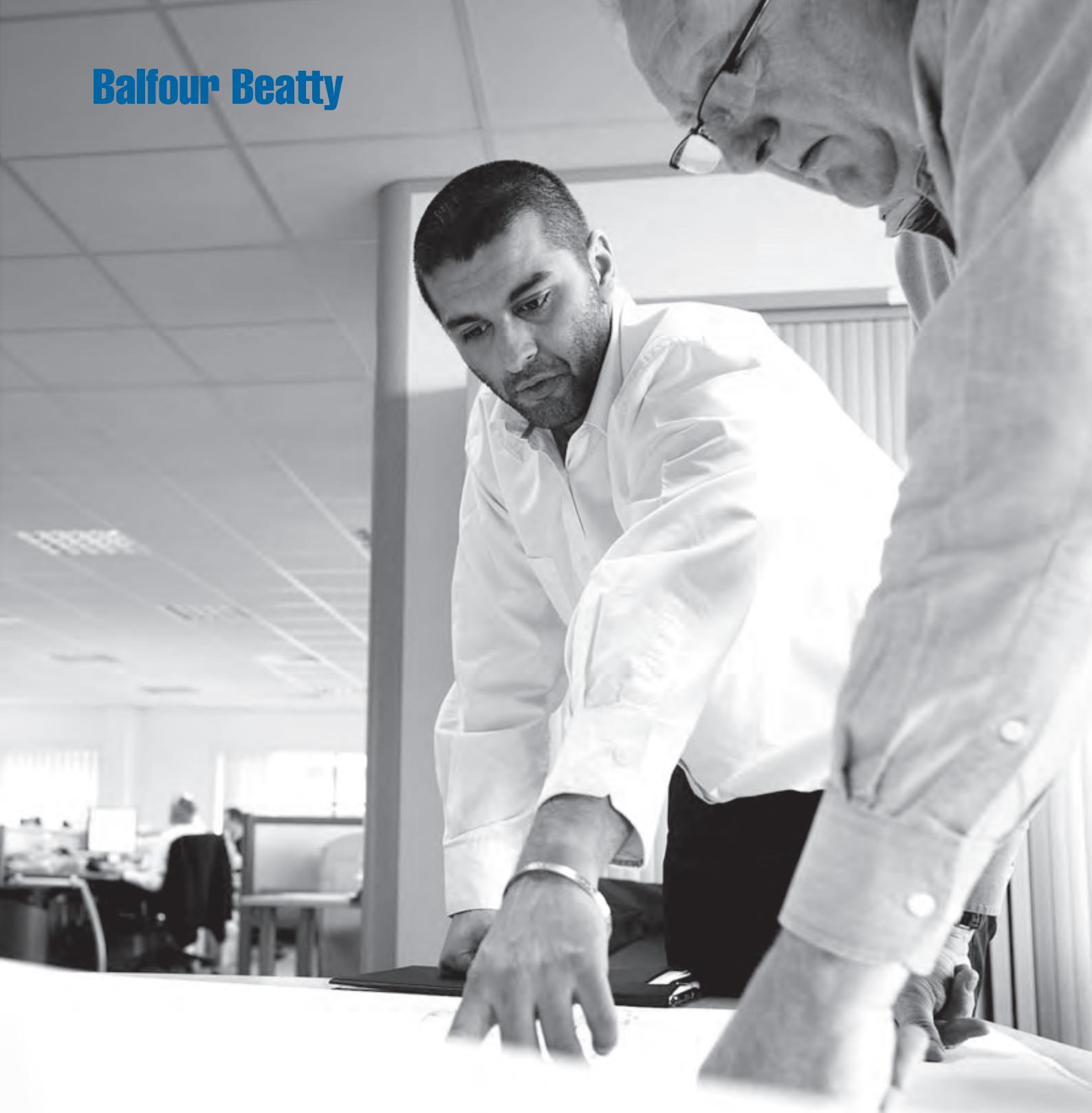


Balfour Beatty



ANNUAL REPORT AND ACCOUNTS 2010

THE INFRASTRUCTURE BUSINESS

THE INFRASTRUCTURE BUSINESS

Balfour Beatty is an international infrastructure business. We are a leader in growing global markets which are forecast to be worth over £20 trillion over the next 10 years. Our breadth of capability and presence in over 80 countries give us competitive advantage across a diversity of sectors and economies, putting us in a strong position to deliver value to shareholders in the short, medium and long term.

Here's how...



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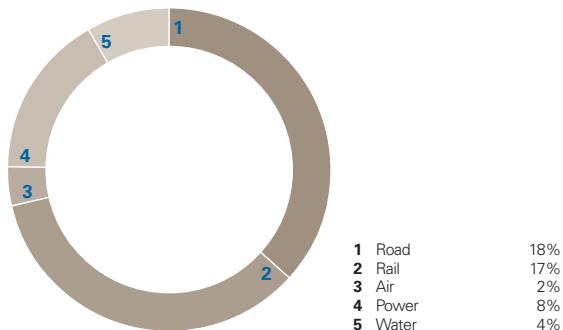
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FOCUSED ON STRONG GROWING MARKETS

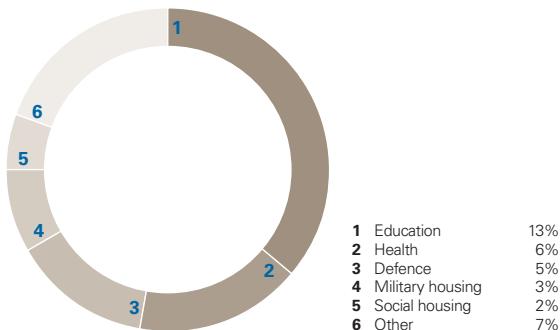
Diverse spread of sectors in infrastructure

We have strong positions in both civil infrastructure – transportation, power, water and communications – and social infrastructure, which includes buildings in the health, education and social and military housing sectors. This diversity demonstrates the breadth of our capabilities and makes our business resilient.

Civil infrastructure (49% of Group revenue)



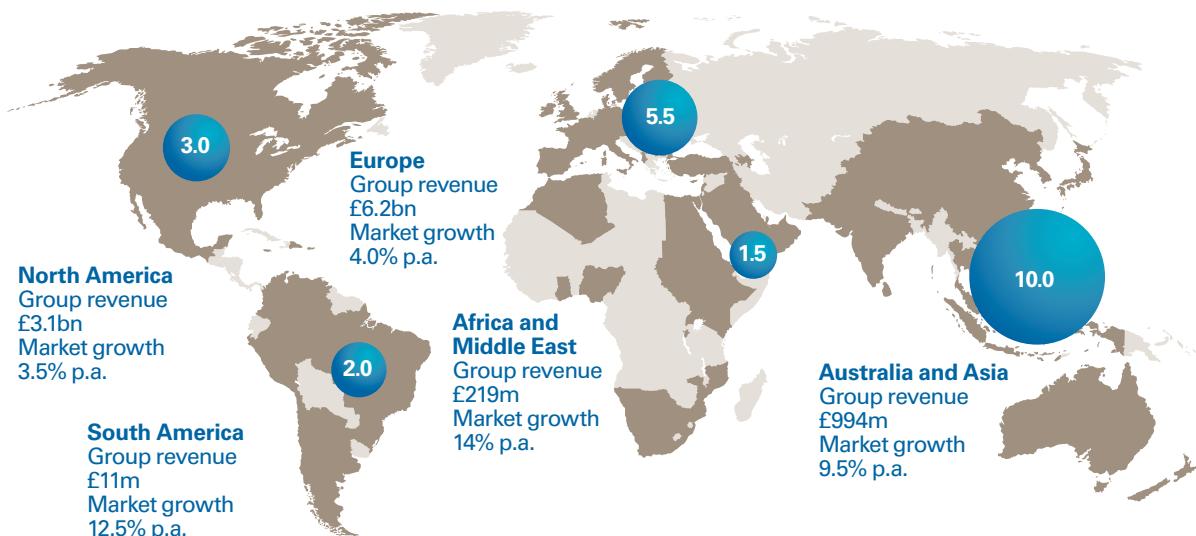
Social infrastructure (36% of Group revenue)



Other infrastructure (15%)

A global business generating £10 billion of revenue across 80 countries

Organic growth and recent acquisitions have added to our global scale; we are now one of the largest players in infrastructure by revenue. Our international reach and ability to access emerging markets have been greatly enhanced in recent years, particularly through the acquisition of Parsons Brinckerhoff.



● Regional infrastructure market size for the period 2010–2020 by Global Insight (£22 trillion).

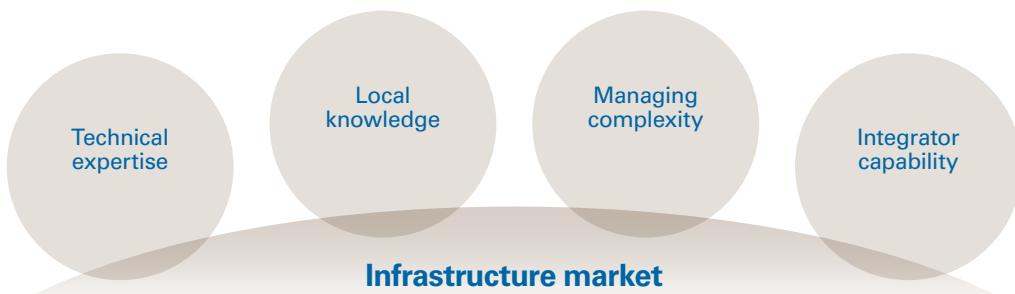
Growth rates for the period 2010–2020.

● Countries where we generate revenue.

STRUCTURED FOR COMPETITIVE ADVANTAGE

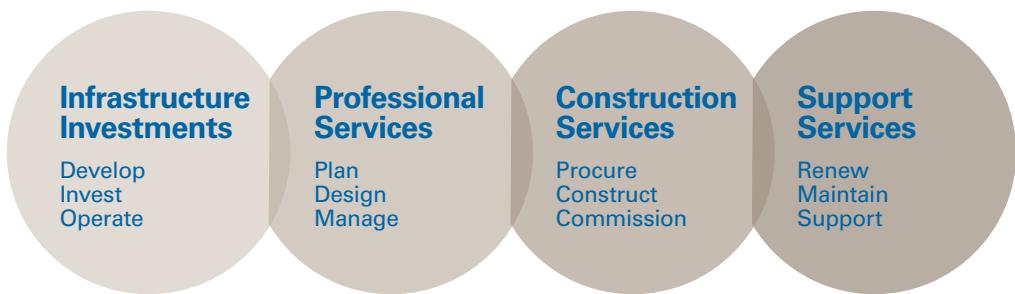
Depth of infrastructure knowledge

Customers turn to us for our technical expertise. But increasingly we must augment technical expertise with local knowledge, ability to manage the complex needs of our customers and the skills to integrate a host of stakeholders from contractors to owners, end-users and regulators. Our balanced, global strength in all these core skills gives us crucial competitive advantage.



Breadth of capability

With more comprehensive capabilities than our international peers, we can access a broader range of markets and customers. While we are organised along capability lines – infrastructure investments, professional services, construction services and support services – the breadth of capabilities across the Group create a strong platform for growth and delivering shareholder value.



Strength of balance sheet

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

Cash ¹	PPP assets ²	Pension deficit
£435m	+54%	£441m

¹ Average net cash for the year 2010, excluding PPP subsidiaries.

² Directors' valuation of PPP concessions at 31 December 2010.

WE HAVE THE CAPABILITY TO BECOME THE GLOBAL LEADER IN INFRASTRUCTURE



"What shines through is the dedication,
expertise and self-confidence of our people."

A handwritten signature in blue ink that reads "Steve Marshall". A thin blue horizontal line extends from the end of the signature towards the bottom left corner of the page.

Steve Marshall
Chairman

Balfour Beatty had another successful year in 2010.

We have created a resilient business, which performed well in spite of the weak economic environment in some of our major markets.

Our strong order book increased by £1.1bn in the year to £15.2bn and we maintained a robust balance sheet with net cash of £518m at the year-end, excluding PPP subsidiaries.

Over the past few years, Balfour Beatty has become an increasingly diverse company, both in terms of the geographies we operate in and the end-markets we address. The Group is not over-reliant on any one market segment and has the flexibility and capabilities to pursue the most attractive growth opportunities.

Looking forward, we are excited about the significant opportunities in the power sector, particularly in the nuclear, renewables and offshore markets; in the rail industry, both in transit and high-speed; and the growing market for business services outsourcing in the UK and for professional services worldwide.

Dividend

The Board is proposing a final dividend of 7.65p per ordinary share, making a total dividend of 12.7p for the year, an increase of 6% on 2009.

Our progressive dividend policy reflects our confidence in the Group's ability to deliver growth over the medium term.

The Board

We have actively continued to review the make-up of the Board over the past few years in light of the increased scale and breadth of our business.

Iain Ferguson was appointed as a non-executive Director on 1 January 2010. His extensive international operational experience and his strategic insight, latterly in his capacity as chief executive of Tate & Lyle PLC, will make a significant contribution in the coming years.

Last year, I indicated that the Board intended to appoint a non-executive Director with significant US experience and, in June 2010, we were pleased to announce the appointment of Robert Amen. Rob has a proven track record in leading and developing large multinational businesses and his background and experience are already proving highly relevant to the Group's continuing programme of international development.

In December 2010, we announced that Gordon Sage was retiring from the Board. He leaves with our sincere thanks for the significant contribution he has made over the past seven years and our best wishes for the future.

More information on the work of the Board can be found in the Governance section on *pages 72 to 99*.

Our people

As we become a genuinely global infrastructure business, it is imperative that we are organised in line with our strategic priorities.

During 2010, we took steps to organise ourselves through a divisional structure focused on worldwide professional services, UK construction, US construction, international rail, support services and infrastructure investments.

As we continue to grow, our success will depend on both our ability to be world-class in all these areas and our effectiveness in collaborating, as appropriate, across the Group.

From my visits to our operations in North America, Asia, Continental Europe and the UK during the year, it is clear that our businesses are actively exploring how to work more effectively together and harness the power of our unique capabilities.

Balfour Beatty is an exciting place to work. Some of our businesses have had a tough year, but what shines through is the dedication, expertise and self-confidence of our people, whatever environment they are working in.

Our reputation

We have a continuous obligation, and desire, to engage with and retain the trust of the Group's stakeholders. By doing so, we ensure that we have the licence to develop our business for the long term and thereby create value.

Our Group-wide safety vision, Zero Harm, has had a real impact in terms of raising awareness of the standards we aspire to and improving our safety record. Despite this, very sadly there were five fatalities in the business in 2010. We will be re-doubling our efforts during 2011 to ensure that our safety performance doesn't plateau.

Our ethics and values programme, including our Code of Conduct, aims to support people to make the right decisions. There are many ways in which we are embedding these values throughout the business. The online training course to support the Code of Conduct for instance, was produced in eight languages and completed by nearly 28,000 employees in 2010.

I am conscious that our share price has not reflected what we believe to be the underlying strength and value of the business in recent years. As ever, performance and long-term strategy are the keys to a high market rating over time; but we are also putting increased effort into ensuring that we communicate with our stakeholders effectively.

Our priorities in 2011

Balfour Beatty is a high-quality business and we intend to build on our strengths.

Our newly-established divisional structure will enable us to focus on driving growth strategies and to realise efficiencies where we can. We will be accelerating our collaborative efforts for the benefit of our customers and seeking to capitalise on the opportunities in new geographies and market sectors.

We have the capability to become the global leader in infrastructure. I am confident we will make further progress during the year.

THE INFRASTRUCTURE BUSINESS

OUR BUSINESS

Our business

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DELIVERING RESILIENT PERFORMANCE

We are pleased with the resilient set of results achieved in 2010 in challenging market conditions in a number of our major markets. The diversity and strength of the Group is evident in the overall performance, and the successful integration of Parsons Brinckerhoff has driven our growth.

We have started 2011 with a record order book, a focus on cost and operational delivery and the intention to generate additional profits from PPP asset disposals. While we do not expect, in the short term, a meaningful recovery in the UK and US infrastructure markets, we expect to make progress this year.

Over the medium and long term, we expect global infrastructure to be a growth market. We have put in place a clear strategy, and the Group is well-placed to benefit from the growth in this market based on our depth of infrastructure knowledge, breadth of capability and the strength of our balance sheet.

Highlights of the year

Record order book up 8% at £15.2 billion (2009: £14.1 billion)

Pre-tax profit¹, up 20% to £319 million, lifting Group operating margin¹ to 3.2% (2009: 2.7%)

Adjusted earnings per share¹ up 1% at 34.7p

Final proposed dividend of 7.65p per share; full-year dividend up 6% at 12.7p per share

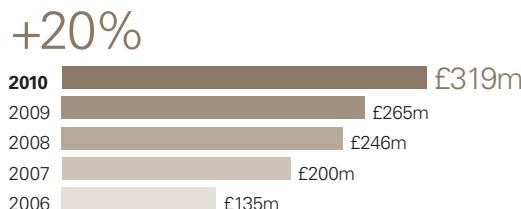
Balance sheet remains strong; average net cash in the year of £435 million (2009: £283 million)

Financial summary

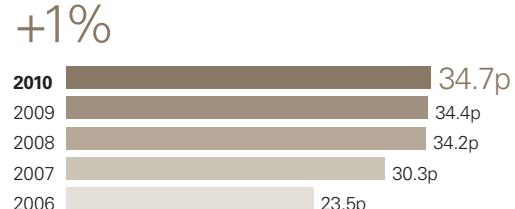
(£m unless otherwise specified)

	2010	2009	Change (%)
Revenue including joint ventures and associates	10,541	10,339	+2
Group revenue	9,236	8,954	+3
Profit from operations			
– before exceptional items and amortisation	338	280	+21
– after exceptional items and amortisation	206	295	-30
Pre-tax profit			
– before exceptional items and amortisation	319	265	+20
– after exceptional items and amortisation	187	265	-29
Earnings per share			
– adjusted ¹	34.7p	34.4p	+1
– basic	21.0p	37.1p	-43
Dividends per share	12.7p	12.0p	+6
Financing			
– net cash before PPP subsidiaries (non-recourse)	518	572	
– net borrowings of PPP subsidiaries (non-recourse)	(270)	(248)	

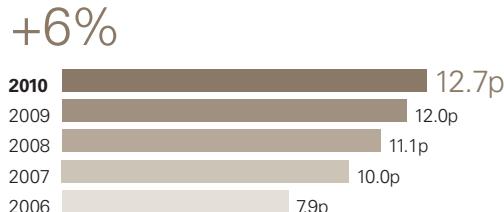
Pre-tax profit¹



Adjusted earnings per share¹



Dividends per share



2009 accounts restated for the adoption of IFRIC 12 Service Concession Arrangements.
Per share data restated for the bonus element of the 2009 rights issue.

¹ Before exceptional items and amortisation of intangible assets.

MEASURING OUR PROGRESS

Our strategy, which evolves with our environment and competition, sets our direction and determines our objectives for each year. It is crucial that we are able to measure the achievement of our five strategic objectives, set out below, and to report on our key performance indicators for our own benefit as well as the benefit of our stakeholders.

1 Develop our business further

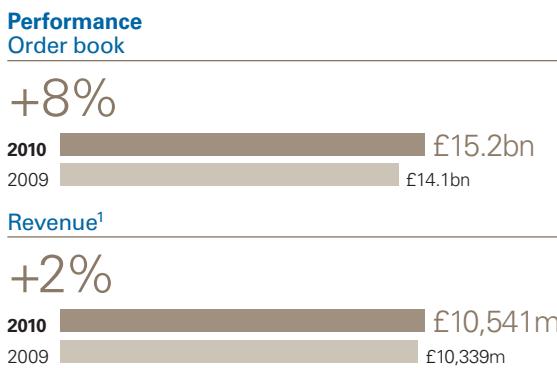
We operate in infrastructure markets around the world. We seek to achieve growth in these markets organically and through strategic acquisitions.

Key performance indicators

A growing order book is a leading indicator of good revenue growth. Our order book has increased by £1.1bn during the year, an increase of 8%.

In 2010, our revenue¹ grew by 2% despite the headwinds we faced in our major markets, due to the consolidation of Parsons Brinckerhoff for the full year for the first time.

More information on page 14.



2 Focus on markets with the greatest opportunities

Establishing ourselves in emerging infrastructure markets in Asia, Africa and South America is important for growth because those markets are growing faster than our traditional markets.

Key performance indicator

Last year, our revenue¹ in markets outside Europe and North America grew by 32% and represented 12% of the Group total.

More information on page 16.



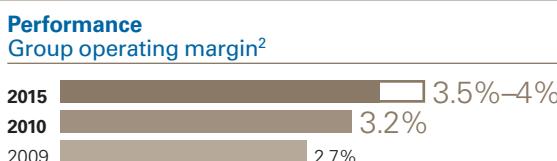
3 Improve operational performance and cost-effectiveness

We aim to increase our Group operating margin² from 2.7% in 2009 to a level of 3.5% to 4% over the next four to five years.

Key performance indicator

In 2010, we achieved a Group operating margin² of 3.2%, due to a better mix of business with higher professional services revenue and good operating performance in construction services.

More information on page 18.



¹ Including joint ventures and associates.

² Profit from operations before exceptional items and amortisation as a percentage of revenue including joint ventures and associates.

4 Continue to strengthen core skills

Four core skills – technical expertise, local knowledge, managing complexity and integrator capability – run through all of our activities and give us a competitive advantage. Strengthening these core skills even further is crucial to the strength of our business going forward.

Key performance indicator

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

More information on page 20.

Performance

Go-To List rankings for Parsons Brinckerhoff

No.1

in the Road & Highway, Bridge, Airport and Mass-Transit categories

No.2

in the Design-Build category

No.3

in the Storm-Water category

Source: Roads and Bridges magazine.

5 Continue to show leadership in values and behaviour

To be the leading provider of infrastructure services, we aim to be a leader in areas such as ethics, safety and the environment to ensure that we have a sustainable, long-term future.

Key performance indicators

The safety of our people and everyone we come into contact with is a key priority.

2010 was the first year we have been able to set a global baseline for our environmental impacts. As our data collection systems have improved, and our understanding of these impacts has grown, we have reported increases in our CO₂, water and waste. Our challenge, and opportunity, is to reduce these impacts and achieve the 2012 targets in our sustainability roadmap.

More information on page 22.

Performance

Accident Frequency Rate (AFR)

-6%



* Or lower by end 2012.

Greenhouse gas emissions (tonnes CO₂/£m revenue)



[†] 10% reduction by 2012 and 50% by 2020, both against the 2010 baseline.

A CLEAR STRATEGY TO BUILD THE INFRASTRUCTURE BUSINESS



“Whatever the challenges ahead, we face them with ever greater capability, a strong balance sheet based on robust cash generation, and a strong platform for further growth.”

A handwritten signature in blue ink, appearing to read "I.T." followed by a stylized surname.

Ian Tyler
Chief Executive

Over the past five years we have been building Balfour Beatty into a world-leading provider of services to infrastructure owners. We want to be recognised as 'the infrastructure business'.

The results speak for themselves. Since 2005, we have delivered 22% annual growth in pre-tax profit and 12% annual growth in dividends per share. We have maintained revenue and profit growth throughout the global downturn. Whatever the challenges ahead, we face them with ever greater capability, a strong balance sheet based on robust cash generation, and a strong platform for further growth.

We have deepened our insight into what infrastructure owners really want 'the infrastructure business' to be. We have refined our business model, and assembled a more comprehensive set of capabilities than those of our international peers. In turn, this gives us access to a broader range of markets and customers.

We set out to establish a business delivering a full range of services to owners and operators of the transport systems, power and water assets and complex buildings that all societies need. And we aim to support these assets through all stages of their lifecycle, from planning and investment to construction and maintenance. To do this effectively, we bring together four core skills:

Technical expertise

Only a handful of organisations across the world can match the breadth and depth of expertise about infrastructure assets that we have accumulated in the Group.

Local knowledge

Infrastructure is bought by local customers to serve local communities, so knowledge of local markets and their needs makes a real competitive difference. Working in more than 80 countries and 300 offices worldwide, we are strongly placed to capture local knowledge and nurture local relationships.

Complex customers

In both developed and developing economies, our customers, often governments and large regulated bodies, are facing more complex challenges. One of our core skills is our ability to understand customers' varied needs and the complexities of the environments in which they operate – and to harness the potential of our whole business to deliver solutions.

Integrator capability

One key to delivery in a complex world is the ability to bring together all the necessary elements and resources. Increasingly, our customers want us to reduce interface and delivery risk on complex projects by integrating the supply chain as well as the related stakeholders such as owners, end-users and regulators. Integrating the supply chain is a core competency in the industry, but few, if any, of our competitors can match our ability to manage these critical interfaces that deliver a quality asset – and to do this on a global scale.

Our combined strength in these core skills differentiates us – especially on large, complex projects. Projects such as Heathrow's Terminal 2B described on [page 21](#) or Denver's rapid transit P3 described on [page 39](#) show how we harness skills across our business to deliver and manage not just individual assets but complex infrastructure systems.

Despite the undoubtedly short-term challenges in some parts of the world, the infrastructure market offers excellent medium and long-term growth opportunities – you can read more about these on [pages 24 to 27](#).

So how will we seize those opportunities? Our strategy has five elements:

1 Develop our business further

More information on page 14

2 Focus on markets with the greatest opportunities

More information on page 16

3 Improve operational performance and cost-effectiveness

More information on page 18

4 Continue to strengthen core skills

More information on page 20

5 Continue to show leadership in values and behaviour

More information on page 22

1 Develop our business further

Our diverse range of capabilities is a great strength in uncertain times. It enables us to access a wide range of markets and change focus between them to go where the opportunities are greatest at any given time. We believe we have a balanced group of businesses that are all capable and competitive players in their own areas of expertise and that each of our divisions has the right ingredients to develop further.

Why is this important?

To address our broad range of markets effectively, we have grouped our operating companies into four segments by fundamental capability. Within each segment their strategies are tailored to their individual markets. To generate consistent growth, we need to ensure that they can all make a full contribution, both individually and as part of bespoke project teams.

What are we doing?

We have a good record of acquiring and growing businesses. Between 2005 and 2010, we nearly doubled our UK construction business. We grew our facilities management business from £250m sales to £600m in six years, doubled our US construction business profits in the three years since acquisition, and built our PPP business from scratch into the UK's largest primary PPP infrastructure investor outside the financial sector.

We also have a cash-generative business which could give us the capacity to make acquisitions worth £500m–£700m over the next four to five years if the right opportunities arise at an attractive price.

In recent years, we have been focusing attention on growing our Professional Services and Support Services activities to even the balance between our capabilities and increase the prominence of these relatively high-margin activities in our business mix. We expect to continue this pattern.

As in the past, we will maintain a combination of organic growth and acquisitions. Before acquiring Parsons Brinckerhoff (PB) in 2009, we had already grown a 600-strong professional services business in the UK from scratch. With PB, we have grown this highly technical team to 13,500. We want to keep adding capabilities and geographic coverage to this business – as we did recently by acquiring Halsall in Canada. We see further opportunities in the power, water, mining and transportation sectors.

In Support Services, we may need to acquire some additional skills as the scope for public sector outsourcing expands. But our investment is more likely to be in creating the infrastructure to support organic growth – as with the new National Operations Centre in Manchester – and in contract start-ups.

We will continue to grow Construction Services both organically and by acquisition. Our acquisition focus will be mainly outside the UK, although there may occasionally be niche opportunities in the UK, such as our recent purchase of parts of Rok. This enhanced our position in the UK affordable housing market and expanded our airport construction capabilities.

How are we performing?

Order book

+8%



Revenue¹

+2%



¹ Including joint ventures and associates.

What's next?

In the year ahead, we aim to:

Pursue opportunities to add capability to Professional Services by acquisition

Complete the transition of administration and operation for the majority of Support Services contracts to the National Operations Centre

Seek acquisitions for Construction Services to fill gaps in our US coverage, particularly in Atlanta and on the West Coast

Apply the skills of Infrastructure Investments and PB to launch an infrastructure funds management business

Growing our businesses in buoyant markets

Canada

Canada's buoyant infrastructure market offers significant opportunities. Our £33m acquisition of Toronto-based Halsall has brought us over 300 people providing design and engineering services from seven offices across the country. Previously employee-owned, Halsall will gain new momentum from being part of Parsons Brinckerhoff.

The acquisition builds on PB's presence in Canada, increasing our access to projects at the earliest stages of development. Halsall's focus on sustainability as it applies to communities, buildings and infrastructure neatly complements PB's positioning in Canada. We have plans to build Professional Services' presence in other markets and geographies.

Given our strength in UK and US public-private partnerships (PPPs), Canada looks attractive to our investment business. We have set up an investment team in Toronto supported by our US and UK PPP businesses. Bidding with our US construction business, it has already been shortlisted for two projects and is currently looking at another 10 opportunities.



"Being part of PB is exciting and inspiring. Our customers can look to us for a broader range of solutions for their projects. Our employees will increasingly be able to apply their ideas, practices and innovations to infrastructure as well as buildings."

Peter Halsall,
Chairman, Halsall

 **Halsall**
A PARSONS BRINCKERHOFF COMPANY



Walking tall Halsall projects include the Royal Ontario Museum and Canada's National Gallery (far right).
Line drawing courtesy of Studio Daniel Libeskind.



2 Focus on markets with the greatest opportunities

Through the economic downturn in many developed economies, infrastructure has proved to be a relatively resilient market. We maintained revenue and profit growth through the recession; and in the uncertain post-recovery landscape we intend to sustain our growth by being light on our feet. Around half our work comes from governments around the world, and we recognise that cutbacks in public spending may have some impact on future opportunities in some of our markets. However, this will be offset by growth elsewhere – and we now have the resources to go where we see the greatest opportunities.

Why is this important?

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

What are we doing?

In the past, our focus has been very much on developed economies. However, we recognise that demand for infrastructure is growing fastest in emerging economies. The capabilities we have brought together, particularly in professional services and project finance, now allow us to access these markets as they develop, in ways that offer potential for long-term growth without taking disproportionate risk.

But we also see further opportunities in developed economies. Through the acquisitions of Parsons Brinckerhoff and Halsall, we have increased our presence in markets such as Australia and Canada, and we will continue to build on this.

Developed economies tend to commit a reasonably consistent proportion of their GDP to maintaining and developing their infrastructure. Over the next 10–15 years we expect an increase in the proportion of GDP committed to infrastructure as the need to renew ageing post-war assets becomes critical. We do, however, anticipate some changes in the pattern of spending. In the UK, for example, we expect a significant shift of emphasis from social infrastructure (such as schools and hospitals) to civil infrastructure.

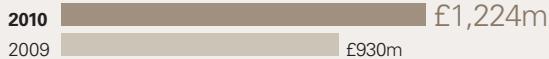
In civil infrastructure markets we are developing our capabilities in areas that we expect to show good growth – including utilities such as water and power, and areas such as nuclear and renewable energy that will be boosted by developed economies' increasing concerns about sustainability.

For more on areas of opportunity, see *pages 24 to 27*.

How are we performing?

Revenue¹ in higher growth markets

+32%



¹ Including joint ventures and associates.

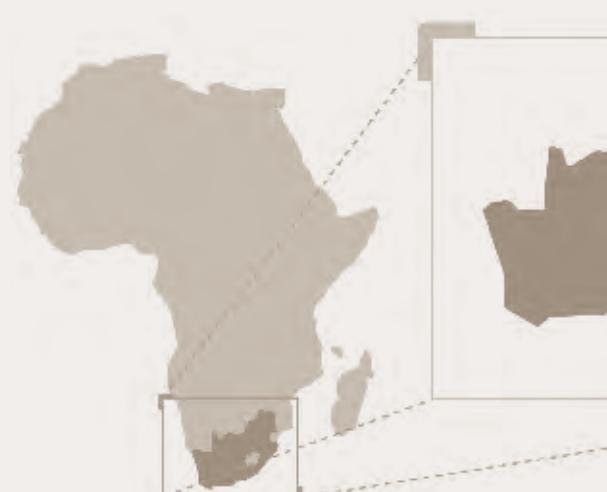
What's next?

In the year ahead, we aim to:

Leverage our presence in emerging markets, particularly Asia, India and South Africa

Develop our capabilities in utility markets such as water and power, including nuclear and renewables, where investment is likely to increase

Continue to develop our US business and build on our presence in Australia and Canada



New opportunities that change lives

South Africa

Like many emerging economies, South Africa anticipates steeply rising demand for electricity – driven by population growth, industrialisation, urbanisation and rising living standards. With its existing power stations now ageing, the country's power utility, Eskom, needs to increase capacity rapidly. Its new Medupi power station, due to start commissioning in 2012, is its first new plant in 20 years. It's massive – at 4,800MW it will be the world's fourth-largest thermal power station.

Parsons Brinckerhoff is working as half of a joint PB/Eskom team providing the engineering and project management. Currently at the height of the project, the team involves 320 staff from the UK, US, and South Africa, overseeing a daily workforce of close to 9,000.

Medupi will change lives. Domestic living conditions will be far more comfortable. It will advance the country's socio-economic objectives and other countries will also receive power from Medupi.

Medupi will use supercritical boiler technology to produce cleaner emissions than traditional coal-fired power stations. To preserve scarce water supplies, it will use dry-cooling technology.



Courtesy of Hitachi Power Africa

"The project is fuelling an economy. We are providing unprecedented employment opportunities for thousands of South Africans. They will come away with technology, welding, carpentry, and supervisory and construction management skills that enable them to do future work of this kind."

Joe Schroedel,
PB's Medupi Project Director



Powering ahead Medupi could supply South Africa and its neighbours from 2012.

3 Improve operational performance and cost-effectiveness

Balfour Beatty has been through a period of expansion in the last five years – entering new geographies and adding complementary capabilities – much of this through sizeable acquisitions. We have now created a platform that offers scope for improving operational performance and profitability by using our resources in a more cost-effective manner. Moreover, the increasing prominence of professional and support services in our business mix is creating opportunities to enhance Group margins further.

Why is this important?

We operate in a competitive environment: our customers are large, our peers strong, and some of our markets adversely affected by the economic turmoil. Improving our profits and converting those to cash is crucial in order to maintain our progressive dividend policy, have capacity for acquisitions and demonstrate financial strength to qualify for long-term infrastructure projects.

What are we doing?

After a year of integrating Parsons Brinckerhoff, we are confident of raising Professional Services' profitability while enhancing value for customers. Improved staff utilisation, collaboration with the rest of the Group, and growing involvement in Engineering, Procurement and Construction (EPC) contracts should lift margins¹ from PB's historic 4.5% to 6–7%.

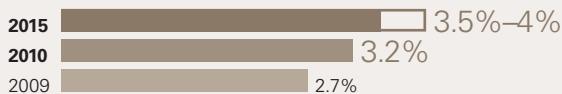
Support Services also offers good potential for margin enhancement over the medium term; the mobilisation costs at the start of new contracts and the investment in capability can depress margins in the short term. Over time we will benefit from economies of scale in back office support and our investment in the National Operations Centre (NOC), which opened in 2010.

In Construction Services, we expect to maintain stable margins over the medium term, as cost efficiencies and economies of scale from collective procurement are potentially offset by revenue growth in the US – where contractual models present more predictable, but also lower returns than in the UK.

In order to underpin these margins, this year we have put into action initiatives in procurement and back office that aim to achieve £30m p.a. of gross efficiency savings by the end of 2012, £20m of which we expect to flow through to the bottom line.

As a Group, we believe we have the potential to lift our overall margin¹ from 3.2% in 2010 to 3.5–4% over the next four to five years.

How are we performing? Group operating margin¹



¹ Profit from operations before exceptional items and amortisation as a percentage of revenue including JVs and associates.

What's next?

In the year ahead, we aim to:

Continue to implement procurement and back office initiatives

Continue the integration in Professional Services by increasing focus on client service, technical expertise and project execution, and ultimately driving performance in the business

Further strengthen our capabilities in markets and areas where we can command higher margins





Enhanced customer service builds wider margins

UK

Our UK facilities management business is growing fast. In a competitive market, it aims to differentiate itself through expert business integration and continuous investment in customer service. Its new 24/7 National Operations Centre (NOC) in Manchester takes it a big step forward.

With around 100 key accounts, our business had too many systems and processes, and inconsistent management information. The NOC, opened in April 2010, is enabling it to bring the management and administration of most of these contracts together on one site – sharing best practice, standardised and streamlined processes and a common IT platform to provide a simplified and improved customer service. The result: unified risk management and increased efficiency, delivering a winning combination of higher margins with enhanced customer service and responsiveness.



"Our investment in the NOC will pay back rapidly through increased efficiency alone. It also gives us the resources to bid for larger and more complex contracts and the data to price more effectively."

James Janion,
NOC Operations Director

Operations centre Up to 200 staff will be working in the NOC by the end of 2011.

4 Continue to strengthen core skills

We believe our customers turn to us, first and foremost, for our technical expertise. But increasingly, it is necessary to combine the power of our technical expertise with our local knowledge, our ability to integrate all stakeholders as well as the supply chain, and to do this on a Group-wide scale to manage complexity for our customers.

Why is this important?

Wherever they are, our customers own and operate complex assets. Their business and operational needs are increasingly complex, and in most cases the environment in which they operate is challenging. Our infrastructure expertise, knowledge of the local market and ability to understand – and meet – complex needs gives us competitive advantage. So we aim to keep enhancing the range and depth of our capabilities, and our ability to deliver them seamlessly across the Group.

What are we doing?

Whether delivering one or more of our capabilities to a customer, we are increasingly adding value by leveraging technical expertise from another part of the Group. We are doing this at Heathrow Airport's Terminal 2B, by bringing in specific expertise from Parsons Brinckerhoff's US airports team – a key to winning the project's £460m second phase recently. Similarly, PB is an important part of Construction Services' ambitions in the new nuclear and offshore wind markets.

More and more customers want us to reduce interface and delivery risk on complex activities by integrating the supply chain as well as the other stakeholders such as owners, users and regulators that impact the project. We are now showing world-class ability to pull together the resources of our customers and the wider supply chain to deliver a new asset or operate an existing one. This is particularly evident in public-private partnerships where we combine skills in development, financing, construction, operation and maintenance – as in the Denver rapid transit P3 project described on *page 39*.

By bringing skills together we are also creating wholly new possibilities. In 2010, we announced the creation of an infrastructure funds management business. This is a logical expansion of the capability we have in Infrastructure Investments and Professional Services and is expected to generate additional income for us.

How are we performing?

Go-To List rankings for Parsons Brinckerhoff

No.1

in the Road & Highway, Bridge, Airport and Mass-Transit categories

No.2

in the Design-Build category

No.3

in the Storm-Water category

Source: Roads and Bridges magazine.

What's next?

In the year ahead, we aim to:

Improve our technical teams by transferring our skilled labour force between geographies and adding more skill where necessary

Develop management platforms to aid collaboration and delivery to customers

Leverage Parsons Brinckerhoff's customer relationships in emerging markets into other parts of the business



Integrating capabilities saves time and cuts costs

Airport operator BAA invests over £1bn each year in developing its airports, and is one of the UK's most innovative infrastructure clients. It is now taking a less hands-on role in complex projects, trusting selected 'framework suppliers' like Balfour Beatty to integrate programmes and co-ordinate relationships between all its stakeholders.

We have a long record of successfully delivering projects, large and small, at all BAA's airports.

In the past, our operating companies contracted separately with BAA. Now, on major contracts such as the Terminal 2B project at Heathrow, Balfour Beatty works together as one team.

Terminal 2B is a £585m phased project designed to create a new 16-stand satellite pier. Six of these stands were handed over in 2010 in the first phase of the development.

Five Balfour Beatty operating companies are working closely together, combining our capabilities from professional services, through the engineering process and into the final construction solution.

In 2010, we were awarded the second phase of the project, a £460m design and build contract that will deliver the remaining 10 new aircraft gates by late 2013. We have developed our initial scheme design and shared significant cost reductions with BAA.



"Long-term business relationships are built on respect and responsibility, to which Zero Harm is fundamental. Our BAA relationship has matured to a position where, for example, we chair the Employment and Skills Working Group for BAA's Sustainability Forum that represents BAA and all its other suppliers."

Steve O'Sullivan,
Balfour Beatty's BAA Framework Director

£585m **10%**
Value of project Faster than any equivalent project



Track record Balfour Beatty has delivered projects successfully for BAA over a long period of time.

5 Continue to show leadership in values and behaviour

Leadership is not just about having the biggest market share. If we want to be seen as ‘the infrastructure business’, we need to act like a leader – setting the industry standard for ethics, safety, sustainability, and the way we treat our customers and people. We aim to embed ethical and sustainability thinking among our own 50,000 people and our wider 500,000-strong community of partners, contractors and suppliers.

Why is this important?

Our reputation is our livelihood. As we grow and are joined by more people, as a result of organic growth and acquisitions, we need a clear culture and values that enable everyone to make decisions that consistently protect both our finances and our reputation.

Given rising global concern over corruption, companies that are seen to have the highest ethical standards have a clear competitive advantage. And emerging anti-corruption legislation, which has global reach, makes ethical rigour an essential part of risk management.

What are we doing?

In 2009 we published a roadmap – setting out where we want to be by 2020 on 31 sustainability issues. Since then we have been embedding our sustainability vision across the business.

Our Code of Conduct has been issued across the Group. Nearly 28,000 people have completed the ethics training course to support the Code of Conduct.

The Code sets standards consistent with the new UK Bribery Act, but we have taken additional measures in high-risk areas. Every operating company has at least one compliance officer to help management ensure compliance.

In pursuit of our goal of Zero Harm by 2012, we ran training programmes for 369 leaders across the Group in 2010 and plan to reach 600 by the end of 2011. We trialled new management tools for distribution in 2011 and moved more health and safety experts into our operating companies to drive progress.

We aim to attract talented people. In 2010, we were ranked 40th in Fortune magazine’s 100 Best Places to Work® in the US. In the UK, Management Today’s 2010 Most Admired Companies placed us top in our sector for the fifth year running and 22nd overall. We launched new apprenticeship schemes and rolled out a framework of values and behaviours that we seek from our present and future leaders.

How are we performing?

Accident Frequency Rate (AFR)

-6%

Target	0.10*
2010	0.16
2009	0.17

* Or lower by end 2012.

Greenhouse gas emissions (tonnes CO₂/£m revenue)

Target	38.5†
2010	42.8
2009	36.3

† 10% reduction by 2012 and 50% by 2020, both against the 2010 baseline.

What's next?

In the year ahead, we aim to:

Roll out our Code of Conduct to our joint venture businesses and site-based staff – and work to embed our values in our global supply chains

Launch an online sustainability course for all staff

Continue to work towards our 2012 roadmap targets for people management, Zero Harm, energy and carbon reduction, waste reduction, materials sustainability and water conservation.

For more information on our sustainability performance, see *pages 62 to 69*.



Keeping quiet about HK's biggest metro contract

Hong Kong

In less than 10 months we have won three major contracts from Hong Kong's Mass Transit Railway Corporation (MTR) – including the largest in its history. Together, they mean that our Hong Kong-based joint venture, Gammon, is building the majority of the island's new West Island Line, including all three new stations and 2.2km of its 3km tunnels.

Why choose us? A key reason was our commitment to minimise the impact on neighbours, traffic and the environment as we carve out an underground railway in one of the world's most densely populated areas.

We will set new standards in noise and dust suppression by using elaborate shielding and electrically-driven equipment rather than diesel engines. For above-ground structures we have developed a self-compacting concrete: which means less noise. To minimise the impact on traffic and the environment, some 80% of tunnelling spoil will travel by conveyor belt to barges for re-use, mainly on reclamation projects within Hong Kong. To reduce noise and dust further, the crushers feeding the conveyors will be underground.

On the largest contract, we have agreed with MTR to share the benefits of cost savings and the cost of any overruns, using a target-cost contract form.

Together, the three contracts are worth over £500m – making the West Island Line the largest civil infrastructure project Gammon has ever worked on. In the past decade, Gammon has built more underground stations in Hong Kong, Singapore and Thailand than anyone.



"Gammon was not awarded this project on price; it was because the customer liked our proposed methods and our track record with similar projects."

Brian Gowran,
Gammon Project Director for the Kennedy Town Station and Overrun Tunnel project



Unspoilt Covered conveyors take spoil to barges for re-use without disturbing traffic (or mah-jong players).



FOCUSED ON STRONG, GROWING MARKETS



“Balfour Beatty’s positioning as a global infrastructure business provides a sound platform for growth. It gives us access to a diversity of markets that share very similar needs for skills and resources. On this platform, we have built a business model that has competitive advantage in both developed and emerging markets.”

A handwritten signature in black ink, appearing to read "Andrew McNaughton".

Andrew McNaughton
Chief Operating Officer

Infrastructure is a good business to be in

It offers a broad spread of opportunities throughout the world, across a range of sectors. It promises long-term growth, propelled by powerful factors such as population growth, urbanisation and the need to renew ageing assets. It involves both public and private sectors. And across all its diversity of opportunities, it relies on a remarkably similar set of core competencies and processes: asset knowledge, risk management, commercial management and supply chain integration.

Our chosen marketplace comprises the assets and systems that all societies need in order to function and develop. We group these into two broad categories:

Civil infrastructure – road, rail and air transport networks, and the utility systems that bring people power, water and communications

Social infrastructure – which includes education and healthcare facilities, and social and military housing.

Around the world the ownership of these assets varies considerably, with the private sector increasingly taking a more significant role.

Our confidence in the future is underpinned by three firm beliefs: that infrastructure is a strong and growing global market; that emerging economies offer particular opportunity for growth; and that infrastructure investment in the UK and the US remains very much on the agenda.

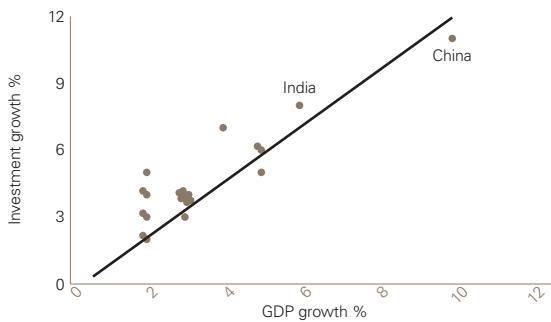
Our overall conclusion is that in the infrastructure markets where we operate, the adverse impacts of the global economic crisis will be limited with good prospects for the next five years.

A strong, growing global market

Based on the available forecasts of global infrastructure investment, we expect total spending to exceed £20 trillion between 2010 and 2020. As the map on page 2 indicates, growth rates are expected to be highest in the fast-developing markets of Asia, Australia, South America, Africa and the Middle East; but even in the more mature economies of North America and Europe, we expect healthy growth rates of 3.5–4.0%.

What underpins this growth is the close interdependency between infrastructure spending and GDP – illustrated clearly by the chart below.

Infrastructure and GDP grow hand in hand

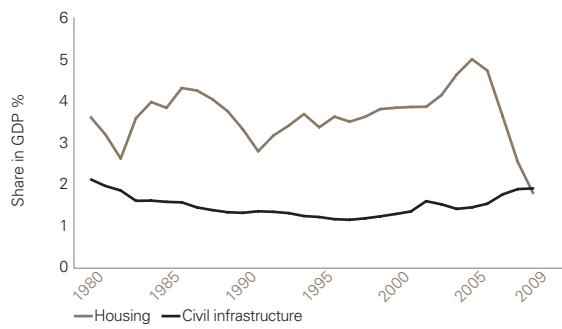


Source: World Bank. Figures are for 1960–2008 and based on US\$ at PPP. Investment is Gross Fixed Capital Formation.

As GDP grows, there are more resources available for infrastructure investment. In turn, investment in infrastructure is one of the best ways of stimulating growth in the economy. Governments recognise the significance of this virtuous circle – as evidenced by the Hong Kong Government's infrastructure stimulus spending and the UK Government's support for major transportation projects such as Thameslink and Crossrail.

Moreover, infrastructure markets are relatively stable. The chart below shows that civil infrastructure spending in the US, for example, has taken a fairly constant share of GDP over almost 30 years, compared with the much more volatile pattern of housing investment.

Infrastructure demand is relatively stable US construction spending

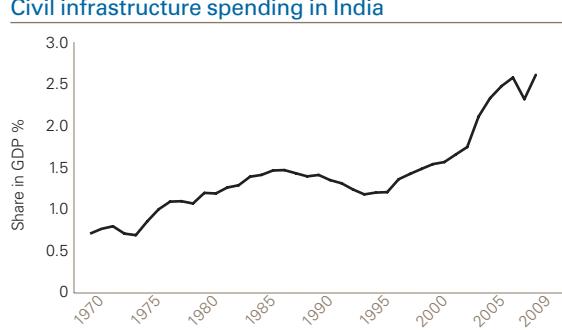


Source: US Census Bureau.

Emerging economies offer particular opportunity

The correlation between infrastructure investment and GDP growth means that fast-growing emerging markets will see particularly strong infrastructure growth. In countries such as India, already-high GDP growth is being outstripped by the rise in infrastructure investment – see below.

In developing economies, infrastructure is growing even faster than GDP Civil infrastructure spending in India



Source: Balfour Beatty analysis.

It is important to note the significant differences between developed and emerging markets.

Much of the developed world's infrastructure was put in place many years ago. The key growth drivers today include the sustainability and green agendas, and the need to renew ageing assets that were built 40 or more years ago.

In emerging markets the most salient factors are population growth, rapid urbanisation and sharply-increasing GDP per capita, creating demand for more and better infrastructure.

By contrast, we have seen flat or even declining power consumption per head in the UK. Not that infrastructure investment is faltering – far from it. In developed economies, the key drivers are not so much burgeoning demand as crumbling supply and sustainable energy. The post-war infrastructure boom tailed off in the late 1960s, and since the 1980s spending has been a roughly constant proportion of GDP. But as much of the post-war infrastructure approaches the end of its life, replacement activity is adding new impetus to the infrastructure market.

Another important difference between developed and emerging markets is the balance between civil and social infrastructure. Emerging markets tend to devote a higher proportion of expenditure to civil infrastructure as transport and distribution networks are built and expanded. In developed economies, where these networks are largely in place, social infrastructure such as schools and hospitals takes a significantly higher share of total spend.

Balfour Beatty operates in both developed and emerging markets. This will not change; but the sheer scale of opportunity means that we shall seek to increase our engagement with faster-developing economies. The access that Parsons Brinckerhoff's business gives us to these markets was a key consideration in the rationale for acquiring the company.

Growth at home is still on the agenda

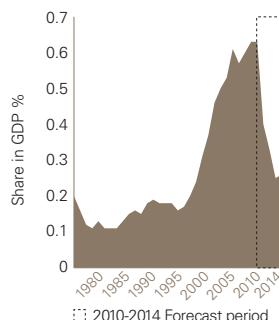
While our international operations have been growing rapidly, the UK still accounts for some 50% of our revenue. Following the new UK Coalition Government's Comprehensive Spending Review (CSR) there have been concerns that a period of austerity in public spending might constrain our domestic infrastructure market. Our analysis indicates that this is unlikely to be the case.

Across the developed world there has historically been a relatively stable split between civil and social infrastructure expenditure. But in the UK something very unusual happened after 1997: the proportion of spending on social infrastructure grew sharply, due largely to a surge in spending on education. This sector has recently been running at levels far beyond the norm, and health spending has also been unusually high.

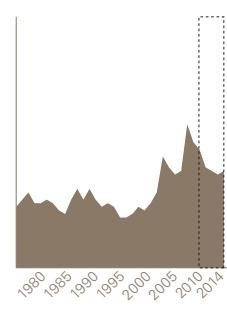
Analysing the implications of the CSR for future spending on education and health, we see the bubble in education spending coming to an end. But as the chart below demonstrates, education spending will still be above historic levels while health spending is expected to be largely maintained. So although there will be a reduction in social infrastructure spending, this will simply bring it closer to normal levels.

UK social infrastructure spending will fall, but to a level above historical levels

Education spending in the UK



Health spending in the UK



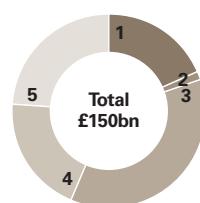
Source: ONS and CSR.

