends support this approach private sector ownership is already widespread in the sector, and the use of PPP and concessions is increasing in both transmission and generation – especially in emerging market economies such as India and Brazil

In **power generation** the ubiquity of integrated engineering, procurement and construction (EPC) contracts allows us to leverage our existing US capability across the world We aim to grow progressively – first strengthening our international professional services offer and further developing our EPC activity in generation projects under 100MW, and ultimately increasing our EPC capability in the over 100MW market

Our other two target growth sectors are water and mining Here we have substantial platforms to build on and are making good progress, but are at an earlier stage

In **water** we have a good position in the UK and a significant and growing business in the US – boosted by the Fru-Con acquisition in 2011 In the near term we want to grow in the US, where the water market is very localised, by leveraging our existing regional capabilities nationally

We have already made progress with this, and over the medium term we aim to bring our enhanced skills to bear on our target growth geographies, particularly Australia Here, our experience of working within the UK regulatory framework gives us a distinctive edge as many clients seek to learn from, and adapt, the UK model

In **mining** we are building closer relationships with our international mining clients such as Xstrata, Anglo-American, BHP Billiton and Vale We are responding to their needs by leveraging our local presence in the places where they operate – Australia, South Africa and, most recently, Brazil We are also pursuing opportunities with smaller operators, where there is increasing use of end-to-end design build finance operate (DBFO) contracts for power generation and transmission assets, rail links and onsite miners' housing

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Our Business

Creating a rail network from scratch

Opportunities to develop a complete rail network don't arise very often But Qatar is doing it, and on an immense scale

Qatar plans to have around 170km of new metro and light rail lines in place by the time it hosts the World Cup in 2022, as well as approximately 400km of high speed, long distance lines

As strategic programme manager through Parsons Brinckerhoff, we are guiding one of the most challenging rail development programmes in the world today

www balfourbeatty com/ professionalservices

Deliver Greater Value to Clients

How are we performing?

Go-To List rankings for Parsons Brinckerhoff

No.1

In the Road & Highway and Airport categories (2011 No 1)

No.2

In the Bridge and Mass Transit categories (2011 No 2)

No.3

In the Design-Build category (2011 No 4)

55 awards

During 2012 the Group received 55 awards from customers and industry bodies in recognition of its achievements (2011 29)

What's next?

In the next year we aim to

- continue to build strong relationships with clients in our target market sectors
- focus on supporting clients by delivering innovative solutions across the asset lifecycle

We deliver greater value to clients by leveraging our end-to-end asset knowledge

This allows us to better understand our clients' own strategic objectives and contribute through the infrastructure solutions we create It enables us to develop infrastructure solutions that are better value, better quality and faster and safer to create and maintain It means we can offer a full range of services – from finance and development, through design and project management, to construction and maintenance

Why is this important?

For our clients, this delivers value in three key areas

- early engagement allows us to better understand strategic needs
- using our knowledge and expertise across the full asset lifecycle delivers better solutions
- harnessing our end-to-end knowledge to projects adds value

Upfront, early engagement with clients through our professional services relationships means we **better understand our clients' strategic needs** We work in partnership with them to ensure these are met through the infrastructure we finance, design, construct or maintain This enables our clients to achieve their own objectives – be it better transport links, reliable and sustainable energy supply, high quality education or world class healthcare

Our recent A11 road scheme is a 15km road widening project undertaken in the east of the UK on behalf of the Highways Agency One of the criteria for the contract award was the requirement to reduce costs by 20% by using innovative ideas We achieved this and an additional £500,000 saving by rethinking the design of the roundabouts at either end of the new section of the road

We use our **knowledge and expertise across the full asset lifecycle to develop innovative and market leading solutions** This allows us to create and maintain infrastructure to a higher quality, at a lower price, faster and safer than our competitors

We can design better because we understand the construction and operational issues – and we can construct and operate more effectively because we understand the engineering issues Being investors and developers, we also understand the owner's perspective

For several local authorities we provide services to maintain street lighting This can include upgrade and PPP investment from our Investments business Our business is involved in the change of old equipment to new which includes an enhanced technology solution to reduce energy and increase longevity of the light Our business is also involved in the provision of ongoing maintenance via local teams

This **end-to-end knowledge and the capability to harness it across projects adds value to all our work,** including in single service contracts where our understanding of the full lifecycle makes us a better designer or constructor or maintainer or operator It also means we can manage large, integrated projects incorporating all these skills in one package – providing a single point of contact for our clients and managing the interface between the different disciplines

The Eagle P3 project is part of the Denver Regional Transportation District's 12-year multibillion dollar FasTracks plan to expand and build new commuter and light rail lines throughout the Denver metropolitan area As a public private partnership, it transfers certain construction and operational risks to the private sector Denver Transit Partners, which includes Parsons Brinckerhoff as consultant, will design, build, finance, operate and maintain the Eagle P3 commuter rail project, which encompasses the East Corridor, the Gold Line and Northwest Rail, using skills from across the Group We are able to add value by harnessing our experience of all elements of the project lifecycle

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Improve Operational Performance and Cost Effectiveness

How are we performing?

2.8%

Group operating margin[1,2] (2011 3 0%)

£36m

Achieved in cost efficiencies by the end of 2012 (2011 £15m)

What's next?

- complete transfer of UK accounting into the SSC by Q4 2013
- continue rollout of Oracle across UK operations with a target to complete by mid 2014
- go operational with service centre in Lancaster, Pennsylvania in April 2013
- investigate cost benefits from moving to country structures
- consult employees on ceasing future accrual in the UK defined benefit pension scheme

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

Our unique breadth of capabilities and geographical reach has resulted from a sustained period of expansion including numerous successful acquisitions in recent years In 2012, recognising the more difficult macroeconomic conditions, we focused on generating further efficiencies across all our operations and back office support functions to ensure we operate as efficiently and as profitably as possible

Why is this important?

Our clients' budgets are under pressure, be they the budgets of governments, regulated industries, or private entities They are looking to us to deliver our services on time and as efficiently as possible by deploying the range of our skills and our scale This requires us to focus relentlessly on the successful delivery of clients' expectations, ensuring at the same time that we operate efficiently both at the project site and also back in the office We believe that by sharing best practice internally across our operating units and bringing greater commonality to our processes, we will improve the consistency of our delivery and reduce our cost

What are we doing?

We started on the journey to improve our cost effectiveness with the announcement of the creation of a shared service centre (SSC) in Newcastle in August 2010 Initially the scope of its activities was transactional accounting and employee services along with procurement of indirect spend, ie largely office costs By the end of 2011 we had 230 employees in Newcastle, accounting for 50% of our UK transactions, and procuring about £300 million of indirect spend

The success of this initiative convinced us to take what we had learnt, expand the project and consider whether it could be applied elsewhere In March 2012 we announced that we were targeting to save a further £50 million per annum by 2015, for an estimated one-off cost in a range of £50 million to £75 million This would have a number of elements to it

- expand the scope of the services provided by the UK shared service centre to include IT shared services, buying activities and further employee services such as international mobility
- transfer Professional Services support function roles to Lancaster, Pennsylvania from the high labour, high property cost environment of New York
- reorganise the UK construction business from six business streams into three, within one operating company

Meeting the strategic needs of our client

Our regeneration partnership with North East Lincolnshire Council broke new ground by combining skills in regeneration, highways, transport and planning, asset management and architectural support from across the Group in a single outsourcing package

The joint team, comprising several of our business areas, focused on real outcomes The £250 million, 10-year contract sets targets that range from cutting road fatalities by 33% to securing £570 million of inward investment And we are delivering Our joint performance was recognised in Local Government Chronicle's 2012 Business Partnership Awards, where we were rated best in two categories frontline service delivery and overall transformation of service delivery

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A more agile UK construction business

Our UK construction business' transformation programme has a simple aim to be more agile in meeting our clients' needs

To get closer to clients we've integrated six business streams into one business focused on growth market sectors The changes will increase efficiency, cut costs and help us collaborate more closely through centralised hub offices Clients will benefit from simpler access to a business that shares knowledge and best practice to work better throughout the project lifecycle

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This process involves reducing the number of offices in the UK from more than 75 to 37 and implementing a new organisational structure with common processes

- reorganise the US construction business from five regions into three, to better utilise the skills across the organisation using market sector expertise and to present a consistent client experience
- organise Support Services to create a more efficient back office structure, maximising the use of the shared service centre
- coordinate our global buying particularly in the area of telecoms, data networks and software

Whilst all of these projects have at least some element of focus on cost efficiency, a number of them are also focused on how we engage with our clients, using best practice processes and improving operational delivery

In the meantime, increasingly difficult market conditions have reduced our ability to absorb operational errors, intensifying the pressures on our teams We have seen some operational problems in 2012, notably in our Mainland European rail and UK construction businesses We believe the actions we are taking to reorganise our UK construction business and restructure our Mainland European rail business will improve performance in 2013 and mitigate operational risks going forward

We have made good progress on these initiatives, in particular

- UK shared service centre – a measure of the scale of activity now being handled through the organisation is its number of employees These increased to 420 by year end, of which 320 are in Newcastle and 100 employees in two centres in Derby and Linlithgow By the end of 2013 this should rise to just under 700 employees in total Another measure is the volume of transactions The current annual run rate is £3 7 billion of receipts and payments, over 1 million invoices, 380,000 payslips, 17,000 IT service requests and 200,000 calls received The growth in this shared service organisation has been achieved with very little disruption to our front line operations
- Lancaster, Pennsylvania service centre – recruitment is underway for the new roles and the scheduled opening of the centre by March 2013 is on track and should deliver savings of US$5 million per annum
- UK construction – the new management structure with a new business management system is in place and consolidation into fewer offices is underway By April over 480 employees will be colocated together in London

Savings in 2012 from the original and expanded programme were £36 million, and we remain on track to deliver combined annual savings of £80 million in 2015

In 2013 we will continue to progress those projects and will also continue to identify other steps we can take to improve operational delivery and cost effectiveness Two further initiatives that we will pursue in 2013 are, firstly, consulting with c 2,500 UK employees, who continue to accrue service in our defined benefit scheme, about providing them with defined contribution pension provision in future instead This benefit has become increasingly expensive, and can potentially make us uncompetitive with peers who do not have a similar cost Secondly, having put in place back office shared services on a country basis, we will look to see whether there are benefits to the customer and our cost base from a more geographic based organisation structure

2013 will also see increasing use of our knowledge sharing and collaboration platform to drive the sharing of best practise, both in operational excellence and also in cost efficiency

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Continue to Show Leadership in Values and Behaviour

How are we performing?

-6%

Accident Frequency Rate decreased by 6% to 0 16% (2011 AFR 0 17%)

-13%

Greenhouse gas emissions reduced by 13%

What are we doing?

Our key issues and actions for 2012 in the areas of ethics, health and safety, diversity, people and sustainability are set out in more detail in The Way We Work on pages 48 to 51

Our key achievements in 2012 include

- state of the art compliance programme
- over 40,000 employees have completed the first Code of Conduct training module
- credited by Robecco SAM as the biggest mover in terms of sustainability in the heavy construction sector

To be recognised as a global leader in infrastructure services we continue to focus on securing a sustainable, long term future for the Group and provide a legacy within the communities in which we serve We must also be a leader in areas such as business ethics, talent management, 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 be seen as a true leader in our field we need to build and protect a reputation for leadership in values and behaviour 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 where cultural norms may differ significantly from ours, we must work harder to maintain our high standards

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Opening up new energy resources

Growing global demand for coal has prompted Xstrata Coal to further develop its Ulan mine in New South Wales, Australia by developing a new underground mine alongside the existing opencast workings

The US$1 3 billion Ulan West project will produce 6 7 million tonnes of export thermal coal a year, operating for about 18 years from 2014 Parsons Brinckerhoff is providing construction management services in delivery of the surface infrastructure on the 18,000-hectare site as part of an Integrated Owner's Team, which includes input into engineering design, procurement and construction over three years

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Business Model

Balfour Beatty has a distinc

Strong local businesses

Strong local businesses, close to clients, committed to local communities, in touch with local supply chain

■ Established geographies ■ Target geographies ■ Professional Services footprint

Established geographies	Target geographies
UK 30,000 employees	**Australia & New Zealand** 3,000 employees
USA 10,000 employees	**Canada** 350 employees
Hong Kong 10,000 employees	**South Africa** 300 employees
UAE & GCC 300 employees	**India** 300 employees
	Brazil 5 employees

Employee figures include joint ventures and associates

Deliver value

Value drivers

- **Allocate capital to strategic areas of growth**
- **Focus on economic infrastructure to increase resilience**
- **Manage costs to facilitate consistent margins across business cycles**

Our business model will delive

To achieve our strategic objectives of growth in new markets, delivering greater value to the client, improving operational performance and continuing to show leadership in values and behaviour, our business model leverages our strong local presence in multiple geographies alongside global, end-to-end asset knowledge

Strong local businesses
Local presence allows us to align with our clients – most of whom are based in a single country – and be closer to them That allows us to better understand and respond to their needs

It also means that, as local organisations, our clients value the commitment we show to the communities we serve By committing to and investing in these communities, we provide training and development, create long term employment opportunities, and support sustainable economic growth This can be seen across our business through our apprenticeship, graduate training and outreach programmes

With deep roots in a community we are also able to create resilient businesses by developing a rigorous approach to risk management Being on-the-ground gives us an intimate understanding of the local operating environment and, crucially, its local supply chain As most projects in our industry are delivered through that supply chain, local presence helps in every part of our business, and where we take delivery risk ourselves, it's absolutely critical

We have this deep rooted presence in a number of countries around the world already

From our foundation in the UK we've built strong domestic businesses in the US, Hong Kong and the Middle East Experience has taught us that this model works much better than an expeditionary fly-in fly-out approach

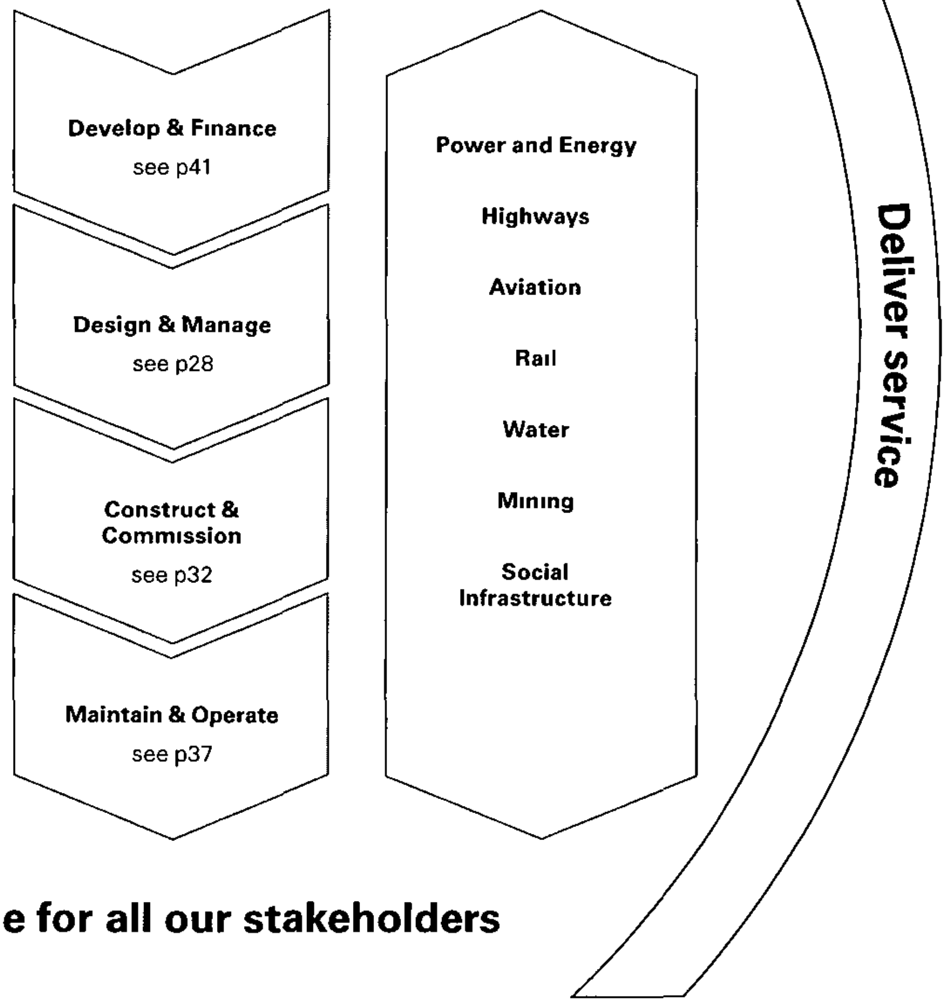
:ompetitive edge

End-to-end capabilities

Intensive expertise across the full asset lifecycle, enhanced offerings and integrated solutions

Global expertise

World class solutions, global best practice and knowledge sharing, coupled with international teams



Service enhancers:

- **Relentless focus on excellent delivery**
- **Innovative and sustainable solutions**
- **Safe working environments**
- **Productivity**

/alue for all our stakeholders

We have then continued to expand our coverage into our chosen target geographies We aren't starting from scratch in these countries we already have a presence, in some cases a significant one – gained largely through our acquisition of Parsons Brinckerhoff in 2009

For example, we now have over 3,000 people in Australia, around 350 in Canada, 300 in South Africa and 300 in India

These are solid foundations on which to expand our activities in these regions

End-to-end capabilities
Combined with our local presence, we also have global end-to-end experience and understanding of infrastructure assets That gives us an edge on three levels

- being investors and developers, we also understand the owner's perspective In fact, we can actually develop, structure and finance investment projects as well as deliver them
- through design and planning, we can leverage strategic relationships and early engagement with clients – this means we can get early visibility of opportunities, help to shape how projects come to market and generate opportunities ourselves
- we can design better because we understand the construction and operational issues – and conversely, we can construct and operate more effectively because we understand the engineering issues

Our end-to-end knowledge adds value to all our work Not just on integrated contracts where we're providing all these skills to one project, but also in single service contracts where our understanding of the full lifecycle makes us a better designer, or constructor, or maintainer, or operator

Global expertise
And our knowledge isn't just end-to-end It also cuts across all of our core geographies We are using this international expertise, across the whole asset lifecycle, to help us grow in our target market sectors We are doing this through global sector teams that link up all the different parts of the Group around the world that are active in these sectors These teams are responsible for knowledge flow, specialist resources, global strategy, and coordination of global customers

We worked together to deliver on schedule

Kirkcaldy Victoria Hospital's £170 million new wing opened in 2012. It was delivered via a Balfour Beatty-led PPP under which we managed the funding, constructed the asset and will provide facilities management until 2041.

We completed the construction on time and on budget with zero snags. We saved time and cost through offsite prefabrication (including 273 ensuite toilet pods) and baling segregated waste onsite to sell for recycling instead of paying for landfill.

2m

Hours worked over 650 days without a reportable accident

53,000m²

Clinical area, with 50km of pipework created

You get your perfect delivery on a welcoming ward

The new hospital provides vital new capacity for NHS Fife, including 11 operating theatres, renal, maternity delivery, children's and A&E facilities

It is designed to provide a welcoming environment for visitors and patients, with bright and spacious wards containing more than 50% single rooms In the children's ward, special curtaining enables children to transform their bedded bays into beach huts A dedicated basement corridor helps keep maintenance traffic away from clinicians and visitors

2,000

Rooms including 11 operating theatres

360

Beds in 20 wards, with 31 clinical departments

Professional Services

With presence in 70 countries worldwide, Professional Services is an important bridgehead into our growth markets. We continue to broaden and deepen our technical expertise to win work while improving our cost efficiency and business mix to increase our margins.

What do we do?

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

What's happened?

- Increased transportation market share in the Americas
- Significant highways wins in US following approval of Transportation Bill
- Acquisition of Subsurface Group to expand energy storage capability
- Highways, rail and power transmission contract wins involving other Group businesses totalling £2 billion

What's next?

- Direct our resources to markets that align with the Group's focus sectors and geographic markets
- Benefit from favourable developments in procurement models in the US transportation market
- Remain focused on resource utilisation and cost efficiency to expand margins further

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How are we performing?

Order book

+5%

2012	**£1 6bn**
2011	**£1 6bn**
2010	**£1 5bn**

Revenue including JVs and associates

+1%

2012	**£1,668m**
2011	**£1,645m**
2010	**£1,613m**

Profit before non-underlying items

+13%

2012	**£98m**
2011	**£87m**
2010	**£85m**

Divisional KPI

Billability
Billability is a good measure of resource utilisation, and hence profitability, in what is essentially a billable hours business
In 2012, billability improved in the UK and the Middle East, but this favourable impact was more than offset by weaker billability in Australia and significant investment in design-build opportunities in the US

2012	**58 3%**
2011	**58 7%**
2010	**58 7%**

Computes total direct labour cost charged to projects divided by total labour cost of employees

Our strategy

Professional Services, trading under the Parsons Brinckerhoff brand, is a fee-based consultancy business We win work on the strength of our track record of technical expertise and execution By applying our resources to best effect, we aim to increase our billability rate while reducing overall project costs for our clients – and in some cases retaining a share of these savings

Professional Services is at the heart of the Group's growth strategy Along with Infrastructure Investments, we are a key component of the strategy to access emerging markets where downstream construction activity may be limited by challenges such as incompatible health and safety and ethical standards

Our Professional Services acquisition strategy aims to build a platform from which we can grow the business by leveraging our construction, support services and investment capabilities Acquisition targets should therefore accord with the Group's target geographies, such as Australia and Brazil, and target sectors, such as power and energy, water and mining In addition, Professional Services looks for opportunities in transportation and power in the US, its major market, to accelerate organic growth or fill specific capability gaps

We continue to achieve cost efficiencies – see "Operational performance" on pages 30 and 31 – and shift our business mix towards higher margin services Typically these involve programme management roles and projects with design-build, PPP (public private partnership) and EPC (engineering, procurement, construction) characteristics, where we can achieve returns commensurate with the higher level of risk we take, compared with our traditional client side consultancy work

Collaboration and knowledge sharing are key to delivering this strategy They are essential to leveraging the Group's capabilities, and where we take more commercial risk they ensure that we manage it effectively by sharing best practices and processes across the Group

Our marketplace

Americas

US transportation markets remained on the whole challenging, due to varying levels of budgetary constraint faced by individual states The authorisation of the Transportation Bill in July 2012, after two and a half years, helped to progress some projects that were in design stage, but there was little growth to speak of

Thirty-one states have now put PPP-enabling legislation in place, and big PPP projects are beginning to be tendered But only a few have reached financial close, mainly in Texas In an environment where clients are seeking speed of execution and lower interface risk, design-build models have also gained traction

In this environment, we believe we again increased our transportation market share in Americas in 2012

Our US power business is still small but goes from strength to strength in target segments which are themselves growing In power generation, we specialise in EPC contracts for peaking plants, which are in demand as the oil and gas industry develops Another related business is energy storage we acquired Subsurface Group at the end of the year to broaden our presence and capabilities in this area

The Canadian market is reasonably active, with economic infrastructure faring better than buildings Our strengthened position following the acquisition of Halsall has helped us to grow in the transportation and power markets, and we see further opportunity ahead

Europe, Middle East and Northern Africa

The UK market remains extremely competitive, but volumes in the transportation sector have stabilised and even improved This is evidenced by strong tendering activity, particularly in mainline rail and regional highways sectors

Opportunities in the Arabian Gulf are still attractive as countries such as Qatar, Saudi Arabia and Kuwait invest in transportation and power infrastructure to achieve their long term development visions There are also signs of some recovery in the United Arab Emirates

Asia, Australia-Pacific and Southern Africa

Following several buoyant years, particularly in power and mining, Australia experienced somewhat mixed market conditions in 2012 Faltering commodity demand from China hit the mining sector, which responded by cancelling or postponing capital projects Despite this, our relatively small mining business was able to grow and gain market share

We were also active in the power market, particularly in EPC power generation plants under 100MW, and continue to pursue opportunities in this segment

The transportation market remained flat in the year and shows little sign of improvement and thus, we have adjusted our Australian workforce to the level of activity

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Integrating our professional services expertise with capabilities from other parts of the Group proved an effective bid winner in 2012

George Pierson
Chief Executive Officer, Professional Services

Meanwhile, our mechanical, electrical and plumbing services for complex buildings have continued to grow strongly in Singapore, Hong Kong and China – our biggest Asian markets

Financial performance

Professional Services performed well, improving its order book by 5% despite uncertainty arising from presidential elections and the fiscal cliff in the US where the division generates half of its revenue Strong growth in the rest of the world, particularly Qatar and Canada, contributed to revenue Performance was mixed in Australia, with a revenue decline in transportation offset partly by growth in mining While this has impacted utilisation rates adversely, profitability in Australia remains healthy The UK remains a difficult market, but recent restructuring has improved financial performance Underlying profit increased by 13% to £98 million with good contributions from transportation and power sectors and some favourable alliance and at-risk contracts in Australia and Asia With fewer projects of this type expected to complete in 2013, margin performance is likely to be slightly weaker

Operational performance

Americas

In the US, where 80% of our activity is in the transportation sector, spending by the federal and state departments of transport is crucial to our business So the long delayed authorisation of the Transportation Bill in July 2012 was an important turning point While the bill's term is shorter than the customary six years, and the only partially resolved fiscal cliff remains a drag on decision making, we benefited as some large projects moved forward

In October we won a design-build contract to provide construction engineering and inspection (CE&I) services for the widening of the I-4 interstate highway in Volusia County, Florida Significantly, although the contract was bid on a "best value procurement" basis, we won the contract on the strength of our qualifications

In November, as part of a design-build joint venture, we were named as best value bidder to undertake the upgrade and replacement of river crossings in Dallas, Texas This project, a collaboration between Professional Services and US construction, is detailed in the cross-Group collaboration section on page 31

We are currently bidding other US design-build transportation projects, with both our US construction business and third party construction companies with whom we have a good track record

Our three major ongoing projects – high-speed rail in California, the Westside Subway Extension in Los Angeles and the Second Avenue Subway in New York – are progressing well

In Canada we have been successful in leveraging the platform provided by Halsall to expand into transportation and power markets In May the Regional Municipality of Waterloo, Ontario appointed us as general engineering consultants on a transit programme that will be one of the largest public infrastructure projects ever undertaken in the Waterloo region And in June we won a contract to design the replacement of the controls, drives and overhead cables at the Burlington Canal Lift Bridge, spanning the Burlington Canal to connect Burlington and Hamilton on Lake Ontario's western shore

We have taken several steps to ensure growth in the attractive power sector in the Americas As noted above, we acquired Subsurface Group to expand our activities in US energy storage services Subsurface provides services in underground injection, underground storage, specialty wells, petroleum and natural resources, and environmental science Based in Houston, Texas with offices in Baton Rouge, Louisiana and South Bend, Indiana, its 37-strong team generated some US$50 million of revenue in 2012

In 2012 we successfully completed Marathon Petroleum Company's Catlettsburg Cavern No 2 Designed and constructed by Parsons Brinckerhoff to store a million barrels of liquid butane, this is the first hard rock storage cavern built in the US since 1984

In January 2013 our joint venture with Kvaerner won an EPC contract to design and build the Garrison Energy Center, a 309MW combined cycle gas-fired power plant in Delaware

Giving commuters 2½ more hours each week

Parsons Brinckerhoff is lead designer on a long-awaited project to enhance two road tunnel routes under the Elizabeth River between Portsmouth and Norfolk in Virginia, USA

Since the original tunnel was built 50 years ago the local population has grown by 70% and traffic has risen 600% The US$2 1 billion project is upgrading the existing tunnels, adding a further 1,400m two-lane tunnel and extending the expressway links From 2017, it should save 20 minutes a day for the average commuter by reducing congestion and it is forecast to bring regional economic benefits of US$170–254 million per annum

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Europe, Middle East and Northern Africa
The restructuring of our UK operation has enabled us to be competitive in the market, which has been evidenced in a number of successful major bids. Encouragingly, in 2012 we saw net increases in staff numbers across the region of well over 200, and in the second half of the year saw increases in the UK as well as in the Middle East.

In the year, we won the preliminary design of both railway systems packages for the UK's HS2 project and all three structures engineering packages for Transport for London (TfL) in the UK as well as the programme management award for the Odense Light Rail project in Denmark. In the highways sector, we secured a number of important wins in Wales.

Our two major projects in Qatar – the Qatar Rail Strategic Programme Manager and the Project Management Consultant for Local Roads & Drainage for Ashghal – have developed considerably over the year, with combined staff numbers now exceeding 250. We are pursuing further opportunities in Qatar.

We have been active in Saudi Arabia for many years, and our work on the Rabigh Power Station continues to perform well.

Asia, Australia-Pacific and Southern Africa
While Australia's public transportation market has been flat, some interesting trends are emerging in the procurement of highways maintenance. Recently we formed a bid consortium, in partnership with Transfield Services, to target state government outsourcing opportunities in highways maintenance on the east coast of Australia. A joint team from Australia and the UK has collaborated to transfer knowledge and best practice developed in recent years in the UK to Australian markets.

Despite an overall slowdown in the mining sector, our business grew in 2012, albeit from a small base. One example is our established credentials in the Hunter Valley, New South Wales. Following on from our feasibility work for the Cobbora Coal Project, we have also been awarded Phase 2 (EPCM early works programme) and most recently Phase 3 (detailed design, tender, evaluation and recommendation) which commenced in January 2013. In Mozambique's Zambezi River Basin, on the Estima Coal Project, our engagement began at the pre-feasibility phase, and moved through feasibility, engineering, design and further study. We are now owner's engineer and project manager for the project.

Our business in power generation continues to build momentum, based on the international team established for the EPC contract at Karratha in Western Australia.

We will be focusing the business on mining, design-build and power projects while we make adjustments to our workforce both by geography and by sector to retain a sustainable presence in this attractive market.

In South Africa, we received a further vote of confidence as our engineering and programme management contract at Medupi Power Station was extended by another two years.

Cross-Group collaboration
Collaboration between Professional Services and the other Group businesses is a powerful competitive differentiator for Balfour Beatty. Many of the Group's major contract wins in 2012 were due at least in part to its distinctive ability to combine professional services capabilities with other parts of its business.

For example, in January 2012 Denmark's railway operator and developer, Banedanmark, awarded us a £335 million contract to transform much of the country's rail signalling system. The winning bid integrated our Rail business's expertise in signalling installation with programme management services from Parsons Brinckerhoff.

In November, our construction business was named best value bidder, in a design-build joint venture with Fluor Corporation, to upgrade and replace river crossings in Dallas. Parsons Brinckerhoff's technical design and our US construction business's experience in design-build were instrumental in winning this project, worth around £500 million.

And towards the end of the year, Professional Services and Support Services teams collaborated to win two major contracts worth £1.1 billion to upgrade the UK's gas distribution network for National Grid.

Looking forward
We continue to direct our resources to markets that align with the Group's focus sectors and geographic markets. Indeed in many cases, we create the access routes to those markets through our local presence, client relationships or our advantage from being at the very top of the value chain.

We expect favourable market developments and new opportunities, specifically in transportation in the US, Canada and the Middle East, mining in Australia and more generally in power globally.

£2bn
Contract wins involving other Group businesses

1 million
Barrels of liquid butane that can be stored in Catlettsburg Cavern No 2

Our Business

Developing Medupi Power Station

Parsons Brinckerhoff is providing engineering and programme management support to Eskom, South Africa's power utility, for the development of the Medupi Power Station, a 4,800MW power plant that will be one of the largest in the world when completed in 2015.

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Construction Services

In the face of difficult construction markets, the restructuring of our UK and US operations is increasing cost efficiency, agility and collaboration while positioning us to leverage our capabilities more effectively into our target market sectors.

What do we do?

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

What's happened?

- Construction profit decline for the second year in a row
- UK and US organisations streamlined and restructured
- Target run rate achieved for Phase 1 of cost efficiency programme
- US business recognised as a national leader in sustainable construction, with "green" sales of over US$2 billion as well as ranking #85 in Fortune magazine's "100 Best Companies to Work For" list
- 28 health and safety awards won in the UK business
- Major wins for Hong Kong business, including biggest solo contract

What's next?

- Focus on cost and risk management in difficult trading conditions in the UK
- Grow in healthcare, mission critical and multi-family housing and expand water expertise across our whole US footprint
- Capitalise on the increasing number of design-build and PPP opportunities in the US
- Develop a vertically integrated rail capability in growth markets while realising value from our Mainland European rail businesses
- Continue implementing Phase 2 of cost efficiency programme

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How are we performing?

Order book

-6%

2012	£8 0bn
2011	£8 5bn
2010	£9 2bn

Revenue including JVs and associates

-1%

2012	£6,959m
2011	£7,050m
2010	£6,734m

Profit before non-underlying items

-28%

2012	£122m
2011	£169m
2010	£201m

Divisional 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 Good pipeline in the US and Hong Kong has offset weaker orders in the UK in 2012

-3%

2012	174%
2011	177%
2010	188%

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 Historically, our proposition to clients has been to deliver speed, quality and low cost, today we are differentiating ourselves on the basis of innovation and leveraging capability across the Group

Our asset knowledge across the Group is crucial in meeting the complex needs of infrastructure customers We see this, and our ability to deploy resources from across the Group, as competitive advantages that differentiate us from our peers To this end, we have launched Group wide initiatives to aid collaboration As well as colocating operations in the same offices, we are equipping them with the tools, processes and culture to support knowledge sharing and put our strongest collective offering together for every project

As a fragmented industry, construction has lagged behind other industries in developing innovative technologies We see tremendous opportunities to differentiate ourselves as we innovate to reduce waste We believe it is possible to control waste through technology, processes and teaming Through investment in technologies such as Building Information Management (BIM) and offsite fabrication, we aim to be at the forefront of innovation in our industry

In markets that are extremely competitive, particularly in the UK, we are making particular efforts to enhance margins through cost efficiency programmes as well as effective cost and risk management

Our marketplace
UK
In 2012 the Government's public expenditure cuts and the financial constraints generally in the UK economy hit the construction sector hard As we completed projects won as early as 2008, it became increasingly difficult to replenish the order book with equally large projects Social infrastructure spending on schools and hospitals reduced considerably, and while the commercial property market fared reasonably well in London, it flagged in the rest of the country Some of the transportation projects that had been ringfenced from the cuts, notably Crossrail, were tendered in smaller pieces – making them less suitable for applying significant innovation to reduce overall cost, but accessible to more bidders

Spending on power generation plants had been seen as one area of likely growth, there is a clear need for investment in the current inadequate infrastructure, and funding looked more likely to be forthcoming since it would come from the regulated industry But Government delays in clarifying key elements of energy policy, such as carbon pricing and strike prices, caused utility companies to defer investment decisions

Towards the end of the year market conditions were further depressed by the growing financial strains on the supply chain and subcontractors, reducing our ability to negotiate terms with them that matched the terms our clients were requiring

US
In the US, where more than 80% of our business is in building construction, activity levels were depressed from historical highs but stable

In civil infrastructure, some projects have moved to the tender stage following the long awaited approval of the Transportation Bill Where these are procured on a PPP or design-build basis, our ability to combine our construction capability with Parsons Brinckerhoff's design capability gives us competitive advantage

As 2013 begins, we see opportunities in pockets of the US, such as the Northwest and Houston, with private investment returning to the market Market segments with the greatest promise are offices, healthcare, and mission critical We also see significant opportunities in the water sector and energy retrofits, upgrading buildings to higher standards of energy efficiency

Rail
Conditions in our traditional rail markets in Europe have been challenging In Italy and Spain, activity levels have reached a critically low level In Germany and the UK intense competition has driven increasing commoditisation However, we continue to see attractive opportunities in the major signalling and electrification projects that we deliver internationally

The US rail transit market continues to trend towards design-build procurement for large, complex projects We are well positioned to combine the Group's services and serve as a one-stop partner for clients seeking to design, build, operate, maintain and finance projects

International
In Hong Kong, the market has been buoyed by a strong programme of government spending on both transportation infrastructure and public buildings

The Dubai market has stabilised, and is now showing some signs of improvement We also see opportunities

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As 2013 begins, we see opportunities in pockets of the US, such as the Northwest and Houston, with private investment returning to the market.

Robert Van Cleave
Chief Executive Officer,
Construction Services US

in the Middle East for our mechanical and electrical services

Financial performance

The construction order book finished the year at £8 0 billion, down 6% from a year ago The most significant decrease was in the US, down 17% from the end of 2011 However, the awarded but not contracted position has improved, keeping the overall pipeline broadly stable US revenue was down by 1% on a like-for-like basis and up by 8% including the contribution from acquisitions

In the UK the order book was up 1%, however, we have seen a significant shift in the year from major works to smaller contracts, with the order book for the regional building and civil business up 15% since the end of 2011 while the order book for major construction work declined by 24% UK revenue was down by 6% in the year, with most of the decline occurring in the second half Based on this order book profile, we expect stable revenue in the US and a revenue decline of c 20% in the UK in 2013 In the rest of the world, Hong Kong has good prospects, while the Mainland European rail business will be adversely impacted by our impending divestments

Construction Services saw the anticipated reduction in profitability with underlying operating profit at £122 million (2011 £169 million) There was a drop in profits in US construction as a result of more competitive pricing in the market In the UK, whilst we benefited from successfully completing some long term projects, we saw overall profits reduce This was largely a consequence of lower margins in the regional businesses as a result of tightening markets and was exacerbated by delivery margins being impacted by rising subcontractor defaults In the year, the profitability of our Mainland European rail business weakened due to a low level of activity as well as one-off issues We continue to believe that 2013 will be a difficult year for Construction Services notwithstanding the benefits of the cost reductions we are achieving

Operational performance

UK

Our UK construction business is very diverse, serving multiple sectors and undertaking both regional and major national projects In 2012, we streamlined and restructured the UK operations to one business with three business streams to better integrate our service offering to clients These streams will share centralised support functions The new model, operational from January 2013, consists of streams for

- Major infrastructure focused on complex projects in key market sectors such as energy and transportation
- Regional civil engineering and building working through partnerships and frameworks to provide our strategic customers with locally delivered, flexible and fully integrated civils and building services
- Regional mechanical and electrical covering all sectors

The new organisation is more agile, fosters collaboration within the construction business as well as with other divisions, and will ensure that we emerge from the current downturn in UK construction as a more operationally efficient business Each stream is also organised to align with the Group's key market sectors, to aid global coordination with other geographies

We made a good start to 2012 by winning construction contracts in the commercial sector worth £100 million On two of these schemes, a high percentage of the building services engineering will

So good, they made it an exhibit

For its US$95 million new building, the Perot Museum of Nature and Science in Dallas wanted a shining example of modern technology with environmentally sustainable features

It should "inspire minds through nature and science" and help revitalise the city's downtown economy Award-winning architect Thom Mayne's design certainly met the brief – and in announcing Balfour Beatty as the chosen construction contractor, the museum's CEO declared herself "extremely excited to work with an internationally renowned firm with a stellar reputation" Did we meet expectations? Well, the museum now proudly displays an exhibit entitled "Building the building"

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be delivered using BIM and offsite prefabrication to reduce waste and increase efficiencies

Despite the investment delays in the power sector, we won several significant projects In September, we were selected as one of two companies on a £288 million framework for construction, infrastructure and maintenance projects across all 10 sites operated by Magnox for the Nuclear Decommissioning Authority This work will complement a broad portfolio of multidisciplined activities, including the execution of major projects, that we are already undertaking at licensed nuclear sites

Our Investments division has reached financial close on the Essex Waste Partnership's residual waste treatment and the Gloucestershire energy-from-waste concessions We are the construction partner on both projects

In a transportation market where large projects were scarce, we were awarded a long term contract, potentially worth over £125 million, to manage and maintain major trunk roads in the southwest of Scotland In January 2013 we were also awarded a £321 million design and construction contract to upgrade sections of the M25 London orbital motorway for the Highways Agency Working as part of the Connect Plus design, build, finance and operate contract which is responsible for the M25 and strategic arterial routes, our construction joint venture with Skanska will construct the infrastructure for Managed Motorways

In addition to these encouraging business wins, our UK construction business was also recognised for its performance on a number of fronts Our collaborative working practices won certification to the new standard for Collaborative Business Relationships from the British Standard Institute, BS11000, which acknowledges the importance of collaboration in enhancing sustainable relationships, company competitiveness and performance

Over the year we also received 28 awards recognising our commitment to health and safety from the Royal Society for the Prevention of Accidents And we were once again named Britain's Most Admired Company in the Heavy Construction Sector by Management Today

US

For our US construction business, 2012 was a year of significant successes if not a year of major project wins Three of our projects in California received industry recognition from the Western Pacific Region of the Design-Build Institute of America (DBIA-WPR) and the Southern California Chapter of the Construction Management Association of America The J Paul Leonard and Sutro Library at San Francisco State University won the DBIA-WPR's Project of the Year Award, and the Wounded Warrior Headquarters and Hope and Care Center at Marine Corps Base Camp Pendleton was selected for a Merit Award These awards recognise teamwork, innovation and problem solving in design-build delivery

In 2009 we implemented an aggressive sustainability strategy highlighting the economic, social, and environmental benefits of going green As a result, we were ranked last year as one of the top five green contractors in the US with more than US$2 billion in revenue from sustainable construction projects in 2011 – almost double the total we reported in 2010 This growth has raised Balfour Beatty six places to No 4 on Engineering News-Record's 2012 Top 100 Green Contractors list

In September 2012, we took the next step in the evolution of our US construction operations by moving to a unified operating model that allows us to better compete in, and lead, a changing industry The business was streamlined from five to three regions West, East, and Central Also as part of this structural realignment, we formed a national capability centre to harness expertise, garner best practices in the field, and deploy that knowledge across the national business in key areas such as research and development, innovation, energy, sustainability, technology, public private partnership (PPP) and federal procurement

As the US military's Base Realignment and Closure Commission programme comes to a close, our US PPP business has signed a US$362 million deal to design, build and renovate 3,268 military homes at four bases in California, Wyoming, Montana and Missouri for the US Air Force The construction business will undertake the new build elements of the project

Since we acquired Fru-Con Construction in 2011 to leverage our local civil infrastructure capabilities into the water market, we have won approximately US$300 million in new works directly related to our growth strategy These include treatment plant projects in Baltimore, Maryland and Galveston, Texas We plan to expand our successful west coast and east coast water and wastewater business into areas of the country where high population growth is increasing water demand We recently won another project The Michelson Wastewater Treatment Plant is a US$166 5 million project in joint venture

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Our UK construction business is very diverse, serving multiple sectors and undertaking both regional and major national projects. In 2012, to better integrate our service offering to clients, we streamlined and restructured it into one business with three business streams.

