COMPANY REGISTRATION NUMBER 1197246

MANSELL CONSTRUCTION SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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MANSELL CONSTRUCTION SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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MANSELL CONSTRUCTION SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISORS

Directors

D J Greenspan BA ACA	(Appointed 2 October 2010)
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	(Appointed 2 October 2010)
B P Perrin BSc ACA AMCT	(Resigned 2 October 2010)

Registered Office

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

Auditors

Deloitte LLP
Chartered Accountants
London

Bankers

Barclays
1 Churchill Place
London
E14 5HP

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

MANSELL CONSTRUCTION SERVICES LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors present the annual report and the audited financial statements for the year ended 31 December 2010

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") which acquired the entire share capital of the Parent Company in stages from 29 December 2003 to 6 February 2004 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 affordable housing, commercial, defence, education, emergency services, health, heritage and culture, 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 Company's first and overriding priority is the safety of its employees, the public and other stakeholders The Company has invested significant time and resources to ensure safety is at the heart of its operations Preventing injury and ill-health, and maintaining a first class safety and health culture, are key objectives of the business In addition, the Company aims to comply with the highest levels of governance and ethical standards across all its operations

The Company's strategic focus has remained constant throughout the recent challenging economic conditions The Company aims to generate sustainable long-term profit growth in each of its core markets and to pursue sustainable long-term workflows with customers through partnering and framework agreements As part of this focus, retaining existing relationships and securing new opportunities remain core business objectives The proportion of work secured under frameworks, coupled with the range of market sectors in which both individual business units and the Company overall operate, has provided some protection against the economic downturn and limited the exposure to expenditure decreases in any one sector

Strategic growth is targeted through geographical expansion, both organic and by acquisition, and through the pursuit of new service offerings where these are complementary to existing core competencies In particular, the Company is currently focussed on the opportunities presented in residential housing from the national commitment to reduce carbon emissions The Company also continues to work closely with Balfour Beatty Capital, Balfour Beatty Group's ("the Group") investment arm to identify and pursue blended investment and construction opportunities

In November, the Company acquired certain business teams from Rok The majority of the acquired businesses operate in the affordable housing sector and are primarily based in the South West and North West of England These teams support the Company's strategy of becoming a leading provider in affordable housing where long-term demographics are favourable Rok's general construction activities have enhanced the Company's existing capabilities at Heathrow and Gatwick airports and expanded its geographical presence into the South Midlands The acquired business teams and 381 employees were successfully integrated into the Company's structure within three months of acquisition

2010 Trading

Market conditions continued to deteriorate during the year, with increased competition leading to pressure on both volumes and operating margins The private commercial sector continued to suffer from a lack of available credit and a generally adverse economic climate, whilst activity within the public sector was adversely impacted as a result of the government's deficit reduction programme

These challenging conditions led to revenue reducing by 10% in the year to £772 2m (2009 £859 2m), with most business units experiencing a reduction in income There was however strong growth in the Southampton, South East and Thames Valley business units

Operating profits before exceptional items of £3 3m (2009 £5 2m) and amortisation of £1 4m (2009 £nil) were £19 6m (2009 £24 9m) reflecting the reduction in revenues and the general pressure on operating margins across the construction industry Most business units experienced a reduction in profits, although notable exceptions were Southampton, London Major Works and East Anglia

A dividend of £20m (2009 £nil) was declared and paid to Mansell plc during the year Profit on ordinary activities before taxation (excluding amortisation and exceptional items) was £20 1m (2009 £25 5m) An exceptional charge of £3 3m (2009 £5 2m) arose in 2010 reflecting the cost of the reorganisation and integration of the acquired Rok businesses

2010 Trading (continued)

An operating cash inflow of £14 0m (2009 £31 6m) was generated in the year, slightly below operating profit, reflecting the difficult trading conditions and resulting pressure on working capital Non-operating cash outflow for the year was £28 1m (2009 £26 0m) reflecting the £20 0m dividend to Mansell plc and the acquisition of the Rok businesses

Balance Sheet

In spite of the challenging market conditions, the Company remains in a strong financial position Shareholders' funds at the end of 2010 were £82 2m (2009 £90 1m), reflecting the payment of the £20m dividend, largely offset by retained profits of £10 7m and actuarial gains arising from the pension scheme of £2 0m Cash balances (including amounts loaned to the Parent Company) fell to £182 5m from £205 4m, reflecting the dividend payment

Outlook

2011 is already proving to be a challenging year, with market conditions showing no sign of improving Public sector expenditure continues to come under pressure as the budgeted spending cuts are implemented and further spending plans are delayed The commercial sector remains extremely competitive and is not replacing lost public sector revenues as had previously been hoped

Against this background, the Company remains in a strong position, and revenues are expected to grow in 2011, reflecting both organic growth and the full year benefit of the acquired Rok businesses

The Company is taking full advantage of the opportunities that arise as a result of being part of a leading global infrastructure business, and is working with other Group companies on contracts which need the specialist and technical knowledge only a large organisation can provide In addition, the Company is taking advantage of the Group's combined purchasing power, the benefits of which can then be passed on to customers, suppliers and shareholders

