

**COMPANY REGISTRATION NUMBER 1197246**

**MANSELL CONSTRUCTION SERVICES LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

**TUESDAY**



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**MANSELL CONSTRUCTION SERVICES LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**MANSELL CONSTRUCTION SERVICES LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISORS**

**Directors**

D J Greenspan BA ACA  
M J Peasland FCIOB  
B P Perrin BSc ACA AMCT  
S J Waite FRICS MCIOB  
R V Walker BSc FRICS

**Secretary**

D J Greenspan BA ACA

**Registered Office**

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

**Auditor**

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

**Bankers**

Barclays  
1 Churchill Place  
London  
E14 5HP

Royal Bank of Scotland  
PO Box 39952  
2 ½ Devonshire Square  
London  
EC2M 4XJ

## **MANSSELL CONSTRUCTION SERVICES LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011**

The Directors present the annual report and the audited financial statements for the year ended 31 December 2011

#### **Principal activities and business review**

##### Overview and strategic focus

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

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

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

##### Building partnerships to last

The macroeconomic environment, and conditions within the construction industry in particular, remained difficult throughout 2011. In the face of these challenging circumstances, the strategy of the Company remains unchanged, to form long-term sustainable relationships with its customers, enabling it to fully understand and anticipate their requirements and work in partnership with them to meet those needs. The Company's aim is to provide its customers with solutions that generate real value for them.

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

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

##### Generating growth and value

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

A continuing area of focus for the Company is to increase the work generated through framework agreements. These are longer term customer relationships which provide a greater visibility of potential work over an agreed period of time. The Company currently has a number of framework agreements in place, with a potential workload of over £1.8bn.

The Company's portfolio of work covers a number of different market sectors and geographic regions. The Company's network of offices spans the United Kingdom from Truro in the south west of England to Elgin in the north of Scotland. This structure enables the Company to provide its customers with the specialist knowledge of a local contractor coupled with the strength of a national company. This approach is in line with the government's strategy of encouraging localism, and is a key factor in the ongoing success of the Company.

One area of particular focus has been the housing market, due to the medium-term growth prospects as a result of increasing levels of pent-up demand. In the short-term, however, this remains a challenging sector with a lack of available funding. The Company believes it can generate value through the provision of affordable housing, given medium and long-term forecast trends in demographics. The Company's longer term optimism in this sector has been enhanced by the acquisition of certain parts of the Rok construction business in November 2010. The acquired parts were integrated within the Company's systems and processes within three months of acquisition, demonstrating the Company's ability to successfully acquire and integrate businesses quickly and effectively with the minimum of disruption to customers, staff and other stakeholders.

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### Generating growth and value (continued)

To maximise the number of opportunities available in the housing market, the Company has adopted an innovative approach to the funding of housing developments, working in partnership with developers to help generate value in difficult economic conditions. The Company also continues to work closely with its sister company Balfour Beatty Capital to identify and pursue combined investment and construction opportunities.

#### 2011 Trading

As expected, conditions in 2011 remained challenging within the construction industry and the economy as a whole. Volumes and margins continued to come under pressure from competition and a number of smaller contractors ceased trading.

In spite of these challenges, revenue increased by 12% to £867.7m (2010: £772.2m). This increase was partly generated through the acquired parts of the Rok businesses – the partnership housing business units in the south west and north west of England and the airport teams business at Gatwick and Heathrow. In addition, the London Major Works business grew strongly, as did the Yorkshire business unit, which became part of the company in December 2009 through the acquisition of Strata Construction Limited. Elsewhere, revenues were generally flat or declined, reflecting our continuing focus on profitability over volume and the ongoing competitive market conditions. At the end of 2011 the future order book was in line with expectations, providing a good stream of work for the Company.

Operating profits before exceptional items and amortisation were £18.7m (2010: £19.6m), with the benefit of increased revenues offset by competitive pressures on operating margins. East Anglia in particular experienced strong profit growth as a result of the highly successful work being undertaken for the US Air Force and the Ministry of Defence.

No dividend (2010: £20m) was declared or paid during the year. Profit on ordinary activities before taxation (excluding amortisation and exceptional items) was £19.9m (2010: £20.1m). An exceptional charge of £1.1m (2010: £3.3m) arose in 2011 reflecting the ongoing cost of the reorganisation and integration of the acquired parts of the Rok businesses.

An operating cash outflow of £25.1m (2010: inflow of £14.0m) was generated in the year, reflecting our working with customers to help unlock development opportunities, investments in a number of projects and pressure on working capital. Non-operating cash outflow for the year was £4.0m (2010: £28.1m, including payment of the dividend of £20.0m). Operating cash flows include all cash receipts and payments, excluding those relating to tax, finance, acquisitions and disposals of businesses and exceptional items, all of which are classified as non-operating cash flows.

#### Balance sheet

The Company remains in a strong financial position with good levels of cash available. Shareholder's funds increased to £96.0m (2010: £82.2m), reflecting retained profits. Although net current assets increased overall, cash balances (including amounts loaned to the Parent Company) fell to £156.2m from £182.5m.

#### Outlook

Market conditions are expected to remain challenging throughout 2012 and for the next few years. Public spending levels continue to come under pressure and there is little growth in the private sector to compensate for the reduction in government expenditure. From a wider viewpoint, instability in the Eurozone has contributed to the uncertain economic outlook. Overcapacity in the construction market continues, which will inevitably lead to increased consolidation and difficulties for those businesses which are less financially secure.

The current climate provides opportunities for those businesses which are financially robust and agile to take advantage of them. Through its strong balance sheet and the backing of the Balfour Beatty Group ("the Group"), the Company is well placed to make the most of these opportunities when they arise. This may be through making acquisitions or offering innovative funding arrangements to customers. In addition, customers are becoming more demanding and sophisticated, requiring a more complete offering than just low prices. In these instances, the Company is confident that it is well placed to provide a comprehensive value added proposition, which customers are increasingly demanding.

