Balfour Beatty

News Release

3 March 2011

BALFOUR BEATTY PLC
FULL-YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010
Resilient performance in challenging markets

Balfour Beatty, the international infrastructure group, reports its full-year results for the year ended 31 December 2010.

(£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)	

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

Highlights of the year

- Record order book up 8% at £15.2 billion (2009: £14.1 billion)
- Pre-tax profit[1], up 20% to £319 million, lifting Group operating margin[1] to 3.2% (2009: 2.7%)
- Adjusted earnings per share[1] 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)

“We are pleased with the resilient set of results achieved 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.”

Ian Tyler, Chief Executive

BALFOUR BEATTY PLC

FULL-YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

OVERVIEW

Balfour Beatty is an international business in social and civil infrastructure with comprehensive capability ranging from design and construction to finance and operation, giving the Group access to a broad range of markets and customers. Our international reach and ability to access emerging markets have been greatly enhanced in recent years, particularly through the acquisition of Parsons Brinckerhoff. The diversity and strength of our business is evident in the resilient set of results achieved in challenging market conditions in a number of our major markets.

There were several notable achievements in the year. Our order book increased by £1.1bn or 8% to £15.2bn (7% at constant currency). £7.2bn of the order book relates to work expected to be carried out in 2011, an increase of 9% on the equivalent figure of £6.6bn in the order book at the end of 2009. Our average cash for the year was strong at £435m (2009: £283m) despite the unwind of negative working capital due to lower construction volumes. We sold two PPP infrastructure investments above book value and the valuation recorded in our Directors' valuation, realising a £20m disposal (treated as an exceptional gain in these results).

During the year, we announced a series of initiatives for the next four to five years to take full advantage of the expected long-term growth in infrastructure markets. Firstly, we will invest to grow our capabilities both organically and by acquisition, particularly in professional and support services and in markets where we see the greatest opportunities.

Secondly, we will seek to generate greater income from our Infrastructure Investments activity. To this end, we expect to act increasingly as a developer and to make a regular stream of mature asset disposals worth £200m-£300m over this period, achieving around £20m in disposal gains per annum.

Finally, we have plans to increase our Group operating margin to the 3.5%-4.0% level over this period by improving business mix, utilising our resources more effectively and generating £30m annual gross savings from procurement and back office initiatives in the UK, £20m of which are expected to go through to the bottom line.

FINANCIAL SUMMARY

Revenue including joint ventures and associates improved by 2% to £10,541m. This was due to acquisitions, including the consolidation of Parsons Brinckerhoff for the full year for the first time, which accounted for 13% growth. The underlying reduction of 11% in revenue was caused largely by weakness in construction markets both in the UK and the US.

Pre-tax profit[1] was up by 20% to £319m, lifting Group operating margin[1] to 3.2%, partly due to our evolving mix of business after the consolidation of Parsons Brinckerhoff, but also due to excellent operational performance in Professional Services and Construction Services.

Adjusted earnings per share rose slightly to 34.7p (2009: 34.4p). The increase in the profit before tax[1] was largely offset by the increase in the average number of shares in issue due to the full year effect of the 2009 rights issue to fund the acquisition of Parsons Brinckerhoff.

The Board has recommended a final dividend of 7.65p per share in respect of 2010, giving a full-year dividend of 12.7p (2009: 12.0p adjusted), up 6% on 2009.

OPERATIONAL PERFORMANCE

Professional Services

	2010	2009	Actual growth (%)	Constant currency growth (%)
Order book (£bn)	1.5	1.4	+7	+2
Revenue* (£m)	1,613	558		
Profit[1] (£m)	85	13		
Margin[1] (%)	5.3	2.3		

Movements at constant currency are derived by restating the 2009 figures at the exchange rates applied for the comparable 2010 figures
* *including joint ventures and associates*
[1] *before exceptional items and amortisation of intangible assets*

2010 was a transformational year for the Group in respect of its professional services capability. Parsons Brinckerhoff (PB) is now an integral part of Balfour Beatty's core business and has been restructured to improve visibility, efficiency and focus. Professional Services is organised through four market-focused divisions in the Americas, together with two international divisions covering Australia, Asia Pacific and South Africa (AAPSA) and 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.

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[1] 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.

In October we acquired the employee-owned Canadian professional services business, Halsall, for C$53m (£33m). 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.

Our Americas transportation business performed very well, increasing market share in a difficult market where the continuing delay in the re-authorisation of the Highways Bill in the US limited the progress of the award of larger projects. 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.

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.

Covering design and programme management, our Americas building 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.

The 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.

While the US building market and the UK overall are likely to remain difficult in 2011, we are well-positioned elsewhere in the US and start the year with a good base load of work in most regions. Asia has emerged most quickly and strongly from the financial crisis and presents substantial opportunities for growth. Overall, these positive factors are expected to make up for the shortfall from the £8m incentive income in 2010.

