Balfour Beatty

News Release

7 March 2013

BALFOUR BEATTY PLC RESULTS FOR THE FULL-YEAR ENDED 31 DECEMBER 2012

Balfour Beatty, the international infrastructure group, reports its financial results for the full-year ended 31 December 2012.

Highlights

- Continued to grow in target geographies and sectors while facing challenges in UK and US construction markets
- Order book up 1% at £15.3bn with 63% now economic infrastructure
- Revenue[1] down 1%; down 4% before the impact of foreign exchange and acquisitions
- Continuing profit growth in Professional Services and Investments
- Cost efficiency programme on track to achieve £80 million by 2015; £36 million of savings achieved at a non-underlying cost of £61 million in 2012
- Directors' valuation of the PPP portfolio at £734 million (2011: £743 million) after the disposal of two assets generating disposal gains of £52 million
- Strategic decision taken to divest of Mainland European rail operations; non-underlying cost of £104 million incurred including £95m goodwill write down
- Underlying earnings per share down 1%; full-year dividend increased by 2% to 14.1p

(£m unless otherwise specified)	2012	2011	Change (%)
Revenue[1]	10,896	11,035	-1
Group revenue	9,483	9,494	--
Profit from continuing operations			
- underlying[2]	309	331	-7
- reported	74	243	-70
Pre-tax profit from continuing operations			
- underlying[2]	310	334	-7
- reported	75	246	-70
Earnings per share from continuing operations			
- underlying[2]	35.0p	35.5p	-1
- basic	6.5p	26.7p	-76
Dividends per share	14.1p	13.8p	+2
Financing			
- net cash before PPP subsidiaries (non-recourse)	35	340	
- net borrowings of PPP subsidiaries (non-recourse)	(368)	(332)	

[1] including joint ventures and associates; [2] before non-underlying items (see Note 5)

"We have delivered a set of results for the full year that demonstrated resilience in underlying earnings and a stable order book in the face of continuing challenging conditions in the construction markets in the UK and USA. We have also made good progress in the implementation of measures designed to increase organisational efficiency and are on track to realise the anticipated benefits. Furthermore, our growth strategy of focusing on key market sectors and geographies is making headway, and is reflected in the continuing shift in our order book towards economic infrastructure.

"While we still believe that construction markets in 2013 will be challenging, our actions to date and ongoing strategic focus on growth markets position us well for the medium term."

Ian Tyler, Chief Executive

OVERVIEW

In 2012 we continued to grow in new geographies and sectors while facing challenges in our UK and US construction markets. These pursuits have led to an increase of 1% in our order book, and increased the share of economic infrastructure contracts in our order book to 63%, giving us confidence in the medium-term prospects of the Group.

Favourable developments in growth markets only partly offset the decline in our traditional construction markets, resulting in a reduction in total revenue of 1% to £10.9 billion; at constant currency and excluding acquisitions, the like-for-like decrease was 4%. Professional Services demonstrated resilience reflecting its geographic diversity and lower cyclicality. Support Services achieved good revenue growth in power and buildings. Construction Services revenue was down by 1% as a result of contraction in the UK partly offset by good growth in Hong Kong. Infrastructure Investments revenue declined by 8% due to a number of concessions moving into operational stage. At the year end, the Directors' valuation of our investment portfolio was £734 million after the sale of two assets in the year.

Good performances from Professional Services and Infrastructure Investments combined with £52 million gains from PPP asset disposals partly offset the margin pressure in Construction Services and the first-half cost increases in Support Services, resulting in a reduction in underlying profit from operations to £309 million, down 7% from 2011.

Throughout 2012, we took action to respond to the challenges in our construction and rail businesses. The cost efficiency programme we started in 2010 has achieved £36 million of savings in 2012, and we are confident of reaching our £80 million target for annual savings by 2015. The operational and strategic review of our Mainland European rail business, which we started in the fourth quarter, has concluded that maintaining a rail presence in Mainland Europe is not consistent with our strategy which calls for building a strong local presence in our geographies in a number of market sectors. In Mainland Europe, we essentially operate only in rail. Therefore, we will be divesting of all of our Mainland European rail businesses through a process that ensures that the businesses and their customers continue to receive full support. As a first step in this direction, we have sold the Spanish business to its management.