Meanwhile, cuts in social infrastructure spending are likely to be balanced by growth in civil infrastructure. Although central government intends to cut back civil infrastructure investment, we expect the private sector utilities to offset this with their programmes of significantly increased investment in power station replacements, offshore wind farms, new waste management assets and other green initiatives. Recent announcements such as the Infrastructure Investment Plan and the government's changing attitude to delivery of energy from waste have also given us confidence that investment in infrastructure will be higher over the next five years than in the previous five.

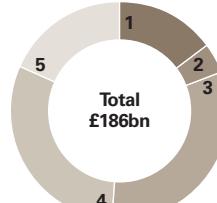
We expect the impact of government cutbacks on the overall UK infrastructure market to be relatively modest with civil infrastructure growing by some 20% over the next five years – see chart below.

Dynamics are changing in the UK UK civil infrastructure spending

2005/06–2009/10



2010/11–2014/15



Source: HM Treasury, 2010.

Adjusted by Balfour Beatty for CSR. Figures are in real terms.

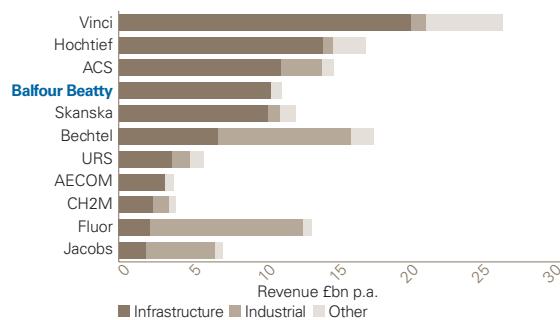
Structured for competitive advantage

If, as we believe, infrastructure is a good business to be in, where does Balfour Batty fit in the competitive landscape?

Traditionally, infrastructure markets have been served by single service businesses in fields such as design, programme management, project development, finance, construction, operations and maintenance. Yet these businesses share not only common customers but also many core skills and processes. Building on these core skills, we have set out to establish a business that can deliver a full range of services to owners and operators across the whole spectrum of infrastructure assets.

Today, Balfour Beatty is one of the largest global infrastructure players. All of our principal competitors can mobilise extensive capabilities and resources to satisfy the demands of major infrastructure delivery programmes; all can deploy skilled staff with deep knowledge and experience. Most can deploy their capabilities across a broad geographic base. But the distinctive combination of attributes that make Balfour Beatty stand out are its sharp focus on infrastructure combined with its international reach, and professional services and financing capabilities.

Balfour Beatty is a global infrastructure business Some of our peers in our markets



Infrastructure represents infrastructure and commercial building revenue.
Source: Engineering News Record.

Our strength in infrastructure is underpinned by global capability in professional services. We are worldwide experts in getting infrastructure projects off the ground: planning, designing and managing them. A handful of our competitors have larger professional services capability – but none of these comes close to us for overall scale and resources, and few have broad geographical coverage.

Compared with the leading global engineering and construction players in our marketplace, we have significantly more infrastructure-focused knowledge and experience.

We are among the top US construction players in our field. But our peers are heavily concentrated on their domestic market: we have far greater international presence and a broader range of capabilities.

In Europe, our construction peers have scale, broad geographical reach and strong knowledge and capability in infrastructure investment. But none comes close to our scale and capability in professional services.

These differences – particularly our strength in professional services – give us an edge in both developed and emerging markets.

Strong in developed and emerging markets

In developed economies asset owners are generally experienced and well regulated. They make informed judgements on outsourcing and on partnerships with third-party investors. Typically they are building new infrastructure to replace life-expired assets or extend capacity. Development constraints and an intricate web of stakeholders result in highly complex solutions.

Countries such as these need companies with the skills to design, integrate, deliver and maintain large, complex assets. They also need innovative financing solutions to support the delivery of major capital programmes. In the UK's recently published national infrastructure plan, for example, private funding is seen as key to the delivery of a £200bn programme.

By contrast, emerging economies are building new infrastructure primarily to help their communities develop. Projects as well as procurement methods are typically less structured. Business conditions can be challenging and attitudes to safety and the environment may be lax. Local skills are typically focused on construction while strategic and detailed planning skills are in short supply, along with the technical capability to deliver engineering solutions that suit the local environment.

These countries benefit from working with companies that can help governments, developers and global finance organisations to develop and deliver long-term programmes of infrastructure investment. The benefit is greater if these companies apply their construction knowledge and technical expertise to supplement and develop the skills in the local supply chain. To sustain their rapid growth over time, these countries will also need increasing access to expertise in infrastructure project development and finance.

Our multi-capability business model gives us the expertise to meet the needs of both developed and emerging economies, and to evolve our service to them as they mature. Our scale and international footprint give us the depth of resource to respond to global markets and to pursue the most attractive opportunities as they emerge.

PROFESSIONAL SERVICES AHEAD OF EXPECTATIONS



"This was a transformational year for the Group in respect of its professional services capability. Parsons Brinckerhoff is now an integral part of Balfour Beatty's core business, restructured to improve visibility, efficiency and focus."

George Pierson
Chief Executive Officer, Professional Services

What do we do?

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

What's happened?

- Parsons Brinckerhoff became an integral part of Balfour Beatty
- Professional Services was reorganised with more focus placed on customer service, technical expertise and project execution
- Halsall, an employee-owned Canadian professional services business, was acquired

What's next?

- Pursue opportunities to add capability to Professional Services by acquisition, particularly in power, water and mining
- Improve technical teams by transferring skilled labour force between geographies
- Leverage Parsons Brinckerhoff's customer relationships in emerging markets into other parts of the business

How we performed Order book

+7%



Revenue including JVs and associates



Profit before exceptional and amortisation



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

KPI Billability

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

+100bps



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



Creating South Asia's premier aviation hub

India

Demand for transport infrastructure is growing fast in India. The new third terminal has more than tripled capacity at Delhi's Indira Gandhi International Airport from 12m passengers a year to 37m; and by 2030 the airport is aiming for 100m.

Opened in July 2010, Terminal 3 made Indira Gandhi International South Asia's largest and most important aviation hub. Parsons Brinckerhoff (PB) was project management consultant for the new terminal, a 2.8-mile runway, 19 miles of taxiway and two fire and rescue stations. PB has also provided general engineering consultancy for a new rail link with downtown Delhi.

At 500,000 square meters, Terminal 3 is the world's eighth largest passenger terminal. It has 168 check-in counters, 78 air bridges at 48 contact stands, 30 parking bays, 95 immigration counters, 15 X-ray screening areas and extensive shopping facilities.

The new 2.8-mile runway enables the airport to handle 25% more air traffic. It is one of the longest at an Indian airport and one of the few in Asia with a CAT IIIB instrument landing system capable of guiding aircraft in low-visibility conditions.



Artist's impression

"PB's extensive international aviation experience made it a natural choice for managing this big, complex project – particularly since some 90% of passengers using the airport will pass through Terminal 3. It really is the global gateway to Delhi."

Arun Chandran,
PB Project Director, Delhi International Airport

Guiding light Delhi's new gateway sets the standard for South Asia airports.

Our strategy

The acquisition of Parsons Brinckerhoff (PB) has made Balfour Beatty a global player in project management and design, as well as the market leader in US transportation and UK power.

Professional Services is, in effect, a fee-based consultancy business. Its success relies on maximising staff utilisation to increase billable hours, while winning work on the strength of its track record and staff qualifications.

Our strategy is two-pronged: pursuing geographic and market growth, and increasing profitability. Regions where we see particular scope for growth include Canada, India and Northern Europe. The acquisition of Halsall was a significant step in developing our business in Canada, and we will seek further infill acquisitions and joint ventures where this provides the most appropriate means of developing our business. Similarly, where we have gaps in our capability in water, mining, building engineering and transportation in specific geographies, we will pursue opportunities.

We have identified a number of areas where there is scope for increasing profitability. Firstly, we will concentrate on high-margin services and projects such as programme and construction management, design-build and PPP. Secondly, we will focus on retaining a higher proportion of gross revenue by subcontracting less. We are also continuously reducing costs by increasing our organisational efficiency. Some of the successful initiatives in this area are outlined in the Operational performance section below.

Our marketplace

US
The financial crisis has delayed the formalisation of spending plans embodied in the Highways Bill, which has constrained progress on the award of larger projects. However, government stimulus measures have been indirectly helpful: although they mainly funded 'shovel-ready' projects such as road resurfacing, this did free up other money for states to spend on professional services for other projects.

We continue to win work in transportation as a result of our strong relationships with our customers and our early-stage involvement in the design and development of potential projects.

By contrast, the US power market has not seen many major new projects – though there is activity in the small power plant sector, where we are strong.

The private building market has virtually ground to a halt, though we still have work in public buildings and hospitals.

UK

The UK market in 2010 was impacted by the change of government. The incoming coalition's Comprehensive Spending Review (CSR) put a brake on market activity even before its conclusions were announced, and the proposed reductions in government capital spending were broadly in line with expectations. While the government acknowledges the need for continued infrastructure spending, particularly in transport and energy, it is too early to predict the precise effect that the CSR will have on our business.

In the power sector, uncertainty over government and regulatory attitudes to new initiatives limited the amount of work available.

Rest of the world

The business environment in Australia continued to be robust, driven by resource demand, primarily from Asia. The buoyant markets of Hong Kong, Singapore and South Korea encouraged the further development of our already successful businesses.

However, demand in the Middle East was sluggish as continued uncertainty over debt continued to affect the flow of new projects.

Financial performance

A series of major project wins has maintained a healthy pipeline of work for 2011; our order book increased by £0.1bn to £1.5bn. Revenue at £1,613m reflects the mixed dynamics in our geographies and end-markets as explained below. Profit from operations before exceptional items and amortisation was ahead of expectations at £85m. Margin was enhanced by the consolidation of PB, the effect of additional £8m incentive income in the UK and improved project execution.

Operational performance

This was a transformational year for the Group in respect of its professional services capability. Parsons Brinckerhoff is an integral part of Balfour Beatty's core business, restructured to improve visibility, efficiency and focus. Professional Services is now organised through four market-focused divisions in the Americas, together with two international divisions covering Australia, Asia Pacific and South Africa (AAPSA) and

Creating a Motor City icon

US

The key to growing long-term relationships isn't just understanding the customer's needs. It's having the resources to satisfy them. The Detroit Department of Transport (DDOT) wanted a new US\$22m (£14m) transport interchange to replace the demolished bus station. It found a city centre site, ideally located but extremely tight for the planned 15 bus stands. When the transit centre's original designers declared the site unfeasible, their client called PB to create this innovative solution.

The idea was to link 21 city bus routes with the People Mover metro and regional bus lines. More ambitiously, the facility should also be an 'iconic' local landmark and a stimulus to urban regeneration. PB met these goals with flair, teaming a three-storey building with a seven-peaked canopy slung from 100ft masts. It's eye-catching – General Motors even wanted to shoot commercials there – but, says PB architect Tushar Advani, the first priority was to provide "the greatest comfort for the city's travelling public at the most reasonable cost".



Europe, the Middle East and North Africa (EuMENA). Management structure has been simplified and more focus has been placed on client service, technical expertise and project execution. The changes, welcomed by customers and key staff, have driven improved performance in the business.

In October, we acquired the employee-owned Canadian professional services business – Halsall. See case study on **page 15**. Halsall provides design and engineering services to the building market and structural engineering services to transportation clients. Due to its resilient economy and good infrastructure demand, Canada is an attractive infrastructure market for Balfour Beatty, and developing the Group's business there is a strategic priority.

A series of major project wins has maintained a healthy pipeline of work for 2011.

Notable wins in the US include a joint venture in which PB will be responsible for design management and key design aspects of a 1.9 mile underground connection on the Los Angeles metro, as well as project controls and risk assessment.

Further east, we will deliver design services for the expansion of the University of Arizona Stadium, connecting two grandstands in a bowl configuration.

In Australia, PB has partnered with Thiess to provide environmental, electrical, civil and structural services in support of Thiess's transmission cable installation programme.

In the rail sector, the Guizhou section of the Changsha-Kunming high speed line is a joint venture in which PB will establish the management system for the project's construction supervision work.

And in London, PB is part of an integrated Balfour Beatty team for the design of a two-mile segment of the Crossrail project. This will include the design of a new station, a four-track railway, and new overhead electrified railway lines.

Our Americas transportation business performed very well, increasing market share in a difficult market. Additional project management training, increased project reviews and focus on simplifying the management structure enabled managers to get closer to project teams and tackle margin erosion. This improved project execution as well as profitability.

Curbs on public spending mean that new work in transportation is tending to come from the expansion of existing programmes rather than the launch of new projects. The cancellation of the Trans-Hudson tunnel project in New York, which we had been leading, was a manifestation of the pressures on public finances, but we have a good base of work going forward, and are confident that we will continue to win an increasing share of the market.

The Americas power business delivered good results, having kept costs under tight control. However, a year with reduced emergency work for the Federal Emergency Management Agency significantly affected the performance of our US federal business.

Virtuous zircon

Australia

Parsons Brinckerhoff brings us exciting new opportunities in the mining sector and in Australia. The Jacinth-Ambrosia Mineral Sands Mine combined the two. In a joint project team with the mine owner, PB delivered the AU\$420m (£275m) development of one of the world's richest zircon deposits in just 18 months – six weeks ahead of schedule and 10% under budget. Safety performance was outstanding: over 900,000 hours' work in a remote Southern Australian desert without a single lost-time injury. Consult Australia named it 2010's Project of the Year.



Covering design and programme management, the Americas buildings business has been adversely affected by a surge in competition for work on public buildings as many firms move from the subdued private market.

Our EuMENA business performed satisfactorily. Reduced revenue in the UK was offset by city transit work in Northern Europe and North Africa. In contrast, the Middle East continues to underperform as the global financial crisis is still affecting the flow of new work. In response, we have continued to adjust our resources to the amount of work available.

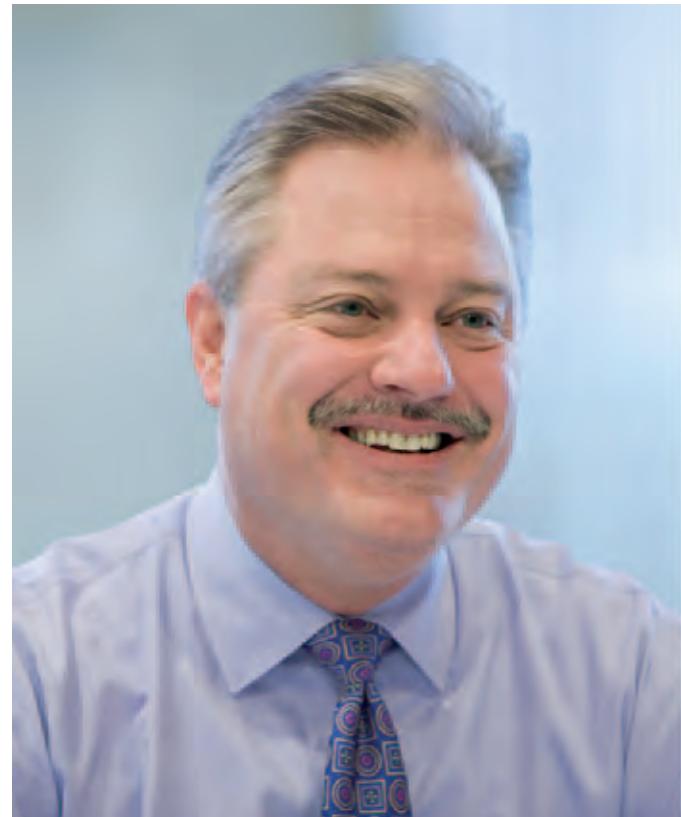
Our AAPSA business has particular expertise in power in Australia, building in Asia, and mining in South Africa. The combined operation performed well during the year, benefiting from the organisational changes and good operational performance on key projects. We will continue to drive efficiency improvements.

Looking forward

Our UK market is likely to remain difficult in 2011 as public-sector spending cuts take effect, creating uncertainty and project delays. In the US, the building market will continue to be challenging – but we are well-positioned in the power sector, with a good base load of work. We are particularly optimistic about our underground energy storage business, where we are the global market leader.

Our most positive outlook is in Asia. This region has emerged most quickly and strongly from the financial crisis and is projecting the highest growth rates. We are building our capabilities accordingly. Our focus will be on developing profitable, sustainable businesses in the emerging markets of India and Vietnam, as well as in markets such as Hong Kong, Singapore and South Korea where we are already successful and possess significant scale.

CONSTRUCTION SERVICES MAINTAINING PROGRESS



"This was a good year in a weak UK market, with excellent operational delivery of completed projects and project milestones."

Mike Peasland
Chief Executive Officer, Construction Services UK

"Our 'early adopter' decision in 2008 to focus on federal work stood us in good stead; we won a number of bids for large federal projects."

Robert Van Cleave
Chief Executive Officer, Construction Services US



“Performance in rail was unchanged from the previous year in markets characterised by uncertainty.”

Manfred Leger
Chief Executive Officer, Rail

What do we do?

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

What's happened?

- Reduced volumes but excellent operational delivery in weak construction markets in the UK and the US
- US construction, infrastructure and rail activities merged to enhance synergies, share best practice and pursue joint projects
- Gammon in Hong Kong delivered good growth and a record order book
- Rail business suffered from project funding delays

What's next?

- Seek acquisitions to fill gaps in our US coverage, particularly in Atlanta and on the West Coast
- Implement procurement and back office initiatives to underpin margins
- Pursue opportunities in new UK markets such as nuclear and offshore wind

How we performed Order book



Revenue including JVs and associates



Profit before exceptional and amortisation



KPI

Secured orders and ABNC as % of revenue

The secured order book and the awarded but not contracted orders (ABNC) are a leading indicator of our future revenue.



Our strategy

The strength of our construction business lies in our ability to integrate and manage local supply chains to deliver projects on budget and on time. Our technical expertise, supplemented by Parsons Brinckerhoff's capabilities, is crucial in meeting the complex needs of our customers. Increasingly they are seeking to reduce interface and delivery risks by asking us to integrate not only the supply chain, but also other stakeholders such as owners, users and regulators. We believe that integrator capability is a competitive advantage that differentiates us from our peers.

Our strategy for the UK construction business is to seek growth across the breadth of the market, where our experience in all segments – buildings, roads and ground engineering – enables us to operate flexibly. We manage risk and focus closely on cost and operational performance to maintain robust margins.

In the US, our construction business has become much broader after recent acquisitions and the merging of our US rail and infrastructure businesses. We see this as an opportunity to achieve synergies and efficiencies while differentiating ourselves in a very competitive market. We are currently number five among US building contractors and aim to become the true national player. We will seek to achieve this through organic growth and infill acquisitions, leveraging our capabilities into other regions and differentiating ourselves through our integrated service offer and innovation.

Our marketplace UK

The UK market in 2010 was significantly affected by the change of government and subsequent Comprehensive Spending Review (CSR) the anticipation of which reduced market activity. Around 20% of the Group's business derives from UK government capital expenditure programmes and the majority of that revenue is in Construction Services. It is too early to predict precisely what effect the CSR will have, though the government acknowledges the need for continuing infrastructure spending, particularly for civil infrastructure in transport and energy.

Despite uncertainty in the market, a number of the large projects in which we are involved are still going ahead, including Crossrail, nuclear, power and offshore wind farm projects.

There is still a good level of construction activity in social infrastructure markets. Several Building Schools for the Future (BSF) schemes have progressed to financial close despite cancellation of the remainder; a number of major hospital projects are on offer; and in student accommodation we are harnessing the capabilities of our regional construction businesses.

However, there is little sign of green shoots in the commercial sector.

US

In 2010, the US economy remained difficult and competition in the industry was fierce, as contractors switched from the private construction market – which has virtually ground to a halt – into the federal market. The education and defence sectors were particularly tough. Our 'early adopter' decision in 2008 to focus on federal work stood us in good stead; we won a number of bids for large federal projects.

Opportunities in civil infrastructure were reduced by an intensity of competition that saw bids being won below the levels at which we would wish to operate. The government's stimulus package did little to help us directly as most of it was focused on 'shovel-ready' projects. The rail market was also limited by funding. However, we are starting to see one positive trend in the move towards qualification-based tendering rather than price-based processes.

International

Our joint venture, Gammon, operates in Hong Kong and Singapore, which are very different markets.

In Hong Kong, Gammon's technical capabilities and track record are important as bids tend to be assessed on quality, not just on price. The Hong Kong economy has received considerable stimulus from public sector spending on infrastructure: mass transit, road schemes, and other heavy civil engineering work. We expect this spending to continue for the medium term.

In contrast to Hong Kong, Gammon's Singapore market is highly price-sensitive with significant competition on open tender lists.

Elsewhere in Asia, Macau has opened up again and Gammon is working on a number of projects. Gammon is also targeting opportunities in Vietnam. There is also considerable potential in Indonesia, where GDP growth is coupled with a need for infrastructure to support the export of natural resources.

In the Middle East, Dubai has experienced difficult economic conditions resulting in fewer opportunities for new projects. However, this has been offset by a number of awards in the civil and electrical and mechanical engineering sectors in Abu Dhabi, where prospects are good. In addition, Qatar, Saudi Arabia and other GCC countries are showing strong infrastructure demand.



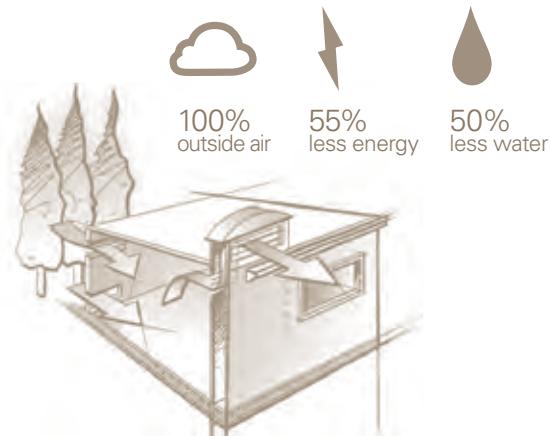
State-of-the-art medical centre for giant US base

US

The downturn in US private sector construction highlights the value of our strength in major federal projects. Recent high-profile wins include a new state-of-the-art medical centre for one of the largest military bases in the US. To date, it's the largest project backed by the US Government's economic stimulus programme.

Our joint venture was selected in September 2010 to design and build this US\$503m (£325m) new Carl R. Darnall Army Medical Center hospital for the US Army's Fort Hood base in Texas. We are a proven team: five members of our team have already collaborated on the outstanding Walter Reed National Military Medical Center in Bethesda. Building on that experience, we have worked closely with project stakeholders to design a world-class facility that combines clinical effectiveness and energy efficiency with stress reduction and comfort for patients and visitors.

In the US, we are ranked as a Top 10 Green Builder and the new medical centre is designed to meet the internationally-recognised LEED Gold standard for environmental performance. It will use 30% less energy than a baseline building and at least 55% less utilities energy than the 45-year-old building it replaces. The climate control system will use 100% outside air to minimise the risk of cross-infection.



Artist's Impression



"We are great believers in bringing local small businesses into our supply chains. We met with over 170 firms at outreach events and provided support such as mentoring for managers and joint employee training."

Tommy Campbell, Operations Director
Brent Blake, Senior Project Manager
Balfour Beatty Construction, US

Ward zone The hospital serves a community of 65,000 on one of the US's largest military bases.



Broad capabilities create wide opportunities

UK

The breadth of skills we have assembled to address all aspects of infrastructure gives us great flexibility. We are well placed to bid successfully for a broad range of work, in line with our strategic aim to 'focus on markets with the greatest opportunities'.

A case in point is the recovery in commercial office developments, particularly in London. We emphasised our credentials in this market with the completion in 2010 of 1 Bartholomew Lane, an imposing office development on a sensitive corner site in the City of London, opposite the Bank of England.

The £32.5m project involved retaining the six-storey façade of a 1930s bank building. Behind this, and rising four floors above it, we built a highly-efficient modern office offering almost 7,400 square meters of space on 12 floors.

The building is built to high energy-efficiency standards and has a BREEAM rating of Very Good.

Successful completion of this high-profile and complex project on a challenging site positions us well to tender for other commercial developments, particularly where façade retention is involved.



"We were building onto six storeys of supported façade with limited access in a sensitive conservation area with tight space restrictions. That's quite a challenge, but we delivered to a tight schedule – while staying on good terms with neighbours and the customer."

Graham Mercer
Project Director, Balfour Beatty Construction

Lime and a twist The limestone-lined reception features an elegant spiral staircase.



Rail

In most of our markets 2010 was characterised by uncertainty, with many rail projects being postponed or scaled down.

In the UK, the concern over government spending caused project delays and inhibited growth. However, in Germany, where we are particularly strong in electrification and track, market conditions have remained stable. Customers have been focusing on cost-cutting and we have been working with them to achieve their goals.

Sweden has shown excellent growth – up 30% in volume compared to 2009, and our business in Spain also had a good year, despite the economic difficulties.

Financial performance

2010 was a good year for Construction Services in weak construction markets. Revenue declined by 10% relative to 2009, although compared to the 13% decline in the first half of the year, this was an improved performance in the second half. Several successful completions, good operational delivery and focus on cost-efficiency have resulted in profit from operations before exceptional items and amortisation of £212m (2009: £207m) – up 2% on 2009 – and hence a higher margin.

Order intake was particularly encouraging, bringing the year-end secured order book to £9.2bn compared to £8.2bn at the end of 2009.

Operational performance UK

This was a good year in a weak market, with excellent operational delivery of completed projects and project milestones.

Successful completions included Pinderfields Hospital, Birmingham New Hospital and Tameside Hospital. The next phase of bidding for acute hospitals is underway.

There was good progress on London's Blackfriars Bridge. The railway station has remained open while we widen the bridge, and the successful switch from old to new track over Christmas was a major milestone.

The roads and bridges contracts for the Olympic Delivery Authority were handed over during October and November on schedule, and we are now involved in building and fitting-out work on this complex project.

Successful completion of the first phase of Heathrow Terminal 2B in November 2009 led to the award of second phase work. This involves not only our design, construction, ground engineering, and specialist mechanical and electrical expertise, but also the professional services capabilities of Parsons Brinckerhoff. The technical expertise that PB provides was crucial in the award of this £460m contract.

Highways activity on the M74, A46, A421 and A3 at Hindhead made significant progress. Key programme milestones were achieved on the M25 DBFO (Design Build Finance and Operate) contract with the first section completed in March 2010 and the next section due for completion in May 2011.

In January 2011, we won in joint venture a £235m contract from Crossrail for the construction of Whitechapel and Liverpool Street Station tunnels and associated works in London. This is the first of a series of contracts that we expect to win from Crossrail as this enormous project gets underway.

We strengthened our presence at Sellafield with two contracts to build new storage facilities at the facility, adding to our nuclear experience. We have also been shortlisted for work at Hinckley Point, where EDF is planning to build two new nuclear power stations, and we are looking to bid for work at the proposed RWE/E.ON nuclear power station at Wylfa on Anglesey.

Mansell, our regional building business, had a busy year. The Strata business we acquired in December 2009 was integrated successfully, and in October 2010 we bought parts of the Rok business, which have the potential to add £100m of revenue to Mansell's operations. Two significant awards were a £65m design and build contract to redevelop Wornington Green Estate for Kensington Housing Trust and a share of a £220m four-year framework for the London Borough of Hackney. The secured order book at Mansell improved in the year by more than £200m – almost 40% up on 2009.

We rebuilt 1 Bartholomew Lane, a historic building next to the Bank of England, as a commercial office and we are seeking further opportunities in the commercial buildings sector. See case study on [page 36](#).

Meanwhile, we have a good pipeline of projects as part of the Building Schools for the Future programme. We completed 10 projects during the year, and began construction in Blackburn with Darwen and Bolton, Islington, Greenwich, and Southwark. Several other schools reached financial close in 2010 and construction is due to start on 17 schemes in 2011.

US

During the period 2007–2009, we grew our US business with acquisitions in regions where we expect good growth. The acquired companies are now fully integrated into our business, and we have introduced a new organisational structure to improve collaboration and more effective access to the national market. This includes combining our rail and infrastructure activities with US construction under a single management structure to enhance synergies, share best practice and pursue joint projects. We have also created four regions covering the US, each with a wide range of capabilities and its own regional management.

We are looking to work with PB on projects that require design-build, vertical skill sets or geographic leverage. One example is the Eagle P3 commuter rail project in Denver, Colorado. This is for the design, build, finance and operation (DBFO) of more than 30 miles of commuter rail lines and was a spectacular win for Balfour Beatty in joint venture with Fluor. We are responsible for a US\$500m (£333m) share in the engineering, procurement and construction contract, and have a third share worth US\$340m (£227m) of a 29-year operations and maintenance contract. The project integrates our construction and rail activities as well as PB.

In April 2010, we were selected in joint venture for pre-construction and construction services on Dallas Fort Worth International Airport's terminal development programme. Construction is already underway and we are making good progress on this US\$900m (£600m) seven-year project for which we were picked purely on qualification – a testament to our strength in aviation.

In September, we won the contract in joint venture to provide design-build services for the US\$503m (£325m) Carl R. Darnall Army Medical Center at Fort Hood, Texas. Construction is scheduled to start in the second quarter of 2011. See case study on *page 35*.

We were also selected by the US Army Corps of Engineers to provide design-build services for the Utah Data Centre at Camp Williams, Utah. The US\$1.2bn (£0.8bn) project includes a 100,000 square feet technical data centre and 900,000 square feet of technical support and administrative space.

The headquarters for the National Geospatial Agency has progressed well and will be delivered according to plan. This is a highly technical project for a national agency, and the skills and experience we demonstrated were instrumental in winning the Utah Data Centre project.

International

Gammon's forward order book is at record levels, with projects worth HK\$23bn (£1.9bn).

Gammon has won in joint venture its third contract on the West Island Line project for the Hong Kong metro.

Safety first in the Gulf

UAE

Zero Harm means the same wherever in the world we work. But the way we make it happen is tailored to every project and workforce. Our BK Gulf joint venture in the UAE, with its multicultural workforce, puts particular emphasis on communication and training – all its safety officers are multilingual.

It also makes effective use of new techniques and products to reduce hazards. Last year it completed over a million hours' work without a single lost time incident on the extension to the gigantic Mall of the Emirates, thanks in part to its use of prefabricated wiring and pipework modules – the first system of its kind to be approved in Dubai. These eliminated the need for hot work on-site. Across all its projects, the company clocked-up 21.4m manhours without a reportable incident between October 2009 and November 2010 and won the MEP Middle East Health and Safety Achievement Award in December.



This is a HK\$4.75bn (£407m) contract involving the construction of two stations and a 2.2km running tunnel. See case study on *page 23*.

The widening of Hong Kong's Tolo and Fanling highways is another high-profile project win. The contract, worth HK\$2.4bn (£195m), includes the modification, demolition or construction of numerous bridges. Work began in February 2011.

Gammon has won in joint venture a HK\$2.883bn (£238m) contract to build part of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link – a direct line from mainland China to Hong Kong.

Gammon's strength in aviation infrastructure was confirmed by the award in joint venture of a HK\$4.2bn (£353m) air cargo terminal construction contract by Cathay Pacific Services.

Following the contract for the redevelopment of the Victoria Park swimming pool complex, Gammon won a contract for a leisure complex in Kwun Tong featuring several Olympic-size pools and ancillary facilities. Gammon has also been awarded a five-year transmission line project and an electrical and mechanical contract on the West Island Line. Together, these contracts are worth HK\$2.3bn (£190m).

Rail

In the UK, we successfully delivered the Airdrie to Bathgate electrification project and in Scotland, we secured the Paisley corridor project.

In Switzerland, we are laying track in the 57km Gotthard train tunnel, and starting electrification. This massive project took a year of preparatory logistics before work began.

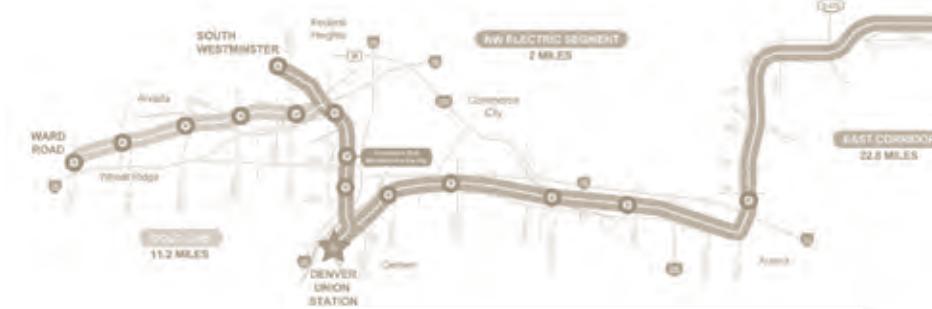
Signalling Solutions, our joint venture with Alstom, had another good year and our catenary manufacturing business in China performed extremely well.

We are now starting to submit bids in collaboration with PB, to offer more integrated solutions. We are preparing our final bid for a project in Denmark, and another in Australia. Without PB as a partner, both of our bids would simply have been as a sub-contractor to the contract winner.

Looking forward

Overall, the medium-term prospects for Construction Services look good. While the lingering effects of the financial crisis mean that some markets remain weak, others are thriving. Short-term reductions in public sector spending will be offset by long-term spending on new energy and infrastructure projects worldwide. Balfour Beatty is well placed to benefit from these developments.

We expect to maintain growth in general construction in the UK through our school building work and a slow return of commercial markets.



P3 on track

US

Public-private partnerships are gaining traction in the US, where they are known as P3s. We are part of the team selected to design and build the Eagle P3 commuter rail project in Denver, and maintain and operate it until 2044. This is the first rail P3 project in the US; it's also our first transit project to include both operation and maintenance, and the first where we are responsible for the delivery of rolling stock. We will be responsible for half the US\$1.3bn (£0.8bn) engineering and construction contract and a third of the US\$1.4bn (£0.9bn) operation and maintenance contract. The project includes 36 miles of commuter lines and a maintenance facility.



Artist's impression

Senior living is an area of opportunity for our regional building business. Budget hotels are also growing, and our 2010 acquisition of Multibuild gives us strength in this segment. The contracts we acquired with our purchase of parts of Rok's business should support our activity in the affordable new-build housing construction market.

Energy and power markets are coming to the fore, with an increasing number of nuclear and wind power initiatives. Energy from waste and related waste treatment projects are also growing in number, presenting us with further opportunities. Carbon capture and storage is another new market that we are looking at with technical expertise from PB.

In the US, federal markets are reaching a trough and we expect this sector to present fewer opportunities in the near future. There are some green shoots in private construction, though these are tending to be individual projects rather than market-wide trends.

The restructuring of our US operations under one management structure will allow us to offer a broader range of services combining the full capabilities of the Group.

Gammon has a very strong order book in Hong Kong, and the fact that the government is continuing to spend on mass transit systems is encouraging for our business.

Indonesia offers long-term opportunities to build an infrastructure capable of supporting its economic development. And in India, our joint venture with GVK is seeking to pre-qualify for a US\$1.2bn road contract between Mumbai and Delhi.

In contrast, the Middle East is less active, with Dubai remaining challenging. Work continues to be let in Abu Dhabi, although at a slower rate than in the past. There are, however, opportunities in Qatar and Saudi Arabia.

We expect a year of growth for the rail business as a whole; and despite the UK Government's spending cuts, we expect Crossrail to present opportunities in the medium term. In Europe we expect a steady year, with the business in Germany continuing to grow, while in Asia, the mass transit projects in Hong Kong could lead to further opportunities for our rail and electrification activities elsewhere.

"Rapid GDP growth is driving infrastructure demand in Asia. We are seeing interesting opportunities in India, Indonesia and Vietnam."

Brian Osborne
Director of International Business



SUPPORT SERVICES CONTINUOUS IMPROVEMENT



"Local authority requirements are changing, with a marked shift towards larger, multi-activity contracts, and the bundling together of contracts from more than one local authority. This trend favours companies like Balfour Beatty which can offer a broad range of capabilities."

Kevin Craven
Chief Executive Officer, Support Services

What do we do?

Upgrade and maintenance of water, gas and electricity networks

Total facilities management and business services outsourcing

Highways network management, operation and maintenance

Rail renewals

What's happened?

Revenue and profit adversely impacted by the slow ramp-up of work in AMP5

Local Authorities unit established to position the business to benefit from the expected increase in outsourcing

National Operations Centre (NOC) established to provide centralised management and administration of contracts

What's next?

AMP5 volumes expected to recover

Pursue opportunities in new markets such as renewable energy and carbon management

Deliver continuous improvement to customers to retain work and expand scope

How we performed

Order book



Revenue including JVs and associates

-1%



Profit before exceptions and amortisation

-7%



KPI

Customer retention

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

+400bps



Defined as the revenue from customers retained from one year to the next, relative to revenue from the same customers in the previous year.
Based on Balfour Beatty WorkPlace and Utility Solutions revenue.

A bold step beyond outsourcing

We have broken new ground by launching a partnership with a local council that crosses traditional outsourcing boundaries. Under a £250m, 10-year contract with North East Lincolnshire Council we will deliver a package of services spanning regeneration, highways, transport and planning, asset management and architectural support. As well as cutting costs and improving services, we have committed to meeting 140 KPI targets that add up to a significant improvement in quality of life for local people. Our risks and rewards link directly to how well we succeed.

Integration is key. Both parties are incentivised to work together to maximise results, and over 300 council staff have transferred to a team that integrates expertise from our facilities management business and Parsons Brinckerhoff.

"The partnership will deliver 3,500 new and improved homes, cut deaths and injuries on our roads by 33% and 50% respectively, secure at least £570m of inward investment into the borough and deliver key regeneration projects."

Marc Cole
Director of Regeneration, North East Lincs Council



"It's a fantastic opportunity to accelerate regeneration of the borough. Balfour Beatty is working with North East Lincolnshire Council to create 4,200 new jobs and generate 250 training, work or apprenticeship placements."

Caroline Hopkins,
Regional Director for Balfour Beatty WorkPlace



Shared goals We are working with the council as one team, from managers to lollipop ladies.

Our strategy

Support Services helps our customers maximise their organisational efficiency and the value they generate from their infrastructure while preserving the continuity of their services. The breadth of our offering includes but is not limited to facilities management, the upgrade and maintenance of utility and transport networks, business services and business process outsourcing, enabling us to maintain all aspects of a social or civil infrastructure asset.

Our customers trust us to deal directly with their infrastructure users and stakeholders. It is these intimate customer relationships that underpin the organic growth of our core business, enabling us to extend the length and breadth of successful contracts.

We are a services integrator, bringing together different capabilities to meet varying customer needs. While bringing together our teams, sub-contractors and the customer's stakeholders is part of the normal course of our business, this integrated offer increasingly involves capabilities from other parts of Balfour Beatty.

The majority of our business comes from the public and regulated sectors in the UK. The potential risk that this poses is mitigated by the different regulatory cycles in which the constituent parts of our business operate. As we leverage our scale and skills to grow our business in the private sector, we will bring more balance to our overall portfolio of customer activity. In addition, pressure on public spending is driving innovation and creating new opportunities with central and local government as well as other public entities.

Our marketplace

Local authority requirements are changing, with a marked shift towards larger, multi-activity contracts, and the bundling together of contracts from more than one local authority. This trend favours companies like Balfour Beatty which can offer a broad range of capabilities, and our work on large highways management contracts was certainly buoyant in 2010.

There was increased competition for more traditional highways work, and contracts have tended to be smaller as budgets tighten and levels of discretionary spend reduce.

Turning up the power

NZ

In alliance with Transpower, which is responsible for New Zealand's national grid, we are undertaking, in joint venture, the country's largest electricity transmission project in half a century.

Our NZ\$230m (£96m) contract involves designing and building a new 186km 400kV transmission line – including some 430 towers – and removing an obsolete line with 460 towers. The new line, going live in mid-2012, is vital to meet growing electricity demand in upper North Island.



In the utilities sector, market conditions in water were particularly tough as the ramp-up of work for the UK water industry's 2010–15 asset management plan (AMP5) was slow.

The facilities management and business services outsourcing sectors were intensely competitive. Volumes of work have held up reasonably well, although discretionary spend has reduced from the levels before the economic slowdown hit in 2008.

Financial performance

Support Services maintained a good level of activity in the year although revenue and profit were adversely impacted as the ramp-up of work for AMP5 was slower than expected. Revenue was down 1% to £1,434m and profit from operations before exceptions and amortisation was down 7% to £51m, resulting in a slightly lower margin of 3.6%. We expect volumes to pick up in the remainder of the cycle as is typical with the AMP cycles.

Operational performance

Local authorities in the UK are becoming an increasingly important part of our business as they seek to outsource more activities to the private sector in order to cut costs. We have therefore established a new standalone Local Authorities unit to give the sector greater prominence and focus.

The £250m services contract we won with North East Lincolnshire local authority in March 2010 is a testament to the strength of the offer that Balfour Beatty can make as a group, and an example of the type of large, bundled contracts that are now available. This 10-year agreement will involve the provision of highways transportation and planning, asset management and architectural services. Parsons Brinckerhoff will undertake the town planning and regeneration services elements of this contract.

Our order book of local authority work is approximately £800m, representing a pipeline of more than four years' work.

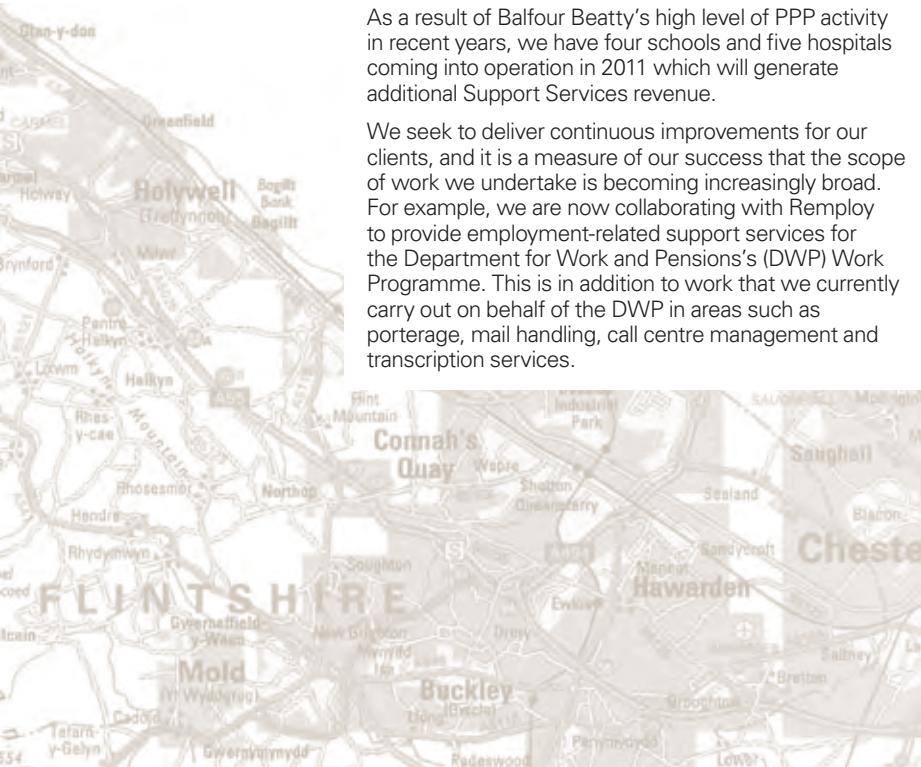
Our first multi-activity highways contract, with the Southampton Highways Service Partnership, was signed in July. This £100m deal involves highways transportation planning as well as asset management services for an initial 10-year period.

We also won contracts this year with the Highways Agency covering the strategic motorway and trunk road network in south-west England, with Yorkshire Water and with Anglian Water. These three contracts total £200m in revenue.

In UK rail renewals, we won a five-year contract to work in partnership with London Underground. The framework contract is worth £220m, with potential for additional work, and our share will be around half. We also secured a four-year extension to our track renewal contract for Network Rail's south-east regions worth approximately £170m provided agreed targets are met during the first year of the contract.

As a result of Balfour Beatty's high level of PPP activity in recent years, we have four schools and five hospitals coming into operation in 2011 which will generate additional Support Services revenue.

We seek to deliver continuous improvements for our clients, and it is a measure of our success that the scope of work we undertake is becoming increasingly broad. For example, we are now collaborating with Remploy to provide employment-related support services for the Department for Work and Pensions's (DWP) Work Programme. This is in addition to work that we currently carry out on behalf of the DWP in areas such as portage, mail handling, call centre management and transcription services.



As part of the Group's cost saving programme announced with the half-year results in August 2010, we have been developing a Shared Service Centre (SSC) in Newcastle to provide centralised accounting, payroll and procurement services. It is managed in the Support Services division and will deliver services across the majority of Balfour Beatty's UK operating companies.

Live processing started to transition into the SSC in February 2011, with over 100 people now working in the centre, supporting the transition of the first six operating companies. The remaining operating companies will be added in the course of the next two years, and we expect the SSC to reach full operational capacity by the end of 2012 with 380 employees.

Looking forward

A strong committed order book gives us confidence going forward. We expect AMP5 revenue to start increasing, and further income growth will be generated as our PPP schools and hospitals come on stream.

We are also looking at emerging markets to improve returns. Renewable energy is one such market in which our experience in onshore power transmission should stand us in good stead.

By developing existing client relationships, we are also looking to move into new areas such as energy and carbon management and extend our existing scope of work to the DWP to encompass employment services.

Pipes renewed, past intact

UK

In partnership with National Grid, we are responsible for maintaining and renewing the gas distribution network in north-west England. This includes replacing over 500km of obsolete large-diameter pipes each year.

We are currently replacing the old cast-iron network in the historic town of Chester. In the centre, the great majority of buildings are Grade 1 and Grade 2 listed: many are of national importance. So we have to work with sensitivity to our surroundings – and to a busy calendar of tourism and heritage events. We work closely with English Heritage to secure planning permission for pipe runs into buildings and have a full-time archaeologist on the staff to identify and protect the wealth of artefacts unearthed by our digging.



INFRASTRUCTURE INVESTMENTS

AN EVOLVING MODEL



"We have now reached the point in the business cycle where it is appropriate to realise some of the value inherent in infrastructure investments. We began by disposing of interests in two assets in early 2010 and now plan to accelerate that process."

Anthony Rabin
Deputy Chief Executive, Balfour Beatty plc

What do we do?

Operate a portfolio of long-term PPP concessions in the UK, primarily in the education, health and roads/street lighting sectors

Operate a portfolio of long-term military accommodation PPP concessions in the US

Have interests in non-PPP assets at Blackpool and Exeter International Airports and Barking Power Station

What's happened?

Won eight PPP bids including four schools projects

Reached financial close on three follow-on Building Schools for the Future projects

Received additional funding for the Fort Carson military housing project

Appointed preferred bidder for Thanet offshore transmission system (OFTO)

Sold interests in two PPP assets, realising disposal gains of £20m

What's next?

Intend to dispose of some £200m–£300m of PPP and other assets over the next four to five years

Develop funds management business

Transfer the successful military housing model to other areas in the US, particularly student housing

Pursue PPP opportunities in Canada and in offshore wind in the UK

How we performed

Revenue including JVs and associates

-10%



Profit before exceptional and amortisation

-38%



KPI

Directors' valuation

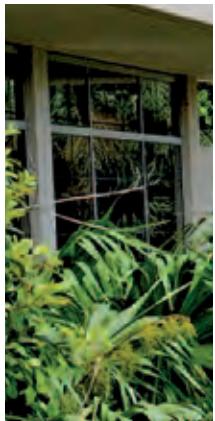
While there are numerous factors that contribute to the movement in the Directors' valuation of PPP concessions, it is a good indicator of the value we create in our portfolio.

+11%



Meeting buoyant demand for student beds

US university budgets are under strain as public support is reduced. But attendance continues to expand and there is growing demand for student accommodation. It's a significant opportunity for public-private partnerships (PPP or P3 in the US), and we are due to open our first P3 student housing scheme at Florida Atlantic University (FAU) in August.



At FAU, we are building on the expertise we gained from providing P3 housing projects for the US military. Balfour Beatty's investment and construction businesses have teamed up to design, build, and operate accommodation for over 1,200 students.

The US\$123m (£79m) Innovation Village Apartments project will add 50% to FAU's existing 2,400-bed accommodation, which we will also manage under the contract. There is also a likely option to develop a further 1,200 beds by 2020.

Balfour Beatty invested capital in subordinated bonds to support the project. FAU's existing student housing was incorporated into a new non-profit organisation which also owns the new assets we are building, allowing funds to be raised for additional infrastructure.



489,000 square feet **375 units** **1,216 beds**

"P3 is an effective way to introduce private expertise and capital into the public sector, meeting the current and future needs for housing and infrastructure at colleges and universities while improving overall value."

Bruce Robinson
President and CEO, Balfour Beatty Capital Group

Green housing The 375 apartments in two buildings are anticipated to meet the LEED Silver standard.



Artist's impression



Our strategy

Over the past 15 years, Balfour Beatty has built the UK's largest public-private partnership (PPP or formerly PFI) portfolio, outside those held by financial institutions. This portfolio has increased in value significantly, with our ability to enhance operational efficiency adding further value to assets after their construction.

We have now reached the point in the business cycle where it is appropriate to realise some of the value inherent in these assets. We began doing this by disposing of two assets in early 2010 and now plan to accelerate that process.

We intend to dispose of some £200m–£300m of PPP and other selected infrastructure assets over the next four to five years, achieving around £20m in disposal gains per annum. The proceeds will provide cash for reinvestment opportunities, both within Infrastructure Investments and elsewhere in the Group, as well as providing scope for enhancing dividends.

We will continue to be a substantial investor as well as, increasingly, a developer. In practice this will mean disposing of some equity positions after construction or, on occasions, simply taking fees to facilitate investment for others at financial close. The developer model will enable us to increase profit before tax from this business through profits on disposals and developers' fees over the next few years, as well as continuing to receive income from the investments themselves.

Our marketplace

Following the change of government in the UK and the incoming coalition's Comprehensive Spending Review, the coalition has indicated that it may seek to evolve the role of PPP.

Relatively positive statements from a number of spending departments on the continuing need for private finance reinforce our view that there will be a continuing and important place for PPP. But we believe the nature of PPP investment may change with projects put out to tender that require more complex solutions than previously necessary, probably involving greater income risk. However, we do not see this as negative and believe that our extensive skills base will enable us to address this new market successfully.

In the US, military family housing privatisation programmes are drawing to a close although we are still pursuing a small number of large projects. However, we have almost completed construction of our first student housing PPP, and see significant growth opportunities in the student housing market as well as an increasing acceptance that private finance has a role to play in refurbishing the nation's infrastructure.

999 call for private finance

UK

Our investment expertise means we can help public sector clients make constrained budgets go further. In tough times, that's a crucial competitive strength. For example, three fire and rescue authorities in north-west England have formed a consortium to buy services more efficiently. Together, they have awarded us a £48m PPP contract to finance, design and build 16 new fire stations and to run them for 25 years. This is the UK's largest fire and rescue PPP to date.



Financial performance

At 31 December 2010, Balfour Beatty had total committed equity and subordinated debt of £582m across 57 projects, four of which were at preferred bidder stage.

In April 2010, we sold our entire 50% interest in Aberdeen Environmental Services and a 23.9% interest in Consort Healthcare (Edinburgh Royal Infirmary) for a total of £24m, realising disposal gains of £20m (treated as an exceptional gain in the 2010 accounts).

The original 15-year contracts for the supply of gas and electricity off-take for Barking Power came to an end during 2010, and a non-cash impairment charge of £27m was recorded in exceptional items. We have made the decision to dispose of our interest in Barking Power.

Overall, despite the asset sales, the Directors' valuation of the PPP portfolio rose in the year to £679m (2009: £610m).

Operational performance

UK

In an excellent year for our UK investment business, we won eight PPP bids including four schools projects. In addition, we have reached financial close on three follow-on Building Schools for the Future projects from our existing concessions and are working on the next phases, and have a number of bids in progress. The projects we won in 2010 secured future investment of £60m, as well as providing around £390m of construction work together with a number of long-term facilities management and operations and management contracts.

During the year we focused attention on a newly emerging private finance sector: offshore power transmission. Under the EU Renewable Energy Directive, the UK has committed to meeting 15% of its energy needs from renewable sources by 2020, requiring a sevenfold increase in renewable energy generation compared with 2008 and some £100bn of capital investment. Activity has been relatively small-scale so far, but is likely to accelerate rapidly over the next 10 years.