Mike Peasland
Chief Executive Officer, Construction Services UK

No.1

Britain's Most Admired Company in the Heavy Construction Sector

No.4

Engineering News-Record's 2012 Top 100 Green Contractors list in the US

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The Rail business has had a mixed year. Its financial performance was constrained by operational issues on a small number of projects in Mainland Europe, combined with low activity levels in Italy and Spain. But these factors were offset by considerable success in major international projects.

John Moore
Chief Executive Officer, Rail

with J R Filanc Construction Co , and is significant in that it represents our official entry into the Southern California water and wastewater market

In November we were named as best value bidder, in a design-build joint venture with Fluor, for the Dallas Horseshoe project to upgrade and replace river crossings in Dallas, Texas The Texas Department of Transportation's (TxDOT) estimate for the design, construction, utilities and right of way for the project is US$798 million The project involves upgrading and replacing the I-30 and I-35E bridges and building additional lanes as well as the previously designed Margaret McDermott bridges TxDOT opted for design-build delivery to shorten the construction schedule and lower the overall cost Parsons Brinckerhoff's technical design and our US construction experience in design-build were crucial to winning the contract

International
Our joint venture (JV) Gammon Construction continued to grow its business in Hong Kong and the wider region A string of significant contract awards provided convincing evidence of the growth potential in this market, and we broadened our business mix to embrace a greater number of infrastructure projects in line with the Group's key markets strategy

In March 2012, Gammon was awarded a HK$6 2 billion (£507 million) development contract at Hong Kong International Airport – the biggest solo contract it has ever won

In June Gammon also won the contract to build an extension to one of the world's greenest science parks – a project that will target the Leadership in Energy and Environmental Design (LEED) Platinum standard

In December Gammon won a contract to work on a major section of the new Shatin to Central Link rail project in joint venture with Kaden Construction This was a testament to the strength of its relationship with Hong Kong mass transit operator MTR, for whom it has delivered numerous large projects

In Dubai our JV delivered the Dubai Mall metro link ahead of schedule The business also won a significant contract to install the electrical, ventilation, air conditioning, plumbing and fire protection systems in the new airport concourse facility that will also include new aircraft stands and passenger boarding lounges

In Indonesia, our JV successfully delivered an office building, World Trade Center II, for Jakarta Land

Through our joint venture with Tata Projects we are currently looking for opportunities in rail infrastructure and power transmission in India

Rail
The Rail business has had a mixed year Its financial performance was constrained by operational issues on a small number of projects in Mainland Europe, combined with low activity levels in Italy and Spain

The operational and strategic review of our Mainland European rail business, which we started in the fourth quarter, has concluded that maintaining a rail presence in Mainland Europe is not consistent with our strategy which calls for building a strong local presence in our geographies in a number of market sectors In Mainland Europe, we essentially operate only in rail Therefore, we will be divesting all of our Mainland European rail businesses through a process that ensures that the businesses and their customers continue to receive full support This decision has resulted in a goodwill write down amounting to £95 million As a first step in the divestment process, we have sold the Spanish business to its management post year end

But these factors were offset by considerable success in major international projects where we have a strong specialist position that we can combine with our Professional Services division's design capability to differentiate our offering

A good example is the signalling contract we won in joint venture with Thales covering west Denmark Our role in the contract integrates signalling installation with programme management services from Parsons Brinckerhoff

In the US we made significant progress with the design, procurement and utility relocations on the Eagle P3 commuter rail project in Denver Civil work is ongoing throughout the project and systems work is ramping up Our performance to date has led to an extension of our involvement in the project Through the end of 2012 our joint venture has reached 30% completion and received US$233 million in executed change orders, with a four-month extension agreed due to added scope on the East Corridor

Looking forward
Over the medium term, our construction businesses are positioned in their respective markets as market leaders with local presence and a good track record of delivery As the current restructuring and cost efficiency initiatives are implemented, the businesses will become ever more agile, closer to the client and competitive in the marketplace

Support Services

We grew our services business across significant areas of activity as the trend for outsourcing gained further momentum in central and local government, regulated utilities and other commercial enterprises.

What do we do?

- Upgrade and maintain 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?

- Continued growth, particularly in the power and building segments
- Won new gas distribution contracts worth £1 1 billion in the UK and started work on first gas contract in Ireland
- Further increase in share of UK highways maintenance market
- Major wins for local authority unit
- Facilities management unit appointed to run services and facilities for the future Queen Elizabeth Olympic Park in East London

What's next?

- Continue to benefit from outsourcing activity by central and local government
- Seek further opportunities for growth in power transmission internationally
- Manage margin pressure in the division in the face of expected contraction in rail renewal activity

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How are we performing?

Order book

+12%

2012	£5 7bn
2011	£5 1bn
2010	£4 5bn

Revenue including JVs and associates

+3%

2012	£1,633m
2011	£1,584m
2010	£1,443m

Profit before non-underlying items

–22%

2012	£52m
2011	£67m
2010	£62m

Divisional KPI

Customer retention[1]
Retained customer revenue is a key measure for Support Services, as it shows how well we have leveraged our existing customer relationships We have maintained a retention rate above 100% in 2012, albeit lower than that in 2011

–4%

2012	103 8%
2011	108 2%
2010	95 2%

[1] Defined as the revenue from existing customers retained from one year to the next Based on Balfour Beatty WorkPlace Utility Solutions and Living Places revenue

27%

Our market share of maintenance work with the UK Highways Agency

£1.1bn

Value of gas distribution contracts won in the year

Our strategy
Support Services is differentiated by its expertise in the maintenance, renewal and operation of hard assets and its focus on the transportation (highways and rail), utilities (power, gas and water) and to a lesser extent, building sectors

As a services integrator, we bring together a diverse set of capabilities to meet client needs Integrating our teams with suppliers and clients is an everyday part of the business – and a skill we also employ to draw capabilities from other parts of the Group Our increasing alignment with the Group's target market sectors is crucial, and benefits both Support Services and the Group

Most 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, and other public entities As a full service provider we aim to benefit from the continuing trend towards integrated contracts

Our strategy is to move progressively from contracting relationships based on a project or input specification to delivering transformational outputs for our clients We intend to capture value by acting as an integrator, bringing together service components to deliver the outcomes that our customers require

Our clients trust us to deal directly with their end users and stakeholders The quality and responsiveness of these client relationships underpins our organic growth by enabling us to extend the length and breadth of successful contracts

Our marketplace
The services market continues to grow with the trend towards outsourcing in the regulated utilities sector, government and local authorities, and also as private entities look to outsource their facilities management

The trend for local authorities to outsource their services through larger, more complex integrated contracts, often over longer terms, continued in 2012 As a strongly differentiated full service provider with a wide range of capabilities, we have been able to benefit despite intensifying competition as an increasing number of suppliers are attracted into the market

A similar pattern is evident in outsourced facilities management (FM) While the reduction in discretionary spend since the 2008 financial crisis has made this market extremely competitive at the single

Green route for green energy

E ON's £736 million Humber Gateway offshore wind farm in the north of England will generate enough green energy for up to 170,000 homes

We are ensuring that the link to those homes is itself ecofriendly We have a £19 million contract to design and install twin 132kV land cable circuits on a 30km route across environmentally sensitive terrain from the shore to an inland substation As well as responding to local community concerns, we are planning and timing our work to take care of greater crested newt ponds, badger setts, nesting birds, marsh harrier nesting sites, Little Tern breeding colonies, otter runs, water voles and grass snakes

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supportservices

service end, there is significant potential for profitable work in the bundled FM and total FM segments that we target We have grown in these segments as we have progressively proven the value of our asset knowledge across the lifecycle of our clients' assets

Internationally, there is significant investment in electricity networks virtually everywhere to support a shift towards renewable generation and to meet rising energy demand from consumers and the resources sector This applies particularly in emerging and resource driven markets, where robust energy networks are seen as a cornerstone of economic growth in which energy intensive resource mining is often a key factor In some of these markets, such as India, private investment is being sought to fund the expansion of the electricity network

We have power transmission contracts in the US, Australia, New Zealand, Hong Kong and Indonesia, where we operate domestic businesses in joint ventures We are now seeking further opportunities in these and other international markets such as Canada where we have past experience In all of these markets there is a demand for our skilled resources, technical expertise and capabilities in managing supply chain relationships

In the UK, the power transmission market is entering a new eight-year investment period Given our extensive capabilities and experience in this territory, we are confident of securing new work

The UK water market is about to begin reviewing contract renewals for the AMP6 investment period We have several current contracts with options to extend into this period, and we will also be seeking to expand our operations with both existing and new clients

Most of our transportation work is in road maintenance and rail renewals The UK Government's planned £2 3 billion investment in major road improvements to the end of 2014–2015 includes £1 4 billion to start 14 new schemes in the four years to 2014–2015 We expect these schemes to create work in addition to the current contracts under which we maintain three of the 14 existing Highways Agency areas, representing a 27% market share – an increase on our 23% share in 2011

Growth in the rail renewals market is driven by broader central government strategies to maintain and improve service levels on the rail network While Network Rail and London Underground have been increasing competitive pressure in the routine renewals market, potential investment in high speed rail links between major cities and the tendency for greater procurement of multidisciplinary contracts should favour integrated players such as Balfour Beatty

Financial performance
Support Services order book improved by 12% from last year end to £5 7 billion (2011 £5 1 billion) Order intake was particularly strong in power, which ended the year with its order book up 65% from the start of the year Revenue was up 3% at £1,633 million with a particularly strong performance in the power sector – up 24% Excluding acquisitions, revenue was up 2%

Profitability, however, was lower at £52 million (2011 £67 million), due to start-up costs on new contracts and some £10m of one-off cost increases on a small number of power sector contracts in Australia and New Zealand in the first half of the year Second half profitability was in line with that in the same period in 2011

For 2013, we expect to see continued growth in the power and buildings segments, a reasonably stable water business, but with increasing volume and margin pressure in rail renewals

Operational performance
2012 was a year of further revenue growth for the division, particularly in the power and buildings segments

In the power sector, a key focus market for the Group, we are continuing to help deliver major infrastructure projects for National Grid and Scottish and Southern Energy in the UK, drawing on our engineering and asset expertise and global resources This has included securing a five-year framework agreement with National Grid and delivering additional volumes of work above original agreements as part of their investment programme We were also awarded two new contracts with Scottish Power Energy Networks, together worth almost £40 million, for electricity transmission work in Scotland

In April, E ON appointed us to install the cable for its Humber Gateway offshore wind farm The contract, worth some £19 million, involves the design and installation of a 30km section of underground 132kV cable to connect the Humber Gateway offshore wind farm to a new onshore substation at Hedon in East Yorkshire Our close collaboration with the client to understand the project's environmental and ecological impact was a key factor in securing this contract – see case study on page 38

We incurred one-off cost increases in some overseas utilities contracts in the first half of the year These were not

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

Kevin Craven
Chief Executive Officer, Support Services

Queen Elizabeth Olympic Park

In the first quarter of 2012 we won a 10-year deal to run services and facilities for the Queen Elizabeth Olympic Park in East London With over 200 new job opportunities created through the deal and most of these filled by people from the local community, Balfour Beatty's training and support schemes will secure new long term career opportunities in East London

www balfourbeatty com/supportservices

repeated in the second half, and the projects have now been completed

Embracing lean approaches to meet client efficiency challenges has helped us to secure work in the gas sector, and leaves us uniquely positioned to help clients in future In December we won two eight-year contracts with National Grid to upgrade the UK's gas distribution network The contracts, valued at £1 1 billion, are for design and installation of modern polyethylene gas distribution mains to replace ageing metal pipes The new Gas Distribution Strategic Partnership contracts cover the Northwest and West Midlands and replace our current Northwest gas contract, almost doubling our gas work for National Grid

We also began our first gas contract in the Republic of Ireland Operating as BBCLG in joint venture with local operator CLG, we have an eight-year contract to replace and extend the gas network on behalf of state operator Bord Gáis

In the water market, we have continued to perform well on our AMP5 water contracts with network operators such as United Utilities and South West Water We are delivering our first projects in the non-infrastructure market for United Utilities, having established a specialist team during 2012 to focus on opportunities in this sector

In transportation, we were awarded a £300 million contract to operate, maintain and improve part of the Highways Agency's strategic route network in the Northwest Through a joint venture, we will maintain and improve over 500km of motorway and trunk roads in Manchester, Cheshire, Merseyside and parts of Lancashire The Area 10 Asset Support Contract runs over the next five years, augmenting a portfolio that already includes the Area 4 contract in the Southeast and the M25 design, finance, build and operate contract, the largest of its kind in the UK

In facilities management, WorkPlace won several contracts that will ensure revenue growth for this unit in the coming years At the start of 2012, we won a 10-year contract to run services and facilities for the future Queen Elizabeth Olympic Park in East London We will have overall responsibility for a range of services including estates and FM as well as operating the ArcelorMittal Orbit, the stunning new visitor attraction forming a centrepiece of what will be a great new park for London

In two separate contracts in March 2012, we were appointed to provide FM services for a range of EDF Energy's sites in the UK and to deliver total FM services across UK Power Networks' property portfolio

We were selected in August as North Tyneside Council's preferred partner to provide business services The contract is expected to be worth £200 million over 15 years

Living Places also won street lighting contracts from Leicester City Council, Peterborough Council and Wokingham Borough Council, amongst others A key component of all these contracts will be to convert the existing installations to lower energy LED lights

Looking forward

The growth in our order book in the year is testament to the strength of our offering and an indication of the division's excellent prospects

The trend to outsource by central and local government, and commercial enterprises is an enduring one Our expertise and track record in highways and buildings puts us in an advantageous position to develop our involvement both in local authority work and in the facilities management of complex privately owned assets

Power transmission and distribution is a growth area both in the UK and in international markets Our strength in this area is evidenced by the exceptional growth in order book and revenue in the year We continue to seek further opportunities in the power markets

In contrast, rail renewal activity is expected to be under pressure as the market becomes increasingly commoditised

Infrastructure Investments

Having created significant value through financing and developing greenfield infrastructure assets, we have also been successful in managing our portfolio more actively – generating additional cash from disposals and reinvesting in areas that align with the Group's target geographies and market sectors.

What do we do?

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

What's happened?

- Leveraged US military housing experience to establish a student accommodation portfolio in US and UK
- Made significant progress in UK waste and energy projects
- Successfully disposed of two assets, achieving £84 million of proceeds and gains of £52 million
- Completed first round of fundraising for managed investment fund

What's next?

- Continue to make progress in new geographies such as Canada, India and Australia
- Deliver sustainable returns on our investments through the continuation of our disposal programme
- Achieve financial close on the six projects where we are currently preferred bidder

www.balfourbeatty.com/investments

How are we performing?

Revenue including JVs and associates[1]

–16%

2012	£636m
2011	£756m
2010	£682m

Pre-tax result before non-underlying items[1,2]

+37%

2012	£97m
2011	£71m
2010	£30m

Divisional KPI

Directors' valuation
While there are numerous factors that contribute to the movement in the year, Directors' valuation of our investments is a good indicator of the value we create in our portfolio. The Directors' valuation was £734 million at year end despite the disposal of two assets in 2012.

–1%

2012	£734m
2011	£743m
2010	£671m

1 Including subordinated debt interest income and net interest income from PPP subsidiaries (see Notes 6 and 7)
2 Re-presented to reflect the classification of Barking Power Ltd as a discontinued operation from 2 March 2011

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We made significant progress in the year towards diversifying our activities into new sectors and new geographies, reducing the business's reliance on PFI in the UK and military housing in the US.

Ian Rylatt
Chief Executive Officer, Infrastructure Investments

25,000

Number of homes that the Gloucestershire residual waste project is expected to power

£55m

Investments made in 2012

Our strategy
Our strategy is to earn fees and returns by financing and developing greenfield assets In line with the Group's focus, we invest principally in infrastructure assets, and in geographies where the Group has a presence We integrate capabilities from across the Group and with the knowledge and skills available to us, we believe we can make investments that deliver superior returns

We are diversifying our investment activity to align with the Group's target market sectors and broaden into regions outside the UK and US We see potential in transportation, social infrastructure and renewables such as offshore transmission and energy-from-waste, and we also want to develop the business in the Group's target geographies such as Canada, India and Australia

Two years ago we announced our intention to recycle our portfolio actively and reinvest the capital in new projects These more regular asset disposals release some of the accumulated value in our portfolio, generating additional income and cash for the Group In 2012 we decided to accelerate the disposal programme for the 2013–2015 period to benefit from favourable conditions, namely the portfolio's good growth trajectory, an active secondary market and considerable opportunity to make further greenfield investments

Our marketplace
UK
Following a UK Government review begun in 2010, the PFI model was relaunched as PF2 in December 2012 The new model tackles the issues of lifecycle costs and transparency with modest but effective modifications We are now awaiting new investment opportunities coming to market under the new model

Regardless of the development of this model, there are numerous opportunities for investment in a range of economic and social infrastructure projects including waste, student accommodation and offshore transmission assets In Scotland, our focus is mainly on roads and healthcare through the Non-Profit Distribution (NPD) programme

There is also an active secondary market to accommodate our disposal strategy, focused on our mature UK PFI assets We had considerable success in the disposal of two assets in 2012 and expect the market to remain conducive to further disposals in the near future

North America
In the US we are the largest and most successful provider of housing to US military personnel and their families Although the family housing programme is in its final stages, we anticipate new opportunities in single soldier housing over the next few years Meanwhile, the skills we have accumulated are bearing fruit in the wider PPP market – for instance, our student accommodation business is confident of growth across the US

PPP is beginning to be used more widely as a procurement model for US economic infrastructure projects, and our investment team has been collaborating with our US construction business to identify attractive projects

In Canada, where there is an established PPP market along similar lines to the UK's, we have established offices in Toronto and Vancouver to address the growing opportunities in social and economic infrastructure projects

Rest of the world
In addition to Canada, we see Australia, India and potentially Brazil, as exciting markets where investment activity can support the Group's growth strategy

Investment management business
In November 2010 we announced plans to set up an investment management business Our objective was to leverage our capabilities into greater pools of capital, earning both a return on our capital and advisory fees

We launched this business, Balfour Beatty Infrastructure Partners (BBIP), in 2011 with the appointment of four fund management experts Since then they have worked on obtaining the relevant registrations, establishing a presence in London and New York, identifying investors and pursuing the initial assets for the fund to invest in

In January 2013 the BBIP fund reached first close with US$317 million of commitments, of which Balfour Beatty has committed US$110 million In February 2013, the commitments increased to US$420 million and subsequent levels of close are expected during 2013, ultimately reducing the Group's share in the fund to around 10% Drawdowns will depend on the timing of investments by the fund, but we expect our commitment to be invested over the next three to four years

The BBIP fund will make investments in predominantly brownfield operational assets in its key target sectors of transport, energy and utilities across the UK, Europe and North America

Financial performance
Infrastructure Investments showed a significant increase in profit with underlying pre-tax profit up to £97 million

(2011 £71 million) This increase was driven by disposal gains increasing from £20 million in 2011 to £52 million in 2012, with the profits on the targeted disposals not only significantly ahead of their value in the Directors' valuation, but also ahead of our expectations UK PPP profits were down £1 million, principally because of the profits foregone from disposed assets Bidding costs and overheads increased to £34 million (2011 £30 million)

Operational performance

The Investments division has had another excellent year operationally We made investments totalling £55 million into our projects while laying the groundwork to expand the business into new sectors and geographies

Sustainability remained an integral part of our business in 2012 Following the announcement that we were chosen to build the largest solar powered community in the US at Fort Bliss military base, our US military housing division showcased a sustainability initiative, 'Switch4Good', at the prestigious White House-sponsored "Energy Datapalooza" which is designed to reduce community energy consumption – see case study below

UK

Energy-from-waste and waste treatment are growth segments we have been targeting in the last two years In 2012 we won the Essex Waste Partnership's residual waste treatment contract in joint venture with Urbaser Once operational, the facility will treat up to 417,000 tonnes of municipal waste a year It will incorporate a visitor and education centre for the benefit of the local community

Gloucestershire residual waste project, our second joint venture with Urbaser, reached financial close in February 2013 This 28-year PPP project involves the design, build and operation of an energy-from-waste facility for Gloucestershire County Council This will divert over 91% of Gloucestershire's residual municipal waste from landfill and generate an estimated 116,000MW hours of electricity annually – enough to power more than 25,000 homes

In the offshore wind development market, where Transitional Round 1 of built farms has been completed, we are preferred bidder for two of the largest Offshore Transmission Owner (OFTO) projects, Thanet and Greater Gabbard We are currently bidding for Gwynt y Mor OFTO in Transitional Round 2

We have established our position in the student accommodation market over the past 12 months having been successful on two projects In August 2012 we were appointed preferred bidder for the University of Edinburgh's Holyrood postgraduate student accommodation and outreach centre project This was followed by another success in February 2013, when we announced our preferred bidder appointment for the Aberystwyth University student accommodation project We are also making significant progress in this market in the US, giving us an opportunity to share learning and best practice across geographies for the benefit of our clients

North America

In military housing, we achieved financial close on the US$362m Western Group and continue to make progress with our preferred bidder positions on Northern Group and ACC Group III Over the past 12 months we have built over 650 new homes and renovated 960 homes on 20 military bases across the US

We remain committed to developing and managing residential communities that maximise value for both our partners and residents and increasingly that value is focused on sustainability

In 2012, in the student accommodation market, we signed a development agreement with Lake Forest College for a new 233-bed student housing facility

We are preferred bidder for three other US student accommodation projects on a non-PPP basis, and in contention for a PPP detention centre project

Putting our developer skills together with the Group's rail and professional services expertise, we strengthened our bidding resources in Canada to address the growth in the transportation sector which is anticipated in a number of provinces

Rest of the world

Over the past few years we have been developing our capability in the waste sector in the UK which we are applying to new opportunities in Australia We are now actively developing a biomass power project there which is the first in a pipeline of similar opportunities which we are exploring

In India we continue to bid on a number of power transmission projects working in partnership with Tata Projects

Looking forward

We made significant progress in the year towards diversifying our activities into new sectors and new geographies, reducing our reliance on PFI in the UK and military housing in the US We see significant opportunity to develop the model further

Switching Fort Bliss on to solar

The largest single energy consumer in the US is the Defense Department And with our help it aims to meet 25% of its energy needs renewably by 2025

At Fort Bliss in Texas we are creating the world's largest solar powered community by placing 13 2MW of solar power across 4,700 rooftops When we have finished, sunshine will produce up to 26% of the community's electricity needs The US Army aims to make Fort Bliss a "net zero" installation, producing as much energy as it uses, and we are its sole net zero partner for military housing

www balfourbeatty com/investments

Directors' Valuation of PPP Concessions

63

Projects in our PPP portfolio at the end of 2012

£734m

Directors' valuation of our PPP portfolio at the end of 2012

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 giving us a strong position in privatised military housing, America's most developed PPP market Building on this platform more recently, we have also invested in renewables, waste and student housing

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

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

The values are calculated 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

As the chart below left shows, we promote, develop and invest in assets in three main sectors We design and build new roads, upgrade and maintain existing roads and replace and maintain street lighting We design and 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

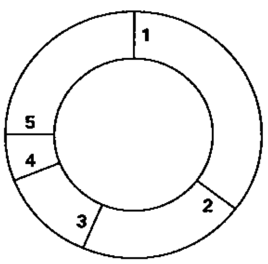
Increasingly we have been transferring our experience from these more traditional PPP sectors into other sectors such as power, waste treatment, energy-from-waste and student accommodation As a result, we now have seven projects in the UK and one project in the US outside our traditional sectors of roads, hospitals, schools and military housing

As part of our asset disposal programme, we sold the Group's stakes in two projects a 33 3% interest in Health Management (University College London Hospital) and a 50% interest in North Lanarkshire schools

London Underground has exercised its right to terminate the power services contract for our Powerlink project in August 2013

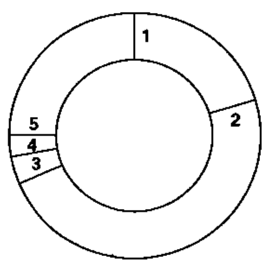
PPP portfolio valuation, 31 December 2012

Value by sector



		No of projects	**2012 £m**	2011 £m
1	Roads	12	**260**	239
2	Hospitals	7	**156**	202
3	Schools	13	**91**	86
4	Other	9	**44**	42
	UK portfolio	41	**551**	569
5	US portfolio	22	**183**	174
Total		63	**734**	743

Value by phase



		No of projects	**2012 £m**	2011 £m
1	3+ years post construction	13	**150**	226
2	0–3 years post construction	18	**355**	157
3	Construction	6	**26**	166
4	Preferred bidder	4	**20**	20
	UK portfolio	41	**551**	569
5	US portfolio	22	**183**	174
Total		63	**734**	743

Movement in value (£m)

	2011	Equity invested	Distri-butions received	Disposal proceeds	Unwind of discount	Rebased	New project wins	Gain on disposals	Operational perfor-mance gains	FX translation	2012
UK portfolio	569	42	(60)	(84)	55	522	4	17	8	–	**551**
US portfolio	174	13	(25)	–	20	182	–	–	9	(8)	**183**
Total	743	55	(85)	(84)	75	704	4	17	17	(8)	**734**

During the year we were chosen as preferred bidder on the Edinburgh University student accommodation project However, we withdrew from a preferred bidder position on a roads project in Ireland due to unfavourable conditions

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

- the 2011 valuation
- 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 50% interest in North Lanarkshire schools and a 33 3% interest in Health Management (University College London Hospital)
- PLUS the "discount unwind" – the increase in value as time passes, bringing future distributions closer

Together, these changes give us the "rebased" figure

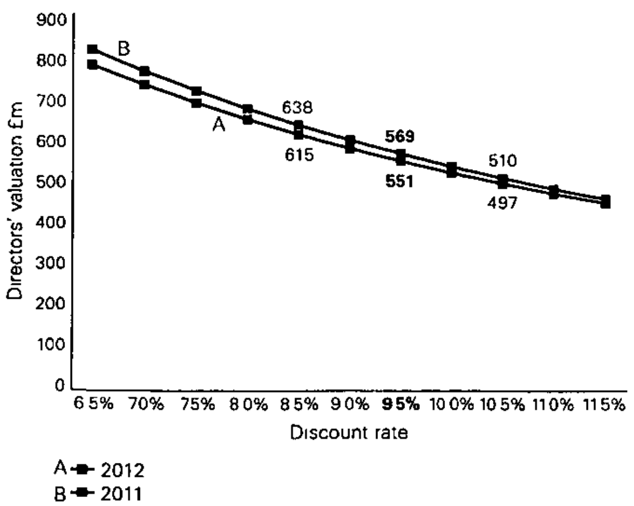
- PLUS new project wins during the year, represented by the Edinburgh student accommodation project on which we were appointed preferred bidder in August
- PLUS the gains we made from disposals during the year, over and above the Directors' valuation of those interests
- PLUS operational performance 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 The UK portfolio is showing a small net gain in performance this year, comprising some increases and decreases in actual performance and increases due to higher inflation on projects coming out of construction The US portfolio is also showing a net gain, with the movements including increases in scope and changes to rental rates
- LESS the effect of foreign exchange movements on our portfolio value

Together, these give us the valuation of the 63 PPP projects in our portfolio at the end of 2012, which include four projects in our UK portfolio and two projects in our US portfolio at preferred bidder stage

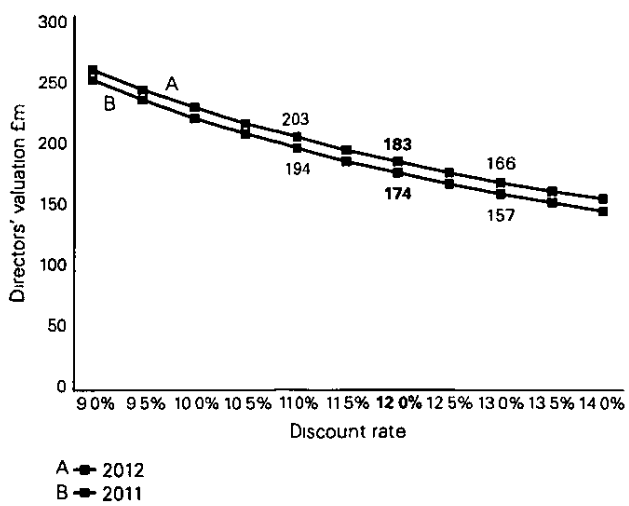
The graphs below give the value of each portfolio over a range of pre shareholder tax discount rates enabling the reader to revalue the US and UK portfolios at a discount rate of their choice

PPP concessions' valuation range

UK portfolio



US portfolio



We catch more nutrients

Our three projects to upgrade Baltimore's Patapsco wastewater treatment plant will vastly improve the surrounding environment and the city's outflows into Chesapeake Bay

They will ensure that the discharge of nutrients – nitrogen and phosphorus – into the Patapsco River meets the "pollution diet" introduced by the Environment Protection Agency (EPA) And they are helping to establish us – through our Fru-Con business – as one of the leading water and wastewater players in the US market

US$269m

Total value of our three Patapsco projects

100%

Increase in the plant's peak capacity

You catch more fish

Chesapeake Bay is the largest estuary in the US, a complex ecosystem that supports a wide range of fish and shellfish But the Bay, and its marine inhabitants, are suffering badly from pollution

The main cause is nutrient rich effluent, which the EPA wants to see cut by 20–25% Our projects, including constructing the world's largest fixed film denitrification system, an enhanced nutrient removal facility, a biological aerated filter building and pump station, as well as leading utility works for the project will help the city reach local environmentalists' target of making Baltimore Harbour more habitable for marine life by 2020

80%

Reduction in nitrates that the new plant will achieve

100,000

Tonnes of chromium laden soil our work will also eliminate

The Way We Work

Showing leadership in values and behaviour is essential for a business such as Balfour Beatty that aspires to differentiate itself in the market and be seen as a global leader in its field. That is why we have made it one of our core strategic objectives: we want high ethical and professional standards to be evident in every aspect of the way we work.

Integrity

Teamwork

Excellence

Respect

Health and safety

In 2008 we set out to achieve Zero Harm by 2012 That meant zero deaths, zero injuries to the public and zero ruined lives among all our people no seriously disabling injuries, no long term harm to health and an accident frequency rate (AFR) below 0 10 While we failed to meet these targets across the Group, we made important progress and remain even more committed to achieving them

Our overall Group performance improved in 2012, with most businesses making further advances towards Zero Harm Of the 184 (2011 189) major injuries reported in 2012, one was permanently disabling, compared with five in 2011 Group AFR improved to 0 16 in 2012 (2011 0 17)

There were significant improvements in many parts of the Group, with 20 out of 34 operations showing either zero AFR or an improved AFR compared with 2011 Group AFR has reduced by 69% since 2001

There were 115 injuries to members of the public in 2012 (2011 127), a reduction of 9%

However, we regret that there were eight employee fatalities during 2012 – three in the UK, two in North America, two in Australia and one in Indonesia (2011 five in Hong Kong) Every fatal accident is subject to a thorough investigation and review by the Balfour Beatty Board Lessons learnt are shared across the Group to help improve future performance

To emphasise our commitment to the absolute necessity for Zero Harm, in June 2012 we held our first ever Group wide safety stand down Over 90,000 Balfour Beatty and subcontractor personnel stopped work to remember colleagues killed at work, consider new ways of working to prevent fatal accidents and reaffirm everyone's individual responsibilities for keeping colleagues and members of the public safe from harm

In 2013 and beyond, our Zero Harm goals of zero fatalities, zero disabling injuries, zero injuries to members of the public and zero new cases of long term harm to health will remain As we head into 2013, we are intensifying our Zero Harm efforts, setting clear Health & Safety expectations for all of our businesses, renewing our focus on the elimination of fatal risk and increasing the level of personal accountability for safety

Ethics and values

Across all of our businesses, we share the same values – integrity, teamwork, excellence and respect They help to define who we are and what we want to be known for Integrity is about being honest and transparent and always doing what is right Teamwork means seeing ourselves as part of a bigger picture in the way we work with colleagues, clients and suppliers Excellence is the standard of performance people are entitled to expect from working with or for us Respect shapes the way we treat other people, inside and outside the business – and the wider community and environment

Our programme to embed ethics and integrity across our business covers not only bribery, fraud and competition law but also data protection, human rights and other areas addressed in our Code of Conduct For nearly four years we have been embedding a best practice compliance programme founded on our values, the Code of Conduct and its associated training modules To date more than 40,000 employees have completed the first online training module and more than 26,000 have completed the second module We have also begun a programme for site operatives which should be largely completed in 2013

As part of our programme, in 2009 we launched a confidential helpline for whistleblowers Last year, for the first time since its launch, we saw a slight decrease in the number of potential breaches of the Code of Conduct reported via the helpline or other whistleblowing channels or detected by management to 221 (2011 232), excluding HR grievances

Whilst this may indicate that our ethics and compliance programme is leading to a reduction in unethical behaviour, we believe that we are still experiencing under reporting in some countries and we would also hope and expect to see an increase in reporting, once the site operative ethics training has been fully rolled out

During 2012 we continued to embed the compliance programme and developed an assurance framework, which includes management self assessments, compliance function risk assessments and internal audits of anti corruption procedures This helps us to test implementation, address weaknesses and continually improve

As we seek to grow in emerging markets, it is even more important that we continue to roll out our ethical programme The choices that we face can be difficult, but we must ensure our values are at the forefront of each and every business decision In 2013, we will continue to implement appropriate policies and procedures to support our growth strategy in new and often higher risk markets, and to embed the culture of ethics and integrity upon which, ultimately, the success of our programme will depend

Sustainability
We have set out a clear path to embed sustainability into everything we do by 2020 At the end of 2012 we published our roadmap for the 2013–2015 second stage of this journey – developed in consultation with over 200 staff and 20 clients and non-governmental organisations (NGOs)

This roadmap defines our objectives, strategies and measures in 11 focus areas new markets, client engagement, efficiency, our people, supply chain, communities, climate change, waste, water, materials and ecology

In our 2012 Sustainability Report online at www balfourbeatty com/sr12 we report our progress against the 2009–2012 first stage roadmap Broadly speaking, we performed better against our profitable markets and healthy communities targets than the environmental limits targets Within environmental limits, we performed better on waste management than on carbon reduction

We benchmarked our performance externally by participating in three key indices – securing a Silver rating in the Business in the Community Index, a score of 78 out of 100 from the Carbon Disclosure Project, and inclusion in the Dow Jones Sustainability Index Europe During 2011 and 2012 an independent programme was conducted by KPMG to review our progress against the roadmap and help management embed sustainability within the business The quality of our reporting was recognised by the Building Public Trust Awards FTSE 250 Sustainability Report award in November 2012 We have been credited by the asset management business, Robeco SAM, as the Sector Mover in the Heavy Construction Sector' in 2012

Delivering sustainability for customers
We see our sustainability performance and expertise as a strategic asset, and aim for market leading capability in delivering sustainable solutions for clients Sustainability is increasingly important to clients and we work closely with many clients to deliver sustainable solutions

We have now secured positions in virtually all the renewables markets, made our delivery capability significantly more efficient through BIM technology and materials reuse, and have developed a comprehensive array of water, carbon and ecology tools Through training and knowledge sharing we have equipped our business development teams and design managers to advise clients on how sustainable thinking can add value to their projects

Environmental performance
We have made good progress against a number of our environmental targets We met our target to halve our waste to landfill by 2012 and in the UK we procured 44% of our major materials from recognised responsible sourcing schemes Reducing our energy consumption has been more challenging, but in 2012 our overall Scope 1 and 2 carbon intensity decreased by 13% following restatement based on more comprehensive data Improvements in our UK businesses were partially offset by growth in energy intensive projects in Hong Kong Further details are available in our 2012 Sustainability Report online at www balfourbeatty com/sr12

Four environmental incidents resulted in enforcement action and fines in 2012 across the Group (2011 6) totalling £66,800 (2011 £18,800) These ranged from £160 to £56,000 Corrective actions have been completed for each violation

Looking ahead
In 2013 we are focusing on sustainability as a driver of growth, supply chain engagement and a more focused approach to social performance We will also be promoting sustainable innovation in products, client engagement and efficiency – such as our reuse and recycling practices that have saved the Highways Agency £55 million over the past three years

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To earn the trust of clients and other stakeholders, we must do business ethically at all times. We focus on doing the right things and see compliance with the law as the absolute minimum we expect.

Chris Vaughan
Chief Corporate Officer

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Our competitiveness is founded on a tradition of technical capability and collaboration, an established culture of respect and leadership in values and behaviours, and individual empowerment to drive improvement and innovation.

Paul Raby
Group HR director

People
Our competitiveness depends on how well we harness the wide range of skills, knowledge and potential in our 50,000 global workforce The key is to identify and nurture the talents of all our people, in a values based business where they can thrive Our people policies are focused on fulfilling the potential in the Group so our clients benefit from wide ranging capability, and our employees from enhanced careers

During the year we continued to enhance the way we identify and develop talent in the organisation We supplemented our Group wide leadership framework, which articulates what the business requires of its leaders today, with a new set of requirements for the people with potential who will lead the business in the future We ran our first Group development centre to test these requirements with a range of high potential individuals They were observed by senior leaders from across the business to extend the visibility of our talent across the organisation

We also launched two new programmes aimed at supporting people with potential at key career transition points The advanced management programme and executive leadership programme combine thought leadership, drawn from the latest academic research, with the opportunity to address real business challenges in the Group and to network with other participants

The launch of individual personal and skill profiles on the new Group knowledge sharing and collaboration intranet also helps us identify and deploy talent more effectively – for example by promoting opportunities to work in different businesses and locations

We continue to build on our progress in instilling leadership in values and behaviours Our commitment to our values in the treatment of others is now increasingly embedded in the way we work We can use this commitment to extend and enhance the Group's brand in the market so that we attract the very best external talent – and we have already won several new awards for companies highly rated by graduates including The Guardian UK 300 and the Job Crowd's Top Companies for Graduates to Work For

Our US construction business has been recognised as a Fortune "Best Company To Work For" at #85 in the rankings

We also continue to make progress in our work on diversity so that we attract and engage more than our fair share of talent from the broadest possible pools Formal awards and recognition for our achievements in this area, including from both Opportunity Now and Race for Opportunity in 2012, give us a strong platform to build on in 2013

Respecting our communities
Our business is centred on communities We bring them significant benefits by creating and caring for efficient, high quality economic and social amenities But 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 through local initiatives that fit with our businesses' individual objectives and provide motivation and engagement for our employees Across the Group there is a high degree of commitment to, and active participation in, community involvement

At Group level we work, often in partnership with clients, to support organisations and activities that aim to improve social cohesion and inclusion In the UK these have included the London Youth Games, Action for Children, the Coram Foundation and the Prince's Trust We also donate cash and the energies of our employees to selected charitable causes The Balfour Beatty Charitable Trust has donated over £1 75 million to disadvantaged young people's charities since its inception in 2009, through corporate funding and employee fundraising

In late 2011 we reviewed our community policies to take account of the Group's increasing size and geographical spread and to align our community programmes more closely with key social issues and our core business activities The result was Building Better Futures, a set of strategic themes focusing on young people's employability and employment, helping the most disadvantaged young people in society

In 2012, we worked closely with our charitable partners to develop programmes that meet our common strategic ambitions We also built stronger internal networks to help us identify and promote local initiatives and programmes within the Group that support our strategic theme of employability and employment

We continue to build a volunteering culture across the Group Many of our businesses' volunteering policies were extended in 2012 and will be further developed during 2013 Our charitable partners have been working with us to identify opportunities for our staff to become involved in their work and we plan to build on this in 2013 We also plan to incorporate a volunteering module into our apprentice and graduate development programmes

Building Better Futures and our sponsorship of the London Youth Games have been very successful in the UK, but we need an approach that also embraces the US and our emerging markets, such as South Africa In 2013, we will look to build on each aspect of our community engagement programme within those markets where we have significant presence

www balfourbeatty com/sustainability

1st

Female non-executive Director and managing director of a business unit appointed

40,000

More than 40,000 employees have completed the first Code of Conduct online training module

Hong Kong's first zero carbon building

Our Gammon joint venture built the Zero Carbon Building in Kowloon Bay which may be small in scale but its impact on green construction will be long lasting and far ranging

The Zero Carbon Building – the first of its kind in Hong Kong – achieved BEAM Plus Platinum environmental standard, the highest rating possible It will produce more energy than it consumes – about 225MW hours of electricity in total per year

30% of the generated energy will be derived from solar panels and 70% from biodiesel made from used cooking oil

www balfourbeatty com

We share knowledge

In 2005, we formed a joint venture with local support services business UGL to bid for power transmission contracts in Australasia

The key to our success is our collaborative approach, our global teams transfer knowledge and best practice developed in recent years in the UK to Australasian markets, putting our global transmission expertise to work in partnership with local asset owners Today, BBUGL is the region's market leader in extra high voltage transmission We design and build overhead and underground transmission and distribution systems for clients in Australia, New Zealand and the Pacific

500kV

Maximum voltage for BBUGL projects

186km

Length of new Whakamaru-Brownhill Road power line

You share power

Electricity is so versatile that people use it in more and more ways

Since the power grid in New Zealand's upper North Island was last upgraded in the 1970s, the region's population has more than doubled – and electricity use has trebled. To carry modern loads, BBUGL has just completed a new 400kV overhead transmission line. As New Zealand's largest infrastructure project, it presented many engineering challenges, including the design of 65m-high monopole towers to minimise visual impact in sensitive scenic areas.