Construction Services

	2010	2009	Actual growth (%)	Constant currency growth (%)
Order book (£bn)	9.2	8.2	+12	+10
Revenue* (£m)	6,743	7,491	-10	-10
Profit[1] (£m)	212	207	+2	+2
Margin[1] (%)	3.1	2.8		

Movements at constant currency are derived by restating the 2009 figures at the exchange rates applied for the comparable 2010 figures
* *including joint ventures and associates*
[1] *before exceptional items and amortisation of intangible assets*

2010 was a good year for Construction Services in weak construction markets, with excellent operational delivery of completed projects and project milestones. 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 resulted in profit from operations[1] of £212m (2009: £207m) – up 2% on 2009 - and hence a higher margin[1].

Order intake was particularly encouraging, bringing the year-end secured order book to £9.2bn compared to £8.2bn at the end of 2009. This improvement was due to major project wins such as Denver Eagle P3 rail, Utah Data Centre and Dallas Fort Worth International airport in the US; Heathrow Terminal T2B, Crossrail and Building Schools for the Future (BSF) contracts in the UK; and significant wins for Gammon in Hong Kong; as well as hundreds of other contracts throughout the business.

In the UK, despite a weak first half and uncertainty in the market following the Comprehensive Spending Review, we have had good project wins, completed milestones with success and maintained progress on cost efficiencies. There was a strong operational performance from the building business, and a good overall performance from civil engineering work.

In the US, our decision in 2008 to focus on federal work stood us in good stead in difficult markets; we won a number of large federal contracts to compensate for the scarcity of work in the commercial sector. We also combined our construction, infrastructure and rail businesses into one organisation to enhance synergies, share best practice and pursue joint projects.

In international markets, Hong Kong, a market where we have a strong presence through our joint venture Gammon, presented numerous opportunities in the year mainly due to the Hong Kong Government's stimulus spending on infrastructure. The extremely competitive market and the low-cost bid environment in Singapore limited our activity as did the economic conditions in Dubai. European Rail has demonstrated a stable performance.

Looking ahead in the UK, we expect reductions in public sector spending to be offset by long-term spending on energy and other civil infrastructure projects. In the short-term, our UK construction business should benefit from the diversity of its activities; our ongoing school building work, a slow return to commercial building markets and a build-up in energy and power markets should come together to yield a steady performance.

In contrast, our US construction activity is primarily in social infrastructure and this concentration means that it is more cyclical. We expect a gradual decline in the volume of federal work to be partly offset by a recovery in private construction. However, the very strong margin performance we achieved in the US in 2010 is not likely to be repeated in 2011, constraining profitability in Construction Services.

Support Services

	2010	2009	Actual growth (%)	Constant currency growth (%)
Order book (£bn)	4.5	4.5	-	-
Revenue* (£m)	1,434	1,443	-1	-1
Profit[1] (£m)	51	55	-7	-7
Margin[1] (%)	3.6	3.8		

Movements at constant currency are derived by restating the 2009 figures at the exchange rates applied for the comparable 2010 figures
[*] including joint ventures and associates
[1] before exceptional items and amortisation of intangible assets

Support Services maintained a good level of activity in the year although revenue and profit were adversely impacted by the utilities sector where the ramp-up of work for the UK water industry's 2010-15 asset management plan (AMP5) was slower than expected. Revenue* was down 1% to £1,434m and profit[1] was down 7% to £51m, resulting in a slightly lower margin[1] of 3.6%. We expect volumes to pick up in the remainder of the cycle as is typical with the AMP cycles.

UK Local Authorities, which seek to outsource more activity to the private sector in order to cut costs, are becoming increasingly important to our business. Hence, we have taken steps to position the business to benefit from this trend by establishing a standalone unit to support Local Authorities. During the year we won a £250m bundled services contract from North East Lincolnshire Council. This ten-year agreement is for the provision of highways transportation and planning, asset management and architectural services, and will involve PB in the town planning and regeneration services. Such contracts are a testament to the strength of the offer Balfour Beatty can make as a group.

The facilities management and business outsourcing sectors were intensely competitive although volumes of work held up reasonably well.

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. We expect the SSC to reach full operational capacity by the end of 2012 with 380 employees.

We are confident of an improvement in Support Services performance in 2011, not least due to the expected recovery in AMP5 volumes.

Infrastructure Investments

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.

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.

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, 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, but 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. In March 2010 we reached financial close on a PPP project to develop and manage new student residential facilities for Florida Atlantic University. This US$123m (£79m) project is an important step in developing our experience in this sector in the US.

Canada is an attractive market for Infrastructure Investments where the government 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, we have already been shortlisted for two courthouse projects in Ontario.

Over the past 15 years, Balfour Beatty has built the UK's largest PPP portfolio, outside those held by financial institutions. This £679m portfolio (2009: £610m) as per the Directors' valuation, has created significant value, with our ability to enhance operational efficiency adding further value to assets after their construction. At this stage in the maturity of the portfolio, it is appropriate to realise some of the value inherent in these assets. We disposed of interests in two assets in early 2010 and now plan to accelerate that process. In addition, we have made the decision to dispose of our interest in Barking Power.