Against this background, the longer term view for the construction industry remains positive, with medium and long-term demand expected to grow for improved infrastructure and housing, which the Company is well placed to meet. In the meantime, the Company has a strong balance sheet and a good forward order book and is confident that its diverse product portfolio will ensure its continued strong performance.

## **MANSELL CONSTRUCTION SERVICES LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **Safety, Health, Environment & Quality ("SHEQ")**

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

A key element of the Zero Harm Journey has been to involve everyone in the Company in the quest to 'Make Safety Personal'. During 2011, the 'Make Safety Personal' programme moved on from its Equip and Enable stages to embedding the philosophy. This has resulted in heightened awareness, increased reporting of near-miss incidents (or learning events) and the introduction of i-TIP, the Company's Behavioural Observation programme. Significant focus has been given to understanding the causes of incidents, learning lessons, and sharing knowledge to prevent recurrence.

The Accident Frequency Rate (number of reportable accidents multiplied by 100,000 compared to the number of hours worked) disappointingly increased during the year. However, benchmarking the Company against the UK Construction Industry using data published by Constructing Excellence, it is apparent that in terms of accident rate, the Company's performance is better than or equal to 68% of UK construction companies with a turnover greater than £10m.

The Company's performance in all areas of SHEQ is continually monitored to ensure it remains at the highest levels of effectiveness. The Company has an ongoing commitment to improve its performance in SHEQ, as reported within the Company's Corporate Responsibility and Sustainability Report.

#### **Employment**

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

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

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

#### **Risk Management**

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

The Group's approach to risk management is to identify, at an early stage, key risks and then to develop actions to eliminate or mitigate, to an acceptable level, the impact and likelihood of those risks. Risk management processes are embedded throughout the Group, at all levels, and assist management in identifying and understanding the risks being faced in delivering business objectives and the status of the key controls which are in place to manage those risks. These processes form an integral part of the day-to-day business activities of the Group.

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

## **MANSELL CONSTRUCTION SERVICES LIMITED**

### **DIRECTORS' REPORT (continued)**

#### The Group risk management process

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

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

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

#### Principal risks

The Company operates in many business environments in which risks and uncertainties exist, not all of which are necessarily within its control. Whilst acknowledging that it is not possible to eliminate such risks and uncertainties completely, established risk management and internal control systems and procedures exist within the Company to mitigate their impact. It is recognised that there may be other risks and uncertainties which are currently unknown or which could become material in the future. However, the Company's established risk management and internal control systems have helped and will continue to help in identifying and responding to such risks and to the changing business environment and challenges it faces.

The Company faces a number of risks and uncertainties which are common to many companies, for example, financial and treasury risks, information technology and information security risks and the management of pension liabilities, which are significant. Controls and systems have been established to manage such risks. Set out below is a description of those principal risks facing the Company which could adversely impact its profitability and its ability to achieve its strategic objectives.

#### Economic environment

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

Any significant changes in the level or timing of customer spending or investment plans could adversely impact the Company's order book. Such changes could arise from a change in government policy or from a failure of customers to secure financing for future projects. To mitigate this risk, the Company has a broad exposure to various markets. This and the continued need for infrastructure spending mitigates the effect of changes in spending in any one market. The Company maintains a high level of engagement with its customers to understand and respond effectively to their evolving requirements.

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

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

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### Expansion by acquisition

The Company, in pursuit of its strategic objectives, will seek to continue to make acquisitions. Failure to identify and manage the risks associated with this could impact the ability of the Company to meet its strategic objectives and result in loss and reputational damage.

Failure to realise the expected benefits from acquisitions and to integrate successfully the businesses acquired into the Company's processes could result in an adverse impact on the Company's strategic objectives, future prospects, financial conditions and profitability. To mitigate this, detailed due diligence is undertaken on all potential acquisitions to ensure that the acquired businesses' values and their approach to health, safety and sustainability align with those of the Company. In addition, valuation models are prepared on all potential acquisitions drawing upon both internal and external resources. Due diligence also includes an assessment of the ability to integrate the acquired businesses successfully into the Company. When a business is acquired, detailed integration plans are developed and monitored to ensure the successful integration of the business into the Company and its internal control framework.

#### Legal and regulatory

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

#### Business conduct

Failure by the Company and its employees to observe the highest standards of integrity and conduct in dealing with customers, suppliers and other stakeholders could result in civil and/or criminal penalties and reputational damage. To mitigate this, the Company is clear that integrity is a fundamental value and an expected basic requirement of all employees, all transactions undertaken and all relationships formed. In addition, the Company has a number of programmes dealing with compliance with the Group's Code of Conduct, competition law, data protection etc. E-learning courses have been developed and are used within the Company to raise awareness of and to embed many of those compliance programmes. The Company has appointed a compliance officer who is responsible for ensuring the application and monitoring of these programmes.

#### People

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

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

#### Bidding

The Company seeks to win work through a large number of bids each year. In executing certain of these bids the Company may seek to engage in joint ventures with carefully selected partners, especially in those instances where the Company may not possess the necessary expertise or knowledge of the market sector. The Company also undertakes a number of investments, the success of which is dependent on a number of assumptions made at the time of investment.

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

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

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



## **MANSELL CONSTRUCTION SERVICES LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **Project execution**

The Company is engaged in a number of complex projects. The successful delivery of many of these projects is dependent on the combined availability and effective management of subcontractors and other service providers. The Company's ability to execute these projects to its customers' requirements and on a timely basis exposes it, in the event it were to fail to do so, to the risk of financial loss and reputational damage.

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 (contract disputes, unagreed claims, design issues, cost overruns, failure to achieve customer savings) which could adversely impact the profitability and reputation of the Company. In order to mitigate this, the Company has a number of defined operating procedures designed to address the risks inherent in project delivery. In addition, the Company's risk management framework facilitates the identification of specific risks on projects and the mitigating actions required. Projects are subject to management review at all levels to monitor progress and to review steps put in place to address specific risks identified on those projects.