The Company's strong balance sheet and significant cash balances, coupled with its approach of building long-term relationships with its business partners, means that the Company is in a strong position to ride out the difficult trading conditions and to continue to invest for the future

Safety, Health, Environment and Quality ("SHEQ")

The Accident Frequency Rate (number of reportable accidents multiplied by 100,000 compared to the number of hours worked) increased slightly during the year to 0 18 (2009 0 16) However, using the Accident Incidence Rate for 2010 (as published by the HSE, which compares the number of accidents to the average number of employees) the Company's rate was still less than half that of the industry average, in a year where the business successfully integrated acquired businesses This is testament to the success of the Zero Harm strategy which is being delivered through the Zero Harm Journey Plan, which has the ultimate objective of eliminating the risk of serious harm to all stakeholders by 2012

A key element of the Zero Harm Journey has been to involve everyone in the Company in the quest to "Make Safety Personal" During 2010, the Company reached out to its supply chain via its Zero Harm Accreditation Process and equipped them to deliver Make Safety Personal workshops in their own organisations This built on the success of the programme within Mansell

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 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

The effective management of risks within the Company and the Group is essential to sustaining shareholder value and maintaining a good reputation

The Group's approach to risk management is to identify, at an early stage, key risks and then develop actions to eliminate or mitigate the impact and likelihood of these Reporting structures ensure risks are continually monitored and mitigation plans are subject to review

External risks

Economic environment
The continued effect of the economic downturn may cause the Company's customers to cancel, postpone or reduce existing or future projects In particular, the Company is dependent on government policies and spending for a significant part of its revenues To mitigate this risk, the Company has a broad exposure to a number of markets In addition, the Company maintains a high level of engagement with its customers to understand and respond effectively to their evolving requirements at all phases of the infrastructure lifecycle

Commercial counterparty solvency
The Company is exposed to counterparty credit risk of its customers, sub-contractors and suppliers This risk is increased further by the current economic climate In particular, failure of a customer could result in non-collection of amounts owed Failure of a sub-contractor 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 risk, the financial solvency and strength of counterparties is considered prior to the signing of contracts During the life of the contract such assessments are updated and reviewed whenever possible The Company seeks to ensure it is not over-reliant on any one counterparty In addition, during the life of a project, retentions, bonds and/or letters of credit will be obtained, where appropriate, from sub-contractors to mitigate the impact of any potential insolvency

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 To mitigate this risk, the Company monitors and responds to legal and regulatory developments

Strategic risks

Acquisition
The Company has made and continues to make acquisitions in pursuit of its strategic objectives Failure to identify acquired liabilities or to integrate successfully the acquired business into the Company's processes could result in an adverse impact on the Company's future prospects, financial condition and profitability To mitigate this risk, detailed due diligence is performed on all potential acquisitions Due diligence also includes an assessment of the ability to integrate the acquired business 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

Organisation and management risks

People
The success of the Company depends on its ability to recruit and retain the best management and employees Failure to recruit and retain appropriately skilled people could adversely impact the Company's ability to deliver specific contracts and its future growth To mitigate this risk, organisation and people reviews are undertaken to review the role, competencies, performance and potential of personnel These plans are reviewed and discussed on a regular basis Appropriate remuneration and incentive packages are in place to assist in the attraction and retention of key employees

Business conduct
The Company operates with partners and supply chains which may have inherent risks relating to business conduct. Failure by employees to observe the highest standards of integrity and conduct in dealing with customers, suppliers and other stakeholders could result in civil and/or criminal penalties, debarment, as well as reputational damage To mitigate this risk, the Group has clearly set out in its Code of Conduct its expectations of employees and operating companies in dealing with its stakeholders This was distributed to all employees and during 2010 e-learning continued to be used to raise awareness of the Code within the organisation

Information Technology
The efficient operation of the Company is increasingly dependent on the proper operation, performance and development of its IT systems Failure to manage, integrate or successfully implement changes in IT systems could result in a loss of control over critical business information and/or systems To mitigate this risk, Group IT works with the Company to set IT strategy and to ensure that business critical systems are being properly managed

Information security
The Company is exposed to potential information security threats to its own information and also that which it holds on behalf of customers A breach of information security or an improper disclosure of such information could expose the Company to adverse publicity, investigation and legal claims To mitigate this risk, the Group has implemented minimum information security standards which the Company is expected to meet

Financial and Treasury risks

Contract bonds
In the normal course of business the Company is sometimes required to provide performance bonds to its customers If the Company were unable to issue sufficient bonds in the future then its ability to grow the business may be constrained To mitigate this risk, the Group maintains relationships with a number of financial institutions which provide performance bonds The Group also reviews the level of headroom available with individual institutions and, where appropriate and necessary, will seek to negotiate increases in capacity

Pensions
The Company is exposed to funding risks arising from changes in longevity, inflation and investment assumptions in relation to the Group's defined benefit pension schemes At present there is an actuarial deficit in these schemes Measures to mitigate liabilities are under continuous review The performance of the pension schemes is regularly monitored and advice is taken, as appropriate, from external consultants

Delivery and Operational Risks

Bidding
The Company seeks to win work through a large number of tenders each year Failure to estimate risks, costs, the impact of inflation and the contractual terms being entered into and how best to manage them could have an adverse impact on the profitability of such contracts To mitigate this risk, all tenders are subject to rigorous estimating and tendering processes within a defined framework In addition, defined delegated authority levels exist for the approval of all tenders and infrastructure investments, with all major and significant contracts being subject to Group review