432

Number of new transmission towers built for the project

460

Number of old towers demolished

Chief Financial Officer's Review

2012 saw a resilient underlying earnings performance despite some challenging markets.

We are rigorously pursuing cost savings to offset the impact of continuing difficult construction markets and to position ourselves for the future

Duncan Magrath
Chief Financial Officer

Trading performance
Professional Services performed well, improving its order book by 5% despite uncertainty arising from presidential elections and the fiscal cliff in the US and a difficult market in the UK Strong growth in the rest of the world, particularly Qatar and Canada, contributed to revenue Performance was mixed in Australia, with a revenue decline in transportation offset partly by growth in mining, but it remains an important and successful territory Underlying profit increased by 13% to £98m, with good contributions from transportation and power sectors

Construction Services saw the anticipated reduction in profitability with underlying profit at £122m (2011 £169m) There was a drop in profits in US construction as a result of more competitive pricing in the market Our Mainland European rail business weakened due to a low level of activity as well as one-off issues The operational and strategic review has concluded and we will be divesting all of our Mainland European rail businesses over time UK construction benefited from successfully completing some long term projects, but overall profits reduced This was largely a consequence of lower margins in the regional businesses as a result of tightening markets and was exacerbated by delivery margins being impacted by rising subcontractor defaults

Unexecuted construction orders finished the year at £8 0bn, down 6% from a year ago (2011 £8 5bn) The most significant decrease was in the US, down 17% from the end of 2011 However, the awarded but not contracted position has improved, keeping the overall US pipeline broadly stable The UK order book was up 1% from a year ago, but we have seen a significant shift in the year from major works to smaller contracts, with the order book for the regional building and civils business up 15% since the end of 2011 while the order book for major construction work declined by 24% Construction revenue was down by 4% overall, excluding the impact of acquisitions

Support Services' order book improved by 12% from the end of 2011 to £5 7bn (2011 £5 1bn) Order intake was particularly strong in power, which ended the year with order book up 65% from the start of the year Revenue was up 3% at £1,633m, again with a particularly strong performance in the power sector which was up 24% Profitability however, was lower at £52m (2011 £67m), due to start up costs on new contracts and some £10m of one-off costs in a small number of power sector contracts in Australasia in the first half Second half profitability was in line with the second half of last year

Infrastructure Investments showed a significant increase in profit with underlying pre-tax profit up to £97m (2011 £71m) This increase was driven by disposal gains increasing from £20m in 2011 to £52m in 2012, with the profits on the targeted disposals not only significantly ahead of their value in the Directors' valuation, but also ahead of our expectations UK PPP profits were down £1m, principally because of the profits foregone from disposed assets

See pages 28 to 43 for more detailed comments on performance by segment

Cost efficiency programme
We started on the journey to improve our cost effectiveness with the announcement in August 2010 of the creation of a shared service centre in Newcastle By the end of 2011 we had 230 employees accounting for 50% of UK transactions and procuring £300m of indirect spend

The success of this initiative convinced us to expand the programme and apply what we had learnt elsewhere, so in March 2012 we announced that we would target to save a further £50 million per annum by 2015 for one-off costs estimated at between £50 million and £75 million In addition to expanding the scope of the Newcastle service centre including some global procurement, we are setting up an equivalent service centre in Lancaster, PA which will go operational in April 2013 We are also restructuring our businesses, in particular, UK construction has been reorganised into three business streams and is in the process of reducing the number of offices from 75 down to 37, and US construction has been reorganised into three regions

We have booked non-underlying costs for redundancy, relocation, property and other associated costs for this programme of £61m in the year Savings in 2012 from the original and expanded programme were £36m, and we remain on track to deliver annual savings of £80m in 2015

Financial review
Revenue including joint ventures and associates declined 1% in the year to £10,896m (2011 £11,035m) Excluding the impact of currency and acquisitions, underlying revenue declined by 4%

Our share of underlying post-tax profits from continuing joint ventures and associates increased to £97m from £75m last year, principally due to increased profits from our overseas construction joint ventures, with improved liquidity in Dubai and continuing growth in Hong Kong

Underlying profit from continuing operations decreased by 7% to £309m (2011 £331m), including the benefit of £52m of gains from PPP disposals

Net finance income of £1m was broadly in line with the prior year (2011 £3m)

Underlying pre-tax profit from continuing operations therefore decreased 7% to £310m (2011 £334m)

The underlying tax charge for continuing operations for the year of £70m (2011 £91m), excluding the Group's share of the results of joint ventures and associates, equates to an effective tax rate of 32 9% (2011 35 1%) Adjusting to include tax in joint ventures and associates, and comparing this to pre-tax profits for the continuing Group and joint ventures and associates, the effective tax rate was 25 7% (2011 30 2%)

Non-underlying items
Non-underlying items of £235m (2011 £88m) before tax were charged to the income statement This comprised amortisation of acquired intangible assets of £45m (2011 £62m) and other items of £190m (2011 £26m) The amortisation charge declined in the year as some intangible assets became fully written down Other items included rail restructuring costs of £104m, of which £95m comprised goodwill write downs These are as a result of our strategic decision to divest all of our Mainland European rail businesses over time During the year we also announced a major restructuring of our business to rationalise the cost base, expand our use of shared service centres and aid collaboration by colocating employees Costs incurred on this during the year were £61m Post-acquisition integration reorganisation and other costs totalled £9m, principally due to the settlement of a pre-acquisition legal case in Parsons Brinckerhoff We also wrote down our investment in Exeter International Airport in the first half from £12m to £nil, as a result of continued poor traffic volumes in the regional airport market

Earnings per share
Underlying earnings per share from continuing operations of 35 0p were down 1% on last year (2011 35 5p)

Results for the year

	2012	2011	Percentage increase
Revenue including joint ventures and associates	**£10,896m**	£11,035m	(1)%
Group revenue	**£9,483m**	£9,494m	–
Profit from continuing operations			
– underlying	**£309m**	£331m	(7)%
– reported	**£74m**	£243m	(70)%
Pre-tax profit from continuing operations			
– underlying	**£310m**	£334m	(7)%
– reported	**£75m**	£246m	(70)%
Earnings per share from continuing operations			
– underlying	**35 0p**	35 5p	(1)%
– basic	**6 5p**	26 7p	(76)%

Cash flow performance
Cash used in operations of £219m (2011 generated £35m) was impacted by a working capital outflow of £310m (2011 £201m) Including the impact of exchange, negative working capital decreased from £1,085m at the end of 2011 to £777m at the end of 2012 Of this decrease of £308m, the biggest component was £250m in Construction Services This was largely due to changes in the mix of business, away from larger more complex projects, which have the potential for more favourable terms, to smaller projects, plus the impact of volume reductions with revenue down 10% in the UK and 8% in the US in the second half year on year

Cash from operations was also impacted by pension deficit payments of £61m (2011 £58m)

As shown in the diagram on page 57, average borrowings in the second half of the year were £126m, although the Group's net cash at 31 December 2012 was £35m (2011 £340m), before taking into account the consolidation of £368m (2011 £332m) of non-recourse net borrowings held in wholly owned PPP project companies

More detailed analysis on the movements in net cash is shown in Note 29

Goodwill and intangible assets
Total consideration for the acquisition of Subsurface Group amounted to £10m, with goodwill of £9m arising and a further £3m of other intangible assets being recognised These increases were more than offset by the write down in the Mainland European rail business, so that the goodwill on the Group's balance sheet at 31 December 2012 decreased to £1,160m (2011 £1,279m) Other intangible assets, after amortisation charges of £49m (2011 £66m), reduced to £212m (2011 £239m)

Impairment reviews have been carried out, and none of the goodwill, other than noted above, has been impaired Details of the calculations and assumptions are shown in Note 13 Two businesses have no headroom The goodwill relating to the Mainland European rail business has been written down to £61m, but a 1% increase in the discount rate would lead to a further impairment of £16m The recoverable amount of the Blackpool Airport goodwill is £4m, underpinned by the value of the land owned

Balance sheet and capital structure

The diagram below gives a visual representation of the major elements that we consider in relation to the shape of the balance sheet We look to achieve a balance between the negative working capital, liquid funds and the PPP investments portfolio Whilst we have seen a reduction in net cash during 2012, we have also seen a reduction in the levels of negative working capital, with the Directors' valuation of our investments portfolio remaining broadly unchanged

These items are considered further below

Infrastructure investments

During 2012, the Group invested £55m (2011 £52m) 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 £47m from 2013 onwards, with some £77m expected in addition for six projects at preferred bidder stage

During the year total proceeds of £84m were received from the disposal of the Group's 50% interest in Transform Schools (North Lanarkshire) and 33 3% interest in Health Management (UCLH), realising £17m in excess of Directors' valuation

At 31 December 2012, the Group's share of non-recourse net borrowings within Balfour Beatty Investments' continuing PPP project companies amounted to £2,086m (2011 £2,127m), comprising £1,718m (2011 £1,795m) in relation to joint ventures and associates as disclosed in Note 16 2 and £368m (2011 £332m) on the Group balance sheet in relation to wholly owned subsidiaries as disclosed in Note 24 1

The Directors have carried out a valuation of the Group's PPP concessions This is set out on pages 44 and 45 and shows that the value of the portfolio has decreased during the year from £743m to £734m, after receiving cash net of reinvestment of £114m

Working capital

Negative working capital reduced from £1,085m to £777m, so total working capital as a percentage of annualised revenue (WCPR) at the end of the year was (8 3)% (2011 (10 9)%) The most significant component of negative working capital relates to Construction Services, which ended the year with WCPR of (12 1)% (2011 (14 7)%)

In 2013, we would expect further reductions in negative working capital in UK construction as a result of anticipated revenue reductions, and the greater proportion of smaller contracts We also expect an increase in working capital in Support Services, due to one very large contract with positive working capital characteristics Professional Services will continue trending towards 5% positive working capital We would however, expect negative working capital to be broadly stable in US construction, before increasing again when the market recovers

Pensions – balance sheet movement

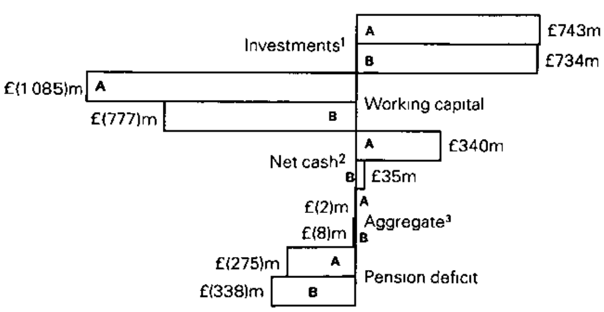
The Group's balance sheet includes aggregate deficits of £338m (2011 £275m) for the Group's pension schemes Note 26 sets out the assumptions used and a sensitivity analysis which identifies the impact on the balance sheet from changes in those assumptions

The Group recorded net actuarial losses for 2012 on those schemes totalling £121m (2011 gains £60m), with the effects of the lower discount rates applied to the schemes' obligations exceeding the better than expected returns on the assets held by the schemes and revised mortality assumptions based on historical experience Movements in the pension deficit are illustrated in the diagram below

In our 2013 accounts, we will be applying the new IAS 19 reporting standard which requires the return on assets within the pension net finance cost to be calculated using the same rate as the discount rate on the obligations This has no cash impact, but we estimate that net finance cost will increase by £21m in 2013, compared with a £10m increase for 2012

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 Under this plan, the Group is making regular monthly payments, which increase each April by the growth in CPI up to a cap of 5%, plus 50% of any increase in the Company's dividend in

Balance sheet elements

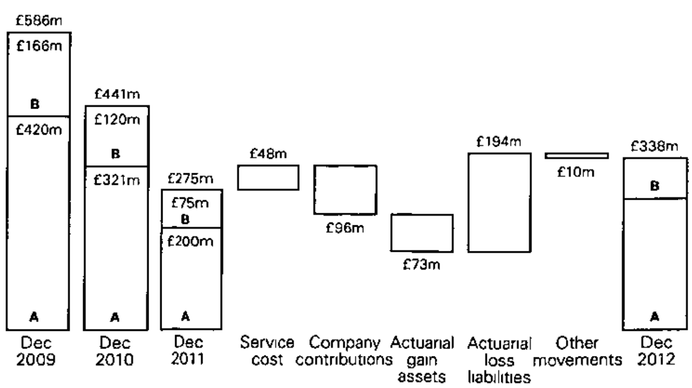


A Dec 2011 B Dec 2012

1 Directors' valuation of PPP concessions
2 Excluding net borrowings of PPP subsidiaries (non-recourse)
3 Aggregate balance of investments, working capital and net cash

Pensions – balance sheet movement

Cumulative contributions for deficit funding since December 2009 of £255m



A Pension deficits, net of tax B Deferred tax assets excess of CPI Monthly deficit payments from April 2012 were £4 5m Regular deficit payments into the BBPF increased by £0 9m per month to £5 4m following the merger of the Parsons Brinckerhoff pension scheme into the BBPF on 30 June 2012 In advance of the formal triennial actuarial valuation as at 31 March 2013, additional contributions of £1m per month are payable for any month where the BBPF funding levels drop below the targets set out in the BBPF funding plan

Dividends
The Board has recommended a final dividend of 8 5p in respect of 2012, giving a full-year dividend of 14 1p (2011 13 8p), up 2% on last year Underlying dividend cover, taking into account PPP disposal gains, for 2012 is 2 5 times

Banking facilities
The Group's principal committed facility is a five-year revolving syndicated facility at £850m which was arranged in November 2011 In December 2012 an expiring £100m bilateral facility was extended through to 2016 The purpose of these facilities, and other small facilities, is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities Over time, as the Group evolves we will continue to explore diversifying our sources of funds away from the pure bank market, and as part of that process, after the year end US$350m was raised through a US private placement of a series of notes with an average coupon of 4 94% over 9 3 years The incremental cost of this funding on an annual basis is approximately £9m

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

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 2012, contract bonds in issue by financial institutions under uncommitted facilities covered £3 3bn (2011 £3 7bn) of contract commitments of the Group

Financial risk factors and going concern
The key financial risk factors for the Group remain largely unchanged, with two exceptions Firstly, a year ago the risk of economic events in Europe leading to disruption in the euro economies and an impact on the bonding market was higher than it is today In addition, we believe the measures we have announced for restructuring our Mainland European rail business will help to limit the impact that future events could have on our business, although a further deterioration in the outlook for our business in those markets could lead to a further non-cash goodwill impairment charge Secondly, however, the outlook for UK construction has deteriorated over the last 12 months The lack of work at attractive rates in the market will in turn lead to reduced volumes which will lead to further unwinding of the negative working capital position, and hence a cash outflow In addition, the overall health of the market is likely to lead to increased risks of company failures particularly in our subcontractor supply chain Given the importance of maintaining a strong balance sheet and liquidity, as noted above we have put in place a US$350m private placement and extended a £100m bilateral bank facility for four years

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

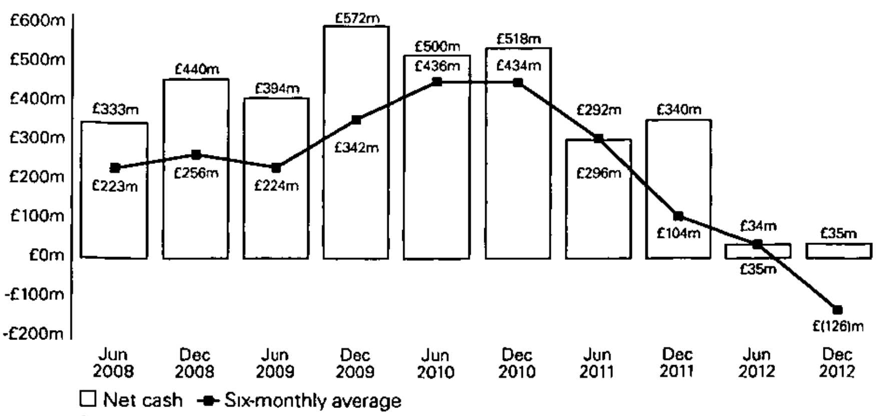
- the Group has a strong order backlog
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates
- the Group has an increasingly diversified business model that gives resilience to the business
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had £35m net cash at 31 December 2012 and committed facilities of £950m for at least the next three years, of which £540m were undrawn

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

To appreciate the prospects for the Group as a whole, the complete Annual Report and Accounts 2012 needs to be read

www balfourbeatty com/magrath2012

Average net cash/(borrowings)[1]



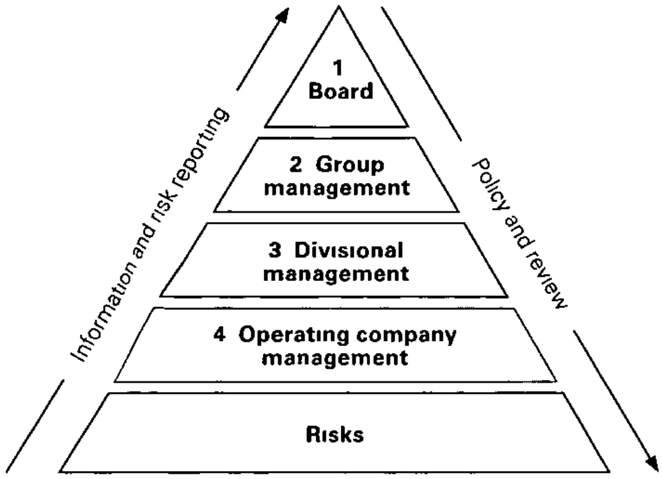
[1] Excluding net borrowings of PPP subsidiaries (non-recourse)

Managing Risk

Risk management

Effective risk management underpins the delivery of our objectives. It is essential to protecting our reputation and generating sustainable shareholder value. We aim to identify key risks at an early stage and develop actions to eliminate them or mitigate their impact and likelihood to an acceptable level.

Risk management processes are embedded throughout the Group at all levels and form an integral part of day-to-day business activity. They help management to identify and understand the risks they face in delivering business objectives and the status of the key controls in place for managing those risks.



Roles and responsibilities

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

The roles and responsibilities of the Board, its Committees, and divisional and operating company management are set out below.

	Responsibilities	Actions undertaken
1 Board	• Responsible for the Group's systems of risk management and internal control • Determine Group appetite for risk in achieving its strategic objectives	• Issue and review Group risk management policy • Annually review effectiveness of Group risk management and internal control systems • Review the Group's key risks and risk responses
Audit Committee	• Review the effectiveness of Group internal controls, including systems to identify, assess, manage and monitor risks	• Receive regular reports on internal and external audit and other assurance activities • Annually assess Group risk management and internal control systems
Business Practices Committee	• Review Group management of risks associated with health and safety, sustainability, employee engagement, corporate values, ethics and Code of Conduct	• Receive regular reports on implementation of Group health and safety, sustainability and ethics and compliance programmes, and Group HR policies • Review effectiveness of the Group's helpline procedures and other mechanisms for raising concerns
2 Group management	• Strategic leadership • Responsible for ensuring that the Group's risk management policy is implemented and embedded • Ensure appropriate actions are taken to manage strategic risks and key risks arising from bidding and project execution	• Strategic roadmap and annual budget process • Review of risk management and assurance activities and processes • Group Tender and Investments Committee • Monthly/quarterly finance and performance reviews
3 Divisional management	• Responsible for risk management and internal control systems within their division • Ensure that operating companies' responsibilities are discharged	• Review key risks and mitigation plans monthly • Review and challenge of operating company assurance plans • Review results of assurance activities • Escalate key risks to Group management and Board
4 Operating company management	• Maintain an effective system of risk management and internal control within their operating company	• Maintain and regularly review project, functional and strategic risk registers • Review mitigation plans • Plan, execute and report on assurance activities

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

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

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

Reporting structures ensure that risks are monitored continually, mitigation plans are reviewed and significant exposures are escalated – from project level to operating company management to senior management

All divisions and operating companies must have assurance mechanisms to ensure that the internal controls and actions designed to mitigate and eliminate risks are operating effectively A range of procedures is used to monitor the effectiveness of internal controls, including management assurance, risk management processes and independent assurance provided by internal audit and other specialist third party reviews

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
During 2012, most of our businesses performed well and in line with expectations However, our construction businesses in the UK and US experienced difficult trading conditions which are likely to continue into 2013 In the UK, reduced private spending, depressed private sector investment in commercial building and delays in government backed projects shifted our construction business mix towards less complex and lower margin projects In the US, the construction market is now expected to recover later than previously expected

These trends will continue into 2013, and the steps we have taken in response will increase the importance of effective risk management As we reshape the organisation to deliver our combined capabilities across our target growth sectors, we must ensure that we do not inadvertently import additional risk The Board believes that our established risk management and internal control systems will help us to identify such risks and respond in a timely manner

Operating in many different business environments and territories inevitably entails risks and uncertainties that are not necessarily within our control Although we cannot eliminate such risks and uncertainties completely, we have established risk management and internal control systems and procedures to manage their impact

We also face significant risks and uncertainties that are common to many companies – including financial and treasury risks, IT and information security risks, and the management of pension liabilities, which are significant We have established controls and systems to manage such risks

The principal risks that could adversely impact our profitability and ability to achieve our strategic objectives are set out below and on pages 60 to 61 While the risks themselves have not changed since last year, the Board's assessment of their likelihood and potential impact has changed and steps have been taken to strengthen, as appropriate, the mitigations in place

Key Increased risk

No change to risk

Economic environment

Risk	Impact	Mitigation
The continued effect of the global economic downturn may cause our clients to postpone or reduce existing or future projects **Change in 2012** The challenging economic environment in some of our main geographies has continued to depress spending by governments and other clients and has increased competitive intensity which in turn has put pressure on margins	Any significant changes in the level or timing of client spending or investment plans could adversely impact our future order book Such changes could arise from changes in government policy or clients' failure to secure financing for future projects	The Group s strategy to focus on the more resilient and stable infrastructure markets (be they geographies or market sectors) will further mitigate this risk The effect of spending changes in any one market is mitigated by our broad exposure to infrastructure markets across the globe and the continued need for infrastructure spending
	Failure of a client, 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 before contracts are signed and is a specific focus in the current economic climate During the life of a contract such assessments are updated and reviewed whenever possible We seek to ensure that we are 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 This could result in delays and additional costs	We aim to develop long term relationships with key subcontractors, working closely with them to understand their operations We develop contingency plans to address subcontractor failure and also obtain project retentions, bonds and/or letters of credit from subcontractors, where appropriate, to mitigate the impact of any insolvency

Expansion into new territories and by acquisition		
Risk In pursuit of our strategic objectives, we will seek to enter new territories and continue to make acquisitions This has the potential to expose the Group to risks that it may not have encountered before **Change in 2012** No change	**Impact** Failure to identify understand and evaluate the risks of conducting business in a new territory could lead to significant financial loss and reputational damage	**Mitigation** As part of the decision making process before entering a new territory, we undertake a detailed country risk assessment This will consider and assess the prevailing economic, political regulatory, ethical health safety and sustainability conditions to ensure that we can operate there in line with our own values and standards
	Failure to realise the expected benefits from acquisitions and to integrate acquired businesses successfully into the Group's processes could result in an adverse impact on our strategic objectives future prospects, financial conditions and profitability	We undertake detailed due diligence on all potential acquisitions to ensure that all aspects of their business align with ours In many cases we have worked with these businesses before In addition, we prepare valuation models on all potential acquisitions, drawing on both internal and external resources Due diligence includes an assessment of our ability to integrate the acquired businesses successfully into the Group When a business is acquired, we develop detailed integration plans and monitor them to ensure the business is successfully assimilated into the Group and its internal control framework

Legal and regulatory		
Risk We operate in diverse territories and our businesses are subject to a variety of complex, demanding and evolving legal tax and regulatory requirements **Change in 2012** No change	**Impact** A breach of local laws and regulations could lead to legal proceedings investigations or disputes resulting in business disruption ranging from additional project costs to potential debarment and reputational damage	**Mitigation** We monitor and respond to legal and regulatory developments in the territories where we operate We consider the local legal and regulatory framework as part of any Group decision to conduct business in a new country

Business conduct		
Risk We operate in various international markets with partners and supply chains that may present business conduct related risks involving for example, fraud, bribery or corruption **Change in 2012** No change	**Impact** Failure by the Group and its employees to observe the highest standards of integrity and conduct in dealing with clients suppliers and other stakeholders could result in civil and/or criminal penalties, debarment and reputational damage	**Mitigation** Throughout the Group we take a rigorous approach to assessing and addressing corruption risks We have a variety of programmes to promote compliance with our Code of Conduct and in areas such as competition and data protection law Each operating company has a compliance officer responsible for the application and monitoring of these programmes

People		
Risk Our inability to recruit and retain the best management and employees who have the appropriate competencies and also share our values and behaviours may hamper our growth prospects **Change in 2012** No change	**Impact** Failure to recruit and retain appropriately skilled people could harm our ability to deliver specific contracts and our future growth	**Mitigation** We measure all potential recruits for key roles in the organisation against a competency and leadership framework Divisions and their operating companies undertake organisation and people reviews to review the roles, competencies performance and potential of personnel We have a well developed succession planning process to identify and develop high potential personnel to fill key roles These plans are reviewed regularly and discussed at all levels within the organisation and by the Board We have appropriate remuneration and incentive packages to help us attract and retain key employees

Key	Increased risk
	No change to risk

Bidding		
Risk Through our operating companies we seek to win work through a large number of bids each year In some cases we bid in joint venture with carefully selected partners, especially where we want to augment our expertise or knowledge of the territory We also invest in PPP and infrastructure investments, where success depends on a number of assumptions, made at the time of investment, on future revenues and costs **Change in 2012** No change	**Impact** Failure to estimate accurately the risks, costs, impact of inflation and contractual terms and how best to manage them could diminish the profitability of contracts	**Mitigation** All bids are subject to rigorous estimating and tendering processes within a defined framework We have defined delegated authority levels for approving all tenders and infrastructure investments All major and significant contracts above those authority levels are subject to Group review and approval by the Group Tender and Investment Committee (GTIC)
	In the event of a disagreement with, or failure of, or poor delivery performance of a joint venture partner, we could face financial and reputational risks	Before entering into a joint venture agreement we have procedures for reviewing the relevant skills, experience resources and values of joint venture partners to understand how they complement ours We monitor the performance of joint ventures and joint venture partners throughout the life of the project
	If any of the assumptions behind investment decisions prove incorrect, the profitability of those investments could be reduced	Investment appraisals are performed and reviewed by experienced professionals We analyse the risks associated with revenues and costs and, where appropriate, establish contractual and other risk mitigations

Risk We work on complex design engineering, construction, facilities management and asset management projects If we fail to deliver these on time and to clients requirements we face the risk of financial loss, claims and reputational damage Successful delivery of many of these projects depends on the combined availability and effective management of subcontractors and other service providers	**Impact** Failure to manage or deliver against contracted customer requirements on time and to an appropriate quality could result in issues such as contract disputes, rejected claims, design issues, cost overruns or failure to achieve customer savings – which harm our profitability and reputation	**Mitigation** Each operating company has defined operating procedures to address the risks inherent in project delivery In addition, the Group risk management framework aids 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
Change in 2012 Increased incidence of subcontractor failure or default could affect the successful execution of projects	A subcontractor s failure to perform to an appropriate standard and quality could cause project delays reduce our ability to meet contractual commitments and harm our reputation	We aim to develop long term relationships with a number of key subcontractors without becoming overreliant on any one As part of our selection criteria we seek to partner with subcontractors and suppliers who share our values

Health, safety and sustainability		
Risk We work on significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks Through our activities we can impact either positively or adversely the world in which we operate and the communities with which we come into contact **Change in 2012** No change	**Impact** Failure to manage these risks could expose our people or the public to injury/harm and the Group to significant potential liabilities and reputational damage	**Mitigation** We have detailed health and safety policies and procedures to minimise such risks These are reviewed and monitored by operating companies, divisional management and external verification bodies Each operating company has experienced health and safety professionals who provide advice and support and undertake regular reviews A Safety Executive committee meets regularly throughout the year to develop a consistent approach to health and safety best practice
	Failure to address these risks and to execute projects sustainably could result in significant potential liabilities, reputational damage and inability to win future work	Our sustainability strategy covers our operations until 2020 in terms of profitable markets healthy communities and environmental limits Sustainability issues such as climate change adaption are considered in risk management activities at operating company as well as project level

Chairman's Statement

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

Areas of focus in 2012
- Succession planning and diversity
- Strategy implementation
- Operational delivery and performance

Areas of focus in 2013
- Transition to new Chief Executive
- Implementation of evolved business strategy
- Remuneration policy review
- Implementing diversity and inclusion programme

Dear Shareholder

The Board welcomed the UK Corporate Governance Code when it was published three years ago and we implemented all its provisions We particularly welcomed the Code's change of tone, signalling the importance of general principles in guiding boardroom behaviours and its continuing validation of the "comply or explain" principle

The new edition of the Code was published in September 2012 and applies to reporting periods beginning on or after 1 October 2012 Despite this, we have incorporated some of the new provisions into this governance report

I would like to highlight how each of the Code's main principles is being applied in practice

Leadership and effectiveness
Our areas of Board focus in 2012 are highlighted above In the following pages we explain how we have been addressing them and the progress we have made

Since my last report to you we have announced the retirements from the Board of Anthony Rabin and Robert Walvis and, most recently, the impending retirement of Ian Tyler

Anthony retired after 17 years with the Group, 10 as a Director He was instrumental in establishing Balfour Beatty Capital, now the Infrastructure Investments division and one of the Group's key value generators Over the years he brought tremendous knowledge and experience to the Group and played a pivotal role in shaping our direction and growth and I thank him for his significant contribution

Robert retired after 11 years on the Board, latterly as Senior Independent Director He also chaired our Remuneration Committee for several years, during which he displayed independent leadership in the development of executive remuneration policy and its fair and consistent application I thank him for his wise counsel and the contribution he has made to Board discussions Through his tenure as a non-executive Director he brought robust challenge and critique to the Board's deliberations and provided an effective sounding board to me and the other Directors

In January 2013 we announced that Ian Tyler would hand over to Andrew McNaughton as Chief Executive On behalf of the Board and our shareholders, I want to say a huge thank you to Ian for his outstanding contribution during his 16-year career with Balfour Beatty, including eight years as Chief Executive It is testament to his leadership that Balfour Beatty has the depth of management talent to ensure a smooth succession

To build on the strong platform that has been created and to lead the business through the next stage of its strategic development, the Board has made two appointments

In July 2012 we named Maureen Kempston Darkes as a non-executive Director With our increasing focus on market sectors and growth geographies, the considerable experience Maureen has already brought to Board discussions in these areas has added strength and depth as we enter our next phase of growth

Finally, the Board is delighted that a leader of Andrew McNaughton's calibre has developed from within the business and is now ready to take over as Chief Executive Andrew has a deep understanding of our customers and operations, and the relentless drive necessary to deliver the strategy that he has been intimately involved in developing

Diversity
In 2011 the Board approved the development of a Group approach to diversity and inclusion Our aim is to build

on the wide range of good practice in the organisation to stimulate further progress and recognition by sharing best practice and coordinating activity across the Group

Recognising the compelling business case for promoting diversity in the Group, not only to help us reach into new markets but also to retain and attract talent, we have focused initially on gender diversity

To move this forward in 2012, we appointed Andrew McNaughton as executive sponsor of activities to raise awareness of diversity, agreed a series of targets and reviewed our key policies and procedures This review generated an integrated Group and divisional action plan and established a Group baseline analysis of diversity in the workforce and leadership

A three-year diversity programme of action steps and publicly reported targets is included in our 2013–2015 sustainability roadmap We have also reported the percentage of senior leadership posts held by women, the percentage of women in the workforce, the divisional diversity targets and actions achieved in 2012

In the past year we have appointed our first female Board member and our first female managing director (in Balfour Beatty Living Places) We have launched a UK women's affinity network, Connecting Women, and received Bronze Awards from Opportunity Now and Race for Opportunity We hope to build on these as we progress with the implementation of our action plan

Accountability
We believe that the Company's policies and procedures enable the Board to present a balanced and understandable assessment of the Group's trading position and its prospects

Through 2012 the Board continued to develop its thinking on the business strategy and model, and how the organisation can best be structured to achieve its growth ambitions in a trading environment that remains difficult This work has crystallised into a clearly defined business strategy, explained in detail on pages 12 and 13 and pages 16 to 23, focused on growth markets and the creation of a robust organisational structure which will be fully implemented during 2013

Remuneration
Over the coming few months the Remuneration Committee will be making its own assessment of whether the current remuneration policy and incentive arrangements remain appropriate as the Group evolves its business strategy and organisational structure If the Committee believes changes are needed, we will begin formal consultation with major shareholders towards the end of 2013 in order to put proposals to all shareholders at the May 2014 AGM We will report on the Committee's review findings in our next annual report, whether or not changes are thought necessary

Relations with shareholders
Among other stakeholders, engagement with our investors remains critically important In 2012 it again received a considerable amount of attention Further information on our investor relations programme is given on pages 79 and 80

In last year's governance report, I said we were looking to increase the levels of shareholding among US investors, since a significant proportion of our overall business is conducted in the US or driven from the US headquarters of our Professional Services business We also employ over 10,000 people in the US I am very pleased to report that, as a consequence of our increased commitment of resources and time to investor communication in the US and through our ADR programme launched in July 2012, the percentage of our issued share capital held by US investors has grown from 15% to just over 18%

Steve Marshall
Chairman

www balfourbeatty com

"
In 2012 we appointed our first female Board member and our first female managing director We also launched a new UK women's affinity network and received Bronze Awards from Opportunity Now and Race for Opportunity.

The Bengalla Expansion Project in Australia

The AUS$190 million (£122 million) project which was delivered on time and under the approved budget involved three main contracts civil works, coal handling and preparation plant (CHPP) upgrade, and the mining infrastructure area upgrade The scope of work included two additional heavy vehicle workshop bays, expansion of the bathhouse, extension of existing offices, increased car parking capacity, improved outdoor stores facilities, upgraded heavy vehicle wash station, and oil/water separation plant

www balfourbeatty com/professionalservices

Board of Directors

Chairman and executive Directors

1 Steve Marshall
Non-executive Chairman
Age 56 Appointed a Director in 2005 and Chairman in May 2008 He is non-executive chairman of Wincanton plc and a non-executive director of Halma p l c He is a former chairman of Delta, Torex Retail and Queens' Moat Houses He was chief executive of Thorn and of Railtrack Group, having also served as group finance director at each company His earlier career included a wide range of corporate and operational roles at Grand Metropolitan, Black & Decker, BOC and Burton Group He is a Fellow of the Chartered Institute of Management Accountants

2 Ian Tyler
Chief Executive
Age 52 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 He is a non-executive director of Cable & Wireless Communications Plc and a former non-executive director of VT Group He is president of Construction Industry Relief, Assistance and Support for the Homeless Ltd, the construction and property industry charity for the homeless, and chairman of governors of Woldingham School He is a chartered accountant

3 Andrew McNaughton
Deputy Chief Executive & Chief Operating Officer
Age 49 Appointed to the Board as Chief Operating Officer in 2009, he additionally assumed the role of Deputy Chief Executive in July 2012 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

4 Duncan Magrath
Chief Financial Officer
Age 48 Appointed to the Board in 2008 He joined Balfour Beatty in 2006 as deputy finance director from Exel He spent 13 years at Exel in a number of senior finance roles in both the UK and US, latterly as director of investor relations and financial strategy Prior to this he worked at Price Waterhouse He is a non-executive director of Brammer plc and a Fellow of the Institute of Chartered Accountants

5 Peter Zinkin
Planning and Development Director
Age 59 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

6 Robert Amen
Non-executive Director
Age 63 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 He is a non-executive director of New Page Corporation, a US manufacturer of coated papers, and currently serves as an executive-in-residence at Columbia Business School

7 Mike Donovan
Non-executive Director
Age 59 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

8 Iain Ferguson CBE
Senior Independent Director
Age 57 Appointed a Director in 2010 Until 2009, he was chief executive of Tate & Lyle Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development He is non-executive chairman of Berendsen plc and a non-executive director of Greggs plc He is also chairman of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office and lead independent director at the Department for Environment, Food and Rural Affairs He was formerly a non-executive director of Sygen International

9 Maureen Kempston Darkes
Non-executive Director
Age 64 Appointed a Director in July 2012 She joined General Motors Corporation in 1975 and held a number of progressively senior roles during her time with the business, culminating in her appointment as group vice-president for General Motors' Latin America, Africa and Middle East operations She retired from General Motors in 2009 She has a portfolio of non-executive directorships including Brookfield Asset Management, Bridgepoint Health Foundation, Enbridge Inc, Irving Oil Company and Canadian National Railways

10 Hubertus Krossa
Non-executive Director
Age 65 Appointed a Director in 2008 Until 2008, he was chief executive officer of KION Group, 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 and Bauknecht Hausgeraete, deputy chairman of United Power Technology and an advisory board member of Kepler Capital Market Investment Bank

11 Graham Roberts
Non-executive Director
Age 54 Appointed a Director in 2009 He is chief executive of Assura Group, a UK primary healthcare property company and was formerly finance director of The British Land Company between 2002 and 2011 Prior to that, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors He is a Fellow of the Institute of Chartered Accountants

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Directors' Report

Compliance with the Code

The UK Corporate Governance Code 2010 (the Code) is the standard applying to good corporate governance practice in the UK and 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 which 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 investigations into such claims and reports to the Audit Committee on the outcome

Director's independence

At its Board meeting in March 2013, as part of its annual audit of corporate governance, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them continues to be independent

The Board

The Board currently comprises 11 Directors, of whom seven, including the Chairman, are non-executive Details of the changes during the year can be found under the heading "Board composition" below The Directors believe that the Board continues to include an appropriate balance of skills, experience, independence and knowledge of the Company and retains the ability to provide effective leadership to the Group

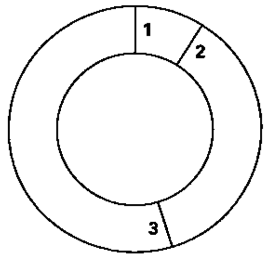
Board composition

The names of the Directors at the year end are shown on pages 64 and 65 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

Maureen Kempston Darkes was appointed as a non-executive Director on 11 July 2012 Anthony Rabin and Robert Walvis retired from the Board on 30 June and 31 December 2012 respectively

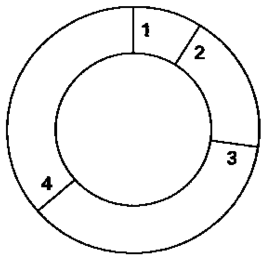
Each of the Directors brings skills and experience which enhance the quality of debate in the boardroom and provides guidance The Directors believe that the Board continues to include an appropriate balance of skills and retains the ability to provide effective leadership There are, however, specific areas where the non-executive Directors, in particular, bring with them a wealth of insight and, although not exhaustive, some of their most significant strengths are highlighted on page 67

Board balance



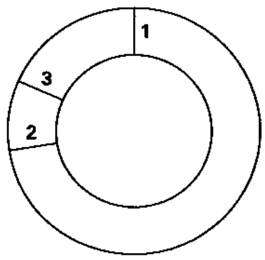
1	Chairman	1
2	Executive Directors	4
3	Non-executive Directors	6

Board tenure



1	0–1 year	1
2	2–3 years	2
3	4–5 years	4
4	6+ years	4

Board geography



1	UK	8
2	Europe	1
3	Americas	2

Non-executive Directors – significant strengths

Strategic development
Robert Amen
Mike Donovan
Iain Ferguson
Maureen Kempston Darkes
Hubertus Krossa
Steve Marshall
Graham Roberts

Operating performance and delivery
Robert Amen
Iain Ferguson
Hubertus Krossa
Steve Marshall

Mergers and acquisitions
Robert Amen
Mike Donovan
Maureen Kempston Darkes
Graham Roberts

Business integration
Maureen Kempston Darkes
Hubertus Krossa

Financial management and planning
Robert Amen
Steve Marshall
Graham Roberts

Experience of international markets
Robert Amen
Iain Ferguson
Maureen Kempston Darkes
Hubertus Krossa

Health and safety
Mike Donovan
Iain Ferguson
Hubertus Krossa
Steve Marshall

Risk management and assurance
Robert Amen
Mike Donovan
Graham Roberts

HR management
Iain Ferguson
Maureen Kempston Darkes
Steve Marshall

Stakeholder engagement
Mike Donovan
Steve Marshall
Graham Roberts

Ethics, values and culture
Mike Donovan
Iain Ferguson
Maureen Kempston Darkes
Steve Marshall

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

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

The Board reviewed its list of reserved matters in 2012 and, most recently, at its meeting in March 2013 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

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

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

Chairman's responsibilities

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

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

Chief Executive's responsibilities

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

Senior Independent Director

On 10 May 2012, Iain Ferguson succeeded Robert Walvis as 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 Ferguson will meet with the other non-executive Directors without the Chairman or executive Directors being present at least once a year

Directors' interests

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

The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long term incentive scheme (the Performance Share Plan), the Deferred Bonus Plan, the Share Incentive Plan and share options, are set out in the tables in the Remuneration Report commencing on page 82

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 (see "Board portal" on page 70) The Company Secretary is responsible for advising the Board on appropriate governance matters, ensuring good information flow and 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