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

#### **Health, safety and sustainability**

The Company is involved in significant and complex projects which require the continuous monitoring and management of health and safety risks. A major catastrophic incident in relation to one of the Company's projects (eg structural collapse or accident arising from work performed) could result in harm to the public or workforce and partners and could expose the Company to significant losses and reputational damage. The Company, through its activities, is aware of the impact it can have on the world in which it operates and the communities with which it comes into contact. In addition, for a number of its customers the impact of projects on communities during their execution and operation in both the short-term and the long-term is a key consideration when evaluating bids. A failure to meet these requirements could result in a loss of work, reputational damage or financial loss.

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

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

#### **Financial statements and dividends**

The audited financial statements of the Company appear on pages 11 to 32. The profit after taxation for the year, after an exceptional charge of £0.8m (2010: £2.4m), amounted to £8.8m (2010: £10.7m). The retained profit for the year, prior to deduction of dividends was £8.8m (2010: £10.7m). A dividend of £nil (2010: £20m) was paid in the year to Mansell plc.

#### **Supplier payment policy**

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions to ensure that suppliers are aware of the terms of payment and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. The Company's average creditor payment period, from the time work is carried out to invoice being paid, at 31 December 2011 was 45 days (2010: 44 days).

## **MANSELL CONSTRUCTION SERVICES LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **Corporate responsibility**

A separate report is available setting out the Company's policies and approach to safety, social and environmental issues, which is available at the Company website [www.constructingcommunities.com](http://www.constructingcommunities.com) or from the Company's registered office

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

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

#### **Charitable and political contributions**

During the year the Company made charitable donations of £12,000 (2010: £10,000)

No political donations were made by the Company during the year (2010: £nil)

#### **Directors**

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

D J Greenspan BA ACA  
M J Peasland FCIOB  
B P Perrin BSc ACA AMCT  
S J Waite FRICS MCIOB  
R V Walker BSc FRICS

#### **Directors' indemnities**

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

#### **Going concern**

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

#### **Disclosure of information to auditor**

Each of the Directors at the date of approval of this report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

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

## MANSELL CONSTRUCTION SERVICES LIMITED

### DIRECTORS' REPORT (continued)

#### Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to

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

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

- show and explain the Company's transactions,
- disclose with reasonable accuracy at any time the financial position of the Company, and
- enable them to ensure that the financial statements comply with the Companies Act 2006.

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

In addition, the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

By Order of the Board



**D J Greenspan**  
Company Secretary

18 June 2012

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

Registered in England  
Number 1197246

## **MANSELL CONSTRUCTION SERVICES LIMITED**

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

We have audited the financial statements of Mansell Construction Services Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



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

18 June 2012

**MANSELL CONSTRUCTION SERVICES LIMITED**

**Profit and loss account for the year ended 31 December 2011**

	Notes	2011 £m	2011 £m Exceptional Items (Note 3)	2011 £m Total	2010 £m	2010 £m Exceptional Items (Note 3)	2010 £m Total
<b>Turnover</b>	1c	867.7	-	867.7	772.2	-	772.2
<b>Cost of sales</b>		(795.7)	-	(795.7)	(710.6)	-	(710.6)
<b>Gross profit</b>		72.0	-	72.0	61.6	-	61.6
-Amortisation of goodwill		(4.7)	-	(4.7)	(1.4)	-	(1.4)
-Other		(53.3)	(1.1)	(54.4)	(42.0)	(3.3)	(45.3)
Total administrative expenses		(58.0)	(1.1)	(59.1)	(43.4)	(3.3)	(46.7)
<b>Operating profit</b>	2	14.0	(1.1)	12.9	18.2	(3.3)	14.9
Net interest and dividends receivable	5	1.1	-	1.1	1.9	-	1.9
Other financial income/(expenses)	24	0.1	-	0.1	(1.4)	-	(1.4)
<b>Profit on ordinary activities before taxation</b>		15.2	(1.1)	14.1	18.7	(3.3)	15.4
Tax on profit on ordinary activities	6	(5.6)	0.3	(5.3)	(5.6)	0.9	(4.7)
<b>Retained profit for the financial year</b>	18	9.6	(0.8)	8.8	13.1	(2.4)	10.7

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

The results of the year ended 31 December 2011 and 31 December 2010 include the impact of the Company's acquisition of certain parts of the Rok construction business (see note 25)

**MANSELL CONSTRUCTION SERVICES LIMITED**

**Statement of total recognised gains and losses**

	<b>Notes</b>	<b>2011 £m</b>	<b>2010 £m</b>
Profit on ordinary activities after taxation		<b>8.8</b>	10.7
Actuarial gain on retirement benefit obligations	24	7.1	2.0
Tax on items in equity			
Deferred tax		<b>(2.2)</b>	(0.8)
Total recognised gains and losses relating to the year	19	<u><b>13.7</b></u>	<u><b>11.9</b></u>

**MANSELL CONSTRUCTION SERVICES LIMITED**

**Balance sheet as at 31 December 2011**

	Notes	2011 £m	2010 £m
<b>Fixed assets</b>			
Intangible assets goodwill	8	14.2	15.1
Tangible assets	9	13.4	13.9
Investments	10	9.1	9.1
		<u>36.7</u>	<u>38.1</u>
<b>Current assets</b>			
Stocks	11	16.9	5.4
Debtors due within one year	12	314.2	300.5
Debtors due after more than one year	12	8.6	9.5
Cash at bank		39.2	67.5
		<u>378.9</u>	<u>382.9</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(292.6)</u>	<u>(298.1)</u>
<b>Net current assets</b>		<u>86.3</u>	<u>84.8</u>
<b>Total assets less current liabilities</b>		<u>123.0</u>	<u>122.9</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(6.5)</u>	<u>(6.3)</u>
<b>Provisions for liabilities and charges</b>	15	<u>(12.4)</u>	<u>(13.0)</u>
<b>Net assets excluding pension deficit</b>		<u>104.1</u>	<u>103.6</u>
<b>Pension deficit</b>	24	<u>(8.1)</u>	<u>(21.4)</u>
<b>Net assets including pension deficit</b>		<u>96.0</u>	<u>82.2</u>
<b>Capital and reserves</b>			
Called up share capital	17	10.8	10.8
Capital contribution reserve	18	1.9	1.9
Special reserve	18	11.3	11.3
Other reserves	18	0.6	0.7
Profit and loss account	18	71.4	57.5
<b>Equity shareholder's funds</b>	19	<u>96.0</u>	<u>82.2</u>