Health and Safety
The Company is involved in significant, complex and potentially hazardous projects which require the continuous monitoring and management of health and safety risks Failure to manage these risks could expose employees or the public to injury/harm and the Company to significant potential liabilities and reputational damage 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 and also undertake regular reviews

Sustainability
The Company, through its activities, has the ability to impact either positively or adversely on the world in which it operates and the communities in which it works In addition, for a number of its customers, the impact of projects in both the short-term and the long-term is a key consideration when evaluating tenders To mitigate this risk, the Group has developed and implemented a sustainability strategy, which the Company has fully adopted, covering its operations until 2020 in terms of profitable markets, healthy communities and environmental limits

Risk Management (continued)

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

Financial statements and dividends

The audited financial statements of the Company appear on pages 9 to 32 The profit after taxation for the year, after an exceptional charge of £2 4m (2009 £5 2m), amounted to £10 7m (2009 £13 0m) The retained profit for the year, prior to deduction of dividends was £10 7m (2009 £13 0m) A dividend of £20 0m (2009 £nil) 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 seek to ensure that suppliers are aware of the terms of payment, and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms The Company's average creditor payment period, from the time work is carried out to invoice being paid, at 31 December 2010 was 44 days (2009 42 days)

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 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

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 made significant progress in these matters and is committed to making further progress

Charitable and political contributions

During the year the Company made charitable donations of £10,000 (2009 £10,000)

No political donations were made by the Company during the year (2009 £nil)

Directors

The Directors of the Company who served throughout the year were

D J Greenspan BA ACA	(Appointed 2 October 2010)
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 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

Disclosure of information to auditors

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

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

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

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

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, 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

21 June 2011

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

Registered in England
Number 1197246

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 2010 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

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 2010 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

21 June 2011

MANSELL CONSTRUCTION SERVICES LIMITED

Profit and loss account for the year ended 31 December 2010

	Notes	2010 £m	2010 £m Exceptional Items (Note 3)	2010 £m Total	2009 £m	2009 £m Exceptional Items (Note 3)	2009 £m Total
Turnover	1c	772 2	-	772 2	859 2	-	859 2
Cost of sales		(710 6)	-	(710 6)	(789 5)	-	(789 5)
Gross profit		61 6	-	61.6	69 7	-	69 7
-Amortisation of goodwill		(1 4)	-	(1 4)	-	-	-
-Other		(42 0)	(3 3)	(45.3)	(44 8)	(5 2)	(50 0)
Total administrative expenses		(43 4)	(3 3)	(46 7)	(44 8)	(5 2)	(50 0)
Operating profit	2	18 2	(3 3)	14 9	24 9	(5 2)	19 7
Net interest and dividends receivable	5	1 9	-	1 9	1 4	-	1 4
Other financial expenses	24	(1 4)	-	(1.4)	(0 8)	-	(0 8)
Profit on ordinary activities before taxation		18 7	(3 3)	15 4	25 5	(5 2)	20 3
Tax on profit on ordinary activities	6	(5 6)	0 9	(4.7)	(7 3)	-	(7 3)
Retained profit for the financial year	18	13 1	(2 4)	10.7	18 2	(5 2)	13 0

All activities are derived from continuing operations

MANSELL CONSTRUCTION SERVICES LIMITED

Statement of total recognised gains and losses

	Notes	2010 £m	2009 £m
Profit on ordinary activities after taxation		10.7	13 0
Actuarial gain/(loss) on retirement benefit obligations	24	2.0	(25 1)
Tax on items in equity			
Current tax		-	1 3
Deferred tax		(0 8)	5 3
Total recognised gains and losses relating to the year		11 9	(5.5)

MANSELL CONSTRUCTION SERVICES LIMITED

Balance sheet as at 31 December 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Intangible assets goodwill	8	15 1	-
Tangible assets	9	13 9	15 0
Investments	10	9 1	17 1
		38 1	32 1
Current assets			
Stocks	11	5 4	3 6
Debtors due within one year	12	300 5	283 6
Debtors due after more than one year	12	9 5	8 7
Cash at bank		67 5	70 4
		382 9	366 3
Creditors: amounts falling due within one year	13	(298 1)	(263 9)
Net current assets		84 8	102 4
Total assets less current liabilities		122.9	134 5
Creditors amounts falling due after more than one year	14	(6 3)	(5 7)
Provisions for liabilities and charges	15	(13 0)	(12 6)
Net assets excluding pension deficit		103 6	116 2
Pension deficit	24	(21.4)	(26 1)
Net assets including pension deficit		82 2	90 1
Capital and reserves			
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 7	0 8
Profit and loss account	18	57 5	65 3
Equity shareholders' funds	19	82 2	90 1

The financial statements of Mansell Construction Services Limited, registered number 1197246, were approved by the Board of Directors on 21 June 2011 and signed on its behalf by

D J Greenspan
Director

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 (the "Group") 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 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 is 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

