

COMPANY REGISTRATION NUMBER. 1197246

**MANSELL CONSTRUCTION SERVICES LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**



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## **MANSELL CONSTRUCTION SERVICES LIMITED**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **Directors**

W O Aitchison MRICS	(appointed 12 October 2012)
D J Donaldson	(appointed 21 May 2013)
M Easton	(appointed 26 February 2013)
M Farrah FRICS FCIArb	(appointed 26 February 2013)
A J Fegbeutel	(appointed 12 October 2012, resigned 21 May 2013)
D J Greenspan BA ACA	(resigned 26 October 2012)
W E Kingwill BSc MCIOB	(appointed 26 February 2013)
N Patterson MRICS	(appointed 26 February 2013)
M J Peasland FCIOB	
B P Perrin BSc ACA AMCT	(resigned 21 May 2013)
A P Scott MA CA	(appointed 26 February 2013)
S J Waite FRICS MCIOB	
R V Walker BSc FRICS	(resigned 24 May 2013)

#### **Secretary**

D J Greenspan BA ACA	(resigned 12 October 2012)
G W Mutch	(appointed 12 October 2012)

#### **Registered Office**

Roman House  
13/27 Grant Road  
Croydon  
Surrey  
CR9 6BU

#### **Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
2 New Street Square  
London  
EC4A 3BZ

#### **Bankers**

Barclays  
1 Churchill Place  
London  
E14 5HP

Royal Bank of Scotland  
7<sup>th</sup> Floor  
Aldgate Union  
10 Whitechapel High Street  
London  
E1 8DX

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors present the annual report and the audited financial statements for the year ended 31 December 2012

#### Principal activities and business review

##### Overview and strategic focus

Mansell Construction Services Limited ("the Company") is the principal operating subsidiary of Mansell plc ("the Parent Company"), a public limited company registered in England and Wales. The Company's ultimate parent undertaking is Balfour Beatty plc ("the Ultimate Parent Company"). The Ultimate Parent Company is a public limited company registered in England and Wales and listed on the London Stock Exchange.

The principal activity of the Company is construction, both new build and refurbishment, in its core market sectors of commercial, defence, education, emergency services, health, heritage and culture, housing, senior living and transportation. The Company, together with its agency subsidiaries, operates throughout England, Scotland and Wales through a network of autonomous regional delivery units, backed by centralised systems and infrastructure support.

The safety of the Company's employees, the public and other stakeholders is the Company's number one priority. Upholding exemplary standards of health and safety across all parts of the business is an integral part of the Company culture.

##### Building partnerships

The macroeconomic environment, and conditions within the construction industry in particular, remained difficult throughout the year. In the face of these challenging circumstances, the strategy of the Company remains unchanged, to form long-term sustainable relationships with its customers, enabling it to fully understand and anticipate their requirements and work in partnership with them to meet those needs. The Company's aim is to provide its customers with solutions that generate real value for them.

This focus on the longer term has meant that the Company has deliberately minimised its exposure to the open tender market, which has seen highly competitive pricing, low margins and a focus on short-termism rather than the generation of long-term sustainable workflows. Although occasional opportunities may arise within this channel, this is not generally considered to be a core channel through which the Company will pursue new business opportunities.

This long-term partnering approach not only applies to the Company's relationships with its customers, but also to its supply chain. The Company looks to build long-term relationships with suppliers and subcontractors who share the same values and culture as the Company, and who can generate real value over the longer term.

##### Focusing on generating value

Following the Comprehensive Spending Review carried out by the government in 2010, the number of opportunities available within the public sector has continued to reduce. As a result, the Company has built upon its existing expertise in the private market to pursue further opportunities therein. This has led to the proportion of work being undertaken for private enterprises representing almost half of the Company's turnover in the year.

A continuing area of focus for the Company is to increase the work generated through framework agreements. These are longer term customer relationships which provide a greater visibility of potential work over an agreed period of time. The Company currently has a number of framework agreements in place, with a potential workload of almost £2.0bn.

The Company's portfolio of work covers a number of different market sectors and geographic regions. The Company's network of offices spans the United Kingdom, enabling the Company to provide its customers with the specialist knowledge of a local contractor coupled with the strength of a national company.

##### 2012 Trading

As expected, conditions in the year remained challenging within the construction industry and the economy as a whole. Volumes and margins continued to come under pressure from competition and a number of smaller contractors ceased trading.

As a result of these challenges, revenue reduced by 13% to £755.2m (2011: £867.7m). A number of delivery units experienced a reduction in turnover, reflecting our continuing focus on profitability over volume and the ongoing competitive market conditions. However, there were increases in turnover within the South East, Chertsey and Exeter delivery units. At the end of 2012 the future order book was in line with expectations, providing a good stream of work for the Company. Operating profits before exceptional items and amortisation were £11.0m (2011: £18.7m) reflecting the ongoing competitive pressures on operating margins and operational difficulties in a small number of contracts which have now been addressed.

In addition, as part of a business review, two of the Company's smaller regional offices in Doncaster and Rochdale have been identified as no longer being sustainable, and employees have been advised of the Company's proposal to close these offices. The process of closure is expected to be completed during the third quarter of 2013.

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### 2012 Trading (continued)

No dividend was declared or paid during the year. Profit on ordinary activities before taxation (excluding amortisation and exceptional items) was £12.6m (2011: £19.9m). An exceptional charge of £6.5m (2011: £1.1m) arose in 2012, mainly reflecting reorganisation costs. The Balfour Beatty Group ("the Group") has restructured a number of its businesses in order to increase its focus on the needs of customers and upon growth sectors, further integrate its service offering to these customers, and realise operational efficiencies.

An operating cash outflow of £44.2m (2011: £25.1m) was generated in the year, reflecting investments in a number of projects and pressure on working capital. Non-operating cash outflow for the year was £0.9m (2011: £4.0m). Operating cash flows include all cash receipts and payments, excluding those relating to tax, finance, acquisitions and disposals of businesses and exceptional items, all of which are classified as non-operating cash flows.

#### Balance sheet

The Company remains in a strong financial position with good levels of cash available. Shareholder's funds reduced to £85.8m (2011: £96.0m), reflecting actuarial losses arising on the Company's defined benefit pension scheme. Although net current assets increased overall, cash balances (including amounts loaned to the Parent Company) fell to £106.8m from £156.2m.

#### Outlook

Market conditions are expected to remain challenging for a number of years. Public spending levels continue to come under pressure and there is little growth in the private sector to compensate for the reduction in government expenditure. Overcapacity in the construction market continues, which will inevitably lead to increased consolidation and difficulties for those businesses which are less financially secure.

The current climate provides opportunities for those businesses which are financially robust and agile to take advantage of them. Through its strong balance sheet and the backing of the Group, the Company is well placed to make the most of these opportunities when they arise. In addition, customers are becoming more demanding and sophisticated, requiring a more complete offering than just low prices. In these instances, the Company is confident that it is well placed to provide a comprehensive value added proposition.

Although market conditions in the short and medium-term are expected to remain challenging, the longer term view for the construction industry remains positive, with demand expected to grow for improved infrastructure, which the Company is well placed to meet. In the meantime, the Company has a strong balance sheet and a good forward order book and is confident that its diverse product portfolio will ensure its continued strong performance.

#### **Health, Safety & Environment ("HS&E")**

Focus on the Company's Zero Harm programme continued during the year. The ultimate objective of eliminating the risk of serious harm to all stakeholders continued to be delivered through Zero Harm Journey Plans produced by each regional business.