As part of its drive to stimulate investment, the government has been licensing wind farms in the UK sector of the North Sea. It has also been privatising the transmission infrastructure that links offshore wind farms to the onshore network, through three licensing rounds.

The first licensing round, relating to completed or part-completed assets, is in the final stages of bidding. We have been selected as preferred bidder to acquire the transmission assets of the world's largest offshore wind farm – the 100-turbine Thanet array off the Kent coast – and have another bid in hand, for which the winner will be announced during 2011. Thanet will provide us with a sound investment and give Support Services a long-term contract to repair and maintain the asset.

We believe we have a good chance of success in the second round of existing and semi-completed assets, which begins in 2011, comprising six licences involving over £2bn of capital expenditure. We also see particular scope for our combination of capabilities in the third round, which covers assets yet to be built. Licences in this round will create construction, maintenance and investment opportunities. There is also the potential for additional construction activity of the offshore platform.

US

In the US, 2010 was a year of transition for us. While our Navy Northeast project experienced a decrease in occupancy due to reduced military demand, and our Navy Southeast project is expected to experience a further reduction in scope, which was driven by reduced rental rates, our Fort Carson project in Colorado received additional funding of US\$100m (£65m) for further construction.

In February 2011, we were also selected as the highest ranked offeror for the Western Group of four US Air Force bases. Although family military housing programmes are expected to draw to a close in the short term, the military housing market may return to growth if the Armed Forces decides to privatise barracks or single personnel housing.

Meanwhile, we are looking to transfer the successful military housing model to other areas, particularly student housing. Universities, like the military, have large property holdings, the financing and managing of which is not a core competency. Privatisation makes an attractive solution and Infrastructure Investments is collaborating with Construction Services to develop attractive solutions to meet universities' real estate and financing needs.

In March 2010, we reached financial close on a PPP to develop and manage new student residential facilities for Florida Atlantic University. This US\$123m (£78m) project is an important step in developing our experience in this sector in the US.

Canada

Canada is an attractive market for infrastructure investments. It has supported UK-style PPP programmes at both federal and provincial levels, particularly in Ontario.

In 2010, we set up an office in Toronto with local staff supported by our US and UK businesses. Together with Construction Services, this team has already been shortlisted for two courthouse projects in Ontario.

The Group's acquisition of professional services group Halsall in October 2010 will also support our increasing focus on Canada.

Looking forward

Despite economic and political uncertainty we see continuing opportunities for high-quality investment in UK PPPs and anticipate over £3bn of bidding opportunities over the next two years. We also see increasing opportunities in Canada and are currently considering bids for five new projects.

To expand the Group's income generating potential, we have also begun establishing an infrastructure funds management business for which we have already recruited a core team.

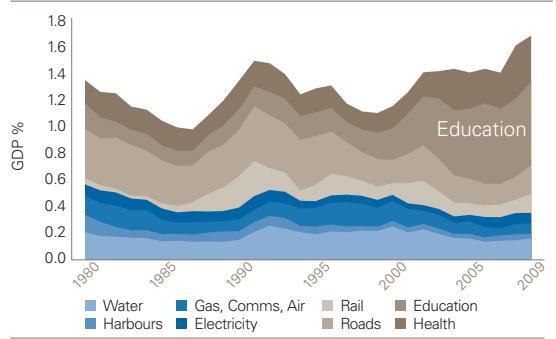
Class not dismissed

UK

We have committed £79m of equity investment in 14 UK education PPPs to build over 100 schools and upgrade and maintain over 100 more.

There is a continuing need for investment in education infrastructure, although expenditure is expected to reduce following the decade-long boom in spending that saw education take an unsustainable share of GDP (see chart below). Comprehensive Spending Review figures indicate that spending will stay substantially above historical levels.

Education



Source: ONS

STRONG MARGIN PERFORMANCE



"With average cash of over £400m in the year, and our long-term confidence in infrastructure markets, we are proposing a 6% increase in dividend for the year."

A handwritten signature in blue ink, appearing to read "Duncan Magrath".

Duncan Magrath
Finance Director

Results for the year	2010	2009	Percentage increase
Revenue including joint ventures and associates	£10,541m	£10,339m	+2%
Group revenue	£9,236m	£8,954m	+3%
Profit from operations			
– before exceptional items and amortisation	£338m	£280m	+21%
– after exceptional items and amortisation	£206m	£295m	-30%
Pre-tax profit			
– before exceptional items and amortisation	£319m	£265m	+20%
– after exceptional items and amortisation	£187m	£265m	-29%
Earnings per share			
– adjusted*	34.7p	34.4p	+1%
– basic	21.0p	37.1p	-43%

2009 accounts restated for the adoption of IFRIC 12 Service Concession Arrangements and earnings per share restated for the bonus element of the 2009 rights issue.

* Before exceptional items and amortisation of intangible assets.

Introduction

2010 saw a good operating and financial performance in a year over-shadowed by uncertain outlooks as governments looked to tackle fiscal deficits.

In Professional Services we had our first full 12-month contribution from Parsons Brinckerhoff (PB) whose performance has exceeded our expectations despite difficult conditions in the UK and US markets, particularly due to the delay in the re-authorisation of the US Highways Bill. Co-operation with the rest of Balfour Beatty has been very encouraging, and we are convinced that the knowledge and expertise PB brings to the Group will make us able to serve our infrastructure customers even more effectively in the future.

Following the 14% decline in the Construction Services order book in 2009 we have seen a 10% decline in its revenue in 2010. This cycle flowed through to a £12m increase in profit from operations* in the first half with a particularly strong performance in the US, offset by a £7m decline in profit* in the second half versus 2009. However, a particularly strong second half for winning work has seen an increase in the order book back to £9.2 billion, only £0.3 billion below the position at the end of 2008.

Support Services had a steady year with order book and revenue broadly flat, but with profitability* down 7% largely on the back of start-up costs on some new contracts, the creation of a new National Operations Centre to support future growth, and slow volumes at the start of the new 5-year water regulatory cycle.

It was a busy year in Infrastructure Investments. Financial close was reached in the UK on five projects as well as

three BSF project extensions, with preferred bidder status on a number of other projects including our first offshore transmission asset, and the disposal of investments in Aberdeen Environmental Services and Edinburgh Royal Infirmary for £24m. The original 15-year contracts for the supply of gas and electricity off-take for Barking Power came to an end during 2010, and a non-cash impairment charge of £27m was recorded in exceptional items. We also achieved our first financial close on a non-military housing PPP project in the US. Overall, despite the asset sales, the Directors' valuation of the PPP portfolio rose in the year to £679m.

Financial review

Revenue including joint ventures and associates increased 2% in the year to £10,541m (2009: £10,339m), also up 2% at constant currency. This included PB for the whole year, whereas it contributed two months of revenue in 2009. Adjusting for the extra 10 months for this acquisition and the much smaller impact of other acquisitions, underlying revenue declined 11%, or some £1,100m. The principal reason for the underlying reduction was due to Construction Services' revenue declining by £748m or 10%, with reductions in both the UK and US only partially offset by growth in Hong Kong.

Our share of post-tax profits before exceptional items from joint ventures and associates increased from £81m last year to £85m this year, principally due to a better performance from our Rail joint ventures in Europe and China.

Profit from operations before exceptional items and amortisation of intangible assets increased by 21% to £338m (2009: £280m), also up 21% at constant currency.

See *pages 28 to 47* for more detailed comments on performance by segment.

Net finance costs of £19m were up slightly on the prior year (2009: net cost £15m, before exceptional items), largely as a result of a £6m increase in the net finance cost on pension schemes.

Pre-tax profit before exceptional items and amortisation of intangible assets therefore increased 20% to £319m (2009: £265m).

The pre-exceptional tax charge for the year of £83m (2009: £69m) equates to an effective tax rate of 35.5% (2009: 37.5%). Eliminating the finance cost of preference shares, which does not attract tax relief, the Group's effective tax rate would be 33.7% (2009: 35.2%).

Adjusting further to include tax in associates and joint ventures, and comparing this to pre-tax profits for the Group and associates and joint ventures, the effective tax rate is 29.5% (2009: 30.7%).

Exceptional items

Exceptional items of £50m (2009: £48m credit) before tax were charged to the income statement for the year. The most significant items were a £20m gain on the sale of two PPP investments, offset by £31m of costs for acquisition, integration, reorganisation and other costs principally related to the acquisition of PB, £12m of costs related to the creation of the UK Shared Service Centre, and a £27m non-cash impairment of our investment in Barking Power.

We have leased and fitted out a facility in Newcastle for the UK Shared Service Centre which is taking on staff to

provide accounts, payroll and procurement transactional services across all of the UK divisions. We remain on track for annual gross savings of £30m, of which we expect £20m to flow through to the bottom line, for one-off exceptional costs of £12m in 2010 and £13m in 2011.

Earnings per share

Adjusted earnings per share of 34.7p are slightly up (2009: 34.4p). The increase in pre-exceptional profit before tax has been largely offset by the increase in the average number of shares in issue due to the full-year effect of the rights issue in 2009 to fund the acquisition of PB.

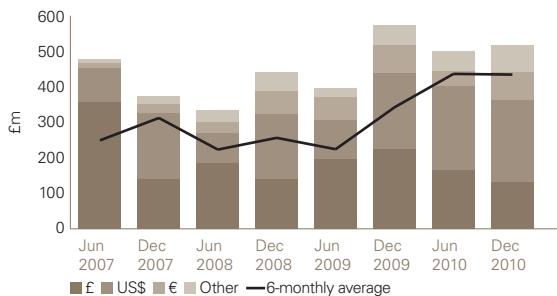
Cash flow performance

Cash generated from operations of £169m (2009: £294m) compared with profit from operations of £206m (2009: £295m).

Cash from operations was less than profit largely due to the pension deficit payments of £81m, which included a one-off payment of £40m in December 2010 in addition to regular deficit payments of £41m, and an increase in working capital of £32m as a result of anticipated contract settlement payments in PB and a reduction in the negative working capital in Construction Services due to the reduction in revenue.

Average cash in the second half of the year was £434m, although the Group's net cash at 31 December 2010 was in excess of that at £518m (2009: £572m), before taking into account the consolidation of £270m (2009: £248m) of non-recourse net debt held in wholly-owned PPP project companies.

Net cash balances[†]



[†] excluding net debt of PPP subsidiaries.

More detailed analysis on the movements in net cash are shown in Note 35.

Balance sheet and capital structure

Goodwill and intangibles

Total consideration for acquisitions in the year amounted to £43m. Goodwill arising on these acquisitions amounted to £32m and a further £9m of intangible assets were recognised. As a result, and after exchange adjustments, the goodwill on the Group's balance sheet at 31 December 2010 increased to £1,196m (2009: £1,145m) and other intangible assets to £251m (2009: £298m).

Impairment reviews have been carried out, and none of the goodwill has been impaired. Details of the calculations and assumptions are shown in Note 12.

Charges for the amortisation of other intangible assets increased to £82m (2009: £48m) due to the impact of acquisitions, with a related tax credit of £27m (2009: £17m).

Infrastructure investments

During 2010, the Group invested £73m (2009: £62m) 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 £115m from 2011 onwards, with a further £36m for projects at preferred bidder stage.

At 31 December 2010, the Group's share of non-recourse net debt within Balfour Beatty Capital's continuing PPP project companies amounted to £1,886m (2009: £1,775m), comprising £1,616m (2009: £1,527m) in relation to joint ventures and associates as disclosed in Note 15.2 and £270m (2009: £248m) on the Group balance sheet in relation to wholly-owned project companies as disclosed in Note 23.1.

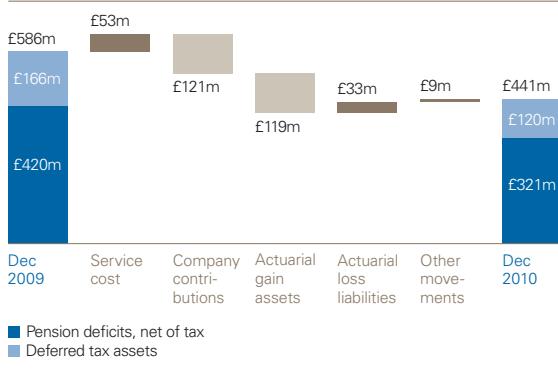
The Group's share of the results of the military housing PPP concessions of Balfour Beatty Communities is contractually limited to a maximum pre-agreed level of return on funds invested, which is shown under the equity method of accounting within joint ventures and associates. The Group's investment in those concessions is recorded on the balance sheet at the initial equity investment plus the value of the Group's accrued preferred return. The fee income which is the bulk of the return earned by the Group from these concessions is included within Group operating profit.

The Directors have carried out a valuation of the Group's PPP concessions, including the PPP concessions of Balfour Beatty Communities, and this is set out on *pages 52 to 54*. This shows that despite £39m of disposals, the value of the portfolio has increased during the year from £610m to £679m.

Pensions

The Group's balance sheet includes aggregate deficits of £441m (2009: £586m) for the Group's pension funds based on the assumptions set out in Note 25. The Group recorded net actuarial gains for 2010 on those funds totalling £86m (2009: losses £350m), with the effects of the lower discount rates applied to the funds' liabilities more than offset by better than expected returns on the assets held by the funds, the rebasing of some benefits from RPI to CPI and increased Company contributions.

Pensions – balance sheet movement



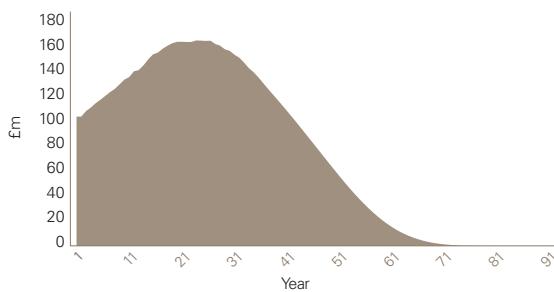
A formal actuarial valuation of the Balfour Beatty Pension Fund (BBPF) was carried out at 31 March 2010 and showed a funding position of 85%.

Following discussions with the Trustees, the Company agreed a funding plan to eliminate that deficit over eight years. The plan comprised an initial one-off payment of £40m, which was paid in December 2010, and regular monthly payments of £4m starting from April 2010.

The monthly payments will be increased each April by the increase in CPI up to a cap of 5%, plus 50% of any increase in the Company's dividend in excess of CPI.

Note 25 includes a sensitivity analysis which identifies the impact on the income statement and the balance sheet from changes in the assumptions. The future projected cash flows for benefit payments from 31 March 2010 for the BBPF are shown below.

Balfour Beatty Pension Fund benefit payment cash flows



Dividend policy

Balfour Beatty aims over time to grow the dividend broadly in line with the growth in earnings, taking into account the investment needs of the business. The Board has recommended a final dividend of 7.65p in respect of 2010, giving a full-year dividend of 12.7p (2009: 12.0p adjusted), up 6% on last year. Underlying dividend cover for 2010 is 2.7, slightly lower than the cover of 2.9 last year but the Board believes that this is reasonable given the strength of the Group's cash reserves and future prospects. Going forwards the Company intends to treat disposals of PPP investments as part of regular trading, and include those earnings arising in the calculation of the level of dividend payout.

To appreciate the prospects for the Group as a whole, the complete Annual report and accounts 2010 needs to be read, with particular reference to Notes 20 and 23.

Treasury risk management

The Group's financial instruments, other than derivatives, comprise cash and liquid investments, and borrowings. The Group enters into derivatives transactions (principally forward foreign currency contracts and interest rate swaps) to manage the currency and interest rate risks arising from the Group's operations and its sources of finance.

The Group's businesses manage their known foreign currency transactional exposures by taking out forward foreign exchange contracts through Group Treasury. The Group has decided not to adopt hedge accounting for its foreign currency transactional exposures except

where the exposure is in excess of pre-set materiality limits in which case a decision is made as to whether to hedge account or not. As a result, there was a credit to profit of £1m (2009: £1m charge) which would otherwise have been taken directly to equity.

It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. Compliance with policy is monitored through regular reporting and internal audits.

The Board reviews and agrees policies for managing the Group's financial and treasury risks and they are summarised on *pages 59 and 60*. Details of the Group's financial risk factors and financial instruments are shown in Note 20.

Treasury facilities

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

The Group has a series of bilateral committed facilities which total £627m, the majority of which mature in 2012 and the first half of 2013. The purpose of these facilities is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities.

In the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities (commonly referred to as "bonds"). Such bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from Balfour Beatty plc. As at 31 December 2010, contract bonds in issue by financial institutions under uncommitted facilities covered £3.8bn (2009: £3.1bn) of contract commitments of the Group.

Going concern

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

the Group has a strong order backlog, and good forward visibility;

there continues to be underlying demand in infrastructure markets in the countries in which the Group operates;

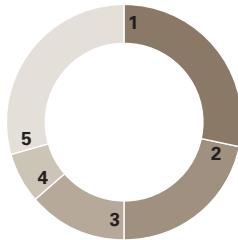
the Group has an increasingly diversified business model that gives resilience to the business; and

the Group had £518m net cash at 31 December 2010, in addition to which it had undrawn committed facilities in excess of £600m, of which £420m continue until the fourth quarter of 2012.

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

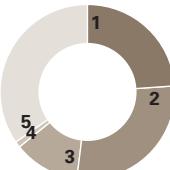
DIRECTORS' VALUATION OF PPP CONCESSIONS

Our portfolio Total equity committed by sector



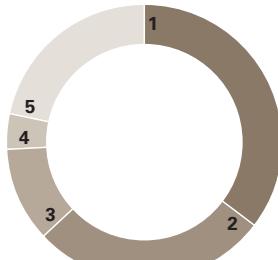
	No. of projects	2010 £m	2009 £m
1 Roads	11	165	154
2 Hospitals	9	125	125
3 Schools	14	79	58
4 Other	5	40	17
5 BB Communities	18	173	170
Total		582	524

Our portfolio Cash invested by December



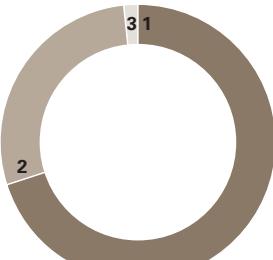
	No. of projects	2010 £m	2009 £m
1 Roads	11	103	84
2 Hospitals	9	122	89
3 Schools	14	52	34
4 Other	5	5	10
5 BB Communities	18	149	147
Total		431	364

Portfolio valuation: December 2010 Value by sector



	2010 £m	2009 £m
1 Roads	240	214
2 Hospitals	190	148
3 Schools	75	49
4 Other	28	28
5 BB Communities	146	171
Total	679	610

Portfolio valuation: December 2010 Value by phase



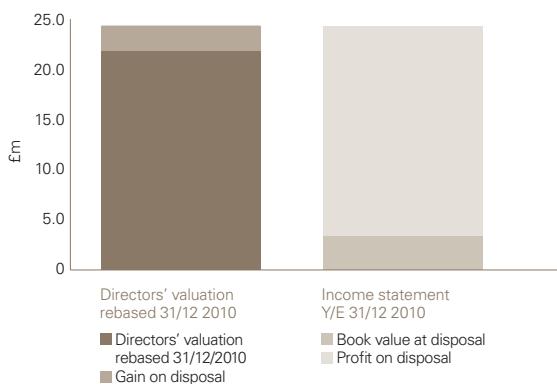
	2010 £m	2009 £m
1 Operations	476	450
2 Construction	193	158
3 Preferred bidder	10	2
Total	679	610

Movement in value 2009/2010 £m

	2009 Equity invested	Distrib- utions	Unwind of discount	Disposal proceeds	Rebased	New project wins	Gain on disposals	Operational performance gains	2010 (excl FX)		Growth (excl FX)	
									2010	2009		
BB Capital	439	71	(38)	37	(24)	485	15	3	29	532	1	533 9.7%
BB Communities	171	2	(18)	13	(15)	153	–	1	(13)	141	5	146 (7.8)%
Total	610	73	(56)	50	(39)	638	15	4	16	673	6	679 5.5%

Disposal gains analysis 2010 £m

Balfour Beatty Capital



Disposal gains analysis 2010 £m

Balfour Beatty Communities



Introduction

Balfour Beatty's PPP concession portfolio has grown both organically and through acquisition to become a very significant part of the Group's business and a major driver of shareholder value. At 31 December 2010, Balfour Beatty had total committed equity and subordinated debt of £582m across 57 projects (38 UK, 18 US and 1 Singapore) four of which were at preferred bidder stage. At that date, £431m had already been invested and £151m was due over the next six years.

The cash invested and committed equity values represent, respectively, the total investments to date and cash invested or committed to be invested across the 57 projects in Balfour Beatty's PPP portfolio. For both cash invested and committed equity measures, acquisitions are reflected at the price paid rather than the nominal value of the interest acquired, and no adjustments have been made to reflect partial disposals or cash received from distributions. Assets in which the Group no longer holds any interest are not included in the December 2010 figures.

In order to provide an indicator of value, Balfour Beatty publishes its own valuation benchmark for the Group's PPP investments, based on discounting expected future cash flows ("DCF valuation") but without taking into account potential refinancing gains. The valuations do not include Balfour Beatty's non-PPP infrastructure investments in Barking Power, Exeter International Airport and Blackpool International Airport.

Directors' valuation

At 31 December 2010, the Directors' valuation of Balfour Beatty's investment portfolio stood at £679m, at a post-tax nominal discount rate of 8.0% (2009 £610m). The movement in value arises from shareholder cash inflows and outflows during the year, and underlying growth in the portfolio arising from the unwinding of the discount rate from year to year, disposals, project wins, operational performance gains and foreign exchange translation movements.

The Directors' valuation incorporates all anticipated future distributions to equity and repayment thereof, interest and principal payments on shareholder subordinated debt and fees payable to shareholders from projects that have either reached financial close or are at the preferred bidder stage. The DCF valuation does not take into account profits made by Balfour Beatty Group companies that perform the construction, maintenance or facilities management services associated with the projects other than fees directly arising from the Group's investment in US projects.

Operational performance

Operational performance movements arise principally from operational improvements identified leading to a revision of the future cost and/or revenue forecasts, as well as other inflows and outflows of cash. In 2010 operational performance gains from the Balfour Beatty Capital portfolio arose principally from reduced cost forecasts, a reduction in the rate of corporation tax and changes to economic assumptions. For Balfour Beatty Communities, operational performance losses principally arose from a combination of lower than forecast increases in revenue, de-scoping of the Navy SE military housing project and lower than forecast occupancy at the Fort Hamilton military housing project.

New project wins

New project wins during 2010 for the Balfour Beatty Capital portfolio of £15m represented the preferred bidder appointment on eight PPP projects, and the financial close of three phase 2 BSF schemes.

Disposals

Disposals during 2010 from the Balfour Beatty Capital portfolio of £24m comprise the cash proceeds from the sale of its entire 50% shareholding in the Aberdeen waste water project and the reduction in its stake in the Edinburgh Royal Infirmary project to 50% by the disposal of a 23.9% shareholding. Disposals during 2010 from the Balfour Beatty Communities portfolio of £15m comprise the cash proceeds from the disposal of the Group's entire investment in the AMC West senior bond for US\$24m, translated at the exchange rate applicable at 31 December 2009 of 1.62. Differences on exchange rate movements are shown in the movement analysis within FX translation.

Assurance

The calculations underpinning the valuation have been independently checked to ensure that the valuation has been accurately carried out in accordance with the specified methodology. However, the detailed financial models have not been audited.

The valuation method

The valuation does not set out to estimate the market value of the investments in the portfolio but rather, through the application of a consistent methodology, illustrates movements in underlying values between periods and highlights the impact of intervening transactions.

DCF

The method used to value the portfolio is discounted cash flow ("DCF"). This is applied to the future forecast cash flows to which Balfour Beatty as a shareholder and a holder of subordinated debt is entitled in order to create a net present value. DCF has been used on all the investments. For projects which have reached financial close, forecast future cash flows are extracted from detailed financial models, updated in line with operational experience and lenders' requirements. For projects at preferred bidder stage, the current pre-close financial model has been used.

Discount rate

As in 2009, the Directors have adopted a single discount rate of 8.0% nominal post shareholder tax to value the portfolio of closed and preferred bidder projects. The Directors' valuation of Balfour Beatty's investment portfolio is sensitive to the discount rate adopted. The valuation for a range of discount rates is shown on the next page.

Shareholder tax

Balfour Beatty receives a number of cash flow streams from its investments. Most, but not all, of these cash flows are subject to tax upon receipt by the Balfour Beatty Group. The Directors' valuation takes into account these cash flows after the imposition of taxation upon the Group and thus uses a post-tax discount rate. The post-tax discount rate of 8.0% used in the Directors' valuation equates to a discount rate of 10.0% (9.4% for Balfour Beatty Capital and 11.5% for Balfour Beatty

Communities) were the value of the cash flows to be reported before the imposition of Group taxation, a methodology also currently used in the market place.

The pre-tax discount rate of 11.5% for Balfour Beatty Communities at 31 December 2010 compares to a pre-tax discount rate of 12.1% in the Directors' valuation at 31 December 2009, the reduction being due to changes in the mix of forecast cash flows from year to year. The pre-tax discount rate of 10.0% at 31 December 2010 compares to a pre-tax discount rate of 10.1% in the Directors' valuation at 31 December 2009, the reduction being due to changes in the proportionate values of the portfolios from year to year.

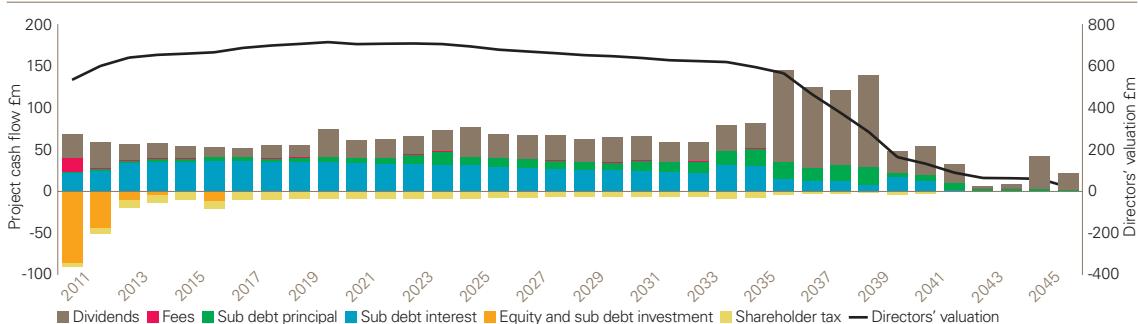
Translation gain

At 31 December 2010 the USD exchange rate used to translate the Directors' valuation of the Balfour Beatty Communities portfolio was GBP:US\$1.56 (2009: 1.62), generating an unrealised gain on translation of £5m.

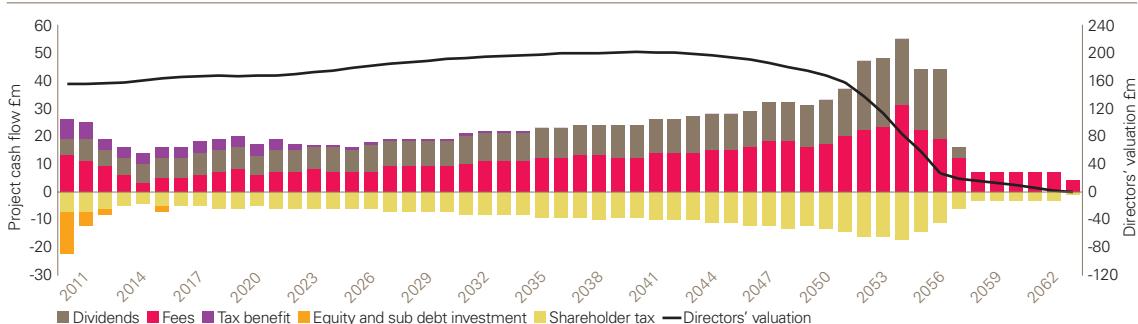
Of the Balfour Beatty Capital portfolio of 39 projects, one project, ITE West in Singapore, has non-sterling denominated cash flows. The unrealised translation gain on the value of ITE West is £1m, based on the exchange rate on 31 December 2010 of GBP:Singapore\$ of 2.00 (2009: 2.27).

At 31 December 2010 equity committed of £582m and equity invested of £431m included the acquired Balfour Beatty Communities portfolio of £123m (US\$244m) at the acquisition exchange rate of 1.98. Equity of £23m was contributed during 2008 translated at an exchange rate of 1.98 and £1m during 2009 at an exchange rate of 1.46. £2m of equity contributed during 2010 together with future commitments of £24m (US\$38m) were translated at 1.56. In addition, the movement in value analysis for Balfour Beatty Communities between years has been translated at an exchange rate of 1.62, the movement between that rate and the year-end exchange rate of 1.56 is shown separately as FX translation.

Annual forecast cash flows and DCF valuation over time Balfour Beatty Capital

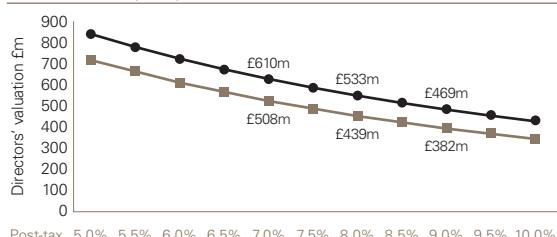


Annual forecast cash flows and DCF valuation over time Balfour Beatty Communities

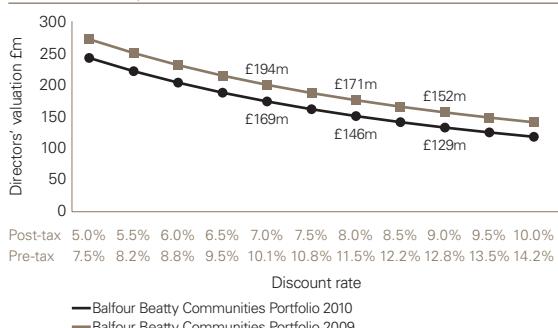


Balfour Beatty PPP Concessions' valuation range

Balfour Beatty Capital



Balfour Beatty Communities



UNDERPINNED BY EFFECTIVE RISK MANAGEMENT

Risk management

The effective management of risks within the Group is essential to, and underpins, the delivery of the Group's objectives of achievement of sustainable shareholder value and the protection of its reputation.

The Group's approach to risk management is to identify, at an early stage, key risks and then to develop actions to eliminate or mitigate the impact and likelihood of those risks either before they arise or if they crystallise.

Managing risk



Risk management and assurance

The Board is responsible for the Group's system of risk management and internal control. Reporting structures ensure that risks are continually monitored and that mitigation plans are subject to review within the Group. Established business reporting systems ensure that significant risk exposures are escalated from operating company management to divisional management and ultimately to the Board, if appropriate, via monthly performance and operations reviews.

The Board has delegated to:

The Audit Committee – responsibility for reviewing the effectiveness of the Group's internal controls, including the systems established to identify, assess, manage and monitor risks.

The Business Practices Committee – responsibility for monitoring and reviewing the Group's performance in managing social, environmental, ethical and reputational risks.

These sub-committees of the Board report the findings of their reviews to the Board.

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

Roles and responsibilities

Significant risk exposures are escalated from operating company management to divisional management and ultimately the Board.



Risk management process

The Group's risk management policy requires all divisions and the operating companies within them to identify and assess the risks to which they are exposed and which could impact their ability to deliver their and the Group's objectives. Risk registers are used to document the risk events identified, their causes and possible consequences. Risks are then analysed as to the likelihood of occurrence and also their potential impact on the business. Actions are developed and put in place to mitigate or eliminate unwanted exposures. Individuals are allocated responsibility for evaluating and managing the risks identified to an agreed timescale. Risk registers are regularly reviewed to identify new risks as they arise, update mitigation plans and to remove risks that are no longer relevant.

Principal risks

The Group operates in several different business environments in which a number of risks and uncertainties exist. Whilst acknowledging that it is not possible to eliminate such risks and uncertainties completely, established risk management and internal control systems and procedures exist within the Group to manage their impact and assist in the delivery of the Group's business objectives and creation of shareholder value.

In many of the territories in which the Group operates, 2010 continued to be a challenging year as customers and suppliers coped with the ongoing effects of the global economic downturn. The Group's exposure to changes in customers' spending is mitigated by the fact that it operates across the whole infrastructure lifecycle in a number of sectors and territories and the impact of changes in spending varies across each part of that lifecycle in those sectors and territories.

The Group recognises the need for effective mitigation steps to address the changes in risk profile it faces as it operates in and seeks to expand into a larger number of territories (be it economic, political, commercial or related to business conduct). Execution of business across the broader geographical footprint may require the Group to

enter into joint venture partnerships to deliver projects. The Group has in place selection criteria to ensure that appropriate partners are selected.

The acquisition of Parsons Brinckerhoff in the last quarter of 2009 whilst increasing the number of territories in which the Group operates also brought with it in-depth knowledge of customers and their requirements in the planning and design phase of the infrastructure lifecycle. This will help inform the other divisions within the Group in meeting customers' demands and needs.

The Board believes that the Group's established risk management and internal control systems have helped it to respond to the changing business environment and

the challenges it faced in 2010. The Board believes these systems will continue to help it address the risks it faces in the future from the changing economic and commercial environment in which it operates.

Set out on the following pages are the principal risks which could have a material impact on the Group's reputation, operations and financial performance. A number of the risks set out below reflect the ethical and sustainability issues that the Group faces. The table below also describes the potential impact of such risks, the mitigation steps in place and the key reporting and monitoring processes to review risks and their related mitigation plans.

External risks

Economic environment

The continued effect of the global economic downturn may cause the Group's customers to cancel, postpone or reduce existing or future projects. In particular, the Group is dependent on UK and US government policies and spending for a significant part of its revenues.

Potential impact

Any significant changes in the level or timing of customer spending or investment plans could adversely impact the Group's order book.

Mitigation

The Group has a broad exposure to various infrastructure markets across the globe. This and the continued need for infrastructure spending mitigates the risk of changes in spending in any one market.

The Group maintains a high level of engagement with its customers to understand and respond effectively to their evolving requirements at all phases of the infrastructure lifecycle. The recent appointment of a Head of Public Affairs will further help us understand the needs of the Group's public sector customers in the UK and US.

The Group is also active in seeking out new infrastructure markets as they develop (eg nuclear, wind).

Reporting & monitoring

Monthly/quarterly performance reviews
Medium-term planning process
Budgetary process

Commercial counterparty solvency

The Group is exposed to counterparty credit risk of its customers, sub-contractors, joint venture partners, financial institutions and suppliers. This risk is increased further by the current economic climate.

Potential impact

Failure of a customer, including any government or public sector body, could result in non-collection of amounts owed.

Failure of a sub-contractor or supplier would result in the Group having to find a replacement or undertaking the task itself which could result in time delays and additional costs.

Mitigation

The financial solvency and strength of counterparties is considered prior to the signing of contracts. During the life of the contract such assessments are updated and reviewed whenever possible. The Group seeks to ensure that it is not over-reliant on any one counterparty.

During the life of a project retentions, bonds and/or letters of credit will be obtained, where appropriate, from sub-contractors to mitigate the impact of any potential insolvency.

Reporting & monitoring

Monthly/quarterly finance and performance reviews

Legal and regulatory

The Group operates in a diverse number of territories and its businesses are subject to a number of complex, demanding and evolving legal, tax and regulatory requirements.

Potential impact

A breach of these local laws and regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business, ranging from additional costs incurred on a project to potential debarment and reputational damage.

Mitigation

The Group monitors and responds to legal and regulatory developments in the territories in which it operates. A territory's legal and regulatory framework is considered as part of any Group decision to conduct business in a new territory.

Reporting & monitoring

Monthly/quarterly performance reviews
Medium-term planning process

Strategic risks

Acquisition

The Group has made and continues to make acquisitions in pursuit of its strategic objectives.

Potential impact

Failure to identify acquired liabilities or to integrate successfully the business acquired into the Group's processes could result in an adverse impact on the Group's future prospects, financial condition and profitability.

Mitigation

Detailed due diligence including preparation of a valuation model is performed on all potential acquisitions drawing upon both internal and external resources. Due diligence also includes an assessment of the ability to integrate the acquired business successfully into the Group. When a business is acquired detailed integration plans are developed and monitored to ensure the successful integration of the business into the Group and its internal control framework.

Reporting & monitoring

Board/Divisional review and approval
Monthly/quarterly finance and performance reviews

Investments

The Group invests in a number of PPP and non-PPP infrastructure investments across the world. The success of such investments is dependent on a number of assumptions on future revenues and costs.

Potential impact

If any of the assumptions should prove to be incorrect they could have an adverse impact on the profitability of those investments.

The degree of leverage involved in these investments means that small changes in these assumptions could negatively impact the Group's equity investment.

Mitigation

All investment appraisals are conducted and managed by experienced personnel and those risks associated with revenues and costs are carefully analysed. Appropriate contractual and other risk mitigations are identified and established. The consequent delivery risk arising from an investment activity is managed by the selection of suitably qualified personnel and the careful selection of delivery and service partners.

Reporting & monitoring

Monthly/quarterly finance and performance reviews

Organisation and management risk

People

The success of the Group depends on its ability to recruit and retain the best management and employees.

Potential impact

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

Mitigation

Organisation and People reviews are undertaken by each division and its operating companies to review the role, competencies, performance and potential of personnel. This well-developed succession planning process includes a review in each operating company to identify and develop high potential/calibre personnel to fill key roles that arise. These plans are reviewed and discussed at all levels within the organisation and by the Board on a regular basis. Appropriate remuneration and incentive packages are in place to assist in the attraction and retention of key employees.

Reporting & monitoring

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

Business conduct

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

Potential impact

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

Mitigation

The Group has clearly set out in its Code of Conduct its expectations of employees and operating companies in dealing with its stakeholders. This was distributed to all employees and during 2010 e-learning continued to be used to raise awareness of the Code within the organisation.

Reporting & monitoring

Business Practices Committee
Monthly/quarterly performance and operations reviews

Information technology

The efficient operation of the Group is increasingly dependent on the proper operation, performance and development of its IT systems.

Potential impact

Failure to manage, integrate IT systems or implement successfully changes in IT systems could result in a loss of control over critical business information and/or systems.

This in turn could impact the Group's ability to fulfil its contractual obligations and manage its businesses.

Mitigation

Group IT works with divisions to set IT strategy and to ensure that business critical systems are being properly managed. Significant investments in IT systems are subject to Board review and approval.

Reporting & monitoring

Monthly/quarterly operations and performance reviews

Information security

The Group is exposed to potential information security threats to its own information and also that which it holds on behalf of customers (in particular, in respect of its facilities management customers).

Potential impact

A breach of information security or an improper disclosure of such information could expose the Group to adverse publicity, investigation and legal claims.

Mitigation

The Group has implemented minimum information security standards which divisions are expected to meet.

Reporting & monitoring

Monthly/quarterly operations and performance reviews

Financial and treasury risks

The Group Treasury function is responsible for managing the Group's funding, liquidity and treasury derivative risks. The Board sets and reviews the Group Treasury policy which prohibits entering into speculative trading of financial instruments. The principal financial risks managed by Group Treasury are finance and liquidity, treasury counterparty, contract bonds, currency and interest rate risks, details of which are set out below:

Finance and liquidity

The Group has no significant net borrowings and manages its cash resources to finance its operations and growth.

Potential impact

Failure to match availability of funds with the Group's current and future funding requirements could lead to a shortfall.

Mitigation

The Group's cash resources are maintained in a variety of cash, term deposits and money market funds of varying durations to ensure availability of funds to meet the Group's requirements.

In addition, the Group has in place a number of committed facilities of differing maturities to supplement its cash resources.

Reporting & monitoring

Finance and General Purposes Committee

Treasury counterparty

The Group is exposed by virtue of the deposits it holds with various financial institutions to the solvency of those financial institutions.

Potential impact

Failure of any financial institution with which funds are placed could lead to a loss of those funds.

Mitigation

Treasury counterparty risk is monitored regularly and limits based on a counterparty's credit rating are set as to the amounts and duration of deposits held in any one financial institution.

Reporting & monitoring

Finance and General Purposes Committee

Contract bonds

In the normal course of business the Group is sometimes required to provide performance bonds to its customers. These 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 the contract. Such bonds are provided, for a fee, by various financial institutions.

Potential impact

If the Group were unable to issue sufficient bonds in the future then its ability to grow the business (by providing such bonds in support of new work) may be constrained.

Mitigation

The Group maintains relationships with a number of financial institutions which provide performance bonds. The Group also reviews the level of headroom available with individual institutions and, where appropriate and necessary, will seek to negotiate increases in capacity.

Reporting & monitoring

Finance and General Purposes Committee
Monthly/quarterly finance and operations reviews

Currency

The global nature of the Group's activities means that the Company is exposed to currency exchange rate volatility in respect of those transactions which are in foreign currencies or on the translation of the net assets and income statement of its foreign subsidiaries and joint ventures.

Potential impact

Fluctuations in exchange rates could adversely impact the Group's results and net asset position.

Mitigation

Known foreign currency transactional exposures are managed by entering into forward foreign exchange contracts. The Group currently does not hedge its foreign currency exposures on the translation into sterling of profits or net investments in overseas subsidiaries.

Reporting & monitoring

Finance and General Purposes Committee

Interest rates

The Group has no significant borrowings other than PPP non-recourse term loans.

Potential impact

Changes in interest rates could impact cash flows and cause the Group to incur additional borrowing costs on its PPP non-recourse term loans.

Mitigation

PPP concessions use interest rate swaps to swap floating rate borrowings to fixed rates to mitigate changes in interest rates on cash flows.

Reporting & monitoring

Finance and General Purposes Committee

Pensions

The Group is exposed to funding risks arising from changes in longevity, inflation and investment assumptions in relation to its defined benefit pension schemes. At present there is an actuarial deficit in these schemes.

Potential impact

The amount of the deficit can be affected by a number of factors which would result in an additional funding requirement.

Mitigation

Measures to mitigate liabilities are under continuous review by the Group. The performance of the Group's pension schemes is regularly monitored by the Group and the trustees of the pension schemes who, as appropriate, take advice from external consultants.

Steps have been taken to restrict certain future increases in the principal defined benefit scheme's liabilities.

Agreement has recently been reached with the trustees of the principal fund for the Company to make additional contributions to reduce the deficit over eight years.

Reporting & monitoring

Investment committee of the Balfour Beatty Pension Fund

Board and Audit Committee review

Management review of asset/liability and investment strategy

Delivery and operational risks

Bidding

The Group, through its operating companies, seeks to win work through a large number of bids each year.

Potential impact

Failure to 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.

Mitigation

All bids are subject to rigorous estimating and tendering processes within a defined framework.

Defined delegated authority levels exist for the approval of all tenders and infrastructure investments, with all major and significant contracts being subject to Group review and approval by the Group Tender and Investment Committee.

Reporting & monitoring

Monthly/quarterly operations, performance and finance reviews

Joint ventures

In certain instances where the Group may not possess the necessary strengths/expertise it will engage in joint ventures with carefully selected partners to deliver certain contracts.

Potential impact

In the event of a disagreement with, or failure of, or poor performance of a joint venture to deliver, the Group could be exposed to financial and reputational risks.

Mitigation

The Group has procedures in place to ensure that joint venture partners selected have the relevant skills, experience, resources and values to complement those of the Group. The performance of joint venture partners is monitored throughout the life of the project.

Reporting & monitoring

Monthly/quarterly operations, performance and finance reviews

Service delivery

The Group is engaged in a number of complex design, engineering, construction, facilities management and asset management projects.

Potential impact

Failure to manage or deliver against contracted customer requirements to an appropriate quality and on a timely basis could result in a number of issues (ie contract disputes, unagreed claims, design issues, cost overruns, failure to achieve customer savings) which could adversely impact the profitability and reputation of the Group.

Mitigation

Each operating company has a number of defined operating procedures designed to address the risks inherent in project delivery. In addition, the Group's risk management framework facilitates the identification of specific risks on projects and the mitigating actions required. Projects are subject to management review at all levels to monitor progress and to review steps put in place to address specific risks identified on those projects.

Reporting & monitoring

Monthly/quarterly performance reviews

Health and safety *More information: see pages 66 and 67*

The Group is involved in significant, complex and potentially hazardous projects which require the continuous monitoring and management of health and safety risks.

Potential 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

Detailed Health and Safety policies and procedures exist to minimise such risks and are subject to review and monitoring by both operating companies and divisional management. Within each operating company there are experienced health and safety advisers who provide advice and support and also undertake regular reviews.

Reporting & monitoring

Monthly/quarterly operations reviews
Business Practices Committee
Group leadership meetings
Board review

Sustainability *More information: see pages 62 to 69*

The Group, through its activities, has the ability to impact either positively or adversely the world in which it operates and the communities with which it comes into contact. In addition, for a number of its customers the impact of projects in both the short term and the long term is a key consideration when evaluating bids. For example, failure to respond to the challenges of the low carbon economy could lead to the Group failing to win work.

Potential impact

Failure to address this risk and to execute projects in a sustainable manner could result in significant potential liabilities, reputational damage and not being able to win future work.

Mitigation

The Group has developed and implemented a sustainability strategy covering its operations until 2020 in terms of profitable markets, healthy communities and environmental limits.

Reporting & monitoring

Business Practices Committee
Sustainability Working Group

Supply chain

The delivery of a large number of the Group's contracts are dependent on the continued availability and effective management of sub-contractors and other service providers.

Potential impact

The failure of a sub-contractor to perform to an appropriate standard and quality could result in delays to a project and adversely impact the ability of the Group to meet its contractual commitments and its reputation.

Mitigation

The Group seeks to develop long-term relationships with a number of its key sub-contractors whilst at the same time not becoming over-reliant on any one.

As part of its selection criteria the Group seeks to partner with sub-contractors/suppliers which share its values.

Reporting & monitoring

Monthly/quarterly operations and performance reviews

OUR COLLECTIVE RESPONSIBILITY

Balfour Beatty is committed to making its success sustainable. The long-term success of our business depends on us fulfilling our responsibilities to all our stakeholders; our business strategy and sustainability vision are closely aligned.

Overview

Sustainability makes good business sense. That's why we have now been reporting on it for 10 years. It's why we have invested the time to understand the sustainability issues that matter most to our business and to our customers and the significant opportunities in the transition to a low-carbon economy.

Embedding sustainability in everything we do is now expected by our customers, our shareholders, our employees and the communities in which we operate. This applies to large and small projects alike.

Sustainability is not just about the environment, or a single issue like carbon. That is why our sustainability vision looks holistically at aligning profitable markets, healthy communities and environmental limits.

Our business continues to grow. As we are joined by more people from more cultures, our increasing size and scale mean we have a responsibility to embed sustainability thinking not just among our 50,000 people and in our own working practices, but across the wider 500,000-strong Balfour Beatty community made up of partners, contractors and suppliers.

As a market leader, we have a real opportunity to have a positive influence and ensure that sustainability is a collective responsibility, taken seriously across all stages of the infrastructure lifecycle.

Building expertise on sustainability issues underpins our growth ambitions and helps us deliver value. As new markets are driven by the move towards sustainable development, there will be tremendous opportunities for continued growth in areas such as renewable energy, rail infrastructure and greener building stock. The low-carbon economy is estimated to be worth over £100bn over the next 10 years in the UK alone and we are determined to take advantage of the exciting opportunities ahead.

Sustainability – Our 2020 vision

We believe that sustainability is a collective responsibility and are working together to develop and implement a sustainability strategy covering our global operations until 2020.

We aim to be a leader in sustainability and to play a significant role in helping our customers to make sustainable choices. We also recognise that the impacts of climate change, resource depletion and the expectation of our customers, investors, employees and society will continue to intensify.

During 2009, we critically evaluated and set out our sustainability vision and roadmap, outlining where we wish to be in 2020. The roadmap addresses 31 key issues grouped into 10 focus areas, and sets three critical milestones for each:

Minimum expectations by 2012 – mandatory first steps for all our operating companies

Excellence for 2012 – the goal for those pursuing best practice standards

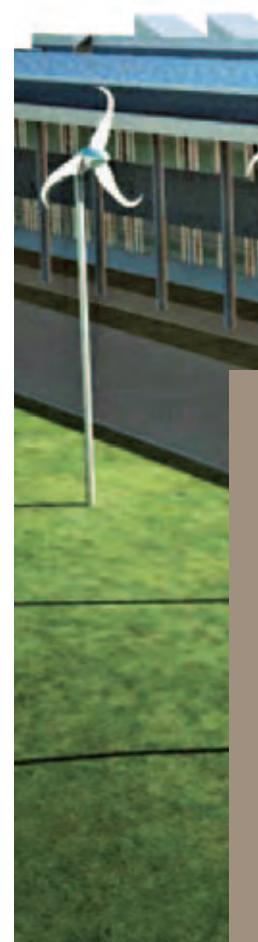
The aspirational goal for 2020 – providing a clear direction for their thinking and practices

Further milestones will be developed for 2015 and 2018. A renewed focus on sustainability, facilitated by the vision, positions us to manage non-financial risk better, to exploit opportunities for increasing efficiency and to enter new markets, and enhance our reputation as a leader in infrastructure development and management.

During 2010, a good deal of work has been undertaken to embed our sustainability vision, as well as our ethics and values, across all areas of the business. Embedding will continue in 2011 with a range of activities aimed at employees, including a Company-wide e-learning programme.

Where can I find more? Visit our Sustainability hub at collectiveresponsibility.net

Our 2020 sustainability vision aligns profitable markets, healthy communities and environmental limits.



Zero-carbon school: a lesson in sustainability

Buildings consume energy. In the US, where greenhouse gas emissions continue to rise, buildings account for 40% of energy use and 72% of electricity use*. For school administrations, energy is a major cost that they are eager to reduce. That's why Lady Bird Johnson Middle School (LBJMS) in Texas is attracting a lot of attention, even before it opens in August 2011.

It's the state's first 'net zero' public school, and the largest in the US. Net zero means it will generate all the energy it needs without using fossil fuels – on some days it will sell surplus power, eventually offsetting even the energy used to build it.

We are ideally qualified to build it: we are one of the largest educational building contractors in Texas, and have outstanding experience of working to Leadership in Energy & Environmental Design (LEED) standards. As US population growth and migration patterns mean rising demand for school buildings despite tight public budgets, the sustainability expertise showcased at LBJMS represents a significant growth opportunity for us.

By using the most energy-efficient materials and systems available, LBJMS will use about half the energy consumed by a typical middle school. Key features include high-efficiency insulation and glazing, rainwater harvesting and grey water systems, geothermal heating and cooling, 'light shelves' to reflect daylight deeper into the building, and automatic dimming and switching of lights.

The school will generate its own energy through rooftop solar panels and a dozen wind turbines alongside the building. The solar panels are designed to produce about 850,000kWh a year.

* Source: US Green Building Council.



"This has set a great example for schools across the country. We're going to see it becoming the norm because it cuts operating costs, it's an object lesson in sustainability for the students – and it's the right thing to do."

Mike Parkos, Senior Project Manager
John Miraldi, Superintendent
Balfour Beatty Construction, US



Self-sufficient Energy will come from rooftop solar panels and wind turbines.

Artist's impression



Linking our business strategy to the sustainability vision

The strategic priorities for the Group are highlighted on *pages 12 to 23*. To achieve this strategy, there is a clear connection with our sustainability vision and the risks and opportunities we face.