(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 pension schemes, the cost of providing benefits recognised in the profit and loss account and the defined benefit obligation is determined at the balance sheet date using the projected credit method by independent actuaries The liability recognised in the balance sheet comprises the present value of the defined benefit obligation, determined by discounting the estimated future cash flows using the rate of interest on a high quality corporate bond, less the fair value of the plan assets Actuarial gains and losses are recognised in full outside the profit and loss account in the period in which they occur 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 income statement 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.	2010 £m	2009 £m
Depreciation of owned tangible fixed assets	**1 181**	1 243
Impairment of fixed assets	**0 175**	-
Loss on disposal of fixed assets	**0 170**	0 003
Charges under operating leases		
- property	**1.336**	1 456
- motor vehicles	**0 464**	0 386
Auditor's remuneration		
- fees for the audit of the Company	**0 156**	0 149
- fees paid to the Company's auditor for the audit of fellow subsidiaries	**0 004**	0 008

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

3 Exceptional items

	2010 £m	2009 £m
Integration costs	**3 3**	-
Office of Fair Trading fine	-	5 2
	3 3	5 2

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

In 2009, the Office of Fair Trading ("OFT") concluded an investigation into tender activities across the UK construction sector and determined that these activities amounted to breaches of competition law in the UK As a result of the decision, the Company was fined £5 2m in respect of such instances The Company co-operated with the OFT throughout the investigation

4 Information regarding Directors and employees

	2010 £m	2009 £m
Directors' emoluments		
Remuneration	**1 150**	1 147
Pension contributions	**0 072**	0 070
	1 222	1 217

	2010 £m	2009 £m
Highest paid Director		
Remuneration	**0 592**	0 574
Pension contributions	**0 024**	0 020
	0.616	0 594

The highest paid Director is a member of the Balfour Beatty Pension Fund and had accrued entitlements of £0 158m (2009 £0 158m) under the scheme at the end of the year

	2010 Number	2009 Number
Average number of persons employed		
Operational	**1,512**	1,636
Administrative	**568**	614
	2,080	2,250

MANSELL CONSTRUCTION SERVICES LIMITED

Notes to the financial statements (continued)

4. Information regarding Directors and employees (continued)

		2010 £m	2009 £m
Staff costs during the year (including Directors)			
Wages and salaries		86.8	99 6
Social security costs		8.2	9 8
Other pension costs	- defined benefit	3.7	2 2
	- defined contribution	3.7	2 8
Share-based payments		0 4	0 4
		102 8	114 8

5 Net interest and dividends receivable

	2010 £m	2009 £m
Interest receivable on Group loans	1 3	1 4
Dividends receivable from subsidiary undertakings	0 6	-
	1 9	1 4

6 Tax on profit on ordinary activities

	2010 £m	2009 £m
Current tax		
United Kingdom corporation tax on profits of the year at 28% (2009 28%)	3.1	7 6
Adjustments in respect of previous periods	(0 6)	0 4
Total current tax	2.5	8 0
Deferred tax		
Origination and reversal of timing differences	1 0	1 0
Rate change adjustment	0 4	-
Adjustments in respect of previous periods	0.8	(1 7)
Total deferred tax	2 2	(0 7)
Total tax charge	4 7	7 3

Tax reconciliation	2010 £m	2009 £m
Profit on ordinary activities before taxation	15.4	20 3
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	4 3	5 7
Effects of		
Expenses not deductible for tax purposes	0 2	1 7
Pension	(1.4)	-
Other short-term timing differences	-	0 2
Adjustment to tax charge in respect of previous years	(0 6)	0 4
Current tax charge for the year	2 5	8 0

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 £387k in 2010 (2009 £400k)

(a) Savings-related share options

Balfour Beatty plc operates an HMRC approved savings-related share option scheme ("SAYE") 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 On 11 May 2010, options were granted over 3,073,128 ordinary shares at 236 0p per share, and these are normally exercisable in the periods from July 2013 to December 2013 and from July 2015 to December 2015 depending upon the length of savings contract chosen by the participant

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

	SAYE options 2010 number	**Weighted average exercise price 2010 pence**	SAYE options 2009 number	Weighted average exercise price 2009 pence
Outstanding at 1 January	**736,241**	**289 9**	659,965	288 9
Granted during the year	**200,362**	**236 0**	224,997	249 0
Transferred during the year	**(11,369)**	**296 6**	69,472	313 9
Forfeited during the year	**(64,726)**	**287 7**	(101,476)	291 9
Exercised during the year	**(42,319)**	**215 5**	(111,917)	217 6
Expired during the year	**(88,840)**	**328 6**	(4,800)	217 7
Outstanding at 31 December	**729,349**	**274 8**	736,241	289 9
Exercisable at 31 December	**12,588**	**279 2**	12,573	220 9

The weighted average share price at the date of exercise for those SAYE options exercised during the year by all participants was 251 9p (2009 272 3p) Those SAYE options granted to employees of the Company which were outstanding at 31 December 2010 had a weighted average remaining contractual life of 2 6 years (2009 2 7 years)

The principal assumptions used by the consultants in the stochastic model for the SAYE options granted in 2010, including expected volatility determined from the historic weekly share price movements over the three-year period immediately preceding the invitation date, were