Over the next four to five years, we intend to dispose of some £200m-£300m of PPP and other selected infrastructure assets, achieving around £20m in disposal gains per annum. The proceeds will provide cash for reinvestment opportunities, both within the Investments business and elsewhere in the Group, as well as providing scope for enhancing dividends supported by the earnings generated through gains on disposal. The business will continue to be a substantial investor – and also, increasingly, a developer.

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.

In 2011, we expect the good performance of the underlying business to continue. This performance should be enhanced by the gains from disposal of assets but reduced to some degree by the forgone Barking Power profits and the running costs of the new infrastructure funds management business.

EXCEPTIONAL ITEMS AND AMORTISATION

Exceptional items of £50m (2009: £63m 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 acquisition, integration, reorganisation and other costs principally related to the acquisition of Parsons Brinckerhoff, £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. The reduction on 2009 is principally due to a £100m credit recorded in 2009 for the reduction in past service liabilities in the pension fund.

Amortisation charge increased to £82m (2009: £48m) due to the impact of acquisitions, the largest of which was PB, with a related tax credit of £27m (2009: £17m).

PENSION DEFICIT

The Group's balance sheet includes aggregate deficits of £441m (2009: £586m) for the Group's pension funds. 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.

A formal actuarial valuation of the Balfour Beatty Pension Fund 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 comprises an initial one-off payment of £40m, which was paid in December 2010, and regular annual payments of £48m starting from April 2010.

OTHER FINANCIAL INFORMATION

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.

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%).

OUTLOOK

We are pleased with the resilient set of results achieved 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.

ENDS

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Forward-looking statements
This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements 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 the 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 the relevant materials 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 the materials. No statement in the announcement 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.

Notes to Editors

Balfour Beatty (www.balfourbeatty.com) is a world-class infrastructure group with capabilities in professional services, construction services, support services and infrastructure investments.

We work in partnership with our customers principally in the UK, continental Europe, the US, South-East Asia, Australia and the Middle East, who value the highest levels of quality, safety and technical expertise.

Key infrastructure markets include transportation (roads, rail and airports); social infrastructure (education, specialist healthcare, and various types of accommodation); utilities (water, gas and power transmission and generation) and commercial (offices, leisure and retail).

The Group delivers services essential to the development, creation and care of these infrastructure assets including project design, financing and management, engineering and construction, and facilities management services.

Balfour Beatty employs 50,000 people around the world.

Additional information

A presentation to analysts and investors will be made at RBS, 250 Bishopsgate, London EC2M 4AA at 10:00 (UK time).

There will be a live webcast of this presentation on www.balfourbeatty.com and the slides presented will be available on the website from 10:00.

A teleconference for North American analysts and investors will be hosted at 15:30 (UK time). To join the call, please dial +44 20 7806 1966 and quote confirmation code 9409418. A recording of the call and its transcript can be found on our website within 24 hours of the event.

High resolution photographs are available to the media free of charge at www.newscast.co.uk (Tel. +44 (0)20 7608 1000).

The Company's statutory accounts for the year ended 31 December 2010 are expected to be posted to those shareholders who have requested a paper copy on 8 April 2011.

The Annual report and accounts 2010 will be available on the Company's website www.balfourbeatty.com from the date this is posted to shareholders. Paper copies of the document will also be available from the Company's registered office from this time.

The Company's AGM is scheduled to be held at the Victoria Park Plaza, 239 Vauxhall Bridge Road, London, SW1V 1EQ on 12 May 2011 at 11:00.

The Company's statutory accounts for the year ended 31 December 2010 comply with the Disclosure and Transparency Rules of the Financial Services Authority in respect of the requirement to produce an annual financial report. Those financial statements are the responsibility of, and were approved by the Directors, on 2 March 2011.

The responsibility statement below has been prepared in connection with the Company's Annual report and accounts 2010. Certain parts thereof are not included within this announcement.

The Directors confirm that to the best of their knowledge:

(i) the Company's financial statements for the year ended 31 December 2010, prepared in accordance with IFRS as adopted by the EU, 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

(ii) the Business and financial review, which is incorporated into the Directors' Report in those financial statements, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 2 March 2011 and is signed on its behalf by:

I P Tyler
Chief Executive

D J Magrath
Finance Director

Group income statement

For the year ended 31 December 2010

		2010			2009		
	Notes	**Before exceptional items[1]**	**Exceptional items[1] (Note 5)**	**Total**	Before exceptional items[1,2]	Exceptional items[1] (Note 5)	Total[2]
		£m	**£m**	**£m**	£m	£m	£m
Revenue including share of joint ventures and associates		**10,541**	**-**	**10,541**	10,339	-	10,339
Share of revenue of joint ventures and associates	12	**(1,305)**	**-**	**(1,305)**	(1,385)	-	(1,385)
Group revenue		**9,236**	**-**	**9,236**	8,954	-	8,954
Cost of sales		**(8,132)**	**-**	**(8,132)**	(8,173)	-	(8,173)
Gross profit		**1,104**	**-**	**1,104**	781	-	781
Net operating expenses							
- amortisation of intangible assets	11	**-**	**(82)**	**(82)**	-	(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	12	**85**	**(27)**	**58**	81	-	81
Profit/(loss) from operations		**338**	**(132)**	**206**	280	15	295
Investment income	3	**46**	**-**	**46**	32	-	32
Finance costs	4	**(65)**	**-**	**(65)**	(47)	(15)	(62)
Profit/(loss) before taxation		**319**	**(132)**	**187**	265	-	265
Taxation	6	**(83)**	**39**	**(44)**	(69)	15	(54)
Profit/(loss) for the year attributable to equity holders		**236**	**(93)**	**143**	196	15	211

[1] and amortisation of intangible assets (Note 11).
[2] Restated for the adoption of IFRIC 12 (Note 1.1).