Concurrently, we have continued to focus on the strategic objectives we have set for the Group. In essence, our strategy is to leverage three key strengths in target markets to achieve incremental growth and value: local presence, end-to-end asset knowledge and skills across infrastructure assets as an investor and developer. We believe that the combination of these strengths provides us with clear differentiation. This is particularly the case in our target sectors – transportation, power and energy, water and mining – and the emerging geographies and resource-driven economies where we see growth potential.

Longer term, we remain convinced that infrastructure is a good place to be. We are focused on shifting our business from construction in our home markets to our target geographies and chosen market sectors, which have better growth dynamics and return characteristics. We are already seeing benefits from this focus which gives us confidence for the medium term.

OPERATIONAL PERFORMANCE

Professional Services

Professional Services performed well, improving its order book by 5% despite uncertainty arising from presidential elections and the fiscal cliff in the US where the division generates half of its revenue. Strong growth in the rest of the world, particularly Qatar and Canada, contributed to revenue. Performance was mixed in Australia, with a revenue decline in transportation offset partly by growth in mining. While this has impacted utilisation rates adversely, profitability in Australia remains healthy. The UK remains a difficult market, but recent restructuring has improved financial performance. Underlying profit increased by 13% to £98 million with good contributions from transportation and power sectors and some favourable alliance and at-risk contracts in Australia and Asia. With fewer projects of this type expected to complete in 2013, margin performance is likely to be slightly weaker.

	2012	2011	Actual growth (%)	Constant currency growth (%)
Order book (£bn)	1.6	1.6	+5	+9
Revenue[1] (£m)	1,668	1,645	+1	+1
Profit from operations[2] (£m)	98	87	+13	+12
Margin[2] (%)	5.9	5.3		

[1] *including joint ventures and associates*
[2] *before non-underlying items (see Notes 2 and 5)*

In the US, where 80% of our activity is in the transportation sector, spending by the federal and state departments of transport is crucial to our business. So the long-delayed authorisation of the Transportation Bill in July 2012 was an important turning point. While the bill's term is shorter than the customary six years, and the only partially resolved fiscal cliff remains a drag on decision-making, we benefited as some large projects moved forward.

During the year we won a design-build contract for the widening of the I-4 interstate highway in Volusia County, Florida. In collaboration with US construction, and as part of a design-build joint venture, we were also named as best value bidder for the Dallas Horseshoe project to undertake the upgrade and replacement of river crossings in Dallas, Texas. We are currently bidding other US design-build transportation projects, with both our US construction business and third party construction companies with whom we have a good track record. Our three major ongoing projects – high-speed rail in California, the Westside Subway Extension in Los Angeles and the Second Avenue Subway in New York – are progressing well.

Our US power business is still small but goes from strength to strength in target segments which are themselves growing. We have taken several steps to ensure growth in this attractive sector including the acquisition of the Subsurface Group to expand our activities in US energy storage services. Subsurface provides services in underground injection, underground storage, specialty wells, petroleum and natural resources, and environmental science. Based in Houston, Texas with offices in Baton Rouge, Louisiana and South Bend, Indiana, its 37-strong team generated some US$50 million of revenue in 2012.

In Canada we have been successful in leveraging the platform provided by Halsall to expand into transportation and power markets. In May the Regional Municipality of Waterloo, Ontario appointed us as general engineering consultants on a transit programme that will be one of the largest public infrastructure projects ever undertaken

in the Waterloo region. And in June we won a contract to design the replacement of the controls, drives and overhead cables at the Burlington Canal Lift Bridge.

The UK market remains extremely competitive, but volumes in the transportation sector have stabilised and even improved. This is evidenced by strong tendering activity, particularly in mainline rail and regional highways sectors. Furthermore, the restructuring of our UK operation has enabled us to be competitive in the market, which has been evidenced in a number of successful major bids. In the year, we won the preliminary design of both railway systems packages for the UK's HS2 project and all three structures engineering packages for Transport for London (TfL).