Invitation date	Exercise price pence	Closing share price before invitation date pence	Expected dividend yield %	Expected volatility of shares %	Expected term of options years	Risk-free interest rate %	Calculated fair value of an option pence
9 April 2010 3-years savings contract	236 0	292 2	4 35	33 4	3 25	1 91	70 4
9 April 2010 5-years savings contract	236 0	292 2	4 35	33 4	5 25	2 76	78 3

7 Share-based payments (continued)

(b) Executive share options

Balfour Beatty plc has not granted any executive share options in 2010, 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 2010 number	**Weighted average exercise price 2010 pence**	Executive options 2009 number	Weighted average exercise price 2009 pence
Outstanding at 1 January	**167,641**	**211.5**	159,605	216 3
Granted during the year	**-**	**-**	-	-
Transferred during the year	**(45,930)**	**189 0**	22,963	189 0
Forfeited during the year	**-**	**-**	-	-
Exercised during the year	**(4,025)**	**227.3**	(14,927)	227 3
Expired during the year	**-**	**-**	-	-
Outstanding at 31 December	**117,686**	**219 8**	167,641	211 5
Exercisable at 31 December	**117,686**	**219 8**	167,641	211 5

The weighted average share price at the date of exercise for those executive options exercised during the year by all participants was 284 5p (2009 286 1p) Those executive options granted to employees of the Company which were outstanding at 31 December 2010 had a weighted average remaining contractual life of 3 2 years (2009 4 1 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 15 April 2010 a maximum of 2,982,241 conditional shares were awarded which are normally exercisable in April 2013

50% of the 2010 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 RPI + 36% in the relevant performance period, 25% of this element of the award is made where Balfour Beatty plc's eps increases by RPI + 6% over the period, if growth in eps is between RPI + 6% and RPI + 36%, 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 RPI + 6% over the period

The other 50% of that 2010 award is based on total shareholder return (TSR) performance measured against a group of UK and overseas listed companies operating in comparable markets to Balfour Beatty plc 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

7 Share-based payments (continued)

(c) Performance share plan awards (continued)

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

	Conditional awards 2010 number	Conditional awards 2009 number
Outstanding at 1 January	**219,989**	208,393
Granted during the year	**94,150**	91,641
Transferred during the year	**(30,190)**	-
Forfeited during the year	**-**	-
Exercised during the year	**(26,278)**	(55,711)
Expired during the year	**(26,277)**	(24,334)
Outstanding at 31 December	**231,394**	219,989
Exercisable at 31 December	**-**	-

The weighted average share price at the date of exercise for those performance share awards exercised during the year by all participants was 293 2p (2009 283 4p) Those performance share awards to employees of the Company outstanding at 31 December 2010 had a weighted average remaining contractual life of 1 4 years (2009 1 5 years)

The awards are satisfied by the transfer of shares for no consideration For the 50% of the 2010 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 (303 1p) For the 50% of that 2010 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
15 April 2010	303 1	33 4	3 0	1 79	174 9

(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 2010 a maximum of 769,581 conditional shares were awarded which will normally be released on 31 March 2013 On 5 July 2010 a further 66,805 conditional shares were awarded in lieu of entitlements to the final 2009 dividend and on 3 December 2010 a further 39,219 conditional shares were awarded in lieu of entitlements to the interim 2010 dividend

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

	Conditional awards 2010 number	Conditional awards 2009 number
Outstanding at 1 January	**145,178**	118,745
Granted during the year	**62,908**	55,977
Awards in lieu of dividends	**7,923**	6,156
Transferred during the year	**(25,844)**	-
Forfeited during the year	**-**	(35,700)
Exercised during the year	**(42,304)**	-
Outstanding at 31 December	**147,861**	145,178
Exercisable at 31 December	**-**	-

7. Share-based payments (continued)

(d) Deferred bonus plan awards (continued)

The weighted average share price at the date of exercise for those deferred bonus plan awards exercised during the year by all participants was 290 4p (2009 285 6p) Those deferred bonus plan awards to employees of the Company which were outstanding at 31 December 2010 had a weighted average remaining contractual life of 1 4 years (2009 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 295 7p, 234 0p and 285 2p for the awards made on 31 March 2010, 5 July 2010 and 3 December 2010 respectively

8 Intangible fixed assets

	Goodwill £m
Cost	
At 1 January 2010	-
Business acquired	8.5
Amounts transferred from investments	8.0
At 31 December 2010	16 5
Amortisation	
At 1 January 2010	-
Charge for the year	(1.4)
At 31 December 2010	(1 4)
Net book value	
At 31 December 2010	15 1
At 31 December 2009	-

On 18 November 2010 the Company acquired net liabilities of £3 1m from Rok Limited for a cash consideration of £5 4m Goodwill is being amortised over 4 years

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 Goodwill is being amortised over 5 years

9 Tangible fixed assets

	Freehold land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2010	14 4	5 5	**19.9**
Additions	-	1 2	**1.2**
Transfer from group undertaking	-	0 4	**0 4**
Disposals	(1 2)	(0 1)	**(1.3)**
At 31 December 2010	13 2	7 0	**20 2**
Accumulated depreciation			
At 1 January 2010	1 1	3 8	**4 9**
Charge for the year	0 2	1 0	**1 2**
Impairment	0 2	-	**0 2**
Transfer from group undertaking	-	0 2	**0 2**
Eliminated on disposals	(0 1)	(0 1)	**(0.2)**
At 31 December 2010	1 4	4 9	**6.3**
Net book value			
At 31 December 2010	**11 8**	**2 1**	**13 9**
At 31 December 2009	13 3	1 7	15 0