	Notes	**2010 pence**	2009[2,3] pence
Basic earnings per ordinary share	7	**21.0**	37.1
Diluted earnings per ordinary share	7	**20.9**	37.0
Dividends per ordinary share proposed for the year	8	**12.7**	12.0

[2] Restated for the adoption of IFRIC 12 (Note 1.1).
[3] Per share numbers have been restated for the bonus element of the 2009 rights issue.

Group statement of comprehensive income

For the year ended 31 December 2010

		Notes	**2010 £m**	2009[2] £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		**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		15	**244**	(156)

[2] Restated for the adoption of IFRIC 12 (Note 1.1).

Group statement of changes in equity

For the year ended 31 December 2010

	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[2] £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total[2] £m
At 1 January 2009[2]	239	54	16	139	226	79	104	4	861
Total comprehensive income/(expense) for the year	-	-	-	-	6	(41)	(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[2]	343	57	16	32	157	288	102	4	999
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**53**	**46**	**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**	**334**	**230**	**4**	**1,160**

[2] Restated for the adoption of IFRIC 12 (Note 1.1).

Group statement of financial position

At 31 December 2010

		Notes	2010 £m	2009[2,4] £m
Non-current assets				
Intangible assets	- goodwill	10	**1,196**	1,145
	- other	11	**251**	298
Property, plant and equipment			**320**	315
Investments in joint ventures and associates		12	**488**	451
Investments			**95**	83
PPP financial assets			**327**	260
Deferred tax assets			**163**	191
Derivative financial instruments			**-**	1
Trade and other receivables			**70**	98
			2,910	2,842
Current assets				
Inventories			**89**	100
Due from customers for contract work			**591**	524
Derivative financial instruments			**4**	-
Trade and other receivables			**1,197**	1,329
Current tax asset			**4**	5
Cash and cash equivalents	- PPP subsidiaries		**18**	10
	- other		**566**	608
			2,469	2,576
Total assets			**5,379**	5,418
Current liabilities				
Trade and other payables			**(2,232)**	(2,412)
Due to customers for contract work			**(651)**	(607)
Derivative financial instruments			**(2)**	(1)
Current tax liabilities			**(29)**	(8)
Borrowings	- PPP non-recourse loans		**(8)**	(19)
	- other		**(37)**	(23)
			(2,959)	(3,070)
Non-current liabilities				
Trade and other payables			**(144)**	(163)
Derivative financial instruments			**(45)**	(24)
Borrowings	- PPP non-recourse loans		**(280)**	(239)
	- other		**(11)**	(13)
Deferred tax liabilities			**(8)**	(9)
Liability component of preference shares			**(89)**	(88)
Retirement benefit obligations		14	**(441)**	(586)
Provisions			**(242)**	(227)
			(1,260)	(1,349)
Total liabilities			**(4,219)**	(4,419)
Net assets			**1,160**	999
Equity				
Called-up share capital		13	**343**	343
Share premium account		15	**59**	57
Equity component of preference shares		15	**16**	16
Special reserve		15	**30**	32
Share of joint ventures' and associates' reserves		15	**144**	157
Other reserves		15	**334**	288
Retained profits		15	**230**	102
Equity attributable to equity holders of the parent			**1,156**	995
Non-controlling interests		15	**4**	4
Total equity		15	**1,160**	999

[2] Restated for the adoption of IFRIC 12 (Note 1.1).
[4] Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff (Note 9.7).

Group statement of cash flows
For the year ended 31 December 2010

	Notes	**2010 £m**	2009 £m
Cash flows from operating activities			
Cash generated from operations	16.1	**169**	294
Income taxes paid		**(21)**	(31)
Net cash from operating activities		**148**	263
Cash flows from investing activities			
Dividends received from joint ventures and associates		**62**	75
Interest received		**19**	17
Acquisition of businesses, net of cash and cash equivalents acquired		**(44)**	(300)
Purchase of intangible assets - other		**(14)**	(3)
Purchase of property, plant and equipment		**(85)**	(71)
Purchase of other investments		**(13)**	-
Investment in and loans made to joint ventures and associates		**(56)**	(50)
Investment 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 investing activities		**(109)**	(449)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**2**	356
Purchase of ordinary shares		**(3)**	(6)
Proceeds from new loans		**49**	121
Repayment of loans		**(30)**	(4)
Proceeds from new finance leases		**4**	-
Repayment of finance leases		**(5)**	(3)
Ordinary dividends paid		**(84)**	(63)
Interest paid		**(31)**	(19)
Preference dividends paid		**(11)**	(11)
Net cash (used in)/from financing activities		**(109)**	371
Net (decrease)/increase in cash and cash equivalents		**(70)**	185
Effects of exchange rate changes		**12**	(30)
Cash and cash equivalents at beginning of year		**608**	453
Cash and cash equivalents at end of year	16.2	**550**	608

Notes

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) 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 presentational currency of the Group is sterling.

The Directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009 and have concluded that the Group has adequate resources to continue in operational existence for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the accounts.

The financial information in this announcement, which was approved by the Board of Directors on 2 March 2011, does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Register of Companies and those for 2010 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; their report is unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements for the Group and the Company that comply with IFRS in April 2011.

1.1 Changes in accounting policies

The Group has adopted IFRIC 12 Service Concession Arrangements in the current year which has resulted in a change in accounting policy and a restatement of the 2009 financial statements. 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. This resulted in a decrease to the opening retained profit at 1 January 2009 of £4m, a decrease to the revaluation reserve at 31 December 2009 of £1m and reduced Balfour Beatty's 2009 share of results of joint ventures and associates by £2m.

The following standards, interpretations and amendments have come into effect and been adopted in the current year but have had no effect on the Group financial statements: 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.

1.2 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.

1.3 Exchange rates

The following key exchange rates were applied in the preparation of these financial statements:

£1 buys	**2010**	2009	Change
Average rates			
US$	**1.55**	1.56	(0.6)%
EUR	**1.16**	1.12	3.6%
Closing rates			
US$	**1.56**	1.62	(3.7)%
EUR	**1.16**	1.13	2.7%

2 Segment analysis

For the year ended 31 December 2010

Performance by activity:	**Professional Services £m**	**Construction Services £m**	**Support Services £m**	**Infrastructure Investments £m**	**Corporate activities £m**	**Total £m**
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**

Performance by geographic destination:	**United Kingdom £m**	**United States £m**	**Rest of world £m**	**Total £m**
Group revenue	**4,991**	**3,072**	**1,173**	**9,236**

For the year ended 31 December 2009

Performance by activity:	Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments[2] £m	Corporate activities £m	Total[2] £m
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

[2] Restated for the adoption of IFRIC 12 (Note 1.1).

Performance by geographic destination:	United Kingdom[2] £m	United States £m	Rest of world £m	Total[2] £m
Group revenue	5,364	2,837	753	8,954

[2] Restated for the adoption of IFRIC 12 (Note 1.1).

3 Investment income

	2010	2009
	£m	£m
PPP subordinated debt interest receivable	**19**	9
PPP interest on financial assets	**19**	14
Income arising from derivatives designated as hedges of net investments in foreign operations	**-**	1
Other interest receivable and similar income	**8**	8
	46	32

4 Finance costs

		2010	2009
		£m	£m
Preference shares	- finance cost	**12**	12
PPP non-recourse	- bank loans and overdrafts	**20**	13
Net finance cost on pension scheme assets and liabilities		**21**	15
Other interest payable	- bank loans and overdrafts	**7**	5
	- commitment fees	**4**	1
	- other loans	**1**	1
		65	47
Exceptional items	- foreign exchange options	**-**	15
		65	62

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable 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.

5 Exceptional items and amortisation of intangible assets

			2010	2009
			£m	£m
5.1	**(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)
		- acquisition related expenses	**(2)**	(16)
		- reduction in pension past service liabilities	**-**	100
		- Office of Fair Trading ("OFT") fine	**-**	(5)
		- impairment charges in respect of railways facilities and inventory	**-**	(4)
			(23)	63
	Share of joint ventures and associate	- impairment of Barking Power Station	**(27)**	-
			(50)	63
5.2	**Charged against finance costs**			
		- foreign exchange options	**-**	(15)
5.3	**(Charged against)/credited to profit before taxation**		**(50)**	48
		- tax on items above	**12**	(18)
		- release of deferred tax on unremitted foreign earnings	**-**	16
	Exceptional items (charged against)/credited to profit for the year		**(38)**	46
	Amortisation of intangible assets		**(82)**	(48)
	Tax thereon		**27**	17
	(Charged against)/credited to profit for the year		**(93)**	15

5.1 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; £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.

5.2 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.

5.3 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.

6 Taxation

	2010			2009
	Before exceptional items[1]	**Exceptional items[1]**	**Total**	Total
	£m	**£m**	**£m**	£m
UK current tax				
- corporation tax for the year at 28% (2009: 28%)	**11**	**(7)**	**4**	7
- adjustments in respect of previous periods	**3**	**-**	**3**	(8)
	14	**(7)**	**7**	(1)
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
Deferred tax				
- UK	**16**	**(2)**	**14**	28
- 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
Total tax charge/(credit)	**83**	**(39)**	**44**	54

[1] and amortisation of intangible assets

The Group tax charge above excludes amounts for joint ventures and associates (see Note 12), 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).

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.