Business strategy	Sustainability context, risks and opportunities
1 Develop our business further	<p>Demand for sustainable infrastructure is creating new growth opportunities for us. Our 2020 vision and roadmap set out how we will meet our customers' expectations – and how we will ensure our businesses operate sustainably themselves.</p> <p>As we grow and enter more diverse markets, we need to ensure that all our employees make decisions that prevent us from conducting business unethically or being exposed to potential damage. Our Group values, Code of Conduct and ethics helpline will help us manage these risks.</p>
2 Focus on markets with the greatest opportunities	<p>We work on infrastructure assets across their entire lifecycle and increasingly our customers are asking us to deliver more sustainable solutions.</p> <p>The multi-billion pound low-carbon economy also presents us with significant opportunities in fields ranging from new nuclear generation to energy-efficient buildings. Renewable energy, rail and waste infrastructure and the increasing demand for integrated services in the water market are all areas of business that will increase in size and value to us.</p>
3 Improve operational performance and cost-effectiveness	<p>Adequate margins are a prerequisite for investment in long-term sustainability. We aim to operate more efficiently to remain a competitive and sustainable business.</p>
4 Continue to strengthen core skills	<p>Our customers in both developed and emerging economies are investing in increasingly complex projects requiring an ever broader range of skills.</p> <p>Our people management strategy needs to ensure that we have these skills, and that our future leaders can manage increasing complexity and change across a broader range of countries.</p> <p>Our ability to integrate a range of stakeholders relies on effective engagement with suppliers and provides us with an opportunity to innovate for more sustainable outcomes. We anticipate particular opportunities in the low-carbon economy.</p>
5 Continue to show leadership in values and behaviour	<p>As a market-leading business, we are intent on setting the industry standard for ethical conduct, safety and sustainability.</p> <p>Our Code of Conduct, ethics training and Zero Harm vision are essential markers of the standards we set for ourselves and, ultimately, our supply chain.</p> <p>We will differentiate ourselves by embedding sustainability into everything we do as a business by 2020. Over time, our leadership will result in sustainable infrastructure consistently being the best option from an economic, community and environmental perspective.</p>

Leadership and governance

We aim to be a leader in areas such as ethics, safety and the environment and believe that the long-term future of the organisation depends on it.

We have put in place a series of measures to ensure that we are managing the business to achieve those goals:

The Board sets policy and takes responsibility for the Group's non-financial performance, including issues relating to sustainability.

The Business Practices Committee, comprising non-executive Directors chaired by Mike Donovan, reviews these activities and provides guidance on future activity. More information is available on *page 83*. The main topics it considered during the year related to aspects of corporate responsibility including safety, sustainability, legal duties, people, community and ethical issues.

The Sustainability Working Group (SWG) is chaired by Mike Peasland, Chief Executive Officer, Construction Services UK and consists of senior managers with responsibility for Group policy and strategy on key issues. It meets at least four times a year. The membership of the SWG will be strengthened in 2011, when Peter Halsall joins the team from Halsall Associates, a specialist sustainability firm acquired by Parsons Brinckerhoff in October 2010.

Policies

Balfour Beatty has clearly stated policies and principles (available in full at www.balfourbeatty.com) for key issues such as:

Risk management

Safety and health

Environment

Human rights

Equal opportunities

Ethics and competitive behaviour

Within this framework, operating companies are required to develop specific policies and practices, relevant to their particular business.

Risk management

In addition to setting out the roadmap to achieve our sustainability vision, maintaining and building on our leadership position also involves the effective management of risks within the Group.

The Board is responsible for ensuring that risks are identified and appropriately managed across the Group.

Having a common set of Group values offers clear business benefits and will support the challenges of future growth.



Safety leadership course

UK/US

In 2010, over 350 senior managers took part in a course called Leading Change: Driving the Safety Agenda, honing their leadership skills to deliver Zero Harm in their businesses. We are extending the programme to the next tier of management, targeting 600 managers in all by the end of June 2011.



Responsibility for risk identification, analysis, evaluation, mitigation, reporting and monitoring rests with divisional/operating company management.

While risk management is a key driver for our sustainability vision, non-financial risk is also reflected in our Group-level risk management process (see *pages 55 to 61*).

Ethics and values

As an international infrastructure group, we operate in diverse markets.

We need to be certain that all who work for us are confident in their ability to make decisions that will consistently prevent the organisation from conducting business unethically or being exposed to serious risks.

We recognise that further growth could potentially stretch the boundaries of our businesses and their management teams and expose us to more risk. This has led to a lot of effort being focused on our Group-wide ethics and values programme, including our Code of Conduct, which aims to support our employees in making the right decisions and encourages all our employees to make our values second nature in their thinking.

We believe that having a common set of values that represent what we are as a Group and what we want to be recognised for will offer clear business benefits to us and support us through the challenges of future growth.

Our Code of Conduct has been issued to all levels of office-based staff across the Group. During 2010, they undertook online training, supported by targeted, in-person training where necessary, to ensure they fully comprehend the Code and the importance of ethical behaviour. This training course was produced in eight languages and completed by nearly 28,000 people.

A significant focus of our work during 2010 was preparation for the new UK Bribery Act, which is due to come into force in 2011. We believe our Code of Conduct already sets a standard appropriate for the Bribery Act, but the Act has created a new, strict liability criminal offence of failure by a commercial organisation to prevent bribery occurring. It is a defence for us to demonstrate

that we have 'adequate procedures' to prevent bribery and we have been working to ensure that the Group has such procedures in place.

As reported last year, and as a result of the settlement with the Serious Fraud Office, at the end of 2008 we appointed the Global Infrastructure Anti-Corruption Centre (GIACC) to report on our anti-corruption compliance programme. During 2010, GIACC continued its detailed review of our operating companies. This included reviewing Parsons Brinckerhoff (PB) for the first time, in the same way that all our other operating companies had been reviewed in 2009. GIACC's main conclusions are set out in our 2010 Sustainability Report.

Our sustainability vision in action

Profitable markets

We believe that sustainability will have a growing influence on our business, our customers and other stakeholders over the coming decade. It will therefore be a competitive issue in the marketplace. Through our leadership, we can influence the market so that sustainable infrastructure is consistently the best option.

We want our customers and investors to choose Balfour Beatty because we contribute to their long-term profitability through more sustainable infrastructure. Over time, we have seen growing numbers of customers wanting sustainability to be a key part of our service.

An example of this is a project to provide street lighting for Coventry City Council, which has delivered a number of technical innovations that will result in a 38% energy reduction across the city's street lighting stock. Our innovative use of remote dimming technology was one of the key, winning aspects of the bid.

We are seeking to meet the sustainability aspirations of our existing customers and entering new growth markets such as clean energy. We have also started to capture data on the profitable markets component of our roadmap.

In 2010, we estimated that our baseline revenues of recognised sustainable goods and services, such as LEED, CEEQUAL and clean energy, amounted to 22% of our total revenues. We also established for the first time in 2010 that 4% of our projects had agreed sustainability deliverables with the customer. We will continue to track both these indicators as measures of our effectiveness in growing our revenues through sustainability and in influencing our customers.

As we look to offer our customers more sustainable solutions, we have engaged our business development teams in a series of work-winning workshops to understand how we articulate and promote this.

We have established an energy forum to research and develop our approach to maximising new commercial opportunities across the Group from the transition to a low-carbon economy. These include offshore wind, carbon capture and storage, waste from energy facilities, new nuclear and developing the transmission network. In 2010, we were selected as preferred bidder on the world's largest offshore wind farm project at Thanet in the UK. On financial close, this will see us own, operate and maintain the offshore high-voltage transmission assets of the 300MW capacity scheme.

Smart streets dim the lights

UK

We are updating Coventry's 38,000 street lights and illuminated signs under a £230m PPP contract. With new lamp technology and a centrally-managed system that dims the lights when streets are quiet, we aim to cut Coventry's energy use for street lighting by 38% – with more savings to come over the 25-year life of our maintenance contract.



Parsons Brinckerhoff is currently advising the UK Government on its carbon capture and storage demonstration projects.

Influencing the market to adopt more sustainable outcomes will also help the long-term growth of our business. Balfour Beatty, for instance, is a strategic partner and sponsor of the development of the UK Green Building Council's sustainability leadership course in conjunction with Cambridge University.

More details on how we are meeting our customers' sustainability needs, how we have been influencing the wider sustainability agenda and communicating externally can be found in our separate 2010 Sustainability Report.

Healthy communities

People and communities are at the heart of our business.

Our pre-eminent concern is safety – protecting the well-being not only of our own people, but of everyone we come into contact with.

Our sustainability as a business depends on how successfully we recruit, develop and motivate our people, so this must be a priority too.

We, and our customers, also recognise that we have a wider responsibility to the local communities wherever we work. So we seek to make a long-term contribution to society through our community investment, as well as the infrastructure we create.

Health and safety

Our employees have a fundamental right to enjoy safe work and go home every day free from injury. In addition, no member of the public should be put at any risk from our activities. These two guiding principles underline our approach to health and safety, which is core to our own reputation and that of the industry.

By looking after our employees, we will encourage them to look after themselves and others affected by their activities, so that we strengthen our reputation as a trusted employer and supplier of high-quality, safe

services to our customers. Only by setting the highest standards for ourselves will we be able to retain the trust of our customers and the people using our infrastructure.

Indeed, our industry-leading safety performance helps differentiate our offering and maintains our licence to operate, particularly for customers with a similar focus on safety excellence.

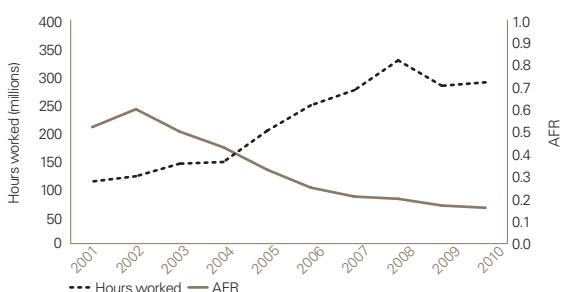
We have always set ourselves high standards in safety, but in October 2008 we went further still, committing to reach Zero Harm across all of our operating companies. The programme is now two years into its journey and Zero Harm thinking has been adopted and embedded across all our businesses.

In 2010, the Accident Frequency Rate was reduced from 0.17 to 0.16.

Regrettably, the Group experienced five fatalities during 2010 (four in the UK and one in Indonesia), compared to three in 2009. Safety has never had a higher profile than it does now, and these tragic incidents serve to remind us that despite our real commitment to Zero Harm, and the progress we have made, our goals are challenging.

A suite of assessment tools called Zero In has been developed to measure vital indicators for organisational readiness for Zero Harm. Pioneer businesses trialled the full suite of tools towards the end of 2010, ready for Group-wide rollout in 2011.

AFR/hours worked (employees and sub-contractors)



Governance of health and safety

Health and safety issues are reviewed by the Board and the executive team. Balfour Beatty requires all its operating companies to have formal safety management systems. These are subject to external audit.

Our people

We believe we have been successful at developing strong leaders for the business and establishing great careers for our people. However, as we become larger, more complex and more geographically spread we need to evolve some of these strategies.

Our new divisional structure creates the need for more focused senior leadership roles to manage increasing complexity, working in new markets and geographies and with new cultures and changing political and economic landscapes.

We have developed and published a leadership framework, which identifies the key areas we expect our leaders to focus on and sets out the values and behaviours we expect. All our businesses will consider how they use the leadership framework in their people management activities, demonstrating to our employees that there is, for the first time, a clearly-defined set of behaviours and expectations for our current and future leaders.

We have made significant steps towards our aim of enabling employees to see vacancies across the Group by launching our first online internal vacancy portal.

We have also developed a facility to allow employees whose current roles are coming to an end to upload their CVs through their HR teams so that our internal recruiters can view potential transferring employees to fill their vacancies.

Community engagement

We regard good corporate citizenship as an integral part of our business. We care about how our actions affect others and wish to contribute positively to communities wherever we work – not simply through the lasting infrastructure we leave for the public, but in our wider contribution to those communities.

We seek to engage fully with the communities and individuals directly impacted by our project work and appreciate the legitimate interests that many local communities have in the way we do business. By engaging with them, early and consistently, we can identify and deliver additional value through our projects.

Our customers increasingly wish to see our involvement with local communities shown in bid documentation. Providing local training and employment opportunities is now a key element in winning public sector work, and through the scale of our activities we can make a very positive contribution to communities.

Consultation with local people often involves leaflet drops, project websites, communication via social media and community discussions or exhibitions. Our larger projects have permanent community relations staff, ensuring that we liaise with key stakeholders regularly.

Giving a city street the kiss of life

US

Our US\$14m makeover will turn Denver's dowdy 14th Street into a vibrant cultural centre. But before work could start we had to broker a unique city/community partnership. Our film visualisation, showing how a revitalised street could add value, galvanised the community. Developers brought US\$4m to the table, and property owners agreed to fund the annual maintenance.



Community investment

We believe that employees who are more closely connected to their communities are more passionate about the work they do, so we have programmes to offer them the opportunity to make a significant and sustainable contribution.

In 2010, the Group donated over £2.8m to charitable causes around the world, including through The Balfour Beatty Charitable Trust which was set up in 2009 to mark our centenary year.

The aim of the Trust is to assist in providing appropriate financial assistance to a wide range of projects, designed by expert organisations, to help disadvantaged young people advance in life. In 2010, the Group donated a total of £358,000 to the Charitable Trust, with a further £152,000 generously donated by employees.

In the UK, through the Building Better Futures initiative, we continued working with The Prince's Trust to support their Community Cash Award and Development Award programmes and with Action for Children, providing disability learning equipment and supporting a young carers' fund. In 2010, the Charitable Trust also appointed Coram as a new charity partner. Coram works with vulnerable children, young people and their families and provides adoption, parenting advice, supported housing and family support and education. During the year, the Trust helped to fund Coram's adoption programme for hard-to-place children.

Outside the UK, the Trust has provided financial assistance to support Project H.O.M.E. in Philadelphia, US, a charity working to end homelessness. Through our professional services business, Heery International, the Trust has also provided support to CHRIS Kids, an Atlanta-based charity dedicated to healing children, strengthening families and building communities.

Additionally, our US operating companies donated over £1m to a variety of causes, including the United Way, Foundation Fighting Blindness, Save the Children's Haiti Emergency Relief, Make a Wish and the Children's Medical Center. Elsewhere, we contributed to Save the Children and Reach Italia Onlus, providing aid for children in developing countries.

We continue to sponsor the Balfour Beatty London Youth Games, Europe's largest youth sports programme. In 2010, we donated £282,000 for the 2010 Games and supported the development of the volunteering communications systems with £255,000. As title sponsor, we have committed a further £930,000 to the Games up to 2013, as well as running a volunteer programme for employees.

Environmental limits

We see clear business advantage in taking a leadership position on environmental issues, recognising the opportunities in helping customers reduce their own impacts and respond to environmental pressures.

Improving our own performance in areas such as carbon and waste reduction will reduce our costs. As customers increasingly consider environmental performance, from carbon footprints to ecology, in their purchasing decisions, a leadership position will give us competitive advantage.

2010 was the first year we have been able to set a global baseline for our environmental impacts. As our data collection systems have improved, and our understanding of these impacts has grown, we have reported increases in our CO₂, water and waste. Our challenge, and opportunity, is to reduce these impacts and achieve the 2012 targets in our sustainability roadmap.

Environmental factors are also creating new markets for us, from alternative energy generation and transmission to protecting assets from climate change.

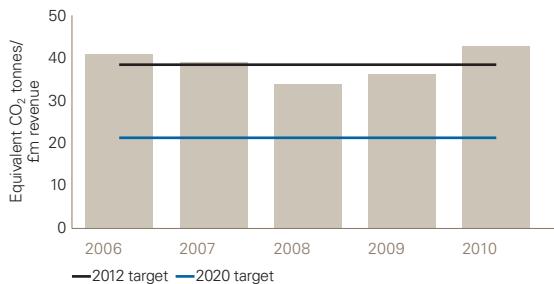
Energy, carbon and climate change

As well as reducing our own energy use, we see huge opportunities in helping customers to reduce their carbon footprints, build new low-carbon assets and protect existing assets from the impacts of climate change.

We continue striving to reduce our CO₂ emissions from our own buildings, project sites and transport fleets. We are also reducing the carbon embodied in the materials we use – for example, by replacing aggregates with recycled materials.

In 2010, we established a global baseline for our CO₂ emissions. CO₂ emissions relative to revenue from our vehicles, plant and buildings were 42.8 tonnes/£m, (2009: 36.3 tonnes/£m). Our target is a 10% reduction against the 2010 baseline by 2012 and 50% by 2020.

Global tonnes equivalent CO₂ per £m revenue excluding air travel



Some climate change impacts are unavoidable due to greenhouse gases already in the atmosphere. Increasing temperatures will affect material durability; higher rainfall and more intense storm events will bring more flooding. We need to consider these risks when designing and constructing to protect the value of our customers' assets and the assets we invest in.

Parsons Brinckerhoff, a recognised leader in climate change adaptation, is working on major studies for the US and Australian Governments. Our adaptation strategy for the UK Highways Agency is now being used as an example around the world and will be used to develop best practice in Balfour Beatty too.

We will continue to work on delivering our goal of a 10% carbon reduction by the end of 2012 and a 50% reduction by 2020 against a 2010 baseline.

Waste

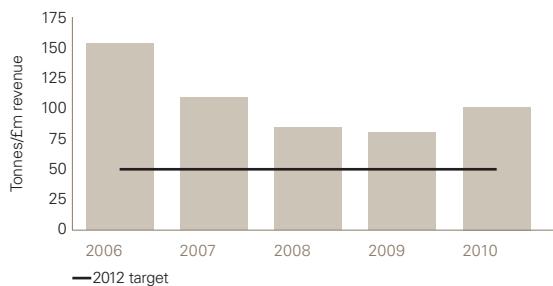
Having established a global baseline for our waste in 2010, we are now working on halving the total sent to landfill by 2012 and ultimately diverting all our worldwide project waste from landfill by 2020.

Waste disposal is a significant and rising cost. Reducing waste can help us to reduce project costs and meet customers' desire for lower environmental impacts.

Increasing waste regulation is creating a significant new commercial opportunity for us. In the UK, 30–40 municipal waste/energy from waste plants are needed within the next five years. This represents a market worth £8bn or more by 2015 in the UK alone.

We continue to seek opportunities to reduce, re-use, recycle and recover waste and to use recycled materials where possible.

Total relative weight global waste disposed to landfill tonnes per £m revenue



To drive re-use of waste we have also set a target of at least 25% of our major materials coming from recycled sources by 2012, where we specify the material. Major materials include concrete, aggregates, steel, aluminium and copper. During 2010, we achieved a 3.4% recycled content in the major materials we procured globally. This figure increased to 10% in the UK.

Developing good quality data for tracking the recycled content of our major materials will be important in 2011. We will continue to focus on our 2012 goals of halving waste to landfill per £m revenue against a 2010 baseline of 101 tonnes of waste to landfill per £m revenue and achieving a minimum of 25% recycled content of major materials (by value).

Materials

Sustainable materials management reduces costs as well as environmental impacts. Already, 75% by value of the timber we procure directly comes from recognised, responsible sources.

We continue to procure timber from recognised sustainable sources, including those certified by the Forest Stewardship Council (FSC) and the Programme for Endorsement of Forestry Certification (PEFC). Our target is 100% from responsible sources by 2012.

For the first time in 2010, we extended our data collection to track the sourcing of other major construction materials such as aggregates, concrete and steel. Where these schemes exist (UK and Europe) some 19% of our major materials (excluding timber) were from recognised, responsible sources. Our 2012 target is 25% (by value) from responsible sources worldwide, where such schemes exist.

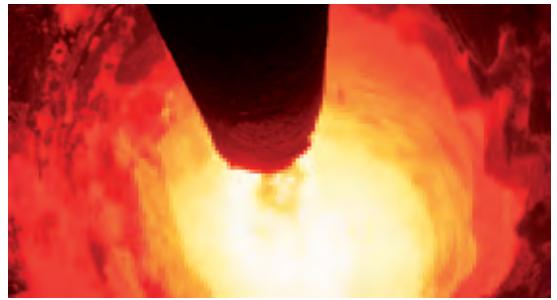
Engaging our supply chain on responsible sourcing will be a key element in becoming a more sustainable business.

As we work towards our 2012 targets we will continue to develop responsible-sourcing schemes and to

Hitting the road to zero waste

UK

We have committed to send zero waste to landfill by 2020. Impossible? On our A46 road improvement project we are already there. The last of our waste streams is now being converted to fuel – appropriately, to fire cement kilns used to supply cement to the scheme.



encompass a wider range of construction materials in the UK and possibly elsewhere.

Water

Almost half the world's population will be living in areas of water stress or scarcity by 2030. Delivering sustainable water solutions is a growth market and we will take a lead by developing a water footprinting tool in 2011. We see growth opportunities from integrated service offerings in desalination, treatment and distribution; urban water run-off collection; and detection and repair of leaks.

Our focus has also been to reduce water usage in our premises (for example, through self-closing taps, waterless urinals and staff awareness campaigns) and on construction sites (for example, capturing rainwater for vehicle/plant cleaning, concrete batching and dust suppression). Our site accommodation cabins can also be supplied with rainwater harvesting systems.

We seek to provide new buildings with water-saving technologies such as grey water recycling and use of rainwater harvesting techniques.

We will continue working to reduce direct use of water per £m revenue by 10% by 2012 against a 2010 baseline of 233.3m³/£m revenue.

The water embodied in the materials we use or consume is likely to be much greater than our direct consumption. In 2011, we will develop a unique footprinting tool to help us determine where reductions can best be made.

Environmental governance

Strategic environmental issues are reviewed by the sustainability working group. An environmental managers' forum reviews key topics and shares best practice across the Group. Environmental performance is audited regularly and Group-wide statistics are collated to measure the Group's major environmental impacts.

Five minor environmental incidents resulted in enforcement action and fines in 2010 (2009: 7) totalling £11,000 equivalent. All these minor incidents took place in Singapore for potential mosquito breeding sites, exceeding noise limits and site drainage. Corrective actions have been completed for each violation.

THE INFRASTRUCTURE BUSINESS

OUR GOVERNANCE



Our governance

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CHAIRMAN'S INTRODUCTION



"A good measure of a company is the stance it takes on corporate governance. We believe in applying the highest standards."

Steve Marshall
Chairman

Areas of focus in 2010

- Adoption of new UK Corporate Governance Code
- Induction of two new non-executive Directors
- Remuneration review

Areas of focus in 2011

- Board composition, evaluation and continuous improvement
- Enhanced investor relations programme

Dear Shareholder

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

The UK Corporate Governance Code (the "Code") published in June 2010, has been welcomed by your Board who decided to implement all the provisions in 2010 rather than delaying implementation until this year. This included a decision to put forward all the Directors for annual re-election at our Annual General Meeting in May 2011.

The Code's change of tone, signalling the importance of general principles guiding Boardroom behaviours, is particularly welcomed, as is the continuing validation of the 'comply or explain' principle.

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

Leadership and effectiveness – The formulation of the Group strategy, the preparation of the medium-term performance review, the approval of the annual budget and health and safety are key areas of focus for the Board during each annual meeting cycle. In addition, the Board undertakes a pivotal role in setting the values and the ethical standards the organisation employs. Further information on these values and ethical standards is set out on *pages 65 and 66* and is also contained in the Company's 2010 Sustainability Report which is being published this year for the first time to coincide with the release of this report.

In pursuing the principle that non-executive Directors should constructively challenge and help in the development of strategy, we have reviewed the way our non-executive Directors engage with our operating companies across the Group. For further information on this, I refer you to *page 79* of this report.

Non-executive directors bring with them a wealth of experience gained from a variety of different professional backgrounds. During 2010, we further strengthened the Board with the appointments of Iain Ferguson and Robert Amen, both of whom bring with them significant experience of running complex international businesses, in Robert's case in the US, which is an important market for Balfour Beatty.

Accountability – The Company's policies and procedures are all geared towards enabling the Board to present a balanced and understandable assessment of the Company's position and prospects. In 2010, we carried out a review of our risk management and assurance reporting structure to ensure it properly

accommodated the creation of the new organisational structure. Further details are given on *pages 80 and 81*.

Remuneration – Our last strategic review of executive remuneration was carried out in 2005 and since then, the scale, scope and complexity of our business has changed significantly. The acquisition of Parsons Brinckerhoff in late 2009 also now gives the Group a presence across the whole lifecycle of major infrastructure assets on a global basis. Although your Board considers that the remuneration policy has operated successfully over the intervening years and has helped to drive performance, we now have a very different organisation which competes over a range of large, complex and international businesses. The Remuneration Committee has therefore conducted a full review of the remuneration policy and has engaged over the past few months with the Company's principal institutional shareholders. The proposals arising from this review are being presented to shareholders at the 2011 AGM. For more details on the proposed new policy, please refer to the Remuneration Report on *pages 90 to 93* and the Notice of AGM.

Relations with shareholders – Engagement with our investors, amongst other stakeholders, is critically important and in recognition, we revitalised our investor programme in 2010 and this will continue to be strengthened during 2011. We appointed a Head of Investor Relations during the year, a new role at Group Head Office, which we believe will encourage even greater connection with our investors. One of the highlights of our investor programme in 2010 was the successful investors' seminar held at the end of November which aimed to strengthen investors' understanding around the Group's focus on infrastructure services. Further information on our investors' programme is given on *pages 86 and 87*.

We are also taking initiatives to build the level of shareholding amongst US investors in recognition that a significant proportion of our overall business is conducted in the US, or is driven from the US, through Professional Services headquartered in New York.



Steve Marshall
Chairman

How our Board is structured

Board

Group strategy
Annual budgets and financial reporting
Interim and final dividends

Major acquisitions, disposals and capital expenditure
Corporate values and ethical standards
Management performance
Risk management and assurance

Audit Committee	Remuneration Committee	Nomination Committee	Business Practices Committee	Group Tender and Investment Committee	Finance and General Purposes Committee
Financial statements	Remuneration strategy and policies	Structure and composition of Board	Corporate values, ethics and Codes of Conduct	Major contract bids	Banking facilities and other arrangements
Financial controls	Remuneration packages	Appointment of non-executive Directors	Health & safety	Acquisitions and disposals	Share options
External auditor	Incentive plans	Succession planning and talent management	Sustainability	Capital expenditure	Share buy-backs
Internal audit			Whistleblowing		
Risk management and assurance					

BOARD OF DIRECTORS



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Chairman and Executive Directors

1 Steve Marshall

Non-executive Chairman

Age 54. Appointed a Director in 2005 and Chairman in May 2008. He is a non-executive director of Halma p.l.c., and a former chairman of Delta plc, Torex Retail plc and Queens' Moat Houses plc. He was chief executive of Thorn plc and of Railtrack Group plc, 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 plc, Black & Decker, BOC and Burton Group. He is a Fellow of the Chartered Institute of Management Accountants.

2 Ian Tyler

Chief Executive

Age 50. 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 Ltd, one of its principal subsidiaries. Appointed as a non-executive director of Cable & Wireless plc in January 2011. He was formerly a non-executive director of VT Group plc. He is president of Construction Industry Relief, Assistance and Support for the Homeless Ltd, the construction and property industry charity for the homeless. He is a chartered accountant.

3 Anthony Rabin

Deputy Chief Executive

Age 55. A Director since 2002, he became Deputy Chief Executive in 2008, having previously been Finance Director. He is responsible for the Group's worldwide infrastructure investments business, having previously been managing director of Balfour Beatty Capital. Prior to joining the Group in 1995, he was a partner at Coopers & Lybrand and before that, a senior assistant director at Morgan Grenfell. He is a chartered accountant and a barrister.

4 Andrew McNaughton

Chief Operating Officer

Age 47. Appointed to the Board as Chief Operating Officer in 2009. He joined Balfour Beatty in 1997, having spent 12 years with the Kier Group, and held the position of managing director of Balfour Beatty Civil Engineering from 2004 to 2007, when he became Group managing director with responsibility for civil engineering in the UK and the Group's interests in the Middle East. He is a chartered civil engineer, a Liveryman in the Worshipful Company of Engineers and Vice-President of the Institution of Civil Engineers.

5 Duncan Magrath

Finance Director

Age 46. Appointed to the Board as Finance Director in 2008. He joined Balfour Beatty in 2006 as Deputy Finance Director from Exel plc, where he was director of investor relations and financial strategy, following a number of senior financial roles in the UK and US. He is a chartered accountant.

6 Peter Zinkin

Planning and Development Director

Age 57. 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.



7 8 9 10 11 12

Non-executive Directors

7 Robert Amen

Non-executive Director

Age 61. 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, Robert spent over 25 years at International Paper Company in a succession of roles culminating in his appointment as president and member of the board. He was also a director of Wyeth, the US pharmaceutical and healthcare company, until its acquisition by Pfizer in October 2009. A US national, he currently serves as an executive-in-residence at Columbia Business School.

8 Mike Donovan

Non-executive Director

Age 57. Appointed a Director in 2006. He was most recently chief operating officer of Marconi plc from 2001 to 2005. Prior to that, he was chief executive officer of Marconi Systems and was previously responsible for managing major divisions of British Aerospace, Vickers and the Rover Group.

9 Iain Ferguson CBE

Non-executive Director

Age 55. Appointed a Director in 2010. Until 2009, he was chief executive of Tate & Lyle PLC. Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever PLC in a succession of roles culminating in his appointment as senior vice president, corporate development. He is a non-executive director of Greggs plc and Berendsen plc and is chairman of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office. He is also lead independent director at the Department for Environment, Food and Rural Affairs. He was formerly a non-executive director of Sygen International plc.

10 Hubertus Krossa

Non-executive Director

Age 63. Appointed a Director in 2008. Until 2008, he was chief executive officer of KION Group GmbH, a leading international material handling equipment manufacturer. Prior to that, he spent seven years on the main board of Linde AG, the worldwide producer and supplier of industrial and medical gases. He was previously a member of the European management board of Whirlpool Europe and was also chairman of its German operating company, and has previously held non-executive directorships in the UK for Wassall plc and Thorn Lighting Group. He is currently chairman of the supervisory boards of Eckelmann AG and Bauknecht Hausgeräte GmbH and deputy chairman of United Power Technology AG.

11 Graham Roberts

Non-executive Director

Age 52. Appointed a Director in 2009. He is finance director of The British Land Company PLC. Prior to joining British Land in 2002, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors. He is a chartered accountant.

12 Robert Walvis

Senior Independent Director

Age 64. Appointed a Director in 2001. He was previously with the Royal Dutch Shell Group, latterly as chairman of the Global Corporate Centre. He is a non-executive director of Associated British Ports Holdings Limited and Johnson Matthey plc, and chairman of the supervisory board of Allianz Nederland Groep NV.

DIRECTORS' REPORT

Compliance with the Code

The UK Listing Authority requires listed companies to disclose in relation to Section 1 of the Combined Code issued by the Financial Reporting Council which is appended to the UK Listing Rules, how they have applied its principles and whether they have complied with the requirements of the UK Listing Authority relating to the provisions of the Combined Code throughout the accounting period. The Company has complied with the requirements of the UK Listing Authority relating to the provisions of the Combined Code throughout the accounting period, other than in respect of:

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

Notwithstanding that the new UK Corporate Governance Code does not apply for accounting periods commencing prior to 29 June 2010, the Board has determined to apply its principles immediately. In accordance with the Code, all of the Directors will retire at this coming AGM and being eligible, offer themselves for re-election or, in the case of Mr Amen, for election as this will be the first AGM following his appointment. Mr Ferguson was elected at the AGM in 2010 following his appointment on 1 January 2010.

Director's independence

At its meeting in September, the Board considered the position of Robert Walvis, Senior Independent Director, who completed nine years of service on the Board in September 2010. As required by the Code, the Board specifically considered those factors which they believed were relevant in determining whether Mr Walvis should continue to be regarded as being independent. The following factors were taken into consideration in determining that Mr Walvis would continue to be regarded as independent:

Constructive challenge

The Board considered the strength of his engagement and the robustness of his challenge and critique around the boardroom table. He has participated in an ad hoc group of executive and non-executive Directors who have been assessing the development of the Company's strategy and, in his role as Senior Independent Director, he has provided an effective sounding board for the Chairman and the other Directors who value the insight he brings to a range of topics.

As Chairman of the Remuneration Committee, Mr Walvis has also displayed independent leadership in the development of the executive remuneration policy over a number of years and in its application on a fair and consistent basis. There have been no significant concerns raised by shareholders over this period on the nature and extent of executive pay-outs and the various incentive schemes and relationships have remained positive throughout, including the most recent consultation on the remuneration review, the proposals for which will be presented to shareholders at the 2011 AGM.

Remuneration

Mr Walvis receives his basic non-executive Director's fee of £52,000 per annum plus a £10,000 per annum supplement covering his additional responsibilities as Senior Independent Director and chairman of the Remuneration Committee. He receives no other financial incentives and his remuneration is not considered excessive in the context of directors' fees paid in FTSE 250 companies nor in the context of his overall income. His fees were last reviewed in June 2010.

Shareholding

At 31 December 2010, Mr Walvis held 14,285 ordinary shares and he also had an interest in a further 938 ordinary shares held by the Craven Arms Investment Club, of which he is a member. His interest in Balfour Beatty shares is not considered substantial.

Conflicting interest

As at 1 January 2011, Mr Walvis had disclosed the following interests which were approved by the Board at its meeting in January 2011 and none of these were thought to conflict with his role as a member of the Balfour Beatty Board:

- Associated British Ports Holdings Limited – non-executive director
- Johnson Matthey plc – non-executive director
- Allianz Nederland Groep NV – supervisory board chairman

Other

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

At its Board meeting in March 2011, 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 12 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" on [page 77](#). The Directors believe that the Board continues to include an appropriate balance of skills and retains the ability to provide effective leadership to the Group.

Matters reserved for the Board

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

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

The Board reviewed its list of reserved matters in 2010 and, most recently, at its meeting in March 2011. 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 80 to 84*.

Board composition

The names of the Directors at the year-end are shown on *pages 74 and 75* together with brief biographical details. Full details of Directors' service agreements, emoluments and share interests, are shown in the Remuneration Report commencing on *page 89*.

Iain Ferguson and Robert Amen were appointed as non-executive Directors on 1 January 2010 and 10 June 2010 respectively.

Gordon Sage retired from the Board on 31 December 2010.

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

- Strategic development
- Operating performance and delivery
- Mergers and acquisitions
- Business integration
- Financial management and planning
- Experience of international markets
- Health and safety
- Risk management and assurance
- HR management
- Stakeholder engagement
- Ethics, values and culture

Chairman and Chief Executive

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

Specifically, their roles comprise the following principal responsibilities:

Chairman

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

Steve Marshall spends an average of two days per week on the business of the Company. The Board considers that his other commitments are not of such a nature as to hinder his duties as Chairman.

Chief Executive

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

Senior Independent Director

Robert Walvis is the Senior Independent Director, and his principal responsibilities are to ensure that the views of the other non-executive Directors are properly considered and to provide an additional communication channel between the non-executive Directors and the shareholders and other stakeholders, as required.

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 2006), the deferred bonus plan and share options, are set out in the tables in the Remuneration Report commencing on *page 89*.

There have been no changes in their respective interests since 31 December 2010.

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 unchanged from previous years.

Papers are generally sent out at least three business days in advance of the meeting. The papers include a written report from each of the Chief Executive, the Chief Operating Officer, the Finance Director, and the Director of Safety, Health and the Environment. At the meetings, oral reports are made on issues arising from the written reports and both these and other matters of immediate interest or concern are discussed by the Board, for example mergers and acquisitions activity.

The Company Secretary is responsible for advising the Board on appropriate governance matters, ensuring good information flow and for ensuring that Board procedures are followed. He also provides updates on legal matters of relevance to the Group and is available to individual Directors for advice on Board procedures.

2010 meeting programme

Four Board meetings in 2010 were held at the Company's head office, whilst six meetings were held elsewhere. Each 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 the opportunity is taken, on some of these occasions, to discuss pre-determined developmental themes, led by one of the executive Directors, other senior managers or a specialist external speaker. For example, in 2010, the themes included new business development, investor relations and board practices.

The following topics were also addressed by the Board during 2010 under the themes identified, in addition to the standing agenda topics comprising monthly updates from the Chief Executive, the Chief Operating Officer and the Finance Director, as well as reports on health, safety and environment, risk management and assurance, and succession planning.

Finance

- Budget 2010
- Annual and half-year financial reports
- Capital structure and financing

Operational performance

- Business reviews:
 - Professional Services
 - Construction Services UK, including a major project review
 - Support Services, including utilities
 - Infrastructure Investments
 - Rail
- Shared services and procurement – operational effectiveness

Strategy

- Group strategy – strategic development priorities
- Medium-term performance review
- Organisational design
- Infrastructure Investments

Communications

- Investor relations
- Government affairs

Mergers and acquisitions

- Halsall – Canada

Corporate governance

- Board evaluation including operation and administration
- UK Bribery Act
- UK Corporate Governance Code
- UK Stewardship Code
- Non-executive Director independence

2010 Board and Board Committee meetings

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

Name of Director	Board	Audit	Business Practices	Nomination	Remuneration
R M Amen ⁽²⁾	6 (6)	2 (2)	2 (2)	0 (0)	
M J Donovan	10 (10)	4 (4)	3 (3)	1 (1)	
I G T Ferguson ⁽³⁾	9 (10)		3 (3)	1 (1)	4 (4)
G E H Krossa	10 (10)	4 (4)	3 (3)	1 (1)	4 (4)
D J Magrath	10 (10)				
S Marshall	10 (10)		2 (3)	1 (1)	4 (4)
A J McNaughton	10 (10)				
A L P Rabin	10 (10)				
G C Roberts ⁽⁴⁾	9 (10)	3 (4)	1 (2)	0 (1)	1 (1)
G H Sage ⁽⁵⁾	7 (10)	3 (4)		1 (1)	4 (4)
I P Tyler	10 (10)			1 (1)	
R J W Walvis	10 (10)	4 (4)		1 (1)	4 (4)
P J L Zinkin	9 (10)				

Notes:

(1) The number shown in brackets is the total number of meetings the Director could attend either following his appointment during the year or as a result of changes to Committee memberships.

(2) Mr Amen appointed on 10 June 2010.

(3) Mr Ferguson appointed on 1 January 2010.

(4) Mr Roberts joined the Remuneration Committee on 9 November 2010 on stepping down from the Business Practices Committee.

(5) Mr Sage retired on 31 December 2010.

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

Board development Induction

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

Professional development

The Directors' induction programme is supplemented throughout the year by a series of internal and external updates, including visits to operating companies to meet local management and visits to Balfour Beatty projects, both in the UK and overseas.

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

In 2010, a different approach was taken in relation to the programme of visits organised for non-executive Directors. Key themes were identified which enabled Directors to gain a better understanding of the business, how it operates and its principal strategic issues.

The principal themes which were explored during the visits were:

- Facilities management strategy
- Rail international – strategy for future growth
- Building – what comes after health and education?
- Engineering and maintenance – a business integration review
- Civil engineering – what should the strategic focus be after highways?
- Infrastructure investments
- Professional services, including the integration of the UK business
- US market – Professional services review

Eight visits were organised in 2010, including visits to Parsons Brinckerhoff in the US and Balfour Beatty Rail International in Switzerland. A similar programme is being planned for 2011.

As part of the ongoing "refresher" training provided to non-executive Directors, visits are also organised to specific operating companies. For example, providing Directors with a thorough understanding of the design-build projects lifecycle process, including identifying those "drivers" out of which profitable performance can be generated.

Board evaluation

The last time an external evaluation had been carried out was at the beginning of 2010 in respect of the 2009 financial year. This was conducted by an external consultant, Boardroom Review. This was designed to assess the quality of the Board's decision-making and debate, its overall contribution to, and impact on, the long-term health and success of the Company and its preparation for future challenges. The evaluation was conducted over three months and was completed in March 2010. Confidential interviews were undertaken with each of the Directors and other members of the senior management team as well as observation of Board and Remuneration Committee meetings and a review of Board and related papers. Boardroom Review's report summarising the conclusions was discussed at the Board in March 2010. The principal conclusions are outlined below:

The Board rated highly in its impact on, and contribution to, the success of the Company. Three areas of significant strength were highlighted:

The work of the Board

Including the strategic focus, the use of targeted visits, the work of the Committees and the Board's approach to remuneration.

Board culture and dynamics

Including Board size and balance, Board dynamics, the Chairman's leadership and the leadership of the executive management team.

Board structure

Including the structure of the Board's agenda.

Given the Board's desire for continuous improvement, there were three themes arising from the review which the Board considered it wanted to address in order to enhance further its effectiveness over the longer term and these themes are:

Business model

The Company has to date benefited from a clear vision and direction and an appropriate and enabling infrastructure. However, the growth rate and management of an increasingly international and complex group and the market environment, present particular issues for Directors.

Risk management

Risk management is seen to be an essential operational focus throughout the Group and there is a range of priorities regarding key risks including market instability, changing regulation and increasing competition. These various priorities influence the development of strategy and its risk profile, executive targets and corporate culture, as well as influencing how the Board allocates its time.

Corporate culture

Although financial and operational stability is important, management of the less tangible (and less visible) aspects of the Company is vital to its future health and achievement of its strategic objectives. The Board's understanding of the factors which bind people together and the stewardship of intangible influences on performance management, ethics, HR, retention and succession, will help to maximise the benefits associated with the Group's culture and history.

In addition, the Company Secretary conducted a separate series of interviews with the Directors in August 2010 on Board procedures and administration matters, the conclusions of which were shared with the whole Board in September 2010. Key issues discussed included:

- Agenda
- Papers and timing of issue
- Quality and length of papers
- Board dinners

In 2011, the Board is conducting its own internal evaluation, using an online structured questionnaire covering the Board and its principal Committees. The questionnaires have been supplemented by individual interviews with the Directors carried out by the Company Secretary, where appropriate, and the findings summarised for the Board. The Chairman will also meet with each of the Directors. The output from the evaluation process will be reported in the 2011 Directors' Report. Key themes emerging from this evaluation process reinforce elements of the work already being undertaken by the Board arising from the 2010 evaluation.

Board Committees
Audit Committee



Graham Roberts – chairman

Meetings in 2010: 4

Members

Graham Roberts – chairman

Robert Amen (from 10 June 2010)

Mike Donovan

Hubertus Krossa

Gordon Sage (retired 31 December 2010)

Robert Walvis

Responsibilities

Financial statements

Financial controls

External auditor

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 (formerly "Smith Guidance"). The terms of reference were approved by the Board in October 2003 and updated most recently in November 2010. The main responsibilities of the Audit Committee are summarised below:

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

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

At the invitation of the Committee, partners from the external auditor, the Head of Group Risk Management and Assurance, the Deputy Chief Executive and the Finance Director regularly attend each meeting. In addition, any independent non-executive Director who is not a Committee member has an open invitation to attend meetings.

In 2010, the Committee's work programme comprised the following principal topics in addition to the standing agenda items:

February

- 2009 annual report and accounts and preliminary results announcement
- Accounting for the acquisition of Parsons Brinckerhoff
- Pensions
- Key contract valuation and accounting judgements
- Non-audit fees
- Directors' PPP valuation
- Risk management and assurance
- Commissions
- Dishonest behaviour incidents
- Annual review of internal audit work and findings
- Directors' expenses
- External audit partner rotation

May

- iXBRL compliance (new HMRC tax filing requirements)
- IFRS 9 Financial Instruments
- External audit: key risks, IFRIC 12, auditor independence, audit fees, interim review
- Consideration of fraud (as part of the external audit planning process)
- Internal audit – Parsons Brinckerhoff
- Risk management and assurance (in light of the new risk profile of the Group with the growth of Support Services and Professional Services)
- Results of the external review of the effectiveness of the internal audit function (conducted by a third party) the results of which confirmed that the function was fit for purpose

August

- 2010 half-year financial report

November

- Non-audit services review
- Accounting Practices Board ethical standards for auditors (published in July 2010)
- The triennial valuation of the Balfour Beatty Pension Fund
- External audit scope applied to Group companies
- Internal audit plan – 2011
- Risk management and assurance review of new Group organisational structure (move to divisional structure)
- Annual review of the work of the Committee and its terms of reference

Throughout 2010, the Committee has continued to review the Group's risk management and internal control systems and processes. As a result, the Committee recommended to the Board that it could properly conclude that the Group continued to maintain sound systems of risk management and internal control and that a review of the effectiveness of these systems had been completed.

External auditor independence and effectiveness

To assess the independence and effectiveness of the external auditor, Deloitte LLP, the Committee carries out a formal review annually comprising the following elements:

Non-audit work

Compliance with the Group policy is tested each year. At each meeting, the Committee also reviews the non-audit work which has been carried out by the external auditor and that planned, together with the associated fees. The objective set out in the Company's policy is to ensure that the external auditor is not placed in a position where their 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, they are required to report directly on their own non-audit work;
- they make management decisions on behalf of the Group;
- they act as advocates for the Group; or
- the level of non-audit fees is such, relative to audit fees, as to raise concerns about their 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 Accounting Practices Board (APB) standards and the Company's policy.

The APB published, in 2010, new ethical standards for auditors leading to greater disclosure and transparency. The Committee considered the changes and concluded that no adjustments were required to the existing policy and that there were appropriate checks and balances in place.

In 2010, the external auditor was appointed to carry out non-audit related work, principally in connection with the post-acquisition fiscal restructuring following the acquisition of Parsons Brinckerhoff in October 2009. Other non-audit work carried out by the external auditor during 2010 related, in the main, to tax advice/compliance in Europe and the US. The Committee considers that the Company receives particular benefit from the advice provided by its external auditor, given their wide and detailed knowledge of the Group and its international operations. The majority of non-audit related work was carried out using the services of other major international audit firms.

Annual internal assessment

A detailed internally prepared assessment of the previous year's external audit process, together with any identified improvement recommendations. In carrying out this assessment, each 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 is also carried out by the external auditor in consultation with the operating companies using a structured questionnaire. In addition, the Audit Committee participates in responding to the questionnaire.

Having completed its review and having received their formal statement of independence, the Committee is satisfied that the external auditor remains independent of the Company.

The Committee has recommended that the Board proposes to shareholders that Deloitte LLP continue as the Company's external auditor and will review the proposed audit fees and terms of engagement in May 2011.

External auditor rotation

Audit partners are rotated every five years. The advisory partner changed in 2010 and the audit engagement partner will change 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; or
- where conflict of interests had been identified.

Nomination Committee



Steve Marshall – Chairman

Meetings in 2010: 1

Members

Steve Marshall – Chairman
Robert Amen (from 10 June 2010)
Mike Donovan
Iain Ferguson
Hubertus Krossa
Graham Roberts
Gordon Sage (retired on 31 December 2010)
Ian Tyler
Robert Walvis

Responsibilities

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

In 2010, the Committee’s work programme comprised the following principal topic:

Recruitment of non-executive Director:

- An external search consultancy was engaged to seek candidates to join the Board as a non-executive Director who had current or recent experience as a chief executive of a public company and who had business experience principally in the US. The Committee reviewed candidates as presented by the consultancy and Committee members were involved in the interview process before making their recommendations to the Board. All members of the Board were given the opportunity to meet Robert Amen prior to his appointment.

Non-executive Directors are appointed for specific three-year terms and it is part of the terms of reference of the Nomination Committee to review all appointments of non-executive Directors at three-yearly intervals, or as near to that as is practicable and make recommendations to the Board accordingly.

The Committee will carry out a review in 2011 of the skills and experience requirements for non-executive Directors, including developing an approach to diversity, in light of recent proposals for increasing the representation of women on company boards.

Remuneration Committee



Robert Walvis – chairman

Meetings in 2010: 4

Members

Robert Walvis – chairman
Iain Ferguson
Hubertus Krossa
Steve Marshall
Graham Roberts (from 9 November 2010)
Gordon Sage (retired 31 December 2010)

Responsibilities

Remuneration strategy and policies
Remuneration packages
Incentive plans

Information about the workings of the Committee during the financial year is set out in the Remuneration Report commencing on *page 89*.

Business Practices Committee

Mike Donovan – chairman



Meetings in 2010: 3

Members

Mike Donovan – chairman

Robert Amen (from 10 June 2010)

Iain Ferguson

Hubertus Krossa

Steve Marshall

Graham Roberts (until 9 November 2010)

Responsibilities

Corporate values, ethics and Code of Conduct

Health & Safety

Sustainability

Whistleblowing

The Committee focuses significant attention on values, the Group's Code of Conduct and the training which will ensure that the Group's business principles are properly embedded throughout the business. This focus follows the settlement with the Serious Fraud Office in October 2008 and the subsequent appointment of an external monitor, further details of which are set out in the separate 2010 Sustainability Report. In addition, the new UK Bribery Act and the actions needed in order to ensure compliance with this Act, was a particular area of focus for the Committee in 2010.

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

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

March

- Ethics and compliance: In addition to further work on embedding the Code of Conduct across the Group, including within Parsons Brinckerhoff, the compliance function's focus has turned to the procedures, controls and assurance necessary to ensure compliance with the Company's policies.
- Whistleblowing cases and their resolution.
- GIACC monitor: The Committee reviewed the work of the external monitor, Neill Stansbury of GIACC, covering the period from November 2008 to December 2009, the conclusions from which were embedded in Mr Stansbury's annual report to the Serious Fraud Office. His report concluded that the Balfour Beatty Code of Conduct and the underlying processes were, in his view, significantly ahead of market practice.
- Group Minimum Commercial Expectations (GMCEs): These are a series of processes designed around best practice commercial standards and have been internally developed and adopted across the Group, including within a number of joint ventures and partnerships. These provided a benchmark against which commercial requirements could be measured and set the minimum standards which Balfour Beatty would be prepared to operate under. It was expected that the GMCEs would lead to enhanced standards and improved commercial practices.

- HR Measures: Quantitative data was received relating to employee numbers, employee profiles and other measures including age distribution, absence levels, graduate "churn" and the output from the Group succession planning processes.
- Community engagement: The Group theme is focused around the young disadvantaged and details of the community programme are included in the separate 2010 Sustainability Report.

July

- Anti-bribery legislation in the UK and US
- Managing government affairs in the US
- Sustainability, including proposals for the 2010 Sustainability Report and the roadmaps of each of the operating companies

December

- Review of ethics and compliance and the external monitor's annual report for 2010

The Committee will continue to monitor its terms of reference to establish whether it should expand its remit. For example, in 2011, the Committee will be specifically carrying out a review of the Company's engagement with its stakeholders and operational excellence.

Group Tender and Investment Committee



Ian Tyler – chairman

Meetings in 2010: Numerous

Members

Ian Tyler – chairman

Duncan Magrath

Andrew McNaughton

Anthony Rabin

Peter Zinkin

Kevin Craven (from 1 January 2011)

Manfred Leger

Brian Osborne

Mike Peasland

George Pierson

Andy Rose (until 28 February 2011)

Robert Van Cleave

Responsibilities

Major contract approvals

Acquisitions and disposals

Capital expenditure

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

Finance and General Purposes Committee

Meetings in 2010: Numerous

Members

Ian Tyler – chairman

Duncan Magrath

Andrew McNaughton

Anthony Rabin

Peter Zinkin

Responsibilities

Banking facilities and other arrangements

Share options

Share buy-backs

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, share option grants and exercises and other matters relating to share capital. A summary of the business conducted at the meetings is provided to all the Directors.

Risk management and assurance

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Group's principal risks and how they are mitigated are summarised on [pages 55 to 61](#). The Board continued to assess the effectiveness of the risk management processes and internal controls during 2010 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

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

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

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

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

- the annual review of the strategy and plans of each operating company 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 commencing at operating company level and progressing to Board Committee level if value, or perceived exposure, breaches certain thresholds;
- regular reporting, monitoring and review of health, safety and environmental matters;
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself;
- the review of specific material areas of Group-wide risk and the formulation and monitoring of risk mitigating actions;
- the formulation and review of properly documented policies and procedures, updated to address the changing risks of the business;
- specific policies set out in the Group Finance Manual, covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls;
- a Group-wide risk management framework which is applied to all functions in the Group, whether operational, financial or support. Under it, the key risks facing each part of the Group are regularly reviewed and assessed, together with the steps taken to avoid or mitigate those risks. The results of these reviews are placed on risk registers and, where necessary, specific action plans are developed;
- reviews and tests by the internal audit team of critical business financial processes and controls and specific reviews in areas of perceived high business risk; and
- the Group's policy in relation to staff being able to raise concerns, in confidence, about possible improprieties on matters of financial reporting and other issues.

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

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

Other disclosures

Business and financial review

The Chairman's statement on *pages 4 and 5*, the Chief Executive's strategic review on *pages 12 to 23*, the Chief Operating Officer's market review on *pages 24 to 27*, the Operating reviews on *pages 28 to 47*, the Financial review on *pages 48 to 51*, and Sustainability on *pages 62 to 69* 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 103 to 169* and are explained more fully in the Chief Executive's and Chief Operating Officer's reviews, the Operating review and the Financial review. An interim dividend payment of 5.05p (net) per ordinary share was approved by the Board on 10 August 2010 and a final dividend of 7.65p (net) per ordinary share will be recommended at the Annual General Meeting (AGM) giving a total of 12.7p (net) per ordinary share, which compares with a total dividend per ordinary share of 12.0p (net) in 2009. Preference dividends totalling 10.75p (gross) per preference share were paid in 2010 (2009: 10.75p (gross) per preference share).