The financial statements of Mansell Construction Services Limited, registered number 1197246, were approved by the Board of Directors on 18 June 2012 and signed on its behalf by



**D J Greenspan**  
Director

# **MANSELL CONSTRUCTION SERVICES LIMITED**

## **Notes to the financial statements**

### **1. Principal accounting policies**

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

#### **(a) Basis of accounting**

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

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is an indirect wholly owned subsidiary of Balfour Beatty plc which prepares consolidated financial statements which are publicly available. The Company is also, on this basis, exempt from the requirements of FRS1 (Revised) to present a cash flow statement.

#### **(b) Going concern**

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

#### **(c) Turnover**

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

#### **(d) Tangible fixed assets**

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

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

#### **(e) Profit recognition**

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

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of costs that have been written off are deferred and amortised over the life of the contract.

#### **(f) Stocks**

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

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

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

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



## **MANSELL CONSTRUCTION SERVICES LIMITED**

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

#### **(h) Taxation**

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

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

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

#### **(i) Pensions**

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

#### **(j) Leases**

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

#### **(k) Valuation of investments**

Fixed asset investments are recorded at cost less provisions for impairment

#### **(l) Special reserve**

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

#### **(m) Share-based payment**

Employee services received in exchange for the grant by Balfour Beatty plc of share options, performance share plan awards and deferred bonus plan awards since 7 November 2002 are charged in the profit and loss account on a straight-line basis over the vesting period, based on the fair values of the options or awards at the date of grant and the numbers expected to become exercisable. The credits in respect of the amounts charged are included within separate reserves in equity until such time as the options or awards are exercised

#### **(n) Provisions**

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

#### **(o) Intangible assets - Goodwill**

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

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 2 Operating profit

Operating profit is stated after charging	2011 £m	2010 £m
Depreciation of owned tangible fixed assets (note 9)	1,042	1,181
Impairment of fixed assets	-	0,175
Loss on disposal of fixed assets	-	0,170
Charges under operating leases		
- property	1,475	1,336
- motor vehicles	0,461	0,464
Auditor's remuneration		
- fees for the audit of the Company	0,146	0,156
- fees paid to the Company's auditor for the audit of fellow subsidiaries	0,004	0,004

No other amounts were paid to the Company's auditor in respect of any other services (2010 nil)

### 3 Exceptional items

	2011 £m	2010 £m
Integration costs	1,1	3,3
	<u>1,1</u>	<u>3,3</u>

Costs totalling £1.1m (2010 £3.3m) were incurred during the year in respect of the reorganisation, restructure and integration of the Rok construction businesses, following their acquisition by the Company in 2010. The tax effect is that of a credit of £0.3m (2010 £0.9m).

### 4 Information regarding Directors and employees

	2011 £m	2010 £m
<b>Directors' emoluments</b>		
Remuneration	0,957	1,150
Pension contributions	0,073	0,072
	<u>1,030</u>	<u>1,222</u>

	2011 £m	2010 £m
<b>Highest paid Director</b>		
Remuneration	0,516	0,592
Pension contributions	0,033	0,024
	<u>0,549</u>	<u>0,616</u>

The highest paid Director is a member of the Balfour Beatty Pension Fund and had accrued entitlements of £0.166m (2010 £0.158m) under the scheme by the end of the year.

	2011 Number	2010 Number
<b>Average number of persons employed</b>		
Operational	1,639	1,512
Administrative	631	568
	<u>2,270</u>	<u>2,080</u>

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

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

	2011 £m	2010 £m
<b>Staff costs during the year (including Directors)</b>		
Wages and salaries	100.2	86.8
Social security costs	9.6	8.2
Other pension costs - defined benefit	4.1	3.7
- defined contribution	4.7	3.7
Share-based payments	0.4	0.4
	<u>119.0</u>	<u>102.8</u>

### 5. Net interest and dividends receivable

	2011 £m	2010 £m
Interest receivable on Group loans	1.1	1.3
Dividends receivable from subsidiary undertakings	-	0.6
	<u>1.1</u>	<u>1.9</u>

### 6. Tax on profit on ordinary activities

	2011 £m	2010 £m
<b>Current tax</b>		
United Kingdom corporation tax on profits of the year at 26.5% (2010: 28%)	1.4	3.1
Adjustments in respect of previous periods	0.5	(0.6)
<b>Total current tax</b>	<u>1.9</u>	<u>2.5</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	3.1	1.0
Rate change adjustment	0.1	0.4
Adjustments in respect of previous periods	0.2	0.8
<b>Total deferred tax</b>	<u>3.4</u>	<u>2.2</u>
<b>Total tax charge</b>	<u>5.3</u>	<u>4.7</u>
<b>Tax reconciliation</b>		
	2011 £m	2010 £m
Profit on ordinary activities before taxation	<u>14.1</u>	<u>15.4</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	3.7	4.3
Effects of		
Expenses not deductible for tax purposes	0.8	0.2
Pension	(3.0)	(1.4)
Other short-term timing differences	(0.1)	-
Adjustment to tax charge in respect of previous years	0.5	(0.6)
<b>Current tax charge for the year</b>	<u>1.9</u>	<u>2.5</u>

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

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 7. Share-based payments

Certain employees of the Company are participants in four equity-settled share-based payment arrangements operated by the Company's ultimate parent, Balfour Beatty plc, namely the savings-related share option scheme, the executive share option scheme, the performance share plan and the deferred bonus plan. The Company recognised total expenses related to equity-settled share-based payment transactions since 7 November 2002 of £353k in 2011 (2010 £387k).