A key element of the Zero Harm Journey has been to involve everyone in the Company, along with preferred supply chain partners, in the quest to 'Make Safety Personal'. During 2012, the 'Make Safety Personal' programme continued to be embedded into the culture of the business. This has resulted in heightened awareness, increased reporting of near-miss incidents (or learning events) and the ongoing development of i-TIP, the Company's Behavioural Observation programme. Significant focus has been given to understanding the causes of incidents, learning lessons, and sharing knowledge to prevent recurrence.

The Accident Frequency Rate (number of reportable accidents multiplied by 100,000 compared to the number of hours worked) improved by 19% during the year. Benchmarking the Company against the UK Construction Industry using data published by the Health and Safety Executive, it is apparent that in terms of accident rate, the Company's performance is 31% better than the UK construction industry average.

The Company's performance in all areas of HS&E is continually monitored to ensure it remains at the highest levels of effectiveness. The Company has an ongoing commitment to improve its performance in HS&E.

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### Employment

The Company and its agency subsidiaries operate through a network of regional delivery units, each managed by its own dedicated senior management team. Although decision-making is devolved to regional level, standard employment policies and practices are applied in order to promote fairness and consistency across the business, whilst ensuring the commercial and legal interests of the Company are preserved. These policies and practices include:

- providing an open, challenging, rewarding and participative environment,
- enabling all employees to utilise their talents and skills to the full, through appropriate encouragement, training and development,
- communicating a full understanding of the objectives and performance of the Company and the opportunities and challenges facing it,
- providing pay and other benefits which reflect prevailing market rates and rewarding both individual and collective performance, and
- ensuring all applicants and employees receive equal treatment regardless of age, race, religion, national or ethnic origin, colour, gender, disability unrelated to the task in hand, sexual orientation, gender reassignment, marital status, union membership or political affiliation.

Regional delivery units use a variety of methods to communicate and consult with employees on key business goals and issues. Regular publications and communications inform employees of major business achievements.

#### Risk Management

Effective risk management underpins the delivery of the Group's objectives. It is essential to protecting reputation and generating sustainable shareholder value. The Group aims 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.

Further details of the Group's risk management processes and the roles and responsibilities of management within the Group can be found in the Ultimate Parent Company's annual report and accounts.

#### The Group risk management process

The Group's 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.

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### **Risk Management (continued)**

##### Principal risks

During 2012, the company experienced difficult trading conditions which are likely to continue into 2013. Reduced private spending, depressed private sector investment in commercial building and delays in government backed projects shifted the business mix towards less complex and lower margin projects.

These trends will continue into 2013, and the steps taken in response will increase the importance of effective risk management. As the business is reshaped to deliver the Group's combined capabilities across targeted growth sectors, it is essential that additional risk is not inadvertently imported. It is believed that the established risk management and internal control systems will help to identify such risks and respond in a timely manner.

The business also faces 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. Controls and systems have been established to manage such risks. The principal risks that could adversely impact the profitability of the Company are set out below. While the risks themselves have not generally changed since last year, the assessment of their likelihood and potential impact has changed and steps have been taken to strengthen, as appropriate, the mitigations in place.

##### Economic environment

The continued effect of the global economic downturn may cause the Company's clients to postpone or reduce existing or future projects. The challenging economic environment 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 the Company's future order book. Such changes could arise from changes in government policy or clients' failure to secure financing for future projects. However, the effect of spending changes in any one market sector is mitigated by the Company's broad exposure to different markets.

Failure of a customer, including any government or public sector body, could result in non-collection of amounts owed. To mitigate this, the financial solvency and strength of counterparties is always considered prior to the signing of contracts and is a specific focus in the current economic climate. During the life of a contract such assessments are updated and reviewed whenever possible. The Company seeks to ensure that it is not over-reliant on any one counterparty.

Failure of a subcontractor or supplier would result in the Company having to find a replacement or undertaking the task itself which could result in time delays and additional costs. To mitigate this, the Company seeks to develop long-term relationships with key subcontractors, working closely with them to understand their operations. Contingency plans are developed to address the eventuality of the failure of a subcontractor. In addition, project retentions, bonds and/or letters of credit are obtained from subcontractors, where appropriate, to mitigate the impact of any insolvency.

##### Legal and regulatory

The Company is subject to a number of complex, demanding and evolving legal, tax and regulatory requirements. A breach of these laws and regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business, ranging from additional project costs to potential reputational damage. To mitigate this, the Company continually monitors and responds to legal and regulatory developments.

##### Business conduct

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

To mitigate this, the Company has a number of programmes in place to promote compliance with the Group's Code of Conduct, and in areas such as competition and data protection law. The Company has appointed a compliance officer who is responsible for ensuring the application and monitoring of these programmes.

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### **Risk Management (continued)**

##### People

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

Failure to recruit and retain appropriately skilled people could have an adverse impact on the Company's ability to deliver specific contracts and its future growth. To mitigate this, all potential recruits for key roles in the organisation are measured against a competency and leadership framework. Organisation and people reviews are undertaken to review the roles, competencies, performance and potential of personnel. A well-developed succession planning process exists within the Company and throughout the Group to identify and develop high-potential personnel to fill key roles. These plans are reviewed and discussed at all levels within the organisation on a regular basis. Appropriate remuneration and incentive packages are in place to assist in the attraction and retention of key employees.

##### Bidding

The Company seeks to win work through a large number of bids each year. In some cases, the Company may bid in joint ventures with carefully selected partners, especially in those instances where the Company wants to augment its expertise or knowledge of the market sector. The Company also undertakes a number of investments, the success of which is dependent on a number of assumptions made at the time of investment.

Failure to accurately estimate risks, costs, the impact of inflation and the contractual terms being entered into and how best to manage them could have an adverse impact on the profitability of such contracts. To mitigate this, all bids are subject to rigorous estimating and tendering processes within a defined framework. Defined delegated authority levels exist for the approval of all tenders and investments, with all major and significant contracts in excess of those authority levels being subject to Group review and approval by the Group Tender and Investment Committee.

In the event of a disagreement with, failure of or poor performance by a joint venture partner, the Company could be exposed to financial and reputational risks. As such, the Company has procedures in place to review the relevant skills, experience, resources and values of joint venture partners to understand how they complement those of the Company. The performance of joint ventures and joint venture partners is monitored throughout the life of the project.

If any of the assumptions made on investment decisions prove to be incorrect it could have an adverse impact on the profitability of those investments. Therefore, investment appraisals are performed and reviewed by experienced professionals. The risks associated with revenues and costs are analysed and, where appropriate, contractual and other risk mitigations are established.

##### Project execution

The Company is engaged in a number of complex projects. Failure to deliver these on time and to clients' requirements risks financial loss, claims and reputational damage to the Company. The successful delivery of many of these projects is dependent on the combined availability and effective management of subcontractors and other service providers.

Failure to manage or deliver against contracted customer requirements on time and to an appropriate quality could result in a number of issues such as contract disputes, rejected claims, design issues, cost overruns or failure to achieve customer savings - which could adversely impact the profitability and reputation of the Company. In order to mitigate this, the Company has a number of defined operating procedures designed to address the risks inherent in project delivery. In addition, the Company's risk management framework aids the identification of specific risks on projects and the mitigating actions required. Projects are subject to management review at all levels to monitor progress and to review steps put in place to address specific risks identified on those projects.