Our two major projects in Qatar - the Qatar Rail Strategic Programme Manager and the Project Management Consultant for Local Roads & Drainage for Ashghal - have developed considerably over the year, with combined staff numbers now exceeding 250. Our work on the Rabigh Power Station in Saudi Arabia continues to perform well.

Following several buoyant years, particularly in power and mining, Australia experienced somewhat mixed market conditions in 2012. Faltering commodity demand from China hit the mining sector which responded by cancelling or postponing capital projects. Despite this, our relatively small mining business was able to grow and gain market share. Our business in power generation continues to build momentum, based on the international team established for the EPC contract at Karratha in Western Australia.

While Australia's public transportation market has been flat, some interesting trends are emerging in the procurement of highways maintenance. Recently we formed a bid consortium, in partnership with Transfield Services, to target state government outsourcing opportunities in highways maintenance on the east coast of Australia. A joint team from Australia and the UK has collaborated to transfer knowledge and best practice developed in recent years in the UK to Australian markets.

In South Africa, we received a further vote of confidence as our engineering and programme management contract at Medupi Power Station was extended by another two years.

Our mechanical, electrical and plumbing services for complex buildings have continued to grow strongly in Singapore, Hong Kong and China – our biggest Asian markets.

We continue to direct our professional services resources to markets that align with the Group's focus sectors and geographic markets. Indeed in many cases, these services create the access routes to those markets through local presence, client relationships or the advantage from being at the very top of the value chain.

We expect favourable market developments and new opportunities, specifically in transportation in the US, Canada and the Middle East, mining in Australia and more generally in power globally.

Construction Services

The construction order book finished the year at £8.0 billion, down 6% from a year ago. The most significant decrease was in the US, down 17% from the end of 2011. However, the awarded but not contracted position has improved, keeping the overall pipeline broadly stable. US revenue was down by 1% on a like-for-like basis and up by 8% including the contribution from acquisitions. In the UK the order book was up 1%; however, we have seen a significant shift in the year from major works to smaller

contracts, with the order book for the regional building and civils business up 15% since the end of 2011 while the order book for major construction work declined by 24%. UK revenue was down by 6% in the year, with most of the decline occurring in the second half. Based on this order book profile, we expect stable revenue in the US and a revenue decline of c.20% in the UK in 2013. In the rest of the world, Hong Kong has good prospects, while the Mainland European rail result will be adversely impacted by our impending divestments.

Construction Services saw the anticipated reduction in profitability with underlying operating profit at £122 million (2011: £169 million). There was a drop in profits in US construction as a result of more competitive pricing in the market. In the UK, whilst we benefited from successfully completing some long-term projects, we saw overall profits reduce. This was largely a consequence of lower margins in the regional businesses as a result of tightening markets and was exacerbated by delivery margins being impacted by rising subcontractor defaults. In the year, the profitability of our Mainland European rail business weakened due to a low level of activity as well as one-off issues. We continue to believe that 2013 will be a difficult year for Construction Services notwithstanding the benefits of the cost reductions we are achieving.

	2012	2011	Actual growth (%)	Constant currency growth (%)
Order book (£bn)	8.0	8.5	-6	-4
Revenue[1] (£m)	6,959	7,050	-1	-1
Profit from operations[2] (£m)	122	169	-28	-28
Margin[2] (%)	1.8	2.4		

[1] *including joint ventures and associates*
[2] *before non-underlying items (see Notes 2 and 5)*

The UK Government's public expenditure cuts and the financial constraints generally in the economy hit the construction sector hard. As we completed projects won as early as 2008, it became increasingly difficult to replenish the order book with equally large projects. Spending on power generation plants had been seen as one area of likely growth, but Government delays in clarifying key elements of energy policy, such as carbon pricing and strike prices, caused utility companies to defer investment decisions. Towards the end of the year market conditions were further depressed by the growing financial strains on the supply chain and subcontractors, reducing our ability to negotiate terms with them that matched the terms our clients were requiring.