2012 meeting programme

In 2012 eight Board meetings were held at the Company's head office, whilst two meetings were held elsewhere in London and one was held in Hong Kong The meeting in Hong Kong provided the Directors with the opportunity to meet management and staff at Gammon, the Group's Hong Kong joint venture and at Parsons Brinckerhoff Included in the visit were presentations on the businesses and the principal strategic issues each faces There was also a wider review of potential opportunities for the Group in Asian markets

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 2012, the themes included investor relations and public affairs 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 key strategic topics for the Group 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, Deputy Chief Executive & Chief Operating Officer and Chief Financial Officer Regular reports are also provided on health, safety and environment, operational performance, corporate communications, risk management and assurance, investor relations and any legal issues At each meeting, the chairmen of the various Board Committees provide a summary of the discussions held at the preceding Committee meeting and the key actions arising The following topics were also addressed by the Board during 2012 under each of the themes shown For clarity, a synopsis of certain of the topics has been included as well

The Board specifically addressed the Chief Executive's objectives for 2012 which identified those key tasks over and above his normal responsibilities, which include ensuring that the Group achieves its overall budget performance Where appropriate, each of the objectives had identified milestones and each one was integral in moving the organisation forward along its stated strategic path Specific objectives included the development of the market sector structure and market entry strategies, development of the Middle East, the pursuit of the four principal efficiency projects across the Group, the operating capability of the Rail business and the continued development and progress of the Zero Harm safety programme

The Chief Executive succession and management of the transition to his successor was also discussed by the Board

Finance

- Budgets 2012 and 2013
- Annual and half-year results
- Pensions
- Group insurances
- Financing capacity and options – future cash needs of the Group and various financing options, including convertible bonds and private placements

Operational performance

- Health and safety – performance across the Group and the status of the Zero Harm programme
- Efficiency programme – reviews of each of the four principal divisional cost reduction and efficiency programmes and monitoring their progress against predetermined measures and milestones
- Business reviews – operating performance against budget and strategic plan, risks and opportunities and matters such as Health & Safety, people development and sustainability, including
  - International (Middle East, India, Brazil, Australia)
  - Construction Services UK
  - Professional Services
  - Rail
  - Infrastructure Investments

HR

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

Strategy

- Group strategy development and structuring options – development of the business model to enable the organisation to operate as an integrated services group as the most effective way to enhance shareholder value Consideration was given to the shape of the operating model and the identification and development of geographies and market sectors (a recurring topic throughout 2012)
- Infrastructure fund – having established a funds management business, the infrastructure fund will enable the Group to utilise a combination of infrastructure asset knowledge, skills and experience to earn a superior return on capital, as well as advisory fees The Board received progress updates on how this business was progressing leading up to the first close announced in January 2013
- Approval of PPP asset disposals in 2012
  - North Lanarkshire schools
  - Health Management (University College London Hospital)

Mergers, acquisitions and divestments

- Acquisition of Subsurface Group in the US – power and energy sector professional services business
- Other opportunities – review of other acquisition opportunities

For 2013, the Board will meet eight times One meeting will focus on the development of the strategic plan At least one meeting will probably be held outside London at one of the Group's business units

2012 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
Robert Amen	11 (11)	5 (5)	4 (4)	3 (4)	
Michael Donovan	11 (11)	5 (5)	4 (4)	4 (4)	
Iain Ferguson	11 (11)		2 (4)	3 (4)	5 (5)
Maureen Kempston Darkes	5 (6)		0 (2)	1 (1)	
Hubertus Krossa	10 (11)	5 (5)	4 (4)	3 (4)	5 (5)
Duncan Magrath	11 (11)				
Steve Marshall	11 (11)		4 (4)	4 (4)	5 (5)
Andrew McNaughton	11 (11)				
Anthony Rabin	5 (5)				
Graham Roberts	11 (11)	5 (5)		4 (4)	5 (5)
Ian Tyler	11 (11)			4 (4)	
Robert Walvis	10 (11)	4 (5)		4 (4)	3 (5)
Peter 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 or prior business commitments In each case, where the Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman, or the Committee chairman, as appropriate As Mrs Kempston Darkes only joined the Board part way through the year, meetings she missed were attributable to business engagements which had been made prior to her appointment to the Board

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 96

Board portal

Board papers are distributed by way of a secure electronic portal, thereby reducing cost and environmental impact 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, compliance, 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, processes for dealing in Balfour Beatty shares and Board procedures, as well as the minutes and papers of past Board and Board Committee meetings In addition they also take part in a series of one-to-one meetings with other members of the Board and senior executives which include briefings on the Company's business strategy, financial procedures, business development, legal and other key issues

In the case of Mrs Kempston Darkes, this process commenced immediately prior to her appointment on 11 July 2012 and was completed in January 2013 During her induction she met with the senior executives in each of the divisions and functional heads at Group head office She also attended meetings and site visits in Dallas (Construction Services US) and New York (Parsons Brinckerhoff)

Professional development

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

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

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

During 2012, the non-executive Directors visited the Eagle P3 commuter rail project in Denver a US$2 4 billion project to engineer, build and operate 35 miles of new lines under the first rail public private partnership in the US, which demonstrates the integrated capabilities of Parsons Brinckerhoff and the Group's US rail business

The non-executive Directors also attended an internal seminar on the power and renewables markets where they received presentations from senior management and subject experts across several businesses and geographies The seminar included an analysis of the global power market, the Group's current power capabilities, power networks (including transmission) and power generation (including nuclear and wind) This enabled the non-executive Directors to engage directly with senior management concerning the development of the Group's capabilities in a market sector that is an area of significant strategic importance for the Group

In 2013, four visits are planned for the non-executive Directors which will concentrate, as in previous years, on key strategic topics The first visit has been organised in the UK and will focus on power transmission One of the four visits in 2013 will be outside the UK

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

For 2013, an external provider has been engaged to carry out the Board evaluation, the output of this will be reported in 2014

2012 evaluation

For 2012, 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 and the emerging key themes were summarised and presented to the Board in April 2012

The principal themes arising from the 2012 Board evaluation are set out below

Theme	Evaluation	Status
Board size and composition, Director knowledge and diversity	The Board was thought to be marginally on the large size, but this was not an issue A greater mix of gender, emerging markets experience, HR and complex matrix organisational experience should be sought	The appointment of Mrs Kempston Darkes as a non-executive Director added valuable emerging markets knowledge and matrix organisational experience to the Board's combined experience as well as addressing, in part, the diversity objectives set out in the Lord Davies Report on Women on Boards published in June 2011
Board papers and presentations	Generally, a greater emphasis on trend information, key performance indicators (KPIs) and measurable objectives was sought and, in some cases, the timeliness of papers	New format Group KPI report presented to the Board on a monthly basis Board papers are issued via the Board portal on the Friday before the Board or Board Committee meeting
Strategic development	Certain improvements were sought in the strategy review process	A significant proportion of the Board's agenda during 2012 was given to the development of the Group's business model, operating structure and overall strategy The Directors considered that the strategic planning and Board engagement process has improved significantly during the year
Operational performance	Key performance indicators were identified to support analysis of the business	Group KPI report issued monthly Reviewed and monitored the Chief Executive's objectives Regular business reviews from the Deputy Chief Executive and Chief Operating Officer and each of the divisional CEOs
Risk management and assurance	There was a need for the Board to define its risk appetite and to define clearly those risks for which it took direct management responsibility, as opposed to providing oversight alone	Although work in progress and to be further developed through 2013, the Board and Audit Committee have received a series of detailed business reviews during the year focusing, in part, on operating performance, risk and assurance across the divisions
Succession planning and evaluation	Board to be made aware of the Chief Executive's annual objectives and clear reporting against each of them	Reviewed and monitored the Chief Executive's objectives as well as a focus in 2013 on managing the Chief Executive succession and ensuring a smooth transition

Audit Committee

> **The Committee's focus in 2012 on risk management and assurance reviews will be maintained through this year.**
>
> Graham Roberts – chairman

Meetings in 2012 5

Members
- Graham Roberts – chairman
- Robert Amen
- Mike Donovan
- Hubertus Krossa
- Robert Walvis (to 31 December 2012)

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

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

- monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance
- review the Group's internal controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by the internal audit function and external auditor
- monitor and review the effectiveness of the internal audit function including its work programme
- make recommendations to the Board in relation to the appointment of the external auditor and approve the remuneration and terms of engagement of the external auditor
- assess the independence, objectivity and effectiveness of the external auditor and develop and implement policy on the engagement of the external auditor to supply non-audit services

Graham Roberts, a Fellow of the Institute of Chartered Accountants and a former partner at Andersen and finance director of The British Land Company PLC, has been identified by the Board as having recent and relevant financial experience Minutes of Committee meetings are circulated to all Board members

Partners from the external auditor, the Head of Group Risk Management and Assurance, 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 2012 the chief executive officer and finance director of Construction Services UK and the chief executive officer of the Professional Services division

In 2012, 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 of and progress against the Group assurance plan

February
(two meetings held in this month)
- 2011 annual report and accounts and preliminary results announcement – consideration of revenue and margin recognition, the carrying value of goodwill and other intangible assets, the accounting treatment of the Barking Power sale and the status of provisions Review of the proposed investor presentations and proposed final dividend
- Key contract valuation and accounting judgements
- Directors' valuation of PPP concessions – the composition of the Directors' valuation including the application of the pre shareholder tax discount rate
- Going concern review – reaching a conclusion that there was a reasonable assumption that the Group had adequate resources to continue for the foreseeable future
- Incidents of dishonest acts – confirmation that there were no systemic or material breakdowns in controls across the Group
- Annual review of internal audit work and findings
- Directors expenses – confirmation of the process adopted for approving expenses and subsequent audit

June
- External audit and interim review plan for 2012, audit fees and assessment of 2011 audit process – a detailed review of the audit scope and plans for the year and an assessment of the proposed audit and non-audit fees
- Risk management and assurance review Construction Services UK – a presentation by the chief executive officer and finance director with a specific focus on the efficiency and cost savings programme

August
- 2012 half-year financial report – consideration was given to projects where isolated contract deteriorations and contractual issues had arisen
- Key contract valuation and accounting judgements
- Major litigation and legal update

December
- External audit plan for 2013 and audit fees – a detailed review of the audit scope and plans, and an assessment of the proposed audit and non-audit fees
- Internal audit plan for 2013 – a detailed review of the scope and priorities for the internal audit function for the year
- Major litigation and legal update
- Risk management and assurance review Professional Services – an assessment of the key risks which the division faced and how these varied across each of its regions The risk

management protocols in place across each of the business units to mitigate against the principal risks and how the assurance processes were functioning and lessons learnt

- Oracle R12 update – a review of the programme, the methods applied and costs incurred and the assurance protocols which had been implemented to assist with overall project management and achievement of milestones
- Rail – issues which had led to shortcomings on a UK rail project, how the learning was being recorded and applied elsewhere across the business and confirmation sought that reviews had been completed on other projects and that no systemic issues had been identified
- Committee terms of reference – review and recommend any changes
- IFRS accounting training session – a separate training session This addressed contract accounting and the different risk profiles associated with the various contract structures employed across the Group

In 2013, the Committee will continue to address the topics on its standing agenda and will also continue to undertake reviews of the risk management and assurance practices in the divisions on a rolling programme The Committee will also continue to receive targeted training in order to broaden and refresh the skills and knowledge of its members

Risk management and internal control
Throughout 2012, the Committee has continued to review the Group's risk management and internal control systems and processes and paid close attention to isolated operational delivery issues which have arisen during the year and the remedial action which has been taken 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 continues as the Company's external auditor, having satisfied itself of its independence In reaching its conclusion, the Committee took into consideration the following matters

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

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

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

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

In 2012 the external auditor was appointed to carry out various non-audit related work, including corporate finance services for reasons of commercial confidentiality and efficiency, as well as providing tax advice and compliance services in Australia, Europe, India and the US

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

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

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 2012 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

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

The Committee is aware of regulations and developing guidance in relation to auditor tendering and rotation and will consider the optimal timing of any tender in the light of emerging practice and in the interests of shareholders

Nomination Committee

"

The transition to the new Chief Executive and assessing the implications of the evolved business strategy on the senior leadership team, will be key areas of focus in 2013.

Steve Marshall – chairman

Meetings in 2012 4

Members
- Steve Marshall – chairman
- Robert Amen
- Mike Donovan
- Iain Ferguson
- Maureen Kempston Darkes (from 11 July 2012)
- Hubertus Krossa
- Graham Roberts
- Ian Tyler
- Robert Walvis (to 31 December 2012)

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

In 2012, the Committee's work programme comprised the following principal topics

- recommending to the Board the appointment of a new non-executive Director (Maureen Kempston Darkes) and the appointment of a Deputy Chief Executive (Andrew McNaughton) and Senior Independent Director (Iain Ferguson) In seeking suitable candidates for the non-executive Director vacancy, Korn Ferry, an external executive search agency was engaged The Committee identified the competences sought and the required experience, and the agency prepared a shortlist of potential candidates who were interviewed by members of the Committee and by the executive Directors
- as a critical part of the Chief Executive succession process the Committee undertook a detailed process to assess competences required of a chief executive given the strategic direction of the Group, as well as the internal succession options for executive Directors and senior operational and functional leaders External benchmarking was carried out by an executive search agency, Korn Ferry, in relation to the role of the Chief Executive The process involved sectoral and company mapping, the creation of experiential profiles and the identification of agreed critical competences Frameworks and learning/leadership development tools were employed in helping to determine the skills and leadership/behavioural criteria required
- management of the Chief Executive succession process

The executive search agency appointed for the recruitment of the non-executive Director and for carrying out the engagement on the Chief Executive's succession has no other connections with Balfour Beatty

In 2013, the Committee will continue to monitor the transition to the new Chief Executive and the implications of the evolved business strategy on senior executive recruitment The Committee will also continue to monitor the appropriateness of the composition of the Board and, if thought necessary, make recommendations concerning the need for the introduction of non-executive Directors to refresh the Board

Remuneration Committee

"

Ensuring the current remuneration policy and the appropriateness of the short and long term incentive arrangements to properly meet the needs of the organisation, will be high on the Committee's agenda.
Iain Ferguson – chairman

Meetings in 2012 5

Members
- Iain Ferguson – chairman
- Hubertus Krossa
- Steve Marshall
- Graham Roberts
- Robert Walvis (to 31 December 2012)

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

In 2012, the Committee's work programme comprised the following principal topics

January
- Executive Directors' 2011 bonus – consideration of the proposed approach to calculating the bonus payments for the 2011 financial results
- Executive Directors' 2012 bonus targets – setting targets for the year
- 2009 Performance Share Plan performance conditions – an analysis of the expected 2011 financial results and whether the PSP performance conditions would be achieved
- 2012 Performance Share Plan performance conditions – confirmation that the existing two performance conditions (EPS and TSR) should be maintained and setting of targets
- 2011 Remuneration Report – review of the draft report

March
- Executive Directors' bonus payments for 2011 and 2012 PSP awards – both confirmed
- Barking Power – consideration on how the impact of this asset disposal to the Balfour Beatty Pension Fund should be treated in assessing future PSP vestings

June
- Executive Directors' 2012 salary review – confirmation of adjusted salaries based on benchmarking data

October
- Executive remuneration market update – presentation made by New Bridge Street, the Committee's remuneration advisers, to take stock of the Group's broad executive remuneration strategy and to compare this against market developments

December
- Chief Executive succession – update from Chairman ahead of Board meeting

Further information about the work of the Committee during the financial year is set out in the Remuneration Report starting on page 82

In 2013, the Remuneration Committee will undertake a formal review of the current remuneration policy and the appropriateness of the short and long term incentive arrangements, to properly meet the needs of the Company as it implements the next phase of its business strategy If changes are considered necessary, the Committee will consult with shareholders ahead of the AGM in 2014

Remuneration Report p82

Business Practices Committee

”

In light of the strategic review, the Committee will be focusing this year on reputational risk and the adequacy of business processes

Mike Donovan – chairman

Meetings in 2012 4

Members
- Mike Donovan – chairman
- Robert Amen
- Iain Ferguson
- Maureen Kempston Darkes (from 11 July 2012)
- 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, and sustainability The Committee also addresses the Group's Code of Conduct and the training which ensures that the Group's business principles are properly embedded throughout the business In addition, during the year, the Committee took over responsibility from the Audit Committee for reviewing contract commission arrangements

At each of its meetings, the Committee receives detailed updates on health and safety performance and the current status of the Group's Zero Harm safety programme, 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

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

March
- A review of the external monitor's anti corruption compliance report for 2011, a summary of which was incorporated into the Group's 2011 Sustainability Report
- A review of the top priorities for Zero Harm in 2012 highlighting high potential incidents and trends within each division, policy, procedures and civil engineering risks
- A review of the Group's approach to Government affairs both in the UK and US as well as in other countries (Australia and Canada) The intention is to position Balfour Beatty as a thought leader and over the past two years the Group had raised its profile in policy areas such as procurement, PFI, energy policy and transportation
- Recommendation to the Board of the adoption of the Group's 2011 Sustainability Report published in April 2012

July
- A review of the compliance function across the Group and the extent to which the compliance programme has been embraced within each of the divisions and the operating companies
- A detailed review of each of the principal whistleblowing cases and emerging trends across the Group
- A discussion on communication strategy and how best this could be developed in order to ensure the core messages concerning the Group's strategic development and progress were effectively communicated
- Development of a series of position statements to address key issues taking a thought leadership perspective in such areas as private finance and alternative methods of funding infrastructure projects, the benefits of infrastructure spend, apprenticeships and planning regulations

September
- The Committee undertook a detailed review of the Group's Zero Harm safety programme, including performance during the 2007–2012 period, lessons learnt and the next stage of its development There were concerns over the high number of fatalities in 2012 and the impact of management changes following the retirement of the former head of Health & Safety during the year There would be a focus on eliminating risks and placing emphasis on "bottom up" improvements to processes Adopting leading indicators to measure performance was one highlighted change as well as setting minimum and excellence targets and a series of clearly articulated deliverables and milestones

December
- Review of the 2013–2015 sustainability roadmap and the progress made against the 2012 minimum expectations
- Discussion on the Health & Safety matters covered at the September meeting and the status on each of the actions in the 2012 and 2013 H&S plans including the 10 global safety principles and how these would be promulgated and adopted across the Group

In 2013, the Committee will continue to address its standing agenda on Health & Safety, sustainability and ethics, but will also undertake a reputational risk assessment in light of the new organisational structure, complete a detailed review of the anti corruption risk processes and their application and consider the adequacy of the business processes following the Group strategic review

Group Tender and Investment Committee

> **As the implementation of the evolved business strategy takes place, the Committee will ensure internal approval processes continue to be appropriate in the way we address major projects and capital expenditure.**
>
> Ian Tyler – chairman

Meetings in 2012 Numerous

Members
- Ian Tyler – chairman
- Duncan Magrath
- Andrew McNaughton
- Anthony Rabin (to 30 June 2012)
- Peter Zinkin
- Kevin Craven
- Manfred Leger
- John Moore (from 1 February 2012)
- Brian Osborne
- Mike Peasland
- George Pierson
- Ian Rylatt (from 1 July 2012)
- Steve Tarr (from 11 October 2012)
- Robert Van Cleave

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

The Committee is chaired by the Chief Executive, or in his absence by one of the Deputy Chief Executive & Chief Operating Officer or the Chief Financial Officer. Its main purpose is to review all major proposed tenders with projected values above specified levels. The Committee also has authority to approve capital expenditure applications and any proposed acquisitions or disposals 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 £100 million to be submitted for review, whilst other limits vary according to geography and nature of the contract. The Committee no longer automatically reviews tenders in territories classified as high risk, as following the Committee's work in previous years, the Group's compliance procedures in such territories are now fully implemented in each division, through their own divisional risk management committees. Routine monthly operating reviews cover issues of territorial and security risk. Any Director may convene a meeting of the Committee to discuss any of the divisional operating reviews in more detail. Minutes of Committee meetings are made available to all Directors.

Finance and General Purposes Committee

Meetings in 2012 Numerous

Members
- Ian Tyler – chairman
- Duncan Magrath
- Andrew McNaughton
- Anthony Rabin (to 30 June 2012)
- 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 internal control

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness

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

Details of the Group's risk management framework and of its principal risks and how they are mitigated are set out on pages 58 to 61 The Board continued to assess the effectiveness of the risk management processes and internal controls during 2012 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, that appropriate remedial action has been or is being taken
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls

Central to the Group's systems of internal control are its processes and framework for risk management These accord with the Turnbull Guidance on internal controls and were in place throughout 2012 and up to the date of signing this report

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

- a clear system of delegated authorities from the Board to management with certain matters reserved by the Board
- the annual review of the strategy and plans of each division and of the Group as a whole in order to identify the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and 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 progressing to divisional and Board Committee levels if value, or perceived exposure, exceeds certain thresholds
- regular reporting, monitoring and review of the effectiveness of health, safety and environmental processes These processes are subject to independent audit and certification to internationally recognised standards
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself
- specific policies set out in the Group Finance Manual covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls
- legal compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- a Group wide risk management framework which is embedded throughout the Group Under it, key risks are identified and assessed and action plans are developed to mitigate or eliminate unwanted exposures The results of these reviews are placed on risk registers and are subject to regular review with material risks being escalated as appropriate
- reviews and tests by the internal audit function of critical business financial processes and controls and specific reviews in areas of perceived high business risk
- the Group's 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 businesses 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 divisions and their operating companies and for coordinating 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 Group's risk management and internal control systems

Other disclosures

Business and financial review

The Chairman's Welcome on pages 4 and 5, the Chief Executive's Review on pages 6 and 7, the strategy review on pages 12 and 13 and pages 16 to 23, the Operating Review on pages 28 to 43, 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 99 to 161 and are explained more fully in the Chief Executive's Review, the Operating Review and the Chief Financial Officer's Review An interim dividend payment of 5 6p (net) per ordinary share was approved by the Board on 14 August 2012 and a final dividend of 8 5p (net) per ordinary share will be recommended at the Annual General Meeting giving a total of 14 1p (net) per ordinary share, which compares with a total dividend per ordinary share of 13 8p (net) for 2011 Preference dividends totalling 10 75p (gross) per preference share were paid in 2012 (2011 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 Innovation is a significant part of the day-to-day operations of the Group and is integral to the development and delivery of its projects Developed with our partner, Imperial College London, our approach to innovation aims to better meet our clients' needs through pioneering solutions, encouraging a culture of entrepreneurship and knowledge sharing, and leveraging our relationship with partners and suppliers By delivering on these aims we are better able to connect the end-to-end infrastructure knowledge that we have around the globe with the client challenges we find locally In this way, we are able to deliver greater value to them and create new market opportunities that underpin growth

A sustained central focus and the successful integration of Parsons Brinckerhoff have led to an increase in research and development activities This is evidenced by long term relationships with thought leaders such as Princeton University and the University of Bristol and strategic suppliers such as Autodesk Successes in innovation include the Olympic Aquatic Centre, where constraints on time and budget have been overcome through innovative thinking, our partnership with Royal Mail to deliver facilities management that is at the forefront of business model innovation, and our Highways Agency maintenance contracts, which are leading the way in outcome based contracting

In 2013, we will continue to look for ways in which we can exploit the best practice we have been developing with our flagship projects in other areas of the Group's portfolio We will also continue to identify opportunities where we can better connect our global sector expertise with local needs, as we develop new geographies and market sectors

Share capital and shareholders
Details of the share capital of the Company as at 31 December 2012, including the rights attaching to each class of share, are set out in Note 27 on pages 139 and 140 During the year ended 31 December 2012 no ordinary or preference shares were repurchased for cancellation 866,427 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 229,220 ordinary shares were issued following the exercise of options held under the Company's executive share option scheme

At 31 December 2012, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2012 to purchase through the market 68,736,152 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2013 AGM or on 1 July 2013

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 In 2012, the Company launched an American Depositary Receipt programme to improve access to the Company's ordinary shares for investors in the US 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

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 2012, 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
Prudential plc	35,103,707	5 10
BlackRock, Inc	34,469,134	5 01
Causeway Capital Management LLC	34,296,464	4 98

Since 1 January 2013, the Company has received a further notification advising that Standard Life Investments Limited has an interest of 3 65%

Auditor

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

Relations with shareholders

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

The Company continued its programme of communication with institutional investors and sell side analysts throughout 2012 Presentations of the half-year and full-year results were made in accordance with the practice of previous years, and teleconferences have been held for Interim Management Statements Through the year, 185 one-on-one and group meetings were held at regular intervals with institutional shareholders (2011 approximately 220) Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty at hosted events including

- an Investor Day which involved presentations and breakout sessions to give the investment community a better understanding of the Group's strategic direction
- a roadshow in Zurich for local investors
- a site visit to the ongoing Heathrow Terminal 2B project for investors
- two conferences for existing and prospective investors
- a presentation to the UK Shareholders Association's northeast region

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 communication programme and expand it where appropriate, subject to the constraints of regulation and practice The 2013 investor programme will focus on ensuring our investors and the analyst community understand the Group, its operations and strategy, and that international institutions are given the opportunity to meet with management

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

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

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

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

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

Political donations

At the AGM held on 10 May 2012, 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 2013 AGM

In the US and Canada, donations totalling £371,000 were made by operating companies during 2012 (2011 £182,000) Most of these donations were made by Parsons Brinckerhoff, they were small and all were permitted by law They are non-partisan and in the main, they relate to support given for local campaigns, public bond or similar referenda to promote investment in infrastructure Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct A review of existing practices was undertaken during 2012 and no changes to these practices were considered necessary

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

Corporate responsibility

A full description of our approach to sustainability, including information on the Group's community engagement programme, appears on page 49

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 2012 Sustainability Report at www balfourbeatty com/sr12

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 fair treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
- to ensure that all employees similarly receive fair 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 and the support that is available 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 and other support is provided 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 innovation, collaboration and the process of continuous improvement in the way business is conducted In 2012, the Company launched its global intranet "360" which is available to the majority of employees and is a key communication channel for informing them of major business and technical achievements It also aids knowledge sharing and collaboration

Events after the reporting date

Details of events after the reporting date are set out in Note 35 on page 148

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 of the Company and cancel all commitments under the agreement concerned

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

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 2012, creditors' days of the Company were 26 (2011 28)

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 36 on pages 149 to 154

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and they have also chosen to prepare the parent company financial statements under 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 or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

By order of the Board

Chris Vaughan
Chief Corporate Officer & Company Secretary

6 March 2013

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

Remuneration Report

Dear Shareholder

I am pleased to present the Remuneration Committee's report for 2012 on Directors' remuneration

The Government has recently tabled proposals to reform the way that Directors' remuneration is voted upon and reported Although the new legislative requirements will not come into effect until October 2013, the Committee has sought to comply with many of the new requirements in the interests of openness and transparency Accordingly we have split this report into two sections

- a Policy Report which sets out the forward looking policy on the remuneration of the executive and non-executive Directors for 2013
- an Implementation Report which discloses how the current remuneration policy has been implemented in the year ended 31 December 2012

We will be seeking your support for both parts of the report by way of a single advisory vote at the forthcoming AGM

The Group continues to face challenging trading conditions in many of its traditional construction markets and is taking action to improve operational performance and effectiveness Underlying pre-tax profit from continuing operations, which is the measure on which we base performance for the Annual Incentive Plan (AIP), decreased 7% to £310 million in 2012, including the benefit of £52 million of gains from PPP disposals The Group's financial performance for 2012 has therefore generated outturns from the AIP for the executive Directors of 48% of base salary, which is below target and significantly lower than the 78% of base salary for the previous year Furthermore, the 2010 Performance Share Plan awards will lapse in full in April 2013 as the 2009 Performance Share Plan awards did in April 2012 We believe that this represents a fair link between reward and performance for the year under review

We remain committed to ensuring that rewards for executives are closely aligned to the interests of shareholders through having all of our incentive arrangements linked to the achievement of challenging business performance targets and generation of market beating levels of shareholder return We remain comfortable that this is the case

We are not proposing any major changes to the remuneration policy for the 2013 financial year, although the suite of performance metrics used in the Annual Incentive Plan and Performance Share Plan will change for 2013 More specifically, 30% of the annual incentive will be subject to three business strategy metrics (with 70% continuing to be subject to profit before tax) Furthermore the earnings per share performance condition attaching to the Performance Share Plan awards will be removed and replaced with an additional relative total shareholder return condition Further details of these changes, which have been made following shareholder consultation, are contained in the Policy Report

Salaries of executive Directors are due to be reviewed in July 2013 but it has already been agreed that, consistent with many parts of the Group, executive Directors will not receive an annual increase in 2013

The Committee encourages dialogue with the Company's shareholders and will consult with major shareholders ahead of any significant future changes to remuneration policy We were pleased that the 2011 Remuneration Report received a 97% vote in favour at the 2012 AGM

Shareholders are invited to approve this report at the AGM on 16 May 2013

Iain Ferguson
Chairman of the Remuneration Committee

Policy Report

This part of the Remuneration Report sets out the remuneration policy for the Company with effect from 1 January 2013 There have been some changes to the performance metrics used in the performance related elements of pay, which the Committee considers provide better alignment with the business strategy Further details of these changes are provided on pages 84 and 85

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

- general trends in pay and conditions throughout the Group
- the positioning of remuneration levels against the external market – the Committee is, however, aware of the risk of an upward ratchet in remuneration levels through overreliance on comparative survey data
- the balance between fixed and variable pay – more specifically, variable pay should form a significant but not disproportionately high level of remuneration
- the strategy of the business

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

Executive Director remuneration policy for 2013

The following table sets out a summary of each element of the executive Directors' remuneration packages, their link to the Company's strategy, the policy for how these are operated, the maximum opportunity, a description of any performance metrics and any changes since 2012

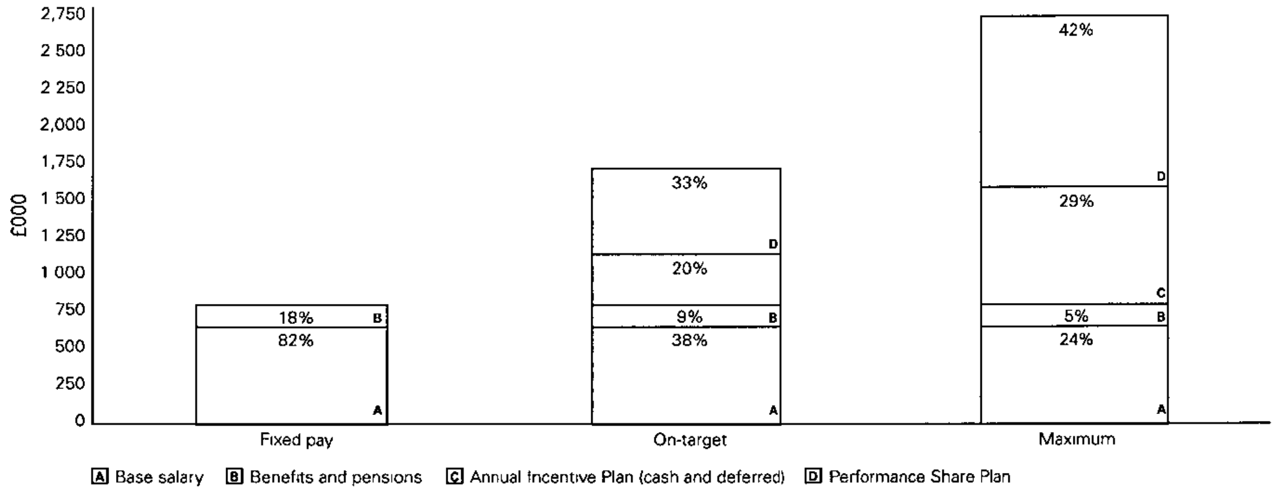
Element of pay	Purpose and link to Company's strategy	How operated in practice
Base salary	To attract and retain high calibre individuals To provide a mid-market salary relative to comparable companies in terms of size and complexity	Salaries are reviewed and set annually in July The Committee considers remuneration levels in companies of comparable market capitalisations revenues and industry sectors In addition, a key reference point for salary increases is the average increase across the general workforce (with the exception of promotions or significant changes in responsibility) Salaries are paid monthly in cash
Benefits	To aid retention and to remain competitive in the marketplace In addition medical benefits are provided to minimise disruption due to absence	Private medical insurance A car and fuel card or car allowance are offered
Pension	To remain competitive in the marketplace	Executive Directors can elect to either • participate in the defined contribution (DC) section of the Group s pension fund Executive Directors must make contributions of 5% of base salary (up to an earnings cap) with the Company contributing 20% of base salary (up to the cap) On earnings above the cap executive Directors receive a salary supplement, or • receive a salary supplement
Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)	To motivate executives and incentivise the achievement of key business performance targets over the financial year without encouraging excessive risk taking Managing risk is critical, particularly given the nature of the Company's business To facilitate share ownership and provide further alignment with shareholders	50% of the annual incentive is paid in cash annually and 50% is deferred into shares for three years Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results
Performance Share Plan (PSP)	To incentivise and reward delivery of long term performance linked to the business strategy To facilitate share ownership and provide further alignment with shareholders To aid retention	PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year Awards vest on the third anniversary subject to performance over three financial years Participants also receive an award of shares in lieu of the value of dividends on vested shares Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results For 2013, the relative total shareholder return (TSR) performance metric is considered to be the most appropriate output based measure of longer term performance Executive Directors should be incentivised to achieve strong stock market performance to align their interests with those of shareholders
Shareholding guidelines	To further align the interests of executive Directors with those of shareholders	Executive Directors are expected to accumulate a shareholding in the Company s shares to the value of 100% of their base salary Executive Directors are expected to retain at least 50% of shares (net of tax) which vest from awards made under the PSP and DBP until the target shareholding is attained
Fees for external appointments	The Committee recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere	Fees can be retained with the approval of the Board
New joiners	The above policy would also be anticipated to form the basis on which any new executive Director would be appointed Ongoing policy for the individual would be subject to the above policy	

Maximum opportunity	Description of performance metrics	Changes since 2012
–	The Committee takes into account the performance of the Group and each individual executive Director's performance when setting salaries	No change
The maximum opportunity for medical benefits is cover for the executive Director and his family The taxable value of the car and fuel card can vary depending on the car provided and tax rates from time to time The value of car allowance is • £16 000 for the Chief Executive • £14 000 for other executive Directors	–	No change
Executive Directors who participate in the Group's pension fund receive a salary supplement of 20% of base salary in excess of the cap If a salary supplement alone is taken this is equivalent to 20% of base salary	–	During 2012 some executive Directors participated in the defined benefit (DB) section of the Group s pension fund Further details are set out on page 94
Maximum annual incentive opportunity is 120% of base salary	70% of the bonus is based on profit before tax and non-underlying items 30% of the bonus is based on three other Group-based performance metrics linked to the business strategy The metrics are based on • delivery of cost efficiencies • strength of order book • restructuring for strategic growth Other performance goals including those relating to social, environmental and governance responsibilities are assessed through the normal management review process	Three new Group based performance metrics have been introduced for 2013 (for 30% of the bonus opportunity) to provide a link between reward and the strategic changes required during 2013 The new measures are designed to provide a more rounded assessment of performance The payout for achieving on-target performance under the profit before tax part of the bonus has been reduced from 50% to 40% of the maximum bonus opportunity
The limit in the rules of the PSP is 200% of base salary Other than in exceptional circumstances, the value of shares at grant is equal to • 175% of base salary for the Chief Executive • 150% of base salary for other executive Directors	100% of the awards are subject to relative TSR targets measured over a period of three years 50% of awards are based on TSR against a comparator group of UK listed companies ranked 51–150 by market capitalisation in the FTSE All Share Index (excluding Investment Trusts) at the start of the performance period 50% of awards are based on TSR measured against a group of 8–10 construction and professional services companies, including international peers For both tranches there is no vesting below median, with 25% vesting at median ranking rising to 100% vesting at upper quartile or higher A sliding scale for performance targets is used to provide incremental awards for additional performance delivered, but with a cap in place to discourage excessive risk taking	The earnings per share element of the PSP award (accounting for 50% of awards in 2012) has been removed due to the difficulties in setting robust targets given the ongoing uncertainty in construction markets The Remuneration Committee considers relative TSR to be a good measure of the Group s performance In addition, the choice of the two comparator groups will reward executives for outperforming the sector and/or the general market, although significant rewards will only be delivered for outperforming both
–	No change	No change
Maximum of one external corporate appointment	–	No change

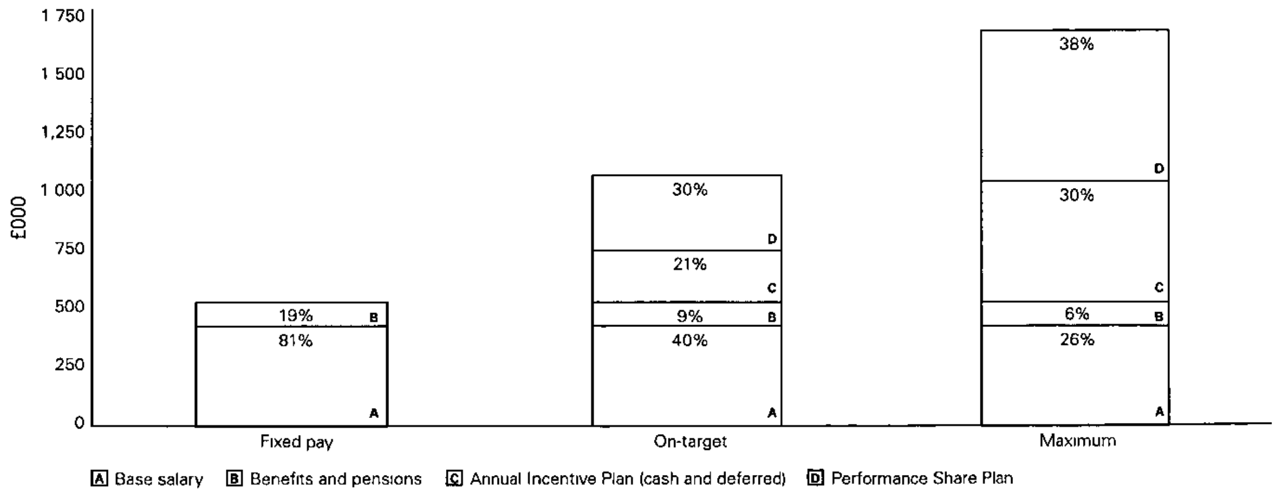
However, flexibility is retained to offer remuneration on a one-off basis on appointment outside the above policy

Remuneration scenarios for executive Directors
The charts below provide estimates for the potential future remuneration based on the remuneration policy for 2013 Potential outcomes based on different performance scenarios are provided for the Chief Executive (assuming a full year's remuneration for the incoming Chief Executive) and the Chief Financial Officer The remuneration package of the Chief Financial Officer is similar in proportion terms to that of the Planning and Development Director The charts show that the performance related elements of the package comprise a very significant proportion of the executive Directors' total remuneration from threshold performance upwards, with payments for on-target and maximum performance linked to highly stretching business goals

Andrew McNaughton, Chief Executive (from 31 March 2013)



Duncan Magrath, Chief Financial Officer



Notes
The potential values presented in the charts above assume the following at each performance level
(i) Fixed pay – no vesting under the AIP or PSP
(ii) On-target – 43% payout under the AIP (of which 50% is paid in cash and 50% is deferred into shares) and 50% vesting under the PSP
(iii) Maximum – 100% payout under the AIP and 100% vesting under the PSP

Service agreements for executive Directors

Details of the service contracts of the executive Directors are shown in the table below In accordance with the UK Corporate Governance Code, all executive Directors submit themselves for re-election at the AGM

Name of Director	Date of contract	Notice period from the Company (months)	Notice period from the Director (months)	Termination payment
Duncan Magrath	11 April 2008	12	6	There is no provision for specific payment It is not the Committee's intention to introduce such provisions If any existing contract is breached by the Company, it would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period, subject to mitigation and phased payments where appropriate
Andrew McNaughton (Note i)	15 December 2008	12	6	
Anthony Rabin (Note ii)	31 March 2008	12	6	
Ian Tyler	22 December 2004	12	6	
Peter Zinkin	16 January 2004	12	6	

Notes

(i) A new service agreement dated 7 January 2013 was put in place for Andrew McNaughton following the announcement of his appointment as Chief Executive from 31 March 2013

(ii) Anthony Rabin retired from the Company on 30 June 2012

External appointments of executive Directors

Ian Tyler was appointed as a non-executive director of Cable & Wireless Communications Plc, effective 1 January 2011 Duncan Magrath was appointed as a non-executive director of Brammer plc, effective 1 March 2012 Anthony Rabin was appointed as a non-executive director of Colt Group S A , effective 20 July 2011 The fees that each executive Director received in 2012 for these roles are set out in Note (vi) to the Directors' remuneration table on page 90

Appointment of non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee All non-executive Directors are appointed for a term of three years In accordance with the UK Corporate Governance Code, all non-executive Directors submit themselves for re-election at the AGM

The dates of the letters of appointment or reappointment of the non-executive Directors are shown in the table below

Name of Director	Date of appointment or reappointment	Unexpired period at December 2012 (months)
Robert Amen	10 June 2010	5
Mike Donovan	1 July 2012	30
Iain Ferguson (Note i)	1 January 2010	0
Maureen Kempston Darkes	11 July 2012	30
Hubertus Krossa	9 September 2011	20
Steve Marshall	16 May 2011	16
Graham Roberts	1 January 2012	24
Robert Walvis (Note ii)	26 September 2010	–

Notes

(i) Iain Ferguson was reappointed on 1 January 2013

(ii) Robert Walvis retired on 31 December 2012

Non-executive Directors' fees

In order to attract and retain high quality and experienced non-executive Directors, the Chairman is paid an annual fee and the non-executive Directors are paid an annual base fee and additional responsibility fees for the role of Senior Independent Director or for chairing a Board Committee Non-executive Directors based outside Europe receive an additional allowance for each visit made on Company business to the UK, or to any other country (excluding their home country) Fee levels are reviewed annually in July