The failure of a subcontractor to perform to an appropriate standard and quality could result in delays to a project and adversely impact the ability of the Company to meet its contractual commitments and damage its reputation. The Company seeks to develop long-term relationships with a number of its key subcontractors whilst at the same time not becoming over-reliant on any one. As part of its selection criteria, the Company seeks to partner with subcontractors/suppliers which share its values.

##### Health, safety and sustainability

The Company is involved in significant, complex and potentially hazardous projects which require the continuous monitoring and management of health and safety risks. The Company, through its activities, is aware of the impact it can have on the world in which it operates and the communities with which it comes into contact.

Failure to manage these risks could expose our people or the public to injury/harm and the Company to significant potential liabilities and reputational damage. To mitigate this, detailed health and safety policies and procedures exist to minimise such risks and are subject to review and monitoring. The Company employs experienced health and safety advisers who provide advice and support to line management and undertake regular reviews.



## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### Risk Management (continued)

##### Health, safety and sustainability (continued)

In addition, failure to address these risks and to execute projects in a sustainable manner could result in significant potential liabilities, reputational damage and not being able to win future work. The Company has developed and implemented a sustainability strategy covering its operations until 2020 in terms of profitable markets, healthy communities and environmental limits. Sustainability issues such as climate change adaptation are considered in risk management activities undertaken at the Company as well as project level.

#### Financial statements and dividends

The audited financial statements of the Company appear on pages 10 to 31. The loss after taxation for the year, after an exceptional charge of £6.1m (2011: £0.8m), amounted to £(0.6)m (2011: profit £8.8m) prior to the deduction of dividends. The Company did not pay a dividend during the year (2011: £nil).

#### Supplier payment policy

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 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. The Company's average creditor payment period, from the time work is carried out to invoice being paid, at 31 December 2012 was 46 days (2011: 45 days).

#### Corporate responsibility

The Group publishes a report on Corporate Responsibility annually, which includes a description of the Group's broader corporate responsibilities. The Company's systems for governance and management of risk, safety, environmental and social issues are described in that report, together with the Group's performance in these areas and the targets set to drive improvements. The report is available at [www.balfourbeatty.com](http://www.balfourbeatty.com).

The Company has, for many years, been publicly and explicitly committed to ensuring it pays close attention to these issues. Corporate responsibility is a fundamental part of modern business management. The Company has already made significant progress in this area, and continually works to improve its strong performance in this field.

#### Charitable and political contributions

During the year the Company made charitable donations of £13,000 (2011: £12,000).

No political donations were made by the Company during the year (2011: £nil).

#### Directors

The Directors of the Company who served throughout the year and up to the date of this report were

W O Aitchison MRICS	(appointed 12 October 2012)
D J Donaldson	(appointed 21 May 2013)
M Easton	(appointed 26 February 2013)
M Farrah FRICS FCI Arb	(appointed 26 February 2013)
A J Fegbeutel	(appointed 12 October 2012, resigned 21 May 2013)
D J Greenspan BA ACA	(resigned 26 October 2012)
W E Kingwill BSc MCIOB	(appointed 26 February 2013)
N Patterson MRICS	(appointed 26 February 2013)
M J Peasland FCIOB	
B P Perrin BSc ACA AMCT	(resigned 21 May 2013)
A P Scott MA CA	(appointed 26 February 2013)
S J Waite FRICS MCIOB	
R V Walker BSc FRICS	(resigned 24 May 2013)

#### Directors' indemnities

The Directors are covered under a qualifying third party group indemnity provision provided by the Company's Ultimate Parent Company.

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### Going concern

In reviewing the future prospects of the Company, the Directors have considered the fact that the Company has a strong order book with orders of £669.9m in the pipeline. In addition, the Company's balance sheet remains strong and the Company holds significant levels of cash in the form of £44.4m of bank balances and £62.4m of loans to its Parent Company, which are repayable on demand. In addition, although the current trading environment remains challenging, the forecast for the longer term is that conditions are expected to improve. As a result, and having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors have a reasonable expectation that the Company has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the accounts.

#### Disclosure of information to auditor

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 auditor is unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is 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.

Deloitte LLP has indicated their willingness to continue in office as auditor.

#### Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and 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 have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 as at the end of the financial year and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to

- show and explain the Company's transactions,
- 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.

The Directors are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, 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 information differs from legislation in other jurisdictions.

By Order of the Board



**G W Mutch**  
Company Secretary

25 June 2013

Registered Office  
Roman House  
13/27 Grant Road  
Croydon  
Surrey CR9 6BU

Registered in England  
Number 1197246

## **MANSELL CONSTRUCTION SERVICES LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANSELL CONSTRUCTION SERVICES LIMITED**

We have audited the financial statements of Mansell Construction Services Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors**

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 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 Company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

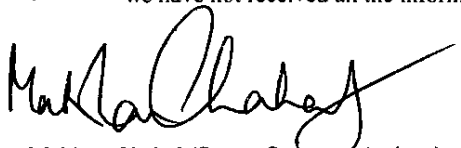
#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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.



Makhan Chahal (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

25 June 2013

**MANSELL CONSTRUCTION SERVICES LIMITED**

**Profit and loss account for the year ended 31 December 2012**

	Notes	2012 £m	2012 £m Exceptional Items (Note 3)	2012 £m Total	2011 £m	2011 £m Exceptional Items (Note 3)	2011 £m Total
<b>Turnover</b>	1c	755.2	-	<b>755.2</b>	867.7	-	867.7
Cost of sales		(697.4)	-	<b>(697.4)</b>	(795.7)	-	(795.7)
<b>Gross profit</b>		<u>57.8</u>	<u>-</u>	<u><b>57.8</b></u>	<u>72.0</u>	<u>-</u>	<u>72.0</u>
-Amortisation of goodwill		(4.7)	-	<b>(4.7)</b>	(4.7)	-	(4.7)
-Other		(46.8)	(6.5)	<b>(53.3)</b>	(53.3)	(1.1)	(54.4)
Total administrative expenses		<u>(51.5)</u>	<u>(6.5)</u>	<u><b>(58.0)</b></u>	<u>(58.0)</u>	<u>(1.1)</u>	<u>(59.1)</u>
<b>Operating (loss)/profit</b>	2	<u>6.3</u>	<u>(6.5)</u>	<u><b>(0.2)</b></u>	<u>14.0</u>	<u>(1.1)</u>	<u>12.9</u>
Net interest and dividends receivable	5	0.9	-	<b>0.9</b>	1.1	-	1.1
Other financial income	24	0.7	-	<b>0.7</b>	0.1	-	0.1
<b>Profit on ordinary activities before taxation</b>		<u>7.9</u>	<u>(6.5)</u>	<u><b>1.4</b></u>	<u>15.2</u>	<u>(1.1)</u>	<u>14.1</u>
Tax on profit on ordinary activities	6	(2.4)	0.4	<b>(2.0)</b>	(5.6)	0.3	(5.3)
<b>Retained (loss)/profit for the financial year</b>	18	<u><u>5.5</u></u>	<u><u>(6.1)</u></u>	<u><u><b>(0.6)</b></u></u>	<u><u>9.6</u></u>	<u><u>(0.8)</u></u>	<u><u>8.8</u></u>

All results in the current and prior year activities are derived from continuing operations