7 Earnings per ordinary share

	2010		2009	
	Basic	**Diluted**	Basic[2]	Diluted[2]
	£m	**£m**	£m	£m
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
	m	**m**	m[3]	m[3]
Weighted average number of ordinary shares	**682**	**683**	571	572
	pence	**pence**	pence[2,3]	pence[2,3]
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

[2] Restated for the adoption of IFRIC 12 (Note 1.1).
[3] Per share numbers have been restated for the bonus element of the 2009 rights issue.

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 amortisation of post-tax intangible assets, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

8 Dividends on ordinary shares

	2010		2009	
	Per share pence	**Amount £m**	Per share pence[3]	Amount £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

[3] Per share numbers have been restated for the bonus element of the 2009 rights issue.

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.

9 Acquisitions

The Group has made the following acquisitions during the year:

	Acquisition date	**Subsidiary**	**Percentage acquired**	**Cash consideration £m**	**Fair values of net assets acquired £m**	**Goodwill arising on acquisition £m**	**Costs (ii) £m**
9.1	29 January 2010	Multibuild Hotels and Leisure Ltd and Multibuild Interiors Ltd (“Multibuild”)	**100%**	**2**	**1**	**1**	**-**
9.2	27 August 2010	Traction Power Group (i)		**3**	**1**	**2**	**-**
9.3	13 October 2010	Ethos56 Ltd (“Halsall”) (i)	**100%**	**33**	**10**	**23**	**2**
9.4	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 5.

9.1 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.

9.2 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.

9.3 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.

9.4 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.

9.5 The fair value of the net assets acquired, consideration paid and goodwill arising on these transactions were:

	£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 tax	**(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**
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**

9.6 The businesses acquired during the year contributed £23m to Group revenue and £0.1m to profit for the year in the current year.

9.7 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.

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 £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.

10 Intangible assets – goodwill

	Cost[4] £m	Accumulated impairment losses £m	Carrying amount[4] £m
At 1 January 2010[4]	1,189	(44)	1,145
Currency translation differences	**21**	**(2)**	**19**
Businesses acquired (see Note 9)	**32**	**-**	**32**
At 31 December 2010	**1,242**	**(46)**	**1,196**

[4] Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff (Note 9.7).

10 Intangible assets – goodwill (continued)

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[4] 2009 £m	United States[4] 2009 £m	Rest of world[4] 2009 £m	Total 2009[4] £m
Professional Services	**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

[4] Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff (Note 9.7).

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 standard 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%

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%.

11 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying Amount £m
At 1 January 2010	385	(87)	298
Currency translation differences	**14**	**(2)**	**12**
Additions	**14***	**-**	**14***
Businesses acquired (see Note 9)	**9**	**-**	**9**
Charge for the year	**-**	**(82)**	**(82)**
At 31 December 2010	**422**	**(171)**	**251**

*includes internally generated software of £11m.

Other intangible assets comprise customer contracts, customer relationships, brand names and software.

12 Joint ventures and associates

Share of results and net assets of joint ventures and associates

2010

		Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments UK PPP^ £m	Infrastructure Investments US PPP £m	Infrastructure Investments Infra-structure £m	Total £m
Revenue		**4**	**616**	**131**	**473**	**1**	**80**	**1,305**
Operating profit before exceptional items		**1**	**35**	**6**	**11**	**6**	**19**	**78**
Investment income		**-**	**-**	**-**	**159**	**-**	**-**	**159**
Finance costs		**-**	**-**	**-**	**(128)**	**-**	**(3)**	**(131)**
Profit before taxation and exceptional items		**1**	**35**	**6**	**42**	**6**	**16**	**106**
Taxation		**-**	**(4)**	**(1)**	**(12)**	**-**	**(4)**	**(21)**
Profit after taxation and before exceptional items		**1**	**31**	**5**	**30**	**6**	**12**	**85**
Exceptional items		**-**	**-**	**-**	**-**	**-**	**(27)**	**(27)**
Profit after taxation		**1**	**31**	**5**	**30**	**6**	**(15)**	**58**
Intangible assets	- goodwill	**-**	**31**	**-**	**-**	**-**	**24**	**55**
	- PPP concession assets	**-**	**-**	**-**	**21**	**-**	**-**	**21**
	- other	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Property, plant and equipment		**-**	**36**	**2**	**-**	**-**	**68**	**106**
PPP financial assets		**-**	**-**	**-**	**2,121**	**-**	**-**	**2,121**
Military housing projects		**-**	**-**	**-**	**-**	**45**	**-**	**45**
Net cash/(borrowings)		**4**	**135**	**5**	**(1,616)**	**-**	**(23)**	**(1,495)**
Other net assets/(liabilities)		**(3)**	**(106)**	**3**	**(253)**	**-**	**(7)**	**(366)**
Net assets		**1**	**96**	**10**	**274**	**45**	**62**	**488**