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

10 Fixed asset investments

	2010 £m	2009 £m
Cost and net book value		
At 1 January	17.1	8 3
Additions	-	10 3
Transfer to goodwill	(8 0)	-
Liquidation of subsidiary	-	(1 5)
At 31 December	9 1	17 1

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

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

11 Stocks

	2010 £m	2009 £m
Raw materials and consumables	0 2	0 2
Work in progress	5 2	3 4
	5 4	3 6

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

12 Debtors

	2010 £m	2009 £m
Due within one year		
Trade debtors	50 2	57 1
Amounts recoverable on contracts	41 6	23 6
Contract retentions	27 3	27 3
Amounts owed by Group undertakings	178 9	172 1
Other debtors	0 5	0 8
Prepayments and accrued income	2 0	2 7
	300 5	283 6
Due after more than one year		
Subcontractor retentions	7 8	6 2
Deferred taxation (note 16)	1 7	2 5
	9 5	8 7
Total debtors	310 0	292 3

13. Creditors. amounts falling due within one year

	2010 £m	2009 £m
Trade creditors	2 4	1 4
Payments on account	33 4	32 5
Contract retentions	27 7	30 7
Amounts owed to Group undertakings	37 5	14 8
Corporation tax	3 0	2 6
Other taxation and social security	2 4	6 2
Other creditors	4 3	3 5
Accruals and deferred income	187 4	172 2
	298 1	263 9

14 Creditors· amounts falling due after more than one year

	2010 £m	2009 £m
Contract retentions	6 2	5 7
Accruals and deferred income	0 1	-
	6 3	5 7

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 2010	9 4	0 2	0 1	2 3	0 6	**12 6**
Utilised in the year	(3 0)	-	-	(0 4)	(0 1)	**(3 5)**
Released in the year	(1 0)	(0 2)	-	-	-	**(1 2)**
Created in the year	4 8	0 1	-	0 2	-	**5 1**
At 31 December 2010	**10.2**	**0.1**	**0 1**	**2 1**	**0.5**	**13 0**

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 2011 and 2014

The reorganisation and redundancy provision relates to the costs of restructuring to which the Company is committed The provisions are expected to be utilised by the end of 2011

The uninsured claims provision relates to obligations in respect of claims from third parties which are only partly covered by insurance This is expected to be utilised by the end of 2012

The employee liabilities provision relates to obligations in respect of 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 27% (2009 28%) comprises	**2010 £m**	2009 £m
Depreciation in excess capital allowances	**0 6**	0 6
Share-based payments	**0 1**	0 1
Short term timing differences	**1 0**	1 8
Deferred tax excluding that relating to the pension asset	1 7	2 5
Pension asset (note 24)	7 9	10 1
Total deferred tax asset	9 6	12 6
At 1 January	**12 6**	6 6
Profit and loss account	**(2 2)**	0 7
Deferred tax credit to the STRGL	**(0 8)**	5 3
At 31 December	**9.6**	12 6

There is no under provided deferred taxation (2009 £nil)

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No2) Act 2010 included legislation to reduce the main stream rate of corporation tax from 28% to 27% from 1 April 2011 As a result of the change the deferred tax balances have been remeasured The impact was to increase the deferred tax charge by £0 4m

Additional changes were announced in the March 2011 Budget Statement to further reduce the main stream rate of corporation tax to 26% from 1 April 2011 and thereafter by 1% per annum to 23% 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

17. Called up share capital

	2010 Number	£m	2009 Number	£m
Authorised				
Ordinary shares of £1 each	**20,000,000**	**20 0**	20,000,000	20 0
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 2010	1 9	11 3	0 8	65 3
Net actuarial gain on retirement benefit obligations	-	-	-	2 0
Tax on items taken directly to equity	-	-	-	(0 8)
Movements relating to share-based payments	-	-	(0 1)	0 3
Dividends payable	-	-	-	(20 0)
Profit for the financial year	-	-	-	10 7
At 31 December 2010	**1 9**	**11 3**	**0 7**	**57 5**

19 Equity shareholders' funds

	2010 £m	2009 £m
Profit on ordinary activities after taxation	10 7	13 0
Dividends payable	(20 0)	-
Actuarial gains/(losses) on retirement benefit obligations (note 24)	2 0	(25 1)
Tax on items in equity	(0 8)	6 6
	(8 1)	(5 5)
Movement relating to share-based payments	0 2	0 2
Net reduction in shareholders' funds	(7 9)	(5 3)
Opening equity shareholders' funds	90 1	95 4
Closing equity shareholders' funds	82.2	90 1

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

	2010		2009	
	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	0 7	0 4	0 9	0 3
After five years	0 8	-	0 4	-
	1 6	0 5	1 4	0 4

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 2010 totalled £nil (2009 £16k)