**MANSELL CONSTRUCTION SERVICES LIMITED**

**Statement of total recognised gains and losses**

	Notes	2012 £m	2011 £m
(Loss)/profit on ordinary activities after taxation		(0.6)	8 8
Actuarial (loss)/gain on retirement benefit obligations	24	(12 5)	7 1
Tax on items in equity			
Deferred tax		2.7	(2 2)
Total recognised gains and losses relating to the year	19	<u>(10 4)</u>	<u>13 7</u>

**MANSELL CONSTRUCTION SERVICES LIMITED**

**Balance sheet as at 31 December 2012**

	Notes	2012 £m	2011 £m
<b>Fixed assets</b>			
Intangible assets goodwill	8	9.5	14.2
Tangible assets	9	7.5	13.4
Investments	10	9.1	9.1
		<u>26.1</u>	<u>36.7</u>
<b>Current assets</b>			
Stocks	11	30.6	16.9
Debtors due within one year	12	263.2	314.2
Debtors due after more than one year	12	8.6	8.6
Cash at bank		44.4	39.2
		<u>346.8</u>	<u>378.9</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(258.8)</u>	<u>(292.6)</u>
<b>Net current assets</b>		<u>88.0</u>	<u>86.3</u>
<b>Total assets less current liabilities</b>		<u>114.1</u>	<u>123.0</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(7.4)</u>	<u>(6.5)</u>
<b>Provisions for liabilities and charges</b>	15	<u>(8.4)</u>	<u>(12.4)</u>
<b>Net assets excluding pension deficit</b>		<u>98.3</u>	<u>104.1</u>
<b>Pension deficit</b>	24	<u>(12.5)</u>	<u>(8.1)</u>
<b>Net assets including pension deficit</b>		<u>85.8</u>	<u>96.0</u>
<b>Capital and reserves</b>			
Called up share capital	17	10.8	10.8
Capital contribution reserve	18	1.9	1.9
Special reserve	18	11.3	11.3
Other reserves	18	0.5	0.6
Profit and loss account	18	61.3	71.4
<b>Equity shareholder's funds</b>	19	<u>85.8</u>	<u>96.0</u>

The financial statements of Mansell Construction Services Limited, registered number 1197246, were approved by the Board of Directors on 25 June 2013 and signed on its behalf by



**A P Scott**  
Director

## MANSELL CONSTRUCTION SERVICES LIMITED

### Notes to the financial statements

#### 1. Principal accounting policies

The principal accounting policies are given below. They have been applied consistently throughout the current year and preceding year except as stated below.

##### (a) Basis of accounting

The financial statements have been prepared under the historical cost convention and comply with all applicable United Kingdom law and accounting standards.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is an indirect wholly-owned subsidiary of Balfour Beatty plc which prepares consolidated financial statements which are publicly available. The Company is also, on this basis, exempt from the requirements of FRS 1 (Revised) to present a cash flow statement.

##### (b) Going concern

In reviewing the future prospects of the Company, the Directors have considered the fact that the Company has a strong order book and balance sheet, and holds significant cash balances. As a result, and having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Company has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the accounts.

##### (c) Turnover

Turnover represents amounts invoiced to customers, net of trade discounts, value added tax and similar sales-based taxes, except in respect of contracting activities where turnover represents the value of work carried out during the year including an estimate in respect of amounts not invoiced. All turnover is generated in the United Kingdom.

##### (d) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for any impairment. Freehold properties and fixtures are depreciated by equal instalments over their expected useful lives of forty and twenty years, respectively.

Plant, machinery, vehicles and equipment are depreciated by equal instalments over their expected useful lives of between four and twelve years.

##### (e) Profit recognition

Profit on individual contracts is taken only when the outcome can be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Full provision is made for all known or expected losses on individual contracts, taking a prudent view of future claims income, immediately when such losses are foreseen. Profit for the year includes the benefit of claims settled on contracts completed in prior years. Where the Company undertakes housing projects on a speculative basis as developer, turnover and profit are only recognised on individual units following legal completion of the underlying sale transaction.

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 costs that have been written off are deferred and amortised over the life of the contract.

##### (f) Stocks

Stocks are stated at the lower of net realisable value and cost including attributable overheads where appropriate. Provision is made for obsolete, slow-moving or defective items as appropriate.

Costs incurred on housing projects carried out on a speculative basis are carried as work in progress and transferred to cost of sales on legal completion of the underlying sale transaction for each unit. Provision is made for all known or expected losses immediately when such losses are foreseen.

##### (g) Long-term contract balances

Amounts recoverable on long-term contracts which are included in debtors are stated at the net sales value of the work carried out less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

## MANSELL CONSTRUCTION SERVICES LIMITED

### Notes to the financial statements (continued)

#### (h) Taxation

Current tax, including United Kingdom corporation tax, is provided at the amounts expected to be paid or recovered using the tax rates and laws that apply at the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax is recorded using tax laws and rates that have been enacted or substantively enacted at the balance sheet date

Deferred tax is measured on a non-discounted basis. No provision is made for tax on capital gains which would arise if the properties were disposed of at the cost at which they are included in the financial statements

#### (i) Pensions

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the profit and loss account and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the plan assets. Actuarial gains and losses are recognised in full in the period in which they occur outside the profit and loss account in the statement of total recognised gains and losses. Contributions to defined contribution pension schemes are charged to the profit and loss account as they fall due

#### (j) Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used

#### (k) Valuation of investments

Fixed asset investments are recorded at cost less provisions for impairment

#### (l) Special reserve

The special reserve shall be treated as an undistributable reserve of the Company and shall be credited with any amount which falls to be credited to the profit and loss account of the Company as a result of the realisation or revaluation of any fixed assets in excess of their net book value provided that the amount credited to the special reserve shall not exceed £30,000,000. The special reserve may be reduced by the amount of any increase in paid up share capital or share premium which results from an issue of shares

#### (m) Share-based payment

Employee services received in exchange for the grant by Balfour Beatty plc of share options, performance share plan awards and deferred bonus plan awards since 7 November 2002 are charged in the profit and loss account 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

#### (n) Provisions

Provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress

#### (o) Intangible assets - Goodwill

Goodwill arising on acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written-off over its expected useful economic life of between four and five years. Provision is made for any impairment

#### (p) Exceptional Items

Exceptional items are items of financial performance which the Company believes should be separately identified on the face of the profit and loss account to assist in understanding the underlying financial performance achieved by the Company. Such items will affect the absolute amount of the results for the period and the trend of results. Exceptional items include the costs of restructuring and the reorganisation of existing businesses and of integrating newly acquired businesses



# **MANSSELL CONSTRUCTION SERVICES LIMITED**

## **Notes to the financial statements (continued)**

### **2. Operating (loss)/ profit**

<b>Operating (loss)/profit is stated after charging:</b>	<b>2012 £m</b>	<b>2011 £m</b>
Depreciation of owned tangible fixed assets (note 9)	0.800	1 042
Impairment of fixed assets	4.696	-
Loss on disposal of fixed assets	0.416	-
Amortisation of goodwill	4.649	4 649
Charges under operating leases		
- property	1.573	1 475
- motor vehicles	-	0 461
Auditor's remuneration		
- fees for the audit of the Company	0 146	0 146
- fees paid to the Company's auditor for the audit of fellow subsidiaries	0 004	0 004

No other amounts were paid to the Company's auditor in respect of any other services (2011 £nil)

### **3 Exceptional items**

	<b>2012 £m</b>	<b>2011 £m</b>
Integration costs	-	1 1
Reorganisation and restructuring of operations	7 2	-
Pension curtailment gain	(0.7)	-
	<u>6 5</u>	<u>1 1</u>

The Group is restructuring a number of its businesses in order to increase its focus on the needs of customers and upon growth sectors, to further integrate its service offering to these customers, and to realise operational efficiencies. As a result, the Company incurred restructuring costs of £7.2m during the year. In 2011, costs totalling £1.1m were incurred during the year in respect of the reorganisation, restructure and integration of the Rok construction businesses. The tax effect was that of a credit of £0.4m (2011 £0.3m).