The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause

Implementation Report

This part of the Remuneration Report sets out how the remuneration policy and practices for the Company were implemented over the 2012 financial year Details of the remuneration earned by executive Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this Implementation Report

The areas covered in this Implementation Report comprise

Performance graph comparing the Company's TSR with the FTSE 250 and the Chief Executive's remuneration
As in previous reports, the Remuneration Committee has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, and have been calculated using 30 trading day average values

In addition, the graph shows the movements in remuneration earned by the Chief Executive for each year over the same period

The detailed information about the Directors' remuneration, set out below, on page 90 and on pages 92 to 95, has been audited by the Company's independent auditors, Deloitte LLP

Directors' base salaries in 2012
At the annual review of base salaries for the executive Directors on 1 July 2012, base salaries were reviewed as shown below

Name of Director	**Base salary at 1 July 2012**	Base salary at 1 July 2011	% uplift
Duncan Magrath (Note i)	**£425,000**	£405,000	4 9%
Andrew McNaughton (Note ii)	**£460,000**	£430,000	7 0%
Anthony Rabin	**n/a**	£450,000	n/a
Ian Tyler (Note iii)	**£688,000**	£668,000	3 0%
Peter Zinkin (Note iii)	**£443,000**	£430,000	3 0%

Notes
(i) The 4 9% increase was based on market and performance factors
(ii) The 7 0% increase was based on market and performance factors plus an element for the additional responsibilities taken on as a result of Andrew McNaughton s additional appointment as Deputy Chief Executive
(iii) The 3 0% increase was based on market and performance factors

As part of the overall succession plan, the Board has recently announced some changes to the management team The Chief Executive, Ian Tyler, is leaving the Company in April 2013 and Andrew McNaughton will be succeeding him as Chief Executive, effective from 31 March 2013 In addition, our Deputy Chief Executive, Anthony Rabin, retired from the Company on 30 June 2012

Andrew McNaughton's base salary will be £650,000 on appointment, with other elements of his package in line with the policy set out in this report

In line with contractual entitlements, Ian Tyler will work four months of his 12 months' notice period, up to 30 April 2013, to ensure a smooth handover to Andrew McNaughton In lieu of the remainder of the notice period, he will receive a payment from the Company equivalent to eight months' salary, benefits and pension, including phased monthly payments for the four months from September to December 2013, which are subject to offset against earnings elsewhere Ian Tyler will be treated as a good leaver under the relevant share plans On 30 April 2013, his awards under the Deferred Bonus Plan will vest and a proportion of his Performance Share Plan (PSP) awards will lapse reflecting the proportion of the performance period for each award which had not been completed at that date The remainder of his PSP awards will vest in the same proportion, and at the same time, as the awards made to the other participants

At the annual review of fees for the non-executive Directors on 1 July 2012 the annual fee level for the non-executive Directors (excluding the Chairman) was increased from £54,000 to £56,000 and for Steve Marshall as Chairman from £258,000 to £265,750 The annual fee for chairing Board Committees is unchanged at £10,000 In addition the annual fee for the Senior Independent Director remains at £10,000 For non-executive Directors based outside Europe the additional allowance for each overseas visit made on Company business remains at £2,500

Directors' remuneration earned in 2012

Name of Director	Base salary £	Fees £	Pension allowances £	Taxable benefits £	Annual Incentive £	Total remuneration 2012 £	Total cash remuneration 2011 £
Robert Amen	–	77,500	–	–	–	77,500	73,000
Mike Donovan	–	65,000	–	–	–	65,000	63,000
Iain Ferguson	–	65,000	–	–	–	65,000	57,451
Maureen Kempston Darkes	–	29,500	–	–	–	29,500	–
Hubertus Krossa	–	79,390	–	–	–	79,390	82,565
Duncan Magrath	415,000	–	76,027	15,550	102,425	609,002	622,690
Steve Marshall	–	261,875	–	–	–	261,875	254,000
Andrew McNaughton	445,000	–	48,791	15,550	110,860	620,201	647,511
Anthony Rabin	238,846	–	39,263	10,396	–	288,505	717,592
Graham Roberts	–	65,000	–	–	–	65,000	63,000
Ian Tyler	678,000	–	80,614	27,546	331,616	1,117,776	1,024,390
Robert Walvis	–	65,000	–	–	–	65,000	63,000
Peter Zinkin	436,500	–	60,210	9,881	106,763	613,354	661,286
Total	2,213,346	708,265	304,905	78,923	651,664	3,957,103	4,329,485

Notes

(i) Base salary and fees were those paid in respect of the period of the year during which individuals were Directors In practice the base salary paid to Peter Zinkin has been reduced due to his participation in the Company s SMART Pensions salary sacrifice arrangement The salary reduction in 2012 was £6 773 This corresponds to his contributions to the Balfour Beatty Pension Fund which are now met directly by the Company as part of this arrangement

(ii) The base salaries paid to Duncan Magrath Andrew McNaughton and Peter Zinkin have been reduced due to their participation in the Company s Share Incentive Plan The salary reductions in 2012 were £2 625 £1,125 and £2 625 for Duncan Magrath Andrew McNaughton and Peter Zinkin respectively

(iii) 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 94 and 95

(iv) The performance measure for the AIP was profit before tax and non-underlying items The targets were set in January 2012 based on a sliding scale from threshold to target profit and from target profit to maximum The profit for the year ended 31 December 2012 resulted in an AIP outturn of 48 2% of base salary for each executive Director As Ian Tyler is leaving the business on 30 April 2013 all of his annual incentive will be paid in cash and this amount is shown in the table above For the other executive Directors 50% of this annual incentive 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 The number of shares comprising the deferred element will be determined based on the share price at the award date of 29 March 2013 These shares will be released to the Director on 29 March 2016 providing he is still employed by the Company at that time

(v) Hubertus Krossa received a fee of €30 000 (included above) for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH

(vi) In addition Ian Tyler received a fee of £76 667 for his services as a non-executive director of Cable & Wireless Communications Plc, Duncan Magrath received a fee of £27 000 for his services as a non executive director of Brammer plc and Anthony Rabin received a fee of €35 625 for his services as a non-executive director of Colt Group S A

(vii) Taxable benefits are calculated in terms of UK taxable values All executive Directors received private medical insurance for the Director and his immediate family Ian Tyler and Anthony Rabin received a fully expensed car and a fuel card Peter Zinkin received a fully expensed car only Duncan Magrath and Andrew McNaughton received a car allowance of £14 000 pa

(viii) No Director received any expense allowance

(ix) In addition awards made under the Deferred Bonus Plan in 2009 to Duncan Magrath Andrew McNaughton Anthony Rabin Ian Tyler and Peter Zinkin vested during the year At the date of vesting on 31 March 2012 the closing market price was 285 5p and the total values of the awards which vested were £93 067 £83 492 £116 341, £172,468 and £110,871 respectively

(x) In addition Ian Tyler and Peter Zinkin exercised savings related share options during the year The closing market price on the dates of exercise were 312 7p and 300 6p respectively and the values realisable on exercise were £280 and £189 respectively

(xi) Anthony Rabin retired on 30 June 2012 All of his remuneration was earned and received prior to 30 June 2012 and he received no compensation for loss of office In addition Anthony Rabin s awards under the DBP in 2010 2011 and 2012 vested on 30 June 2012 at which date the closing market price was 298 0p and the total value of the awards that vested was £342 497

Single total remuneration figure for each Director in 2012

Following the draft proposals published by the Government, the table below presents a single total remuneration figure for 2012 for the executive Directors Compared to the Directors' remuneration table on page 90, the additional elements included in the single figure in the table below relate to the value of any pension provision, the 50% of the Annual Incentive Plan which will be deferred in the form of shares and any vesting of the Performance Share Plan The single figure for each non-executive Director would be as presented in the Directors' remuneration table on page 90

	Fixed pay				Pay for performance			
	Base salary £	Pensions and pension allowances £	Taxable benefits £	Subtotal £	Annual Incentive Plan (including deferred shares) £	Performance Share Plan £	Subtotal £	Total remuneration £
Duncan Magrath	**415,000**	**76,027**	**15,550**	**506,577**	**204,850**	**–**	**204,850**	**711,427**
Andrew McNaughton	**445,000**	**109,731**	**15,550**	**570,281**	**221,720**	**–**	**221,720**	**792,001**
Anthony Rabin	**238,846**	**39,263**	**10,396**	**288,505**	**–**	**–**	**–**	**288,505**
Ian Tyler	**678,000**	**154,694**	**27,546**	**860,240**	**331,616**	**–**	**331,616**	**1,191,856**
Peter Zinkin	**436,500**	**87,300**	**9,881**	**533,681**	**213,526**	**–**	**213,526**	**747,207**

Notes
(i) The PSP values are based on the 2010 PSP award which will lapse in April 2013 based on the performance period which ended on 31 December 2012
(ii) The value of DB pension entitlements has been calculated as the increase in the accrued deferred pension during the year in excess of retail price inflation multiplied by 20 The value of DC pension entitlements has been calculated as the sum of Company contributions paid during the year
(iii) In addition Ian Tyler and Peter Zinkin exercised savings-related share options during the year The closing market price on the dates of the exercise were 312 7p and 300 6p respectively and the values realisable were £280 and £189 respectively
(iv) See also notes (i) (ii), (iii) (iv) (vii) and (xi) to the Directors remuneration table on page 90

Directors' interests in the Annual Incentive Plan in 2012

As detailed in the Policy Report, each executive Director participates in the Annual Incentive Plan, in which performance is measured over a single financial year For the year under review, the performance condition which applied to the Annual Incentive Plan and the resulting outturn were as follows

		Proportion of total annual incentive available			Resulting annual incentive outturn (Note i)	
Performance measure		% of maximum	% of base salary		% of maximum	% of base salary
Profit before tax and non-underlying items	Threshold £287m	6 25%	7 5%	Actual £309 8m (Note ii)	40 2%	48 2%
	Target £319m	50%	60%			
	Maximum £367m	100%	120%			

Notes
(i) As Ian Tyler is leaving the business on 30 April 2013 all of his AIP outturn will be paid in cash For the other executive Directors, 50% of the AIP outturn will be payable in cash whilst the remaining 50% will be deferred into shares under the Deferred Bonus Plan
(ii) As set out in the rules of the AIP the Committee adjusts the profit before tax figure for acquisitions divestments and exchange rate movements The adjusted profit before tax figure used for the year ended 31 December 2012 was £311 8m

Directors' interests in the Performance Share Plan in 2012

		Maximum number of shares subject to award					
Name of Director	Date granted	At 1 January 2012	Awarded during the year	Vested during the year	Lapsed during the year	**At 31 December 2012**	Exercisable from
Duncan Magrath	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
	16 April 2012	–	219,076	–	–	**219,076**	April 2015
Andrew McNaughton	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
	16 April 2012	–	232,600	–	–	**232,600**	April 2015
Anthony Rabin	15 April 2009	155,087	–	–	155,087	–	April 2012
	15 April 2010	157,989	–	–	26,331	**131,658**	April 2013
	1 June 2011	206,274	–	–	103,137	**103,137**	June 2014
Ian Tyler	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
	16 April 2012	–	421,565	–	–	**421,565**	April 2015
Peter Zinkin	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
	16 April 2012	–	232,600	–	–	**232,600**	April 2015

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 2010 June 2011 and April 2012 the performance periods are the three years ending 31 December 2012 31 December 2013 and 31 December 2014 respectively 50% of each award is subject to an earnings per share (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 36% for the April 2010 award and if EPS growth exceeds 45% for the June 2011 and April 2012 awards If EPS growth exceeds RPI by 6% for the April 2010 award and if EPS growth exceeds 15% for the June 2011 and April 2012 awards, 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 6% for the April 2010 awards or if EPS growth is less than 15% for the June 2011 and April 2012 awards 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 2010 award the comparator group was based on a bespoke group of companies (as previously disclosed) For the 2011 and 2012 awards 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 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 retesting 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 354p for the 2009 award 302 63p for the 2010 award 317 78p for the 2011 award and 277 3p for the 2012 award The closing middle market price of ordinary shares on the date of the awards was 352 25p, 302 8p 312 4p and 271 9p respectively

(iv) Anthony Rabin retired from the Company on 30 June 2012 At this time a proportion of his 2010 and 2011 awards lapsed reflecting the proportion of the performance period for each award which had not been completed at the date of retirement The remainder of these awards will vest in the same proportion and at the same time in 2013 and 2014 respectively as the awards made to the other participants

(v) On 16 April 2012 for all participants in the PSP, a maximum of 4 177 096 conditional shares were awarded which are normally exercisable in April 2015

(vi) 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 lapsed on 15 April 2012

(vii) The performance period for the awards made in April 2010 was completed on 31 December 2012 The growth in EPS for this period did not exceed the RPI + 6% 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 2013

Directors' interests in the Deferred Bonus Plan in 2012

		Number of shares awarded							
				Awarded during the year in respect of dividends					
Name of Director	Date of initial award	At 1 January 2012	Awarded during the year	Final 2011	Interim 2012	Exercised during the year	Lapsed during the year	At 31 December 2012	Vesting date
Duncan Magrath	31 March 2009	32,598	–	–	–	32,598	–	–	31 March 2012
	31 March 2010	21,668	–	608	485	–	–	**22,761**	31 March 2013
	31 March 2011	21,738	–	721	417	–	–	**22,876**	31 March 2014
	30 March 2012	–	55,627	1,846	1,069	–	–	**58,542**	30 March 2015
Andrew McNaughton	31 March 2009	29,244	–	–	–	29,244	–	–	31 March 2012
	31 March 2010	23,174	–	650	519	–	–	**24,343**	31 March 2013
	31 March 2011	23,150	–	768	444	–	–	**24,362**	31 March 2014
	30 March 2012	–	59,060	1,960	1,135	–	–	**62,155**	30 March 2015
Anthony Rabin	31 March 2009	40,750	–	–	–	40,750	–	–	31 March 2012
	31 March 2010	25,581	–	–	–	25,581	–	–	31 March 2013
	31 March 2011	24,675	–	818	–	25,493	–	–	31 March 2014
	30 March 2012	–	61,807	2,051	–	63,858	–	–	30 March 2015
Ian Tyler	31 March 2009	60,409	–	–	–	60,409	–	–	31 March 2012
	31 March 2010	37,922	–	1,064	849	–	–	**39,835**	31 March 2013
	31 March 2011	36,589	–	1,214	703	–	–	**38,506**	31 March 2014
	30 March 2012	–	91,750	3,045	1,763	–	–	**96,558**	30 March 2015
Peter Zinkin	31 March 2009	38,834	–	–	–	38,834	–	–	31 March 2012
	31 March 2010	24,379	–	684	546	–	–	**25,609**	31 March 2013
	31 March 2011	23,544	–	781	452	–	–	**24,777**	31 March 2014
	30 March 2012	–	59,060	1,960	1,135	–	–	**62,155**	30 March 2015

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 2010 2011 and 2012 will vest on 31 March 2013 31 March 2014 and 30 March 2015 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 2009 vested on 31 March 2012 The closing middle market price of ordinary shares in the Company on the vesting date was 285 5p The monetary values of the awards which vested in 2012 are disclosed in Note (ix) to the Directors' remuneration table on page 90

(iv) The shares awarded on 31 March 2009 31 March 2010 31 March 2011 and 30 March 2012 were purchased at average prices of 365 801p 300 32p 343 417p and 286 99p respectively

(v) For the initial awards made in 2011 and 2012, the shares awarded on 25 April 2012 and 10 October 2012 (in lieu of the final 2011 and interim 2012 dividends respectively) were allocated at average prices of 256 1p and 301 0p respectively For the initial awards made in 2010 the shares awarded on 6 July 2012 and 7 December 2012 (in lieu of the final 2011 and interim 2012 dividends respectively) were allocated at average prices of 302 7p and 257 0p respectively

(vi) On 30 March 2012, for all participants in the Deferred Bonus Plan a maximum of 913,786 conditional shares were awarded which will normally be released on 30 March 2015 On 25 April 2012 and 6 July 2012 a further 54 344 and 19 234 conditional shares were awarded in lieu of entitlements to the final 2011 dividend and on 10 October 2012 and 7 December 2012 a further 29 023 and 14,662 conditional shares were awarded in lieu of entitlements to the interim 2012 dividend

(vii) Anthony Rabin retired from the Company on 30 June 2012 Under the rules of the Deferred Bonus Plan the awards made to him in 2010, 2011 and 2012 vested on 30 June 2012 The monetary values of these awards which vested in 2012 are disclosed in Note (xi) to the Directors' remuneration table on page 90

Directors' interests in the Savings-Related Share Option Scheme in 2012

		Number of options						Exercisable	
Name of Director	Date granted	At 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2012	Exercise price	From	To
Duncan 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
Anthony Rabin	2 May 2007	1,140	–	–	1,140	–	338 7p	July 2012	December 2012
Ian Tyler	18 May 2009	439	–	439	–	–	249 0p	July 2012	December 2012
	11 May 2010	676	–	–	–	**676**	236 0p	July 2013	December 2013
Peter Zinkin	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 2012 was 273 7p During the year the highest and lowest closing market prices were 320 8p and 237 9p respectively

(iii) Options granted to Anthony Rabin and Peter Zinkin in May 2007, exercisable at 338 7p lapsed unexercised in December 2012

(iv) The monetary values realisable from options exercised in 2012 are disclosed in Note (x) to the Directors remuneration table on page 90

Directors' pensions and pension allowances in 2012

Executive Directors participated in the Balfour Beatty Pension Fund (the Fund) during 2012 The defined benefit (DB) section of the Fund provides for a pension at a normal retirement age of 62 for pension purposes The defined contribution (DC) section of the Fund is a money purchase scheme with a normal retirement age of 65 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 (i) in the Directors' remuneration table on page 90

The DB pension for a Director who can complete 20 or more years of 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

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 included in the Directors' remuneration table on page 90 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 included in the Directors' remuneration table on page 90

Duncan Magrath opted out of the DB section of the Fund on 5 April 2012 and became a deferred pensioner He chose not to participate in the DC section of the Fund and has been receiving an allowance in lieu of Fund membership since 6 April 2012

Andrew McNaughton opted out of the Fund on 31 December 2012 He chose not to participate in the DC section of the Fund and has been receiving an allowance in lieu of Fund membership since 31 December 2012

Anthony Rabin retired from the Company on 30 June 2012 and started to receive his DB pension immediately

Peter Zinkin opted out of the DB section of the Fund on 31 December 2010 and started to receive his DB pension from 1 January 2011 He has not accrued any further DB pension in the Fund during 2012 He has however participated in the DC section of the Fund since 1 January 2011, and the Company's contributions to this arrangement for 2012 are shown in Note (vii) on page 95

Pension table 1 below sets out the accrued DB deferred pension which would be paid annually from the Fund at normal retirement age based on each executive Director's service to 31 December 2012 (or earlier date of leaving the Fund) as well as showing the increase in DB pension benefit secured in respect of service during the year

Pension table 2 below sets out the transfer value at 31 December 2012 of each executive Director's accrued DB pension entitlements at that date 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 (except where noted below), and reflect each executive Director's age and DB benefit entitlement

Pension table 1

				Increase in accrued deferred pension during the year			
Name of Director	**Age at 31 December 2012 Years**	**Pensionable service at 31 December 2012 Years**	Accrued deferred pension at 31 December 2011 £ pa	As a result of inflation £ pa	Increase in excess of inflation £ pa	**Accrued deferred pension at 31 December 2012 or earlier date of leaving the Fund £ pa**	**Transfer value corresponding to increase in excess of inflation at 31 December 2012 less Director's contributions (Note i) £**
Duncan Magrath (Note v)	**48**	**6**	24,925	1,396	(281)	**26,040**	**n/a**
Andrew McNaughton	**49**	**15**	41,462	2,323	3,047	**46,832**	**46,536**
Anthony Rabin (Note vi)	**57**	**19**	80,790	n/a	n/a	**n/a**	**n/a**
Ian Tyler	**52**	**16**	51,811	2,902	3,704	**58,417**	**65,705**
Peter Zinkin (Note vii)	**59**	**29**	n/a	n/a	n/a	**n/a**	**n/a**

Pension table 2

Name of Director	**Age at 31 December 2012 Years**	**Pensionable service at 31 December 2012 Years**	Transfer value at 31 December 2011 (Note ii) £	Contributions made by Director during the year £	Increase in transfer value during the year (Note iii) £	**Transfer value at 31 December 2012 (Note iv) £**
Duncan Magrath (Note v)	**48**	**6**	378,962	1,724	45,422	**426,108**
Andrew McNaughton	**49**	**15**	621,847	5,907	169,543	**797,297**
Anthony Rabin (Note vi)	**57**	**19**	1,773,166	3,521	(398,797)	**1,377,890**
Ian Tyler	**52**	**16**	946,169	7,019	179,963	**1,133,151**
Peter Zinkin (Note vii)	**59**	**29**	5,253,257	n/a	237,925	**5,491,182**

Directors' pensions and pension allowances in 2012 continued

Notes to Pension tables 1 and 2 on page 94

(i) These amounts represent the value at 31 December 2012 of the increase in excess of inflation (where inflation is measured using the RPI between September 2010 and September 2011) 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) These amounts represent the present value of the accrued deferred pension and associated benefits at 31 December 2011 for all Directors who were in pensionable service at this date calculated using the transfer value basis then stipulated by the Trustee of the Fund For Peter Zinkin who was not in pensionable service at 31 December 2011 see individual comments below

(iii) These amounts represent the difference between the transfer value of each Directors accrued benefits at the end and the beginning of the year less the value of any Directors contributions paid during the year

(iv) These amounts represent the present value of the accrued deferred pension and associated benefits at 31 December 2012 for all Directors who were in pensionable service at this date, calculated using the transfer value basis then stipulated by the Trustee of the Fund For Directors who were not in pensionable service at 31 December 2012, Duncan Magrath Anthony Rabin and Peter Zinkin see individual comments below

(v) Duncan Magrath ceased accruing a DB pension through the Fund on 5 April 2012 and became a deferred pensioner He has not accrued any benefits in the Fund since 5 April 2012 The period of pensionable service shown for Duncan Magrath is for the period up to 5 April 2012 The accrued deferred pension figure as at 31 December 2012 in Pension table 1 is his deferred pension on leaving the Fund as at 5 April 2012 The increase in his accrued pension up until 5 April 2012 was less than the annual inflationary increase to his accrued pension as at 31 December 2011 so using market conditions as at 31 December 2012 this represented a reduction in value of £6 367 The transfer value in the final column of Pension table 2 is the present value of his deferred pension at 5 April 2012 calculated using market conditions as at 31 December 2012 The contributions made by the him during the year are in respect of the period to 5 April 2012

(vi) Anthony Rabin s pensionable service includes nine years of service transferred in from previous pension arrangements Anthony Rabin drew lump sum benefits totalling £321 770 from the Fund on 30 June 2012 and he has received a pension of £45 612 pa from the Fund since 1 July 2012 The period of pensionable service shown for Anthony Rabin is for the period up to 30 June 2012 Pension table 1 does not include the change in value of Anthony Rabin s deferred pension entitlement at 31 December 2011 to his immediate early retirement post-commutation pension entitlement at 31 December 2012 as these are not directly comparable Using market conditions at 31 December 2012, the reduction in value after allowing for inflation Directors contributions and the lump sum benefits paid was £258,699 The transfer value in the final column of Pension table 2 represents the value of his post-commutation pension on retirement of £45 612 pa based on market conditions as at 31 December 2012 The contributions made by the Director during the year are in respect of the period to 30 June 2012

(vii) Peter Zinkin started to receive his DB pension from the Fund on 1 January 2011 and has not accrued any further DB benefits in the Fund since 31 December 2010 The period of pensionable service shown for Peter Zinkin is for the period up to 31 December 2010 The transfer value in the final column represents the present value of his DB pension as at 31 December 2012 of £202 194 pa Peter Zinkin has participated in the DC section since 1 January 2011 and the Company paid £27 090 into this arrangement during 2012 in addition to his SMART pension salary sacrifice contributions of £6 773

(viii) All benefits shown exclude the value of benefits derived from Directors additional voluntary contributions into the Fund

Directors' shareholdings in 2012

The interests of the Directors and connected persons (including amongst others, member 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
	At 1 January 2012*	At 31 December 2012					
Name of Director	Legally owned	**Legally owned**	**Subject to deferral under the DBP**	**Subject to SAYE**	**Subject to Share Incentive Plan**	**Subject to performance conditions under the PSP**	**Total**
Duncan Magrath	102,579	**118,226**	**104,179**	**2,992**	**941**	**534,631**	**760,969**
Andrew McNaughton	100,601	**114,638**	**110,860**	–	**363**	**569,250**	**795,111**
Ian Tyler	376,156	**376,595**	**174,899**	**676**	–	**1,059,451**	**1,611,621**
Peter Zinkin	301,751	**307,117**	**112,541**	**1,050**	**941**	**579,989**	**1,001,638**
Robert Amen	10,000	**10,000**	–	–	–	–	**10,000**
Mike Donovan	10,000	**10,000**	–	–	–	–	**10,000**
Iain Ferguson	25,000	**25,000**	–	–	–	–	**25,000**
Maureen Kempston Darkes	–	–	–	–	–	–	–
Hubertus Krossa	7,142	**7,142**	–	–	–	–	**7,142**
Steve Marshall	7,142	**7,142**	–	–	–	–	**7,142**
Graham Roberts	15,000	**15,000**	–	–	–	–	**15,000**
Robert Walvis	14,285	**14,285**	–	–	–	–	**14,285**

* 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 2012 and 6 March 2013 other than in respect of investments under the Share Incentive Plan which increased by 88 shares 89 shares and 89 shares for Andrew McNaughton Duncan Magrath and Peter Zinkin respectively

(ii) Peter Zinkin was also interested at 1 January 2012 and 31 December 2012 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc

Membership of the Remuneration Committee
The members of the Committee and their attendance at the meetings of the Committee in 2012 are shown on page 70 All the members are independent non-executive Directors, as defined under the Corporate Governance Code No member of the Committee has conflicts of interest arising from cross directorships and no member is involved in the day-to-day executive management of the Group

The Committee also receives advice from several sources, namely

- The Chief Executive, Ian Tyler, and the HR director, Paul Raby, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed
- New Bridge Street (a trading name of Aon Corporation), (NBS)

NBS has been appointed as external independent executive remuneration advisers by the Committee and has provided a range of advice to the Committee during the year, including

- attendance at Committee meetings
- provision of pay benchmarking data for the executive Directors and non-executive Directors
- annual update for the Committee on developments in best and market practice and regulatory requirements for all remuneration elements
- assistance with the drafting of the Remuneration report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards

NBS does not provide any other services to the Company

Statement of shareholder voting at AGM
At the 2012 AGM, the Directors' Remuneration Report received the following votes from shareholders

	Total number of votes	% of votes cast
For	414,810,022	96 6%
Against	4,732,739	1 1%
Abstentions	10,090,212	2 3%
Total	429,632,973	100 0%

This Remuneration Report has been prepared in accordance with Section 420 of the Companies Act 2006 (the Act) 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 Remuneration Report will be proposed at the AGM of the Company

By order of the Board

Iain Ferguson
Chairman of the Remuneration Committee
6 March 2013

Our Accounts

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 2012 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 2012 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
6 March 2013

Group Income Statement

For the year ended 31 December 2012

	Notes	2012 Underlying items[1] £m	2012 Non-underlying items (Note 8) £m	2012 Total £m	2011 Underlying items[1,2] £m	2011 Non-underlying items (Note 8) £m	2011 Total[2] £m
Continuing operations							
Revenue including share of joint ventures and associates		**10,896**	**–**	**10,896**	11,035	–	11,035
Share of revenue of joint ventures and associates	16 2	**(1,413)**	**–**	**(1,413)**	(1,541)	–	(1,541)
Group revenue	2	**9,483**	**–**	**9,483**	9,494	–	9,494
Cost of sales		**(8,433)**	**–**	**(8,433)**	(8,358)	–	(8,358)
Gross profit		**1,050**	**–**	**1,050**	1,136	–	1,136
Gain on disposals of investments[2]		**52**	**–**	**52**	20	–	20
Amortisation of acquired intangible assets		**–**	**(45)**	**(45)**	–	(62)	(62)
Other net operating expenses[2]		**(890)**	**(190)**	**(1,080)**	(900)	(26)	(926)
Group operating profit/(loss)		**212**	**(235)**	**(23)**	256	(88)	168
Share of results of joint ventures and associates	16 2	**97**	**–**	**97**	75	–	75
Profit/(loss) from operations	4	**309**	**(235)**	**74**	331	(88)	243
Investment income	6	**62**	**–**	**62**	57	–	57
Finance costs	7	**(61)**	**–**	**(61)**	(54)	–	(54)
Profit/(loss) before taxation		**310**	**(235)**	**75**	334	(88)	246
Taxation	9	**(70)**	**39**	**(31)**	(91)	27	(64)
Profit/(loss) for the year from continuing operations		**240**	**(196)**	**44**	243	(61)	182
Profit/(loss) for the year from discontinued operation	10	**–**	**–**	**–**	–	4	4
Profit for the year		**240**	**(196)**	**44**	243	(57)	186
Attributable to							
Equity holders		**240**	**(196)**	**44**	243	(57)	186
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit for the year		**240**	**(196)**	**44**	243	(57)	186

1 Before non-underlying items (Notes 1 11 and 8)
2 Re-presented to separately disclose the gain on disposals of investments (Note 1 2)

	Notes	2012 Pence	2011 Pence
Basic earnings per ordinary share			
– continuing operations	11	**6 5**	26 7
– discontinued operation	11	**–**	0 6
	11	**6 5**	27 3
Diluted earnings per ordinary share			
– continuing operations	11	**6 5**	26 7
– discontinued operation	11	**–**	0 6
	11	**6 5**	27 3
Dividends per ordinary share proposed for the year	12	**14 1**	13 8

Group Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 £m	2011[3] £m
Profit for the year		**44**	186
Other comprehensive income/(expense) for the year			
Items which will not subsequently be reclassified to the income statement			
Actuarial movements on retirement benefit liabilities		**(126)**	53
Tax on above		**20**	(18)
		(106)	35
Items which will subsequently be reclassified to the income statement			
Currency translation differences		**(56)**	4
Fair value revaluations – PPP financial assets		**405**	204
– PPP cash flow hedges		**(20)**	(239)
– other cash flow hedges		**1**	–
– available-for-sale investments in mutual funds	17.1	**4**	(2)
Tax on above		**(90)**	6
		244	(27)
Total other comprehensive income for the year		**138**	8
Total comprehensive income for the year	28.1	**182**	194
Attributable to			
Equity holders		**182**	194
Non-controlling interests		**–**	–
Total comprehensive income for the year	28.1	**182**	194

[3] Re-presented to reflect the adoption of amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Note 1.1)

Group Statement of Changes in Equity

For the year ended 31 December 2012

	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 28.1) £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2011		343	59	16	30	144	334	230	4	1,160
Total comprehensive income/(expense) for the year	28.1	–	–	1	–	60	(18)	151	–	194
Ordinary dividends	12	–	–	–	–	–	–	(88)	–	(88)
Joint ventures' and associates' dividends	16.1	–	–	–	–	(54)	–	54	–	–
Issue of ordinary shares	27.1	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	–	–
Other transfers		–	–	–	(3)	–	–	3	–	–
At 31 December 2011		344	61	17	27	144	311	355	4	1,263
Total comprehensive income/(expense) for the year	28.1	**–**	**–**	**–**	**–**	**371**	**(37)**	**(152)**	**–**	**182**
Ordinary dividends	12	**–**	**–**	**–**	**–**	**–**	**–**	**(96)**	**(1)**	**(97)**
Joint ventures' and associates' dividends	16.1	**–**	**–**	**–**	**–**	**(58)**	**–**	**58**	**–**	**–**
Issue of ordinary shares	27.1	**–**	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**2**
Recycling of revaluation reserves to the income statement on disposal	16.5	**–**	**–**	**–**	**–**	**(48)**	**–**	**–**	**–**	**(48)**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**–**	**(2)**	**9**	**–**	**7**
Other reserve transfers relating to joint venture and associate disposals[4]	16.5	**–**	**–**	**–**	**–**	**(72)**	**–**	**72**	**–**	**–**
Other transfers		**–**	**–**	**–**	**(2)**	**–**	**–**	**2**	**–**	**–**
At 31 December 2012		**344**	**63**	**17**	**25**	**337**	**272**	**248**	**3**	**1,309**

[4] Includes £52m transfers between the joint ventures and associates' reserves and retained profits relating to joint ventures disposed or liquidated in prior years

Company Income Statement

For the year ended 31 December 2012

	Notes	2012 Underlying items[1] £m	2012 Non underlying items (Note 8) £m	2012 Total £m	2011 Underlying items[1] £m	2011 Non-underlying items (Note 8) £m	2011 Total £m
Revenue	2	**130**	**–**	**130**	13	–	13
Net operating expense		**(24)**	**(2)**	**(26)**	(21)	(1)	(22)
Profit/(loss) from operations		**106**	**(2)**	**104**	(8)	(1)	(9)
Investment income	6	**6**	**–**	**6**	6	–	6
Finance costs	7	**(35)**	**–**	**(35)**	(29)	–	(29)
Profit/(loss) before taxation		**77**	**(2)**	**75**	(31)	(1)	(32)
Taxation	9	**8**	**1**	**9**	5	–	5
Profit/(loss) for the year from continuing operations		**85**	**(1)**	**84**	(26)	(1)	(27)
Profit for the year from discontinued operation	10	**–**	**–**	**–**	–	59	59
Profit/(loss) for the year attributable to equity holders		**85**	**(1)**	**84**	(26)	58	32

[1] Before non-underlying items (Notes 1 11 and 8)

Company Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 £m	2011[3] £m
Profit for the year		**84**	32
Other comprehensive (expense)/income for the year			
Items which will not subsequently be reclassified to the income statement			
Actuarial movements on retirement benefit liabilities		**(3)**	6
Tax on above	25 3	**1**	(2)
Total other comprehensive income for the year		**(2)**	4
Total comprehensive income for the year attributable to equity holders	28 2	**82**	36

[3] Re-presented to reflect the adoption of amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Note 1 1)

Company Statement of Changes in Equity

For the year ended 31 December 2012

	Notes	Called up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Other reserves (Note 28 2) £m	Retained profits £m	Total £m
At 1 January 2011		343	59	16	30	321	382	1,151
Total comprehensive income for the year	28 2	–	–	1	–	–	35	36
Ordinary dividends	12	–	–	–	–	–	(88)	(88)
Issue of ordinary shares	271	1	2	–	–	–	–	3
Movements relating to share-based payments		–	–	–	–	2	1	3
Other transfers		–	–	–	(3)	–	3	–
At 31 December 2011		344	61	17	27	323	333	1,105
Total comprehensive income for the year	28 2	**–**	**–**	**–**	**–**	**–**	**82**	**82**
Ordinary dividends	12	**–**	**–**	**–**	**–**	**–**	**(96)**	**(96)**
Issue of ordinary shares	271	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**(2)**	**5**	**3**
Other transfers		**–**	**–**	**–**	**(2)**	**–**	**2**	**–**
At 31 December 2012		**344**	**63**	**17**	**25**	**321**	**326**	**1,096**

Statements of Financial Position

At 31 December 2012

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Non-current assets					
Intangible assets – goodwill	13	**1,160**	1,279	–	–
– other	14	**212**	239	–	–
Property, plant and equipment	15	**247**	288	–	–
Investments in joint ventures and associates	16	**726**	466	–	–
Investments	17	**94**	96	**1,937**	1,742
PPP financial assets	18	**542**	457	–	–
Trade and other receivables	21	**100**	87	**23**	25
Deferred tax assets	25	**117**	105	–	–
Derivative financial instruments	36	–	–	–	1
		3,198	3,017	**1,960**	1,768
Current assets					
Inventories and non-construction work in progress	19	**172**	140	–	–
Due from construction contract customers	20	**634**	604	–	–
Trade and other receivables	21	**1,241**	1,410	**1,152**	1,295
Cash and cash equivalents – PPP subsidiaries	24	**25**	18	–	–
– other	24	**517**	577	**43**	–
Current tax assets		**4**	5	–	–
Derivative financial instruments	36	**1**	1	**2**	2
		2,594	2,755	**1,197**	1,297
Total assets		**5,792**	5,772	**3,157**	3,065
Current liabilities					
Due to construction contract customers	20	**(382)**	(576)	–	–
Trade and other payables	22	**(2,214)**	(2,426)	**(1,464)**	(1,594)
Provisions	23	**(116)**	(107)	–	–
Borrowings – PPP non-recourse loans	24	**(12)**	(21)	–	–
– other	24	**(477)**	(231)	**(466)**	(236)
Current tax liabilities		**(42)**	(30)	–	–
Derivative financial instruments	36	**(20)**	(10)	**(2)**	(2)
		(3,263)	(3,401)	**(1,932)**	(1,832)
Non-current liabilities					
Trade and other payables	22	**(159)**	(142)	**(25)**	(25)
Provisions	23	**(112)**	(130)	**(5)**	(6)
Borrowings – PPP non-recourse loans	24	**(381)**	(329)	–	–
– other	24	**(5)**	(6)	–	–
Deferred tax liabilities	25	**(10)**	(15)	–	(1)
Retirement benefit liabilities	26	**(338)**	(275)	**(6)**	(4)
Liability component of preference shares	27	**(92)**	(91)	**(92)**	(91)
Derivative financial instruments	36	**(123)**	(120)	**(1)**	(1)
		(1,220)	(1,108)	**(129)**	(128)
Total liabilities		**(4,483)**	(4,509)	**(2,061)**	(1,960)
Net assets		**1,309**	1,263	**1,096**	1,105
Equity					
Called-up share capital	27	**344**	344	**344**	344
Share premium account	28	**63**	61	**63**	61
Equity component of preference shares	28	**17**	17	**17**	17
Special reserve	28	**25**	27	**25**	27
Share of joint ventures' and associates' reserves	28	**337**	144	–	–
Other reserves	28	**272**	311	**321**	323
Retained profits	28	**248**	355	**326**	333
Equity attributable to equity holders of the parent		**1,306**	1,259	**1,096**	1,105
Non-controlling interests	28	**3**	4	–	–
Total equity		**1,309**	1,263	**1,096**	1,105

On behalf of the Board

Steve Marshall
Director

Duncan Magrath
Director

6 March 2013

Statements of Cash Flows

For the year ended 31 December 2012

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash flows from operating activities					
Cash (used in)/generated from operations	29 1	**(219)**	35	**(79)**	(100)
Income taxes (paid)/received		**(19)**	(18)	**–**	9
Net cash (used in)/from operating activities		**(238)**	17	**(79)**	(91)
Cash flows from investing activities					
Dividends received from joint ventures and associates		**58**	54	**3**	12
Dividends received from discontinued operation		**–**	5	**–**	5
Dividends received from subsidiaries		**–**	–	**4**	1
Interest received		**33**	23	**3**	6
Acquisition of businesses, net of cash and cash equivalents acquired	30 1	**(4)**	(100)	**–**	–
Purchase of intangible assets – other	14	**(25)**	(19)	**–**	–
Purchase of property, plant and equipment	15	**(49)**	(77)	**–**	–
Purchase of other investments	17	**(5)**	(21)	**–**	–
Investments in and loans to joint ventures and associates	16 4	**(27)**	(41)	**–**	–
Investments in PPP financial assets	18	**(22)**	(40)	**–**	–
Disposal of investments in joint ventures	16 4	**81**	28	**–**	–
Disposal of UK specialist rail manufacturing business	30 5	**–**	37	**–**	–
Disposal of property, plant and equipment		**21**	21	**–**	–
Disposal of other investments	17	**9**	19	**–**	–
Net cash from/(used in) investing activities		**70**	(111)	**10**	24
Cash flows from financing activities					
Proceeds from issue of ordinary shares	27 1	**2**	3	**2**	3
Purchase of ordinary shares	28 3	**(3)**	(4)	**–**	–
Proceeds from new loans	29 3	**350**	282	**230**	212
Repayment of loans	29 3	**(53)**	(8)	**(32)**	–
Repayment of finance leases	29 3	**(4)**	(4)	**–**	–
Ordinary dividends paid	12	**(96)**	(88)	**(96)**	(88)
Other dividends paid – non-controlling interest	12	**(1)**	–	**–**	–
Interest paid		**(47)**	(44)	**(13)**	(18)
Preference dividends paid		**(11)**	(11)	**(11)**	(11)
Net cash from financing activities		**137**	126	**80**	98
Net (decrease)/increase in cash and cash equivalents	29 3	**(31)**	32	**11**	31
Effects of exchange rate changes		**(17)**	(2)	**–**	–
Cash and cash equivalents at beginning of year		**580**	550	**(24)**	(55)
Cash and cash equivalents at end of year	29 2	**532**	580	**(13)**	(24)

Notes to the Financial Statements

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) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee as adopted by the European Union relevant to its operations and effective for accounting periods beginning on 1 January 2012

The financial statements have been prepared under the historical cost convention, except as described under Note 1 26 The functional and presentational currency of the Company and the presentational currency of the Group is sterling

Adoption of new and revised standards

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income was adopted in the current period requiring items of other comprehensive income during the period to be presented as items which will subsequently be reclassified to the income statement and items which will not The tax applicable to each category is also shown separately and as a result the comparative information has been re-presented

Amendments to the following standards were also adopted during the current year with no effect on the Group

- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Amendments to IAS 12 Deferred Tax Recovery of Underlying Assets

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2012

- 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
- Amendments to the following standards
  - IFRS 1 Government Loans
  - IFRS 7 Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities
  - IAS 19 Employee Benefits
  - IAS 27 Separate Financial Statements
  - IAS 28 Investments in Associates and Joint Ventures
  - IAS 32 Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities
  - Improvements to IFRSs (2009 – 2011)
  - IFRS 10, IFRS 11 and IFRS 12 Investment entities
  - IFRS 10, IFRS 11 and IFRS 12 Transition guidance

Of these, IFRS 9 and IAS 19 revised 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 2012 concerns the classification and measurement of financial assets and financial liabilities and the de-recognition of financial instruments New requirements for impairment and hedge accounting are expected to be added to IFRS 9 in the first half of 2013

On 28 November 2012 the IASB issued an Exposure Draft, Classification and Measurement Limited Amendments to IFRS 9, which proposes a new category for the classification of financial assets and liabilities, "Fair value through other comprehensive income' Should these proposals be adopted, the Group's PPP financial assets will be classified as "Fair value through other comprehensive income" which would not result in material changes to the current accounting of the Group's PPP financial assets

The requirements of IFRS 9 in issue as at 31 December 2012 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 current new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss Assuming the Group adopts fair value through profit or loss, movements in the fair value of PPP financial assets will no longer be recognised in other comprehensive income Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings The effect within the Group's reserves would be a transfer of £93m from PPP financial asset reserves to retained earnings The effect within the share of joint ventures' and associates' reserves would be a transfer of £399m from PPP financial asset reserves to retained earnings

Adopting amendments to IAS 19 Employee Benefits would have increased the 2012 net finance cost by £10m (2011 £17m) The estimated effect for 2013, based on current actuarial assumptions, is to increase the net finance cost by £21m

1 2 Re-presentation of comparative information

The 2011 Income Statement has been re-presented to separately disclose the gains on disposals of interests in PPP joint ventures on the face of the income statement Previously this amount was included within other net underlying operating expenses and disclosed within the Notes to the Financial Statements Refer to Note 38 1

The 2011 trade and other receivables note has been re-presented to separately identify trade receivables and other receivables which were previously amalgamated Refer to Notes 21 and 38 2

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 equity holders is stated at the non-controlling equity holders' 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 Investments US is contractually limited to a maximum level of return, beyond which Balfour Beatty Investments US does not share in any further return

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition

Investments in joint ventures and associates are initially carried in the 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 26(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, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount
- dividend income is recognised when the equity holder's right to receive payment is established

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 28 to 43

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

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 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 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)
- impairment of goodwill

These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group Amortisation charges in respect of software are included in underlying items

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

1 Principal accounting policies continued

1 13 Intangible assets continued
c) Research and development
Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits
- the development cost of the asset can be measured reliably

Other research expenditure is written off in the period in which it is incurred

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

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 fair value Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period Held to maturity investments are measured at amortised cost

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 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 21 Trade payables
Trade payables are not interest bearing and are stated at their nominal value

1 22 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 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 Principal accounting policies continued

1.25 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.