The Directors continued to offer the dividend reinvestment plan.

Research and development

The Group continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology and asset management systems. A range of development initiatives is undertaken throughout the business and these are supported by links with selected universities.

The Group innovation forum is one of several fora through which the Company is enhancing the sharing of knowledge and the encouragement of joint working between the various operating companies. Improving the ability to tap into the depth and breadth of expertise and capability which exists within the Group, and sharing it, is seen as a key enabler and catalyst for innovation, as well as serving to identify where the Group can respond better to the needs of its various stakeholders.

Details of the Group's 2010 research and development expenditure are given in *Note 4.1 on page 118*.

Share capital and shareholders

Details of the share capital of the Company as at 31 December 2010, including the rights attaching to each class of share, are set out in *Note 27 on pages 151 and 152*. During the year to 31 December 2010 no ordinary or preference shares were repurchased for cancellation. 657,138 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 472,928 ordinary shares were issued following the exercise of options held under the Company's executive share option schemes.

At 31 December 2010, the Directors had authority under shareholders' resolutions approved at the AGM and at the separate Class meeting held in May 2010 to purchase through the market 68,542,443 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which will follow the 2011 AGM or on 1 July 2011 whichever is earlier.

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

Details of employee share schemes are set out in the Remuneration Report commencing on *page 89*. Shares held by the Balfour Beatty Employee Share Ownership Trust are not voted.

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

As at 2 March 2011, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

	Number of ordinary shares held	Percentage of ordinary shares held
Standard Life Investments Limited	54,071,872	7.88
Prudential plc	34,309,232	5.00
BlackRock, Inc	34,307,689	5.00
Legal & General Group plc	26,889,659	3.92
AXA SA	22,003,406	3.21

Auditors

Deloitte LLP have indicated their willingness to continue as auditors to the Company and a resolution for their appointment will be proposed at the AGM.

Honorary President

Viscount Weir is Honorary President of the Company, having been appointed to this position in May 2003, following his retirement as Chairman.

Relations with shareholders

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

The Company has continued its long-established programme of communication with institutional investors and brokers throughout 2010. A Head of Investor Relations was appointed in 2010 to help further enhance the Company's investor programme and provide dedicated resource. Presentations of the half-year and annual results were made in accordance with the practice of previous years. Approximately 200 meetings have been held at regular intervals through the year (2009: approximately 140) with institutional shareholders, brokers and analysts including two hosted events. One event was held in New York to provide better understanding of the strength and depth of capabilities of Parsons Brinckerhoff. The second was a more general description of infrastructure markets and Balfour Beatty's competitive positioning and strategy and included an update on the evolving strategy for the infrastructure investments business.

Senior executives, led by the Chief Executive and Finance Director, hold meetings with the Company's principal institutional shareholders to discuss the Company's strategy, financial performance and specific major investments. The Chairman has also met with a number of these institutional shareholders and the other non-executive Directors are invited to do so whenever they wish. The Chief Operating Officer and members of senior management met with representatives from the UK Shareholders' Association as well as hosting them on a visit to the Blackfriars project in London.

This communications programme will continue and be expanded where appropriate, subject to the constraints of regulation and practice. The 2011 investor programme will focus on broadening the shareholder base, particularly amongst US investors.

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.

Reports to the Board on meetings or other contact with shareholders or their representatives are made by executive Directors on a regular basis. 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 also has access to the services of independent external corporate and investor relations consultants who provide advice on the relationship between the Company and its institutional investors. They conducted a series of interviews with key shareholders in April and presented the results to the Board in June 2010, the output from which has largely been addressed by developing the investor programme through 2010 and 2011 and the appointment of a dedicated investor relations resource.

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

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

Political donations

At the AGM held on 12 May 2010, 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 2011 AGM.

In the US and Canada, donations totalling £278,000 were made by operating companies during 2010. Most of these donations were made by Parsons Brinckerhoff Inc, and these donations are small and all were permitted by law. In the main, they relate to support given for local campaigns, public bond financing or similar referenda to promote investment in infrastructure. Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also strictly adhere to the Company's policies on probity set out in its Code of Conduct. A review of existing practices was undertaken during 2010.

Parsons Brinckerhoff Inc sponsors a Political Action Committee (PAC). A PAC is an independently administered committee which receives voluntary contributions from Parsons Brinckerhoff's US employees and allocates the funds received, whatever they may be, to US political candidates and other eligible stakeholders who support investment in infrastructure markets generally. Contributions are entirely voluntary from employees and are kept completely separate from company funds. Decisions taken by the PAC are independent of influence by Balfour Beatty. Total PAC contributions in 2010 were £128,958.

Corporate responsibility

A full description of our approach to sustainability, including information on the Group's charitable activities, appears on [pages 62 to 69](#). For the tenth year, the Company is publishing a separate 2010 Sustainability Report including values, ethics, safety, social and environmental issues and for the first time this is being published to coincide with the publication of this report and is displayed on the Company's website www.balfourbeatty.com.

Group policies

The Group's published policies on health and safety, the environment, business conduct and ethics remain in place and are subject to regular reviews. The business conduct and ethics policy has been reviewed and updated including the introduction of an external ethics helpline which is available to all employees and other parties with whom the Group works.

Further information on each of these policies and the progress which has been made during the year is provided in the separate 2010 Sustainability Report.

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 utilise their talents and skills to the full, through appropriate encouragement, training and development;
- to communicate a full understanding of the objectives and performance of the Group and the opportunities and challenges facing it;
- to provide pay and other benefits which reflect good local practices and reward individual and collective performance;
- to ensure that all applicants receive equal treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief; and
- to ensure that all employees similarly receive equal treatment and specifically in relation to training, development and career progression.

Operating companies use a variety of methods to communicate key business goals and issues to employees and also consult and involve their employees through local publications, briefing groups, consultative meetings, training programmes and working groups to assist the process of continuous improvement in the way business is conducted. Regular publications inform employees of major business and technical achievements. Most of the UK-based operating companies have either attained or have committed to attain the UK Investors in People standard.

Post balance sheet events

Details of post balance sheet events are set out in [Note 34 on page 159](#).

Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities. The 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, upon 30-days’ notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control and cancel all commitments under the agreement concerned.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty upon 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.

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 2010, the year-end creditors’ days of the Company were 27 (2009: 25).

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 described in the financial and treasury risks section on *pages 59 and 60* and detailed in *Note 20 on pages 131 to 137*.

Statement of Directors’ responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and they have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company’s and the Group’s financial position and financial performance; and
- 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; and
- the Operating and Financial reviews, 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; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

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

Directors’ Report

By order of the Board

C D Vaughan
General Counsel and Company Secretary

2 March 2011

Registered Office:
130 Wilton Road
London SW1V 1LQ

Registered in England Number 395826

REMUNERATION REPORT

Introductory letter

Dear Shareholder

I am pleased to present the Remuneration Committee's report on Directors' remuneration for 2010.

During the year, the Committee carried out a comprehensive review of the Company's remuneration arrangements and is proposing some changes to the remuneration policy with effect from 2011.

Since the last detailed review in 2005, the business has grown significantly in terms of revenue and employee numbers, and now has a significant international presence across the entire lifecycle of major infrastructure assets. Consistent with the changing nature of the business, the scope and complexity of senior executives' roles within the Company has also changed.

While the Committee considers that the remuneration policy operated since 2005 has complemented the strategy effectively and rewarded executives fairly, the review concluded that a number of evolutionary changes should be made. This is to ensure that the policy continues to provide a strong link between executives' and shareholders' interests through focussing on the outputs of the Company's strategy, namely sustainable profit growth and shareholder returns.

As part of the review, the Committee developed proposals for a new Performance Share Plan to replace the existing plan, which has reached the end of its five-year life.

In developing these proposed changes we have consulted with the Company's major institutional shareholders and their representative bodies.

The proposals are set out in this report and the resolutions, both to adopt this report and to seek shareholder approval for the new Performance Share Plan, will be put to the Annual General Meeting. I hope you will support these proposals which the Remuneration Committee believes are in the interests of shareholders.

Yours sincerely



Robert Walvis
Chairman of the Remuneration Committee

Introduction

This 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 report will be proposed at the AGM of the Company.

Remuneration Committee

The Remuneration Committee of the Board ("RemCo") is primarily responsible for determining the remuneration policy and conditions of service for executive Directors and the Chairman of the Company. It also reviews and monitors the level and structure of remuneration for certain senior managers immediately below the level of the Board. The terms of reference of the RemCo, which were last reviewed in October 2008, can be found on the Company's website www.balfourbeatty.com

The RemCo has been chaired by Robert Walvis since November 2003. Its other members during the year were Hubertus Krossa, Steve Marshall, Gordon Sage, Iain Ferguson and, from November 2010, Graham Roberts. No member of the RemCo has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group.

During 2010 the Chief Executive, Ian Tyler, and the Human Resources director, Paul Raby, were invited to join meetings of the RemCo, when appropriate. The role of secretary of the RemCo is fulfilled by the Head of Secretariat. No Director has any involvement in any decisions relating to his own remuneration.

The RemCo is responsible for appointing external independent consultants to advise on executive remuneration matters. This advice and assistance has been provided throughout the year by Hewitt New Bridge Street ("HNBS"). The Human Resources director has also provided advice to the RemCo.

Remuneration policy and company strategy

The RemCo has pursued a consistent remuneration policy over a number of years. The 2010 remuneration review examined the Company's strategy closely and re-affirmed the link to the remuneration policy, which is summarised below:

- Remuneration levels must be positioned such that they provide a competitive level of remuneration, to enable the recruitment and retention of high calibre management. It is vital that we continue to be able to attract, retain and motivate those individuals who can lead the business so as to achieve its short and long-term goals. To meet this objective we need to ensure that remuneration levels are appropriately positioned against the external market and that compensation packages are seen as fair and reasonable. The Committee is, however, aware of the risk of an upward ratchet in remuneration levels through over-reliance on comparative survey data.
- The commercial environment is a demanding one and it is critical that incentives are in place for executives to be rewarded for the achievement of specific and measurable performance goals. Where these goals are not met it is also appropriate that this is recognised in a sharply reduced level of remuneration received. Accordingly, the annual bonus and long-term incentives make up a significant part of each executive Director's compensation package.

- Incentive arrangements are structured so as to motivate participants to deliver high standards of performance, without encouraging excessive risk-taking. Managing risk is a critical issue for the Company, particularly in relation to the type of work the Group is engaged in and the need to ensure that in all of its systems and working practices, the highest safety standards are maintained. As a result, we take particular care to ensure that the targets and objectives which are set do not compromise that goal.
- In rewarding performance, the emphasis should be on clear and verifiable 'output' measures, in particular profit measured over annual and longer term performance periods. Other performance goals including those relating to social, environmental and governance responsibilities are assessed through the normal management review process. Overall, the RemCo maintains its commitment to performance measures which are objective, transparent and easy to understand so that they remain motivational to participants.
- EPS and relative TSR remain the most appropriate 'output' based measures of longer term performance. Executives should be motivated and rewarded in relation to the earnings performance of the Group. However, it is also appropriate that executives should be incentivised to achieve strong stock market performance to align their interests with those of shareholders. The continued use of EPS and TSR meets both these goals. The share-based elements of the package, including share ownership guidelines and the significant deferral of bonus in shares, drive performance over the longer term and align the interests of senior management with those of shareholders,
- General pay trends in other parts of the Group are taken into account when setting the pay of the executive Directors.

Basic salaries

The policy is to set basic salaries at levels which are competitive given the size and complexity of the Company, as well as the broad business sectors in which it operates. To assist in market comparisons HNBS provides data and independent advice on remuneration levels in companies considered to be comparable in terms of revenue, market capitalisation and industry sector. The RemCo aims to position basic salaries around mid-market levels, taking into account the performance of the Group's business and individual Directors.

The basic salaries for the executive Directors are reviewed annually on 1 July.

At the review in 2010, Duncan Magrath's salary was increased from £360,000 to £385,000 and Andrew McNaughton's salary was increased from £385,000 to £410,000. These increases continue the process whereby the salaries for the more recent appointments to the Board are progressively aligned over time with the other executive Directors and the external market. The basic salaries of Ian Tyler, Anthony Rabin and Peter Zinkin were increased in line with the normal market movement at this level.

Name of Director	Salary at 1 July 2010	Salary at 1 July 2009
D J Magrath	£385,000	£360,000
A J McNaughton	£410,000	£385,000
A L P Rabin	£437,000	£425,000
I P Tyler	£648,000	£630,000
P J L Zinkin	£417,000	£405,000

Annual incentive plan

Each executive Director participates in an annual incentive plan, under which pre-determined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2010 was 80% of basic salary and the performance indicator chosen was profit before tax, exceptional items and amortisation of intangible assets ("profit"). A bonus of 40% of basic salary would have been earned for the achievement of performance in line with target. Two-thirds of any bonus achieved for 2010 is payable in cash, whilst the remaining one-third is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan (the "DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time. Bonuses are non-pensionable. The profit for the year ended 31 December 2010 resulted in a bonus of 55.7% of basic salary for each executive Director. Details are shown in the table on pages 94 and 95.

Following the remuneration review carried out during the year, annual maximum bonus potential for executive Directors has been increased to 120% of basic salary for 2011. Target bonus continues to be set at 50% of the maximum potential with bonus targets continuing to be based purely on profit. The level of profit required to earn maximum bonus will continue to be a challenging goal without encouraging excessive risk-taking. In view of the increase in bonus potential, the amount of bonus deferral in the form of shares will increase from one-third to one-half of the bonus earned.

Long-term incentive scheme

During 2010, the final awards were made under the Performance Share Plan approved by shareholders at the 2006 AGM. Award levels were 135% and 112.5% of salary for the Chief Executive and other executive Directors respectively. This was a reduction from the normal policy of 150% and 125% of salary respectively.

These awards are subject to two performance conditions, each applying to separate halves of the award and each measured over a period of three financial years. One half of the award is subject to an EPS growth range, requiring growth of RPI + 6% and RPI + 36% for between 25% and 100% of this part of the award to vest. The other half of the award is subject to a performance condition measuring the Company's total shareholder return compared to a comparator group of similar UK and overseas listed businesses. Details of outstanding awards and the performance conditions are contained later in this report under the table headed "Directors' long-term incentives: the Performance Share Plan".

Following consultation with the Company's major shareholders and representative bodies, shareholder approval will be sought at the 2011 AGM for a new Performance Share Plan (new PSP) to replace the 2006 Performance Share Plan, which will have reached the end of its five-year life.

Under the new PSP, awards will be made to executive Directors and other selected operational and functional senior managers.

To enable total remuneration levels to move closer to mid-market levels, award levels for 2011 will be increased to 175% of salary for the Chief Executive and 150% of salary for the other executive Directors. The overall maximum award level of the new PSP is unchanged at 200% of salary.

Performance conditions will be set for each award. For the 2011 awards, the conditions will continue to be based on EPS and TSR performance.

50% of an award will be linked to an adjusted EPS growth target, and will vest as shown in the table below.

EPS growth over three years	Proportion of award vesting
Less than 15%	Zero
15%	25%
45%	100%
Between 15% and 45%	Between 25% and 100% pro-rata

For prior awards, EPS targets have used UK RPI as a benchmark, with a growth range above this benchmark to determine the level of vesting. Given the significant proportion of the Group's earnings that come from outside the UK, the link to a UK inflation measure is no longer thought appropriate, either as a relevant indicator of performance or as a measure that is meaningful to non-UK participants. Consequently, for the 2011 awards, the EPS performance link to UK RPI has been removed. The proposed range is considered to be appropriately stretching, providing a balance between a requirement for outstanding performance (particularly at the top end) whilst ensuring that undue risk-taking is not encouraged. The EPS target range will be reviewed carefully for each award.

The performance condition attached to the other 50% of an award will be linked to the Company's TSR performance against a comparator group. For prior awards, TSR has been measured against a specific list of comparator companies drawn from the business sectors in which the Company operates. Given the changes to the scale and complexity of the Group's operations it is no longer thought possible to identify a sufficient number of equivalent companies. Consequently, for the 2011 award, TSR performance will be assessed against UK listed companies ranked in the FTSE All Share Index between 51 to 150 (excluding Investments Trusts) on 31 December 2010. The choice of a FTSE 51 to 150 comparator group reflects Balfour Beatty's FTSE ranking and the companies within this market cap range are (i) more international than the previous group (ii) more relevant from an investor perspective (iii) sufficiently numerous to reduce volatility caused by delistings. The RemCo believes that outperforming this group will represent a significant achievement in the current business climate.

The TSR performance of all companies will be measured over the three-year performance period. This part of an award will vest in part if Balfour Beatty's TSR is equivalent to the company whose TSR performance is at the median, with full vesting if Balfour Beatty's TSR is equivalent to, or above, that of the company whose TSR performance is at the upper quartile. The scale of vesting is shown in the table below:

Total shareholder return	Proportion of award vesting
Below median	Zero
Median	25%
Upper quartile	100%
Between median and upper quartile	Between 25% and 100% pro-rata

TSR and EPS performance will be independently verified and approved by the RemCo.

The awards vest, subject to the achievement of performance conditions, three years after the date of grant, together with an additional award of shares in lieu of the value of dividends paid.

EPS and TSR performance conditions continue to provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market out-performance, which aligns strongly with shareholder interests.

Clawback

In line with best practice, a clawback provision has been incorporated into the annual incentive plan (including the deferred element) and the proposed new PSP.

Remuneration and risk

As part of the remuneration review, the RemCo also considered the relationship between remuneration and risk, and remains satisfied that the policies operated are appropriate and do not encourage undue risk-taking as:

- total remuneration is appropriately balanced between fixed elements (e.g. basic salary and pension contribution) and incentive pay. Basic salary levels are targeted at around mid-market levels and are reviewed annually. Variable pay does not represent a disproportionately high level of overall remuneration;
- annual bonuses are capped and targeted to ensure that performance incentives and rewards are set at an appropriate level;
- a significant proportion of annual bonus is deferred in shares for three years, thereby providing a longer term performance horizon for the annual bonus;
- PSP awards are granted annually, rather than on a one-off basis, meaning that no undue emphasis is placed on any one particular financial year-end;
- sliding scale performance targets are used for all performance pay, providing incremental awards for additional performance delivered; and
- the Company has introduced clawback provisions within the annual incentive plan (including the deferred element) and the proposed new PSP.

Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and certain other senior managers are subject to share ownership guidelines. Executive Directors are required to accumulate a holding of ordinary shares in the Company to the value of 100% of their basic salary at a reference date, with other senior managers at 50% of basic salary. In order to achieve this, those subject to the share ownership guidelines, will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the PSP and the DBP.

Share options

No grants of options have been made under the Executive Share Option Scheme (ESOS 2001) since 31 December 2004. The ESOS 2001 expires in 2011 and it not proposed to renew the scheme.

The Company operates an HMRC approved savings-related share option scheme (SAYE) under which Directors and employees are granted an option to purchase ordinary shares in the Company in either three or five years' time. This scheme is open to all employees based in the UK and is not subject to performance conditions. 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 SAYE reaches the end of its 10-year life in 2011 and the Company will be seeking approval from shareholders for a new SAYE scheme at the 2011 AGM.

Share Incentive Plan

The Company will also be seeking shareholder approval for an HMRC approved Share Incentive Plan (SIP) at the 2011 AGM. This will provide a further opportunity for employees to acquire shares in the Company.

Pensions

The Company provides pension benefits to UK employees principally through the Balfour Beatty Pension Fund (the "Fund"), which has both defined benefit ("DB") and defined contribution ("DC") sections. The DB section provides for the build-up of pension benefits based on different accrual rates (as determined by job position) and has life cover, disability and spouse/dependants pension arrangements.

A Fund-specific earnings cap has been maintained for those members who were previously subject to the HMRC earnings cap. This cap also applies to members of the DC section of the Fund. A discretionary cash supplement is paid in lieu of pension provision above the earnings cap. The Company is not compensating any member of the Fund (or any other pension scheme operated by the Company) for any additional tax which is payable as a result of changes to government policy.

The specific pension arrangements for executive Directors are outlined in more detail in the Directors' pensions section on [pages 98 and 99](#). The basic salary used for calculating DB benefits has been frozen with effect from January 2011.

Service contracts

It remains the Company's policy and practice to include in executive Directors' contracts a 12-months' rolling notice period from the Company and six-months' notice on the part of the Director. This policy will continue.

Details of the service contracts of the executive Directors are shown in the table below.

Name of Director	Date of contract	Notice period from Company (months)
D J Magrath	11 April 2008	12
A J McNaughton	15 December 2008	12
A L P Rabin	28 August 2002	12
I P Tyler	22 December 2004	12
P J L Zinkin	16 January 2004	12

Service contracts of executive Directors do not include provision for specific payment in the event of early termination, nor do they provide for extended notice periods or compensation in the event of a change of control. It is not the RemCo's intention to introduce such provisions. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period. The RemCo would seek to ensure that the Director fulfils his obligation to mitigate his losses and would also give consideration to phased payments where appropriate. In accordance with the UK Corporate Governance Code, all Directors submit themselves for re-election at the AGM.

External appointments

The RemCo recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. With the approval of the Board in each case, executive Directors may therefore accept one external appointment and retain any related fees. Ian Tyler who resigned as a non-executive director of VT Group plc on 9 July 2010, was appointed as a non-executive director of Cable & Wireless Communications plc, effective 1 January 2011. The fees received for his role at VT Group are set out in the notes to the Directors' remuneration table on [pages 94 and 95](#).

Non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. The Chairman's remuneration falls within the remit of the RemCo and is approved by the Board. The Board determines the terms on which the services of other non-executive Directors are provided. All non-executive Directors are appointed for a term of three years. In accordance with the UK Corporate Governance Code, all Directors submit themselves for re-election at the AGM. The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share option, annual incentive or long-term incentive schemes. None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause.

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

Name of Director	Date of appointment or re-appointment	Unexpired period at December 2010 (months)
R M Amen	10 June 2010	30
M J Donovan	1 July 2009	18
I G T Ferguson	1 January 2010	24
G E H Krossa	9 September 2008	9
S Marshall	16 May 2008	5
G C Roberts	1 January 2009	12
R J W Walvis	26 September 2010	33

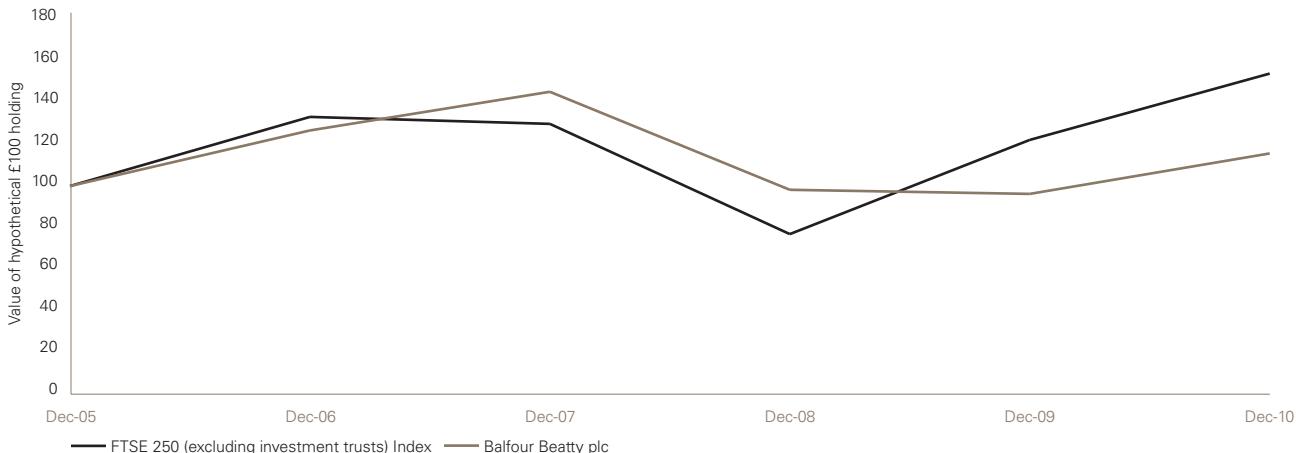
The fees of the non-executive Directors are reviewed from time to time with the last review having taken effect from 1 July 2010. The annual fee level for the non-executive Directors (excluding the Chairman) was increased from £48,000 to £52,000 and for Steve Marshall as Chairman from £240,000 to £250,000. The annual fee for chairing Board Committees was increased from £8,000 to £10,000. In addition, effective from 1 July 2010, an annual fee of £10,000 was introduced for the Senior Independent Director ("SID") in recognition of the additional responsibilities of that position. Where the SID is also the chairman of a Board Committee, as is the case with Robert Walvis, there is no additional fee. For non-executive Directors based outside Europe, an additional fee of £2,500 per visit to another country was introduced from 1 July 2010.

During the year, the RemCo was chaired by Robert Walvis, the Audit Committee by Graham Roberts and the Business Practices Committee by Mike Donovan.

An annual fee of €34,000 is payable to Hubertus Krossa for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.

Performance graph

The graph below shows Balfour Beatty's TSR performance compared to the FTSE 250 Index (excluding investment trusts) TSR over the five financial years ended 31 December 2010.



As in previous reports, the RemCo has elected 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, at the start of the period and have been calculated using 30 trading-day average values.

The detailed information about the Directors' remuneration, set out below and on *pages 94 to 99* has been audited by the Company's independent auditors, Deloitte LLP.

Directors' remuneration earned in 2010

Name of Director	Basic salary £	Fees £	Pension supplement £	Benefits in kind £	Annual bonus £	Total remuneration 2010 £	Total remuneration 2009 £
R M Amen	–	39,000	–	–	–	39,000	–
M J Donovan	–	59,000	–	–	–	59,000	51,015
I G T Ferguson	–	50,000	–	–	–	50,000	–
G E H Krossa	–	79,310	–	–	–	79,310	74,786
D J Magrath	372,500	–	49,780	15,538	142,963	580,781	527,004
S Marshall	–	245,000	–	–	–	245,000	240,000
A J McNaughton	397,500	–	39,750	15,538	152,247	605,035	554,724
A L P Rabin	431,000	–	75,209	21,301	162,273	689,783	657,279
G C Roberts	–	59,000	–	–	–	59,000	56,000
G H Sage	–	50,000	–	–	–	50,000	48,000
I P Tyler	639,000	–	75,977	24,393	240,624	979,994	933,896
R J W Walvis	–	59,000	–	–	–	59,000	56,000
P J L Zinkin	411,000	–	–	18,181	154,846	584,027	553,566
<i>Former Director</i>	–	–	–	–	–	–	37,333
Total	2,251,000	640,310	240,716	94,951	852,953	4,079,930	3,789,603

Notes:

- (i) Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors. In practice, the basic salary paid to Andrew McNaughton has been reduced due to his participation in the Company's SMART Pensions salary sacrifice arrangement. The £6,180 reduction in 2010 corresponds to his contributions to the Balfour Beatty Pension Fund, which are now met directly by the Company as part of this arrangement.
- (ii) Ian Tyler, Duncan Magrath, Andrew McNaughton and Anthony Rabin received taxable cash supplements in lieu of pension provision on their salary above the Balfour Beatty Pension Fund specific earnings cap.
- (iii) The performance target for annual bonus was profit before tax, exceptional items and amortisation of intangible assets ("profit"). The profit for the year ended 31 December 2010 resulted in a bonus of 55.7% of basic salary for each executive Director. Two-thirds of this bonus is payable in cash and these are the amounts shown in the table above. The remaining one-third is deferred in the form of ordinary shares in the Company which will be released to the Director on 31 March 2014, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 31 March 2011.
- (iv) Hubertus Krossa received a fee of €34,000 (included above) for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.
- (v) In addition, Ian Tyler received a fee of £27,461 for his services as a non-executive director of VT Group plc.
- (vi) Benefits in kind are calculated in terms of UK taxable values. All executive Directors receive private medical insurance for the Director and his immediate family. Ian Tyler, Anthony Rabin and Peter Zinkin receive a fully expensed car and a fuel card. Duncan Magrath and Andrew McNaughton receive a car allowance of £14,000 p.a.
- (vii) No Director receives any expense allowance.
- (viii) Awards made under the Performance Share Plan in 2007 to Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin vested during the year. At the date of vesting on 26 March 2010 the closing market price was 293.2p and the total values of the awards which vested, including shares received in lieu of dividends, were £292,963, £80,073, £125,129, £167,628 and £167,628 respectively.
- (ix) Awards made under the Deferred Bonus Plan in 2007 to Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin vested during the year. At the date of vesting on 30 March 2010 the closing market price was 295.7p and the total values of the shares which vested were £89,411, £28,588, £30,655, £61,387 and £61,384 respectively.
- (x) Andrew McNaughton exercised executive share options on 11 March 2010. The closing market price on the date of exercise was 282.4p and the value realisable on exercise was £61,894.
- (xi) Anthony Rabin and Peter Zinkin exercised savings-related share options during the year. The closing market price on the dates of exercise were 229.8p and 246.4p respectively and the values realisable on exercise were £143 and £226 respectively.

The interests of the Directors and their immediate families in the ordinary share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below.

Directors' interests

The interests of the Directors and their immediate families in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below.

Name of Director	Number of ordinary shares	
	At 1 January 2010*	At 31 December 2010
R M Amen	–	5,000
M J Donovan	7,142	10,000
I G T Ferguson	–	25,000
G E H Krossa	7,142	7,142
D J Magrath	62,446	84,258
S Marshall	7,142	7,142
A J McNaughton	45,315	91,253
A L P Rabin	257,468	258,651
G C Roberts	7,142	7,142
G H Sage	7,142	7,142
I P Tyler	315,720	354,096
R J W Walvis	14,285	14,285
P J L Zinkin	262,596	286,359

* 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 2010 and 2 March 2011.
- (ii) Peter Zinkin was also interested at 1 January 2010 and 31 December 2010 in 325 cumulative convertible redeemable preference shares of 1p each of Balfour Beatty plc.
- (iii) Robert Walvis was also interested at 31 December 2010 in 938 ordinary shares in Balfour Beatty plc held by the Craven Arms Investment Club, of which he is a member.

Directors' long-term incentives: the Performance Share Plan

Name of Director	Date granted	Maximum number of shares subject to award				
		At 1 January 2010	Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2010
D J Magrath	17 April 2007	49,518	–	24,759	24,759	–
	15 April 2008	108,646	–	–	–	108,646
	15 April 2009	124,069	–	–	–	124,069
	15 April 2010	–	133,826	–	–	133,826
A J McNaughton	17 April 2007	77,374	–	38,687	38,687	–
	15 April 2008	91,070	–	–	–	91,070
	15 April 2009	135,017	–	–	–	135,017
	15 April 2010	–	143,120	–	–	143,120
A L P Rabin	17 April 2007	103,652	–	51,826	51,826	–
	15 April 2008	121,428	–	–	–	121,428
	15 April 2009	155,087	–	–	–	155,087
	15 April 2010	–	157,989	–	–	157,989
I P Tyler	17 April 2007	181,143	–	90,572	90,571	–
	15 April 2008	222,406	–	–	–	222,406
	15 April 2009	275,874	–	–	–	275,874
	15 April 2010	–	281,036	–	–	281,036
P J L Zinkin	17 April 2007	103,652	–	51,826	51,826	–
	15 April 2008	121,428	–	–	–	121,428
	15 April 2009	147,789	–	–	–	147,789
	15 April 2010	–	150,555	–	–	150,555

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 2008, April 2009 and April 2010, the performance periods are the three years ending 31 December 2010, 31 December 2011 and 31 December 2012 respectively. 50% of each award is subject to an EPS growth target. The maximum number of shares subject to this performance condition will only vest if EPS growth exceeds the retail prices index ("RPI") by 45% for the performance period for the April 2008 award, 39% for the April 2009 award and 36% for the April 2010 award. If EPS growth exceeds RPI by 15% for the April 2008 award, 9% for the April 2009 award and 6% for the April 2010 award, then 25% of this part of the awards will vest. For growth in EPS between these points, vesting will be on a pro-rata basis. No shares will vest from this part of the award if EPS growth exceeds RPI by less than 15%, 9% or 6% as appropriate. 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 that of a comparator group of similar listed companies at the start of the performance period. The maximum number of shares subject to this performance condition will only vest if the Company's TSR is at the upper quartile of the comparator group. If the Company's TSR is equal to that of the median of the comparator group then 25% of this part of the award will vest. No shares from this part of the award will vest if the Company's TSR is below that of the median of the comparator group. For TSR performance between median and upper quartile, vesting will be on a pro-rata basis. There is no provision for re-testing of either of the performance conditions.
- (iii) The average middle market price of ordinary shares in the Company for the three dealing dates before the award dates, which was used for calculating the number of awards granted, was 491.583p for the 2007 award, 449.17p for the 2008 award, 354p for the 2009 award and 302.63p for the 2010 award. The closing middle market price of ordinary shares on the date of the awards was 490.78p, 450p, 352.25p and 302.8p respectively.
- (iv) The performance period for the awards made in April 2008 was completed on 31 December 2010. The growth in EPS for this period (with adjustments in relation to the rights issue for EPS in 2007 and PPP asset disposals and the acquisition of Parsons Brinckerhoff for EPS in 2010) exceeded RPI by 19.75%, exceeding the RPI + 15% required for threshold vesting. The Company's TSR for this period ranked just below the median of the comparator group. The combined effect of these performance measures is that 18.4% of each participant's conditional award will vest on 15 April 2011. Each participant will also receive shares in lieu of the dividends which would have been payable on the shares which vest.
- (v) The performance period for the awards made in April 2007 was completed on 31 December 2009. The growth in EPS for this period (with adjustments in relation to the rights issue for EPS in 2006 and 2009 and for the acquisition of Parsons Brinckerhoff for EPS in 2009) exceeded RPI by more than 45%, the level required for maximum vesting. The Company's TSR for this period ranked just below the median of the comparator group. The combined effect of these performance measures is that 50% of each participant's conditional awards vested on 26 March 2010. This date was brought forward from the original vesting date of 17 April 2010. Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin also received 9,347, 2,551, 3,990, 5,346 and 5,346 shares respectively in lieu of the dividends which would have been payable on the shares which vested. The closing middle market price of ordinary shares on the vesting date was 293.2p. The monetary values of the PSP award which vested in 2010 are disclosed in Note (viii) to the Directors' remuneration table.
- (vi) On 15 April 2010 for all participants in the PSP, a maximum of 2,982,241 conditional shares were awarded which are normally exercisable in April 2013.

Directors' Deferred Bonus Plan awards

Name of Director	Date of initial award	At 1 January 2010	Awarded during the year	Awarded during the year in respect of dividends			Exercised during the year	Lapsed during the year	Number of shares awarded	
				5 July 2010	3 December 2010	At 31 December 2010			Vesting date	
D J Magrath	30 March 2007	9,668	–	–	–	9,668	–	–	–	30 March 2010
	31 March 2008	14,684	–	448	266	–	–	–	15,398	31 March 2011
	31 March 2009	29,725	–	906	539	–	–	–	31,170	31 March 2012
	31 March 2010	–	19,759	602	358	–	–	–	20,719	31 March 2013
A J McNaughton	30 March 2007	10,367	–	–	–	10,367	–	–	–	30 March 2010
	31 March 2008	18,809	–	573	341	–	–	–	19,723	31 March 2011
	31 March 2009	26,666	–	813	483	–	–	–	27,962	31 March 2012
	31 March 2010	–	21,131	644	383	–	–	–	22,158	31 March 2013
A L P Rabin	30 March 2007	20,760	–	–	–	20,760	–	–	–	30 March 2010
	31 March 2008	26,324	–	803	477	–	–	–	27,604	31 March 2011
	31 March 2009	37,157	–	1,133	674	–	–	–	38,964	31 March 2012
	31 March 2010	–	23,326	711	423	–	–	–	24,460	31 March 2013
I P Tyler	30 March 2007	30,237	–	–	–	30,237	–	–	–	30 March 2010
	31 March 2008	40,181	–	1,226	728	–	–	–	42,135	31 March 2011
	31 March 2009	55,081	–	1,680	999	–	–	–	57,760	31 March 2012
	31 March 2010	–	34,578	1,055	627	–	–	–	36,260	31 March 2013
P J L Zinkin	30 March 2007	20,759	–	–	–	20,759	–	–	–	30 March 2010
	31 March 2008	26,324	–	803	477	–	–	–	27,604	31 March 2011
	31 March 2009	35,410	–	1,080	642	–	–	–	37,132	31 March 2012
	31 March 2010	–	22,229	678	403	–	–	–	23,310	31 March 2013

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 awards made in 2008, 2009 and 2010 will vest on 31 March 2011, 31 March 2012 and 31 March 2013 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 awards made in 2007 vested on 30 March 2010. The closing middle market price of ordinary shares in the Company on the vesting date was 295.7p. The monetary values of the Deferred Bonus Plan award which vested in 2010 are disclosed in Note (ix) to the Directors' remuneration table.
- (iv) The shares awarded on 30 March 2007, 31 March 2008, 31 March 2009 and 31 March 2010 were purchased at average prices of 474.989p, 476.454p, 365.801p and 300.32p respectively.
- (v) The shares awarded on 5 July 2010 and 3 December 2010 in lieu of dividends were allocated at average prices of 235.963p and 286.881p respectively.
- (vi) On 31 March 2010, for all participants in the Deferred Bonus Plan a maximum of 769,581 conditional shares were awarded which will normally be released on 31 March 2013. On 5 July 2010 a further 66,805 conditional shares were awarded in lieu of entitlements to the final 2009 dividend and on 3 December 2010 a further 39,219 conditional shares were awarded in lieu of entitlements to the interim 2010 dividend.

Directors' Savings-Related Share Option Scheme grants

Name of Director	Date granted	Number of options					Exercisable		
		At 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2010	Exercise price	From	To
D J Magrath	2 May 2007	1,304	–	–	1,304	–	338.7p	July 2010	December 2010
	7 May 2008	1,073	–	–	–	1,073	315.2p	July 2013	December 2013
	18 May 2009	628	–	–	–	628	249.0p	July 2014	December 2014
	11 May 2010	–	1,291	–	–	1,291	236.0p	July 2015	December 2015
A L P Rabin	4 May 2005	1,183	–	1,183	–	–	217.7p	July 2010	December 2010
	3 May 2006	1,114	–	–	–	1,114	265.6p	July 2011	December 2011
	2 May 2007	1,140	–	–	–	1,140	338.7p	July 2012	December 2012
	7 May 2008	368	–	–	–	368	315.2p	July 2011	December 2011
I P Tyler	2 May 2007	947	–	–	947	–	338.7p	July 2010	December 2010
	7 May 2008	762	–	–	–	762	315.2p	July 2011	December 2011
	18 May 2009	439	–	–	–	439	249.0p	July 2012	December 2012
	11 May 2010	–	676	–	–	676	236.0p	July 2013	December 2013
P J L Zinkin	4 May 2005	788	–	788	–	–	217.7p	July 2010	December 2010
	3 May 2006	823	–	–	–	823	265.6p	July 2011	December 2011
	2 May 2007	1,352	–	–	–	1,352	338.7p	July 2012	December 2012
	7 May 2008	804	–	–	–	804	315.2p	July 2013	December 2013
	18 May 2009	366	–	–	–	366	249.0p	July 2012	December 2012
	11 May 2010	–	246	–	–	246	236.0p	July 2013	December 2013

Notes:

- (i) All options are granted for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
- (ii) The closing market price of the Company's ordinary shares on 31 December 2010 was 312.9p. During the year the highest and lowest closing market prices were 317.8p and 229.8p respectively.
- (iii) Options granted to Duncan Magrath and Ian Tyler in May 2007, exercisable at 338.7p, lapsed unexercised in December 2010.
- (iv) The monetary values realisable from options exercised are disclosed in Note (xi) to the Directors' remuneration table.

Directors' Executive Share Option Scheme grants

Name of Director	Date granted	Number of options					Exercisable		
		At 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2010	Exercise price	From	To
A J McNaughton	7 June 2001	11,482	–	11,482	–	–	174.1p	June 2004	June 2011
	17 April 2002	22,964	–	22,964	–	–	207.2p	April 2005	April 2012
	16 April 2003	17,223	–	17,223	–	–	150.6p	April 2006	April 2013
	19 April 2004	17,223	–	17,223	–	–	227.3p	April 2007	April 2014

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 2010 was 312.9p. During the year the highest and lowest closing market prices were 317.8p and 229.8p respectively.
- (iii) The monetary values realisable from options exercised are disclosed in Note (x) to the Directors' remuneration table.

Directors' pensions

Executive Directors participate in the Balfour Beatty Pension Fund. The scheme provides for a pension at a normal retirement age of 62 for pension purposes and each Director pays an annual contribution equal to 5% of contributory salary except where, in the case of Andrew McNaughton, the Director participates in SMART Pensions as outlined in Note (ii) to the second table below. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to HMRC limits. With effect from 6 April 2006, HMRC limits were changed with one of the changes being to no longer use the earnings cap when determining the maximum permissible benefits. However, the Balfour Beatty Pension Fund has retained a Fund specific earnings cap for pension purposes. The salaries of Duncan Magrath, Andrew McNaughton, Anthony Rabin and Ian Tyler were subject to the Fund specific earnings cap for pension purposes and details of the Company's contributions to additional arrangements for them are noted underneath the second table below.

The table below sets out the accrued deferred pension which would be paid annually from the scheme at normal retirement age based on each executive Director's service to 31 December 2010 as well as the additional pension benefit secured in respect of service during the year.

Name of Director	Age at 31 December 2010 Years	Pensionable service at 31 December 2010 Years	Accrued deferred pension at 31 December 2009 £p.a.	Movement in accrued deferred pension during the year	Accrued deferred pension at 31 December 2010 £p.a.	Transfer value corresponding to increase in excess of inflation at 31 December 2010 less Director's contributions (Note ii) £
D J Magrath	46	4	15,605	(219)	4,302	19,688
A J McNaughton	47	13	33,569	(470)	3,540	36,639
A L P Rabin (iii)	55	17	66,372	(929)	5,646	71,089
I P Tyler	50	14	42,615	(597)	4,257	46,275
P J L Zinkin (iv)	57	29	217,991	(3,052)	11,010	225,949
						193,004

Notes:

- (i) The increases in accrued deferred pension during the year due to inflation are negative. This is because inflation is measured using the Retail Prices Index which decreased between September 2008 and September 2009 (the period used to determine inflationary increases applying during the year).
- (ii) The transfer value of the increase in accrued deferred pension is the present value of the increase in excess of inflation in the deferred pension and associated benefits during the period in accordance with the transfer value regulations, less the Director's contributions.
- (iii) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.
- (iv) On 1 January 2011, Peter Zinkin started to receive his pension benefits from the Defined Benefit section of the Fund, and became a contributing member of the Defined Contribution section. The impact of this change will be incorporated in the 2011 Remuneration Report.

The table below sets out the transfer value at 31 December 2010 of each executive Director's accrued deferred pension 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 scheme had the Directors left service on the dates shown, and reflect the age of the Director, his period of membership of the scheme and his pensionable salary.

Name of Director	Age at 31 December 2010 Years	Pensionable service at 31 December 2010 Years	Transfer value at 31 December 2009 (Note i) £	Contributions made by Director during the year (Note ii) £	Increase in transfer value during the year less Director's contributions (Note iii) £	Transfer value at 31 December 2010 (Note i) £
D J Magrath	46	4	178,427	6,411	54,281	239,119
A J McNaughton	47	13	383,802	6,411	51,683	441,896
A L P Rabin (iv)	55	17	1,060,421	6,411	173,313	1,240,145
I P Tyler	50	14	564,301	6,411	95,782	666,494
P J L Zinkin	57	29	3,790,597	21,005	483,986	4,295,588

Notes:

- (i) The transfer value is the present value of the accrued deferred pension and associated benefits at the relevant date, calculated using the transfer value basis then in force.
- (ii) Andrew McNaughton has participated in the Company's SMART Pensions salary sacrifice arrangement since 1 November 2009. Mr McNaughton's contributions figure includes £6,180 paid via this arrangement.
- (iii) The figure is the difference between the transfer value of the accrued benefits at the start and end of the period, less the Director's contributions during the period.
- (iv) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

Remuneration Report

By order of the Board

R J W Walvis

Senior Independent Director and chairman of the Remuneration Committee

2 March 2011

THE INFRASTRUCTURE BUSINESS

OUR ACCOUNTS

Our accounts

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BALFOUR BEATTY PLC

We have audited the financial statements of Balfour Beatty plc for the year ended 31 December 2010 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 37. 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.

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 2010 and of the Group's profit and the Company's loss 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 June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.



Mark Beddy

Senior Statutory Auditor

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

2 March 2011

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Before exceptional items* £m	Exceptional items* (Note 8) £m	Total £m	2010	Before exceptional items* £m	Exceptional items* (Note 8) £m	Total £m	2009
Revenue including share of joint ventures and associates		10,541	–	10,541	10,339	–	–	10,339	10,339
Share of revenue of joint ventures and associates	15.2	(1,305)	–	(1,305)	(1,385)	–	–	(1,385)	(1,385)
Group revenue	2	9,236	–	9,236	8,954	–	–	8,954	8,954
Cost of sales		(8,132)	–	(8,132)	(8,173)	–	–	(8,173)	(8,173)
Gross profit		1,104	–	1,104	781	–	–	781	781
Net operating expenses									
– amortisation of intangible assets	13	–	(82)	(82)	–	(48)	–	(48)	(48)
– other		(851)	(23)	(874)	(582)	63	–	(519)	
Group operating profit/(loss)		253	(105)	148	199	15	–	214	
Share of results of joint ventures and associates	15.2	85	(27)	58	81	–	–	81	81
Profit/(loss) from operations	4	338	(132)	206	280	15	–	295	
Investment income	6	46	–	46	32	–	–	32	
Finance costs	7	(65)	–	(65)	(47)	(15)	–	(62)	
Profit/(loss) before taxation		319	(132)	187	265	–	–	265	
Taxation	9	(83)	39	(44)	(69)	15	–	(54)	
Profit/(loss) for the year attributable to equity holders		236	(93)	143	196	15	–	211	

* and amortisation of intangible assets (Note 13).

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

	Notes	2010 pence	2009 ¹² pence
Basic earnings per ordinary share	10	21.0	37.1
Diluted earnings per ordinary share	10	20.9	37.0
Dividends per ordinary share proposed for the year	11	12.7	12.0

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).² Per share numbers have been restated for the bonus element of the 2009 rights issue (Note 28.2).

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £m	2009 ¹ £m
Profit for the year		143	211
Other comprehensive income/(expense) for the year			
Currency translation differences		43	(77)
Actuarial movements on retirement benefit obligations		87	(350)
Fair value revaluations – PPP financial assets		61	(81)
– PPP cash flow hedges		(67)	5
– other cash flow hedges		(2)	(2)
– available-for-sale investments in mutual funds	16.1	4	–
Changes in fair value of net investment hedges		–	18
Tax relating to components of other comprehensive income		(25)	120
Total other comprehensive income/(expense) for the year		101	(367)
Total comprehensive income/(expense) for the year attributable to equity holders	28.1	244	(156)

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	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 ¹ (Note 15.5) £m	Other reserves (Note 28.1) £m	Retained profits £m	Non-controlling interests £m	Total ¹ £m
At 1 January 2009 ¹		239	54	16	139	226	79	104	4	861
Total comprehensive income/(expense) for the year	28.1	–	–	–	–	6	(41)	(121)	–	(156)
Ordinary dividends	11	–	–	–	–	–	–	(63)	–	(63)
Joint ventures' and associates' dividends	15.1	–	–	–	–	(75)	–	75	–	–
Issue of ordinary shares	27.1	104	3	–	–	–	252	–	–	359
Rights issue expenses	28.2	–	–	–	–	–	–	(3)	–	(3)
Movements relating to share-based payments		–	–	–	–	–	1	–	–	1
Transfers		–	–	–	(107)	–	(3)	110	–	–
At 31 December 2009 ¹		343	57	16	32	157	288	102	4	999
Total comprehensive income for the year	28.1	–	–	–	–	53	46	145	–	244
Ordinary dividends	11	–	–	–	–	–	–	(84)	–	(84)
Joint ventures' and associates' dividends	15.1	–	–	–	–	(62)	–	62	–	–
Issue of ordinary shares	27.1	–	2	–	–	–	–	–	–	2
Recycling of revaluation reserves to the income statement on disposal	15.5	–	–	–	–	(4)	–	–	–	(4)
Acquisition of non-controlling interest		–	–	–	–	–	–	(1)	–	(1)
Movements relating to share-based payments		–	–	–	–	–	–	4	–	4
Transfers		–	–	–	(2)	–	–	2	–	–
At 31 December 2010		343	59	16	30	144	334	230	4	1,160

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010			2009		
		Before exceptional items £m	Exceptional items (Note 8) £m	Total £m	Before exceptional items £m	Exceptional items (Note 8) £m	Total £m
Revenue	2	31	–	31	189	–	189
Net operating (expense)/income		(23)	(8)	(31)	(9)	2	(7)
Profit/(loss) from operations		8	(8)	–	180	2	182
Investment income	6	6	–	6	4	–	4
Finance costs	7	(28)	–	(28)	(36)	–	(36)
(Loss)/profit before taxation		(14)	(8)	(22)	148	2	150
Taxation	9	7	1	8	18	(1)	17
(Loss)/profit for the year attributable to equity holders		(7)	(7)	(14)	166	1	167

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £m	2009 £m
(Loss)/profit for the year		(14)	167
Other comprehensive income/(expense) for the year			
Actuarial movements on retirement benefit obligations		5	(16)
Tax relating to components of other comprehensive income	24.3	–	5
Total other comprehensive income/(expense) for the year		5	(11)
Total comprehensive (expense)/income for the year attributable to equity holders		28.2	(9)
			156

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	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 2009		239	54	16	139	64	276	788
Total comprehensive income for the year	28.2	–	–	–	–	–	156	156
Ordinary dividends	11	–	–	–	–	–	(63)	(63)
Issue of ordinary shares	27.1	104	3	–	–	252	–	359
Rights issue expenses		–	–	–	–	–	(3)	(3)
Movements relating to share-based payments		–	–	–	–	4	(3)	1
Transfers		–	–	–	(107)	(3)	110	–
At 31 December 2009		343	57	16	32	317	473	1,238
Total comprehensive expense for the year	28.2	–	–	–	–	–	(9)	(9)
Ordinary dividends	11	–	–	–	–	–	(84)	(84)
Issue of ordinary shares	27.1	–	2	–	–	–	–	2
Movements relating to share-based payments		–	–	–	–	4	–	4
Transfers		–	–	–	(2)	–	2	–
At 31 December 2010		343	59	16	30	321	382	1,151

STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	2010 £m	2009 ^{1,3} £m	2008 ¹ £m	Group	Company
					2010 £m	2009 £m
Non-current assets						
Intangible assets – goodwill	12	1,196	1,145	975	–	–
– other	13	251	298	223	–	–
Property, plant and equipment	14	320	315	296	–	1
Investments in joint ventures and associates	15	488	451	465	–	–
Investments	16	95	83	55	1,742	2,095
PPP financial assets	17	327	260	151	–	–
Deferred tax assets	24	163	191	132	2	4
Derivative financial instruments	20	–	1	3	1	1
Trade and other receivables	21	70	98	74	30	31
		2,910	2,842	2,374	1,775	2,132
Current assets						
Inventories	18	89	100	125	–	–
Due from customers for contract work	19	591	524	383	–	–
Derivative financial instruments	20	4	–	2	6	1
Trade and other receivables	21	1,197	1,329	1,193	1,114	1,057
Current tax assets		4	5	–	14	–
Cash and cash equivalents – PPP subsidiaries	23	18	10	2	–	–
– other	23	566	608	461	–	143
		2,469	2,576	2,166	1,134	1,201
Total assets		5,379	5,418	4,540	2,909	3,333
Current liabilities						
Trade and other payables	22	(2,232)	(2,412)	(2,168)	(1,562)	(1,898)
Due to customers for contract work	19	(651)	(607)	(540)	–	–
Derivative financial instruments	20	(2)	(1)	(66)	(6)	(1)
Current tax liabilities		(29)	(8)	(23)	–	(2)
Borrowings – PPP non-recourse loans	23	(8)	(19)	–	–	–
– other	23	(37)	(23)	(12)	(55)	(53)
		(2,959)	(3,070)	(2,809)	(1,623)	(1,954)
Non-current liabilities						
Trade and other payables	22	(144)	(163)	(152)	(25)	(25)
Derivative financial instruments	20	(45)	(24)	(40)	(1)	(1)
Borrowings – PPP non-recourse loans	23	(280)	(239)	(145)	–	–
– other	23	(11)	(13)	(9)	–	–
Deferred tax liabilities	24	(8)	(9)	(10)	–	–
Liability component of preference shares	27	(89)	(88)	(87)	(89)	(88)
Retirement benefit obligations	25	(441)	(586)	(261)	(13)	(18)
Provisions	26	(242)	(227)	(166)	(7)	(9)
		(1,260)	(1,349)	(870)	(135)	(141)
Total liabilities		(4,219)	(4,419)	(3,679)	(1,758)	(2,095)
Net assets		1,160	999	861	1,151	1,238
Equity						
Called-up share capital	27	343	343	239	343	343
Share premium account	28	59	57	54	59	57
Equity component of preference shares	28	16	16	16	16	16
Special reserve	28	30	32	139	30	32
Share of joint ventures' and associates' reserves	28	144	157	226	–	–
Other reserves	28	334	288	79	321	317
Retained profits	28	230	102	104	382	473
Equity attributable to equity holders of the parent		1,156	995	857	1,151	1,238
Non-controlling interests	28	4	4	4	–	–
Total equity		1,160	999	861	1,151	1,238

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

On behalf of the Board

Steve Marshall
Director

Duncan Magrath
Director

2 March 2011

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Group		Company	
		2010 £m	2009 £m	2010 £m	2009 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	35.1	169	294	(64)	14
Income taxes paid		(21)	(31)	(6)	(14)
Net cash from/(used in) operating activities		148	263	(70)	–
Cash flows from investing activities					
Dividends received from joint ventures and associates		62	75	30	39
Dividends received from subsidiaries		–	–	1	150
Interest received		19	17	6	5
Acquisition of businesses, net of cash and cash equivalents acquired	29.1	(44)	(300)	–	–
Purchase of intangible assets – other		(14)	(3)	–	–
Purchase of property, plant and equipment		(85)	(71)	(1)	(1)
Purchase of other investments		(13)	–	–	–
Investments in and loans made to joint ventures and associates		(56)	(50)	–	1
Investments in subsidiaries		–	–	–	(355)
Investments in PPP financial assets		(22)	(95)	–	–
Settlement of financial derivatives		–	(57)	–	–
Disposal of investments in joint ventures		24	–	–	–
Disposal of property, plant and equipment		13	19	–	–
Disposal of other investments		7	16	–	–
Net cash (used in)/from investing activities		(109)	(449)	36	(161)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		2	356	2	356
Purchase of ordinary shares		(3)	(6)	(3)	(6)
Proceeds from new loans		49	121	–	–
Proceeds from new finance leases		4	–	–	–
Repayment of loans		(30)	(4)	–	–
Repayment of finance leases		(5)	(3)	–	–
Ordinary dividends paid		(84)	(63)	(84)	(63)
Interest paid		(31)	(19)	(15)	(24)
Preference dividends paid		(11)	(11)	(11)	(11)
Net cash (used in)/from financing activities		(109)	371	(111)	252
Net (decrease)/increase in cash and cash equivalents		(70)	185	(145)	91
Effects of exchange rate changes		12	(30)	–	–
Cash and cash equivalents at beginning of year		608	453	90	(1)
Cash and cash equivalents at end of year	35.2	550	608	(55)	90

NOTES TO THE ACCOUNTS

1 Principal accounting policies

1.1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on [page 51](#) and in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee and adopted by the European Union relevant to its operations and effective for accounting periods beginning on 1 January 2010.