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

Balfour Beatty plc has not granted any savings-related share options ('SAYE') in 2011, but has continued to operate an HMRC approved scheme under which employees are granted an option to purchase ordinary shares in Balfour Beatty plc in either three or five years time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise. This scheme is open to all employees based in the UK and performance conditions are not applied to the exercise of SAYE options. Employees normally have a period of six months after completion of the savings contributions during which to exercise the SAYE options, failing which they lapse.

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

	SAYE options 2011 number	Weighted average exercise price 2011 pence	SAYE options 2010 number	Weighted average exercise price 2010 pence
Outstanding at 1 January	729,349	274.8	736,241	289.9
Granted during the year	-	-	200,362	236.0
Transferred during the year	(2,974)	306.6	(11,369)	296.6
Forfeited during the year	(85,157)	288.5	(64,726)	287.7
Exercised during the year	(51,272)	275.5	(42,319)	215.5
Expired during the year	(64,292)	301.9	(88,840)	328.6
Outstanding at 31 December	<u>525,654</u>	<u>269.0</u>	<u>729,349</u>	<u>274.8</u>
Exercisable at 31 December	12,702	304.5	12,588	279.2

The weighted average share price at the date of exercise for those SAYE options exercised during the year by all participants was 309.6p (2010 251.9p). Those SAYE options granted to employees of the Company which were outstanding at 31 December 2011 had a weighted average remaining contractual life of 2.1 years (2010 2.6 years).

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

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

#### (b) Executive share options

Balfour Beatty plc has not granted any executive share options in 2011, but has continued to operate a scheme under which employees were last granted options in 2004 to purchase ordinary shares in Balfour Beatty plc, which are exercisable between three and ten years after the date of grant. Performance conditions have been met for all executive options granted since 7 November 2002, as earnings per share before goodwill amortisation and exceptional items ("eps") for the last year of the minimum three-year performance period have grown from their respective fixed base eps by a total of at least 3% per annum plus the increase in RPI over the relevant period.

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

	Executive options 2011 number	Weighted average exercise price 2011 pence	Executive options 2010 number	Weighted average exercise price 2010 pence
Outstanding at 1 January	117,686	219.8	167,641	211.5
Granted during the year	-	-	-	-
Transferred during the year	-	-	(45,930)	189.0
Forfeited during the year	-	-	-	-
Exercised during the year	(9,186)	227.3	(4,025)	227.3
Expired during the year	-	-	-	-
Outstanding at 31 December	<u>108,500</u>	<u>219.2</u>	<u>117,686</u>	<u>219.8</u>
Exercisable at 31 December	108,500	219.2	117,686	219.8

The weighted average share price at the date of exercise for those executive options exercised during the year by all participants was 303.4p (2010: 284.5p). Those executive options granted to employees of the Company which were outstanding at 31 December 2011 had a weighted average remaining contractual life of 2.2 years (2010: 3.2 years).

#### (c) Performance share plan awards

Balfour Beatty plc operates a performance share plan under which key senior employees are granted conditional awards of ordinary shares in Balfour Beatty plc, which are exercisable on the third anniversary of the date of award. These awards will only vest to the extent that performance targets are met over a three-year performance period. On 1 June 2011 a maximum of 3,235,874 conditional shares were awarded which are normally exercisable in June 2014.

50% of the 2011 award is based on an eps growth target. The maximum award of shares is made only where Balfour Beatty plc's eps increases by at least 45% in the relevant performance period, 25% of this element of the award is made where Balfour Beatty plc's eps increases by 15% over the period, if growth in eps is between 15% and 45%, the number of shares will be awarded pro-rata to the growth in eps, and no shares from this element of the award can be awarded if growth in eps is less than 15% over the period.

The other 50% of that 2011 award is based on total shareholder return (TSR) performance measured against the FTSE 51-150 (excluding investment trusts). The maximum award of shares is made only where Balfour Beatty plc's TSR is in the upper quartile, 25% of this element of the award is made where Balfour Beatty plc's TSR is at the median, if Balfour Beatty plc's TSR is between the median and the upper quartile, the number of shares will be awarded pro-rata, and no shares can be awarded if Balfour Beatty plc's TSR is below median.

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

	Conditional awards 2011 number	Conditional awards 2010 number
Outstanding at 1 January	231,394	219,989
Granted during the year	96,219	94,150
Transferred during the year	-	(30,190)
Forfeited during the year	-	-
Exercised during the year	(12,464)	(26,278)
Expired during the year	(55,278)	(26,277)
Outstanding at 31 December	<u>259,871</u>	<u>231,394</u>
Exercisable at 31 December	-	-

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 7 Share-based payments (continued)

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

The share price at the date of exercise for those performance share awards exercised during the year by all participants was 330 0p (2010 293 2p). Those performance share awards to employees of the Company outstanding at 31 December 2011 had a weighted average remaining contractual life of 1.4 years (2010 1.4 years).

The awards are satisfied by the transfer of shares for no consideration. For the 50% of the 2011 award which is subject to a performance test based on EPS, the fair value of the award is the closing share price before the award date (321.9p). For the 50% of that 2011 award which is subject to a market condition based on TSR, the consultants have used a stochastic model, including expected volatility determined from the historic weekly share price movements over the three-year period preceding the award date, with the following assumptions used:

Award date	Closing share price before award date pence	Expected volatility of shares %	Expected term of awards years	Risk-free interest rate %	Calculated fair value of an award pence
1 June 2011	321.9	28.0	3.0	1.29	205.4

#### (d) Deferred bonus plan awards

Balfour Beatty plc operates a deferred bonus plan under which one-third of the annual bonus of key senior employees is deferred in the form of ordinary shares in Balfour Beatty plc, which will normally be released after three years, providing the individual is still in the Balfour Beatty Group's employment at that time. On 31 March 2011 a maximum of 738,975 conditional shares were awarded which will normally be released on 31 March 2014. For the initial awards made in 2009 and 2010, a further 37,593 conditional shares were awarded on 5 July 2011 in lieu of the final 2010 dividend and a further 32,261 conditional shares were awarded on 9 December 2011 in lieu of the interim 2011 dividend. For the initial awards made in 2011 a further 17,269 conditional shares were awarded on 5 July 2011 in lieu of the final 2010 dividend and a further 14,543 conditional shares were awarded on 12 October 2011 in lieu of the interim 2011 dividend.