### **4 Information regarding Directors and employees**

	<b>2012 £m</b>	<b>2011 £m</b>
<b>Directors' emoluments</b>		
Remuneration	0 864	0 957
Pension contributions	0 046	0 073
	<u>0 910</u>	<u>1 030</u>

	<b>2012 £m</b>	<b>2011 £m</b>
<b>Highest paid Director</b>		
Remuneration	0.469	0 516
Pension contributions	0.003	0 033
	<u>0 472</u>	<u>0 549</u>

The highest paid Director is a member of the Balfour Beatty Pension Fund and had accrued entitlements of £nil (2011 £0.166m) under the scheme by the end of the year. During the year three (2011 two) directors were members of the Balfour Beatty Pension Scheme Fund.

	<b>2012 Number</b>	<b>2011 Number</b>
<b>Average number of persons employed</b>		
Operational	1,342	1,639
Administrative	575	631
	<u>1,917</u>	<u>2,270</u>

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 4. Information regarding Directors and employees (continued)

	2012 £m	2011 £m
<b>Staff costs during the year (including Directors)</b>		
Wages and salaries	90.2	100.2
Social security costs	8.7	9.6
Other pension costs - defined benefit	4.3	4.1
- defined contribution	4.5	4.7
Share-based payments	0.3	0.4
	<u>108.0</u>	<u>119.0</u>

### 5 Net interest receivable

	2012 £m	2011 £m
Interest receivable on Group loans	0.9	1.1
	<u>0.9</u>	<u>1.1</u>

### 6 Tax on profit on ordinary activities

	2012 £m	2011 £m
<b>Current tax</b>		
United Kingdom corporation tax on profits of the year at 24.5% (2011: 26.5%)	0.1	1.4
Adjustments in respect of previous periods	(0.1)	0.5
Total current tax	<u>-</u>	<u>1.9</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	1.9	3.1
Rate change adjustment	0.1	0.1
Adjustments in respect of previous periods	-	0.2
Total deferred tax	<u>2.0</u>	<u>3.4</u>
Total tax charge	<u>2.0</u>	<u>5.3</u>
<b>Tax reconciliation</b>		
	2012 £m	2011 £m
Profit on ordinary activities before taxation	<u>1.4</u>	<u>14.1</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	0.3	3.7
Effects of		
Expenses not deductible for tax purposes	1.7	0.8
Pension	(1.7)	(3.0)
Other short-term timing differences	(0.2)	(0.1)
Adjustment to tax charge in respect of previous years	(0.1)	0.5
Current tax charge for the year	<u>-</u>	<u>1.9</u>

The Company's future tax charge will be affected by changes in the UK corporation tax rate (see note 16)

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 7 Share-based payments

Certain employees of the Company are participants in four equity-settled share-based payment arrangements operated by the Company's ultimate parent, Balfour Beatty plc, namely the savings-related share option scheme, the executive share option scheme, the performance share plan and the deferred bonus plan. The Company recognised total expenses related to equity-settled share-based payment transactions since 7 November 2002 of £272k in 2012 (2011: £353k).

#### (a) Savings-related share options

Balfour Beatty plc has not granted any savings-related share options ("SAYE") since 2010, but has continued to operate an HMRC approved scheme under which employees were granted an option to purchase ordinary shares in Balfour Beatty plc in either three or five years time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise. This scheme is open to all employees based in the UK and performance conditions are not applied to the exercise of SAYE options. Employees normally have a period of six months after completion of the savings contributions during which to exercise the SAYE options, failing which they lapse.

The information in relation to SAYE options granted to employees of the Company was

	<b>SAYE options 2012 number</b>	<b>Weighted average exercise price 2012 pence</b>	<b>SAYE options 2011 number</b>	<b>Weighted average exercise price 2011 pence</b>
Outstanding at 1 January	525,654	269.0	729,349	274.8
Granted during the year	-	-	-	-
Transferred during the year	-	-	(2,974)	306.6
Forfeited during the year	(65,091)	262.6	(85,157)	288.5
Exercised during the year	(69,307)	248.9	(51,272)	275.5
Expired during the year	(89,501)	317.7	(64,292)	301.9
Outstanding at 31 December	<u>301,755</u>	<u>260.6</u>	<u>525,654</u>	<u>269.0</u>
Exercisable at 31 December	25,149	304.0	12,702	304.5

The weighted average share price at the date of exercise for those SAYE options exercised during the year by all participants was 298.2p (2011: 309.6p). Those SAYE options granted to employees of the Company which were outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.6 years (2011: 2.1 years).

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 7 Share-based payments (continued)

#### (b) Executive share options

Balfour Beatty plc has not granted any executive share options since 2004, but has continued to operate a scheme under which employees were granted options to purchase ordinary shares in Balfour Beatty plc, which are exercisable between three and ten years after the date of grant. Performance conditions have been met for all executive options granted since 7 November 2002, as earnings per share before goodwill amortisation and exceptional items ("eps") for the last year of the minimum three-year performance period have grown from their respective fixed base eps by a total of at least 3% per annum plus the increase in RPI over the relevant period.

The information in relation to executive options granted to employees of the Company since 7 November 2002 was

	Executive options 2012 number	Weighted average exercise price 2012 pence	Executive options 2011 number	Weighted average exercise price 2011 pence
Outstanding at 1 January	108,500	219.2	117,686	219.8
Exercised during the year	-	-	(9,186)	227.3
Outstanding at 31 December	108,500	219.2	108,500	219.2
Exercisable at 31 December	108,500	219.2	108,500	219.2

The weighted average share price at the date of exercise for those executive options exercised during the year by all participants was 287.7p (2011: 303.4p). Those executive options granted to employees of the Company which were outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.2 years (2011: 2.2 years).

#### (c) Performance share plan awards

Balfour Beatty plc operates a performance share plan under which key senior employees are granted conditional awards of ordinary shares in Balfour Beatty plc, which are exercisable on the third anniversary of the date of award. These awards will only vest to the extent that performance targets are met over a three-year performance period. On 16 April 2012, for all participants in the plan, a maximum of 4,177,096 conditional shares were awarded which are normally exercisable in April 2015.

50% of the 2012 award is based on an eps growth target. The maximum award of shares is made only where Balfour Beatty plc's eps increases by at least 45% in the relevant performance period, 25% of this element of the award is made where Balfour Beatty plc's eps increases by 15% over the period, if growth in eps is between 15% and 45%, the number of shares will be awarded pro-rata to the growth in eps, and no shares from this element of the award can be awarded if growth in eps is less than 15% over the period.

The other 50% of that 2012 award is based on total shareholder return (TSR) performance measured against the FTSE 51-150 (excluding investment trusts). The maximum award of shares is made only where Balfour Beatty plc's TSR is in the upper quartile, 25% of this element of the award is made where Balfour Beatty plc's TSR is at the median, if Balfour Beatty plc's TSR is between the median and the upper quartile, the number of shares will be awarded pro-rata, and no shares can be awarded if Balfour Beatty plc's TSR is below median.