The financial statements have been prepared under the historical cost convention, except as described under Note 1.20. The functional and presentational currency of the Company, and the presentational currency of the Group, is sterling.

Changes in accounting policies

The Group has adopted IFRIC 12 Service Concession Arrangements in the current year. IFRIC 12 relates to the accounting for the Group's PPP concessions and requires certain assets constructed by one of the equity accounted joint ventures that were previously accounted for as available-for-sale financial assets to be accounted for as intangible assets.

IFRS 1 First-time Adoption of International Financial Reporting Standards (revised 2008); IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 16 Hedges of a Net Investment in a Foreign Operation; IFRIC 17 Distributions of Non-cash Assets to Owners; IFRIC 18 Transfers of Assets from Customers; Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items; IFRIC 9 and IAS 39 – Embedded Derivatives; Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions; Improvements to IFRSs (issued April 2009); Improvements to IFRSs (issued May 2008); and Amendments to IFRS 1 Additional Exemptions for First-time Adopters also came into effect and were adopted in the current year but had no effect on the Group financial statements.

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been released by the IASB but have either not been adopted by the European Union or are not yet effective in the European Union: IFRS 9 Financial Instruments; IAS 24 Related Party Disclosures (revised 2009); Amendments to IFRS 7 Financial Instruments: Disclosures; Improvements to IFRSs (issued May 2010); IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments; Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement; Amendments to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues; and Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. Except for IFRS 9 none of these standards, interpretations or amendments is expected to have an effect on the accounting policies or disclosures in the Group financial statements.

IFRS 9 Financial Instruments is expected to replace IAS 39 Financial Instruments: Recognition and Measurement from 2013, subject to EU adoption. IFRS 9 in issue as at 2 March 2011 only concerns the classification and measurement of financial assets and liabilities. New requirements for the derecognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2011. The requirements of IFRS 9 in issue as at 2 March 2011 would result in the Group's PPP financial assets being reclassified from "available-for-sale", which is a category that will no longer exist under the new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. As a result, movements in the fair value of PPP financial assets would no longer be recognised in other

comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings. The effect within the Group's reserves would be a transfer of £19m from PPP financial asset reserves to retained earnings. The effect within the share of joint ventures' and associates' reserves would be a transfer of £79m from PPP financial asset reserves to retained earnings.

1.2 Restatement of comparative information

In accordance with IAS 8, the comparative information presented in these financial statements has been restated for the adoption of IFRIC 12 as described above.

The statement of financial position as at 31 December 2009 has also been restated for the amendments to the acquisition accounting in relation to Parsons Brinckerhoff Inc. as disclosed in Note 29. New information in respect of certain contractual positions as at the acquisition date of Parsons Brinckerhoff Inc. has been considered by management resulting in changes to the fair value of net assets recognised in respect of the acquisition from those fair values disclosed in the 2009 annual report.

The effect in respect of IFRIC 12 on the opening statement of financial position as at 1 January 2009 and in respect of IFRIC 12 and the restatement of the acquisition statement of financial position of Parsons Brinckerhoff on the statement of financial position as at 31 December 2009 has been presented in Note 37.

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 and to the effective date of disposal.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the fair value of the assets and liabilities recognised.

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 Communities is contractually limited to a maximum pre-agreed level of return, beyond which Balfour Beatty Communities does not share in any further return.

1 Principal accounting policies continued

1.3 Basis of consolidation continued

b) Joint ventures and associates continued

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 associate or joint venture 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 1.29.

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. These currency translation differences 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 enters into forward exchange contracts. See Note 1.20(b) 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, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount; and
- dividend income is recognised when the equity holder's right to receive payment is established.

1.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision-maker and therefore the segmental disclosures provided in Note 3 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into four reportable segments. A description of each reportable operating segment is provided in Note 3. Further information on the business activities of each reportable operating segment is set out on *pages 28 to 47*.

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 profit from operations before exceptional items and amortisation of intangible assets.

Segment results represent the contribution of the different segments after 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.

1.7 Construction and service contracts

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date. The stage of completion is measured by the proportion of the value of work done to the total value of work under the contract. Full provision is made for all known or expected losses on individual contracts once such losses are foreseen. Revenue in respect of variations to contracts, claims and incentive payments is recognised when it is probable it will be agreed by the client. Profit for the year includes the benefit of claims settled on contracts completed in previous years.

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.

1.8 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.

1.9 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 Principal accounting policies continued

1.10 Research and development

Research expenditure is written-off in the period in which it is incurred.

Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

1.11 Exceptional items

Material and non-recurring items of income and expense are disclosed in the income statement as "Exceptional items". Examples of items which may give rise to disclosure as "Exceptional items" include: gains or losses on the disposal of businesses, investments and property, plant and equipment, unless this is part of a programme of realising value from the disposal of similar businesses or investments; costs of restructuring and reorganisation of existing businesses; acquisition expenses of newly acquired businesses; costs of integrating newly acquired businesses; premium paid on the repurchase of preference shares; litigation and regulatory settlements; asset impairments; pension scheme settlements and curtailments; and other material non-recurring pension movements.

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 represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired, arising on the acquisition of subsidiaries and other businesses, joint ventures and associates. 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 negative goodwill 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. The cost of other intangible assets is amortised over their expected useful lives, which range from one to 10 years, except for customer contracts and relationships in respect of Parsons Brinckerhoff, Barnhart and Balfour Beatty Communities, which are amortised on a basis matching the return earned over the life of the underlying contracts, which have a duration of up to 50 years.

1.14 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes expenditure associated with bringing the asset to its operating location and condition. Certain land and buildings were revalued under UK GAAP. On transition to IFRS, the Group has elected to use the revalued amount as deemed cost.

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated over their expected useful lives, on a straight-line basis at rates of 2.5% for buildings or over the term of the lease and on a straight-line basis at rates of 4% to 33% for plant and equipment.

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.

1 Principal accounting policies continued

1.16 Impairment of assets continued

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.

From 1 January 2005, investments are classified as either available-for-sale or held to maturity. Available-for-sale investments are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Held to maturity investments are measured at subsequent reporting dates at amortised cost.

1.18 Non-current assets held for sale

Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. Held for sale assets are measured at the lower of carrying amount and fair value less costs to sell.

1.19 Inventories

Inventories are valued at the lower of cost and net realisable value.

Where appropriate, cost includes a proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.20 Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

a) Cumulative convertible redeemable preference shares

The Company's cumulative convertible redeemable preference shares are a compound instrument, consisting of 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.

b) 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 20 and in the Financial review on [page 51](#).

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 the effective portion of derivatives that are designated and qualify as hedges of net investments in foreign operations are recognised in equity. Changes in the fair value of the ineffective portion of net investment hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement upon disposal of the foreign operation.

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 forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded on the statement of financial position at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the statement of financial position are recognised in the income statement as they arise.

c) PPP concession companies

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets.

In the construction phase, income is recognised by applying an attributable profit margin on the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on those costs. The residual element of projected cash is allocated to the financial asset, using the effective interest rate method giving rise to interest income. Due to the nature of the contractual arrangements the projected cashflows can be estimated with a high degree of certainty.

1 Principal accounting policies continued

1.20 Financial instruments

c) PPP concession companies continued

In the construction phase the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin that represents the fair value of construction services performed. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using assumptions in respect of the discount rates which are based on long-term gilt rates adjusted for the risk levels associated with the assets. The subsequent movements in the fair value are taken to equity. Amounts accumulated in equity are transferred to the income statement upon disposal of the operation.

1.21 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts.

1.22 Trade payables

Trade payables are not interest-bearing and are stated at their nominal value. Advance payments on contracts are included in trade payables and relates to advances received on contracts which are in progress.

1.23 Bank 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 benefit schemes the majority of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the statement of financial position comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the plan assets. Actuarial gains and losses are recognised in full in the period in which they occur outside the income statement in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

1.25 Provisions

Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability. Provisions are recognised when: the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

1.26 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.

1.27 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.

1.28 Key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expense incurred during the reporting period. Actual outcomes may therefore differ from these estimates and assumptions. The estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group within the next financial year are discussed below and in the Financial review.

a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in Notes 1.5 and 1.7, are central to how the Group values the work it has carried out in each financial year. These policies require forecasts to be made of the outcomes of long-term professional services, construction services and support services contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes, maintenance liabilities and changes in costs.

b) Recoverable value of recognised receivables

The Group has recognised trade receivables with a carrying value of £893m. The recoverability of trade receivables is regularly reviewed and specific provisions are recognised for balances considered to be irrecoverable. The irrecoverable amounts are estimated based on reviewing the available economic information specific to each receivable.

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 2010 was £1,196m.

d) Available-for-sale financial assets

Assets constructed by the Group's PPP subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" and at 31 December 2010 had a value of £2,448m. The fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates, varying from 5.8% to 8.8%, is used which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. A £61m gain was taken to equity in 2010 as a result of movements in the fair value of these financial assets.

1 Principal accounting policies continued

1.28 Key sources of estimation uncertainty continued

e) PPP derivative financial instruments

The Group's PPP subsidiary, joint venture and associate companies use derivative financial instruments, principally swaps, to manage the interest rate and inflation rate risks to which the concessions are exposed by their long-term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each reporting date at their fair value. The fair value of derivatives constantly changes in response to prevailing market conditions. At 31 December 2010, a cumulative fair value loss of £221m had arisen on these financial instruments and a loss of £67m was taken to equity in 2010.

f) Impairment of investments in joint ventures and associates

Investments in joint ventures and associates are reviewed for impairment at the reporting date. Determining whether an investment balance is impaired requires an estimation of the value in use of the joint venture or associate. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the joint venture or associate and the application of a suitable discount rate in order to calculate the present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the joint venture or associate.

g) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 25, including a table showing the sensitivity of the pension scheme obligations and the prospective 2011 charge to the income statement to different actuarial assumptions. At 31 December 2010, the defined benefit liability recognised on the Group's statement of financial position was £441m (2009: £586m). 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 2010 the Group recognised net actuarial gains of £87m in equity (2009: £350m loss), including its share of the actuarial gains and losses arising in joint ventures and associates.

h) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes.

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

As set out in Note 1.12 above, deferred tax is accounted for on temporary differences using the liability method, with deferred tax liabilities generally being provided for in full and deferred tax assets being recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Note 24.2 details the unused tax losses for which deferred tax assets have not been recognised and the undistributed reserves of subsidiaries, joint venture entities and associates for which deferred tax liabilities have not been provided, together with the judgements which the Group has made at 31 December 2010 in respect of these matters. These judgements may change in the future and they will be reviewed at each reporting date.

1.29 Exchange rates

The following key exchange rates were applied in the preparation of these financial statements:

Average rates

£1 buys	2010	2009	Change
US\$	1.55	1.56	(0.6)%
EUR	1.16	1.12	3.6%

Closing rates

£1 buys	2010	2009	Change
US\$	1.56	1.62	(3.7)%
EUR	1.16	1.13	2.7%

2 Revenue

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Revenue from the provision of services	9,148	8,797	–	–
Revenue from manufacturing activities	87	139	–	–
Proceeds from sale of development land	1	18	–	–
Dividends from subsidiaries	–	–	1	150
Dividends from joint ventures and associates	–	–	30	39
Total revenue	9,236	8,954	31	189
Investment income (Note 6)	46	32	6	4
Total revenue and investment income	9,282	8,986	37	193

3 Segment analysis

The reportable segments of the Group are:

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

3.1 Total Group

	Professional Services 2010 £m	Construction Services 2010 £m	Support Services 2010 £m	Infrastructure Investments 2010 £m	Corporate activities 2010 £m	Total 2010 £m
Performance by activity:						
Revenue including share of joint ventures and associates	1,613	6,743	1,434	750	1	10,541
Share of revenue of joint ventures and associates	(4)	(616)	(131)	(554)	–	(1,305)
Group revenue	1,609	6,127	1,303	196	1	9,236
Group operating profit/(loss)	84	181	46	(23)	(35)	253
Share of results of joint ventures and associates	1	31	5	48	–	85
Profit/(loss) from operations before exceptional items and amortisation	85	212	51	25	(35)	338
Exceptional items	(25)	(6)	(12)	(7)	–	(50)
Amortisation of intangible assets	(50)	(18)	(1)	(13)	–	(82)
Profit/(loss) from operations	10	188	38	5	(35)	206
Investment income						46
Finance costs						(65)
Profit before taxation						187
Assets and liabilities						
Due from customers for contract work	148	389	54	–	–	591
Due to customers for contract work	(187)	(453)	(11)	–	–	(651)
Inventories	1	50	37	–	1	89
Trade and other receivables – current	275	720	136	45	21	1,197
Trade and other payables – current	(244)	(1,640)	(234)	(48)	(66)	(2,232)
Provisions	(30)	(148)	(44)	(1)	(19)	(242)
Working capital	(37)	(1,082)	(62)	(4)	(63)	(1,248)
Total assets	842	2,412	396	934	795	5,379
Total liabilities	(579)	(2,519)	(363)	(171)	(587)	(4,219)
Net assets/(liabilities)	263	(107)	33	763	208	1,160
Other information						
Capital expenditure	13	52	17	1	2	85
Gain on sale of investments in joint ventures	–	–	–	20	–	20
Impairment of Barking Power Station	–	–	–	27	–	27
Depreciation	11	48	12	2	1	74
Performance by geographic destination:						
Group revenue			United Kingdom 2010 £m	United States 2010 £m	Rest of world 2010 £m	Total 2010 £m
Non-current assets excluding financial instruments and deferred tax assets	4,991		3,072	1,173	9,236	
Major customers						
Included in Group revenue are revenues of £2,811m (2009: £2,832m) from the UK Government and £1,940m (2009: £1,605m) from the US Government, which are considered to be the Group's two largest customers. These revenues are included in the results across all four reported segments.						

3 Segment analysis continued

3.1 Total Group continued

	Professional Services 2009 ³ £m	Construction Services 2009 £m	Support Services 2009 £m	Infrastructure Investments 2009 ¹ £m	Corporate activities 2009 £m	Total 2009 ^{1,3} £m
Performance by activity:						
Revenue including share of joint ventures and associates	558	7,491	1,443	829	18	10,339
Share of revenue of joint ventures and associates	(5)	(673)	(140)	(567)	–	(1,385)
Group revenue	553	6,818	1,303	262	18	8,954
Group operating profit/(loss)	13	183	50	(12)	(35)	199
Share of results of joint ventures and associates	–	24	5	52	–	81
Profit/(loss) from operations before exceptional items and amortisation	13	207	55	40	(35)	280
Exceptional items	(23)	(16)	3	(1)	100	63
Amortisation of intangible assets	(8)	(20)	(2)	(18)	–	(48)
(Loss)/profit from operations	(18)	171	56	21	65	295
Investment income						32
Finance costs						(62)
Profit before taxation						265
Assets and liabilities						
Due from customers for contract work	133	339	52	–	–	524
Due to customers for contract work	(134)	(457)	(16)	–	–	(607)
Inventories	10	42	48	–	–	100
Trade and other receivables – current	281	860	127	47	14	1,329
Trade and other payables – current	(325)	(1,748)	(238)	(42)	(59)	(2,412)
Provisions	(27)	(143)	(38)	–	(19)	(227)
Working capital	(62)	(1,107)	(65)	5	(64)	(1,293)
Total assets ^{1,3}	843	2,498	380	855	842	5,418
Total liabilities ³	(594)	(2,765)	(400)	(111)	(549)	(4,419)
Net assets/(liabilities)	249	(267)	(20)	744	293	999
Other information						
Capital expenditure	2	55	10	3	1	71
Impairment of inventory, property, plant and equipment	–	4	–	–	–	4
Depreciation	2	50	13	2	2	69

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

	United Kingdom 2009 ^{1,3} £m	United States 2009 ³ £m	Rest of world 2009 ³ £m	Total 2009 ^{1,3} £m
Performance by geographic destination:				
Group revenue	5,364	2,837	753	8,954
Non-current assets excluding financial instruments and deferred tax assets	1,008	833	369	2,210

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

3 Segment analysis continued

3.2 Infrastructure Investments (Balfour Beatty Capital and Balfour Beatty Communities)

	Group 2010 £m	Share of joint ventures and associates 2010 £m	Total 2010 £m	Group 2009 £m	Share of joint ventures and associates 2009 £m	Total 2009 £m
Revenue						
PPP UK**						
– joint ventures and associates (Note 15.2)	–	473	473	–	472	472
– subsidiaries (Note 3.3)	68	–	68	125	–	125
PPP US						
– joint ventures and associates (Note 15.2)	–	1	1	–	–	–
– subsidiaries	121	–	121	131	–	131
Infrastructure						
– joint ventures and associates (Note 15.2)	–	80	80	–	95	95
– subsidiaries	7	–	7	6	–	6
	196	554	750	262	567	829

** Plus Singapore.

	Group 2010 £m	Share of joint ventures and associates 2010 £m	Total 2010 £m	Group 2009 £m	Share of joint ventures and associates 2009 ¹ £m	Total 2009 ¹ £m
Profit from operations – before exceptional items and amortisation of intangible assets⁴						
PPP UK**						
– joint ventures and associates (Note 15.2)	–	30	30	–	29	29
– subsidiaries (Note 3.3)	1	–	1	1	–	1
PPP US						
– joint ventures and associates (Note 15.2)	–	6	6	–	4	4
– subsidiaries	14	–	14	20	–	20
Infrastructure						
– joint ventures and associates (Note 15.2)	–	12	12	–	19	19
– subsidiaries	(4)	–	(4)	(3)	–	(3)
	11	48	59	18	52	70
Bidding costs and overheads	(34)	–	(34)	(30)	–	(30)
	(23)	48	25	(12)	52	40

** Plus Singapore.

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

⁴ Includes the Group's share of profit after taxation of joint ventures and associates (excluding exceptional items).

3 Segment analysis continued

3.2 Infrastructure Investments (Balfour Beatty Capital and Balfour Beatty Communities) continued

	Group 2010 £m	Share of joint ventures and associates 2010 £m	Total 2010 £m	Group 2009 £m	Share of joint ventures and associates 2009 ¹ £m	Total 2009 ¹ £m
Net assets						
PPP UK**						
– joint ventures and associates (Note 15.2 and 15.3)	–	274	274	–	235	235
– subsidiaries (Note 3.3)	278	–	278	238	–	238
PPP US						
– joint ventures and associates (Note 15.2)	–	45	45	–	46	46
– subsidiaries	163	–	163	163	–	163
Infrastructure						
– joint ventures and associates (Note 15.2)	–	62	62	–	87	87
– subsidiaries	6	–	6	9	–	9
	447	381	828	410	368	778
Infrastructure investments central functions	(65)	–	(65)	(34)	–	(34)
Total infrastructure investments net assets	382	381	763	376	368	744
Net borrowings in relation to PPP subsidiaries	(270)	–	(270)	(248)	–	(248)
	112	381	493	128	368	496

** Plus Singapore.

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

3.3 PPP concession subsidiaries

The Group has a 100% interest in six 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 and Connect Roads Coventry Holdings Ltd. The performance of the wholly-owned PPP concessions and their statements of financial position are summarised below:

	2010 £m	2009 £m
Income statement		
Group revenue	68	125
Profit from operations	1	1
Investment income	19	14
Finance costs	(20)	(13)
Profit before taxation	–	2
Taxation	–	(1)
Profit for the year	–	1
Cash flow		
Profit from operations	1	1
Decrease in working capital	4	2
Income taxes paid	–	–
Net cash inflow from operating activities	5	3
Net cash outflow from investing activities	(22)	(94)
Net cash outflow from financing activities	(5)	(14)
Net cash outflow	(22)	(105)
Net borrowings at beginning of year	(248)	(143)
Net borrowings at end of year	(270)	(248)
Statement of financial position		
PPP financial assets (Note 17)	327	260
Derivative financial instruments	(44)	(24)
Other net current (liabilities)/assets	(5)	2
	278	238
Cash and cash equivalents	18	10
Non-recourse term loans	(288)	(258)
Net assets/(liabilities)	8	(10)

4 Profit/(loss) from operations

4.1 Profit/(loss) from operations is stated after charging/(crediting):

	2010 £m	2009 £m
Research and development costs	4	4
Depreciation of property, plant and equipment	74	69
Amortisation of intangible assets other than goodwill	82	48
Impairment of trade receivables	9	3
Impairment of inventory	–	2
Impairment of property, plant and equipment	–	2
Profit on disposal of property, plant and equipment	(2)	(4)
Cost of inventory recognised as an expense	156	161
Exchange (gains)/losses	(1)	1
Auditor's remuneration	7	10
Hire charges for plant and equipment	94	83
Other operating lease rentals	120	75

4.2 Analysis of auditor's remuneration:

	2010 £m	2009 £m
Services as auditors to the Company	0.8	0.7
Auditing financial statements of subsidiaries	4.3	3.4
	5.1	4.1
Amounts for statutory and regulatory filings	0.4	1.5
Audit and other assurance fees	5.5	5.6
Other fees:		
Taxation	1.2	1.8
Due diligence and acquisition related services	–	2.6
Other	0.6	0.3
Total fees in relation to audit and other services	7.3	10.3

5 Employee costs

5.1 Group

Employee costs during the year amounted to:

	2010 £m	2009 £m
Wages and salaries	2,064	1,616
Redundancy	33	16
Social security costs	195	160
Pension costs (Note 25.2)	105	71
Share-based payments (Note 30)	8	7
	2,405	1,870

The average number of Group employees (including executive Directors) was:

	2010 Number	2009 Number
Professional Services	13,642	3,644
Construction Services	21,096	22,241
Support Services	14,214	14,945
Infrastructure Investments	1,359	1,327
Corporate	213	140
	50,524	42,297

At 31 December 2010, the total number of Group employees was 50,042 (2009: 51,543).

5 Employee costs continued

5.2 Company

The average number of employees of Balfour Beatty plc was 156 (2009: 131). Total employee costs of Balfour Beatty plc were £27m (2009: £26m). Total employee costs comprise wages and salaries £19m (2009: £19m), social security costs £2m (2009: £2m), pension costs £3m (2009: £2m) and share-based payments £3m (2009: £3m).

6 Investment income

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
PPP subordinated debt interest receivable	19	9	2	2
PPP interest on financial assets	19	14	—	—
Income arising from derivatives designated as hedges of net investments in foreign operations	—	1	—	—
Interest receivable from subsidiaries	—	—	3	1
Other interest receivable and similar income	8	8	1	1
	46	32	6	4

7 Finance costs

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Preference shares – finance cost	12	12	12	12
PPP non-recourse – bank loans and overdrafts	20	13	—	—
Net finance cost on pension scheme assets and liabilities (Note 25.2)	21	15	1	—
Interest payable to subsidiaries	—	—	10	22
Other interest payable – bank loans and overdrafts	7	5	1	1
– commitment fees	4	1	4	1
– other loans	1	1	—	—
	65	47	28	36
Exceptional items – foreign exchange options	—	15	—	—
	65	62	28	36

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible preference share of 1p was paid in respect of the six months ended 30 June 2010 on 1 July 2010 to holders of these shares on the register on 28 May 2010. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share was paid in respect of the six months ended 31 December 2010 on 1 January 2011 to holders of these shares on the register on 26 November 2010.

8 Exceptional items and amortisation of intangible assets

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
8.1 (Charged against)/credited to profit from operations				
Net operating expenses – gain on sale of investments in joint ventures	20	—	—	—
– cost of implementing UK shared service centre	(12)	—	—	—
– post-acquisition integration, reorganisation and other costs	(29)	(12)	(8)	(2)
– acquisition related expenses	(2)	(16)	—	—
– reduction in pension past service liabilities	—	100	—	4
– Office of Fair Trading ("OFT") fine	—	(5)	—	—
– impairment charges in respect of railways facilities and inventory	—	(4)	—	—
	(23)	63	(8)	2
Share of joint ventures and associates – impairment of Barking Power Station	(27)	—	—	—
	(50)	63	(8)	2
8.2 Charged against finance costs				
– foreign exchange options	—	(15)	—	—
8.3 (Charged against)/credited to profit before taxation				
– tax on items above	12	(18)	1	(1)
– release of deferred tax on unremitted foreign earnings	—	16	—	—
Exceptional items (charged against)/credited to profit for the year	(38)	46	(7)	1
Amortisation of intangible assets	(82)	(48)	—	—
Tax thereon	27	17	—	—
(Charged against)/credited to profit for the year	(93)	15	(7)	1

8 Exceptional items and amortisation of intangible assets continued

8.1 During the period the Group disposed of its 50% interest in Aberdeen Environmental Services (Holdings) Ltd and a 23.9% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd. The Group retains a 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd following the transaction. The aggregate consideration received was £24m. The disposals resulted in a total gain of £20m being realised, comprising £16m in respect of gains on disposal of the investments in the joint ventures and £4m in respect of revaluation reserves recycled to the income statement.

In 2010, the implementation of the UK shared service centre in Newcastle-upon-Tyne led to incremental costs of £12m (2009: £nil) being incurred prior to it becoming operational.

Post-acquisition integration, reorganisation and other costs of £29m (2009: £12m) have been incurred: £23m (2009: £8m) relating to Parsons Brinckerhoff, £8m (2009: £2m) of which was borne by the Company; £3m (2009: £nil) relating to various Rok contracts acquired; £2m (2009: £3m) relating to Schreck-Mieves; £1m (2009: £nil) relating to SpawMaxwell; £nil (2009: £2m) relating to Dean & Dyball; £nil (2009: £1m) relating to Balfour Beatty Communities (formerly GMH Military Housing); £nil (2009: £1m) relating to Douglas E Barnhart; and £nil (2009: £3m gain) recognised in relation to the relocation of certain Rail UK businesses.

In 2010, costs of £2m directly attributable to the acquisition of Halsall were incurred. In 2009, costs of £15m and £1m were directly attributable to the acquisitions of Parsons Brinckerhoff Inc. and Dooley Construction Limited Partnership respectively.

A post-tax impairment charge of £27m (2009: £nil) was incurred in respect of writing down the value of the assets held by Barking Power Ltd. The Group has a 25.5% effective interest in Barking Power Ltd. The impairment has arisen following a detailed assessment of the future earnings of the power station in view of bilateral contracts with power purchasers and gas suppliers which ended in September 2010. The future cash flows in the impairment model are dependent on future power, gas and carbon prices and exchange rates, all of which are volatile and are based on forecasts provided by an external consultant. The other principal sensitivity in the impairment model relates to the discount rate applied. Given the nature of the business and the return an investor would expect from a company with a similar risk profile, a pre-tax discount rate of 11% was applied to the forecast cash flows generated over the remaining 15-year useful life of the power station.

8.2 Due to volatile currency markets, the Group entered into a number of foreign exchange option contracts in 2009 at a cost of £15m to limit the cash outflow for the planned settlement of the Group's foreign exchange contracts in respect of net investment hedging.

8.3 The exceptional items (charged against)/ credited to Group operating profit have given rise to a tax credit of £12m (2009: £18m charge). As a result of the Finance Act 2009, future dividend income from outside the UK is exempt from UK corporation tax which led to the release of £10m of deferred tax in the UK in 2009. In addition, in 2009 there was a release of £6m of US deferred tax in relation to unremitted earnings where future additional US tax will no longer be incurred.

9 Taxation

9.1 Taxation charge

	Group					
	Before exceptional items* £m	Exceptional items* (Note 8) £m	Total 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
UK current tax						
- corporation tax for the year at 28% (2009: 28%)	11	(7)	4	7	(13)	(7)
- adjustments in respect of previous periods	3	-	3	(8)	3	(10)
	14	(7)	7	(1)	(10)	(17)
Foreign current tax						
- foreign tax on profits for the year	52	(18)	34	16	-	-
- adjustments in respect of previous periods	3	-	3	(2)	-	-
	55	(18)	37	14	-	-
Total current tax	69	(25)	44	13	(10)	(17)
Deferred tax						
- UK	16	(2)	14	28	2	-
- foreign tax	13	(12)	1	8	-	-
- rate change	1	-	1	-	-	-
- adjustments in respect of previous periods	(16)	-	(16)	5	-	-
Total deferred tax	14	(14)	-	41	2	-
Total tax charge/(credit)	83	(39)	44	54	(8)	(17)

* and amortisation of intangible assets.

The Group tax charge above excludes amounts for joint ventures and associates (See Note 15.2), except where tax is levied at the Group level.

In addition to the Group tax charge above is £25m of tax charged (2009: £120m credited) directly to equity, comprising a deferred tax charge of £28m (2009: £94m credit), and a credit in respect of joint ventures and associates of £3m (2009: £26m credit).

In addition to the Company tax credit is £nil of deferred tax credited directly to equity (2009: £5m credited).

The weighted average applicable tax rate is 35% (2009: 33%) based on profit before taxation, exceptional items and amortisation of intangible assets, excluding the results of joint ventures and associates.

9 Taxation continued

9.2 Taxation reconciliation

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Profit/(loss) before taxation	187	265	(22)	150
Less: share of results of joint ventures and associates	(58)	(81)	–	–
Profit/(loss) before taxation	129	184	(22)	150
Add/(less): exceptional items and amortisation of intangible assets charged/(credited) excluding share of joint ventures and associates	105	–	8	(2)
Profit/(loss) before taxation, exceptional items and amortisation of intangible assets and the results of joint ventures and associates	234	184	(14)	148
Tax on profit/(loss) before taxation at standard UK corporation tax rate of 28% (2009: 28%)	66	52	(4)	41
Effects of:				
Expenses not deductible for tax purposes	11	7	–	1
Dividend income not taxable	–	–	(9)	(53)
Tax on share of joint ventures' and associates' profits levied at Group level	3	2	–	–
Preference shares finance cost not deductible	3	3	3	3
Losses not available for offset	3	–	–	–
Higher tax rates on foreign earnings	9	11	–	–
Adjustments in respect of previous periods	(10)	(5)	3	(10)
Recognition of losses not previously recognised	(3)	(1)	–	–
Statutory rate change	1	–	–	–
Total tax charge/(credit) on profit/(loss)*	83	69	(7)	(18)
(Less)/add: tax (credit)/charge on exceptional items and amortisation of intangible assets	(39)	(15)	(1)	1
Total tax charge/(credit) on profit/(loss) after exceptional items and amortisation of intangible assets	44	54	(8)	(17)

* Before exceptional items and amortisation of intangible assets.

10 Earnings per ordinary share

	Basic 2010 £m	Diluted 2010 £m	Basic 2009 ¹ £m	Diluted 2009 ¹ £m
	Basic 2010 m	Diluted 2010 m	Basic 2009 ² m	Diluted 2009 ² m
	Basic 2010 Pence	Diluted 2010 Pence	Basic 2009 ^{1,2} Pence	Diluted 2009 ^{1,2} Pence
Earnings	143	143	211	211
Exceptional items – net of tax credit of £12m (2009: £2m charge)	38	38	(46)	(46)
Amortisation of intangible assets – net of tax credit of £27m (2009: £17m)	55	55	31	31
Adjusted earnings	236	236	196	196
Weighted average number of ordinary shares	682	683	571	572
Earnings per ordinary share	21.0	20.9	37.1	37.0
Exceptional items	5.6	5.6	(8.0)	(7.9)
Amortisation of intangible assets	8.1	8.1	5.3	5.3
Adjusted earnings per ordinary share	34.7	34.6	34.4	34.4

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

² Per share numbers have been restated for the bonus element of the 2009 rights issue (Note 28.2).

The calculation of basic earnings is based on profit for the period attributable to equity holders. The calculation of the weighted average number of ordinary shares was affected by the issue of 205,502,237 ordinary shares on 22 October 2009. It has been adjusted for the conversion of share options in the calculation of diluted earnings per ordinary share. No adjustment has been made in respect of the potential conversion of the cumulative convertible redeemable preference shares, the effect of which would have been antidilutive throughout each period. Adjusted earnings per ordinary share, before post-tax exceptional items and post-tax amortisation of intangible assets, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

The per share information has been restated for the bonus element of the 2009 rights issue described in Note 28.2. The adjustment factor has been calculated by dividing the share price immediately before the shares were quoted ex-rights (316.0p) with the theoretical ex-rights price (275.2p), giving an adjustment factor of 1.14826.

11 Dividends on ordinary shares

	Per share 2010 Pence	Amount 2010 £m	Per share 2009 Pence ²	Amount 2009 £m
Proposed dividends for the year:				
Interim – current year	5.05	35	4.79	26
Final – current year	7.65	52	7.20	49
	12.70	87	11.99	75
Recognised dividends for the year:				
Final – prior year		49		37
Interim – current year		35		26
		84		63

² Per share numbers have been restated for the bonus element of the 2009 rights issue (Note 28.2).

The interim 2010 dividend was paid on 3 December 2010. Subject to approval at the Annual General Meeting on 12 May 2011, the final 2010 dividend will be paid on 5 July 2011 to holders of ordinary shares on the register on 26 April 2011 by direct credit or, where no mandate has been given, by cheque posted on 4 July 2011 payable on 5 July 2011. These shares will be quoted ex-dividend on 20 April 2011.

12 Intangible assets – goodwill

	Cost ³ £m	Accumulated impairment losses £m	Carrying amount ³ £m
At 1 January 2009	1,024	(49)	975
Currency translation differences	(55)	5	(50)
Businesses acquired	220	–	220
At 31 December 2009	1,189	(44)	1,145
Currency translation differences	21	(2)	19
Businesses acquired (Note 29)	32	–	32
At 31 December 2010	1,242	(46)	1,196

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

The carrying amounts of goodwill by segment are as follows:

	United Kingdom 2010 £m	United States 2010 £m	Rest of world 2010 £m	Total 2010 £m	United Kingdom 2009 ³ £m	United States 2009 ³ £m	Rest of world 2009 ³ £m	Total 2009 ³ £m
Professional Services ³	15	144	75	234	15	138	50	203
Construction Services	327	326	166	819	319	313	169	801
Support Services	96	–	–	96	96	–	–	96
Infrastructure Investments	4	43	–	47	4	41	–	45
Group	442	513	241	1,196	434	492	219	1,145

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

The recoverable amount of goodwill is based on value in use. Cash flow forecasts have been based on the expected workload of each cash-generating unit (CGU) giving consideration to the current level of confirmed orders and anticipated orders. Cash flow forecasts for the next three years are based on the Group's 2011 budget and medium-term performance review. The other key inputs in assessing each CGU are its revenue growth rate and discount rate. The revenue growth rate has been applied to cash flows after three years into perpetuity and reflects published GDP growth rates for the economic environment of each CGU. The cash flows assume a residual value based on a multiple of earnings before interest and tax.

The cash flows have been discounted using a pre-tax discount rate in the range of 11.0%–11.7% (2009: 10.6%–12.8%). The discount rates are revised annually applying updated market inputs to the capital asset pricing model.

	2010			2009		
	United Kingdom	United States	Rest of World	United Kingdom	United States	Rest of World
Inflation rate	2.9%	2.5%	2.0%	1.9%	1.8%	1.0%
GDP growth rate	1.3%	1.7%	1.0%	0.8%	1.5%	0.3%
Nominal long-term revenue growth rate applied	4.2%	4.2%	3.0%	2.7%	3.3%	1.3%

12 Intangible assets – goodwill continued

Sensitivities

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

Except as noted below, a reasonably possible change in a single assumption will not give rise to impairment in any of the Group's CGUs. Balfour Beatty Communities' goodwill is £43m and the key assumption is the discount rate of 11.0%, at which the fair value of the CGU exceeds the carrying value by £15m or 7%. The fair value is equal to the carrying value at a discount rate of 11.5%. Balfour Beatty Ground Engineering's goodwill is £12m and the key assumption is the revenue growth rate of 4.2%, at which the fair value of the CGU exceeds the carrying value by £8m or 18%. The fair value is equal to the carrying value at a revenue growth rate of 3.0%.

13 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Software £m	Total £m
Cost					
At 1 January 2009	210	44	12	–	266
Currency translation differences	(20)	(3)	–	–	(23)
Additions	–	–	–	3	3
Businesses acquired	26	73	37	3	139
At 31 December 2009	216	114	49	6	385
Currency translation differences	8	5	1	–	14
Additions	–	–	–	14*	14
Businesses acquired (Note 29.1)	3	5	1	–	9
At 31 December 2010	227	124	51	20	422
Accumulated amortisation					
At 1 January 2009	(32)	(7)	(4)	–	(43)
Currency translation differences	3	1	–	–	4
Charge for the year	(32)	(11)	(4)	(1)	(48)
At 31 December 2009	(61)	(17)	(8)	(1)	(87)
Currency translation differences	(2)	–	–	–	(2)
Charge for the year	(34)	(34)	(12)	(2)	(82)
At 31 December 2010	(97)	(51)	(20)	(3)	(171)
Carrying amount					
At 31 December 2010	130	73	31	17	251
At 31 December 2009	155	97	41	5	298

* Includes internally generated software of £11m.

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 Communities 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 Communities.

14 Property, plant and equipment**14.1 Movements**

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m	Group Company
Cost or valuation					
At 1 January 2009	99	526	–	625	3
Currency translation differences	(3)	(15)	–	(18)	–
Additions	6	62	3	71	1
Disposals	(1)	(51)	–	(52)	–
Businesses acquired	21	19	–	40	–
At 31 December 2009	122	541	3	666	4
Currency translation differences	2	4	–	6	–
Additions	10	74	1	85	1
Disposals	(3)	(41)	–	(44)	(4)
Transfers	1	–	(1)	–	(1)
Businesses acquired (Note 29.1)	–	2	–	2	–
At 31 December 2010	132	580	3	715	–
Accumulated depreciation					
At 1 January 2009	(20)	(309)	–	(329)	(2)
Currency translation differences	1	11	–	12	–
Charge for the year	(6)	(63)	–	(69)	(1)
Impairment	(2)	–	–	(2)	–
Disposals	–	37	–	37	–
At 31 December 2009	(27)	(324)	–	(351)	(3)
Currency translation differences	–	(2)	–	(2)	–
Charge for the year	(10)	(64)	–	(74)	–
Disposals	–	32	–	32	3
At 31 December 2010	(37)	(358)	–	(395)	–
Carrying amount					
At 31 December 2010	95	222	3	320	–
At 31 December 2009	95	217	3	315	1

The carrying amount of the Group's land and buildings and property, plant and equipment held under finance leases was £12m (2009: £11m). The Company has no land and buildings and no property, plant and equipment held under finance leases.

14.2 Analysis of carrying amount of land and buildings

	Group 2010 £m	Group 2009 £m
Freehold	58	65
Long leasehold – over 50 years unexpired	4	4
Short leasehold	33	26
	95	95

15 Investments in joint ventures and associates

15.1 Movements

	Net assets ¹ £m	Loans £m	Provisions £m	Total ¹ £m
At 1 January 2009 ¹	409	171	(115)	465
Currency translation differences	(10)	—	—	(10)
Income recognised	81	—	—	81
Fair value revaluation of PPP financial assets	(80)	—	—	(80)
Fair value revaluation of PPP cash flow hedges	(11)	—	—	(11)
Tax on items taken directly to equity	26	—	—	26
Dividends	(75)	—	—	(75)
Additions	4	—	—	4
Loans advanced	—	59	—	59
Loans repaid	—	(13)	—	(13)
Provisions utilised	—	(15)	15	—
Businesses acquired	5	—	—	5
At 31 December 2009 ¹	349	202	(100)	451
Currency translation differences	5	—	—	5
Income recognised	58	—	—	58
Fair value revaluation of PPP financial assets	36	—	—	36
Fair value revaluation of PPP cash flow hedges	(47)	—	—	(47)
Fair value revaluation of other cash flow hedges	(3)	—	—	(3)
Actuarial gains on retirement benefit obligations	1	—	—	1
Tax on items taken directly to equity	3	—	—	3
Dividends	(62)	—	—	(62)
Additions	3	—	—	3
Disposals	(5)	(5)	—	(10)
Loans advanced	—	55	—	55
Loans repaid	—	(2)	—	(2)
Provisions utilised	—	(9)	9	—
At 31 December 2010	338	241	(91)	488

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

Principal joint ventures and associates are shown in Note 36. The original cost of the Group's investments in joint ventures and associates was £177m (2009: £174m). The Group's share of borrowings of joint ventures and associates is shown in Note 15.2. The amount which was supported by the Group and the Company was £2m (2009: £10m), relating to the Group's share of guaranteed borrowings. The borrowings of Barking Power Ltd, Regional & City Airports (Exeter) Ltd and the PPP joint venture and associate entities are repayable over periods extending up to 2037. As disclosed in Note 31, the Group has committed to provide its share of further equity funding of joint ventures and associates in PPP projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction has been completed. As is customary in such projects, dividend payments and other distributions are restricted until certain banking covenants are met.

15 Investments in joint ventures and associates continued

15.2 Share of results and net assets of joint ventures and associates

	Professional Services 2010 £m	Construction Services 2010 £m	Support Services 2010 £m	UK PPP 2010** £m	US PPP 2010 ⁵ £m	Infrastructure 2010 £m	Total 2010 £m	Infrastructure Investments Total 2010 £m
Revenue	4	616	131	473	1	80	554	1,305
Operating profit*	1	35	6	11	6	19	36	78
Investment income	–	–	–	159	–	–	159	159
Finance costs	–	–	–	(128)	–	(3)	(131)	(131)
Profit before taxation*	1	35	6	42	6	16	64	106
Taxation	–	(4)	(1)	(12)	–	(4)	(16)	(21)
Profit after taxation*	1	31	5	30	6	12	48	85
Exceptional items	–	–	–	–	–	(27)	(27)	(27)
Profit after taxation	1	31	5	30	6	(15)	21	58
Non-current assets								
Intangible assets – goodwill	–	31	–	–	–	24	24	55
– PPP concession assets	–	–	–	21	–	–	21	21
– other	–	–	–	1	–	–	1	1
Property, plant and equipment	–	36	2	–	–	68	68	106
PPP financial assets	–	–	–	2,121	–	–	2,121	2,121
Military housing projects	–	–	–	–	45	–	45	45
Other non-current assets	–	4	–	30	–	2	32	36
Current assets								
Cash and cash equivalents	4	176	5	196	–	19	215	400
Other current assets	9	364	28	90	–	19	109	510
Total assets	13	611	35	2,459	45	132	2,636	3,295
Current liabilities								
Borrowings	–	(38)	–	(69)	–	(4)	(73)	(111)
Other current liabilities	(9)	(296)	(25)	(134)	–	(28)	(162)	(492)
Non-current liabilities								
Borrowings	–	(3)	–	(1,743)	–	(38)	(1,781)	(1,784)
Other non-current liabilities	(3)	(178)	–	(239)	–	–	(239)	(420)
Total liabilities	(12)	(515)	(25)	(2,185)	–	(70)	(2,255)	(2,807)
Net assets	1	96	10	274	45	62	381	488

** Plus Singapore.

* Before exceptional items (Note 8).

⁵ The Group's investment in military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Capital expenditure authorised and contracted which has not been provided for in the accounts of the joint ventures and associates amounted to £4m (2009: £2m). The military housing joint ventures and associates have total non-recourse net borrowings of £1,603m (2009: £1,330m). Note 36(e) details the Group's military housing projects.

15 Investments in joint ventures and associates continued

15.2 Share of results and net assets of joint ventures and associates continued

	Professional Services 2009 £m	Construction Services 2009 £m	Support Services 2009 £m	UK PPP** 2009 ¹ £m	US PPP 2009 ⁵ £m	Infrastructure 2009 £m	Total 2009 ¹ £m	Total 2009 ¹ £m
Revenue	5	673	140	472	–	95	567	1,385
Operating profit	–	25	7	7	4	28	39	71
Investment income	–	–	–	139	–	–	139	139
Finance costs	–	–	–	(103)	–	(3)	(106)	(106)
Profit before taxation	–	25	7	43	4	25	72	104
Taxation	–	(1)	(2)	(14)	–	(6)	(20)	(23)
Profit after taxation	–	24	5	29	4	19	52	81
Non-current assets								
Intangible assets – goodwill	–	29	–	–	–	24	24	53
– PPP concession assets	–	–	–	23	–	–	23	23
– other	–	–	–	3	–	–	3	3
Property, plant and equipment	–	33	1	–	–	104	104	138
PPP financial assets	–	–	–	1,887	–	–	1,887	1,887
Military housing projects	–	–	–	–	45	–	45	45
Other non-current assets	–	9	–	52	–	2	54	63
Current assets								
Cash and cash equivalents	8	137	7	141	–	15	156	308
Other current assets	13	323	25	96	1	17	114	475
Total assets	21	531	33	2,202	46	162	2,410	2,995
Current liabilities								
Borrowings	–	(22)	–	(41)	–	(7)	(48)	(70)
Other current liabilities	(15)	(275)	(23)	(94)	–	(19)	(113)	(426)
Non-current liabilities								
Borrowings	–	(3)	–	(1,627)	–	(23)	(1,650)	(1,653)
Other non-current liabilities	(6)	(158)	–	(205)	–	(26)	(231)	(395)
Total liabilities	(21)	(458)	(23)	(1,967)	–	(75)	(2,042)	(2,544)
Net assets	–	73	10	235	46	87	368	451

** Plus Singapore.

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

⁵ The Group's investment in military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

15.3 PPP investments

The Group's investment in PPP and military housing joint ventures and associates comprises:

	Net investment 2010 £m	Reserves 2010 £m	Total 2010 £m	Net investment 2009 ¹ £m	Reserves 2009 ¹ £m	Total 2009 ¹ £m
Roads	87	13	100	65	38	103
Hospitals	88	45	133	79	12	91
Schools	39	(3)	36	33	(3)	30
Other concessions	2	3	5	3	8	11
PPP UK**	216	58	274	180	55	235
PPP US (military housing)	48	(3)	45	44	2	46
PPP investments	264	55	319	224	57	281

** Plus Singapore.

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

15 Investments in joint ventures and associates continued

15.4 Cash flow from/(to) joint ventures and associates

	UK PPP** 2010 £m	US PPP 2010 £m	Infrastructure 2010 £m	Other 2010 £m	Total 2010 £m	UK PPP** 2009 £m	US PPP 2009 £m	Infrastructure 2009 £m	Other 2009 £m	Total 2009 £m
Cash flows from investing activities										
Dividends from joint ventures and associates	27	9	9	17	62	28	3	19	25	75
Subordinated debt interest received	9	–	–	–	9	10	–	–	–	10
Investment in and loans made to joint ventures and associates	(54)	–	–	(2)	(56)	(50)	(1)	–	1	(50)
Acquisitions of joint ventures and associates	–	–	–	–	–	(3)	–	–	(2)	(5)
Total investments in joint ventures and associates	(54)	–	–	(2)	(56)	(53)	(1)	–	(1)	(55)
Disposal of joint ventures	24	–	–	–	24	–	–	–	–	–
Net cash flow from/(to) joint ventures and associates	6	9	9	15	39	(15)	2	19	24	30

** Plus Singapore.

Investments in joint ventures and associates comprise:

	UK PPP** 2010 £m	US PPP 2010 £m	Infrastructure 2010 £m	Other 2010 £m	Total 2010 £m	UK PPP** 2009 £m	US PPP 2009 £m	Infrastructure 2009 £m	Other 2009 £m	Total 2009 £m
Investments in:										
– equity	–	–	–	(3)	(3)	(2)	(1)	–	(2)	(5)
– subordinated debt	(55)	–	–	–	(55)	(62)	–	–	–	(62)
– subordinated debt repaid	1	–	–	–	1	11	–	–	–	11
– other loans	–	–	–	1	1	–	–	–	1	1
Total investments in joint ventures and associates	(54)	–	–	(2)	(56)	(53)	(1)	–	(1)	(55)

** Plus Singapore.

15 Investments in joint ventures and associates continued

15.5 Share of joint ventures' and associates' reserves

	Accumulated profit/(loss) ¹ £m	Hedging reserve £m	PPP financial assets ¹ £m	Currency translation reserve £m	Total ¹ £m
Balance at 1 January 2009 ¹	156	(80)	126	24	226
Currency translation differences	–	–	–	(10)	(10)
Income recognised	81	–	–	–	81
Fair value revaluation of PPP financial assets	–	–	(80)	–	(80)
Fair value revaluation of PPP cash flow hedges	–	(11)	–	–	(11)
Tax on items taken directly to equity	–	4	22	–	26
Dividends paid	(75)	–	–	–	(75)
Balance at 31 December 2009 ¹	162	(87)	68	14	157
Currency translation differences	–	–	–	5	5
Income recognised	58	–	–	–	58
Fair value revaluation of PPP financial assets	–	–	36	–	36
Fair value revaluation of PPP cash flow hedges	–	(47)	–	–	(47)
Fair value revaluation of other cash flow hedges	–	(3)	–	–	(3)
Actuarial gains on retirement benefit obligations	1	–	–	–	1
Tax on items taken directly to equity	–	13	(10)	–	3
Dividends paid	(62)	–	–	–	(62)
Recycling of revaluation reserves to the income statement on disposal	–	11	(15)	–	(4)
Balance at 31 December 2010	159	(113)	79	19	144

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

16 Investments

16.1 Group

	Held to maturity £m	Available-for-sale investments in bonds £m	Available-for-sale investments in mutual funds £m	Total £m
Balance at 31 December 2009	42	41	–	83
Currency translation differences	–	3	–	3
Fair value movements	–	4	–	4
Additions	7	5	–	12
Disposals	(3)	(4)	–	(7)
Balance at 31 December 2010	46	49	–	95

The held to maturity bonds are held by Delphian Insurance Company Ltd, the Group's captive insurance company, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 2.25% (2009: 2.46%) and weighted average life of 2.7 years (2009: 2.4 years). The fair value of the bonds is £45m (2009: £41m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2010 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The available-for-sale investments in mutual funds comprise holdings in a number of funds in respect of the deferred compensation obligations of the Group as disclosed in Note 25. Investments are made based on employees' investment elections. The fair value of the available-for-sale investments is £49m (2009: £41m), determined by the market price of each fund at the reporting date.