1.26 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 36.

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.

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 in 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 to the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on those costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method, giving rise to interest income. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty.

In the construction phase the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin on the construction costs representing the fair value of construction services performed. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long term gilt rates adjusted for the risk levels associated with the assets, with movements in fair value recognised in equity. Amounts accumulated in equity are transferred to the income statement upon disposal of the asset.

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 differ from these judgements, estimates and assumptions. The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group as at 31 December 2012 are discussed below.

1 Principal accounting policies continued

1 27 Judgements and key sources of estimation uncertainty continued

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) 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 arise against which the temporary differences will be utilised

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 2012 was £1,160m (2011 £1,279m)

d) 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

e) Available-for-sale financial assets
At 31 December 2012 £3,183m (2011 £2,938m) of assets constructed by the Group's PPP subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" In the operational phase the fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset A range of discount rates, is used from 4 70% to 7 70% (2011 4 83% to 7 83%), which reflects the prevailing risk free interest rates and the different risk profiles of the various concessions A £405m gain was taken to equity in 2012 and a cumulative fair value gain of £647m had arisen on these financial assets as a result of movements in the fair value of these financial assets at 31 December 2012

f) 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 £20m was taken to equity in 2012 and a cumulative fair value loss of £433m had arisen on these financial instruments at 31 December 2012

g) Recoverable value of recognised receivables
The Group has recognised trade receivables with a carrying value of £824m (2011 £926m re-presented) The recoverability of trade receivables is regularly reviewed in the light of the available economic information specific to each receivable and specific provisions are recognised for balances considered to be irrecoverable

h) Provisions
Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date The Group recognised provisions at 31 December 2012 of £228m (2011 £237m)

i) 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 2012, the retirement benefit liability recognised on the Group's statement of financial position was £338m (2011 £275m) The effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses During 2012 the Group recognised net actuarial losses of £126m in equity (2011 £53m gains), including its share of the actuarial gains and losses arising in joint ventures and associates

1 28 Exchange rates

The following key exchange rates were applied in these financial statements

Average rates

£1 buys	**2012**	2011	Change
US$	**1 59**	1 60	(0 6)%
Euro	**1 23**	1 15	7 0%

Closing rates

£1 buys	**2012**	2011	Change
US$	**1 62**	1 55	4 5%
Euro	**1 23**	1 20	2 5%

2 Revenue

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Revenue from the provision of services*	**9,466**	9,460	**–**	–
Revenue from manufacturing activities	**13**	33	**–**	–
Proceeds from sale of development land	**4**	1	**–**	–
Dividends from subsidiaries	**–**	–	**127**	1
Dividends from joint ventures and associates	**–**	–	**3**	12
Total revenue	**9,483**	9,494	**130**	13
Investment income (Note 6)	**62**	57	**6**	6
Total revenue and investment income	**9,545**	9,551	**136**	19

* Includes IAS 11 construction contract revenue of £8 127m (2011 £8 098m)

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 and airports

3 1 Total Group

Income statement – performance by activity	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments 2012 £m	Corporate activities 2012 £m	Total 2012 £m
Revenue including share of joint ventures and associates	**1,668**	**6,959**	**1,633**	**636**	**–**	**10,896**
Share of revenue of joint ventures and associates	**(21)**	**(830)**	**(135)**	**(427)**	**–**	**(1,413)**
Group revenue	**1,647**	**6,129**	**1,498**	**209**	**–**	**9,483**
Underlying group operating profit/(loss)[1]	**97**	**69**	**49**	**29**	**(32)**	**212**
Share of results of joint ventures and associates	**1**	**53**	**3**	**40**	**–**	**97**
Underlying profit/(loss) from operations[1]	**98**	**122**	**52**	**69**	**(32)**	**309**
Non-underlying items						
– amortisation of acquired intangible assets	**(19)**	**(13)**	**(5)**	**(8)**	**–**	**(45)**
– goodwill impairment in respect of Mainland European rail businesses	**–**	**(95)**	**–**	**–**	**–**	**(95)**
– other non-underlying items	**(13)**	**(51)**	**(16)**	**(12)**	**(3)**	**(95)**
Profit/(loss) from operations	**66**	**(37)**	**31**	**49**	**(35)**	**74**
Investment income						**62**
Finance costs						**(61)**
Profit before taxation						**75**

	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m	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
Non-underlying items						
– 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)

3 Segment analysis continued

3.1 Total Group continued

Assets and liabilities by activity	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments 2012 £m	Corporate activities 2012 £m	Total 2012 £m
Due from construction contract customers	**187**	**387**	**60**	**–**	**–**	**634**
Due to construction contract customers	**(127)**	**(243)**	**(12)**	**–**	**–**	**(382)**
Inventories and non-construction work in progress	**5**	**79**	**87**	**–**	**1**	**172**
Trade and other receivables – current	**309**	**663**	**208**	**49**	**12**	**1,241**
Trade and other payables – current	**(302)**	**(1,455)**	**(368)**	**(43)**	**(46)**	**(2,214)**
Provisions	**(15)**	**(156)**	**(34)**	**(4)**	**(19)**	**(228)**
Working capital*	**57**	**(725)**	**(59)**	**2**	**(52)**	**(777)**

* Includes non-operating items, current working capital and provisions

Total assets	**864**	**2,268**	**579**	**1,341**	**740**	**5,792**
Total liabilities	**(571)**	**(2,087)**	**(449)**	**(256)**	**(1,120)**	**(4,483)**
Net assets/(liabilities)	**293**	**181**	**130**	**1,085**	**(380)**	**1,309**

	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m
Due from construction contract customers	165	412	27	–	–	604
Due to construction contract customers	(151)	(415)	(10)	–	–	(576)
Inventories and non-construction work in progress	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)

* Includes non-operating items, current working capital and provisions

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	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments 2012 £m	Corporate activities 2012 £m	Total 2012 £m
Capital expenditure on property, plant and equipment (Note 15)	**11**	**23**	**13**	**1**	**1**	**49**
Depreciation (Note 15)	**13**	**27**	**21**	**2**	**1**	**64**
Gain on disposals of interests in PPP joint ventures (Note 30.4)	**–**	**–**	**–**	**52**	**–**	**52**

	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m
Capital expenditure on property, plant and equipment (Note 15)	9	31	34	2	1	77
Depreciation (Note 15)	12	29	26	2	1	70
Gain on disposals of interests in PPP joint ventures (Note 30.5)	–	–	–	20	–	20

Performance by geographic destination	United Kingdom 2012 £m	United States 2012 £m	Mainland Europe 2012 £m	Rest of world 2012 £m	Total 2012 £m
Revenue including share of joint ventures and associates	**5,319**	**3,543**	**485**	**1,549**	**10,896**
Share of revenue of joint ventures and associates	**(564)**	**(119)**	**(7)**	**(723)**	**(1,413)**
Group revenue	**4,755**	**3,424**	**478**	**826**	**9,483**
Non-current assets excluding financial assets and deferred tax assets	**1,207**	**835**	**113**	**194**	**2,349**

	2011 £m	2011 £m	2011[5] £m	2011[5] £m	2011 £m
Revenue including share of joint ventures and associates	5,700	3,413	520	1,402	11,035
Share of revenue of joint ventures and associates	(675)	(112)	(26)	(728)	(1,541)
Group revenue	5,025	3,301	494	674	9,494
Non-current assets excluding financial assets and deferred tax assets	999	882	219	177	2,277

[5] Re-presented to separately disclose the geographic information relating to Mainland Europe

Major customers

Included in Group revenue are revenues of £2,240m (2011: £2,093m) from the US Government and £2,166m (2011: £2,626m) from the UK 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 2 Infrastructure Investments (Balfour Beatty Investments UK and Balfour Beatty Investments US)

Underlying profit from operations[1]	Group 2012 £m	Share of joint ventures and associates (Note 16 2)[6] 2012 £m	Total 2012 £m	Group 2011 £m	Share of joint ventures and associates (Note 16 2)[6] 2011 £m	Total 2011 £m
PPP UK^	**2**	**35**	**37**	1	37	38
PPP US	**12**	**6**	**18**	12	7	19
Infrastructure	**(3)**	**(1)**	**(4)**	(3)	(1)	(4)
Gain on disposals of interests in PPP joint ventures	**52**	**–**	**52**	20	–	20
	63	**40**	**103**	30	43	73
Bidding costs and overheads	**(34)**	**–**	**(34)**	(30)	–	(30)
	29	**40**	**69**	–	43	43
Net assets						
PPP UK^	**393**	**528**	**921**	329	299	628
PPP US	**130**	**65**	**195**	144	56	200
Infrastructure	**1**	**–**	**1**	3	5	8
	524	**593**	**1,117**	476	360	836
Infrastructure Investments central functions	**(32)**	**–**	**(32)**	(44)	–	(44)
Total Infrastructure Investments net assets	**492**	**593**	**1,085**	432	360	792
Net borrowings in relation to PPP subsidiaries	**(368)**	**–**	**(368)**	(332)	–	(332)
	124	**593**	**717**	100	360	460

[1] Before non-underlying items (Notes 1 11 and 8)
[6] The Group s share of the results of joint ventures and associates is disclosed net of investment income finance costs and taxation
^ Including Singapore

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

	2012 £m	2011 £m
Income statement		
Group revenue	**90**	90
Profit from operations	**2**	1
Investment income	**31**	25
Finance costs	**(27)**	(22)
Profit before taxation and intra-Group interest*	**6**	4
Statement of cash flows		
Profit from operations	**2**	1
Increase in working capital	**(3)**	(1)
Income taxes paid	**–**	–
Net cash outflow from operating activities	**(1)**	–
Net cash outflow from investing activities	**(22)**	(40)
Net cash outflow from financing activities	**(13)**	(22)
Net cash outflow	**(36)**	(62)
Net borrowings at beginning of year	**(332)**	(270)
Net borrowings at end of year*	**(368)**	(332)
Statement of financial position		
PPP financial assets (Note 18)	**542**	457
Derivative financial instruments	**(141)**	(128)
Other net liabilities	**(8)**	–
	393	329
Cash and cash equivalents	**25**	18
Non-recourse term loans	**(393)**	(350)
Net assets/(liabilities)*	**25**	(3)

* Excludes £3m (2011 £3m) subordinated debt interest payable and £34m (2011 £20m) subordinated debt payable by PPP subsidiaries to their holding companies

4 Profit/(loss) from operations

4 1 Profit/(loss) from operations is stated after charging/(crediting)

	2012 £m	2011 £m
Research and development costs	**3**	6
Depreciation of property, plant and equipment	**64**	70
Amortisation of intangible assets	**49**	66
Goodwill impairment in respect of Mainland European rail businesses (Note 8)	**95**	–
Net reversal of trade receivables impairment provision	**(13)**	–
Impairment of property, plant and equipment	**5**	–
Impairment of inventory	**4**	2
Gain on disposal of property, plant and equipment	**(7)**	(4)
Loss on disposal of UK specialist rail manufacturing business	**–**	7
Cost of inventory recognised as an expense	**223**	172
Exchange gains and losses	**1**	(2)
Auditor's remuneration	**8**	6
Short-term hire charges for plant and equipment	**118**	114
Other operating lease rentals	**110**	113

4 2 Analysis of auditor's remuneration

	2012 £m	2011 £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 5
Taxation compliance fees	**0 3**	0 3
Taxation advisory fees	**0 1**	0 4
Corporate finance fees	**1 6**	–
Other assurance fees	**0 2**	–
Other services	**0 1**	0 1
Total non-audit fees	**2 8**	1 3
Total fees in relation to audit and other services	**7 9**	6 4

5 Employee costs

5 1 Group

Employee costs during the year	2012 £m	2011 £m
Wages and salaries	**2,253**	2,121
Redundancy	**33**	17
Social security costs	**226**	214
Pension costs (Note 26 2)	**104**	105
Share-based payments (Note 31)	**7**	6
	2,623	2,463

Average number of Group employees	2012 Number	2011 Number
Professional Services	**13,894**	13,819
Construction Services	**17,487**	18,292
Support Services	**16,984**	16,534
Infrastructure Investments	**1,621**	1,337
Corporate	**188**	213
	50,174	50,195

At 31 December 2012 the total number of Group employees was 50,304 (2011 50,301)

5 2 Company

The average number of employees of Balfour Beatty plc was 134 (2011 125) Total employee costs of Balfour Beatty plc were £19m (2011 £22m) Total employee costs comprise wages and salaries £14m (2011 £17m), social security costs £2m (2011 £2m), pension costs £1m (2011 £1m), and share-based payments £2m (2011 £2m)

6 Investment income

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
PPP subordinated debt interest receivable	**24**	25	**2**	2
Interest receivable on PPP financial assets	**31**	25	**–**	–
Interest receivable from subsidiaries	**–**	–	**3**	3
Other interest receivable and similar income	**7**	7	**1**	1
	62	57	**6**	6

7 Finance costs

		Group 2012 £m	Group 2011[7] £m	Company 2012 £m	Company 2011[7] £m
PPP non-recourse	– bank loans and overdrafts	**27**	22	**–**	–
Preference shares	– finance cost	**12**	12	**12**	12
Other interest payable	– loans under committed facilities[7]	**8**	3	**8**	3
	– other bank loans and overdrafts[7]	**3**	6	**1**	1
	– commitment fees	**4**	4	**4**	4
	– other finance charges	**7**	4	**–**	–
Net finance cost on pension scheme assets and liabilities (Note 26 2)		**–**	3	**–**	–
Interest payable to subsidiaries		**–**	–	**10**	9
		61	54	**35**	29

[7] Re presented to separately disclose interest payable on loans under committed facilities

8 Non-underlying items

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
8 1 Operating expenses (charged against)/credited to profit				
Continuing operations				
8 1 1 Amortisation of acquired intangible assets	**(45)**	(62)	**–**	–
8 1 2 Other non-underlying items				
– goodwill impairment in respect of Mainland European rail businesses	**(95)**	–	**–**	–
– other restructuring charges in respect of Mainland European rail businesses	**(9)**	–	**–**	–
– restructuring and reorganisation costs relating to other existing businesses	**(61)**	–	**(2)**	–
– post-acquisition integration, reorganisation and other costs	**(9)**	(4)	**–**	–
– write-down of investment in Exeter International Airport	**(12)**	–	**–**	–
– cost of implementing UK shared service centre	**(4)**	(12)	**–**	(1)
– acquisition related expenses	**–**	(3)	**–**	–
– loss on disposal of UK specialist rail manufacturing business	**–**	(7)	**–**	–
Total other non-underlying items	**(190)**	(26)	**(2)**	(1)
Charged against profit before taxation	**(235)**	(88)	**(2)**	(1)
8 2 Tax on items above	**39**	27	**1**	–
Non-underlying items charged against profit for the year from continuing operations	**(196)**	(61)	**(1)**	(1)
Discontinued operation				
8 3 Barking				
– dividends received	**–**	5	**–**	5
– (loss)/gain on disposal of Barking	**–**	(1)	**–**	54
	–	4	**–**	59
(Charged against)/credited to profit for the year	**(196)**	(57)	**(1)**	58

8 Non-underlying items continued

8 1 1 The amortisation of acquired intangible assets comprises customer contracts £16m (2011 £24m), customer relationships £19m (2011 £27m), and brand names £10m (2011 £11m)

8 1 2 1 Following a strategic review in the light of low activity levels and the commoditisation of work, the Group has decided to divest all of its Mainland European rail businesses over time As a result, £95m (2011 £nil) of goodwill in Mainland European rail businesses has been impaired, comprising Germany £80m, Scandinavia £12m, and Spain £3m Refer to Note 13

8 1 2 2 In addition to the goodwill impairment, restructuring costs of £9m (2011 £nil) were incurred during the year in respect of the European rail businesses

8 1 2 3 The Group is restructuring a number of its other businesses in order to increase its focus on the needs of customers and upon growth sectors, further integrate its service offering to these customers, and realise operational efficiencies In 2012 restructuring costs of £61m were incurred (2011 £nil) relating to Construction Services UK £34m, where six business units will be streamlined and restructured into one business with three business streams, Support Services UK £7m, other UK entities £10m, and other non-UK entities £10m These 2012 restructuring costs comprise redundancy costs £20m, external advisers £10m, impairment of land and buildings £5m, other property related costs £11m, pension curtailment cost £2m, and other restructuring costs £13m

The Company incurred restructuring costs of £2m (2011 £nil) during the year

8 1 2 4 Post-acquisition integration and reorganisation costs of £9m (2011 £4m) have been incurred in 2012, of which £8m (2011 £nil) relates to a liability in respect of a geotechnical survey carried out by a company acquired by Parsons Brinckerhoff, prior to its own acquisition by Balfour Beatty in 2009 The remaining £1m comprises £1m (2011 £1m) relating to Parsons Brinckerhoff post-acquisition reorganisation costs, £nil (2011 £1m) relating to SpawMaxwell, £nil (2011 £1m) relating to Rok, and £nil (2011 £1m) relating to various other acquisitions

8 1 2 5 An impairment charge of £12m (2011 £nil) arose on the Group's 60% interest in Regional & City Airports (Exeter) Holdings Ltd from writing the carrying value of the Group's joint venture investment down to £nil, as a result of the continued effect of adverse economic conditions upon traffic at regional airports, which was exacerbated by an increase in Air Passenger Duty effective from April 2012

8 1 2 6 The implementation of the UK shared service centre in Newcastle-upon-Tyne during 2012 led to incremental costs of £4m (2011 £12m) being incurred, of which £nil (2011 £1m) were incurred by the Company

8 1 2 7 No significant costs were incurred in the acquisition of Subsurface on 31 December 2012 Costs of £3m were incurred during 2011 which were directly attributable to the following acquisitions Romec Services Ltd £1m, Fru-Con £1m, and Howard S Wright £1m

8 1 2 8 The UK specialist rail manufacturing business was sold during 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

8 1 3 In addition to the items included above during 2011, 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 £(4)m, and preference dividend to Royal Mail Group £(9)m

8 2 The non-underlying items charged against Group operating profit have given rise to a tax credit of £39m, comprising £14m on amortisation of acquired intangible assets, and £25m on other non-underlying items (2011 £27m comprising £23m on amortisation of acquired intangible assets, and £4m on other non-underlying items)

The non-underlying items charged against Company operating profit have given rise to a tax credit of £1m (2011 £nil)

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

9 Taxation

9 1 Taxation charge

	Group					
	Underlying items[1] 2012 £m	Non-underlying items (Note 8) 2012 £m	Total 2012 £m	Total 2011 £m	Company 2012 £m	Company 2011 £m
Total UK tax	17	(21)	(4)	25	(9)	(5)
Total non-UK tax	53	(18)	35	39	–	–
Total tax charge/(credit)	70	(39)	31	64	(9)	(5)
UK current tax						
– corporation tax for the year at 24 5% (2011 26 5%)	15	(14)	1	–	(10)	(10)
– adjustments in respect of previous periods	(3)	–	(3)	–	1	4
	12	(14)	(2)	–	(9)	(6)
Non-UK current tax						
– non-UK tax on profits for the year	31	4	35	24	–	–
– adjustments in respect of previous periods	2	–	2	(8)	–	–
	33	4	37	16	–	–
Total current tax	45	(10)	35	16	(9)	(6)
UK deferred tax						
– current year charge/(credit)	3	(7)	(4)	22	–	3
– adjustments in respect of previous periods	(1)	–	(1)	1	–	(2)
– UK corporation tax rate change	3	–	3	2	–	–
	5	(7)	(2)	25	–	1
Non-UK deferred tax						
– current year charge/(credit)	27	(22)	5	14	–	–
– adjustments in respect of previous periods	(7)	–	(7)	9	–	–
	20	(22)	(2)	23	–	–
Total deferred tax	25	(29)	(4)	48	–	1

[1] Before non-underlying items (Notes 1 11 and 8)

The Group tax charge 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, tax of £70m is charged directly to equity (2011 £12m), comprising a deferred tax credit of £15m (2011 £12m charge), a current tax credit of £1m (2011 £1m charge), and a deferred tax charge in respect of joint ventures and associates of £86m (2011 £1m credit)

In addition to the Company tax credit, £1m of deferred tax is credited directly to equity (2011 £2m charged)

The weighted average applicable tax rate is 30% (2011 29%) based on underlying profit before taxation, excluding the results of joint ventures and associates

9 Taxation continued

9 2 Taxation reconciliation

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Profit/(loss) before taxation	**75**	246	**75**	(32)
Less share of results of joint ventures and associates	**(97)**	(75)	**–**	–
(Loss)/profit before taxation	**(22)**	171	**75**	(32)
Add non-underlying items charged excluding share of joint ventures and associates	**235**	88	**2**	1
Underlying profit/(loss) before taxation and the results of joint ventures and associates[1]	**213**	259	**77**	(31)
Tax on profit/(loss) before taxation at standard UK corporation tax rate of 24 5% (2011 26 5%)	**52**	69	**19**	(8)
Effects of				
Expenses not deductible for tax purposes	**7**	4	**1**	2
Dividend income not taxable	**–**	–	**(32)**	(4)
Non-taxable disposals	**(12)**	(5)	**–**	–
Tax levied at Group level on share of joint ventures' and associates' profits	**5**	7	**–**	–
Preference share dividends not deductible	**3**	3	**3**	3
Losses not available for offset	**9**	6	**–**	–
Recognition of losses not previously recognised	**(1)**	(1)	**–**	–
Higher tax rates on non-UK earnings	**13**	2	**–**	–
UK corporation tax rate change	**3**	2	**–**	–
Adjustments in respect of previous periods	**(9)**	4	**1**	2
Total tax charge/(credit) on underlying profit/(loss)	**70**	91	**(8)**	(5)
Less tax credit on non-underlying items	**(39)**	(27)	**(1)**	–
Total tax charge/(credit) on profit/(loss)	**31**	64	**(9)**	(5)

1 Before non-underlying items (Notes 1 11 and 8)

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 (BBPF) 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

11 Earnings per ordinary share

Earnings	Basic 2012 £m	Diluted 2012 £m	Basic 2011 £m	Diluted 2011 £m
Continuing operations				
Earnings	**44**	**44**	182	182
Amortisation of acquired intangible assets – net of tax credit of £14m (2011 £23m)	**31**	**31**	39	39
Other non-underlying items – net of tax credit of £25m (2011 £4m)	**165**	**165**	22	22
Underlying earnings	**240**	**240**	243	243
Discontinued operation				
Earnings	**–**	**–**	4	4
Other non-underlying items – net of tax of £nil (2011 £nil)	**–**	**–**	(4)	(4)
Underlying earnings	**–**	**–**	–	–
Total operations				
Earnings	**44**	**44**	186	186
Amortisation of acquired intangible assets – net of tax credit of £14m (2011 £23m)	**31**	**31**	39	39
Other non-underlying items – net of tax credit of £25m (2011 £4m)	**165**	**165**	18	18
Underlying earnings	**240**	**240**	243	243

	Basic 2012 m	Diluted 2012 m	Basic 2011 m	Diluted 2011 m
Weighted average number of ordinary shares	**684**	**685**	683	684

Earnings per share	Basic 2012 Pence	Diluted 2012 Pence	Basic 2011 Pence	Diluted 2011 Pence
Continuing operations				
Earnings per ordinary share	**6 5**	**6 5**	26 7	26 7
Amortisation of acquired intangible assets	**4 4**	**4 4**	5 7	5 7
Other non-underlying items	**24 1**	**24 1**	3 1	3 1
Underlying earnings per ordinary share	**35 0**	**35 0**	35 5	35 5
Discontinued operation				
Earnings per ordinary share	**–**	**–**	0 6	0 6
Other non-underlying items	**–**	**–**	(0 6)	(0 6)
Underlying earnings per ordinary share	**–**	**–**	–	–
Total operations				
Earnings per ordinary share	**6 5**	**6 5**	27 3	27 3
Amortisation of acquired intangible assets	**4 4**	**4 4**	5 7	5 7
Other non-underlying items	**24 1**	**24 1**	2 5	2 5
Underlying earnings per ordinary share	**35 0**	**35 0**	35 5	35 5

12 Dividends on ordinary shares

	Per share 2012 Pence	Amount 2012 £m	Per share 2011 Pence	Amount 2011 £m
Proposed dividends for the year				
Interim – current year	**5 60**	**38**	5 30	36
Final – current year	**8 50**	**58**	8 50	58
	14 10	**96**	13 80	94
Recognised dividends for the year				
Final – prior year		**58**		52
Interim – current year		**38**		36
		96		88

The interim 2012 dividend was paid on 7 December 2012 Subject to approval at the Annual General Meeting on 16 May 2013, the final 2012 dividend will be paid on 5 July 2013 to holders on the register on 26 April 2013 The ordinary shares will be quoted ex-dividend on 24 April 2013

	2012 £m	2011 £m
Dividends on ordinary shares of the Company	**96**	88
Other dividends to non-controlling interests	**1**	–
Total recognised dividends for the year	**97**	88

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2011	1,242	(46)	1,196
Currency translation differences	1	–	1
Businesses acquired	89	–	89
Business disposed	(7)	–	(7)
At 31 December 2011	1,325	(46)	1,279
Currency translation differences	**(34)**	**2**	**(32)**
Impairment charges in respect of Mainland European rail businesses (Note 8)	**–**	**(95)**	**(95)**
Business acquired (Note 30 1)	**9**	**–**	**9**
Businesses acquired – prior year (Note 30 3)	**(1)**	**–**	**(1)**
At 31 December 2012	**1,299**	**(139)**	**1,160**

Carrying amounts of goodwill by segment	**2012** United Kingdom £m	**2012** United States £m	**2012** Mainland Europe £m	**2012** Rest of world £m	**2012** Total £m	2011 United Kingdom £m	2011 United States £m	2011 Mainland Europe[5] £m	2011 Rest of world[5] £m	2011 Total £m
Professional Services	**10**	**169**	**1**	**57**	**237**	10	166	1	60	237
Construction Services	**329**	**362**	**61**	**–**	**752**	329	379	162	–	870
Support Services	**125**	**–**	**–**	**–**	**125**	125	–	–	–	125
Infrastructure Investments	**4**	**42**	**–**	**–**	**46**	4	43	–	–	47
Group	**468**	**573**	**62**	**57**	**1,160**	468	588	163	60	1,279

[5] Re-presented to separately disclose the geographic information relating to Mainland Europe

The recoverable amount of goodwill is based on value in use Cash flow forecasts are based on the expected workload of each cash-generating unit (CGU) giving consideration to the current level of confirmed and anticipated orders Cash flow forecasts for the next three years (2011 four years) are based on the Group's 2013 budget and strategic roadmap The other key inputs in assessing each CGU are its revenue growth rate and discount rate The revenue growth rates have been applied to cash flows after three years (2011 four years) into perpetuity and have been derived from estimated GDP growth rates based on published data for the economic environment of each CGU less 1 0% to reflect current economic uncertainties and their consequent estimated effect on public sector spending on infrastructure The cash flows assume a residual value based on a multiple of earnings before interest and tax

The cash flows have been discounted using CGU specific pre-tax discount rates of 9 0% to 13 7% (2011 10 3% to 13 4%) The discount rates are revised annually applying updated market inputs to the capital asset pricing model

	2012 United Kingdom %	**2012** United States %	**2012** Mainland Europe %	**2012** Rest of world %	2011 United Kingdom %	2011 United States %	2011 Mainland Europe[5] %	2011 Rest of world[5] %
Inflation rate	**2 2**	**2 2**	**2 2**	**2 2**	2 0	1 7	2 0	1 7
Real growth rate	**1 3**	**1 7**	**0 3**	**2 1**	1 7	2 4	0 5	2 4
Nominal long term revenue growth rate applied	**3 5**	**3 9**	**2 5**	**4 3**	3 7	4 1	2 5	4 1

[5] Re-presented to separately disclose the geographic information relating to Mainland Europe

Following a strategic review in the light of low activity levels and the commoditisation of work, the Group has decided to divest all of its Mainland European rail businesses over time As a result, £95m (2011 £nil) of goodwill in Mainland European rail businesses has been impaired, comprising Germany £80m, Scandinavia £12m, and Spain £3m The residual goodwill in the CGU is £61m

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 reasonable possible change in a single assumption will not give rise to impairment in any of the Group's CGUs

Following the impairment in Mainland European rail businesses using a discount rate of 9 2% and revenue growth rate of 2 5% the recoverable amount of goodwill is £61m based on value in use, with a consequent headroom of £nil A 1 0% increase in the discount rate or a 1 0% reduction in the growth rate would lead to a further impairment of £16m or £13m respectively

The recoverable amount of the Blackpool International Airport goodwill is £4m with headroom of £nil, based on the value in use of the trading business and the fair value of the land Any decrease in the fair value of the land will lead to a commensurate impairment of the goodwill

14 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Software*^ £m	Total £m
Cost					
At 1 January 2011	227	124	51	20	422
Currency translation differences	2	1	–	–	3
Additions	–	–	–	19	19
Businesses acquired	7	20	7	–	34
At 31 December 2011	236	145	58	39	478
Currency translation differences	**(9)**	**(5)**	**(1)**	**–**	**(15)**
Additions	**–**	**–**	**–**	**25**	**25**
Business acquired (Note 30 1)	**1**	**1**	**1**	**–**	**3**
At 31 December 2012	**228**	**141**	**58**	**64**	**491**
Accumulated amortisation					
At 1 January 2011	(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)
Currency translation differences	**5**	**3**	**1**	**–**	**9**
Charge for the year	**(16)**	**(19)**	**(10)**	**(4)**	**(49)**
At 31 December 2012	**(133)**	**(95)**	**(40)**	**(11)**	**(279)**
Carrying amount					
At 31 December 2012	**95**	**46**	**18**	**53**	**212**
At 31 December 2011	114	66	27	32	239

* Primarily includes software of the UK shared service centre and operating companies with a cost of £45m (2011 £27m) and accumulated amortisation of £1m (2011 £nil)
^ Of the total software £49m (2011 £30m) is internally generated software with a cost of £50m (2011 £30m re-presented) and accumulated amortisation of £1m (2011 £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 Investments US which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships These contracts have a duration of up to eight years for customer contracts and relationships relating to Parsons Brinckerhoff and Barnhart and up to 50 years for customer contracts relating to Balfour Beatty Investments US The software for the UK shared service centre and operating companies is amortised on a basis matching its usage profile over its seven-year life The Group's knowledge sharing and collaboration software is amortised on a basis matching its usage profile over its five-year life

15 Property, plant and equipment

15 1 Movements

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Group Total £m
Cost or valuation				
At 1 January 2011	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	2	3	–	5
At 31 December 2011	122	562	4	688
Currency translation differences	**(4)**	**(9)**	**–**	**(13)**
Additions	**7**	**42**	**–**	**49**
Disposals	**(8)**	**(77)**	**–**	**(85)**
Impairment (Note 8)	**(5)**	**–**	**–**	**(5)**
Transfers	**–**	**4**	**(4)**	**–**
At 31 December 2012	**112**	**522**	**–**	**634**
Accumulated depreciation				
At 1 January 2011	(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)
Currency translation differences	**1**	**5**	**–**	**6**
Charge for the year	**(10)**	**(54)**	**–**	**(64)**
Disposals	**5**	**66**	**–**	**71**
At 31 December 2012	**(49)**	**(338)**	**–**	**(387)**
Carrying amount				
At 31 December 2012	**63**	**184**	**–**	**247**
At 31 December 2011	77	207	4	288

The carrying amount of the Group's land and buildings and property, plant and equipment held under finance leases was £7m (2011 £9m) The Company has no land and buildings or property, plant and equipment held under finance leases

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated on a straight-line basis over their expected useful lives Buildings are depreciated at 2 5% pa or over the term of the lease, and plant and equipment is depreciated at 4% to 33% pa

15 2 Analysis of carrying amount of land and buildings

	Group 2012 £m	Group 2011 £m
Freehold	**31**	40
Long leasehold – over 50 years unexpired	**5**	5
Short leasehold	**27**	32
	63	77

16 Investments in joint ventures and associates

16 1 Movements

	Net assets £m	Loans £m	Provisions £m	Total £m
At 1 January 2011	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
Currency translation differences	**(5)**	**–**	**–**	**(5)**
Income recognised	**97**	**–**	**–**	**97**
Fair value revaluation of PPP financial assets	**374**	**–**	**–**	**374**
Fair value revaluation of PPP cash flow hedges	**(8)**	**–**	**–**	**(8)**
Fair value revaluation of other cash flow hedges	**1**	**–**	**–**	**1**
Actuarial losses on retirement benefit obligations	**(5)**	**–**	**–**	**(5)**
Tax on items taken directly to equity	**(86)**	**–**	**–**	**(86)**
Dividends	**(58)**	**–**	**–**	**(58)**
Additions	**20**	**–**	**–**	**20**
Disposals	**(68)**	**(9)**	**–**	**(77)**
Write-down of investment in Exeter International Airport	**(12)**	**–**	**–**	**(12)**
Loans advanced	**–**	**27**	**–**	**27**
Loans repaid	**–**	**(12)**	**–**	**(12)**
Provisions utilised	**–**	**–**	**4**	**4**
At 31 December 2012	**543**	**270**	**(87)**	**726**

The principal joint ventures and associates are shown in Note 37 The original cost of the Group's investments in joint ventures and associates was £199m (2011 £187m) 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 £nil (2011 £1m), 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 is complete As is customary in such projects, banking covenants restrict the payment of dividends and other distributions

16 Investments in joint ventures and associates continued

16 2 Share of results and net assets of joint ventures and associates

Income statement	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments UK PPP^ 2012 £m	US PPP 2012 £m	Infrastructure 2012 £m	Total 2012 £m	Total 2012 £m
Revenue	21	830	135	422	–	5	427	1,413
Underlying operating profit[1]	1	57	3	19	6	–	25	86
Investment income	–	1	–	180	–	–	180	181
Finance costs	–	–	–	(155)	–	(2)	(157)	(157)
Profit/(loss) before taxation	1	58	3	44	6	(2)	48	110
Taxation	–	(5)	–	(9)	–	1	(8)	(13)
Profit/(loss) after taxation	1	53	3	35	6	(1)	40	97
Statement of financial position								
Non-current assets								
Intangible assets – goodwill	–	30	–	–	–	12	12	42
– PPP concession intangible	–	–	–	18	–	–	18	18
– other	–	2	–	1	–	–	1	3
Property, plant and equipment	–	41	7	1	–	13	14	62
PPP financial assets	–	–	–	2,641	–	–	2,641	2,641
Military housing projects	–	–	–	–	65	–	65	65
Other non-current assets	–	11	2	11	–	3	14	27
Current assets								
Cash and cash equivalents	5	202	9	211	–	2	213	429
Other current assets	2	357	27	95	–	15	110	496
Total assets	7	643	45	2,978	65	45	3,088	3,783
Current liabilities								
Borrowings – recourse	–	(45)	–	–	–	–	–	(45)
Borrowings – non-recourse	–	–	–	(58)	–	–	(58)	(58)
Other current liabilities	(3)	(441)	(37)	(206)	–	(6)	(212)	(693)
Non-current liabilities								
Borrowings – non-recourse	–	–	–	(1,871)	–	(38)	(1,909)	(1,909)
Other non-current liabilities	(3)	(33)	–	(315)	–	(1)	(316)	(352)
Total liabilities	(6)	(519)	(37)	(2,450)	–	(45)	(2,495)	(3,057)
Net assets	1	124	8	528	65	–	593	726

^ Including Singapore

1 Before non-underlying items (Notes 1 11 and 8)

The Group's investment in military housing joint ventures' and associates' projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects The military housing joint ventures and associates have total non-recourse net borrowings of £1,787m (2011 £1,717m) Note 37(e) details the Group's military housing 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 (2011 £2m)

As a result of the net fair value revaluations of PPP financial assets and cash flow hedges on three PPP concessions, where the borrowings are non-recourse to the Group, the Group has not recognised cumulative fair value revaluation charges to other comprehensive income of £15m (2011 £10m)

Following the write down of the Group's investment in Exeter International Airport, where the borrowings are non-recourse to the Group, the Group ceased recognising its share of Exeter's further losses of £1m (2011 £nil)

16 Investments in joint ventures and associates continued

16 2 Share of results and net assets of joint ventures and associates continued

Income statement	Professional Services 2011 £m	Construction Services 2011 £m	Support Services 2011 £m	Infrastructure Investments UK PPP^ 2011 £m	Infrastructure Investments US PPP 2011 £m	Infrastructure Investments Infrastructure 2011 £m	Infrastructure Investments 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
Statement of financial position								
Non-current assets								
Intangible assets – goodwill	–	31	–	–	–	24	24	55
– PPP concession intangible	–	–	–	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	341	42	96	1	2	99	485
Total assets*	6	620	52	2,837	56	50	2,943	3,621
Current liabilities								
Borrowings – recourse	–	(47)	–	–	–	–	–	(47)
Borrowings – non-recourse	–	–	–	(79)	–	–	(79)	(79)
Other current liabilities*	(3)	(442)	(41)	(187)	–	(8)	(195)	(681)
Non-current liabilities								
Borrowings – recourse	–	(1)	–	–	–	–	–	(1)
Borrowings – non-recourse	–	–	–	(1,915)	–	(37)	(1,952)	(1,952)
Other non-current liabilities	(2)	(36)	–	(357)	–	–	(357)	(395)
Total liabilities	(5)	(526)	(41)	(2,538)	–	(45)	(2,583)	(3,155)
Net assets	1	94	11	299	56	5	360	466

* Re-presented in accordance with Group policy
^ Including Singapore
1 Before non-underlying items (Notes 1 11 and 8)

16 3 PPP investments

	Net investment 2012 £m	**Reserves 2012 £m**	**Total 2012 £m**	Net investment 2011 £m	Reserves 2011 £m	Total 2011 £m
Roads	**101**	**238**	**339**	99	(15)	84
Hospitals	**78**	**45**	**123**	80	75	155
Schools	**54**	**4**	**58**	47	5	52
Other concessions	**1**	**7**	**8**	2	6	8
PPP UK^	**234**	**294**	**528**	228	71	299
PPP US	**53**	**12**	**65**	45	11	56
PPP investments	**287**	**306**	**593**	273	82	355

^ Including Singapore

16 Investments in joint ventures and associates continued

16.4 Cash flow from/(to) joint ventures and associates

Cash flows from investing activities	UK PPP^ 2012 £m	US PPP 2012 £m	Other 2012 £m	Total 2012 £m	UK PPP^ 2011 £m	US PPP 2011 £m	Other 2011 £m	Total 2011 £m
Dividends from joint ventures and associates	25	7	26	58	26	6	22	54
Subordinated debt interest received	20	–	–	20	18	–	–	18
Investments in and loans to joint ventures and associates	(15)	(12)	–	(27)	(31)	(10)	–	(41)
Disposal of investments in joint ventures	81	–	–	81	28	–	–	28
Net cash flow from/(to) joint ventures and associates	111	(5)	26	132	41	(4)	22	59

Investments in and loans to joint ventures and associates	UK PPP^ 2012 £m	US PPP 2012 £m	Total 2012 £m	UK PPP^ 2011 £m	US PPP 2011 £m	Total 2011 £m
Equity	–	(12)	(12)	–	(10)	(10)
Subordinated debt proceeds	(27)	–	(27)	(32)	–	(32)
Subordinated debt repaid	12	–	12	1	–	1
Total investments in joint ventures and associates	(15)	(12)	(27)	(31)	(10)	(41)

^ Including Singapore

16.5 Share of reserves of joint ventures and associates

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total £m
Balance at 1 January 2011	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 movements on retirement benefit liabilities	(7)	–	–	–	(7)
Tax on items taken directly to equity	1	32	(32)	–	1
Dividends paid	(54)	–	–	–	(54)
Recycling of revaluation reserves to the income statement on disposal	–	–	(6)	–	(6)
Balance at 31 December 2011	174	(233)	181	22	144
Currency translation differences	–	–	–	(2)	(2)
Income recognised	97	–	–	–	97
Fair value revaluation of PPP financial assets	–	–	374	–	374
Fair value revaluation of PPP cash flow hedges	–	(8)	–	–	(8)
Fair value revaluation of other cash flow hedges	–	1	–	–	1
Actuarial movements on retirement benefit liabilities	(5)	–	–	–	(5)
Tax on items taken directly to equity	–	(5)	(81)	–	(86)
Dividends	(58)	–	–	–	(58)
Recycling of revaluation reserves to the income statement on disposal	–	27	(75)	–	(48)
Other reserves disposed[4]	(72)	–	–	–	(72)
Balance at 31 December 2012	136	(218)	399	20	337

[4] Includes £52m joint ventures and associates reserves disposed relating to joint ventures disposed or liquidated in prior years

17 Investments

17.1 Group

	Held to maturity bonds £m	Available-for sale investments in mutual funds £m	Total £m
Balance at 1 January 2011	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
Currency translation differences	–	**(2)**	**(2)**
Fair value movements	–	**4**	**4**
Additions	–	**5**	**5**
Maturities/disposals	**(4)**	**(5)**	**(9)**
Balance at 31 December 2012	**42**	**52**	**94**

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 1.20% (2011: 2.08%) and weighted average life of 2.3 years (2011: 3.2 years). The fair value of the bonds is £45m (2011: £48m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2012 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The available-for-sale investments in mutual funds comprise holdings in a number of funds, based on employees' investment elections, in respect of the deferred compensation obligations of the Group as disclosed in Note 26. The fair value of the available-for-sale investments is £52m (2011: £50m), determined by the market price of each fund at the reporting date.