Despite the investment delays in the UK power sector, we won several significant projects. We were selected as one of two companies on a framework for construction, infrastructure and maintenance projects across all 10 sites operated by Magnox for the Nuclear Decommissioning Authority. Our Investments division has reached financial close on the Essex Waste Partnership's residual waste treatment and the Gloucestershire energy-from-waste concessions. We are the construction partner on both projects.

Our UK construction business is very diverse, serving multiple sectors and undertaking both regional and major national projects. In 2012, we streamlined and restructured the UK operations to one business with three business streams to better integrate our service offering to clients. The new organisation is more agile, fosters collaboration within the construction business as well as with other divisions, and will ensure that we emerge from the current downturn in UK construction as a more operationally efficient business. Each stream is also organised to align with the Group's key market sectors, to aid global coordination with other geographies.

In the US, where more than 80% of our business is in building construction, activity levels were depressed from historical highs but stable. In civil infrastructure, some projects have moved to the tender stage following the long-awaited approval of the Transportation Bill. Where these are procured on a PPP or design-build basis, our ability to combine our construction capability with Parsons Brinckerhoff's design capability gives us competitive advantage. In November we were named as best value bidder, in a design-build joint venture with Fluor, for the Dallas Horseshoe project to upgrade and replace river crossings in Dallas, Texas. Parsons Brinckerhoff's technical design and our US construction experience in design-build were crucial to winning the contract.

In 2011 we acquired Fru-Con Construction to leverage our local civil infrastructure capabilities into the water market, and by the end of 2012, we had already won US$300 million in new works directly related to this growth strategy. We recently won another project. The Michelson Wastewater Treatment Plant is a US$166.5 million project in joint venture with J.R. Filanc Construction Co., and is significant in that it represents our official entry into the Southern California water and wastewater market.

In September 2012, we took the next step in the evolution of our US construction operations by moving to a unified operating model that allows us to better compete in, and lead, a changing industry. The business was streamlined from five to three regions: West, East, and Central. Also as part of this structural realignment, we formed a national capability centre to harness expertise, garner best practices in the field, and deploy that knowledge across the national business.

Our joint venture Gammon Construction continued to grow its business in Hong Kong, where the market has been buoyed by a strong programme of government spending on both transportation infrastructure and public buildings. A string of significant contract awards provided convincing evidence of the growth potential in this market, and we broadened our business mix to embrace a greater number of infrastructure projects in line with the Group's key markets strategy.

The Dubai market has stabilised, and is now showing some signs of improvement. We also see opportunities in the Middle East region for our mechanical and electrical services.

Conditions in our traditional rail markets in Europe have been challenging. In Italy and Spain, activity levels have reached a critically low level. In Germany and the UK intense competition has driven increasing commoditisation. The operational and strategic review of our Mainland European rail business, which we started in the fourth quarter, has concluded that maintaining a rail presence in Mainland Europe is not consistent with our strategy which calls for building a strong local presence in our geographies in a number of market sectors. In Mainland Europe, we essentially operate only in rail. Therefore, we will be divesting of all of our Mainland European rail businesses through a process that ensures that the businesses and their customers continue to receive full support. This decision has resulted in a goodwill write-down amounting to £95 million. As a first step in the divestment process, we have sold the Spanish business to its management post year end. We continue to see attractive opportunities in the major signalling and electrification projects that we deliver internationally.

Over the medium term, our construction businesses are positioned in their respective markets as market leaders with local presence and a good track record of delivery. As the current restructuring and cost efficiency initiatives are implemented, the businesses will become ever more agile, closer to the client and competitive in the marketplace.

Support Services

Support Services order book improved by 12% from the end of 2011 to £5.7 billion (2011: £5.1 billion). Order intake was particularly strong in power, which ended the year with its order book up 65% from the start of the year. Revenue was up 3% at £1,633 million with a particularly strong performance in the power sector - up 24%. Excluding acquisitions, revenue was up 2%.