^ plus Singapore

2009

		Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments UK PPP^,2 £m	Infrastructure Investments US PPP £m	Infrastructure Investments Infra-structure £m	Total[2] £m
Revenue		5	673	140	472	-	95	1,385
Operating profit		-	25	7	7	4	28	71
Investment income		-	-	-	139	-	-	139
Finance costs		-	-	-	(103)	-	(3)	(106)
Profit before taxation		-	25	7	43	4	25	104
Taxation		-	(1)	(2)	(14)	-	(6)	(23)
Profit after taxation		-	24	5	29	4	19	81
Intangible assets	- goodwill	-	29	-	-	-	24	53
	- PPP concession assets	-	-	-	23	-	-	23
	- other	-	-	-	3	-	-	3
Property, plant and equipment		-	33	1	-	-	104	138
PPP financial assets		-	-	-	1,887	-	-	1,887
Military housing projects		-	-	-	-	45	-	45
Net cash/(borrowings)		8	112	7	(1,527)	-	(15)	(1,415)
Other net assets/(liabilities)		(8)	(101)	2	(151)	1	(26)	(283)
Net assets		-	73	10	235	46	87	451

^ plus Singapore
2 Restated for the adoption of IFRIC 12 (Note 1.1).

13 Share capital

During the year ended 31 December 2010, 657,138 ordinary shares were issued following the exercise of savings-related share options and 472,928 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £2m.

14 Retirement benefit obligations

The latest actuarial funding valuations of the Group's principal defined benefit schemes have been updated by the actuaries to 31 December 2010 on the basis prescribed by IAS 19. In particular, scheme liabilities have been discounted using the rate of return on high quality corporate bonds rather than the expected rate of return on the assets in the scheme used in the funding valuations. During the year ended 31 December 2010 the Group offered certain deferred members of the Balfour Beatty Pension Fund (BBPF) enhanced benefits to leave the BBPF and transfer to a freestanding defined contribution scheme, 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.

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 principal assumptions used by the actuaries, the scheme details and IAS 19 disclosures for the Group's principal defined benefit schemes are summarised below:

	2010			2009		
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	**Parsons Brinckerhoff scheme** %	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Parsons Brinckerhoff scheme %
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
	Number	**Number**	**Number**	Number	Number	Number
Total number of defined benefit members	**36,377**	**3,251**	**2,224**	38,218	3,276	2,223

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 Average life expectancy at 65 years of age		2009 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.8 years**	**24.5 years**	20.4 years	23.4 years
Members not yet in receipt of a pension (current age 50)	**23.7 years**	**26.4 years**	21.4 years	24.3 years

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.

14 Retirement benefit obligations (continued)

IAS 19 Deficit	2010 Balfour Beatty Pension Fund £m	2010 Railways Pension Scheme £m	2010 Parsons Brinckerhoff scheme £m	2010 Other schemes^ £m	2010 Total £m	2009 Balfour Beatty Pension Fund £m	2009 Railways Pension Scheme £m	2009 Parsons Brinckerhoff scheme £m	2009 Other schemes^ £m	2009 Total £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 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 retirement benefit obligations of the Group's defined benefit schemes for the year ended 31 December 2010 was as follows:

		£m
At 1 January 2010		(586)
Currency translation differences		**(2)**
Service cost		**(53)**
Interest cost		**(151)**
Expected return on plan assets		**130**
Contributions from employer	- ongoing deficit funding	**41**
	- one-off deficit funding	**40**
	- regular funding	**40**
Benefits paid		**6**
Settlement gains		**8**
Actuarial gains and losses	- liabilities:	**(33)**
	- actuarial gain from rebasing certain pension obligations to CPI	52
	- other actuarial losses	(85)
	- assets	**119**
At 31 December 2010		**(441)**

The Balfour Beatty Pension Fund includes a defined contribution section with 7,985 members as at 31 December 2010 (2009: 7,449 members). Including £30m (2009: £22m) contributions paid and charged in the income statement in respect of this section and £22m (2009: £17m) pension costs in respect of other defined contribution schemes, the total net pension cost recognised in the income statement in the year was £105m (2009: £71m), with contributions paid of £173m (2009: £108m).

The sensitivity of the Group's retirement benefit obligations to different actuarial assumptions is as follows:

	Percentage points/years	(Decrease) /increase in obligations %	(Decrease) /increase in obligations m
Increase in discount rate	0.5%	(7.8)	(210)
Increase in inflation rate	0.5%	6.6	178
Increase in salary above inflation	0.5%	0.3	8
Increase in life expectancy	one year	3.3	88

15 Movements in equity

For the year ended 31 December 2010

	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[2] £m	Other reserves: Merger reserve £m	Other reserves: Other £m	Retained profits £m	Non-controlling interests £m	Total[2] £m
At 1 January 2010[2]	343	57	16	32	157	249	39	102	4	999
Profit for the year	**-**	**-**	**-**	**-**	**58**	**-**	**-**	**85**	**-**	**143**
Currency translation differences	**-**	**-**	**-**	**-**	**5**	**-**	**38**	**-**	**-**	**43**
Actuarial gains on retirement benefit obligations	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**86**	**-**	**87**
Fair value revaluations										
- PPP financial assets	**-**	**-**	**-**	**-**	**36**	**-**	**25**	**-**	**-**	**61**
- PPP cash flow hedges	**-**	**-**	**-**	**-**	**(47)**	**-**	**(20)**	**-**	**-**	**(67)**
- other cash flow hedges	**-**	**-**	**-**	**-**	**(3)**	**-**	**1**	**-**	**-**	**(2)**
- available-for-sale investments in mutual funds	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**4**
Tax on items taken directly to equity	**-**	**-**	**-**	**-**	**3**	**-**	**(2)**	**(26)**	**-**	**(25)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**53**	**-**	**46**	**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**	**249**	**85**	**230**	**4**	**1,160**

[2] Restated for the adoption of IFRIC 12 (Note 1.1).