The information in relation to performance share awards granted to employees of the Company was

	Conditional awards 2012 number	Conditional awards 2011 number
Outstanding at 1 January	259,871	231,394
Granted during the year	113,599	96,219
Forfeited during the year	(18,739)	-
Exercised during the year	-	(12,464)
Expired during the year	(81,067)	(55,278)
Outstanding at 31 December	273,664	259,871
Exercisable at 31 December	-	-

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 7. Share-based payments (continued)

#### (c) Performance share plan awards (continued)

The share price at the date of exercise for those performance share awards exercised during 2011 by all participants was 330.0p. Those performance share awards to employees of the Company outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.4 years (2011: 1.4 years).

The awards are satisfied by the transfer of shares for no consideration. For the 50% of the 2012 award which is subject to a performance test based on EPS, the fair value of the award is the closing share price before the award date. For the 50% of that 2012 award which is subject to a market condition based on TSR, the consultants have used a stochastic model, including expected volatility determined from the historic weekly share price movements over the three-year period preceding the award date, with the following assumptions used:

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

#### (d) Deferred bonus plan awards

Balfour Beatty plc operates a deferred bonus plan under which one-third of the annual bonus of key senior employees is deferred in the form of ordinary shares in Balfour Beatty plc, which will normally be released after three years, providing the individual is still in the Balfour Beatty Group's employment at that time. On 30 March 2012, for all participants in the plan, a maximum of 916,940 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 2012 dividend and on 10 October 2012 and 7 December 2012 a further 29,023 and 14,662 conditional shares were awarded in lieu of the entitlements to the interim 2012 dividend.

The information in relation to deferred bonus plan awards granted to employees of the Company was:

	Conditional awards 2012 number	Conditional awards 2011 Number
Outstanding at 1 January	172,479	147,861
Granted during the year	28,753	46,790
Awards in lieu of dividends	7,112	7,474
Transferred during the year	-	11,131
Forfeited during the year	(15,288)	-
Exercised during the year	(60,917)	(40,777)
Outstanding at 31 December	132,139	172,479
Exercisable at 31 December	-	-

The weighted average share price at the date of exercise for those deferred bonus plan awards exercised during the year by all participants was 288.8p (2011: 333.8p). Those deferred bonus plan awards to employees of the Company which were outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.0 years (2011: 1.2 years).

As the awards are satisfied by the transfer of shares for no consideration, the fair values of the awards are the closing share price before award date, which was 284.4p, 255.5p, 305.0p, 301.4p and 257.9p for the awards made on 30 March 2012, 25 April 2012, 6 July 2012, 10 October 2012 and 7 December 2012 respectively.

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 8 Intangible fixed assets

	Goodwill £m
<b>Cost</b>	
At 1 January and 31 December 2012	<u>20.2</u>
<b>Amortisation</b>	
At 1 January 2012	6.0
Charge for the year	4.7
At 31 December 2012	<u>10.7</u>
<b>Net book value</b>	
At 31 December 2012	<u>9.5</u>
At 31 December 2011	<u>14.2</u>

### 9. Tangible fixed assets

	Freehold land and buildings £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 January 2012	13.0	7.3	20.3
Additions	-	0.5	0.5
Disposals	-	(2.1)	(2.1)
Impairment	(4.7)	-	(4.7)
Restructure write downs	-	(4.9)	(4.9)
At 31 December 2012	<u>8.3</u>	<u>0.8</u>	<u>9.1</u>
<b>Accumulated depreciation</b>			
At 1 January 2012	1.4	5.5	6.9
Charge for the year	0.2	0.6	0.8
Eliminated on disposals	-	(2.1)	(2.1)
Restructure write downs	-	(4.0)	(4.0)
At 31 December 2012	<u>1.6</u>	<u>-</u>	<u>1.6</u>
<b>Net book value</b>			
At 31 December 2012	<u>6.7</u>	<u>0.8</u>	<u>7.5</u>
At 31 December 2011	<u>11.6</u>	<u>1.8</u>	<u>13.4</u>

Plant and equipment refers to plant, machinery, vehicles and equipment

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 10. Fixed asset investments

	2012 £m	2011 £m
<b>Cost and net book value</b>		
At 1 January and 31 December	<u>9.1</u>	<u>9.1</u>

The Company has investments in the following subsidiary undertakings

	Country of incorporation	Principal activity	Holding %
Strata Construction Ltd	England and Wales	Construction of affordable housing	100%
Hall & Tawse Ltd	Scotland	Construction & property services	100%
Kirby MacLean Ltd	England and Wales	Painting, contracting & decorating	100%
Hall & Tawse Western Ltd	England and Wales	Dormant	100%
Burnbank House Ltd	England and Wales	Development of commercial property	75%

The Company has a 75% interest in a subsidiary company, Burnbank House Limited, holding the entire A ordinary shares of that company. A and B ordinary shareholders have the same rights and rank pari passu in all respects, except the following

- On any resolution to appoint or remove a director, only the holders of A ordinary shareholders are entitled to vote, and
- Any alteration of the Memorandum, Articles of Association or share capital of the Company requires the consent of B ordinary shareholders

### 11. Stocks

	2012 £m	2011 £m
Raw materials and consumables	-	0.3
Work in progress	<u>30.6</u>	<u>16.6</u>
	<u>30.6</u>	<u>16.9</u>

Work in progress comprises costs incurred on housing projects being carried out on a speculative basis by the Partnership Homes businesses in Perth, Scotland and Southampton, less provisions for impairment. The Directors are satisfied that such amounts are recoverable.

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 12 Debtors

	2012 £m	2011 £m
<b>Due within one year</b>		
Trade debtors	44.8	56.8
Amounts recoverable on contracts	67.1	49.9
Contract retentions	24.6	26.3
Amounts owed by Group undertakings	124.1	179.1
Prepayments and accrued income	2.6	2.1
	<u>263.2</u>	<u>314.2</u>
<b>Due after more than one year</b>		
Contract retentions	7.7	7.4
Deferred taxation (note 16)	0.9	1.2
	<u>8.6</u>	<u>8.6</u>
<b>Total debtors</b>	<u>271.8</u>	<u>322.8</u>

Amounts owed by group undertakings are repayable on demand and the interest rates charged are in the range of 0%-1%

### 13. Creditors amounts falling due within one year

	2012 £m	2011 £m
Trade creditors	9.4	9.2
Payments on account	13.7	13.7
Contract retentions	24.1	26.8
Amounts owed to Group undertakings	55.9	51.2
Corporation tax	0.1	1.4
Other taxation and social security	3.6	4.0
Other creditors	3.4	1.7
Accruals and deferred income	148.6	184.6
	<u>258.8</u>	<u>292.6</u>

Amounts owed to group undertakings are repayable on demand and the interest rates charged are in the range of 0%-1%

### 14 Creditors amounts falling due after more than one year

	2012 £m	2011 £m
Contract retentions	7.2	6.5
Accruals and deferred income	0.2	-
	<u>7.4</u>	<u>6.5</u>



# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 15 Provisions for liabilities and charges

	Contract provisions £m	Employee liabilities £m	Property liabilities £m	Total £m
At 1 January 2012	9.4	2.5	0.5	12.4
Released in the year	(2.6)	(1.4)	(0.1)	(4.1)
Created in the year	2.3	0.8	0.1	3.2
Utilised in the year	(3.1)	-	-	(3.1)
At 31 December 2012	6.0	1.9	0.5	8.4

Contract provisions include fault and warranty provisions in respect of completed contracts, and a claim in respect of one completed project. The provisions are expected to be utilised between 2013 and 2015.