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

24 Pension arrangements

Certain employees of the Company and its agency companies are members of the Balfour Beatty Pension Fund ("BBPF") which includes defined benefit and defined contribution sections and is managed by the Parent Company 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 investment strategy of the principal BBPF scheme is to hold assets of appropriate liquidity and marketability to generate income and capital growth to meet, together with any new contributions from the Group, the cost of current and future benefits The BBPF invests in equities in anticipation that, over the longer term, they will grow in value faster than the liabilities The majority of the BBPF equities are in the form of pooled funds The BBPF invests in fixed and index-linked bonds and inflation swaps in order to match the duration and inflation exposure of a portion of the liabilities The BBPF invests in corporate fixed-interest bonds in anticipation that, over the longer term, they will outperform equivalent government bonds A portion of the corporate bonds are overlaid with inflation swaps in order to create a better match between the assets and the inflation-linked characteristics of the liabilities The performance of equities and bonds is measured against market indices The BBPF invests in three hedge funds in order to further improve diversification The performance of the fund of hedge fund managers is measured against three month LIBOR

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

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 which was classified as an exceptional item in the income statement in the 2009 annual report

Defined benefit obligations are calculated using the projected unit credit method and discounted to a net present value using the rate of return 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 the assets, liabilities, income and expenditure relating to the Balfour Beatty Pension Fund should be allocated to each of the participating companies in the scheme in proportion to pensionable payroll for the year The Balfour Beatty Pension Fund includes a 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 The disclosures shown below reflect the Company's proportion of the total Balfour Beatty Pension Fund

24. Pension arrangements (continued)

FRS 17 accounting valuation

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

	Balfour Beatty Pension Fund 2010 %	Balfour Beatty Pension Fund 2009 %
Discount rate on obligations	**5 45**	5 65
Expected return on plan assets	**6 10**	5 93
Inflation rate - RPI	**3.40**	3 50
Inflation rate - CPI	**2 90**	-
Future increases in pensionable salary	**4 90**	5 00
Rate of increase in pensions in payment	**3 30**	3 50

The mortality tables adopted for the 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 The mortality tables adopted for the 2009 FRS 17 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
Members in receipt of pension		
– Male	**21 8 years**	20 4 years
– Female	**24.5 years**	23 4 years
Members not yet in receipt of pension (current age 50)		
– Male	**23.7 years**	21 4 years
– Female	**26.4 years**	24 3 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 (44,362 members at 31 December 2010) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables The actuary is also able to monitor changes in the exhibited mortality over time As a result of these reviews the Parent Company is able to adopt with a measure of confidence consistent mortality assumptions across its various defined benefit schemes

The amounts recognised in the balance sheet are as follows

	2010 £m	2009 £m
Present value of funded obligations	**(251 7)**	(203 4)
Fair value of plan assets	**222.4**	167 2
Scheme deficit	**(29 3)**	(36 2)
Related deferred tax asset	**7 9**	10 1
Liability in the balance sheet	**(21.4)**	(26 1)

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

	Balfour Beatty Pension Fund 2010 £m	Balfour Beatty Pension Fund 2009 £m	Mansell Schemes * 2009 £m	Total 2009 £m
Current service cost	(3.7)	(1 2)	(1 0)	(2 2)
Defined contribution charge	(3.7)	(2 8)	-	(2 8)
Expected return on plan assets	9.8	4 7	4 6	9 3
Interest cost	(11 2)	(5 2)	(4 9)	(10 1)
Total charged to profit and loss account	(8 8)	(4 5)	(1 3)	(5 8)

Of the charge for the year, £7 4 million (2009 £5 0 million) has been included in cost of sales and £1 4 million (2009 £0 8 million) has been included in other financial expenses

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

	Balfour Beatty Pension Fund 2010 £m	Balfour Beatty Pension Fund 2009 £m	Mansell Schemes * 2009 £m	Total 2009 £m
Actuarial (losses)/gains on pension scheme obligations	(41.3)	7 7	(5 5)	2 3
Actuarial gains/(losses) on pension scheme assets	43 3	(17 0)	(8 9)	(26 0)
Existing obligations under BBPF	-	(1 4)	-	(1 4)
Total actuarial gains/(losses) recognised in the statement of total recognised gains and losses	2 0	(10 7)	(14 4)	(25 1)
Cumulative losses recognised in reserves	(8 7)	(10 7)	(14 4)	(25 1)

The actual return on plan assets was a gain of £53 1m (2009 loss of £12 4m)

The movement in the present value of obligations is as follows

	Balfour Beatty Pension Fund 2010 £m	Balfour Beatty Pension Fund 2009 £m	Mansell Schemes * 2009 £m
At 1 January	(203.4)	-	(187 8)
Transfer of Mansell schemes into BBPF	-	(196 0)	196 0
Transfer of Mansell BBPF members from BBGL	-	(13 9)	-
Service cost	(3.7)	(1 2)	(1 0)
Interest cost	(11.2)	(5 2)	(4 9)
Actuarial (losses)/gains	(41.3)	7 7	(5 5)
Contributions from members	-	(0 5)	(0 6)
Benefits paid	7.9	5 7	3 8
At 31 December	(251.7)	(203 4)	-

* In 2009, the Mansell Schemes merged with the Balfour Beatty Pension Fund, consequently there is no 2010 comparative for the Mansell Schemes