16.2 Company

	2010 £m	2009 £m
Investment in subsidiaries	1,871	2,224
Investment in joint ventures and associates	14	14
Provisions	(143)	(143)
	1,742	2,095

17 PPP financial assets

	Schools £m	Roads £m	Total £m
Balance at 1 January 2009	102	49	151
Income recognised in the income statement			
– Construction contract margin	1	–	1
– Interest income	9	5	14
Gains/(losses) recognised in the statement of comprehensive income			
– Fair value movements	1	(2)	(1)
Other movements			
– Cash expenditure	62	42	104
– Cash received	–	(9)	(9)
Balance at 31 December 2009	175	85	260
Income recognised in the income statement			
– Construction contract margin	–	1	1
– Interest income	11	8	19
Gains recognised in the statement of comprehensive income			
– Fair value movements	13	12	25
Other movements			
– Cash expenditure	7	50	57
– Cash received	(16)	(19)	(35)
Balance at 31 December 2010	190	137	327

Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets. PPP financial assets are denominated in sterling. There were no disposals or impairment provisions in 2010 or 2009.

18 Inventories

	2010 £m	2009 £m
Unbilled work in progress	27	44
Raw materials and consumables	45	40
Manufacturing work in progress	5	7
Finished goods and goods for resale	6	5
Development and housing land and work in progress	6	4
	89	100

19 Construction contracts

	2010 £m	2009 ³ £m
Contracts in progress at reporting date:		
Due from customers for contract work	591	524
Due to customers for contract work	(651)	(607)
	(60)	(83)

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

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 £18,839m (2009: £17,332m).

20 Financial instruments

Accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are set out in Note 1.

Capital risk management

The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group and Company comprises: equity attributable to equity holders of Balfour Beatty plc, comprising issued ordinary share capital, reserves and retained earnings as disclosed in Notes 27 and 28; preference shares as disclosed in Note 27; and cash and cash equivalents and borrowings as disclosed in Note 23.

The Group and Company maintain or adjust their capital structure through the payment of dividends to equity holders, issue of new shares and buy-back of existing shares, and issuing new borrowings or repaying existing borrowings. The Group's and Company's policy is to carry no significant net debt, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

The Group's and Company's overall capital risk management strategy remains unchanged from 2009.

20.1 Group

Categories of financial instruments

Group	Loans and receivables at amortised cost, cash and cash equivalents	Financial liabilities at amortised cost	Available-for-sale financial assets	Held to maturity financial assets	Derivatives	Loans and receivables at amortised cost, cash and cash equivalents	Financial liabilities at amortised cost	Available-for-sale financial assets	Held to maturity financial assets	Derivatives
	2010 £m	2010 £m	2010 £m	2010 £m		2010 £m	2009 £m	2009 £m	2009 £m	
Financial assets										
Fixed rate corporate bonds and gilts	–	–	–	46	–	–	–	–	42	–
Mutual funds	–	–	49	–	–	–	–	41	–	–
PPP financial assets	–	–	327	–	–	–	–	260	–	–
Cash and cash equivalents	584	–	–	–	–	618	–	–	–	–
Trade and other receivables	1,179	–	–	–	–	1,341	–	–	–	–
Derivatives	–	–	–	–	4	–	–	–	–	1
Total	1,763	–	376	46	4	1,959	–	301	42	1
Financial liabilities										
Liability component of preference shares	–	(89)	–	–	–	–	(88)	–	–	–
Trade and other payables	–	(2,139)	–	–	–	–	(2,299)	–	–	–
Unsecured borrowings	–	(36)	–	–	–	–	(23)	–	–	–
Secured borrowings	–	(12)	–	–	–	–	(13)	–	–	–
PPP non-recourse term loans	–	(288)	–	–	–	–	(258)	–	–	–
Derivatives	–	–	–	–	(47)	–	–	–	–	(25)
Total	–	(2,564)	–	–	(47)	–	(2,681)	–	–	(25)
Net	1,763	(2,564)	376	46	(43)	1,959	(2,681)	301	42	(24)

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

20 Financial instruments continued

20.1 Group continued

Derivatives

	Financial assets			Financial liabilities			Current 2009 £m	Non- current 2009 £m	Total 2009 £m	Current 2010 £m	Non- current 2010 £m	Total 2010 £m	Financial assets			Financial liabilities		
	Current 2010 £m	Non- current 2010 £m	Total 2010 £m	Current 2010 £m	Non- current 2010 £m	Total 2010 £m							Current 2009 £m	Non- current 2009 £m	Total 2009 £m	Current 2009 £m	Non- current 2009 £m	Total 2009 £m
Foreign currency contracts:																		
At fair value through profit and loss – held for trading	2	–	2	(2)	–	(2)	–	–	–	–	(1)	–	–	(1)				
Designated as cash flow hedges	2	–	2	–	(1)	(1)	–	1	1	–	–	–	–	–				
Interest rate swaps:																		
Designated as cash flow hedges	–	–	–	–	(44)	(44)	–	–	–	–	(24)	(24)	(24)	(24)				
	4	–	4	(2)	(45)	(47)	–	1	1	(1)	(24)	(24)	(25)					

Non-derivative financial liabilities gross maturity

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that have not been included in the carrying value of the financial liability.

The maturity profile of the Group's non-derivative financial liabilities at 31 December was as follows:

	PPP non-recourse project finance 2010 £m	Other borrowings 2010 £m	Other financial liabilities 2010 £m	Total non-derivative financial liabilities 2010 £m	Total discount 2010 £m	Carrying value 2010 £m
Due on demand or within one year	(12)	(38)	(2,024)	(2,074)	13	(2,061)
Due within one to two years	(23)	(3)	(47)	(73)	18	(55)
Due within two to five years	(49)	(1)	(58)	(108)	58	(50)
Due after more than five years	(490)	(6)	(231)	(727)	329	(398)
	(574)	(48)	(2,360)	(2,982)	418	(2,564)
Discount	286	–	132	418		
Carrying value	(288)	(48)	(2,228)	(2,564)		

	PPP non-recourse project finance 2009 £m	Other borrowings 2009 £m	Other financial liabilities 2009 £m	Total non-derivative financial liabilities 2009 £m	Total discount 2009 £m	Carrying value 2009 £m
Due on demand or within one year	(20)	(23)	(2,170)	(2,213)	12	(2,201)
Due within one to two years	(11)	(1)	(65)	(77)	15	(62)
Due within two to five years	(54)	(6)	(53)	(113)	56	(57)
Due after more than five years	(424)	(6)	(246)	(676)	315	(361)
	(509)	(36)	(2,534)	(3,079)	398	(2,681)
Discount	251	–	147	398		
Carrying value	(258)	(36)	(2,387)	(2,681)		

Derivative financial liabilities gross maturity

The following table details the Group's expected maturity for its derivative financial liabilities. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that require gross settlement (foreign exchange contracts). When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves existing at the reporting date.

20 Financial instruments continued

20.1 Group continued

The maturity profile of the Group's derivative financial liabilities at 31 December was as follows:

	Payable 2010 £m	Receivable 2010 £m	Net payable 2010 £m	Payable 2009 £m	Receivable 2009 £m	Net payable 2009 £m
Due on demand or within one year	(81)	68	(13)	(61)	54	(7)
Due within one to two years	(13)	3	(10)	(13)	5	(8)
Due within two to five years	(23)	2	(21)	(18)	1	(17)
Due after more than five years	(24)	—	(24)	(24)	—	(24)
Total	(141)	73	(68)	(116)	60	(56)

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign currency and commodity price risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company;
- forward foreign exchange contracts to manage the foreign currency risk associated with the Group's investments in foreign subsidiaries, associates and joint ventures;
- commodity forward contracts to manage the commodity price risk associated with the Group's operational requirements for certain commodities, such as fuel; and
- interest rate swaps to mitigate the cash flow variability associated with variable interest rates on borrowings in PPP concessions.

There has been no material change to the Group's exposure to market risks and there has been no change in how the Group manages those risks from 2009.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, Euros, Australian dollars, Hong Kong dollars and United Arab Emirate dirhams. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above pre-set materiality levels determined by the Finance Director whenever a current or future foreign currency exposure is identified with sufficient reliability. Hedge accounting is applied to these transactions above a predetermined materiality level.

Details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures are set out on [page 132](#).

As at 31 December 2010, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £310m (2009: £72m). The period during which the cash flows are expected to occur is up to three years. This will affect the income statement throughout the same periods.

The Group has designated forward exchange contracts against highly probable capital expenditure and inventory sales which are expected to occur in up to three years with a notional principal amount of £23m (2009: £23m) as cash flow hedges. Fair value gains of £2m (2009: £2m gains) have been taken to hedging reserves within equity in relation to these contracts. The cumulative amounts deferred in the hedging reserves relating to cash flow hedges at year end is £2m (2009: £nil).

The Group's investments in foreign operations are exposed to foreign currency translation risk which has previously been managed by matching significant net assets denominated in currencies other than sterling principally using forward foreign exchange contracts.

The hedging policy is reviewed periodically. During 2009 management amended the policy to reduce the level of net assets hedged taking account of the potential cash effect of the hedging programme against the potential effect of movements in currencies on the Group's net assets. At 31 December 2010 no foreign currency denominated net assets were hedged (2009: £nil).

20 Financial instruments continued

20.1 Group continued

(i) Foreign currency risk management continued

No significant amounts in relation to hedge ineffectiveness have been charged to the income statement in relation to any foreign exchange cash flow hedges. No gain (2009: £1m) was recognised in investment income in relation to the forward point fair value movements on net investment hedge contracts.

(ii) Interest rate risk management

Interest rate risk arises in the Group's PPP concessions which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets.

Floating rate borrowings expose the Group to cash flow interest rate risk. Group policy is to swap floating rate interest to fixed rate, using interest rate swaps, to hedge the cash flow variability of the interest.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the applicable period-end yield curve. The net effect of a movement in interest rates on income would therefore be immaterial.

During 2010 and 2009, 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 2010 were £297m (2009: £269m) with maturities that match the maturity of the underlying borrowings ranging from one year to 27 years. At 31 December 2010, the fixed interest rates range from 4.5% to 5.1% (2009: 4.5% to 5.1%) and the principal floating rates are LIBOR.

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £6m (2009: £12m) increase/decrease in amounts taken directly by the Group to equity in relation to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its PPP subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and non-PPP borrowings. A 50 basis point increase/decrease in the interest rate of each currency in which these financial instruments are held would lead to a £3m (2009: £2m) increase/decrease in the Group's net investment income.

(iii) Commodity price risk management

The Group is exposed to commodity price risk in its normal operations. During 2009 the Group entered into a number of commodity hedge contracts to manage some of the Group's exposure to the price of fuel. The value of fuel covered by those hedges amounted to £2m (2009: £3m). These commodity hedge contracts have been designated as cash flow hedges against highly probable future fuel purchases forecast to occur over the next two years. At 31 December 2010 the fuel hedge contracts had a fair value of £nil (2009: £nil) and no significant gains or losses have been recognised in respect of these contracts in the current or prior periods either in the statement of comprehensive income in respect of the effective portion of the hedge or the income statement in respect of ineffectiveness.

(iv) 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 the 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 depositing funds only with independently rated counterparties with a minimum long-term credit rating of A. At 31 December 2010 £37m (2009: £27m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances. No losses are anticipated from non-performance of these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or quasi-public sector entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at 31 December is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 23.1. The maturity profile of the Group's financial liabilities is set out above.

20 Financial instruments continued

20.1 Group continued

Fair value estimation

The Group holds a number of financial instruments on the statement of financial position at their fair values. The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value.

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities. The Group holds available-for-sale investments in mutual funds which are traded in active markets and valued based on the closing market price at 31 December.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising applicable year end yield curves. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts.

Level 3: The fair value is based on unobservable inputs. The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin that reflects the fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets. The subsequent movement in the fair value is taken to equity.

There have been no transfers between these categories in the current or preceding year.

Financial instruments measured at fair value

	Fair value measurement 2010				Fair value measurement 2009			
	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	49	–	–	49	41	–	–	41
Available-for-sale PPP financial assets	–	–	327	327	–	–	260	260
Financial assets – foreign currency contracts	–	4	–	4	–	1	–	1
Total assets measured at fair value	49	4	327	380	41	1	260	302
Financial liabilities – foreign currency contracts	–	(3)	–	(3)	–	(1)	–	(1)
Financial liabilities – interest rate swaps	–	(44)	–	(44)	–	(24)	–	(24)
Total liabilities measured at fair value	–	(47)	–	(47)	–	(25)	–	(25)

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 £14m (2009: £6m) change in the fair value of the assets. The movement would be taken through equity. Refer to Note 17 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 approximates 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.

20 Financial instruments continued
20.2 Company
Categories of financial instruments

Company	Loans and receivables at amortised cost, cash and cash equivalents 2010 £m	Financial liabilities at amortised cost 2010 £m	Available-for-sale financial assets 2010 £m	Held to maturity financial assets 2010 £m	Derivatives 2010 £m	Loans and receivables at amortised cost, cash and cash equivalents 2009 £m	Financial liabilities at amortised cost 2009 £m	Available-for-sale financial assets 2009 £m	Held to maturity financial assets 2009 £m	Derivatives 2009 £m		
Financial assets												
Cash and cash equivalents	–	–	–	–	–	143	–	–	–	–		
Trade and other receivables	1,141	–	–	–	–	1,084	–	–	–	–		
Derivatives	–	–	–	–	7	–	–	–	–	2		
Total	1,141	–	–	–	7	1,227	–	–	–	2		
Financial liabilities												
Liability component of preference shares	–	(89)	–	–	–	–	(88)	–	–	–		
Trade and other payables	–	(1,571)	–	–	–	–	(1,906)	–	–	–		
Unsecured borrowings	–	(55)	–	–	–	–	(53)	–	–	–		
Derivatives	–	–	–	–	(7)	–	–	–	–	(2)		
Total	–	(1,715)	–	–	(7)	–	(2,047)	–	–	(2)		
Net	1,141	(1,715)	–	–	–	1,227	(2,047)	–	–	–		
Derivatives												
	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2010 £m	Non-current 2010 £m	Total 2010 £m	Current 2010 £m	Non-current 2010 £m	Total 2010 £m	Current 2009 £m	Non-current 2009 £m	Total 2009 £m	Current 2009 £m	Non-current 2009 £m	Total 2009 £m
At fair value through profit and loss – held for trading	6	1	7	(6)	(1)	(7)	1	1	2	(1)	(1)	(2)

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 contracts are perfectly matched with derivative contracts issued by the Company to the Group's operating companies.

The Company's financial assets and financial liabilities measured at fair value are the foreign currency contracts shown in the table above. The fair value of these foreign currency contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts.

Based on the fair value estimation hierarchy mentioned above, the Company derivatives are classified as Level 2.

20 Financial instruments continued

20.2 Company continued

Non-derivative financial liabilities gross maturity

The maturity profile of the Company's non-derivative financial liabilities at 31 December was as follows:

	Borrowings 2010 £m	Other financial liabilities 2010 £m	Total non-derivative financial liabilities 2010 £m	Total discount 2010 £m	Carrying value 2010 £m
Due on demand or within one year	(55)	(1,558)	(1,613)	13	(1,600)
Due within one to two years	–	(11)	(11)	11	–
Due within two to five years	–	(33)	(33)	33	–
Due after more than five years	–	(186)	(186)	71	(115)
	(55)	(1,788)	(1,843)	128	(1,715)
Discount	–	128	128		
Carrying value	(55)	(1,660)	(1,715)		

	Borrowings 2009 £m	Other financial liabilities 2009 £m	Total non-derivative financial liabilities 2009 £m	Total discount 2009 £m	Carrying value 2009 £m
Due on demand or within one year	(53)	(1,894)	(1,947)	14	(1,933)
Due within one to two years	–	(11)	(11)	11	–
Due within two to five years	–	(32)	(32)	32	–
Due after more than five years	–	(197)	(197)	83	(114)
	(53)	(2,134)	(2,187)	140	(2,047)
Discount	–	140	140		
Carrying value	(53)	(1,994)	(2,047)		

Derivative financial liabilities gross maturity

The maturity profile of the Company's derivative financial liabilities, which comprise foreign exchange contracts, at 31 December was as follows:

	Payable 2010 £m	Receivable 2010 £m	Payable 2009 £m	Receivable 2009 £m
Due on demand or within one year	(169)	163	(81)	80
Due within one to two years	(3)	3	(17)	16
Due within two to five years	(3)	2	–	–
Total	(175)	168	(98)	96

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 dollars, Euros, Australian dollars, Hong Kong dollars or United Arab Emirate dirhams exchange rates against sterling because the Company enters into forward foreign exchange contracts with the Group's operating companies that offset its external forward foreign exchange contracts.

(ii) Interest rate risk management

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £3m (2009: £4m) decrease/increase in the Company's investment income. This is mainly attributable to the Company's exposure to 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 additional credit risk that the Company bears is in respect to trade receivables and payables due from/to subsidiaries. There were no amounts past due at the reporting date. The maximum exposure is the carrying value of the financial assets recorded in the financial statements.

21 Trade and other receivables

	Group 2010 £m	Group 2009³ £m	Company 2010 £m	Company 2009 £m
Current				
Trade receivables	928	997	5	6
Less: Provision for impairment of trade receivables	(48)	(41)	—	—
	880	956	5	6
Due from subsidiaries	—	—	1,106	1,048
Due from joint ventures and associates	25	19	—	—
Due from jointly controlled operations	4	1	—	—
Contract retentions	176	208	—	—
Accrued income	25	60	—	—
Prepayments	87	85	3	3
	1,197	1,329	1,114	1,057
Non-current				
Trade receivables	13	16	—	—
Due from joint ventures and associates	1	1	30	30
Contract retentions	39	64	—	—
Prepayments	1	1	—	1
Due on acquisitions	16	16	—	—
	70	98	30	31
Total trade and other receivables	1,267	1,427	1,144	1,088
Comprising:				
Financial assets	1,179	1,341	1,141	1,084
Non-financial assets – prepayments	88	86	3	4
	1,267	1,427	1,144	1,088

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision 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 £68m (2009: £83m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

It is Group policy that a forward foreign exchange contract is entered into as soon as a trade receivable, above a pre-set materiality level, is identified in a currency other than the operating company's functional currency.

The movement in the provision for impairment of trade receivables is as follows:

	Group 2010 £m	Group 2009 £m
Balance at 1 January	(41)	(17)
Currency translation differences	(1)	—
Credited/(charged) to the income statement		
– additional provisions	(15)	(8)
– unused amounts reversed	6	5
Acquisitions of businesses	—	(23)
Used during the year	3	2
Balance at 31 December	(48)	(41)

21 Trade and other receivables continued

The provision for impairment of trade receivables is based on a review of the financial circumstances of individual customers. The ageing of the impaired receivables is as follows:

	Group 2010 £m	Group 2009 £m
Up to three months	3	1
Three to six months	1	1
Six to nine months	2	2
Nine to 12 months	6	10
More than 12 months	36	27
	48	41

At 31 December 2010, trade receivables of £155m (2009: £155m) were past due but not impaired. These relate to a number of individual customers for which there is no reason to believe that their debt is not recoverable. The ageing analysis of these trade receivables is as follows:

	Group 2010 £m	Group 2009 £m
Up to three months	95	77
Three to six months	26	33
Six to nine months	14	20
Nine to 12 months	12	15
More than 12 months	8	10
	155	155

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

22 Trade and other payables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Current				
Trade and other payables	992	1,137	8	9
Accruals	1,010	1,013	15	13
Deferred income	35	33	1	1
Advance payments on contracts*	68	103	—	—
VAT, payroll taxes and social security	98	99	15	16
Due to subsidiaries	—	—	1,518	1,854
Due to joint ventures and associates	17	16	—	—
Dividends on preference shares	5	5	5	5
Due on acquisitions	7	6	—	—
	2,232	2,412	1,562	1,898
Non-current				
Trade and other payables	70	79	—	—
Accruals	18	28	—	—
Deferred income	7	10	—	—
Advance payments on contracts	2	—	—	—
Due to joint ventures and associates	25	25	25	25
Due on acquisitions	22	21	—	—
	144	163	25	25
Total trade and other payables	2,376	2,575	1,587	1,923
Comprising:				
Financial liabilities	2,139	2,299	1,571	1,906
Non-financial liabilities:				
– accruals not at amortised cost	97	134	—	—
– deferred income	42	43	1	1
– VAT, payroll taxes and social security	98	99	15	16
	2,376	2,575	1,587	1,923

* Includes £66m (2009: £100m) advances on construction contracts.

22 Trade and other payables continued

The maturity profile of the Group's non-current trade and other payables at 31 December was:

	Trade and other payables 2010 £m	Due on acquisitions 2010 £m	Accruals 2010 £m	Deferred income 2010 £m	Due to joint ventures and associates 2010 £m	Advance payments on contracts 2010 £m	Total 2010 £m	Trade and other payables 2009 £m	Due on acquisitions 2009 £m	Accruals 2009 £m	Deferred income 2009 £m	Due to joint ventures and associates 2009 £m	Total 2009 £m
Due within one to two years	23	3	8	1	–	2	37	42	3	19	3	–	67
Due within two to five years	9	7	4	4	–	–	24	10	6	5	5	–	26
Due after more than five years	38	12	6	2	25	–	83	27	12	4	2	25	70
	70	22	18	7	25	2	144	79	21	28	10	25	163
Fair values	50	22	16	6	13	2	109	62	20	27	8	13	130

The fair value of non-current trade and other payables has been determined by using yield curves and exchange rates prevailing at the reporting date and discounting future cash flows at interest rates prevailing at the reporting date.

It is Group policy that a forward foreign exchange contract is entered into as soon as a trade or other payable, above a pre-set materiality level, is identified in a currency other than the operating company's functional currency. Amounts due to joint ventures and associates, accruals and deferred income are denominated in sterling.

23 Cash and cash equivalents and borrowings

23.1 Group

	Current 2010 £m	Non-current 2010 £m	Total 2010 £m	Current 2009 £m	Non-current 2009 £m	Total 2009 £m
Unsecured borrowings at amortised cost:						
– bank overdrafts	(34)	–	(34)	(10)	–	(10)
– other loans	–	(2)	(2)	(10)	(3)	(13)
Secured borrowings at amortised cost:						
– finance leases	(3)	(9)	(12)	(3)	(10)	(13)
	(37)	(11)	(48)	(23)	(13)	(36)
Cash and deposits at amortised cost	518	–	518	464	–	464
Term deposits at amortised cost	48	–	48	144	–	144
Non-PPP cash and cash equivalents	566	–	566	608	–	608
	529	(11)	518	585	(13)	572
PPP non-recourse term loans at amortised cost:						
– sterling floating rate term loan (2008–2027)	(1)	(22)	(23)	(1)	(23)	(24)
– sterling floating rate term loan (2011–2030)	(3)	(22)	(25)	–	(19)	(19)
– sterling floating rate term loan (2012–2031)	–	(19)	(19)	–	(13)	(13)
– sterling floating rate term loan (2010–2034)	(4)	(158)	(162)	(18)	(156)	(174)
– sterling floating rate term loan (2016–2035)	–	(3)	(3)	–	–	–
– sterling floating rate term loan (2012–2037)	–	(56)	(56)	–	(28)	(28)
	(8)	(280)	(288)	(19)	(239)	(258)
PPP cash and cash equivalents	18	–	18	10	–	10
	10	(280)	(270)	(9)	(239)	(248)
Net cash/(borrowings)	539	(291)	248	576	(252)	324

The PPP project finance sterling debt obligations arise under non-recourse facilities in the concession companies Connect Roads Sunderland Ltd, Connect Roads South Tyneside Ltd, Connect Roads Derby Ltd, Transform Schools (Knowsley) Ltd, Connect CNDR Ltd and Connect Roads Coventry Ltd. 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.

A significant part of the PPP non-recourse project finance floating rate term loans has been swapped into fixed rate debt by the use of interest rate swaps.

Restricted cash included in cash and cash equivalents amounts to £8m (2009: £14m) held by Delphian Insurance Company Ltd, the Group's captive insurance company which is subject to Isle of Man insurance solvency regulations and £18m (2009: £10m) relating to amounts held by certain PPP concession subsidiaries.

Cash, deposits and term deposits include the Group's share of amounts held by jointly controlled operations of £221m (2009: £212m).

The Group's undrawn committed borrowing facilities in respect of which all conditions precedent were satisfied at 31 December were:

	PPP non-recourse project finance 2010 £m	Other borrowings 2010 £m	Total 2010 £m	PPP non-recourse project finance 2009 £m	Other borrowings 2009 £m	Total 2009 £m
Expiring in one year or less	33	165	198	–	145	145
Expiring in more than one year but not more than two years	18	197	215	9	35	44
Expiring in more than two years	38	246	284	79	381	460
	89	608	697	88	561	649

23 Cash and cash equivalents and borrowings continued

23.1 Group continued

The maturity profile of the Group's borrowings at 31 December is as follows:

	PPP non-recourse project finance 2010 £m	Finance leases 2010 £m	Other borrowings 2010 £m	Total 2010 £m	PPP non-recourse project finance 2009 £m	Finance leases 2009 £m	Other borrowings 2009 £m	Total 2009 £m
Due on demand or within one year	(8)	(3)	(34)	(45)	(19)	(3)	(20)	(42)
Due within one to two years	(17)	(3)	–	(20)	(8)	(1)	–	(9)
Due within two to five years	(24)	(1)	–	(25)	(31)	(6)	–	(37)
Due after more than five years	(239)	(5)	(2)	(246)	(200)	(3)	(3)	(206)
	(288)	(12)	(36)	(336)	(258)	(13)	(23)	(294)

The table below compares the book values and the fair values of the Group's borrowings at 31 December:

	Book value 2010 £m	Fair value 2010 £m	Book value 2009 £m	Fair value 2009 £m
Unsecured borrowings at amortised cost:				
– bank overdrafts	(34)	(34)	(10)	(10)
– other loans	(2)	(2)	(13)	(13)
Secured borrowings at amortised cost:				
– finance leases	(12)	(12)	(13)	(13)
	(48)	(48)	(36)	(36)
PPP non-recourse term loan at amortised cost:				
– sterling floating rate term loan (2008–2027)	(23)	(23)	(24)	(24)
– sterling floating rate term loan (2011–2030)	(25)	(25)	(19)	(19)
– sterling floating rate term loan (2012–2031)	(19)	(19)	(13)	(13)
– sterling floating rate term loan (2010–2034)	(162)	(162)	(174)	(174)
– sterling floating rate term loan (2016–2035)	(3)	(3)	–	–
– sterling floating rate term loan (2012–2037)	(56)	(56)	(28)	(28)
	(288)	(288)	(258)	(258)
Borrowings	(336)	(336)	(294)	(294)

The fair values have been determined by using yield curves and exchange rates prevailing at the reporting date and discounting future cash flows at interest rates prevailing at the reporting date.

23.2 Company

	Current 2010 £m	Non-current 2010 £m	Total 2010 £m	Current 2009 £m	Non-current 2009 £m	Total 2009 £m
Unsecured borrowings at amortised cost:						
– bank overdrafts	(55)	–	(55)	(53)	–	(53)
	(55)	–	(55)	(53)	–	(53)
Term deposits	–	–	–	143	–	143
(Net borrowings)/net cash	(55)	–	(55)	90	–	90

The unsecured borrowings are sterling denominated, variable rate instruments and repayable on demand.

24 Deferred tax

24.1 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. The net deferred tax position at 31 December was:

	Group 2010 £m	Group 2009 ³ £m	Company 2010 £m	Company 2009 £m
Deferred tax assets	163	191	2	4
Deferred tax liabilities	(8)	(9)	—	—
	155	182	2	4

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

The movement for the year in the net deferred tax position was as follows:

	Group ³ £m	Company £m
At 1 January 2009	122	(1)
Currency translation differences	(3)	—
Charged to income statement	(41)	—
Credited to equity	94	5
Businesses acquired	10	—
At 31 December 2009 ³	182	4
Currency translation differences	2	—
Charged to income statement ⁶	—	(2)
Charged to equity ⁶	(28)	—
Businesses acquired	(1)	—
At 31 December 2010	155	2

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

⁶ Group includes £1m charged to the income statement and £3m charged to equity in relation to the reduction in the UK corporation tax rate.

24.2 Group

The following are the major deferred tax assets and liabilities recognised and the movements thereon during the year:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Unrelieved trading losses £m	Share- based payments £m	Provisions £m	Fair value adjustments ³ £m	Derivatives £m	Total ³ £m
Deferred tax assets								
At 1 January 2009	—	67	46	4	13	19	—	149
Currency translation differences	—	—	(2)	—	(1)	—	—	(3)
Reclassifications/transfers	5	8	(27)	—	28	(10)	10	14
Credited/(charged) to income statement	5	(36)	(14)	(2)	(1)	(9)	—	(57)
Credited/(charged) to equity	—	98	—	1	—	—	(5)	94
Businesses acquired	4	29	—	—	1	—	—	34
At 31 December 2009 ³	14	166	3	3	40	—	5	231
Currency translation differences	—	—	—	—	3	—	—	3
Reclassifications/transfers	(1)	—	12	—	(3)	—	—	8
(Charged)/credited to income statement ⁶	—	(17)	(1)	—	7	—	—	(11)
(Charged)/credited to equity ⁶	—	(29)	—	2	—	—	(1)	(28)
Businesses acquired	—	—	—	—	(1)	—	—	(1)
At 31 December 2010	13	120	14	5	46	—	4	202

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

⁶ Group includes £1m charged to the income statement and £3m charged to equity in relation to the reduction in the UK corporation tax rate.

24 Deferred tax continued**24.2 Group continued**

	Revaluation of properties £m	Goodwill £m	Undistributed earnings of joint ventures and associates £m	Preference shares £m	Fair value adjustments £m	Loss of IBAs £m	Total £m
Deferred tax liabilities							
At 1 January 2009	(1)	(9)	(10)	(7)	–	–	(27)
Reclassifications/transfers	–	–	–	–	(11)	(3)	(14)
Credited to income statement	–	–	10	–	6	–	16
Businesses acquired	–	–	–	–	(24)	–	(24)
At 31 December 2009	(1)	(9)	–	(7)	(29)	(3)	(49)
Currency translation differences	–	–	–	–	(1)	–	(1)
Reclassifications/transfers	–	–	–	–	(8)	–	(8)
(Charged)/credited to income statement	–	(1)	–	–	12	–	11
At 31 December 2010	(1)	(10)	–	(7)	(26)	(3)	(47)
Total net deferred tax asset							155

The Finance (No. 2) Act 2010 was substantively enacted on 21 July 2010 implementing a reduction to the main UK corporation tax rate from 28% to 27% effective from 1 April 2011. The effect of the reduction in the UK tax rate reduced the Group's net deferred tax asset by £4m with £1m being charged to the income statement and £3m being charged to equity.

It was also announced, although not enacted, that there will be a 1% reduction in the main corporation tax rate in each of the three subsequent years to bring the rate down to 24% from 1 April 2014. Should the future UK corporation tax rate reductions be enacted, based on the latest forecasts, this will give rise to a further reduction in the Group's net deferred tax asset of £12m by 2014 with £2m being charged to the income statement and £10m being charged to reserves.

At the reporting date, the Group had unused tax losses that arose over a number of years of approximately £240m (2009: £260m) which are available for offset against future profits. £31m (2009: £50m) 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 2025. The remaining losses may be carried forward indefinitely.

At the reporting date, the undistributed reserves of subsidiaries for which deferred tax liabilities have not been recognised was £850m (2009: £500m) and for joint ventures and associates was £95m (2009: £50m). No liability has been recognised in respect of these differences because no temporary difference arises.

24.3 Company

The following represents the major deferred tax assets and liabilities recognised by the Company and the movements thereon:

	Deferred tax liability					Deferred tax assets	
	Preference shares £m	Share- based payments £m	Retirement benefit obligations £m	Provisions £m	Accelerated tax depreciation £m	Total £m	Net deferred tax assets/ (liability) £m
At 1 January 2009	(7)	2	2	2	–	6	(1)
(Charged)/credited to income statement	–	–	(2)	1	1	–	–
Credited to equity	–	–	5	–	–	5	5
At 31 December 2009	(7)	2	5	3	1	11	4
Charged to income statement	–	–	(1)	–	(1)	(2)	(2)
Credited/(charged) to equity	–	1	(1)	–	–	–	–
At 31 December 2010	(7)	3	3	3	–	9	2

25 Retirement benefit obligations

25.1 Group

The Group, through trustees, operates a number of defined benefit and defined contribution pension schemes. Defined benefit schemes provide benefits based on employees' pensionable service and their pensionable salary. 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.

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

During the year ended 31 December 2010 the Group offered certain deferred members of the BBPF enhanced benefits to leave the BBPF and transfer to a freestanding defined contribution scheme. 1,641 deferred members took up the option of the enhanced benefits, resulting in a £42m reduction in assets, a £50m reduction in liabilities and a settlement gain of £8m. A net gain of £2m was recognised after payments of £6m of enhancements and other expenses.

A formal funding valuation of the BBPF was carried out as at 31 March 2010. As a result of the funding valuation the Group has agreed to an additional one-off deficit funding payment of £40m, paid in December 2010, and to increase the amount of ongoing deficit payments to the BBPF to £48m per annum, increasing each year by CPI (capped at 5%) plus 50% of any increase in the Company's dividend in excess of capped CPI.

During 2009 the Group implemented measures to limit the increase in pensionable pay of certain groups of in-service defined benefit members, giving rise to a reduction in past service liabilities of £100m, which was classified as an exceptional item in the income statement in the 2009 annual report. On 31 May 2009 the Mansell plc Pension Scheme and the Hall & Tawse Retirement Benefit Plan ("Mansell schemes") merged with the BBPF.

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 in equities in anticipation that, over the longer term, they will grow in value faster than the liabilities. The majority of the BBPF equities are in the form of pooled funds. The BBPF invests in fixed and index-linked bonds and inflation swaps in order to match the duration and inflation exposure of a portion of the liabilities. The BBPF invests in corporate fixed-interest bonds in anticipation that, over the longer term, they will outperform equivalent government bonds. A portion of the corporate bonds is overlaid with inflation swaps in order to create a better match between the assets and the inflation-linked characteristics of the liabilities. The performance of equities and bonds is measured against market indices. The BBPF invests in three funds of hedge funds in order to improve diversification. The performance of the fund of hedge fund managers is measured against three month LIBOR.

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 certain employees transferring under certain agreed arrangements. The economic interest of the Group in this shared cost scheme is approximately 60% of the scheme's assets and liabilities, based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing. Parsons Brinckerhoff Ltd operates a defined benefit scheme, which is closed to new members ("Parsons Brinckerhoff Scheme"). The Parsons Brinckerhoff Scheme has a legal charge over a Group leasehold property with a book value of £4m (2009: £4m).

With the exception of the Parsons Brinckerhoff Scheme, active members continue to accrue benefits for future service. Other schemes comprise funded and unfunded post-retirement benefit obligations in Europe and North America, the majority of which are closed to new entrants, and deferred compensation schemes in the US, where an element of employees' compensation is deferred and invested in available-for-sale assets as disclosed in Note 16.1 for the ultimate benefit of the employees in a trust, the assets of which are available to Group creditors in the event of insolvency.

On 30 November 2010 the UK Government published the Occupational Pensions (Revaluation) Order 2010 which, with effect from 1 January 2011, changed the basis of UK general statutory pension indexation from the retail price index (RPI) to the consumer price index (CPI). The benefits of certain members of the Group's schemes are defined by reference to the statutory measure of inflation rather than being specifically linked by the scheme rules to RPI. The consequent change in assumptions gave rise to a £52m (2009: £nil) actuarial reduction in liabilities which is credited to equity in the statement of comprehensive income.

The membership of the principal schemes is as follows:

	Balfour Beatty Pension Fund 2010		Railways Pension Scheme 2010		Parsons Brinckerhoff Scheme 2010		Balfour Beatty Pension Fund 2009	Defined benefit obligations £m	Number of members	Railways Pension Scheme 2009	Defined benefit obligations £m	Number of members	Parsons Brinckerhoff Scheme 2009
	Defined benefit obligations £m	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m	Number of members							
Defined benefit													
- active members	4,494	579	314	48	-	-	4,958	747	397	47	-	-	-
- deferred pensioners	11,198	543	1,550	47	1,075	85	14,589	637	1,561	52	1,115	87	
- pensioners, widow(er)s and dependants	20,685	1,223	1,387	80	1,149	91	18,671	941	1,318	78	1,108	79	
Defined contribution	7,985	-	-	-	1,781	-	7,449	-	-	-	1,902	-	
Total	44,362	2,345	3,251	175	4,005	176	45,667	2,325	3,276	177	4,125	166	

25 Retirement benefit obligations continued

25.1 Group continued

IAS 19 governs 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. 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 25.2 below.

A different calculation is used for the regular valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme liabilities. The principal difference between the two methods is that under the funding basis the liabilities are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on a high quality corporate bond as required by IAS 19 for the financial statements. Details of the latest formal funding basis valuations are set out in 25.3 below.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of the Group. The Parsons Brinckerhoff Scheme has an interest in a property under an operating lease that is occupied under an operating sublease by a Group company which pays an annual rental of £0.2m (2009: £0.2m).

25.2 IAS 19 accounting valuation

The principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes are as follows:

	Balfour Beatty Pension Fund 2010 %	Railways Pension Scheme 2010 %	Parsons Brinckerhoff Scheme 2010 %	Balfour Beatty Pension Fund 2009 %	Railways Pension Scheme 2009 %	Parsons Brinckerhoff Scheme 2009 %
Discount rate on obligations	5.45	5.45	5.45	5.65	5.65	5.65
Expected return on plan assets	6.10	7.10	6.45	5.93	7.30	6.75
Inflation rate:						
– RPI	3.40	3.40	3.40	3.50	3.50	3.50
– CPI	2.90	2.90	2.90	–	–	–
Future increases in pensionable salary:						
– certain members of the BBPF whose increase in pensionable pay is limited	–	–	–	–	–	–
– other members	4.90	4.90	4.90	5.00	5.00	–
Rate of increase in pensions in payment (or such other rate as is guaranteed)	3.30	2.90	3.00	3.50	3.50	3.50

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (44,362 members at 31 December 2010) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes.

The mortality tables adopted for the 2010 IAS 19 valuations are the SAPS tables with a multiplier of 94% and an improvement rate of 1.5% pa from 2003 to 2010, plus future improvements from 2010 in line with the CMI core projection model applicable to each member's year of birth with a long-term rate of 1.5% pa. The mortality tables adopted for the 2009 IAS 19 valuation are the 1992 series calendar year 2007 tables, with future improvements applicable to each member's year of birth under the medium cohort effect from 2007.

	2010		2009	
	Average life expectancy at 65 years of age Years		Average life expectancy at 65 years of age Years	
Members in receipt of a pension	Male 21.8	Female 24.5	Male	20.4
Members not yet in receipt of a pension (current age 50)	23.7	26.4	Female	23.4
			Male	21.4
			Female	24.3

The composition of the members of the Parsons Brinckerhoff Scheme is different to the other schemes and allowance has been made for approximately three further years of life expectancy for members of this scheme compared to members of the other schemes.

25 Retirement benefit obligations continued

25.2 IAS 19 accounting valuation continued

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 £124m (2009: £87m) have been excluded from the tables on *pages 148 to 150*. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

The amounts recognised in the income statement are as follows:

	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m
Current service cost	(42)	(3)	(1)	(7)	(53)	(27)	(2)	–	(1)	(2)	(32)
Defined contribution charge	(30)	–	(5)	(17)	(52)	(22)	–	(2)	–	(15)	(39)
Included in employee costs (Note 5)	(72)	(3)	(6)	(24)	(105)	(49)	(2)	(2)	(1)	(17)	(71)
Expected return on plan assets	112	9	8	1	130	101	8	1	5	1	116
Interest cost	(128)	(9)	(9)	(5)	(151)	(114)	(8)	(2)	(5)	(2)	(131)
Net finance cost (Note 7)	(16)	–	(1)	(4)	(21)	(13)	–	(1)	–	(1)	(15)
Total charged to profit before exceptional items	(88)	(3)	(7)	(28)	(126)	(62)	(2)	(3)	(1)	(18)	(86)
Exceptional reduction in pension past service liabilities (Note 8)	–	–	–	–	–	100	–	–	–	–	100
Total (charged)/credited to income statement	(88)	(3)	(7)	(28)	(126)	38	(2)	(3)	(1)	(18)	14

The amounts recognised in the statement of comprehensive income are as follows:

	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m
Actuarial (losses)/gains on pension scheme obligations	(26)	7	(9)	(5)	(33)	(449)	(35)	5	(5)	(3)	(487)
Actuarial gains/(losses) on pension scheme assets	106	6	7	–	119	135	9	1	(9)	1	137
Total actuarial gains/(losses) recognised in the statement of comprehensive income (Note 28.1)	80	13	(2)	(5)	86	(314)	(26)	6	(14)	(2)	(350)
Cumulative (losses)/gains recognised in reserves	(310)	(20)	4	(6)	(332)	(390)	(33)	6	–	(1)	(418)

The actual return on plan assets was a gain of £249m (2009: £253m).

25 Retirement benefit obligations continued

25.2 IAS 19 accounting valuation continued

The amounts recognised in the statement of financial position are as follows:

	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes [^] 2010 £m	Total 2010 £m	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Other schemes [^] 2009 £m	Total 2009 £m
Present value of obligations	(2,345)	(175)	(176)	(89)	(2,785)	(2,325)	(177)	(166)	(89)	(2,757)
Fair value of plan assets	2,072	145	125	2	2,344	1,911	134	113	13	2,171
Liability in the statement of financial position	(273)	(30)	(51)	(87)	(441)	(414)	(43)	(53)	(76)	(586)
Available-for-sale mutual funds [^] (Note 16.1)	–	–	–	49	49	–	–	–	41	41

[^] Available-for-sale investments in mutual funds of £49m (2009: £41m) are held by the Group to satisfy the Group's deferred compensation obligations.

The defined benefit obligation comprises £87m (2009: £76m) arising from wholly unfunded plans and £2,698m (2009: £2,681m) arising from plans that are wholly or partly funded.

The movement in the present value of obligations is as follows:

	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m
At 1 January	(2,325)	(177)	(166)	(89)	(2,757)	(1,733)	(138)	–	(188)	(43)	(2,102)
Currency translation	–	–	–	(3)	(3)	–	–	–	–	1	1
Mansell scheme transfer	–	–	–	–	–	(196)	–	–	196	–	–
Other transfers	–	–	–	–	–	–	–	–	–	(20)	(20)
Service cost	(42)	(3)	(1)	(7)	(53)	(27)	(2)	–	(1)	(2)	(32)
Exceptional past service gain	–	–	–	–	–	100	–	–	–	–	100
Interest cost	(128)	(9)	(9)	(5)	(151)	(114)	(8)	(2)	(5)	(2)	(131)
Actuarial gains from rebasing certain pension obligations to CPI	35	13	4	–	52	–	–	–	–	–	–
Other actuarial (losses)/gains	(61)	(6)	(13)	(5)	(85)	(449)	(35)	5	(5)	(3)	(487)
Total actuarial (losses)/gains	(26)	7	(9)	(5)	(33)	(449)	(35)	5	(5)	(3)	(487)
Contributions from members	(1)	–	–	–	(1)	(9)	–	–	(1)	–	(10)
Benefits paid	127	7	9	6	149	103	6	2	4	6	121
Businesses acquired	–	–	–	–	–	–	–	(171)	–	(26)	(197)
Settlements	50	–	–	14	64	–	–	–	–	–	–
At 31 December	(2,345)	(175)	(176)	(89)	(2,785)	(2,325)	(177)	(166)	–	(89)	(2,757)

25 Retirement benefit obligations continued

25.2 IAS 19 accounting valuation continued

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

	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Other schemes 2010 £m	Total 2010 £m	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m
At 1 January	1,911	134	113	13	2,171	1,540	120	—	170	11	1,841
Currency translation	—	—	—	1	1	—	—	(1)	—	1	—
Mansell scheme transfer	—	—	—	—	—	167	—	—	(167)	—	—
Expected return on plan assets	112	9	8	1	130	101	8	1	5	1	116
Actuarial gains/(losses)	106	6	7	—	119	135	9	1	(9)	1	137
Contributions from employer – regular funding	38	2	—	—	40	31	2	—	1	—	34
Contributions from employer – ongoing deficit funding	33	1	6	1	41	31	1	—	3	—	35
Contributions from employer – one-off deficit funding	40	—	—	—	40	—	—	—	—	—	—
Contributions from members	1	—	—	—	1	9	—	—	1	—	10
Benefits paid	(127)	(7)	(9)	—	(143)	(103)	(6)	(2)	(4)	(1)	(116)
Businesses acquired	—	—	—	—	—	—	—	114	—	—	114
Settlements	(42)	—	—	(14)	(56)	—	—	—	—	—	—
At 31 December	2,072	145	125	2	2,344	1,911	134	113	—	13	2,171

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

	Balfour Beatty Pension Fund		Railways Pension Scheme		Parsons Brinckerhoff Scheme		Other schemes	
	Expected rate of return 2010 %	Value 2010 £m	Expected rate of return 2010 %	Value 2010 £m	Expected rate of return 2010 %	Value 2010 £m	Expected rate of return 2010 %	Value 2010 £m
Equities	8.20	723	8.20	98	8.20	70	—	—
Bonds								
– index linked gilts	4.20	282	4.00	15	—	—	—	—
– fixed rate gilts	—	—	4.00	7	4.00	37	—	—
– corporate and other bonds	5.10	873	5.20	12	5.20	10	—	—
Funds of hedge funds	6.30	84	—	—	—	—	—	—
Property	—	—	6.10	13	—	—	—	—
Cash and other net assets	3.90	110	3.90	—	3.90	8	3.90	2
Rate of return/total	6.10	2,072	7.10	145	6.45	125	3.90	2

	Balfour Beatty Pension Fund		Railways Pension Scheme		Parsons Brinckerhoff Scheme		Other schemes	
	Expected rate of return 2009 %	Value 2009 £m	Expected rate of return 2009 %	Value 2009 £m	Expected rate of return 2009 %	Value 2009 £m	Expected rate of return 2009 %	Value 2009 £m
Equities	8.30	658	8.30	90	8.30	65	—	—
Bonds								
– index linked gilts	4.50	259	4.30	13	4.30	19	—	—
– fixed rate gilts	4.30	11	—	—	4.30	4	—	—
– corporate and other bonds	4.60	834	5.30	18	5.30	18	4.00	13
Funds of hedge funds	6.60	78	—	—	—	—	—	—
Property	—	—	6.40	13	—	—	—	—
Cash and other net assets	4.40	71	—	—	4.40	7	—	—
Rate of return/total	5.93	1,911	7.30	134	6.75	113	4.00	13

25 Retirement benefit obligations continued

25.2 IAS 19 accounting valuation 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:

- equities: the long-term rates of return on equities, funds of hedge funds and property 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: this class principally comprises inflation rate swaps and cash holdings and the rate adopted reflects current short-term returns on cash deposits.

The estimated amounts of contributions expected to be paid to the principal defined benefit schemes during 2011 are as follows:

	Balfour Beatty Pension Fund 2011 £m	Railways Pension Scheme 2011 £m	Parsons Brinckerhoff Scheme 2011 £m	Total 2011 £m
Regular funding	38	2	–	40
Ongoing deficit funding	50	1	6	57
Total	88	3	6	97

The sensitivity of the Group's pension obligations and of the prospective 2011 charge to the Group's income statement to different actuarial assumptions is as follows:

	Percentage points/years	%	Increase/ (decrease) in obligations £m	Increase/ (decrease) in service cost £m	Increase/ (decrease) in finance cost £m	Increase/ (decrease) in investment return £m	Increase/ (decrease) in total pension cost £m
Increase in discount rate	0.5%	(7.8)	(210)	(5)	1	–	(4)
Increase in inflation rate	0.5%	6.6	178	4	10	–	14
Increase in salary above inflation	0.5%	0.3	8	–	–	–	–
Increase in return on assets	0.5%	–	–	–	–	12	12
Increase in life expectancy	1 year	3.3	88	1	5	–	6

The sensitivities relating to the discount rate, life expectancy, inflation rate and expected return on assets in respect of the pension cost elements in the income statement are shown for information only. The amounts that will be included in the 2011 income statement are derived from the market conditions at 1 January 2011 and subsequent changes in market conditions or life expectancy will have no effect on the 2011 income statement and will be reflected as actuarial adjustments in the statement of comprehensive income.

Year end historical information for the Group's post-retirement benefit schemes is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation at end of year	(2,785)	(2,757)	(2,102)	(2,444)	(2,375)
Fair value of assets at end of year	2,344	2,171	1,841	2,158	2,087
Funded status at end of year	(441)	(586)	(261)	(286)	(288)
Experience adjustment for liabilities	(98)	(9)	(17)	(56)	(52)
Experience adjustment for assets	119	137	(432)	(21)	21

25.3 Funding valuations

The latest formal funding valuations are detailed below.

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Parsons Brinckerhoff Scheme £m
Date of last formal funding valuation	31/3/2010	31/12/2007	31/8/2008
Scheme surplus/(deficit)			
Market value of assets	2,070	158	119
Present value of scheme liabilities	(2,445)	(156)	(169)
(Deficit)/surplus in defined benefit scheme	(375)	2	(50)
Funding level	84.6%	101.3%	70.6%

25 Retirement benefit obligations continued

25.4 Company

Certain employees of the Company are members of the BBPF. Assets, liabilities, income and expenditure relating to this fund are allocated to Group companies participating in the scheme in proportion to pensionable payroll for the year. The Company's share of the net IAS 19 deficit was £13m (2009: £18m).

26 Provisions

	Employee provisions £m	Contract provisions ³ £m	Other provisions £m	Group Total ³ £m	Company Other provisions £m
At 1 January 2009	34	62	70	166	11
Currency translation differences	–	(1)	(2)	(3)	–
Transfer to other Group companies	–	–	–	–	(2)
Charged to the income statement					
– additional provisions	9	65	34	108	3
– unused amounts reversed	(2)	(8)	(10)	(20)	(2)
Utilised during the year	(5)	(13)	(32)	(50)	(1)
Business acquired	–	18	8	26	–
At 31 December 2009 ³	36	123	68	227	9
Currency translation differences	–	3	1	4	–
Charged to the income statement					
– additional provisions	5	55	28	88	1
– unused amounts reversed	(2)	(23)	(16)	(41)	(3)
Utilised during the year	(10)	(13)	(13)	(36)	–
At 31 December 2010	29	145	68	242	7

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

	Group				Group				Company	
	Employee provisions 2010 £m	Contract provisions 2010 £m	Other provisions 2010 £m	Total 2010 £m	Employee provisions 2009 £m	Contract provisions 2009 ³ £m	Other provisions 2009 £m	Total 2009 ³ £m	Other provisions 2010 £m	Other provisions 2009 £m
Due within one year	11	94	30	135	8	59	29	96	1	1
Due within one to two years	8	24	18	50	11	36	17	64	–	1
Due within two to five years	7	22	16	45	14	24	16	54	5	3
Due after more than five years	3	5	4	12	3	4	6	13	1	4
	29	145	68	242	36	123	68	227	7	9

³ Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. (Notes 1.2 and 37).