The employee liabilities provision represents obligations in respect of asbestos-related claims from ex-employees which are only partly covered by insurance. Due to the long-term nature of these claims, it is expected that these provisions will be required for a considerable period.

The property liabilities relate to provisions for dilapidations and rents payable on vacant properties. These are expected to be utilised over the remaining terms of the leases, which expire between 2013 and 2020.

### 16. Deferred taxation

Deferred taxation, based on UK corporation tax at 24.5% (2011: 26.5%) comprises	2012 £m	2011 £m
Depreciation in excess capital allowances	0.7	0.5
Share-based payments	0.1	0.1
Short term timing differences	0.1	0.6
Deferred tax excluding that relating to the pension asset	0.9	1.2
Pension asset (note 24)	3.8	2.8
Total deferred tax asset	4.7	4.0
At 1 January	4.0	9.6
Profit and loss account	(2.0)	(3.4)
Deferred tax charge to the STRGL	2.7	(2.2)
At 31 December	4.7	4.0

There is no unprovided deferred taxation (2011: £nil).

The Finance Act 2012 was enacted on 17 July 2012 implementing a reduction to the main UK Corporation Tax rate from 25% to 24% effective from 1 April 2012, with a further reduction of 1% to 23% from 1 April 2013. As a result of the change, the deferred tax balances have been re-measured. This gives rise to a deferred tax charge of £0.1m in the year.

In the 2012 Autumn Statement it was announced, 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. The 2013 Chancellor's Budget subsequently announced a further fall to 20% effective from 1 April 2015.

The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 17 Called up share capital

	2012		2011	
	Number	£m	Number	£m
Allotted, called up and fully paid Ordinary shares of £1 each	10,822,231	10.8	10,822,231	10.8

### 18. Reserves

	Capital contribution reserve £m	Special reserve £m	Other reserves £m	Profit and loss account £m
At 1 January 2012	1.9	11.3	0.6	71.4
Net actuarial loss on retirement benefit obligations	-	-	-	(12.5)
Tax on items taken directly to equity	-	-	-	2.7
Movements relating to share-based payments	-	-	(0.1)	0.3
Loss for the financial year	-	-	-	(0.6)
<b>At 31 December 2012</b>	<b>1.9</b>	<b>11.3</b>	<b>0.5</b>	<b>61.3</b>

### 19 Equity shareholder's funds

	2012 £m	2011 £m
(Loss)/profit on ordinary activities after taxation	(0.6)	8.8
Actuarial (losses)/gains on retirement benefit obligations (note 24)	(12.5)	7.1
Tax on items in equity	2.7	(2.2)
	<b>(10.4)</b>	<b>13.7</b>
Movement relating to share-based payments	0.2	0.1
	<b>(10.2)</b>	<b>13.8</b>
Net (reduction)/increase in shareholder's funds	96.0	82.2
Opening equity shareholder's funds		
	<b>85.8</b>	<b>96.0</b>

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 20 Commitments under operating leases

At 31 December the Company was committed to making the following payments during the next year in respect of operating leases

	2012		2011	
	Property £m	Other £m	Property £m	Other £m
Operating leases expiring				
Within one year	0.2	0.1	0.1	0.1
Within two to five years	0.7	-	1.0	0.1
After five years	0.5	-	0.5	-
	<b>1.4</b>	<b>0.1</b>	<b>1.6</b>	<b>0.2</b>

### 21. Contingent liabilities and capital commitments

The Company has, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Company's own contracts and in respect of Group undertakings. Provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Company 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 a sufficiently reliable estimate of the potential obligation cannot be made.

Capital expenditure contracted for at 31 December 2012 totalled £nil (2011: £nil).

### 22 Related party transactions

As a subsidiary of Balfour Beatty plc, the Company has taken advantage of the exemption in FRS8 "Related Party Transactions" not to disclose transactions with other wholly owned members of the group headed by Balfour Beatty plc.

### 23 Parent undertakings

The Company is a wholly-owned subsidiary of Mansell plc, incorporated in United Kingdom and registered in England and Wales, which does not prepare consolidated financial statements.

The Company's ultimate parent undertaking and controlling party is Balfour Beatty plc which is registered in England and Wales.

The only group in which the results of the Company are consolidated is that headed by Balfour Beatty plc. The consolidated financial statements of Balfour Beatty plc are available to the public and may be obtained from the Company Secretary, Balfour Beatty plc, 130 Wilton Road, London SW1V 1LQ and on the Balfour Beatty website at [www.balfourbeatty.com](http://www.balfourbeatty.com).

## MANSELL CONSTRUCTION SERVICES LIMITED

### Notes to the financial statements (continued)

#### 24. Pension arrangements

Certain employees of the Company are members of the Balfour Beatty Pension Fund ("BBPF") which includes defined benefit and defined contribution sections. Defined benefit schemes provide benefits based on employees' pensionable service and their pensionable salary. Defined contribution schemes are those where the Company's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

The defined benefit section is closed to new members with the exception of employees transferring under certain agreed arrangements.

During the year ended 31 December 2011 the Balfour Beatty Group ('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, resulting in a £2m reduction in liabilities and a consequential past service cost credit for the Company of £2m. The offer closed in February 2012 resulting in an additional £0.2m reduction to the pension liability and a consequential net past service cost credit for the Company of £0.2m in 2012.

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%. This was applied following consideration of research published by the Office for National Statistics (ONS) and independent advice received from the Group's actuaries. This change in assumptions gave rise to a £2.6m actuarial reduction in liabilities to the Company which was credited to equity in the statement of total recognised gains and losses.

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 £1.2m actuarial increase in liabilities to the Company which was charged to equity in the statement of total recognised gains and losses.

The investment strategy of the BBPF is to hold assets of appropriate liquidity and marketability to generate income and capital growth to meet, together with any contributions from the Group, the cost of current and future benefits. The BBPF invests partly in a diversified range of assets including equities and hedge funds in anticipation that, over the longer term, they will grow in value faster than the liabilities. The equities are in the form of pooled funds and are a combination of UK, other developed market and emerging market equities. The remaining BBPF assets are principally fixed and index-linked bonds and swaps in order to match the duration and inflation exposure of the liabilities and enhance the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

Defined benefit obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on high-quality corporate bonds. Contributions are determined in accordance with independent actuarial advice and are based on pension costs across the Parent Company and its subsidiaries as a whole.

#### Allocation of the Balfour Beatty Pension Fund

The policy of the Balfour Beatty Group is that assets, liabilities, income and expenditure relating to the defined benefit section of the BBPF are allocated to each of the participating companies with active members in the scheme in proportion to pensionable payroll for the year.

The disclosures shown below reflect the Company's proportion of the total BBPF. Defined contribution section employer contributions paid and charged in the profit and loss account have been separately identified and the defined contribution section assets and liabilities have been excluded from the tables below.

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24. Pension arrangements (continued)

#### FRS 17 accounting valuation

The principal actuarial assumptions for the FRS17 accounting valuations of the Balfour Beatty Pension Fund are as follows

	Balfour Beatty Pension Fund 2012 %	Balfour Beatty Pension Fund 2011 %
Discount rate on obligations	4.40	4.85
Expected return on plan assets	5.10	5.20
Inflation rate - RPI	2.90	2.95
Inflation rate - CPI	2.20	2.05
Future increases in pensionable salary - members with a protected right to a defined benefit membership	2.20	4.45
Future increases in pensionable salary – other members	4.40	4.45
Rate of increase in pensions in payment	2.80	2.85

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 mortality assumptions.