24 Pension arrangements (continued)

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

	Balfour Beatty Pension Fund 2010 £m	Balfour Beatty Pension Fund 2009 £m	Mansell Schemes * 2009 £m
At 1 January	**167.2**	-	170 3
Transfer of Mansell schemes into BBPF	-	166 6	(166 6)
Transfer of Mansell BBPF members from BBGL	-	12 3	-
Expected return on plan assets	**9.8**	4 7	4 6
Actuarial gains/(losses)	**43.3**	(17 0)	(8 9)
Contributions from employer – regular funding	**3 2**	1 5	0 6
Contributions from employer – deficit funding	**6.8**	4 3	3 2
Contributions from members	-	0 5	0 6
Benefits paid	**(7.9)**	(5 7)	(3 8)
At 31 December	**222 4**	167 2	-

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

	Balfour Beatty Pension Fund		Balfour Beatty Pension Fund	
	Expected rate of return 2010 %	**Value 2010 £m**	Expected rate of return 2009 %	Value 2009 £m
Equities	**8 20**	**77 7**	8 30	57 5
Bonds				
- index linked gilts	**4 20**	**30 2**	4 50	22 7
- fixed rate gilts	-	-	4 30	1 0
- corporate and other bonds	**5.10**	**93 6**	4 60	73 0
Funds of hedge funds	**6 30**	**9 1**	6 60	6 8
Cash and other net assets	**3 90**	**11 8**	4 40	6 2
Rate of return/total	**6 10**	**222.4**	5 93	167 2

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

- equities and funds of hedge funds the long term rates of return on equities and funds of hedge funds are derived from current risk free rates of return with the addition of an appropriate future risk premium from an analysis of historic returns, current market conditions and forward looking views from market participants,

- bonds the rate has been set to reflect the yields available on the gilts and corporate bond holdings held at 31 December,

- cash and other net assets this class principally comprises inflation rate swaps and cash holdings and the rate adopted reflects current short-term returns on cash deposits

* In 2009, the Mansell Schemes merged with the Balfour Beatty Pension Fund, consequently there is no 2010 comparative for the Mansell Schemes

24 Pension arrangements (continued)

The estimated amounts of contributions expected to be paid to the principal defined benefit schemes during 2011 are as follows

	Balfour Beatty Pension Fund 2010 £m
Regular funding	3 2
Deficit funding	6 9
Total	10 1

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

	BBPF	BBPF	Mansell Schemes		
	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Defined benefit obligation at end of year	(251 7)	(203 4)	(187 8)	(206 6)	(209 6)
Fair value of assets at end of year	222.4	167 2	170 3	191 0	177 1
Deficit at end of year	(29.3)	(36 2)	(17 5)	(15 6)	(32 8)
Experience adjustment for liabilities	(159 9)	-	4 9	(0 4)	(0 2)
Experience adjustment for assets	43.3	(17 0)	35 4	0 9	(1 9)

Funding valuations

The last formal funding valuation is as detailed below

	Balfour Beatty Pension Fund £m
Last formal funding valuation	31/03/2010
Scheme surplus/(deficit)	
Market value of assets	2,070
Present value of scheme liabilities	(2,445)
Deficit in defined benefit scheme	(375)
Funding level	94 6%

The amount charged to the profit and loss account in respect of defined contribution schemes was £3 7m (2009 £2 8m)

25. Acquisitions

(a) Transfer of trade of Strata Construction Limited

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 following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Company

	Book value £m
Fixed assets	
Tangible	0 1
Current assets	
Contract retentions	1 7
Amounts recoverable	1 4
Amounts owed to group undertakings	4 2
Corporation tax	0 1
Cash	0 6
Total assets	**8 1**
Creditors	
Trade creditors	(4 1)
Contract retentions	(1 2)
Other taxation and social security	(0 1)
Accruals and deferred income	(0 7)
Total liabilities	**(6.1)**
Net assets	**2 0**
Satisfied by	
Inter-company loan	2 0

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

25 Acquisitions (continued)

(b) 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 the current year with a balance of up to £1 6 million to be paid if further contracts subsequently transfer to the Company The acquired business teams and 381 employees were successfully integrated into the Company's structure within three months of acquisition Rok's operations in affordable housing, which are principally in the South West and North West of the UK, support the Company's strategy of becoming a leading provider in affordable housing where long-term demographics are favourable Rok's general construction activities enhance the Company's existing capabilities at Heathrow and Gatwick airports and expand its geographical presence into the South Midlands

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Company

	Book value £m	Accounting policy alignment £m	Other significant adjustments £m	Fair value to Company £m
Fixed assets				
Tangible	0 5	(0 2)	(0 2)	0 1
Current assets				
Debtors	4 1	-	-	4 1
Contract retentions	1 3	-	-	1 3
Total assets	**5 9**	**(0.2)**	**(0 2)**	**5 5**
Creditors				
Payments on account	-	-	(1 3)	(1 3)
Accruals	-	(0 2)	(7 1)	(7 3)
Total liabilities	**-**	**(0.2)**	**(8 4)**	**(8 6)**
Net assets	5.9	(0.4)	(8 6)	(3 1)
Satisfied by.				
Cash consideration				5 4

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 during the year, costs totalling £3 3m were incurred in respect of the reorganisation, restructure and integration of these activities into the Company