Profitability however, was lower at £52 million (2011: £67 million), due to start-up costs on new contracts and some £10 million of one-off cost increases on a small number of power sector contracts in Australia and New Zealand in the first half of the year. Second half profitability was in line with that in the same period in 2011.

For 2013, we expect to see continued growth in the power and buildings segments, a reasonably stable water business, but with increasing volume and margin pressure in rail renewals.

	2012	2011	Actual growth (%)	Constant currency growth (%)
Order book (£bn)	5.7	5.1	+12	+12
Revenue[1] (£m)	1,633	1,584	+3	+3
Profit from operations[2] (£m)	52	67	-22	-22
Margin[2] (%)	3.2	4.2		

[1] including joint ventures and associates
[2] before non-underlying items (see Notes 2 and 5)

2012 was a year of further revenue growth for the division, particularly in the power and buildings segments. In the power sector, a key focus market for the Group, we are continuing to help deliver major infrastructure projects for National Grid and Scottish and Southern Energy in the UK, drawing on our engineering and asset expertise and global resources. This has included securing a five-year framework agreement with National Grid and delivering additional volumes of work above original agreements as part of their investment programme. We were also awarded two new contracts with Scottish Power Energy Networks for electricity transmission work in Scotland.

In April, E.ON appointed us to install the cable for its Humber Gateway offshore wind farm. The contract involves the design and installation of a 30km section of underground 132kV cable to connect the Humber Gateway offshore wind farm to a new onshore substation at Hedon in East Yorkshire.

Embracing lean approaches to meet client efficiency challenges has helped us to secure work in the gas sector, and leaves us uniquely positioned to help clients in the future. In December we won two eight-year contracts with National Grid to upgrade the UK's gas distribution network. The contracts, valued at £1.1 billion, are for design and installation of modern polyethylene gas distribution mains to replace ageing metal pipes. The new Gas Distribution Strategic Partnership contracts cover the Northwest and West Midlands and replace our current Northwest gas contract, almost doubling our gas work for National Grid. We also began our first gas contract in the Republic of Ireland. Operating as BBCLG in joint venture with local operator CLG, we have an eight-year contract to replace and extend the gas network on behalf of state operator Bord Gáis.

In the water market, we have continued to perform well on our AMP5 water contracts with network operators such as United Utilities and South West Water. The UK water market is about to begin reviewing contract renewals for the AMP6 investment period.

We have several current contracts with options to extend into this period, and we will also be seeking to expand our operations with both existing and new clients.

In transportation, where our work is in road maintenance and rail renewals, we were awarded a £300 million contract to operate, maintain and improve part of the Highways Agency's strategic route network in the Northwest. Through a joint venture, we will maintain and improve over 500km of motorway and trunk roads in Manchester, Cheshire, Merseyside and parts of Lancashire. The Area 10 Asset Support Contract runs over the next five years, augmenting a portfolio that already includes the Area 4 contract in the Southeast and the M25 design, finance, build and operate contract, the largest of its kind in the UK.

Growth in the rail renewals market is driven by broader central government strategies to maintain and improve service levels on the rail network. While Network Rail and London Underground have been increasing competitive pressure in the routine renewals market, potential investment in high-speed rail links between major cities and the tendency for greater procurement of multidisciplinary contracts should favour integrated players such as Balfour Beatty.

In facilities management, WorkPlace won several contracts that will ensure revenue growth for this unit in the coming years. At the start of 2012, we won a 10-year contract to run services and facilities for the future Queen Elizabeth Olympic Park in East London. We will have overall responsibility for a range of services including estates and FM as well as operating the ArcelorMittal Orbit, the stunning new visitor attraction forming a centrepiece of what will be a great new park for London.

In two separate contracts in March 2012, we were appointed to provide FM services for a range of EDF Energy's sites in the UK and to deliver total FM services across UK Power Networks' property portfolio.