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 FRS 17 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). The change in assumptions gave rise to a £2.6m actuarial reduction in liabilities to the Company which was credited to equity in the statement of total recognised gains and losses.

	2012 Average life expectancy at 65 years of age	2011 Average life expectancy at 65 years of age
Members in receipt of pension		
– Male	21.9 years	22.0 years
– Female	24.4 years	24.6 years
Members not yet in receipt of pension (current age 50)		
– Male	23.2 years	23.8 years
– Female	25.6 years	26.5 years

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24 Pension arrangements (continued)

The amounts recognised in the profit and loss account are as follows

	<b>Pension Fund 2012 £m</b>	<b>Pension Fund 2011 £m</b>
Current service cost	(4.5)	(4.3)
Past service cost credit	0.2	0.2
Curtailment gain	0.7	-
Defined contribution charge	(4.5)	(4.7)
Expected return on plan assets	14.0	13.0
Interest cost	(13.3)	(12.9)
<b>Total charged to profit and loss account</b>	<b>(7.4)</b>	<b>(8.7)</b>

Of the charge for the year, £8.1 million (2011: £8.8 million) has been included in operating profit and £0.7 million credit (2011: £0.1 million credit) has been included in other financial expenses

The amounts recognised in the statement of total recognised gains and losses are as follows

	<b>Balfour Beatty Pension Fund 2012 £m</b>	<b>Balfour Beatty Pension Fund 2011 £m</b>
Actuarial losses on pension scheme obligations	(27.7)	(24.4)
Actuarial gains on pension scheme assets	15.2	31.5
<b>Total actuarial (losses)/gains recognised in the statement of total recognised gains and losses</b>	<b>(12.5)</b>	<b>7.1</b>
Cumulative losses recognised in reserves	(14.1)	(1.6)

The actual return on plan assets was a gain of £29.2m (2011: £44.5m)

The amounts recognised in the balance sheet are as follows

	<b>2012 £m</b>	<b>2011 £m</b>
Present value of funded obligations	(311.6)	(281.1)
Fair value of plan assets	295.3	270.2
<b>Scheme deficit</b>	<b>(16.3)</b>	<b>(10.9)</b>
Related deferred tax asset	3.8	2.8
<b>Liability in the balance sheet</b>	<b>(12.5)</b>	<b>(8.1)</b>

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24. Pension arrangements (continued)

The movement in the present value of obligations is as follows

	<b>Balfour Beatty Pension Fund 2012 £m</b>	<b>Balfour Beatty Pension Fund 2011 £m</b>
At 1 January	(281.1)	(251.7)
Service cost	(4.5)	(4.3)
Past service cost credit	0.2	0.2
Curtailment gain	0.7	-
Interest cost	(13.3)	(12.9)
Actuarial losses	(27.7)	(24.4)
Contributions from members	(0.1)	(0.1)
Benefits paid	14.2	12.1
At 31 December	<b>(311.6)</b>	<b>(281.1)</b>

Includes an actuarial loss of £1.2m from reassessing the difference between RPI and CPI (2011 actuarial gain of £2.6m) and an actuarial gain of £2.6m from a change in mortality assumptions (2011 £nil)

The movement in the fair value of plan assets is as follows

	<b>Balfour Beatty Pension Fund 2012 £m</b>	<b>Balfour Beatty Pension Fund 2011 £m</b>
At 1 January	270.2	222.4
Expected return on plan assets	14.0	13.0
Actuarial gains	15.2	31.5
Contributions from employer – regular funding	3.3	3.9
Contributions from employer – ongoing funding	6.7	11.4
Contributions from members	0.1	0.1
Benefits paid	(14.2)	(12.1)
At 31 December	<b>295.3</b>	<b>270.2</b>

The fair value and expected rates of return on the assets held by the schemes at 31 December are as follows

	<b>Balfour Beatty Pension Fund</b>		<b>Balfour Beatty Pension Fund</b>	
	<b>Expected rate of return 2012 %</b>	<b>Value 2012 £m</b>	<b>Expected rate of return 2011 %</b>	<b>Value 2011 £m</b>
Return-seeking	8.03	118.0	8.34	95.2
Liability matching bond-type assets	3.35	146.3	3.69	145.1
Other	2.20	31.0	2.55	29.9
Rate of return/total	<b>5.10</b>	<b>295.3</b>	<b>5.20</b>	<b>270.2</b>

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24 Pension arrangements (continued)

The expected rates of return on scheme assets were determined as the average of the expected returns on the assets held by the scheme on 31 December. The rates of return for each class were determined as follows:

- Return seeking assets and property - the long-term rates of return on these assets are derived from current risk-free rates of return with the addition of an appropriate future risk premium from an analysis of historic returns, current market conditions and forward looking views from market participants
- Bonds - the rate has been set to reflect the yields available on the gilts and corporate bond holdings held at 31 December
- Cash and other net assets - the rate adopted reflects current short-term returns on cash deposits

The assets of the scheme do not include any direct holdings of financial instruments, property occupied by, or other assets of the Company or Balfour Beatty Group

The estimated amounts of contributions expected to be paid to the principal defined benefit schemes during 2013 are as follows:

	<b>Balfour Beatty Pension Fund 2012 £m</b>
Regular funding	3.0
Deficit funding	8.0
<b>Total</b>	<b>11.0</b>

Year end historic information for the Company share of the BBPF post-retirement benefit plan is as follows:

	<b>BBPF 2012 £m</b>	<b>BBPF 2011 £m</b>	<b>BBPF 2010 £m</b>	<b>BBPF 2009 £m</b>	<b>Mansell Schemes 2008 £m</b>
Defined benefit obligation at end of year	(311.6)	(281.1)	(251.7)	(203.4)	(187.8)
Fair value of assets at end of year	295.3	270.2	222.4	167.2	170.3
Deficit at end of year	(16.3)	(10.9)	(29.3)	(36.2)	(17.5)
Experience adjustment for liabilities	(7.8)	(4.0)	(159.9)	-	4.9
Experience adjustment for assets	15.2	31.5	43.3	(17.0)	35.4

### Funding valuations

The last formal funding valuation is as detailed below:

	<b>Balfour Beatty Pension Fund £m</b>
Last formal funding valuation	31/03/2010
<b>Scheme surplus/(deficit)</b>	
Market value of assets	2,070
Present value of scheme liabilities	(2,445)
<b>Deficit in defined benefit scheme</b>	<b>(375)</b>
<b>Funding level</b>	<b>84.6%</b>

The amount charged to the profit and loss account in respect of defined contribution schemes was £4.5m (2011: £4.7m)



## **MANSELL CONSTRUCTION SERVICES LIMITED**

### **Notes to the financial statements (continued)**

#### **25. Subsequent events**

With effect from 1 February 2013, the employees of the Company were transferred to Balfour Beatty Group Employment Limited, which has been established as the employing entity for the Balfour Beatty Group's UK businesses

As part of a business review, two of the Company's smaller regional offices in Doncaster and Rochdale have been identified as no longer being sustainable, and employees have been advised of the Company's proposal to close these offices. The process of closure is expected to be completed during the third quarter of 2013.