15 Movements in equity (continued)

For the year ended 31 December 2009

	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[2] £m	Other reserves: Merger reserve £m	Other reserves: Other reserves £m	Retained profits £m	Non-controlling interests £m	Total[2] £m
At 1 January 2009[2]	239	54	16	139	226	-	79	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										
- PPP financial assets	-	-	-	-	(80)	-	(1)	-	-	(81)
- PPP cash flow hedges	-	-	-	-	(11)	-	16	-	-	5
- other 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	-	(41)	(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[2]	343	57	16	32	157	249	39	102	4	999

[2] Restated for the adoption of IFRIC 12 (Note 1.1).

16 Notes to the statement of cash flows

	2010 £m	2009[2] £m
16.1 Cash generated from operations comprises:		
Profit from operations	**206**	295
Exceptional reduction in pension past service liabilities	**-**	(100)
Share of results of joint ventures and associates	**(58)**	(81)
Depreciation of property, plant and equipment	**74**	69
Amortisation of other intangible assets	**82**	48
Pension deficit payments – ongoing deficit funding	**(41)**	(35)
– one-off deficit funding	**(40)**	-
Movements relating to share-based payments	**8**	7
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
(Increase)/decrease in working capital	**(32)**	90
Cash generated from operations	**169**	294

	2010 £m	2009[2] £m
16.2 Cash and cash equivalents comprise:		
Cash and deposits	**518**	464
Term deposits	**48**	144
PPP cash balances	**18**	10
Bank overdrafts	**(34)**	(10)
	550	608

		2010 £m	2009[2] £m
16.3 Analysis of net cash:			
Bank overdrafts		**(34)**	(10)
Other loans		**(2)**	(13)
Finance leases		**(12)**	(13)
Cash and deposits		**518**	464
Term deposits		**48**	144
		518	572
PPP non-recourse project finance	- Sterling floating rate term loan (2008-2027)	**(23)**	(24)
	- Sterling floating rate term loan (2011-2030)	**(25)**	(19)
	- Sterling floating rate term loan (2012-2031)	**(19)**	(13)
	- Sterling floating rate term loan (2010-2034)	**(162)**	(174)
	- Sterling floating rate term loan (2016-2035)	**(3)**	-
	- Sterling floating rate term loan (2012-2037)	**(56)**	(28)
PPP cash and cash equivalents		**18**	10
Net cash		**248**	324

[2] Restated for the adoption of IFRIC 12 (Note 1.1).

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.

	2010 £m	2009[2] £m
16.4 Analysis of movement in net cash:		
Opening net cash	**324**	297
Net (decrease)/increase in cash and cash equivalents	**(70)**	185
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

16.5 Borrowings

During the year to 31 December 2010 the significant movements in borrowings were an increase of £49m in non-recourse borrowings funding development of financial assets in PPP subsidiaries, and repayment of £30m of loans.

17 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.

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.

18 Principal risks and uncertainties

The principal risks and uncertainties to which the Group is exposed are detailed in the Annual report and accounts 2010. These include: the impact of external risks including the economic environment, commercial counterparty solvency and legal and regulatory requirements; strategic risks over acquisitions and investments; organisation and management risks including people, business conduct, information technology and information security; financial and treasury risks including finance and liquidity, treasury counterparty, contract bonds, currency, interest rates and pension; and delivery and operational risks including bidding, joint ventures, service delivery, health and safety, sustainability and supply chain.

The Group is an international infrastructure business with a strong presence in two broad market categories: civil infrastructure comprising road, rail and air transport networks and the utility systems for power, water and communications; and social infrastructure which includes education and healthcare facilities, and social and military housing. The continued effect of the global economic downturn may cause the Group's customers to cancel, postpone or reduce existing or future projects which would adversely affect the Group's order book. In particular, the Group is dependent on UK and US government policies and spending for a significant part of its revenues. The risk of changes in the expenditure of government and/or regulated bodies in any market sector or country is mitigated by the diverse end-markets and geographies in which the Group operates and the continuing need to maintain and upgrade infrastructure. The Group is also pursuing new opportunities as they develop, such as nuclear, renewables and offshore projects in the power sector. In some private markets, the difficult economic environment has increased competition in tenders for work and resulted in delays in the completion of project financing.

19 Related party transactions

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 amount due from joint ventures and associates was £26m (2009: £20m). The amount due to joint ventures and associates was £42m (2009: £41m).

20 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.