17.2 Company

	2012 £m	2011 £m
Investment in subsidiaries	**2,072**	1,877
Investment in joint ventures and associates	**3**	3
Provisions	**(138)**	(138)
	1,937	1,742

18 PPP financial assets

	Schools £m	Roads £m	Other £m	Total £m
Balance at 1 January 2011	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
Income recognised in the income statement				
– construction contract margin	–	**1**	–	**1**
– interest income	**12**	**16**	**3**	**31**
(Losses)/gains recognised in the statement of comprehensive income				
– fair value movements	**(3)**	**34**	–	**31**
Other movements				
– cash expenditure	**10**	**38**	**19**	**67**
– cash received	**(17)**	**(26)**	**(2)**	**(45)**
Balance at 31 December 2012	**217**	**280**	**45**	**542**

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 2012 or 2011.

19 Inventories

	2012 £m	2011 £m
Unbilled non-construction work in progress	**76**	47
Raw materials and consumables	**50**	62
Development and housing land and work in progress	**32**	17
Manufacturing work in progress	**6**	6
Finished goods and goods for resale	**8**	8
	172	140

20 Construction contracts

Contracts in progress at reporting date	2012 £m	2011 £m
Due from construction contract customers	**634**	604
Due to construction contract customers	**(382)**	(576)
	252	28

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 £15,647m (2011 £16,910m)

21 Trade and other receivables

	Group 2012 £m	Group 2011[8] £m	Company 2012 £m	Company 2011[8] £m
Current				
Trade receivables[8]	**851**	970	**–**	–
Less Provision for impairment of trade receivables	**(29)**	(46)	**–**	–
	822	924	**–**	–
Other receivables[8]	**69**	124	**6**	8
Due from subsidiaries	**–**	–	**1,144**	1,285
Due from joint ventures and associates	**38**	24	**–**	–
Due from jointly controlled operations	**1**	2	**–**	–
Contract retentions receivable	**199**	244	**–**	–
Accrued income	**38**	34	**–**	–
Prepayments	**74**	58	**2**	2
	1,241	1,410	**1,152**	1,295
Non-current				
Trade receivables[8]	**2**	2	**–**	–
Other receivables[8]	**9**	15	**–**	–
Due from joint ventures and associates	**2**	2	**19**	20
Contract retentions receivable	**67**	47	**–**	–
Prepayments	**4**	5	**4**	5
Due on acquisitions	**16**	16	**–**	–
	100	87	**23**	25
Total trade and other receivables	**1,341**	1,497	**1,175**	1,320
Comprising				
Financial assets	**1,263**	1,434	**1,169**	1,313
Non-financial assets – prepayments	**78**	63	**6**	7
	1,341	1,497	**1,175**	1,320

[8] Re-presented to separately identify trade receivables and other receivables which were previously disclosed as trade receivables (Notes 1 2 and 38 2)

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Directors believe no further credit risk provision is required in respect of trade receivables

The Directors consider that the carrying values of current trade and other receivables approximate their fair values The fair value of non-current trade and other receivables amounts to £98m (2011 £83m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date

21 Trade and other receivables continued

Movement in the provision for impairment of trade receivables

	Group 2012 £m	Group 2011 £m
Balance at 1 January	**(46)**	(48)
Currency translation differences	**1**	–
(Charged)/credited to the income statement		
– additional provisions	**(9)**	(11)
– unused amounts reversed	**22**	11
Utilised during the year	**3**	2
Balance at 31 December	**(29)**	(46)

Maturity profile of impaired trade receivables

	Group 2012 £m	Group 2011 £m
Up to three months	**1**	2
Three to six months	**3**	1
Six to nine months	**1**	1
Nine to 12 months	**1**	5
More than 12 months	**23**	37
	29	46

At 31 December 2012, trade receivables of £245m (2011 £194m) 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 2012 £m	Group 2011 £m
Up to three months	**154**	137
Three to six months	**39**	27
Six to nine months	**15**	13
Nine to 12 months	**10**	11
More than 12 months	**27**	6
	245	194

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year

22 Trade and other payables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Current				
Trade and other payables	**900**	1,183	**10**	8
Accruals	**1,130**	1,052	**8**	7
Deferred income	**15**	32	**1**	1
Advance payments on contracts*	**19**	18	**–**	–
VAT, payroll taxes and social security	**108**	114	**14**	15
Due to subsidiaries	**–**	–	**1,421**	1,558
Due to joint ventures and associates	**15**	8	**5**	–
Dividends on preference shares	**5**	5	**5**	5
Due on acquisitions	**22**	14	**–**	–
	2,214	2,426	**1,464**	1,594
Non-current				
Trade and other payables	**94**	69	**–**	–
Accruals	**16**	19	**–**	–
Deferred income	**4**	6	**–**	–
Advance payments on contracts	**1**	2	**–**	–
Due to joint ventures and associates	**25**	25	**25**	25
Due on acquisitions	**19**	21	**–**	–
	159	142	**25**	25
Total trade and other payables	**2,373**	2,568	**1,489**	1,619
Comprising				
Financial liabilities	**2,150**	2,326	**1,474**	1,603
Non-financial liabilities				
– accruals not at amortised cost	**96**	90	**–**	–
– deferred income	**19**	38	**1**	1
– VAT, payroll taxes and social security	**108**	114	**14**	15
	2,373	2,568	**1,489**	1,619

* Includes £14m (2011 £12m) advances on construction contracts

Maturity profile of the Group's non-current trade and other payables at 31 December

	Trade and other payables 2012 £m	Accruals 2012 £m	Deferred income 2012 £m	Advance payments on contracts 2012 £m	Due to joint ventures and associates 2012 £m	Due on acquisitions 2012 £m	Total 2012 £m
Due within one to two years	**47**	**6**	**–**	**1**	**–**	**3**	**57**
Due within two to five years	**14**	**7**	**3**	**–**	**3**	**7**	**34**
Due after more than five years	**33**	**3**	**1**	**–**	**22**	**9**	**68**
	94	**16**	**4**	**1**	**25**	**19**	**159**
Fair values	**80**	**15**	**2**	**1**	**18**	**19**	**135**

	Trade and other payables 2011 £m	Accruals 2011 £m	Deferred income 2011 £m	Advance payments on contracts 2011 £m	Due to joint ventures and associates 2011 £m	Due on acquisitions 2011 £m	Total 2011 £m
Due within one to two years	23	6	1	2	–	3	35
Due within two to five years	13	10	3	–	1	7	34
Due after more than five years	33	3	2	–	24	11	73
	69	19	6	2	25	21	142
Fair values	57	16	5	1	17	21	117

The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date

23 Provisions

	Group Contract provisions £m	Group Employee provisions £m	Group Other provisions £m	Group Total £m	Company Other provisions £m
At 1 January 2011	145	29	68	242	7
Currency translation differences	–	–	1	1	–
Charged to the income statement					
– additional provisions	42	8	12	62	–
– unused amounts reversed	(23)	(2)	(11)	(36)	(1)
Utilised during the year	(16)	(5)	(10)	(31)	–
Businesses disposed	(1)	–	–	(1)	–
At 31 December 2011	147	30	60	237	6
Currency translation differences	**(3)**	**–**	**–**	**(3)**	**–**
Transfers	**(6)**	**15**	**(9)**	**–**	**–**
Charged to the income statement					
– additional provisions	**74**	**43**	**22**	**139**	**–**
– unused amounts reversed	**(49)**	**(14)**	**(8)**	**(71)**	**(1)**
Utilised during the year	**(38)**	**(17)**	**(19)**	**(74)**	**–**
At 31 December 2012	**125**	**57**	**46**	**228**	**5**

	Group Contract provisions 2012 £m	**Group Employee provisions 2012 £m**	**Group Other provisions 2012 £m**	**Group Total 2012 £m**	Group Contract provisions 2011 £m	Group Employee provisions 2011 £m	Group Other provisions 2011 £m	Group Total 2011 £m	**Company Other provisions 2012 £m**	Company Other provisions 2011 £m
Due within one year	**71**	**26**	**19**	**116**	73	12	22	107	**–**	–
Due within one to two years	**35**	**18**	**11**	**64**	38	9	15	62	**1**	1
Due within two to five years	**16**	**12**	**10**	**38**	30	7	18	55	**4**	5
Due after more than five years	**3**	**1**	**6**	**10**	6	2	5	13	**–**	–
	125	**57**	**46**	**228**	147	30	60	237	**5**	6

Contract provisions include construction insurance liabilities retained in the Group's captive insurance company and construction fault and warranty provisions Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's captive insurance company 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

24 Cash and cash equivalents and borrowings

24 1 Group

	Current 2012 £m	Non-current 2012 £m	Total 2012 £m	Current[7] 2011 £m	Non-current 2011 £m	Total[7] 2011 £m
Unsecured borrowings at amortised cost						
– bank overdrafts	**(10)**	**–**	**(10)**	(15)	–	(15)
– loans under committed facilities expiring in less than one year[7]	**–**	**–**	**–**	(32)	–	(32)
– loans under committed facilities expiring in more than one year[7]	**(410)**	**–**	**(410)**	(180)	–	(180)
– other loans[7]	**(56)**	**(2)**	**(58)**	–	(2)	(2)
Secured borrowings at amortised cost						
– finance leases	**(1)**	**(3)**	**(4)**	(4)	(4)	(8)
	(477)	**(5)**	**(482)**	(231)	(6)	(237)
Cash and deposits at amortised cost	**515**	**–**	**515**	574	–	574
Term deposits at amortised cost	**2**	**–**	**2**	3	–	3
Non-PPP cash and cash equivalents	**517**	**–**	**517**	577	–	577
	40	**(5)**	**35**	346	(6)	340
PPP non-recourse term loans at amortised cost						
– sterling floating rate term loan (2008–2027)	**(1)**	**(21)**	**(22)**	–	(22)	(22)
– sterling floating rate term loan (2011–2030)	**–**	**(24)**	**(24)**	(1)	(24)	(25)
– sterling floating rate term loan (2012–2031)	**(1)**	**(24)**	**(25)**	(3)	(21)	(24)
– sterling floating rate term loan (2010–2034)	**(5)**	**(165)**	**(170)**	(6)	(161)	(167)
– sterling floating rate term loan (2016–2035)	**–**	**(19)**	**(19)**	–	(7)	(7)
– sterling floating rate term loan (2016–2035)	**–**	**(10)**	**(10)**	–	(3)	(3)
– sterling floating rate term loan (2016–2036)	**–**	**(11)**	**(11)**	–	(3)	(3)
– sterling floating rate term loan (2012–2037)	**–**	**(68)**	**(68)**	(11)	(65)	(76)
– sterling floating rate term loan (2013–2037)	**(5)**	**(39)**	**(44)**	–	(23)	(23)
	(12)	**(381)**	**(393)**	(21)	(329)	(350)
PPP cash and cash equivalents	**25**	**–**	**25**	18	–	18
	13	**(381)**	**(368)**	(3)	(329)	(332)
Net (borrowings)/cash	**53**	**(386)**	**(333)**	343	(335)	8

[7] Re-presented to separately disclose loans under committed facilities

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

Included in cash and cash equivalents above is restricted cash of £15m (2011 £10m) held by the Group's captive insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations, and £25m (2011 £18m) relating to amounts held by the PPP concession subsidiaries

Cash, deposits and term deposits include the Group's share of amounts held by jointly controlled operations of £232m (2011 £243m)

The Group discloses its borrowings under committed facilities as current liabilities due to requirements in IAS 1 The borrowings however are drawn down under committed facilities expiring in more than one year and the Group believes they can be rolled forward within the terms of the facilities

Maturity profile of the Group's borrowings at 31 December

	PPP non-recourse project finance 2012 £m	Finance leases 2012 £m	Other borrowings 2012 £m	Total 2012 £m	PPP non recourse project finance 2011 £m	Finance leases 2011 £m	Other borrowings 2011 £m	Total 2011 £m
Due on demand or within one year	**(12)**	**(1)**	**(476)**	**(489)**	(21)	(4)	(227)	(252)
Due within one to two years	**(9)**	**(1)**	**–**	**(10)**	(12)	(1)	–	(13)
Due within two to five years	**(50)**	**(1)**	**(1)**	**(52)**	(36)	–	–	(36)
Due after more than five years	**(322)**	**(1)**	**(1)**	**(324)**	(281)	(3)	(2)	(286)
	(393)	**(4)**	**(478)**	**(875)**	(350)	(8)	(229)	(587)

The carrying values of the Group's borrowings are equal to the fair values at 31 December 2012 and 2011 The fair values are determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date

24 Cash and cash equivalents and borrowings continued

24 1 Group continued

Group undrawn committed borrowing facilities at 31 December in respect of which all conditions precedent were satisfied

	PPP non-recourse project finance 2012 £m	Other borrowings 2012 £m	Total 2012 £m	PPP non recourse project finance 2011 £m	Other borrowings 2011 £m	Total 2011 £m
Expiring in one year or less	**41**	**–**	**41**	64	20	84
Expiring in more than one year but not more than two years	**36**	**55**	**91**	42	154	196
Expiring in more than two years	**56**	**540**	**596**	91	670	761
	133	**595**	**728**	197	844	1,041

24 2 Company

	Current 2012 £m	Non-current 2012 £m	Total 2012 £m	Current 2011 £m	Non-current 2011 £m	Total 2011 £m
Unsecured borrowings at amortised cost						
– bank loans and overdrafts	**(56)**	**–**	**(56)**	(24)	–	(24)
– loans under committed facilities	**(410)**	**–**	**(410)**	(212)	–	(212)
Net borrowings	**(466)**	**–**	**(466)**	(236)	–	(236)

The bank loans and overdrafts are sterling denominated, variable rate instruments and repayable on demand Loans under committed facilities comprise £410m (2011 £180m) sterling denominated borrowings and US$nil borrowings (2011 US$50m) which are variable rate instruments repayable within one year

The Company had cash and cash equivalents of £43m at 31 December 2012 (2011 £nil) Refer to Note 29 2

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

Net deferred tax position at 31 December

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Deferred tax assets	**117**	105	**–**	–
Deferred tax liabilities	**(10)**	(15)	**–**	(1)
	107	90	**–**	(1)

Movement for the year in the net deferred tax position

	Group £m	Company £m
At 1 January 2011	155	2
Charged to income statement[9]	(48)	(1)
Charged to equity[9]	(12)	(2)
Businesses acquired	(5)	–
At 31 December 2011	90	(1)
Credited to income statement[9]	**4**	**–**
Credited to equity[9]	**15**	**1**
Businesses acquired	**(2)**	**–**
At 31 December 2012	**107**	**–**

[9] Group includes £3m charged (2011 £2m) to the income statement and £5m charged (2011 £4m) to equity in relation to the reduction in the UK corporation tax rate

25 Deferred tax continued

25 2 Group

Deferred tax assets	Accelerated tax depreciation £m	Retirement benefit liabilities £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Derivatives £m	Total £m
At 1 January 2011	13	120	14	5	46	4	202
Currency translation differences	–	–	–	–	(1)	–	(1)
Reclassifications/transfers	(1)	–	1	–	(3)	1	(2)
Credited/(charged) to income statement	5	(28)	–	–	(26)	–	(49)
(Charged)/credited to equity	–	(17)	–	(2)	1	5	(13)
At 31 December 2011	17	75	15	3	17	10	137
Currency translation differences	–	**1**	**(1)**	–	**(1)**	–	**(1)**
Credited/(charged) to income statement	**3**	**(15)**	**7**	–	**6**	–	**1**
Credited/(charged) to equity	–	**19**	–	–	–	**(5)**	**14**
Business acquired	–	–	–	–	**(2)**	–	**(2)**
At 31 December 2012	**20**	**80**	**21**	**3**	**20**	**5**	**149**

Deferred tax liabilities	Revaluation of properties £m	Goodwill £m	Preference shares £m	Fair value adjustments £m	Loss of IBAs £m	Total £m
At 1 January 2011	(1)	(10)	(7)	(26)	(3)	(47)
Currency translation differences	–	–	–	1	–	1
Reclassifications/transfers	–	–	–	2	–	2
Credited to income statement	–	–	–	–	1	1
Credited to equity	–	–	1	–	–	1
Businesses acquired	–	–	–	(5)	–	(5)
At 31 December 2011	(1)	(10)	(6)	(28)	(2)	(47)
Currency translation differences	–	–	–	**1**	–	**1**
Credited/(charged) to income statement	–	**3**	–	**(1)**	**1**	**3**
Credited to equity	–	–	**1**	–	–	**1**
At 31 December 2012	**(1)**	**(7)**	**(5)**	**(28)**	**(1)**	**(42)**
Total net deferred tax asset						**107**

The Finance Act 2011, which was enacted as at 31 December 2011, implemented a reduction in the main UK corporation tax rate from 27% to 26% effective from 1 April 2011 and to 25% effective from 1 April 2012 Subsequently, the Finance Act 2012, which was enacted on 17 July 2012, reduced the main UK corporation tax rate by an additional 1% to 24% from 1 April 2012 and by a further 1% to 23% from 1 April 2013 In 2012, the effect of the reduction in the UK tax rate reduced the Group's net deferred tax asset by £8m, with £3m being charged to the income statement and £5m being charged to equity

In the 2012 Autumn Statement it was announced, although not enacted, that there will be a further 2% reduction in the main UK corporation tax rate to bring the rate down to 21% from 1 April 2014 Should the future UK corporation tax rate reduction be enacted, based on the latest forecasts, this will give rise to a further reduction in the Group's net deferred tax asset of £8m by 2014 with £3m being charged to the income statement and £5m being charged to equity

At the reporting date, the Group had unrecognised tax losses that arose over a number of years of approximately £280m (2011 £273m) which are available for offset against future profits £22m (2011 £26m) 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 for which deferred tax liabilities have not been recognised was £905m (2011 £924m) in respect of subsidiaries and £128m (2011 £110m) in respect of joint ventures and associates No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated

25 3 Company

Deferred tax assets and liabilities	Deferred tax liability	Deferred tax assets				
	Preference shares £m	Share-based payments £m	Retirement benefit liabilities £m	Provisions £m	Total £m	Net deferred tax assets/(liability) £m
At 1 January 2011	(7)	3	3	3	9	2
Charged to income statement	–	–	–	(1)	(1)	(1)
Credited/(charged) to equity[9]	1	(1)	(2)	–	(3)	(2)
At 31 December 2011	(6)	2	1	2	5	(1)
Credited/(charged) to equity[9]	**1**	–	–	–	–	**1**
At 31 December 2012	**(5)**	**2**	**1**	**2**	**5**	–

[9] The Company includes £nil credited (2011 £1m) to equity in relation to the reduction in the UK corporation tax rate

26 Retirement benefit liabilities

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 where employment has transferred to the Group under certain agreed arrangements

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 obligations and a consequential past service cost credit of £2m in 2011 The offer closed in February 2012 resulting in an additional £2m reduction to the pension liability and a consequential net past service cost credit of £2m in 2012

Following the formal triennial funding valuation of the BBPF carried out as at 31 March 2010, the Group agreed to certain one-off deficit funding contributions 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 In December 2011 a one-off deficit funding contribution of £55m was made

In anticipation of the formal triennial funding valuation as at 31 March 2013, the Group has agreed to make additional conditional deficit contributions of £1m per month, payable quarterly in arrears, if the BBPF funding levels in any given month are below certain funding targets set out in the BBPF journey plan The first payment was made in January 2013

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 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 obligations The equities are in the form of pooled funds and are a combination of UK, other developed market and emerging market equities The remaining BBPF assets are principally fixed and index-linked bonds and swaps in order to match the duration and inflation exposure of the obligations and enhance the resilience of the funding level of the scheme The performance of the assets is measured against market indices

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 2012, Parsons Brinckerhoff Ltd operated a defined benefit scheme which has been closed to new members (Parsons Brinckerhoff Scheme) since 31 July 2003 On 28 June 2012 the Parson Brinckerhoff Scheme released its legal charge over a Group leasehold property with a book value of £4m at 31 December 2011 in return for a one-off deficit contribution of £2 5m On 30 June 2012 the Parsons Brinckerhoff Scheme merged with the BBPF and agreed to make additional deficit payments of £11m per annum to the BBPF, with the first payment made in October 2012

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

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) in a trust, the assets of which are for the ultimate benefit of the employees but are available to the Group's creditors in the event of insolvency

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 (ONS) and independent advice received from the Group's actuaries as a consequence of the Occupational Pensions (Revaluation) Order 2010 published by the UK Government on 30 November 2010 These changes in assumptions gave rise to a £35m actuarial reduction in liabilities which was credited to equity in the statement of comprehensive income

In the year ended 31 December 2012, the Group reassessed the difference between the RPI and CPI measures of price inflation from 0 90% to 0 70% The reduction was applied following further consideration of proposals made by the ONS to change the method to calculate RPI and independent advice received from the Group's actuaries This change in assumptions gave rise to a £25m actuarial increase in liabilities which was charged to equity in the statement of comprehensive income

26 Retirement benefit liabilities continued

26 1 Group continued

Membership of the principal schemes

	Balfour Beatty Pension Fund 2012		**Railways Pension Scheme 2012**		Balfour Beatty Pension Fund 2011		Railways Pension Scheme 2011		Parsons Brinckerhoff Scheme 2011	
	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	**3,404**	**614**	**260**	**43**	3,892	587	287	45	–	–
– deferred pensioners	**11,887**	**794**	**1,476**	**54**	11,105	600	1,514	47	998	95
– pensioners, widow(er)s and dependants	**22,586**	**1,455**	**1,490**	**92**	20,882	1,278	1,436	82	1,192	92
Defined contribution	**10,373**	**–**	**–**	**–**	8,953	–	–	–	1,735	–
Total	**48,250**	**2,863**	**3,226**	**189**	44,832	2,465	3,237	174	3,925	187

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 Note 26 2

A different calculation is used for the formal triennial funding valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme obligations The principal difference between the two methods is that under the funding basis the obligations are discounted using a rate of return reflecting the composition of the assets in the scheme rather than the rate of return on a high quality corporate bond as required by IAS 19 for the financial statements Details of the latest formal funding basis valuations are set out in Note 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

26 2 IAS 19 accounting valuations

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

	Balfour Beatty Pension Fund 2012 %	**Railways Pension Scheme 2012 %**	Balfour Beatty Pension Fund 2011 %	Railways Pension Scheme 2011 %	Parsons Brinckerhoff Scheme 2011 %
Discount rate on obligations	**4 40**	**4 40**	4 85	4 85	4 85
Expected return on plan assets	**5 10**	**6 05**	5 20	5 85	5 30
Inflation rate – RPI	**2 90**	**2 90**	2 95	2 95	2 95
– CPI	**2 20**	**2 20**	2 05	2 05	2 05
Future increases in pensionable salary					
– certain members of the BBPF whose increase in pensionable pay is limited	**–**	**–**	–	–	–
– certain other members of the BBPF that have a protected right to a defined benefit membership	**2 20**	**–**	4 45	–	–
– other members	**4 40**	**2 20**	4 45	3 95	–
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2 80**	**2 20**	2 85	2 05	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 (48,250 members at 31 December 2012) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables The actuary is also able to monitor changes in the exhibited mortality over time This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes

The mortality assumptions as at 31 December 2012 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 1997 to 31 March 2012 The mortality tables adopted for the 2012 and 2011 IAS 19 valuations are the SAPS tables with a multiplier of 90% (2011 94%) for males and 103% (2011 103%) for females and an improvement rate of 1 6% pa from 2004 to 2013 (2011 1 5% pa from 2003 to 2010), plus future improvements from 2013 (2011 2010) in line with the CMI core projection model applicable to each member's year of birth with a long term rate of 1 25% pa for males and 1 00% pa for females (2011 1 5% pa for both males and females)

26 Retirement benefit liabilities continued

26 2 IAS 19 accounting valuations continued

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

	2012 Average life expectancy at 65 years of age		2011 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21 9**	**24 4**	22 0	24 6
Members not yet in receipt of a pension (current age 50)	**23 2**	**25 6**	23 8	26 5

The demographic of the former members of the Parsons Brinckerhoff Scheme is different to that of other members and allowance has been made for approximately three further years of life expectancy for these members of the BBPF

Former members of the Parsons Brinckerhoff Scheme	**2012 Average life expectancy at 65 years of age**		2011 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**24 6**	**27 0**	24 7	27 3
Members not yet in receipt of a pension (current age 50)	**26 0**	**28 2**	26 5	29 2

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 £200m (2011 £150m) have been excluded from the tables on pages 137 to 139 Defined contribution charges for other schemes include contributions to multi-employer pension schemes

Amounts recognised in the Income Statement

	Balfour Beatty Pension Fund 2012 £m	**Railways Pension Scheme 2012 £m**	**Parsons Brinckerhoff Scheme 2012 £m**	**Other schemes 2012 £m**	**Total 2012 £m**	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes 2011 £m	Total 2011 £m
Current service cost	**(40)**	**(2)**	**–**	**(6)**	**(48)**	(42)	(3)	(1)	(6)	(52)
Past service cost credit	**2**	**–**	**–**	**–**	**2**	2	–	–	–	2
Curtailment cost (Note 8)	**(2)**	**–**	**–**	**–**	**(2)**	–	–	–	–	–
Defined contribution charge	**(35)**	**–**	**(4)**	**(17)**	**(56)**	(33)	–	(5)	(17)	(55)
Included in employee costs (Note 5)	**(75)**	**(2)**	**(4)**	**(23)**	**(104)**	(73)	(3)	(6)	(23)	(105)
Expected return on plan assets	**126**	**8**	**3**	**–**	**137**	126	9	8	–	143
Interest cost	**(122)**	**(8)**	**(4)**	**(3)**	**(137)**	(124)	(8)	(10)	(4)	(146)
Net investment income/(finance cost) (Note 7)	**4**	**–**	**(1)**	**(3)**	**–**	2	1	(2)	(4)	(3)
Total charged to income statement	**(71)**	**(2)**	**(5)**	**(26)**	**(104)**	(71)	(2)	(8)	(27)	(108)

Amounts recognised in the Statement of Comprehensive Income

	Balfour Beatty Pension Fund 2012 £m	**Railways Pension Scheme 2012 £m**	**Parsons Brinckerhoff Scheme 2012 £m**	**Other schemes 2012 £m**	**Total 2012 £m**	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes 2011 £m	Total 2011 £m
Actuarial movements on pension scheme obligations	**(174)**	**(11)**	**2**	**(11)**	**(194)**	(68)	4	(10)	3	(71)
Actuarial movements on pension scheme assets	**73**	**1**	**–**	**(1)**	**73**	141	(8)	(2)	–	131
Total actuarial movements recognised in the statement of comprehensive income (Note 28 1)	**(101)**	**(10)**	**2**	**(12)**	**(121)**	73	(4)	(12)	3	60
Cumulative actuarial movements recognised in equity	**(338)**	**(34)**	**(6)**	**(15)**	**(393)**	(237)	(24)	(8)	(3)	(272)

The actual return on plan assets was a gain of £210m (2011 £274m)

26 Retirement benefit liabilities continued

26 2 IAS 19 accounting valuations continued

Amounts recognised in the Statement of Financial Position

	Balfour Beatty Pension Fund 2012 £m	Railways Pension Scheme 2012 £m	Other schemes† 2012 £m	Total 2012 £m	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes† 2011 £m	Total 2011 £m
Present value of obligations	**(2,863)**	**(189)**	**(99)**	**(3,151)**	(2,465)	(174)	(187)	(89)	(2,915)
Fair value of plan assets	**2,665**	**147**	**1**	**2,813**	2,370	141	127	2	2,640
Liability in the statement of financial position	**(198)**	**(42)**	**(98)**	**(338)**	(95)	(33)	(60)	(87)	(275)

† Available-for-sale investments in mutual funds of £52m (2011 £50m) are held by the Group to satisfy the Group s deferred compensation obligations (Note 17 1)

The defined benefit obligation comprises £97m (2011 £87m) arising from wholly unfunded plans and £3,054m (2011 £2,828m) arising from plans that are wholly or partly funded

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2012 £m	Railways Pension Scheme 2012 £m	Parsons Brinckerhoff Scheme 2012 £m	Other schemes 2012 £m	Total 2012 £m	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes 2011 £m	Total 2011 £m
At 1 January	(2,465)	(174)	(187)	(89)	(2,915)	(2,345)	(175)	(176)	(89)	(2,785)
Currency translation differences	–	–	–	**2**	**2**	–	–	–	1	1
Current service cost	**(40)**	**(2)**	–	**(6)**	**(48)**	(42)	(3)	(1)	(6)	(52)
Past service cost credit	**2**	–	–	–	**2**	2	–	–	–	2
Curtailment cost	**(2)**	–	–	–	**(2)**	–	–	–	–	–
Interest cost	**(122)**	**(8)**	**(4)**	**(3)**	**(137)**	(124)	(8)	(10)	(4)	(146)
Actuarial movements from reassessing the difference between RPI and CPI	**(20)**	**(5)**	–	–	**(25)**	23	10	2	–	35
Actuarial movements from the change in the mortality assumptions	**45**	**4**	–	–	**49**	–	–	–	–	–
Other actuarial movements	**(199)**	**(10)**	**2**	**(11)**	**(218)**	(91)	(6)	(12)	3	(106)
Total actuarial movements	**(174)**	**(11)**	**2**	**(11)**	**(194)**	(68)	4	(10)	3	(71)
Contributions from members	**(1)**	–	–	–	**(1)**	(1)	–	–	–	(1)
Benefits paid	**124**	**6**	**4**	**8**	**142**	113	8	10	6	137
Parsons Brinckerhoff Scheme merger	**(185)**	–	**185**	–	–	–	–	–	–	–
At 31 December	**(2,863)**	**(189)**	–	**(99)**	**(3,151)**	(2,465)	(174)	(187)	(89)	(2,915)

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2012 £m	Railways Pension Scheme 2012 £m	Parsons Brinckerhoff Scheme 2012 £m	Other schemes 2012 £m	Total 2012 £m	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Other schemes 2011 £m	Total 2011 £m
At 1 January	2,370	141	127	2	2,640	2,072	145	125	2	2,344
Expected return on plan assets	**126**	**8**	**3**	–	**137**	126	9	8	–	143
Actuarial movements	**73**	**1**	–	**(1)**	**73**	141	(8)	(2)	–	131
Contributions from employer										
– regular funding	**33**	**2**	–	–	**35**	37	2	–	–	39
– ongoing deficit funding	**55**	**1**	**2**	–	**58**	51	1	6	–	58
– one-off deficit funding	–	–	**3**	–	**3**	55	–	–	–	55
Contributions from members	**1**	–	–	–	**1**	1	–	–	–	1
Benefits paid	**(124)**	**(6)**	**(4)**	–	**(134)**	(113)	(8)	(10)	–	(131)
Parsons Brinckerhoff Scheme merger	**131**	–	**(131)**	–	–	–	–	–	–	–
At 31 December	**2,665**	**147**	–	**1**	**2,813**	2,370	141	127	2	2,640

26 Retirement benefit liabilities continued

26 2 IAS 19 accounting valuations continued

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 2012 %	Value 2012 £m	Expected rate of return 2012 %	Value 2012 £m	Expected rate of return 2012 %	Value 2012 £m	Expected rate of return 2012 %	Value 2012 £m	Expected rate of return 2012 %	Value 2012 £m
Return-seeking[i]	**8 03**	**1,065**	**7 20**	**110**	–	–	–	–	**7 95**	**1,175**
Liability matching bond-type assets[ii]	**3 35**	**1,321**	**2 60**	**37**	–	–	–	–	**3 33**	**1,358**
Other[iii]	**2 20**	**279**	**2 20**	–	–	–	**2 20**	**1**	**2 20**	**280**
Rate of return/total	**5 10**	**2,665**	**6 05**	**147**	–	–	**2 20**	**1**	**5 15**	**2,813**
	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

(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 are 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 historical returns, current market conditions and forward looking views of market participants
- Bonds – the rate reflects the yields available on the gilts and corporate bond holdings held at 31 December
- Cash and other net assets – the rate reflects current short term returns on cash deposits

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2013

	Balfour Beatty Pension Fund 2013 £m	Railways Pension Scheme 2013 £m	Total 2013 £m
Regular funding	**29**	**2**	**31**
Ongoing deficit funding	**73**	**1**	**74**
Total	**102**	**3**	**105**

Sensitivity of the Group's retirement benefit liabilities at 31 December 2012 to different actuarial assumptions

Obligations	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Increase in discount rate	**0 5%**	**(7 9)%**	**(241)**
Increase in market expectation of RPI inflation	**0 5%**	**6 6%**	**202**
Increase in salary growth	**0 5%**	**0 2%**	**7**
Increase in life expectancy	**1 year**	**3 5%**	**106**

26 Retirement benefit liabilities continued

26 2 IAS 19 accounting valuations continued

Sensitivity of the Group's retirement benefit assets at 31 December 2012 to changes in market conditions

Assets	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0 5%**	**(5 2)%**	**(146)**
Increase in market expectation of RPI inflation	**0 5%**	**3 4%**	**96**

Year end historical information for the Group's retirement defined benefit schemes

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of obligations	**(3,151)**	(2,915)	(2,785)	(2,757)	(2,102)
Fair value of assets	**2,813**	2,640	2,344	2,171	1,841
Funded status	**(338)**	(275)	(441)	(586)	(261)
Experience adjustment for obligations	**(39)**	(11)	62	(9)	(17)
Experience adjustment for assets	**75**	131	119	137	(432)

26 3 Latest formal funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal funding valuation	31/03/2010	31/12/2010
Scheme deficit		
Market value of assets	2,070	260
Present value of obligations	(2,445)	(268)
Deficit in defined benefit scheme	(375)	(8)
Funding level	84 6%	97 0%

26 4 Company

Certain employees of the Company are members of the BBPF Assets, liabilities, income and expenditure relating to this fund are allocated on an appropriate basis to Group companies participating in the scheme based on pensionable payroll for the year The Company's share of the net IAS 19 deficit was £6m (2011 £4m)

27 Share capital

27 1 Ordinary shares of 50p each

	Million	Issued £m
At 1 January 2011	686	343
Shares issued	1	1
At 31 December 2011	687	344
Shares issued	**1**	**–**
At 31 December 2012	**688**	**344**

All issued ordinary shares are fully paid Ordinary shares carry no right to fixed income but each share carries the right to one vote at general meetings of the Company

Ordinary shares issued during the year credited as fully paid	Ordinary shares 2012 Number	Consideration 2012 £m	Ordinary shares 2011 Number	Consideration 2011 £m
Savings-related share options exercised	**866,427**	**2**	665,516	2
Executive share options exercised	**229,220**	**–**	302,586	1
	1,095,647	**2**	968,102	3

At 31 December 2012 there were 3,645,518 share options outstanding under the savings-related share option scheme (SAYE) which were granted between 2007 and 2010 (2011 6,200,690 granted between 2006 and 2010) The weighted average exercise price is 254 9p (2011 263 5p) No options have been granted under the SAYE since 2010

At 31 December 2012 there were 689,049 share options outstanding under the executive share options scheme (ESOS) which were granted between 2003 and 2004 (2011 924,010 granted between 2002 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 205 6p (2011 203 9p) No options have been granted under the ESOS since 2004

27 Share capital continued

27 2 Cumulative convertible redeemable preference shares of 1p each

	Authorised		Issued	
	Million	£m	Million	£m
At 31 December 2011 and 2012	**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 A preference dividend of 5 375p gross (4 8375p net) per cumulative convertible redeemable preference share of 1p was paid on 1 July 2012 in respect of the six months ended 30 June 2012 to holders of these shares on the register on 25 May 2012 A preference dividend of 5 375p gross (4 8375p net) per cumulative convertible redeemable preference share was paid on 1 January 2013 in respect of the six months ended 31 December 2012 to holders of these shares on the register on 23 November 2012

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 2012 (2011 £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	2012 £m	2011 £m
Redemption value of shares in issue at 1 January	**112**	112
Equity component	**(17)**	(17)
Deferred tax and interest element	**(4)**	(5)
Liability component at 1 January at amortised cost	**91**	90
Interest accretion	**1**	1
Liability component at 31 December at amortised cost	**92**	91

The fair value of the liability component of the preference shares at 31 December 2012 amounted to £120m (2011 £124m) 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

28 Movements in equity

28.1 Group

	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[4] £m	Other reserves: Hedging reserves £m	Other reserves: PPP financial assets £m	Other reserves: Currency translation reserve £m	Other reserves: Merger reserve £m	Other reserves: Other £m	Retained profits[4] £m	Non-controlling interests £m	Total £m
At 1 January 2011	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 movements on retirement benefit liabilities	–	–	–	–	(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	–	–
Other transfers	–	–	–	(3)	–	–	–	–	–	–	3	–	–
At 31 December 2011	344	61	17	27	144	(97)	67	75	249	17	355	4	1,263
Profit for the year	–	–	–	–	**97**	–	–	–	–	–	**(53)**	–	**44**
Currency translation differences	–	–	–	–	**(2)**	–	–	**(54)**	–	–	–	–	**(56)**
Actuarial movements on retirement benefit liabilities	–	–	–	–	**(5)**	–	–	–	–	–	**(121)**	–	**(126)**
Fair value revaluations													
– PPP financial assets	–	–	–	–	**374**	–	**31**	–	–	–	–	–	**405**
– PPP cash flow hedges	–	–	–	–	**(8)**	**(12)**	–	–	–	–	–	–	**(20)**
– other cash flow hedges	–	–	–	–	**1**	–	–	–	–	–	–	–	**1**
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	–	**4**	–	–	**4**
Tax on items taken directly to equity	–	–	–	–	**(86)**	–	**(5)**	–	–	**(1)**	**22**	–	**(70)**
Total comprehensive income/(expense) for the year	–	–	–	–	**371**	**(12)**	**26**	**(54)**	–	**3**	**(152)**	–	**182**
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	**(96)**	**(1)**	**(97)**
Joint ventures' and associates' dividends	–	–	–	–	**(58)**	–	–	–	–	–	**58**	–	–
Issue of ordinary shares	–	**2**	–	–	–	–	–	–	–	–	–	–	**2**
Recycling of revaluation reserves to the income statement on disposal	–	–	–	–	**(48)**	–	–	–	–	–	–	–	**(48)**
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	**(2)**	**9**	–	**7**
Reserve transfers relating to joint venture and associate disposals[4]	–	–	–	–	**(72)**	–	–	–	–	–	**72**	–	–
Other transfers	–	–	–	**(2)**	–	–	–	–	–	–	**2**	–	–
At 31 December 2012	**344**	**63**	**17**	**25**	**337**	**(109)**	**93**	**21**	**249**	**18**	**248**	**3**	**1,309**

[4] Includes £52m transfers between the joint ventures and associates reserves and retained profits relating to joint ventures disposed or liquidated in prior years

28 Movements in equity continued

28.2 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 2011	343	59	16	30	249	72	382	1,151
Profit for the year	–	–	–	–	–	–	32	32
Actuarial movements on retirement benefit liabilities	–	–	–	–	–	–	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
Other transfers	–	–	–	(3)	–	–	3	–
At 31 December 2011	344	61	17	27	249	74	333	1,105
Profit for the year	–	–	–	–	–	–	**84**	**84**
Actuarial movements on retirement benefit liabilities	–	–	–	–	–	–	**(3)**	**(3)**
Tax on items taken directly to equity	–	–	–	–	–	–	**1**	**1**
Total comprehensive income for the year	–	–	–	–	–	–	**82**	**82**
Ordinary dividends	–	–	–	–	–	–	**(96)**	**(96)**
Issue of ordinary shares	–	**2**	–	–	–	–	–	**2**
Movements relating to share-based payments	–	–	–	–	–	**(2)**	**5**	**3**
Other transfers	–	–	–	**(2)**	–	–	**2**	–
At 31 December 2012	**344**	**63**	**17**	**25**	**249**	**72**	**326**	**1,096**

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 £2m occurred in 2012 (2011: £3m).