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

	Conditional awards 2011 number	Conditional awards 2010 Number
Outstanding at 1 January	147,861	145,178
Granted during the year	46,790	62,908
Awards in lieu of dividends	7,474	7,923
Transferred during the year	11,131	(25,844)
Forfeited during the year	-	-
Exercised during the year	(40,777)	(42,304)
Outstanding at 31 December	172,479	147,861
Exercisable at 31 December	-	-

The weighted average share price at the date of exercise for those deferred bonus plan awards exercised during the year by all participants was 333.8p (2010 290.4p). Those deferred bonus plan awards to employees of the Company which were outstanding at 31 December 2011 had a weighted average remaining contractual life of 1.2 years (2010 1.4 years).

As the awards are satisfied by the transfer of shares for no consideration, the fair values of the awards are the closing share price before award date, which was 343.2p, 314.0p, 268.5p and 242.0p for the awards made on 31 March 2011, 5 July 2011, 12 October 2011 and 9 December 2011 respectively.

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 8. Intangible fixed assets

	Goodwill £m
<b>Cost</b>	
At 1 January 2011	16.5
Business acquired	3.7
At 31 December 2011	<u>20.2</u>
<b>Amortisation</b>	
At 1 January 2011	1.4
Charge for the year	4.6
At 31 December 2011	<u>6.0</u>
<b>Net book value</b>	
At 31 December 2011	<u>14.2</u>
At 31 December 2010	<u>15.1</u>

During the year further contracts, with a value totalling £3.7m, were transferred to the Company under the 2010 acquisition of Rok (see note 25)

### 9. Tangible fixed assets

	Freehold land and buildings £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 January 2011	13.2	7.0	20.2
Additions	-	0.5	0.5
Disposals	(0.2)	(0.2)	(0.4)
At 31 December 2011	<u>13.0</u>	<u>7.3</u>	<u>20.3</u>
<b>Accumulated depreciation</b>			
At 1 January 2011	1.4	4.9	6.3
Charge for the year	0.2	0.8	1.0
Eliminated on disposals	(0.2)	(0.2)	(0.4)
At 31 December 2011	<u>1.4</u>	<u>5.5</u>	<u>6.9</u>
<b>Net book value</b>			
At 31 December 2011	<u>11.6</u>	<u>1.8</u>	<u>13.4</u>
At 31 December 2010	<u>11.8</u>	<u>2.1</u>	<u>13.9</u>

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

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 10 Fixed asset investments

	2011 £m	2010 £m
<b>Cost and net book value</b>		
At 1 January	9 1	17 1
Transfer to intangible assets	-	(8 0)
<b>At 31 December</b>	<b>9 1</b>	<b>9 1</b>

On 5 April 2010, the net assets of Strata Construction Limited were transferred to the Company at fair value. The related goodwill of £8 0m has been recognised in the Company's books by reducing the value of the investment in Strata Construction Limited by an equal amount.

The Company has investments in the following subsidiary undertakings

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

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

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

### 11 Stocks

	2011 £m	2010 £m
Raw materials and consumables	0.3	0.2
Work in progress	16.6	5.2
	<b>16.9</b>	<b>5.4</b>

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



# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 12 Debtors

	2011 £m	2010 £m
<b>Due within one year</b>		
Trade debtors	56.8	50.2
Amounts recoverable on contracts	49.9	41.6
Contract retentions	26.3	27.3
Amounts owed by Group undertakings	179.1	178.9
Other debtors	-	0.5
Prepayments and accrued income	2.1	2.0
	<u>314.2</u>	<u>300.5</u>
<b>Due after more than one year</b>		
Contract retentions	7.4	7.8
Deferred taxation (note 16)	1.2	1.7
	<u>8.6</u>	<u>9.5</u>
<b>Total debtors</b>	<u>322.8</u>	<u>310.0</u>

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

	2011 £m	2010 £m
Trade creditors	9.2	2.4
Payments on account	13.7	33.4
Contract retentions	26.8	27.7
Amounts owed to Group undertakings	51.2	37.5
Corporation tax	1.4	3.0
Other taxation and social security	4.0	2.4
Other creditors	1.7	4.3
Accruals and deferred income	184.6	187.4
	<u>292.6</u>	<u>298.1</u>

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

	2011 £m	2010 £m
Contract retentions	6.5	6.2
Accruals and deferred income	-	0.1
	<u>6.5</u>	<u>6.3</u>

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 15. Provisions for liabilities and charges

	Contract provisions £m	Reorganisation & redundancy £m	Uninsured claims £m	Employee liabilities £m	Property liabilities £m	Total £m
At 1 January 2011	10.2	0.1	0.1	2.1	0.5	13.0
Released in the year	(2.3)	(0.1)	(0.1)	-	(0.1)	(2.6)
Created in the year	1.5	-	-	0.4	0.1	2.0
At 31 December 2011	<u>9.4</u>	<u>-</u>	<u>-</u>	<u>2.5</u>	<u>0.5</u>	<u>12.4</u>

Contract provisions include fault and warranty provisions in respect of completed contracts, and a claim in respect of one completed project. The provisions are expected to be utilised between 2012 and 2014.

The reorganisation and redundancy provision related to the costs of restructuring. The uninsured claims provision related to obligations in respect of claims from third parties which were only partly covered by insurance.