Employee provisions comprise obligations to employees other than retirement benefit obligations. Contract provisions relate to provisions on contracts, including fault and warranty provisions, and 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.

27 Share capital

27.1 Ordinary shares of 50p each

	Authorised		Issued	
	Million	£m	Million	£m
At 1 January 2009	696	348	478	239
Shares authorised/issued	300	150	207	104
At 31 December 2009	996	498	685	343
Shares issued	–	–	1	–
At 31 December 2010	996	498	686	343

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.

27 Share capital continued**27.1 Ordinary shares of 50p each continued**

Ordinary shares issued during the year credited as fully paid:

	Ordinary shares 2010 Number	Consideration 2010 £m	Ordinary shares 2009 Number	Consideration 2009 £m
Rights issue (Note 28.2)	–	–	205,502,237	355
Savings-related share options exercised	657,138	1	1,337,199	3
Executive share options exercised	472,928	1	433,694	1
	1,130,066	2	207,273,130	359

At 31 December 2010 there were 9,014,115 share options outstanding under the savings-related share option scheme (SAYE) which were granted between 2005 and 2010 (2009: 8,901,502 granted between 2004 and 2009). The weighted average exercise price is 269.9p (2009: 287.0p). On 11 May 2010, options were granted over 3,073,128 ordinary shares under the SAYE, at 236p per share, and these are normally exercisable in the periods from July 2013 to December 2013 and from July 2015 to December 2015 depending upon the length of savings contract chosen by the participant.

At 31 December 2010 there were 1,258,736 share options outstanding under the executive share options scheme (ESOS) which were granted between 2001 and 2004 (2009: 1,757,558 granted between 2000 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 200.6p (2009: 194.9p). No options have been granted under the ESOS since 2004.

27.2 Cumulative convertible redeemable preference shares of 1p each

	Authorised		Issued	
	Million	£m	Million	£m
At 31 December 2009 and 2010	177	2	112	–

All issued preference shares are fully paid. During the current and prior year, no preference shares were repurchased for cancellation by the Company.

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. Any preference shares still outstanding are redeemable on 1 July 2020 at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2010 (2009: £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 a winding-up of 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.

The liability component recognised in the statement of financial position is calculated as follows:

	2010 £m	2009 £m
Redemption value of shares in issue at 1 January	112	112
Equity component	(16)	(16)
Deferred tax and interest element	(8)	(9)
Liability component at 1 January at amortised cost	88	87
Interest accretion	1	1
Liability component at 31 December at amortised cost	89	88

The fair value of the liability component of the preference shares at 31 December 2010 amounted to £147m (2009: £153m). 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 ¹ £m	Hedging reserves £m	PPP financial assets £m	Currency translation reserve £m	Merger reserve £m	Other £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2009 ¹	239	54	16	139	226	(26)	1	85	–	19	104	4	861
Profit for the year	–	–	–	–	81	–	–	–	–	–	130	–	211
Currency translation differences	–	–	–	–	(10)	–	–	(67)	–	–	–	–	(77)
Actuarial losses on retirement benefit obligations	–	–	–	–	–	–	–	–	–	–	(350)	–	(350)
Fair value revaluations	–	–	–	–	(80)	–	(1)	–	–	–	–	–	(81)
– PPP financial assets	–	–	–	–	(11)	16	–	–	–	–	–	–	5
– PPP cash flow hedges	–	–	–	–	(2)	–	–	–	–	–	–	–	(2)
Changes in fair value of net investment hedges	–	–	–	–	–	–	–	18	–	–	–	–	18
Tax on items taken directly to equity	–	–	–	–	26	(5)	–	–	–	–	99	–	120
Total comprehensive income/(expense) for the year	–	–	–	–	6	9	(1)	(49)	–	–	(121)	–	(156)
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(63)	–	(63)
Joint ventures' and associates' dividends	–	–	–	–	(75)	–	–	–	–	–	75	–	–
Issue of ordinary shares	104	3	–	–	–	–	–	–	252	–	–	–	359
Rights issue expenses	–	–	–	–	–	–	–	–	–	–	(3)	–	(3)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	1	–	–	1
Transfers	–	–	–	(107)	–	–	–	–	(3)	–	110	–	–
At 31 December 2009 ¹	343	57	16	32	157	(17)	–	36	249	20	102	4	999
Profit for the year	–	–	–	–	58	–	–	–	–	–	85	–	143
Currency translation differences	–	–	–	–	5	–	–	38	–	–	–	–	43
Actuarial gains on retirement benefit obligations	–	–	–	–	1	–	–	–	–	–	86	–	87
Fair value revaluations	–	–	–	–	36	–	25	–	–	–	–	–	61
– PPP financial assets	–	–	–	–	(47)	(20)	–	–	–	–	–	–	(67)
– PPP cash flow hedges	–	–	–	–	(3)	1	–	–	–	–	–	–	(2)
– other cash flow hedges	–	–	–	–	–	–	–	–	–	–	–	–	–
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	–	4	–	–	4
Tax on items taken directly to equity	–	–	–	–	3	5	(6)	–	–	(1)	(26)	–	(25)
Total comprehensive income/(expense) for the year	–	–	–	–	53	(14)	19	38	–	3	145	–	244
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(84)	–	(84)
Joint ventures' and associates' dividends	–	–	–	–	(62)	–	–	–	–	–	62	–	–
Issue of ordinary shares	–	2	–	–	–	–	–	–	–	–	–	–	2
Recycling of revaluation reserves to the income statement on disposal	–	–	–	–	(4)	–	–	–	–	–	–	–	(4)
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	–	(1)	–	(1)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	–	4	–	4
Transfers	–	–	–	(2)	–	–	–	–	–	–	2	–	–
At 31 December 2010	343	59	16	30	144	(31)	19	74	249	23	230	4	1,160

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

28 Movements in equity continued**28.2 Company**

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Merger reserve £m	Other reserves £m	Retained profits £m	Total £m
At 1 January 2009	239	54	16	139	—	64	276	788
Profit for the year	—	—	—	—	—	—	167	167
Actuarial losses on retirement benefit obligations	—	—	—	—	—	—	(16)	(16)
Tax on items taken directly to equity	—	—	—	—	—	—	5	5
Total comprehensive income for the year	—	—	—	—	—	—	156	156
Ordinary dividends	—	—	—	—	—	—	(63)	(63)
Issue of ordinary shares	104	3	—	—	252	—	—	359
Rights issue expenses	—	—	—	—	—	—	(3)	(3)
Movements relating to share-based payments	—	—	—	—	—	4	(3)	1
Transfers	—	—	—	(107)	(3)	—	110	—
At 31 December 2009	343	57	16	32	249	68	473	1,238
Loss for the year	—	—	—	—	—	—	(14)	(14)
Actuarial gains on retirement benefit obligations	—	—	—	—	—	—	5	5
Tax on items taken directly to equity	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	—	—	(9)	(9)
Ordinary dividends	—	—	—	—	—	—	(84)	(84)
Issue of ordinary shares	—	2	—	—	—	—	—	2
Movements relating to share-based payments	—	—	—	—	—	4	—	4
Transfers	—	—	—	(2)	—	—	2	—
At 31 December 2010	343	59	16	30	249	72	382	1,151

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 2010 (2009: £107m).

On 17 September 2009 the Company announced a fully underwritten 3 for 7 rights issue at a subscription price of 180p per new ordinary share to substantially finance the acquisition of Parsons Brinckerhoff Inc. The rights issue and acquisition were approved by the holders of the Company's ordinary shares at a general meeting on 7 October 2009 and the rights issue closed on 22 October 2009. 205,502,237 new ordinary shares were issued, raising £352m after issue costs and expenses of £18m. The rights issue utilised a cash box structure and therefore qualified for merger relief under Section 612 of the Companies Act 2006 so that the premium arising was not required to be credited to the Company's share premium account.

The cash box entity, Bentworth No. 2 Ltd (Bentworth 2), issued redeemable preference shares in consideration for the receipt of the cash proceeds net of issue costs arising from the rights issue. The Company's new ordinary shares were issued as consideration for the transfer to it of the shares in Bentworth 2 which it did not already own. As a result, the issue qualified for merger relief under Section 612 of the Companies Act 2006 so that the £252m excess of the value of the acquired shares in Bentworth 2 over the nominal value of the ordinary shares issued by the Company was credited to the Company's merger reserve, which was subsequently charged with £3m of rights issue expenses. The rights issue was directly associated with the acquisition of Parsons Brinckerhoff Inc. and therefore the merger reserve is not available for distribution to equity holders.

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 2010, 0.9m (2009: 0.8m) shares were purchased at a cost of £2.6m (2009: £3.0m) and in 2009 the Trust subscribed £2.7m for 1.5m new shares under the rights issue. The market value of the 3.7m (2009: 4.2m) shares held by the Trust at 31 December 2010 was £11.6m (2009: £10.8m). The carrying value of these shares is £12.4m (2009: £14.3m). 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 2010, 0.9m shares were transferred to participants in relation to the April 2007 awards under the performance share plan (2009: 1.4m shares for the April 2006 awards), and 0.5m shares were transferred to participants in relation to awards under the deferred bonus plan. The trustees have waived the rights to dividends on shares held by the Trust. Other reserves in the Group and the Company include £6.4m relating to unvested performance share plan awards (2009: £6.4m), £5.2m relating to unvested share options (2009: £5.9m), and £4.3m relating to unvested deferred bonus plan awards (2009: £3.8m).

29 Acquisitions and disposals

29.1 Current year acquisitions

Note	Acquisition date	Subsidiary	Percentage acquired	Cash consideration £m	Contingent consideration £m	Fair value of net assets acquired £m	Goodwill arising on acquisition £m	Costs (ii) £m
29.1.1	29 January 2010	Multibuild Hotels and Leisure Ltd and Multibuild Interiors Ltd ("Multibuild")	100%	2	-	1	1	-
29.1.2	27 August 2010	Traction Power Group (i)	3	-	-	1	2	-
29.1.3	13 October 2010	Ethos56 Ltd ("Halsall") (i)	100%	33	-	10	23	2
29.1.4	19 November 2010	Various Rok contracts (i)	5	-	-	(1)	6	-
				43	-	11	32	2

(i) As at 31 December 2010 the fair values of acquired assets, liabilities and goodwill for these contracts and businesses have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.

(ii) Costs directly attributable to each acquisition have been expensed within exceptional items, refer Note 8.

29.1.1 Multibuild is based in Stockport UK and specialises in the construction and fit-out of hotel and leisure facilities. The acquisition extends the Group's capabilities in the construction and fit-out of hotels and other leisure facilities, including cinemas and casinos, and will give Balfour Beatty access to the wider fit-out market.

29.1.2 Traction Power Group is based in Goldsboro, North Carolina and is a manufacturer of power systems and components for the mass transit industry and extends Balfour Beatty's capabilities in this market.

29.1.3 Halsall is a Canadian professional services firm with particular strengths in sustainable design and engineering services to the building market and structural engineering services to the transportation market. Halsall will extend Parsons Brinckerhoff's expertise and access to the Canadian market.

29.1.4 Certain operations of Rok's business in affordable housing and general construction were acquired by the Group. £5m consideration was paid for contracts transferred in the current year with a balance of £2m to be paid if further contracts transfer. The acquired operations and 381 employees extend the Group's capabilities in the affordable new build housing market.

The following summary presents the Group as if the businesses acquired had been acquired on 1 January 2010. The amounts include the results of the acquired businesses, depreciation and amortisation of the acquired fixed assets and intangible assets recognised on acquisition. The amounts do not include any possible synergies from the acquisition. The results of acquired companies and contracts for the period before acquisition have not been adjusted to reflect Balfour Beatty 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	9,319
Profit for the year	145

* Total Group figures had the acquisitions occurred on 1 January 2010.

The businesses acquired during the year contributed £23m to Group revenue and £0.1m to profit for the year in the current year.

29 Acquisitions and disposals continued**29.1 Current year acquisitions continued**

	Recognised amounts of identifiable assets acquired and liabilities assumed £m
Net assets acquired:	
Intangible assets – customer contracts	3
Intangible assets – customer relationships	5
Intangible assets – brand names	1
Property, plant and equipment	2
Deferred taxation	(1)
Current tax	(1)
Working capital	–
Cash and cash equivalents	2
Identifiable net assets	11
Goodwill	32
Total consideration	43
Satisfied by:	
Cash consideration	43
Contingent consideration	–
Total consideration transferred	43

	Net cash flow on acquisitions £m
Cash consideration	43
Cash and cash equivalent balances acquired	(2)
Net cash outflow on acquisitions completed in 2010	41
Deferred consideration paid during 2010 in respect of acquisitions completed in earlier years	3
Net cash outflow on acquisitions	44

29.2 Contingent consideration arrangements

	Parsons £m	SpawMaxwell £m	Brinckerhoff Inc. £m	Total £m
Contingent consideration (payable)/recoverable				
As disclosed in the Annual report and accounts 2009	(3)	7	4	
Changes in the evaluation of contractual positions after review of the acquisition date position	–	9	9	
Fair value of contingent consideration recognised as at 31 December 2010	(3)	16	13	

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 make or receive under the terms of the contingent consideration arrangements is between £11m payable and £16m receivable in respect of Parsons Brinckerhoff and £3m payable in respect of SpawMaxwell.

29.3 Prior year acquisitions

The fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional for SpawMaxwell Company LLC and Strata Construction Ltd have been finalised in the current year with no material changes to the fair values disclosed in the Annual report and accounts 2009.

29 Acquisitions and disposals continued

29.3 Prior year acquisitions continued

The fair values of the acquired assets and liabilities disclosed as provisional in the Annual Report and Accounts 2009 in respect of Parsons Brinckerhoff Inc. have been finalised during the year. The following adjustments have been made:

	Fair values previously disclosed £m	Adjustments made £m	Fair value of assets acquired £m
Net assets acquired:			
Working capital	4	(26)	(22)
Provisions	(19)	(5)	(24)
Deferred tax	2	8	10
Other	216	–	216
Identifiable net assets	203	(23)	180
Goodwill	172	14	186
Net assets	375	(9)	366
Contingent consideration recoverable	7	9	16

The movements in the fair value of goodwill, net assets acquired and the contingent consideration arrangements were primarily as a result of the assessment of contract positions, including those covered by the contingent consideration arrangement, changing as a result of new information becoming available concerning the position at the acquisition date.

29.4 Current year disposals

During the period the Group disposed of its 50% interest in Aberdeen Environmental Services (Holdings) Ltd and a 23.9% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd. The Group retains a 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd following the transaction. The aggregate consideration received was £24m. The disposals resulted in a total gain of £20m being realised, comprising £16m in respect of gains on disposal of the investments in the joint ventures and £4m in respect of revaluation reserves recycled to the income statement.

30 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 related to equity-settled share-based payment transactions since 7 November 2002 of £8.3m in 2010 (2009: £6.8m). Refer to the Remuneration report for details of the various schemes and to Note 27.1 for details of SAYE options granted during the year.

30.1 Movements in share options

	SAYE options				ESOS options			
	2010 Number	Weighted average exercise price 2010 Pence	2009 Number	Weighted average exercise price 2009 Pence	2010 Number	Weighted average exercise price 2010 Pence	2009 Number	Weighted average exercise price 2009 Pence
Outstanding at 1 January	8,901,502	287.0	8,850,122	288.7	1,244,920	198.9	1,400,501	198.9
Granted during the year	3,073,128	236.0	2,883,694	249.0	–	–	–	–
Forfeited during the year	(1,212,810)	282.0	(1,254,662)	292.8	(15,425)	196.3	(17,223)	227.3
Exercised during the year	(657,138)	217.7	(1,523,234)	224.2	(289,789)	190.2	(138,358)	195.5
Expired during the year	(1,090,567)	332.2	(54,418)	168.6	–	–	–	–
Outstanding at 31 December	9,014,115	269.9	8,901,502	287.0	939,706	201.6	1,244,920	198.9
Exercisable at 31 December	105,633	300.8	106,695	228.6	939,706	201.6	1,244,920	198.9

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 251.9p (2009: 272.3p) and the weighted average remaining contractual life of SAYE options outstanding at 31 December 2010 is 2.7 years (2009: 2.6 years).

The weighted average share price at the date of exercise for those ESOS options exercised during the year was 284.5p (2009: 286.1p) and the weighted average remaining contractual life of ESOS options outstanding at 31 December is 3.0 years (2009: 3.9 years).

The principal assumptions used by the consultants in the stochastic model for the SAYE options granted in 2010, including expected volatility determined from the historic weekly share price movements over the three year period immediately preceding the invitation date, were:

Invitation date	Exercise price Pence	Closing share price before invitation date Pence	Expected dividend yield %	Expected volatility of shares %	Expected term of options Years	Risk-free interest rate %	Calculated fair value of an option Pence
9 April 2010 – three years savings contract	236.0	292.2	4.35	33.4	3.25	1.91	70.4
9 April 2010 – five years savings contract	236.0	292.2	4.35	33.4	5.25	2.76	78.3

30 Share-based payments continued

30.2 Movements in share plans

	PSP conditional awards		DBP conditional awards	
	2010 Number	2009 Number	2010 Number	2009 Number
Outstanding at 1 January	6,863,134	5,997,490	1,933,946	1,488,052
Granted during the year	2,982,241	2,999,265	769,581	887,240
Awards in lieu of dividends	—	—	106,024	82,360
Forfeited during the year	(105,633)	(70,391)	(47,321)	(30,132)
Exercised during the year	(784,170)	(1,436,028)	(514,278)	(493,574)
Expired during the year	(784,154)	(627,202)	—	—
Outstanding at 31 December	8,171,418	6,863,134	2,247,952	1,933,946
Exercisable at 31 December	—	—	—	—

The weighted share price at the date of exercise for those PSP awards exercised during the year was 293.2p (2009 weighted average: 283.4p) and the weighted average remaining contractual life of those PSP awards outstanding at 31 December 2010 is 1.4 years (2009: 1.5 years).

The weighted average share price at the date of exercise for those DBP awards exercised during the year was 290.4p (2009: 285.6p) and the weighted average remaining contractual life of DBP awards outstanding at 31 December 2010 is 1.3 years (2009: 1.5 years).

The principal assumptions, including expected volatility determined from the historic weekly share price movements over the three year period immediately preceding the award date, used by the consultants in the stochastic model for the 50% of the PSP awards in 2010 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
15 April 2010	303.1	33.4	3.0	1.79	174.9

For the 50% of the PSP awards in 2010 subject to non-market conditions and for the DBP awards in 2010, the fair value of the awards is the closing share price before award date.

31 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £31m (2009: £29m) in the Group and £nil (2009: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt of joint ventures and associates in PPP projects amounting to £70m (2009: £104m), £21m (2009: £30m) in respect of PPP subsidiaries and £24m (2009: £23m) in respect of Balfour Beatty Communities' military housing concessions. The future cash flow profile of the Group's share of further equity funding and subordinated debt is shown in Note 36(g).

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement is disclosed in Note 4.1.

Future operating lease expenditure commitments comprise:

	Land and buildings 2010 £m	Other 2010 £m	Land and buildings 2009 £m	Other 2009 £m
Group				
Due within one year	73	38	72	30
Due between one and five years	181	57	179	47
Due after more than five years	49	—	55	1
	303	95	306	78
Company				
Due within one year	4	—	3	—
Due between one and five years	10	—	13	—
Due after more than five years	—	—	1	—
	14	—	17	—

31 Commitments continued

Future committed operating lease income comprise:

	Land and buildings 2010 £m	Land and buildings 2009 £m
Group		
Due within one year	3	3
Due between one and five years	9	10
Due after more than five years	—	1
	12	14
Company		
Due within one year	3	3
Due between one and five years	9	10
	12	13

32 Contingent liabilities

The Company and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of the Group's share of certain contractual obligations of joint ventures and associates and certain retirement benefit obligations of the Balfour Beatty Pension Fund and Parsons Brinckerhoff Ltd's pension scheme. Where the Company enters into such agreements, it considers them to be insurance arrangements, and accounts for them as such. Guarantees are treated as contingent liabilities until such time as it becomes probable that the Company will be required to make payment under the guarantee.

An associate is a member of a multi-employer defined benefit pension plan where there is insufficient information on which to base a reliable estimate of any potential defined benefit obligation and accordingly the associate is accounting for the plan as a defined contribution plan. Under certain circumstances it is possible that additional contributions may be made to fund the deficit attributable to the associate, however no reliable estimate can be made of whether and to what extent a liability may crystallise.

As stated in Note 26, 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 a sufficiently reliable estimate of the potential obligation cannot be made.

33 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 £972m (2009: £939m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due to or from joint ventures and associates at 31 December are disclosed within trade and other receivables and trade and other payables in Notes 21 and 22 respectively.

Pension schemes

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £5.2m in 2010 (2009: £5.0m).

Key personnel

The remuneration of key personnel of Balfour Beatty plc was:

	2010 £m	2009 £m
Short-term benefits	3.440	4.586
Post-employment benefits	0.427	0.235
Share-based payments	2.033	1.852
	5.900	6.673

Key personnel comprise the executive Directors who are directly responsible for the Group's activities and nil (2009: three) managing directors who were responsible for certain operations, engineering and safety matters. 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 89 to 99*.

34 Post balance sheet events

On 2 March 2011 the Directors resolved to dispose of the Group's effective 25.5% interest in Barking Power Ltd ("Barking"), subject to receiving a satisfactory offer. Barking's carrying value is expected to be recovered principally through a sale transaction within one year rather than through continuing use and accordingly, from 2 March 2011, the Group's interest in Barking will be classified as held for sale.

35 Notes to the statements of cash flows

	Group 2010 £m	Group 2009 ¹ £m	Company 2010 £m	Company 2009 £m
35.1 Cash generated from operations comprises:				
Profit from operations	206	295	–	182
Exceptional reduction in pension past service liabilities	–	(100)	–	(4)
Share of results of joint ventures and associates	(58)	(81)	–	–
Dividends received	–	–	(31)	(189)
Depreciation of property, plant and equipment	74	69	–	1
Amortisation of other intangible assets	82	48	–	–
Pension deficit payments – ongoing regular deficit funding	(41)	(35)	(1)	(1)
– one-off deficit funding	(40)	–	–	–
Movements relating to share-based payments	8	7	5	4
Profit on disposal of investments in joint ventures	(20)	–	–	–
Profit on disposal of property, plant and equipment	(2)	(4)	–	–
Impairment of inventory	–	2	–	–
Impairment of property, plant and equipment	–	2	–	–
Other non-cash items	(8)	1	–	–
Operating cash flows before movements in working capital	201	204	(27)	(7)
(Increase)/decrease in working capital	(32)	90	(37)	21
Cash generated from/(used in) operations	169	294	(64)	14

¹ Restated for the adoption of IFRIC 12 (Notes 1.2 and 37).

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
35.2 Cash and cash equivalents comprise:				
Cash and deposits	518	464	–	–
Term deposits	48	144	–	143
PPP cash balances	18	10	–	–
Bank overdrafts	(34)	(10)	(55)	(53)
	550	608	(55)	90

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.

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
35.3 Analysis of movement in net cash:				
Opening net cash	324	297	90	(1)
Net (decrease)/increase in cash and cash equivalents	(70)	185	(145)	91
Acquisitions – borrowings at date of acquisition	–	(14)	–	–
Proceeds from new loans	(49)	(121)	–	–
Proceeds from new finance leases	(4)	–	–	–
Repayment of loans	30	4	–	–
Repayment of finance leases	5	3	–	–
Currency translation differences	12	(30)	–	–
Closing net cash	248	324	(55)	90

35.4 Borrowings

During the year to 31 December 2010 the significant movements in borrowings were an increase of £49m (2009: £116m increase) in non-recourse borrowings funding the development of financial assets in PPP subsidiaries, the inclusion of £nil (2009: £14m) of borrowings in acquired companies and repayment of £30m (2009: £4m) of loans.

36 Principal subsidiaries, joint ventures and associates

	Country of incorporation or registration	Country of incorporation or registration	Ownership interest %
(a) Principal subsidiaries			
Professional, Construction and Support services			
Balfour Beatty Civil Engineering Ltd	US		
Balfour Beatty Construction Group Inc	US		
Balfour Beatty Construction Northern Ltd	Scotland		
Balfour Beatty Construction Scottish & Southern Ltd	Scotland		
Balfour Beatty Engineering Services Ltd	Scotland		
Balfour Beatty Ground Engineering Ltd			
Balfour Beatty Group Ltd			
Balfour Beatty Infrastructure Inc	US		
Balfour Beatty Rail GmbH	Germany		
Balfour Beatty Rail Inc	US		
Balfour Beatty Rail Ltd	Italy		
Balfour Beatty Rail SpA			
Balfour Beatty Utility Solutions Ltd			
Balfour Beatty WorkPlace Ltd			
Halsall Associates Ltd	Canada		
Heery International Inc	US		
Mansell plc			
Parsons Brinckerhoff (Asia) Ltd	Hong Kong		
Parsons Brinckerhoff Inc.	US		
Parsons Brinckerhoff International Pte Ltd	Singapore		
Parsons Brinckerhoff Ltd			
PB Americas Inc	US		
PB Australia Pty Ltd	Australia		
Infrastructure Investments			
PPP (refer Note 36 (d) and (e))			
Balfour Beatty Capital Ltd			
Balfour Beatty Capital Group Inc	US		
Balfour Beatty Communities LLC	US		
Balfour Beatty Infrastructure Investments Ltd*			
Other			
Balfour Beatty LLC	US		
Balfour Beatty Group Inc	US		
Balfour Beatty Investment Holdings Ltd*			
Delphian Insurance Company Ltd*	Isle of Man		
(b) Principal joint ventures and associates			
Professional, Construction and Support services			
BK Gulf LLC		Dubai	49.0
Dutco Balfour Beatty LLC		Dubai	49.0
Gammon China Ltd		Hong Kong	50.0
Monteray Ltd			24.5
Romec Ltd			49.0
Refer to Note 36 (d), (e) and (f) for details of the Group's Infrastructure Investments companies.			
(c) Principal jointly controlled operations			
The Group carries out a number of its larger construction contracts in joint arrangement with other contractors so as to share resources and risk. The principal joint construction projects in progress are shown below:			
South-East England Roads			60.0
South-West England Roads			73.0
M25 DBFO			50.0
M25 Maintenance			52.5
M74 Motorway		Scotland	25.0
Scotland Transerv		Scotland	70.0
Gotthard Base Tunnel		Switzerland	25.0
Dallas Convention Center Hotel		US	80.0
New Campus East at Fort Belvoir		US	50.0
Walter Reed Army Medical 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) * Indicates held directly by Balfour Beatty plc.			
(iii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales. The principal operations of each company are conducted in its country of incorporation.			

36 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital PPP concessions

Roads

Summary: Balfour Beatty is a promoter, developer and investor in 10 road and street lighting projects under Balfour Beatty's Connect brand: to construct new roads; to upgrade and maintain existing roads; and to replace and maintain street lighting.

Project descriptions: The road projects comprise the design, construction, operation, maintenance and associated financing of the following roads: the M1-A1 link road; A30 Honiton to Exeter and A35 Tolpuddle to Puddletown bypass; A50 Stoke-Derby; M77 Fenwick to Malletsheugh and the Glasgow Southern Orbital; the M25 Junction 16 to Junction 23, Junction 27 to Junction 30 and A1(M) Hatfield Tunnel and maintenance of the entire M25; and the Carlisle Northern Development Route (CNDR). The road concessions typically run for 30 years and reached financial close at various dates between March 1996 and July 2009. The street lighting projects are for the replacement, maintenance and associated financing over a 25-year period of the street lighting and highway signs in Sunderland, South Tyneside, Derby and Coventry. All construction is new build rather than refurbishment except for the work undertaken on the M25 and A1(M) Hatfield Tunnel.

Contractual arrangements: The principal contract in the roads concessions is the project agreement with the governmental highway authority setting out the obligations for the construction, operation and maintenance of the roads including lifecycle replacement by Connect for the life of the concession to specified standards. In the case of M1-A1, A30/A35 and A50 the inflation indexed payment is related to traffic volumes. In the case of M77/GSO and CNDR, the inflation indexed payment is partly based on availability and partly on traffic volumes, and is subject to any performance related deductions. In the case of M25, the inflation indexed payment is wholly based on availability and is subject to any performance related deductions. Construction of the roads was subcontracted to construction joint ventures in which Balfour Beatty had a 50% interest or, in the case of the M77/GSO and CNDR, 100% to Balfour Beatty subsidiaries. On the street lighting projects, payment is by a periodic inflation indexed availability payment subject to performance deductions and the replacement and maintenance obligations have been subcontracted to a Balfour Beatty subsidiary. There are no provisions to reprice the contracts and all assets transfer to the client at the end of the concessions.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
Connect M1-A1 Ltd	M1-A1 30km road	290	50%	March 1996	30	1999	14	—
Connect A50 Ltd (ii)	A50 57km road	42	85%	May 1996	30	1998	6	—
Connect A30/A35 Ltd (ii)	A30/A35 102km road	127	85%	July 1996	30	2000	21	—
Connect M77/GSO plc (ii)	M77/GSO 25km road	167	85%	May 2003	32	2005	15	—
Connect Roads Sunderland Ltd	Street lighting apparatus in Sunderland	27	100%	August 2003	25	2008	3	—
Connect Roads South Tyneside Ltd	Street lighting apparatus in South Tyneside	28	100%	December 2005	25	2010	—	2
Connect Roads Derby Ltd	Street lighting apparatus in Derby	36	100%	April 2007	25	2012	—	2
Connect Plus (M25) Ltd	M25 J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	1,309	40%	May 2009	30	2012	44	36
Connect CNDR Ltd	Carlisle Northern Development Route	176	100%	July 2009	30	2012	—	11
Connect Roads Coventry Ltd	Street lighting apparatus in Coventry	56	100%	August 2010	25	2015	—	6
							103	57

Notes:

- (i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales, except Connect M77/GSO plc which conducts its principal operations in Scotland.
- (ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors are of the opinion that, as at the reporting date, the Group did not control this company and it has been accounted for as a joint venture.

36 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital PPP concessions continued

Hospitals

Summary: Balfour Beatty is a promoter, developer and investor in nine hospital projects, of which eight are under Balfour Beatty's Consort Healthcare brand, comprising the building of hospital accommodation and the provision of certain non-medical facilities management services over the concession period.

Project descriptions: The projects comprise: University Hospital of North Durham; Edinburgh Royal Infirmary; Royal Blackburn Hospital; University College London Hospital; University Hospital Birmingham; Pinderfields and Pontefract Hospitals in mid-Yorkshire; Hope Hospital Salford; Tameside General Hospital; and Victoria Hospital in Kirkcaldy, Fife. Construction is new build rather than refurbishment.

Contractual arrangements: The principal contract is the project agreement between the concession company and the NHS Trust. An inflation indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. Construction of the hospitals has been subcontracted to construction joint ventures in which Balfour Beatty subsidiaries participated 100% (University Hospital of North Durham, Royal Blackburn Hospital, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford, Tameside General Hospital and Victoria Hospital Kirkcaldy), 85% (Edinburgh Royal Infirmary), and 50% (University College London Hospital). In the case of Edinburgh Royal Infirmary, University Hospital of North Durham, Royal Blackburn Hospital, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford, Tameside General Hospital and Victoria Hospital Kirkcaldy, facilities management has been subcontracted to a Balfour Beatty subsidiary. The payments for the facilities management services are repriced every five years. All assets transfer to the client at the end of the concession, with the exception of Edinburgh Royal Infirmary, where the client has the option to terminate the arrangement for the provision of the hospital and services in 2028.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
Consort Healthcare (Durham) Ltd	Teaching hospital	90	50%	March 1998	30	2001	7	–
Consort Healthcare (Edinburgh Royal Infirmary) Ltd (ii)	Teaching hospital and medical school	220	50%	August 1998	30	2003	40	–
Health Management (UCLH) Ltd	University College London teaching hospital	282	33.3%	July 2000	40	2008	9	–
Consort Healthcare (Blackburn) Ltd	General hospital	116	50%	July 2003	38	2006	6	–
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	June 2006	40	2011	23	–
Consort Healthcare (Mid Yorkshire) Ltd	Pinderfields and Pontefract general hospitals	311	50%	June 2007	35	2010	15	–
Consort Healthcare (Salford) Ltd	Teaching hospital and medical school	136	50%	September 2007	35	2012	10	–
Consort Healthcare (Tameside) Ltd	General hospital	77	50%	September 2007	34	2011	6	–
Consort Healthcare (Fife) Ltd	General hospital	170	50%	April 2009	30	2011	6	3
							122	3

Notes:

(i) Registered in England and Wales and the principal operations of each company are conducted 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.

(ii) During the year the Group sold a 23.9% interest in Consort Healthcare (Edinburgh Royal Infirmary) Ltd. Refer to Notes 8 and 29 for further details.

36 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital PPP concessions continued

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.

Project descriptions: The projects comprise: 98 schools in the city of Stoke-on-Trent; 15 schools in Rotherham; 21 schools in North Lanarkshire; six new schools, two post-16 learning centres and two leisure centres in Bassetlaw, Nottinghamshire; 12 schools in Birmingham; 16 schools in the first two phases in Newcastle; seven learning centres in Knowsley; a total of six schools over two phases in Islington; a total of six schools over two phases in Southwark; 15 schools in Blackburn with Darwen and Bolton; one school in Derby; one school in Ealing and one school in Oldham. Construction in North Lanarkshire, Bassetlaw, Newcastle, Knowsley, Blackburn & Darwen, Ealing, Derby, Oldham and Southwark is all new build. On Stoke, construction comprises £16m of new build and £63m of refurbishment; on Rotherham, £78m of new build and £21m of refurbishment; on Birmingham, £69m of new build and £5m of refurbishment; and on Islington, £93m of new build and £6m of refurbishment.

Contractual arrangements: The principal contract is the project agreement between the concession company and the local authority that provides for an inflation indexed availability based payment subject to any performance related deductions. For projects other than Aura Newcastle Ltd, construction is subcontracted to construction joint ventures of Balfour Beatty subsidiaries and the facilities management services are subcontracted to a Balfour Beatty subsidiary. Construction and facilities management services on Aura Newcastle are carried out by subsidiaries of other shareholders. The payments for the facilities management services are repriced every five years. All assets transfer to the client at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
Transform Schools (Stoke) Ltd	Grouped schools project in Stoke-on-Trent	84	50%	October 2000	25	2005	5	—
Transform Schools (Rotherham) Ltd	Grouped schools project in Rotherham	113	50%	June 2003	31	2006	5	—
Transform Schools (North Lanarkshire) Ltd	Grouped schools project in North Lanarkshire	140	50%	June 2005	32	2008	9	—
Transform Schools (Bassetlaw) Ltd	Grouped schools project in Bassetlaw, Notts	127	50%	July 2005	27	2007	7	—
Transform Schools (Birmingham) Ltd	Grouped schools project in Birmingham	89	50%	March 2006	33	2009	4	—
Aura Newcastle Ltd	BSF project in Newcastle-upon-Tyne	47	20%	July 2007	25	2012	4	—
Transform Schools (Knowsley) Ltd	BSF project in Knowsley	163	100%	December 2007	27	2010	15	—
Transform Islington Ltd (ii)	BSF project in Islington	77	80%	July 2008	26	2013	3	2
4 Futures Ltd (ii)	BSF project in Southwark	70	80%	May 2009	26	2014	—	6
Blackburn with Darwen and Bolton Ltd (ii)	BSF project in Blackburn	85	80%	January 2010	25	2011	—	6
Derby City BSF Ltd (ii)	BSF project in Derby	39	80%	December 2010	25	2012	—	3
Future Ealing Ltd (ii)	BSF project in Ealing	36	80%	December 2010	25	2012	—	3
Oldham BSF Ltd (ii)	BSF project in Oldham	40	90%	December 2010	25	2012	—	3
							52	23

Notes:

- (i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales, except Transform Schools (North Lanarkshire) Ltd which conducts its principal operations in Scotland.
- (ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors are of the opinion that, as at the reporting date, the Group did not control this company and it has been accounted for as a joint venture.

36 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Capital PPP concessions continued

Other concessions

Summary: Balfour Beatty is a promoter, developer and investor in a number of other concessions.

Project descriptions: The Powerlink project comprises two companies: EDF Energy Powerlink Ltd (EDFEPL), which operates the London Underground high voltage power system under a 30-year contract and was responsible for procuring various new power assets, and Power Asset Development Company Ltd (PADCO), which constructed the new build power assets and is leasing them to EDFEPL. Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency which requires PCDL to maintain sea defences consisting of a shingle bank that extends 9 km between Eastbourne and Bexhill-on-Sea in East Sussex. Gammon Capital (West) Pte Ltd has a contract to design, build and finance the new Institute of Technical Education ("ITE") College West in Singapore and provide long-term facilities management services for the remainder of the 27-year project.

Contractual arrangements: For the Powerlink project the principal project agreement is the power services contract between EDFEPL and London Underground Ltd that provides for an inflation indexed availability payment subject to any performance deductions. EDFEPL operates and maintains the power network using its own staff and is leasing the new power assets from PADCO, which subcontracted construction to a construction joint venture in which a Balfour Beatty subsidiary had a 40% interest. There are no provisions to reprice contracts and all assets transfer to the client at the end of the concession. PCDL's principal contract is the flood defence services agreement with the Environment Agency that provides for an inflation indexed payment subject to any performance related deductions. For the Singapore project, the principal agreement is the project agreement with the ITE of Singapore that provides for an inflation indexed availability based payment subject to any performance deductions. Construction is subcontracted to Gammon Pte Ltd, a wholly-owned subsidiary of Gammon China Ltd in which the Group has a 50% interest. The facilities management services under the ITE agreement are provided by a third party.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
EDF Energy Powerlink Ltd (ii)/ Power Asset Development Company Ltd	London Underground power system	184	10%/25%	August 1998	30	2006	4	-
Pevensey Coastal Defence Ltd	Flood defences	3	25%	July 2000	25	n/a	1	-
Gammon Capital (West) Pte Ltd	Technical education college	100	50%	August 2008	27	2010	-	8
							5	8

Notes:

- (i) Registered in England and Wales and the principal operations of each company are conducted 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 EDF Energy Powerlink Ltd and therefore accounts for its interest as an associate.

36 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Communities PPP concessions

Military housing

Summary: Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 43 military bases that provide speciality housing to US military personnel and their families.

Project descriptions: The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), covering 16 Army bases; four projects with the United States Department of the Air Force (Air Force), covering nine Air Force bases and two projects with the United States Department of the Navy (Navy), covering 18 Navy bases. In addition, there is one unaccompanied personnel housing (UPH) project at Fort Stewart, located in Hinesville, Georgia. These projects in operation cover 43 domestic bases located in 20 states and Washington, DC and Balfour Beatty Communities expects them to contain approximately 33,000 end-state housing units once full development, construction and renovation have been completed. The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. For each project, Balfour Beatty Communities creates a special purpose entity to serve as the owner of the project, which is typically either a limited liability company or general partnership. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); and, whereas the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC.

Contractual arrangements: On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, potentially could extend for up to an additional 25 years. The 50 year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the US Government.

Preferred returns: The projects will typically receive, to the extent that adequate funds are available, an annual, minimum preferred rate of return. On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project. During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return. The unpaid amounts generally will accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the US Government in accordance with the terms of the project agreements.

Split of remaining operating cash flows: Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the US Government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military branch.

Return of equity: Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, as applicable, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the Army, Navy or Air Force, as applicable.

36 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Communities PPP concessions continued

Military housing continued

Military privatisation project (i)	Project	Total project funding £m	Financial close	Duration years	Construction completion	Equity and subordinated debt	
						Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
Fort Carson	Army base	113	November 2003	46	2004	3	—
Fort Stewart/Hunter Airfield	Two army bases	232	November 2003	50	2011	—	6
Fort Hamilton	Army base	35	June 2004	50	2009	1	—
Walter Reed Army Medical Center/Fort Detrick	Two army bases	57	July 2004	50	2008	4	—
Navy Northeast Region	Seven navy bases	318	November 2004	50	2010	6	—
Fort Eustis/Fort Story	Two army bases	110	March 2005	50	2011	—	2
Fort Bliss/White Sands Missile Range	Two army bases	275	July 2005	50	2011	—	4
Fort Gordon	Army base	70	May 2006	50	2012	—	3
Carlisle/Picatinny	Two army bases	54	July 2006	50	2011	—	2
Fort Carson expansion Phase I		83	November 2006	43	2010	—	—
AETC Group 1	Four Air Force bases	191	February 2007	50	2012	5	—
Navy Southeast Region	Eleven Navy bases	441	November 2007	50	2013	4	—
Vandenberg	Air Force base	102	November 2007	50	2012	4	—
Fort Stewart UPH		20	January 2008	50	2010	1	—
Fort Leonard Wood	Army base	129	Acquired June 2008	47	2014	—	3
AMC West	Three Air Force bases	263	July 2008	50	2015	9	—
West Point	Army base	134	August 2008	50	2016	—	2
Fort Jackson	Army base	111	October 2008	50	2013	—	2
Lackland	Air Force base	90	Acquired December 2008	50	2013	—	—
Fort Bliss expansion		31	December 2009	46	2011	—	—
Fort Carson expansion Phase II		63	April 2010	39	2013	—	—
Fort Eustis expansion		5	July 2010	45	2011	—	—
						37	24

Notes:

- (i) Registered in the US and the principal operations of each project are conducted in the US.
- (ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

Student accommodation

Student accommodation project (i)	Project	Total project funding £m	Financial close	Duration years	Construction completion	Equity and subordinated debt	
						Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
Florida Atlantic University	Student housing	63	March 2010	30	2011	2	—
						2	—

Notes:

- (i) Registered in the US and the principal operations of each project are conducted in the US.

		Equity and subordinated debt	
		Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
PPP concessions listed above		321	115
Preferred bidder		—	36
Investment in Balfour Beatty Communities		110	—
		431	151

36 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: Balfour Beatty is a 50% shareholder in Thames Power Ltd, which owns 51% of the equity in Barking Power Ltd, the company which owns and operates Barking Power Station, a combined cycle 1,000MW capacity gas-fired facility in East London. Exeter and Devon Airport Ltd owns and operates Exeter International Airport. Blackpool Airport Ltd owns and operates Blackpool International Airport.

Company (i)	Project	Total debt and equity funding	Shareholding	Financial close	Equity and subordinated debt	
					Invested to 31 December 2010 £m	Committed post 31 December 2010 £m
Barking Power Ltd (ii),(iii)	Gas fired power station in East London	£661m	25.5%	March 1992	—	—
Exeter and Devon Airport Ltd	Exeter International Airport	£60m	60%	January 2007	18	—
Blackpool Airport Ltd (ii)	Blackpool International Airport	£14m	95%	May 2008	14	—
					32	—

Notes:

(i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales.

(ii) Shareholdings quoted are economic interests.

(iii) The Group's investment in Barking Power Ltd was impaired during the current year. Refer to Note 8.

(g) Total committed equity and debt funding

The future cash flow profile of committed equity and debt funding for the PPP concession companies listed above is:

Concessions	2011 £m	2012 £m	2013 £m	2014 onwards £m	Total £m
Roads	37	13	1	6	57
Hospitals	3	—	—	—	3
Schools	5	8	3	7	23
Other	8	—	—	—	8
Military housing	15	5	2	2	24
Total	68	26	6	15	115

37 The Group statements of financial position have been restated as follows:

	January 2009 previously disclosed £m	IFRIC 12 (Note 1.2) £m	January 2009 restated £m	December 2009 previously disclosed £m	IFRIC 12 (Note 1.2) £m	Changes to the PB acquisition statement of financial position (Notes 1.2 & 29) £m	December 2009 restated £m
Non-current assets							
Intangible assets – goodwill	975	–	975	1,131	–	14	1,145
– other	223	–	223	298	–	–	298
Property, plant and equipment	296	–	296	315	–	–	315
Investments in joint ventures and associates	469	(4)	465	458	(7)	–	451
Investments	55	–	55	83	–	–	83
PPP financial assets	151	–	151	260	–	–	260
Deferred tax assets	132	–	132	183	–	8	191
Derivative financial instruments	3	–	3	1	–	–	1
Trade and other receivables	74	–	74	89	–	9	98
	2,378	(4)	2,374	2,818	(7)	31	2,842
Current assets							
Inventories	125	–	125	100	–	–	100
Due from customers for contract work	383	–	383	524	–	–	524
Derivative financial instruments	2	–	2	–	–	–	–
Trade and other receivables	1,193	–	1,193	1,329	–	–	1,329
Current tax assets	–	–	–	5	–	–	5
Cash and cash equivalents – PPP subsidiaries	2	–	2	10	–	–	10
– other	461	–	461	608	–	–	608
	2,166	–	2,166	2,576	–	–	2,576
Total assets	4,544	(4)	4,540	5,394	(7)	31	5,418
Current liabilities							
Trade and other payables	(2,168)	–	(2,168)	(2,412)	–	–	(2,412)
Due to customers for contract work	(540)	–	(540)	(581)	–	(26)	(607)
Derivative financial instruments	(66)	–	(66)	(1)	–	–	(1)
Current tax liabilities	(23)	–	(23)	(8)	–	–	(8)
Borrowings – PPP non-recourse loans	–	–	–	(19)	–	–	(19)
– other	(12)	–	(12)	(23)	–	–	(23)
	(2,809)	–	(2,809)	(3,044)	–	(26)	(3,070)
Non-current liabilities							
Trade and other payables	(152)	–	(152)	(163)	–	–	(163)
Derivative financial instruments	(40)	–	(40)	(24)	–	–	(24)
Borrowings – PPP non-recourse loans	(145)	–	(145)	(239)	–	–	(239)
– other	(9)	–	(9)	(13)	–	–	(13)
Deferred tax liabilities	(10)	–	(10)	(9)	–	–	(9)
Liability component of preference shares	(87)	–	(87)	(88)	–	–	(88)
Retirement benefit obligations	(261)	–	(261)	(586)	–	–	(586)
Provisions	(166)	–	(166)	(222)	–	(5)	(227)
	(870)	–	(870)	(1,344)	–	(5)	(1,349)
Total liabilities	(3,679)	–	(3,679)	(4,388)	–	(31)	(4,419)
Net assets	865	(4)	861	1,006	(7)	–	999
Equity							
Called-up share capital	239	–	239	343	–	–	343
Share premium account	54	–	54	57	–	–	57
Equity component of preference shares	16	–	16	16	–	–	16
Special reserve	139	–	139	32	–	–	32
Share of joint ventures' and associates' reserves	230	(4)	226	164	(7)	–	157
Other reserves	79	–	79	288	–	–	288
Retained profits/(accumulated losses)	104	–	104	102	–	–	102
Equity attributable to equity holders of the parent	861	(4)	857	1,002	(7)	–	995
Non-controlling interests	4	–	4	4	–	–	4
Total equity	865	(4)	861	1,006	(7)	–	999

GROUP FIVE-YEAR SUMMARY

IFRS	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Income					
Revenue (including share of joint ventures and associates)	10,541	10,339	9,486	7,488	5,506
Share of revenue of joint ventures and associates	(1,305)	(1,385)	(1,225)	(1,022)	(1,019)
Group revenue from continuing operations	9,236	8,954	8,261	6,466	4,487
Profit from continuing operations before exceptional items and amortisation of intangible assets	338	280	227	177	114
Net investment income/(finance costs) before exceptional items	(19)	(15)	19	23	21
Profit before taxation, exceptional items and amortisation of intangible assets	319	265	246	200	135
Exceptional items	(50)	48	48	(35)	(26)
Amortisation of intangible assets	(82)	(48)	(27)	(9)	(1)
Profit from continuing operations before taxation	187	265	267	156	108
Taxation on profit from continuing operations	(44)	(54)	(74)	12	(34)
(Loss)/profit from discontinued operations after taxation	—	—	—	(18)	16
Profit for the year attributable to equity holders	143	211	193	150	90
Capital employed					
Equity holders' funds	1,156	995	857	493	396
Liability component of preference shares	89	88	87	87	90
Net cash	(248)	(324)	(297)	(313)	(284)
	997	759	647	267	202
	2010 Pence	2009 Pence	2008 Pence	2007 Pence	2006 Pence
Statistics					
Adjusted earnings per ordinary share*	34.7	34.4	34.2	30.3	23.5
Basic earnings per ordinary share	21.0	37.1	36.9	30.4	18.1
Diluted earnings per ordinary share	20.9	37.0	36.7	30.1	18.0
Proposed dividends per ordinary share	12.70	11.99	11.15	10.02	7.93
Profit from continuing operations before net investment income/(finance costs), exceptional items and amortisation as a percentage of revenue (including share of joint ventures and associates)	3.2%	2.7%	2.4%	2.4%	2.1%

Notes:

The comparative figures for the years 2006 to 2009 have been restated for the adoption of IFRIC 12 as described in Notes 1.2. and 37.

The comparative figures in the 2009 statement of financial position have been restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc. as disclosed in Notes 1.2, 29 and 37.

The comparative figures for earnings per ordinary share and dividends per ordinary share have been restated for the bonus element of the October 2009 rights issue. The adjustment factor has been calculated by dividing the share price immediately before the shares were quoted ex-rights (316.0p) with the theoretical ex-rights price (275.2p), giving an adjustment factor 1.14826.

The comparative figures for the years 2006 to 2007 have been re-presented from previously published accounts for the re-classification of the net amount of the expected return on pension assets and pension liability interest costs out of net operating expenses to investment income as disclosed in the Directors' report and accounts 2008.

* Adjusted earnings per ordinary share before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations, have been disclosed to give a clearer understanding of the Group's underlying trading performance.

SHAREHOLDER INFORMATION

Financial calendar

2011	
20 April	Ex-dividend date for final 2010 ordinary dividend
26 April	Final 2010 ordinary dividend record date
12 May	Annual General Meeting
25 May	Ex-dividend date for July 2011 preference dividend
27 May	July 2011 preference dividend record date
5 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
5 July*	Final 2010 ordinary dividend payable
17 August*	Announcement of 2011 half-year results
9 December*	Interim 2011 ordinary dividend payable

*Provisional dates.

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state the shareholder's registered address and, if available, the full shareholder reference number. Please write to:

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone: 0871 664 0300 from the UK (calls cost 10p per minute plus network extras) and +44 20 8639 3399 from outside the UK (Monday to Friday 8.30 am to 5.30 pm, UK time). Alternatively, you can email at: ssd@capitaregistrars.com

They can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; record the death of a shareholder.

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). The Registrars can provide a dividend mandate form.

A dividend reinvestment plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at www.balfourbeatty-shares.com

International payment service

Shareholders outside the UK may elect to receive dividends paid direct into their overseas bank account, or by currency draft, instead of by way of a cheque drawn in sterling. 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.capitashareportal.com and click on the link for International Payment Service.

Shareholder information on the internet and electronic communications

Our website (www.balfourbeatty.com) provides a range of information about the Company, its people and businesses and its policies on corporate governance and corporate responsibility. The share price can also be found there.

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 £14m has been given to more than 1,700 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

For UK shareholders, an execution-only postal share-dealing service is available from NatWest Stockbrokers. Contact: NatWest Stockbrokers Limited, Premier Place, 2½ Devonshire Square, London EC2M 4BA, Telephone: 0808 208 4433, Typetalk 18001 0808 208 4433, Email: contactces@rbs.co.uk. The service is available Monday to Friday, 8.00 am to 4.30 pm, UK time. NatWest Stockbrokers Limited is a joint venture between The Royal Bank of Scotland Group plc and Toronto-Dominion Bank.

Capita IRG Trustees Limited and NatWest Stockbrokers Limited are each authorised and regulated by the Financial Services Authority.

London Stock Exchange Codes

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

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

Capital gains tax (CGT)

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

Enquiries

Enquiries can be made to: 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



London, UK

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 reflect the Balfour Beatty plc Directors' beliefs and expectations and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation: developments in the global economy; changes in UK and US government policies, spending and procurement methodologies; and failure in Balfour Beatty's health, safety or environmental policies.

No representation 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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