28.3 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 2012, 1.0m (2011: 1.2m) shares were purchased at a cost of £3.0m (2011: £3.9m). The market value of the 3.7m (2011: 3.7m) shares held by the Trust at 31 December 2012 was £10.1m (2011: £9.7m). The carrying value of these shares is £11.8m (2011: £12.3m). 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 2012, no shares were transferred to participants in relation to the April 2009 awards under the Performance Share Plan (2011: 0.5m shares for the April 2008 awards), and 1.0m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2011: 0.7m). The trustees have waived the rights to dividends on shares held by the Trust. Other reserves in the Group and the Company include £4.7m relating to unvested Performance Share Plan awards (2011: £4.8m), £2.9m relating to unvested share options (2011: £4.3m), and £3.4m relating to unvested Deferred Bonus Plan awards (2011: £4.2m).

29 Notes to the Statements of Cash Flows

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
29 1 Cash (used in)/generated from operations				
Profit/(loss) from continuing operations	**74**	243	**104**	(9)
Profit/(loss) from discontinued operation	**–**	4	**–**	59
Share of results of joint ventures and associates – continuing operations	**(97)**	(75)	**–**	–
Dividends received – continuing operations	**–**	–	**(130)**	(13)
Dividends received – discontinued operation	**–**	(5)	**–**	(5)
Depreciation of property, plant and equipment	**64**	70	**–**	–
Amortisation of other intangible assets	**49**	66	**–**	–
Pension deficit payments				
– ongoing deficit funding	**(58)**	(58)	**(2)**	(3)
– one-off deficit funding	**(3)**	–	**–**	–
Pension past service cost credit	**(2)**	(2)	**–**	–
Pension curtailment cost	**2**	–	**–**	–
Movements relating to share-based payments	**6**	6	**1**	–
Profit on disposal of investments in joint ventures	**(52)**	(20)	**–**	–
Profit on disposal of property, plant and equipment	**(7)**	(4)	**–**	–
Loss/(gain) on disposal of Barking	**–**	1	**–**	(54)
Loss on disposal of UK specialist rail manufacturing business	**–**	7	**–**	–
Write-down of investment in Exeter International Airport	**12**	–	**–**	–
Goodwill impairment in respect of Mainland European rail businesses	**95**	–	**–**	–
Impairment of property, plant and equipment	**5**	–	**–**	–
Impairment of inventory	**4**	2	**–**	–
Other non-cash items	**(1)**	1	**–**	–
Operating cash flows before movements in working capital	**91**	236	**(27)**	(25)
Increase in operating working capital	**(310)**	(201)	**(52)**	(75)
Cash (used in)/generated from operations	**(219)**	35	**(79)**	(100)

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
29 2 Cash and cash equivalents				
Cash and deposits	**515**	574	**43**	–
Term deposits	**2**	3	**–**	–
PPP cash balances	**25**	18	**–**	–
Bank overdrafts	**(10)**	(15)	**(56)**	(24)
	532	580	**(13)**	(24)

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 2012 £m	Other 2012 £m	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
29 3 Analysis of movement in net (borrowings)/cash						
Opening net cash/(borrowings)	**(332)**	**340**	**8**	248	**(236)**	(55)
Currency translation differences	**–**	**(17)**	**(17)**	(2)	**–**	–
Net increase/(decrease) in cash and cash equivalents	**7**	**(38)**	**(31)**	32	**11**	31
Proceeds from new loans	**(64)**	**(286)**	**(350)**	(282)	**(230)**	(212)
Repayment of loans	**21**	**32**	**53**	8	**32**	–
Repayment of finance leases	**–**	**4**	**4**	4	**–**	–
Closing net (borrowings)/cash	**(368)**	**35**	**(333)**	8	**(423)**	(236)

29 4 Borrowings

During the year ended 31 December 2012 the significant movements in borrowings were a drawdown of short term loans of £286m (2011 £212m), repayment of short term loans of £32m (2011 £nil), a £5m net decrease (2011 £19m decrease) in bank overdrafts, an increase of £64m (2011 £70m increase) in non-recourse loans funding the development of financial assets in PPP subsidiaries, and repayment of £21m (2011 £8m) of non-recourse PPP loans

30 Acquisitions and disposals

30.1 Current year acquisitions

Notes	Acquisition date	Subsidiary	Percentage acquired %	Cash consideration £m	Deferred consideration £m	Contingent consideration £m	Fair value of net assets acquired £m	Goodwill arising on acquisition £m	Costs (ii) £m
30.1.1	31 December 2012	Subsurface Group Inc[(i)(iii)]	**100**	**1**	**8**	**1**	**1**	**9**	**–**

(i) As at 31 December 2012 the fair values of acquired assets, liabilities and goodwill for this business have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair values of the acquired net assets.
(ii) Costs directly attributable to the acquisition have been expensed within non-underlying items, refer to Note 8.
(iii) Goodwill is not expected to be deductible for income tax purposes.

30.1.1 On 31 December 2012 the Group acquired 100% of Subsurface Group Inc (Subsurface) for consideration of £10m, of which £1m was paid in cash before the year end and £8m was paid on 14 January 2013. £1m is payable over three years subject to certain provisions of the purchase agreement.

The maximum consideration payable is £11m however the final purchase price is contingent on the closing statement of financial position, before fair value adjustments, and achieving a working capital and property, plant and equipment target value. The estimated consideration payable based on the provisional statement of financial position at 31 December 2012 is £10m.

The acquisition of Subsurface enhances the Group's capabilities in injection waste wells and depleted aquifer and reservoir storage. The provisional fair value of net liabilities acquired was £(2)m, intangible assets arising were £3m and goodwill of £9m has been recognised.

30.1.2 The following summary presents the Group as if Subsurface had been acquired on 1 January 2012. The amounts include the results of Subsurface, 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 Subsurface 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	**9,517**
Profit for the year	**45**

* Total Group figures had the acquisitions occurred on 1 January 2012.

Subsurface contributed £nil to Group revenue and £nil to profit for the year ended 31 December 2012.

	Recognised amounts of identifiable assets acquired and liabilities assumed £m
Net assets acquired	
Intangible assets – customer contracts	**1**
Intangible assets – customer relationships	**1**
Intangible assets – brand names	**1**
Trade and other receivables	**5**
Other working capital	**(5)**
Deferred taxation	**(2)**
Identifiable net assets	**1**
Goodwill	**9**
Total consideration	**10**
Satisfied by	
Cash consideration	**1**
Deferred consideration	**8**
Contingent consideration	**1**
Total consideration	**10**

	Net cash flow on acquisitions £m
Cash consideration	**1**
Cash and cash equivalent balances acquired	**–**
Net cash outflow on acquisitions completed in 2012	**1**
Deferred consideration paid during 2012 in respect of acquisitions completed in earlier years	**3**
Net cash outflow on acquisitions	**4**

30 Acquisitions and disposals continued

30 2 Contingent consideration arrangements

	Parsons Brinckerhoff Inc £m	Howard S Wright £m	SpawMaxwell £m	Subsurface £m	Total £m
Contingent consideration recoverable/(payable)					
At 31 December 2011	16	(7)	(3)	–	6
Movements/discount unwind	–	**(2)**	**2**	**(1)**	**(1)**
At 31 December 2012	**16**	**(9)**	**(1)**	**(1)**	**5**

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, £9m payable in respect of Howard S Wright, £3m payable in respect of SpawMaxwell, and £1m payable in respect of Subsurface

In addition to the amounts shown above, at 31 December 2012 £2m (2011 £4m) and £1m (2011 £1m) relating to the acquisitions of Power Efficiency and Office Projects respectively are held in escrow to be paid in 2013 subject to certain provisions of the purchase agreement

30 3 Prior year acquisitions

The fair values of the acquired assets and liabilities disclosed as provisional at 31 December 2011 in respect of Fru-Con Construction LLC and Howard S Wright were finalised during 2012, giving rise to a decrease in both goodwill and amounts due to construction contract customers of £1m which is disclosed in the current year

The fair values of all other assets and liabilities previously disclosed as provisional at 31 December 2011 have been finalised with no material changes

30 4 Current year disposals

30 4 1 On 1 February 2012, the Group disposed of its 50% interest in the shares and loan notes issued by Transform Schools (North Lanarkshire) Holdings Ltd for a cash consideration of £18m This disposal resulted in a gain of £8m being recognised within underlying operating profit, comprising a loss of £2m in respect of the disposal of the investment in the joint venture and a £10m gain in respect of revaluation reserves recycled to the income statement

30 4 2 On 11 May 2012 the Group disposed of its 33 3% interest in the shares and loan notes issued by Health Management (UCLH) Holdings Ltd (HMU) for an agreed cash consideration of £66m On this date the Group ceased to jointly control HMU by virtue of a put/call structure with a preferred bidder The other shareholders in HMU exercised pre-emption provisions in the shareholders' agreement and the disposal was completed on 11 July 2012

As a consequence of the disposal, £2m was donated to the UCLH Charity and treated as a cost of disposal This donation would not have taken place had the disposal of HMU not taken place Additional transaction costs of £1m were incurred in respect of the disposal The disposal resulted in a net gain of £44m being recognised within underlying operating profit, comprising a gain of £6m in respect of the disposal of the investment in the joint venture and a £38m gain in respect of revaluation reserves recycled to the income statement

30 5 Prior year disposals

30 5 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 were disposed 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 5 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 5 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 5 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 5m in 2012 (2011 £6 2m) 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			
	2012 Number	**Weighted average exercise price 2012 Pence**	2011 Number	Weighted average exercise price 2011 Pence	**2012 Number**	**Weighted average exercise price 2012 Pence**	2011 Number	Weighted average exercise price 2011 Pence
Outstanding at 1 January	**6,200,690**	**263 5**	9,014,115	269 9	**755,224**	**203 2**	939,706	201 6
Granted during the year	**–**	**–**	–	–	**–**	**–**	–	–
Forfeited during the year	**(683,176)**	**256 6**	(1,526,224)	280 1	**–**	**–**	(1,482)	189 0
Exercised during the year	**(866,427)**	**249 4**	(665,516)	273 8	**(66,175)**	**177 4**	(183,000)	197 2
Expired during the year	**(1,005,569)**	**311 8**	(621,685)	304 1	**–**	**–**	–	–
Outstanding at 31 December	**3,645,518**	**254 9**	6,200,690	263 5	**689,049**	**205 6**	755,224	203 2
Exercisable at 31 December	**169,409**	**293 5**	161,899	296 2	**689,049**	**205 6**	755,224	203 2

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 298 2p (2011 309 6p) and the weighted average remaining contractual life of SAYE options outstanding at 31 December 2012 is 1 6 years (2011 2 1 years)

The weighted average share price at the date of exercise for those ESOS options exercised during the year was 287 7p (2011 303 4p) and the weighted average remaining contractual life of ESOS options outstanding at 31 December 2012 is 1 0 year (2011 2 0 years)

31 2 Movements in share plans

	PSP conditional awards		DBP conditional awards	
	2012 Number	2011 Number	**2012 Number**	2011 Number
Outstanding at 1 January	**8,700,324**	8,171,418	**2,291,952**	2,247,952
Granted during the year	**4,177,096**	3,235,874	**916,940**	738,975
Awards in lieu of dividends	**–**	–	**117,718**	101,666
Forfeited during the year	**(457,142)**	(464,604)	**(33,337)**	(71,671)
Exercised during the year	**–**	(412,560)	**(1,018,225)**	(724,970)
Expired during the year	**(2,731,693)**	(1,829,804)	**–**	–
Outstanding at 31 December	**9,688,585**	8,700,324	**2,275,048**	2,291,952
Exercisable at 31 December	**–**	–	**16,727**	–

The share price at the date of exercise for those PSP awards exercised during 2011 was 330 0p and the weighted average remaining contractual life of those PSP awards outstanding at 31 December 2012 is 1 4 years (2011 1 4 years)

The weighted average share price at the date of exercise for those DBP awards exercised during the year was 288 8p (2011 333 8p) and the weighted average remaining contractual life of DBP awards outstanding at 31 December 2012 is 1 3 years (2011 1 2 years)

The principal assumptions, including expected volatility determined from the historical weekly share price movements over the three-year period immediately preceding the award date, used by the consultants in the stochastic model for the 50% of the PSP awards in 2012 subject to market conditions, were

Award date	Closing share price before award date Pence	Expected volatility of shares %	Expected term of awards Years	Risk free interest rate %	Calculated fair value of an award Pence
16 April 2012	273 7	29 0	3 0	0 48	159 2

For the 50% of the PSP awards in 2012 subject to non-market conditions and for the DBP awards in 2012, the fair value of the awards is the closing share price before award date

32 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £14m (2011 £12m) in the Group and £nil (2011 £nil) in the Company

The Group has committed to provide its share of further equity funding and subordinated debt in PPP projects amounting to £13m (2011 £34m) in respect of joint ventures and associates, £22m (2010 £37m) in respect of PPP subsidiaries, and £12m (2011 £15m) in respect of the military housing concessions of Balfour Beatty Investments US The future cash flow profile of the Group's share of further equity funding and subordinated debt is shown in Note 37(g) In addition the Group is expected to provide its share of equity funding and subordinated debt estimated at £77m for six PPP projects at preferred bidder stage (2011 £92m for eight PPP projects)

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 2012 £m	**Other 2012 £m**	Land and buildings 2011 £m	Other 2011 £m
Group				
Due within one year	**71**	**62**	81	49
Due between one and five years	**191**	**55**	197	56
Due after more than five years	**109**	**1**	61	–
	371	**118**	339	105
Company				
Due within one year	**3**	**–**	3	–
Due between one and five years	**3**	**–**	7	–
	6	**–**	10	–

Future committed operating lease income

	Land and buildings 2012 £m	Land and buildings 2011 £m
Group		
Due within one year	**4**	3
Due between one and five years	**4**	6
	8	9
Company		
Due within one year	**3**	3
Due between one and five years	**3**	6
	6	9

33 Contingent liabilities

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

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

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 £1,018m (2011 £851m) These transactions occurred in the normal course of business at market rates and terms In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no markup The amounts due to or from joint ventures and associates at 31 December are disclosed in Notes 21 and 22 respectively

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 £8m in 2012 (2011 £6m)

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	2012 £m	2011 £m
Short term benefits	**3 957**	4 329
Post-employment benefits	**0 139**	0 305
Share-based payments	**1 714**	1 395
	5 810	6 029

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 96

35 Events after the reporting date

Infrastructure Fund
In January 2013, the Balfour Beatty Infrastructure Partners Fund reached first close with US$317m of commitments, of which Balfour Beatty has committed US$110m In February 2013, the commitments increased to US$420m and subsequent levels of close are expected during 2013, ultimately reducing the Group's share in the fund to around 10% Drawdowns will depend on the timing of investments by the fund, but Balfour Beatty expects its commitment to be invested over the next three to four years

The fund will make investments in predominantly brownfield operational assets in its key target sectors of transport, energy and utilities across the UK, Europe, and North America

Bilateral facility
In February 2013 the BNP Paribas Fortis bilateral facility maturing April 2013 was extended to April 2018 and increased from £50m to £75m

US private placement
In March 2013 the Group raised US$350m through a US private placement of a series of notes with an average coupon of 4 94% over an average of 9 3 years

The Group has designated the US$ denominated borrowings as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements

Disposal of Rail Spain
In March 2013, as the initial step in its policy of divesting of its Mainland European rail businesses, the Group sold its Spanish rail engineering business to its local management

36 Financial instruments

36.1 Capital risk management

The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The components of capital are as follows: equity attributable to equity holders of Balfour Beatty plc comprising issued ordinary share capital, reserves and retained earnings as disclosed in Notes 27.1 and 28, preference shares as disclosed in Note 27, US private placement as disclosed in Note 35, 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 buyback of existing shares, and drawdown of new borrowings and repayment of existing borrowings. The policy of the Group and the Company is to ensure an appropriate balance between cash, negative working capital and the value in the PPP investment portfolio, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

The overall capital risk management strategy of the Group and the Company remains unchanged from 2011.

36.2 Group

Categories of financial instruments

Group	Loans and receivables at amortised cost, cash and cash equivalents 2012 £m	Financial liabilities at amortised cost 2012 £m	Available-for-sale financial assets 2012 £m	Held to maturity financial assets 2012 £m	Derivatives 2012 £m	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
Financial assets										
Fixed rate bonds and treasury stock	–	–	–	42	–	–	–	–	46	–
Mutual funds	–	–	52	–	–	–	–	50	–	–
PPP financial assets	–	–	542	–	–	–	–	457	–	–
Cash and cash equivalents	542	–	–	–	–	595	–	–	–	–
Trade and other receivables	1,263	–	–	–	–	1,434	–	–	–	–
Derivatives	–	–	–	–	1	–	–	–	–	1
Total	1,805	–	594	42	1	2,029	–	507	46	1
Financial liabilities										
Liability component of preference shares	–	(92)	–	–	–	–	(91)	–	–	–
Trade and other payables	–	(2,150)	–	–	–	–	(2,326)	–	–	–
Unsecured borrowings	–	(478)	–	–	–	–	(229)	–	–	–
Secured borrowings	–	(4)	–	–	–	–	(8)	–	–	–
PPP non-recourse term loans	–	(393)	–	–	–	–	(350)	–	–	–
Derivatives	–	–	–	–	(143)	–	–	–	–	(130)
Total	–	(3,117)	–	–	(143)	–	(3,004)	–	–	(130)
Net	1,805	(3,117)	594	42	(142)	2,029	(3,004)	507	46	(129)
Current year comprehensive income/(expense) excluding share of joint ventures and associates	27	(46)	66	2	(12)	17	(38)	87	2	(87)

Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2012 £m	Non current 2012 £m	Total 2012 £m	Current 2012 £m	Non-current 2012 £m	Total 2012 £m	Current 2011 £m	Non-current 2011 £m	Total 2011 £m	Current 2011 £m	Non-current 2011 £m	Total 2011 £m
Foreign currency contracts												
Held for trading at fair value through profit and loss	1	–	1	(1)	–	(1)	1	–	1	(1)	–	(1)
Designated as cash flow hedges	–	–	–	(1)	–	(1)	–	–	–	(1)	–	(1)
Interest rate swaps												
Designated as cash flow hedges	–	–	–	(18)	(123)	(141)	–	–	–	(8)	(120)	(128)
	1	–	1	(20)	(123)	(143)	1	–	1	(10)	(120)	(130)

36 Financial instruments continued

36 2 Group continued

Non-derivative financial liabilities gross maturity

The following table details the remaining contractual maturity for the Group's non-derivative financial liabilities The table reflects the undiscounted contractual maturities of the financial liabilities including interest that will accrue 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 are not included in the carrying value of the financial liability

Maturity profile of the Group's non-derivative financial liabilities at 31 December

	PPP non-recourse project finance 2012 £m	Other borrowings 2012 £m	Other financial liabilities 2012 £m	Total non-derivative financial liabilities 2012 £m	Total discount 2012 £m	Carrying value 2012 £m
Due on demand or within one year	**(14)**	**(477)**	**(2,011)**	**(2,502)**	**13**	**(2,489)**
Due within one to two years	**(11)**	**(1)**	**(66)**	**(78)**	**13**	**(65)**
Due within two to five years	**(65)**	**(2)**	**(61)**	**(128)**	**48**	**(80)**
Due after more than five years	**(577)**	**(2)**	**(209)**	**(788)**	**305**	**(483)**
	(667)	**(482)**	**(2,347)**	**(3,496)**	**379**	**(3,117)**
Discount	**274**	**–**	**105**	**379**		
Carrying value	**(393)**	**(482)**	**(2,242)**	**(3,117)**		

	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)		

Derivative financial liabilities gross maturity

The following table details the Group's expected maturity for its derivative financial liabilities The table reflects the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that are settled on a gross basis (foreign exchange contracts) When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves at the reporting date

Maturity profile of the Group's derivative financial liabilities at 31 December

	Payable 2012 £m	Receivable 2012 £m	Net payable 2012 £m	Payable 2011 £m	Receivable 2011 £m	Net payable 2011 £m
Due on demand or within one year	**(205)**	**184**	**(21)**	(89)	75	(14)
Due within one to two years	**(27)**	**8**	**(19)**	(22)	7	(15)
Due within two to five years	**(60)**	**6**	**(54)**	(51)	4	(47)
Due after more than five years	**(121)**	**–**	**(121)**	(124)	–	(124)
Total	**(413)**	**198**	**(215)**	(286)	86	(200)

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

36 Financial instruments continued

36 2 Group continued

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including

- forward foreign exchange contracts 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
- interest rate swaps to mitigate the cash flow variability in PPP concessions arising from variable interest rates on borrowings

There has been no material change to the Group's exposure to market risks and there has been no change in how the Group manages those risks since 2011

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros, Australian dollars, Hong Kong dollars and United Arab Emirate dirhams Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency At 31 December 2012 no individual entities within the Group had material financial assets or liabilities in a functional currency other than their own 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

Refer to page 149 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures

As at 31 December 2012, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £274m (2011 £116m) receivable and £287m (2011 £116m) payable The period during which the cash flows are expected to occur is up to five (2011 three) years and this will affect the income statement throughout the same periods

The Group has designated forward exchange contracts with a notional principal amount of £21m (2011 £26m) receivable and £23m (2011 £26m) payable as cash flow hedges against highly probable capital expenditure which is expected to occur in up to four (2011 three) years Fair value gains on these contracts of £nil (2011 £nil) have been taken to hedging reserves within equity The cumulative amounts deferred in the hedging reserves relating to cash flow hedges at the reporting date is £nil (2011 £nil)

The Group's investments in foreign operations are exposed to foreign currency translation risks The Group's policy was amended in prior years and at the reporting date the Group no longer entered into forward foreign exchange contracts to hedge foreign currency denominated net assets Since 2009 no translation risk has been hedged

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the income statement in relation to any foreign exchange cash flow hedges

The hedging policy is reviewed periodically At the reporting date there had been no change to the hedging policies since 2011 In March 2013 the Group raised US$350m through a US private placement which has been designated as a net investment hedge Refer to Note 35

(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 The Group's policy to manage this risk is to swap floating rate interest to fixed rate, using interest rate swap contracts

In an interest rate swap, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts The 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 2012 and 2011, 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 2012 totalled £404m (2011 £365m) with maturities that match the maturity of the underlying borrowings ranging from one year to 24 years At 31 December 2012, the fixed interest rates range from 4 2% to 5 1% (2011 4 2% to 5 1%) and the principal floating rates are LIBOR plus a fixed margin

(ii) Interest rate risk management continued

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £8m (2011 £19m) increase/£9m (2011 £21m) decrease in amounts taken directly to equity by the Group in relation to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its 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 £nil (2011 £1m) increase/£2m (2011 £nil) decrease in the Group's net investment income

36 Financial instruments continued

36 2 Group continued

(a) Market risk continued

(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 using counterparties that are independently rated with a minimum long term credit rating of BBB+ At 31 December 2012 £37m (2011 £28m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances, however no losses are anticipated from these counterparties The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board for the Group and subsidiary companies Management monitors the utilisation of these credit limits regularly

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors The Group's most significant customers are public or regulated 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 150

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 at the closing market price at 31 December

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date 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 consequent movement in the fair value is taken to equity

There have been no transfers between these categories in the current or preceding year

	Fair value measurement 2012				Fair value measurement 2011			
	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	**52**	–	–	**52**	50	–	–	50
Available-for-sale PPP financial assets	–	–	**542**	**542**	–	–	457	457
Financial assets – foreign currency contracts	–	**1**	–	**1**	–	1	–	1
Total assets measured at fair value	**52**	**1**	**542**	**595**	50	1	457	508
Financial liabilities – foreign currency contracts	–	**(2)**	–	**(2)**	–	(2)	–	(2)
Financial liabilities – PPP interest rate swaps	–	**(141)**	–	**(141)**	–	(128)	–	(128)
Total liabilities measured at fair value	–	**(143)**	–	**(143)**	–	(130)	–	(130)

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 £26m increase (2011 £16m)/£28m decrease (2011 £16m) 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 to 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

36 Financial instruments continued

36 3 Company

Categories of financial instruments

Company	Loans and receivables at amortised cost, cash and cash equivalents 2012 £m	Financial liabilities at amortised cost 2012 £m	Available-for sale financial assets 2012 £m	Held to maturity financial assets 2012 £m	Derivatives 2012 £m	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
Financial assets										
Cash and cash equivalents	**43**	–	–	–	–	–	–	–	–	–
Trade and other receivables	**1,169**	–	–	–	–	1,313	–	–	–	–
Derivatives	–	–	–	–	**2**	–	–	–	–	3
Total	**1,212**	–	–	–	**2**	1,313	–	–	–	3
Financial liabilities										
Liability component of preference shares	–	**(92)**	–	–	–	–	(91)	–	–	–
Trade and other payables	–	**(1,474)**	–	–	–	–	(1,603)	–	–	–
Unsecured borrowings	–	**(466)**	–	–	–	–	(236)	–	–	–
Derivatives	–	–	–	–	**(3)**	–	–	–	–	(3)
Total	–	**(2,032)**	–	–	**(3)**	–	(1,930)	–	–	(3)
Net	**1,212**	**(2,032)**	–	–	**(1)**	1,313	(1,930)	–	–	–

Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2012 £m	Non current 2012 £m	Total 2012 £m	Current 2012 £m	Non-current 2012 £m	Total 2012 £m	Current 2011 £m	Non-current 2011 £m	Total 2011 £m	Current 2011 £m	Non-current 2011 £m	Total 2011 £m
Held for trading at fair value through profit and loss	**2**	–	**2**	**(2)**	**(1)**	**(3)**	2	1	3	(2)	(1)	(3)

The Company is responsible for executing all of the Group's external derivative contracts, except for those in relation to PPP concessions The Company's external derivative contracts are matched with derivative contracts issued by the Company to the Group's operating companies The Company's financial assets and financial liabilities measured at fair value are the derivative foreign currency contracts shown in the table above The fair value of these foreign currency contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts

The Company's derivatives are classified as Level 2 in the fair value estimation hierarchy detailed above

36 Financial instruments continued

36 3 Company continued

Non-derivative financial liabilities gross maturity

Maturity profile of the Company's non-derivative financial liabilities at 31 December

	Borrowings 2012 £m	Other financial liabilities 2012 £m	Total non-derivative financial liabilities 2012 £m	Total discount 2012 £m	Carrying value 2012 £m
Due on demand or within one year	**(466)**	**(1,461)**	**(1,927)**	**12**	**(1,915)**
Due within one to two years	**–**	**(11)**	**(11)**	**11**	**–**
Due within two to five years	**–**	**(35)**	**(35)**	**32**	**(3)**
Due after more than five years	**–**	**(161)**	**(161)**	**47**	**(114)**
	(466)	**(1,668)**	**(2,134)**	**102**	**(2,032)**
Discount	**–**	**102**	**102**		
Carrying value	**(466)**	**(1,566)**	**(2,032)**		

	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)		

Derivative financial liabilities gross maturity

Maturity profile of the Company's derivative financial liabilities at 31 December

	Payable 2012 £m	Receivable 2012 £m	Payable 2011 £m	Receivable 2011 £m
Due on demand or within one year	**(245)**	**195**	(132)	130
Due within one to two years	**(4)**	**4**	(10)	9
Due within two to five years	**(3)**	**4**	(6)	6
Total	**(252)**	**203**	(148)	145

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 an £8m (2011 £5m) increase/decrease in the Company's net finance cost This is mainly attributable to the Company's exposure to UK interest rates on its cash and cash equivalents and term deposits and amounts due to and from its subsidiaries There would be no effect on amounts taken directly by the Company to equity

(b) Credit risk

The Company bears credit risk in respect to trade and other receivables and payables due from/to subsidiaries There were no amounts past due at the reporting date The maximum exposure is the carrying value of the financial assets recorded in the financial statements

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 Construction Services Ltd	
Parsons Brinckerhoff (Asia) Ltd	Hong Kong
Parsons Brinckerhoff Australia Pty Ltd	Australia
Parsons Brinckerhoff Group Inc	US
Parsons Brinckerhoff Inc	US
Parsons Brinckerhoff International Pte Ltd	Singapore
Parsons Brinckerhoff Ltd	
Infrastructure Investments PPP (refer Note 37 (d) and (e))	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Investments Ltd	
Other	
Balfour Beatty Group Inc	US
Balfour Beatty Investment Holdings Ltd*	
Balfour Beatty LLC	US
Delphian Insurance Company Ltd*	Isle of Man

	Country of incorporation or registration	Ownership interest %
(b) Principal joint ventures and associates		
Professional, Construction and Support services		
BK Gulf LLC	Dubai	49 0
Dutco Balfour Beatty LLC	Dubai	49 0
Gammon China Ltd	Hong Kong	50 0
Romec Ltd		49 0

(c) Principal jointly controlled operations

The Group carries out a number of its larger contracts in joint arrangement with other contractors so as to share resources and risk The principal joint projects in progress during the year are shown below

South-East England Roads		65 0
South-West England Roads		73 0
Crossrail		26 7
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
Parkland Acute Care Hospital	US	40 0
DFW Terminal Development Program	US	60 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

37 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments 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

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 consider 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 Investments UK PPP concessions continued

Hospitals

Summary Balfour Beatty is a promoter, developer and investor in seven hospital projects under Balfour Beatty's Consort Healthcare brand to build hospital accommodation and to provide certain non-medical facilities management services over the concession period

Contractual arrangements The principal contract is the project agreement between the concession company and the NHS Trust An inflation-indexed payment is primarily based upon availability of the hospital subject to any performance related deductions The only projects where construction of the hospitals was subcontracted to construction joint ventures in which Balfour Beatty subsidiaries did not participate 100% is Edinburgh Royal Infirmary where the Group's share was 85% The payments for the facilities management services are repriced every five years All assets transfer to the client at the end of the concession, with the exception of Edinburgh Royal Infirmary, where the client has the option to terminate the arrangement for the provision of the hospital and services in 2028

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Consort Healthcare (Durham) Ltd	Teaching hospital	90	50%	March 1998	30	2001
Consort Healthcare (Edinburgh Royal Infirmary) Ltd	Teaching hospital and medical school	220	50%	August 1998	30	2003
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	June 2006	40	2011
Consort Healthcare (Mid Yorkshire) Ltd	Pinderfields and Pontefract general hospitals	311	50%	June 2007	35	2010
Consort Healthcare (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

Schools

Summary Balfour Beatty is a promoter, developer and investor in 13 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

Contractual arrangements The principal contract is the project agreement between the concession company and the local authority that provides for an inflation-indexed payment based upon availability subject to any performance related deductions For projects other than Aura Newcastle Ltd, construction is subcontracted to construction joint ventures of Balfour Beatty subsidiaries and the facilities management services are subcontracted to a Balfour Beatty subsidiary 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 (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

(ii) Due to the shareholders agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider 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 Investments UK PPP concessions continued

Other concessions

Summary The Powerlink project comprises two companies UK Power Networks Services Powerlink Ltd (UKPNSPL), which operated the London Underground high voltage power system under a 30-year contract and was responsible for procuring various new power assets, and Power Asset Development Company Ltd (PADCO), which constructed the new-build power assets and leased them to UKPNSPL Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex Gammon Capital (West) Pte Ltd has a contract to design, build and finance the new Institute of Technical Education (ITE) College West in Singapore and provide long term facilities management services for the remainder of the 27-year project Balfour Beatty Fire and Rescue NW Ltd is contracted to design, construct, fund and provide facilities for 16 community fire stations in Merseyside, Cumbria and Lancashire UBB Waste (Essex) Ltd has a 28-year PPP contract to design, build and operate a new sustainable waste treatment facility for Essex County Council and Southend-on-Sea Borough Council

Contractual arrangements For the Powerlink project the principal project agreement is the power services contract between UKPNSPL and London Underground Ltd (LUL) that provided for an inflation-indexed availability payment subject to any performance deductions UKPNSPL operates and maintains the power network using its own staff and is leasing the new power assets from PADCO, which subcontracted construction to a construction joint venture in which the Group had a 40% interest LUL has exercised its right to terminate the contract in August 2013 PCDL's principal contract is the flood defence services agreement with the Environment Agency that provides for an inflation-indexed payment subject to any performance related deductions For the Singapore project, the principal agreement is the project agreement with the ITE of Singapore that provides for an inflation-indexed availability based payment subject to any performance deductions Construction is subcontracted to Gammon Pte Ltd, a wholly owned subsidiary of Gammon China Ltd in which the Group has a 50% interest The facilities management services under the ITE agreement are provided by a third party The principal contract for Balfour Beatty Fire and Rescue NW Ltd is the project agreement between the concession company and Cumbria County Council, Lancashire Combined Fire Authority and Merseyside Fire and Rescue Authority This agreement provides for an inflation-indexed payment based upon availability subject to any performance related deductions Construction and facility management services are subcontracted to Balfour Beatty subsidiaries The principal contract for UBB Waste (Essex) Ltd is the project agreement between the concession company, Essex County Council and Southend-on-Sea Borough Council This agreement provides for an inflation-indexed payment linked to both the availability of the plant and waste processed Construction services are subcontracted to a joint venture in which the Group has a 30% interest and operations are subcontracted to a subsidiary of the other shareholder There are no provisions to reprice contracts and all assets transfer to the client at the end of the concession

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
UK Power Networks Services Powerlink Ltd (ii) /Power Asset Development Company Ltd	London Underground power system	184	10%/25%	August 1998	30	2006
Pevensey Coastal Defence Ltd	Sea defences	3	25%	July 2000	25	n/a
Gammon Capital (West) Pte Ltd	Technical education college	100	50%	August 2008	27	2010
Balfour Beatty Fire and Rescue NW Ltd	Community fire stations	55	100%	February 2011	25	2013
UBB Waste (Essex) Ltd	Waste processing plant	146	30%	May 2012	28	2015

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

37 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments 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 47 US government military bases which includes 47 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 37,000 housing units once development, construction and renovation have been completed

The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), five projects with the United States Department of the Air Force (Air Force) and two projects with the United States Department of the Navy (Navy) In addition, there is one unaccompanied personnel housing (UPH) project with the Army at Fort Stewart

Contractual arrangements The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC), the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, however it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, 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 government

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual, minimum preferred rate of return On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return The unpaid amounts will generally accrue and accumulate, and can be used to fund renovation and construction costs, if necessary If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the government in accordance with the terms of the project agreements

Allocation of remaining operating cash flows Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the government On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash) However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return The total capped return generally will include the annual minimum preferred return discussed above The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, 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 applicable military service

37 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments US PPP concessions continued

Military housing continued

Military privatisation project (i)(ii)	Bases	Total project funding £m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson	Army base	109	November 2003	46	2004
– Fort Carson expansion		80	November 2006	43	2010
– Fort Carson GTA expansion		63	April 2010	39	2013
Fort Stewart/Hunter Airfield	Two army bases	234	November 2003	50	2012
Fort Hamilton	Army base	38	June 2004	50	2009
Walter Reed Army Medical Center/Fort Detrick	Two army bases	69	July 2004	50	2008
Navy Northeast Region	Seven navy bases	306	November 2004	50	2010
Fort Eustis/Fort Story	Two army bases	108	March 2005	50	2011
– Fort Eustis expansion		5	July 2010	45	2011
Fort Bliss/White Sands Missile Range	Two army bases	264	July 2005	50	2011
– Fort Bliss expansion		30	December 2009	46	2011
– Fort Bliss GTA expansion phase I		101	July 2011	44	2014
– Fort Bliss GTA expansion phase II		92	November 2012	43	2016
Fort Gordon	Army base	67	May 2006	50	2012
Carlisle/Picatinny	Two army bases	52	July 2006	50	2011
– Carlisle Heritage Heights phase II		13	October 2012	44	2014
AETC Group 1	Four air force bases	222	February 2007	50	2012
Navy Southeast Region	11 Navy bases	352	November 2007	50	2013
Vandenberg	Air force base	98	November 2007	50	2012
Fort Leonard Wood	Army base	148	Acquired June 2008	47	2014
AMC West	Three air force bases	271	July 2008	50	2015
West Point	Army base	135	August 2008	50	2016
Fort Jackson	Army base	112	October 2008	50	2013
Lackland	Air force base	67	Acquired December 2008	50	2013
Western Group	Four air force bases	203	March 2012	50	2017
Military unaccompanied personnel housing					
Fort Stewart UPH		22	January 2008	50	2010

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US
(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested

Student accommodation

Summary Balfour Beatty through its subsidiary Balfour Beatty Campus Solutions, LLC serves as a manager and developer for one student accommodation project

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 are conducted in the US

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 future committed equity and debt funding for the PPP concession companies

Concessions	2013 £m	2014 £m	2015 £m	2016 onwards £m	Total £m
Roads	–	–	6	11	17
Hospitals	–	–	–	–	–
Schools	3	4	–	–	7
Other UK	–	5	6	–	11
	3	9	12	11	35
Military housing	7	3	–	2	12
Total	10	12	12	13	47

In addition to the above the Group is expected to provide its share of equity funding and subordinated debt estimated at £77m for six PPP projects at preferred bidder stage (2011 £92m for eight projects)

38 Prior year comparisons

38 1 The 2011 Income Statement has been re-presented to separately disclose the gains on disposals of interests in PPP joint ventures on the face of the income statement Previously this amount was included within other net underlying operating expenses and separately disclosed within the Notes to the Financial Statements

	As re-presented 2011 £m	As previously reported 2011 £m
Gross profit	1,136	1,136
Gain on disposals of investments	20	–
Other net underlying operating expenses	(900)	(880)
Underlying Group operating profit	256	256

38 2 The 2011 trade and other receivables note has been re-presented to separately identify trade receivables and other receivables which were previously amalgamated (Note 21)

	As re presented 2011 £m	As previously reported 2011 £m
Current		
Trade receivables	970	1,094
Other receivables	124	–
Trade and other receivables	1,094	1,094
Non-current		
Trade receivables	2	17
Other receivables	15	–
Trade and other receivables	17	17

Shareholder Information

Group Five-Year Summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Income					
Revenue including share of joint ventures and associates	**10,896**	11,035	10,473	10,254	9,395
Share of revenue of joint ventures and associates	**(1,413)**	(1,541)	(1,237)	(1,300)	(1,134)
Group revenue from continuing operations	**9,483**	9,494	9,236	8,954	8,261
Underlying profit from continuing operations	**309**	331	325	259	208
Underlying net investment income/(finance costs)	**1**	3	(19)	(15)	19
Underlying profit before taxation	**310**	334	306	244	227
Amortisation of acquired intangible assets	**(45)**	(62)	(82)	(48)	(27)
Other non-underlying items	**(190)**	(26)	(23)	48	48
Profit from continuing operations before taxation	**75**	246	201	244	248
Taxation on profit from continuing operations	**(31)**	(64)	(44)	(54)	(74)
Profit from continuing operations after taxation	**44**	182	157	190	174
Profit/(loss) from discontinued operations after taxation	**–**	4	(14)	21	19
Profit for the year attributable to equity holders	**44**	186	143	211	193
Capital employed					
Equity holders' funds	**1,306**	1,259	1,156	995	857
Liability component of preference shares	**92**	91	89	88	87
Net borrowings/(cash)	**333**	(8)	(248)	(324)	(297)
	1,731	1,342	997	759	647

	2012 Pence	2011 Pence	2010 Pence	2009 Pence	2008 Pence
Statistics					
Underlying earnings per ordinary share from continuing operations*	**35.0**	35.5	32.7	30.7	30.6
Basic earnings per ordinary share from continuing operations	**6.5**	26.7	23.0	33.4	33.3
Diluted earnings per ordinary share from continuing operations	**6.5**	26.7	22.9	33.3	33.1
Proposed dividends per ordinary share	**14.10**	13.80	12.70	11.99	11.15
Underlying profit from continuing operations before net investment income/(finance costs) including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	**2.8%**	3.0%	3.1%	2.5%	2.2%

Notes

* 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

	2013
24 April	Ex-dividend date for final 2012 ordinary dividend
26 April	Final 2012 ordinary dividend record date
16 May	Annual General Meeting
22 May	Ex-dividend date for July 2013 preference dividend
24 May	July 2013 preference dividend record date
5 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
5 July*	Final 2012 ordinary dividend payable
14 August*	Announcement of 2013 half-year results
6 December*	Interim 2013 ordinary dividend payable

* Provisional dates

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state your registered address and, if available, your shareholder reference number Please write to

Capita 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 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, our people and businesses and our policies on corporate governance and corporate responsibility It should be regarded as your first point of reference for information on any of these matters The share price can also be found there

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 £16m has been given to more than 1,800 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

Consolidated tax vouchers

From (and including) the July 2013 dividend payments, Balfour Beatty will provide a consolidated tax voucher This will in future be issued annually to all shareholders who have their dividends paid direct to their bank accounts If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars A copy of the consolidated tax voucher may be downloaded from the Share Portal at www balfourbeatty-shares com

Enquiries

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

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

Forward-looking statements

This document may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or in each case, their negative or other various or comparable terminology These statements are made by the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this report and reflect the Balfour Beatty plc Directors' beliefs and expectations By their nature these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under "managing risk" on pages 58 to 61 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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