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

The property liabilities relate to provisions for dilapidations and rents payable on vacant properties. These are expected to be utilised over the remaining terms of the leases, which expire between 2012 and 2020.

### 16. Deferred taxation

Deferred taxation, based on UK corporation tax at 26.5% (2010: 27%) comprises	2011 £m	2010 £m
Depreciation in excess capital allowances	0.5	0.6
Share-based payments	0.1	0.1
Short term timing differences	0.6	1.0
Deferred tax excluding that relating to the pension asset	<u>1.2</u>	<u>1.7</u>
Pension asset (note 24)	2.8	7.9
Total deferred tax asset	<u>4.0</u>	<u>9.6</u>
At 1 January	9.6	12.6
Profit and loss account	(3.4)	(2.2)
Deferred tax charge to the STRGL	(2.2)	(0.8)
At 31 December	<u>4.0</u>	<u>9.6</u>

There is no under provided deferred taxation (2010: £nil)

The Finance Act 2011 was substantively enacted on 19 July 2011 implementing a reduction to the main UK corporate tax rate from 27% to 25% effective from 1 April 2012. As a result of the change, the deferred tax balances have been re-measured. The impact of the rate reduction reduced the Company's deferred tax asset by £0.4m with £0.1m charged to the profit and loss account and £0.3m charged to equity.

Additional changes were announced in the March 2012 budget statement to further reduce the main stream rate of corporation tax to 24% from 1 April 2012 and thereafter by 1% per year to 22% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 17. Called up share capital

	2011		2010	
	Number	£m	Number	£m
Allotted, called up and fully paid Ordinary shares of £1 each	10,822,231	10.8	10,822,231	10.8

### 18. Reserves

	Capital contribution reserve £m	Special reserve £m	Other reserves £m	Profit and loss account £m
At 1 January 2011	1.9	11.3	0.7	57.5
Net actuarial gain on retirement benefit obligations	-	-	-	7.1
Tax on items taken directly to equity	-	-	-	(2.2)
Movements relating to share-based payments	-	-	(0.1)	0.2
Profit for the financial year	-	-	-	8.8
<b>At 31 December 2011</b>	<b>1.9</b>	<b>11.3</b>	<b>0.6</b>	<b>71.4</b>

### 19. Equity shareholder's funds

	2011 £m	2010 £m
Profit on ordinary activities after taxation	8.8	10.7
Dividends payable	-	(20.0)
Actuarial gains on retirement benefit obligations (note 24)	7.1	2.0
Tax on items in equity	(2.2)	(0.8)
	<u>13.7</u>	<u>(8.1)</u>
Movement relating to share-based payments	0.1	0.2
	<u>13.8</u>	<u>(7.9)</u>
Net reduction in shareholder's funds	82.2	90.1
	<u>96.0</u>	<u>82.2</u>
Closing equity shareholder's funds		

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 20 Commitments under operating leases

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

	2011		2010	
	Property £m	Other £m	Property £m	Other £m
Operating leases expiring				
Within one year	0.1	0.1	0.1	0.1
Within two to five years	1.0	0.1	0.7	0.4
After five years	0.5	-	0.8	-
	<b>1.6</b>	<b>0.2</b>	<b>1.6</b>	<b>0.5</b>

### 21 Contingent liabilities and capital commitments

The Company has, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Company's own contracts and in respect of Group undertakings. Provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Company takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

Capital expenditure contracted for at 31 December 2011 totalled £nil (2010: £nil).

### 22 Related party transactions

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

### 23 Parent undertakings

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

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

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

## MANSELL CONSTRUCTION SERVICES LIMITED

### Notes to the financial statements (continued)

#### 24. Pension arrangements

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

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

During the year ended 31 December 2011 the Group made a pension increase exchange ("PIE") offer to certain current pensioners, widows and widowers of the BBPF to forego their entitlement to future non-statutory inflationary increases in return for a higher pension than their current entitlement, resulting in a past service cost credit of £2m.

During the year ended 31 December 2010 the Group offered certain deferred members of the BBPF enhanced benefits to leave the BBPF and transfer to a freestanding defined contribution scheme. 1,641 deferred members took up the option of the enhanced benefits, resulting in a net gain of £2m.

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

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

#### Allocation of the Balfour Beatty Pension Fund

The policy of the Balfour Beatty Group is that assets, liabilities, income and expenditure relating to the defined benefit section of the BBPF are allocated to each of the participating companies in the scheme in proportion to pensionable payroll for the year. The disclosures shown below reflect the Company's proportion of the total BBPF. Defined contribution section employer contributions paid and charged in the profit and loss account have been separately identified and the defined contribution section assets and liabilities have been excluded from the tables below.

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24. Pension arrangements (continued)

#### FRS 17 accounting valuation

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

	<b>Balfour Beatty Pension Fund 2011 %</b>	<b>Balfour Beatty Pension Fund 2010 %</b>
Discount rate on obligations	4.85	5.45
Expected return on plan assets	5.20	6.10
Inflation rate - RPI	2.95	3.40
Inflation rate - CPI	2.05	2.90
Future increases in pensionable salary	4.45	4.90
Rate of increase in pensions in payment	2.85	3.30

The mortality tables adopted for the 2011 and 2010 FRS 17 valuation 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

	<b>2011 Average life expectancy at 65 years of age</b>	<b>2010 Average life expectancy at 65 years of age</b>
Members in receipt of pension		
– Male	22.0 years	21.8 years
– Female	24.6 years	24.5 years
Members not yet in receipt of pension (current age 50)		
– Male	23.8 years	23.7 years
– Female	26.5 years	26.4 years

The Balfour Beatty Pension Fund actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (44,832 members at 31 December 2011) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Parent Company's mortality assumptions.

The amounts recognised in the balance sheet are as follows

	<b>2011 £m</b>	<b>2010 £m</b>
Present value of funded obligations	(281.1)	(251.7)
Fair value of plan assets	270.2	222.4
Scheme deficit	(10.9)	(29.3)
Related deferred tax asset	2.8	7.9
Liability in the balance sheet	(8.1)	(21.4)

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24 Pension arrangements (continued)

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

	<b>Pension Fund 2011 £m</b>	<b>Pension Fund 2010 £m</b>
Current service cost	(4.3)	(3.7)
Past service cost credit	0.2	-
Defined contribution charge	(4.7)	(3.7)
Expected return on plan assets	13.0	9.8
Interest cost	(12.9)	(11.2)
<b>Total charged to profit and loss account</b>	<b>(8.7)</b>	<b>(8.8)</b>

Of the charge for the year, £8.8 million (2010: £7.4 million) has been included in cost of sales and £0.1 million credit (2010: £1.4 million charge) has been included in other financial expenses

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

	<b>Balfour Beatty Pension Fund 2011 £m</b>	<b>Balfour Beatty Pension Fund 2010 £m</b>
Actuarial losses on pension scheme obligations	(24.4)	(41.3)
Actuarial gains on pension scheme assets	31.5	43.3
<b>Total actuarial gains recognised in the statement of total recognised gains and losses</b>	<b>7.1</b>	<b>2.0</b>
Cumulative losses recognised in reserves	(1.6)	(8.7)

The actual return on plan assets was a gain of £44.5m (2010: loss of £53.1m)

The movement in the present value of obligations is as follows

	<b>Balfour Beatty Pension Fund 2011 £m</b>	<b>Balfour Beatty Pension Fund 2010 £m</b>
At 1 January	(251.7)	(203.4)
Service cost	(4.3)	(3.7)
Past service cost credit	0.2	-
Interest cost	(12.9)	(11.2)
Actuarial (losses)	(24.4)	(41.3)
Contributions from members	(0.1)	-
Benefits paid	12.1	7.9
<b>At 31 December</b>	<b>(281.1)</b>	<b>(251.7)</b>

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24 Pension arrangements (continued)

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

	<b>Balfour Beatty Pension Fund 2011 £m</b>	<b>Balfour Beatty Pension Fund 2010 £m</b>
At 1 January	222.4	167.2
Expected return on plan assets	13.0	9.8
Actuarial gains	31.5	43.3
Contributions from employer – regular funding	3.9	3.2
Contributions from employer – ongoing and one-off deficit funding	11.4	6.8
Contributions from members	0.1	-
Benefits paid	(12.1)	(7.9)
At 31 December	<b>270.2</b>	<b>222.4</b>

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

	<b>Balfour Beatty Pension Fund</b>	<b>Balfour Beatty Pension Fund</b>
	<b>Expected rate of return 2011 %</b>	<b>Expected rate of return 2010 %</b>
	<b>Value 2011 £m</b>	<b>Value 2010 £m</b>
Return-seeking	8.34	8.00
Liability matching bond-type assets	3.69	4.88
Other	2.55	3.90
Rate of return/total	<b>5.20</b>	<b>6.10</b>

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

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



# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 24 Pension arrangements (continued)

The estimated amounts of contributions expected to be paid to the principal defined benefit schemes during 2012 are as follows

	<b>Balfour Beatty Pension Fund 2011</b>
	<b>£m</b>
Regular funding	3.7
Deficit funding	6.5
<b>Total</b>	<b>10.2</b>

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

	<b>BBPF 2011</b>	<b>BBPF 2010</b>	<b>BBPF 2009</b>	<b>Mansell Schemes 2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Defined benefit obligation at end of year	(281.1)	(251.7)	(203.4)	(187.8)	(206.6)
Fair value of assets at end of year	270.2	222.4	167.2	170.3	191.0
Deficit at end of year	(10.9)	(29.3)	(36.2)	(17.5)	(15.6)
Experience adjustment for liabilities	(4.0)	(159.9)	-	4.9	(0.4)
Experience adjustment for assets	31.5	43.3	(17.0)	35.4	0.9

### Funding valuations

The last formal funding valuation is as detailed below

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

The amount charged to the profit and loss account in respect of defined contribution schemes was £4.7m (2010 £3.7m)

# MANSELL CONSTRUCTION SERVICES LIMITED

## Notes to the financial statements (continued)

### 25. Acquisition of Rok contracts

On 18 November 2010, the Company acquired certain business teams from Rok in the affordable housing and general construction markets. Consideration of £5.4 million was paid for contracts transferred in 2010 with a balance of up to £1.6 million to be paid if further contracts subsequently transfer to the Company. During the current year, a total consideration of £0.5 million was paid for additional contracts transferred during 2011.

The following table sets out the book values of the identifiable assets and liabilities acquired during 2011 and their fair value to the Company. Adjustments were made to the book values of the assets and liabilities acquired to align the accounting policy used for depreciation with that adopted by the Company and to recognise contingent liabilities relating to the acquired contracts.

	Book value £m	Accounting policy alignment £m	Other significant adjustments £m	Fair value to Company £m
<b>Current assets</b>				
Debtors	1.6	-	-	1.6
Contract retentions	0.1	-	-	0.1
<b>Total assets</b>	<b>1.7</b>	<b>-</b>	<b>-</b>	<b>1.7</b>
<b>Creditors</b>				
Payments on account	-	-	(0.3)	(0.3)
Accruals	-	(0.3)	(4.3)	(4.6)
<b>Total liabilities</b>	<b>-</b>	<b>(0.3)</b>	<b>(4.6)</b>	<b>(4.9)</b>
<b>Net assets/(liabilities)</b>	<b>1.7</b>	<b>(0.3)</b>	<b>(4.6)</b>	<b>(3.2)</b>

#### Satisfied by:

Cash consideration

0.5

The profit and loss account up to the date of acquisition, on the contracts acquired, has not been disclosed as the acquisition is not substantial.

Following the acquisition of the Rok construction businesses by the Company, costs totalling £1.1m were incurred during the year in respect of the reorganisation, restructure and integration of these activities into the Company (see note 3).