The trend for local authorities to outsource their services through larger, more complex integrated contracts, often over longer terms, continued in 2012. We were selected in August as North Tyneside Council's preferred partner to provide business services. The contract is expected to be worth £200 million over 15 years.

We also won street lighting contracts from Leicester City Council, Peterborough Council and Wokingham Borough Council, amongst others. A key component of all these contracts will be to convert the existing installations to lower energy LED lights.

The growth in our order book in the year is testament to the strength of our offering and an indication of the division's excellent prospects. The trend to outsource by central and local government, and commercial enterprises is an enduring one. Our expertise and track record in highways and buildings puts us in an advantageous position to develop our involvement both in local authority work and in the facilities management of complex privately owned assets.

Power transmission and distribution is a growth area both in the UK and in international markets. Our strength in this area is evidenced by the exceptional growth in order book and revenue in the year. We continue to seek further opportunities in the power markets.

In contrast, rail renewal activity in the UK is expected to be under pressure as the market becomes increasingly commoditised.

Infrastructure Investments

Infrastructure Investments showed a significant increase in profit with underlying pre-tax profit up to £97 million (2011: £71 million). This increase was driven by disposal gains increasing from £20 million in 2011 to £52 million in 2012, with the profits on the targeted disposals not only significantly ahead of their value in the Directors' valuation, but also ahead of our expectations. UK PPP profits were down £1 million, principally because of the profits foregone from disposed assets. Bidding costs and overheads increased to £34 million (2011: £30 million).

	2012	2011
Profit from continuing operations[2] (£m)	69	43
Net interest income from PPP concessions[3] (£m)	28	28
Pre-tax result from continuing operations[2] (£m)	97	71
Directors' valuation of PPP concessions (£m)	734	743

[2] *before non-underlying items (see Notes 2 and 5)*

[3] *subordinated debt interest income and net interest income from PPP subsidiaries (see Notes 3 and 4)*

The Investments division has had another excellent year operationally. We made investments totalling £55 million into our projects while laying the groundwork to expand the business into new sectors and geographies.

Energy-from-waste and waste treatment are growth segments we have been targeting in the last two years. In 2012 we won the Essex Waste Partnership's residual waste treatment contract in joint venture with Urbaser. Gloucestershire residual waste project, our second joint venture with Urbaser, reached financial close in February 2013. This 28-year PPP project involves the design, build and operation of an energy-from-waste facility for Gloucestershire County Council.

We have established our position in the student accommodation market over the past 12 months having been successful on two projects. In August 2012 we were appointed preferred bidder for the University of Edinburgh's Holyrood postgraduate student accommodation and outreach centre project. This was followed by another success in February 2013, when we announced our preferred bidder appointment for the Aberystwyth University student accommodation project. We are also making significant progress in this market in the US, giving us an opportunity to share learning and best practice across geographies for the benefit of our clients.

In the offshore wind development market, where Transitional Round 1 of built farms has been completed, we are preferred bidder for two of the largest Offshore Transmission Owner (OFTO) projects, Thanet and Greater Gabbard. We are currently bidding for Gwynt y Mor OFTO in Transitional Round 2.

In military housing, we achieved financial close on the US$362 million Western Group and continue to make progress with our preferred bidder positions on Northern Group and ACC Group III. Over the past 12 months we have built over 650 new homes and renovated 960 homes on 20 military bases across the US.

In the last few years, we have successfully transferred our skills from military housing to other market segments and geographies. In 2012, we signed a development agreement with Lake Forest College for a new 233-bed student housing facility. We are preferred bidder for three other US student accommodation projects on a non-PPP basis, and in contention for a PPP detention centre project.

Putting our developer skills together with the Group's rail and professional services expertise, we strengthened our bidding resources in Canada to address the growth in the transportation sector which is anticipated in a number of provinces.

Over the past few years we have been developing our capability in the waste sector in the UK which we are applying to new opportunities in Australia. We are now actively developing a biomass power project there which is the first in a pipeline of similar opportunities which we are exploring.

In India we continue to bid on a number of power transmission projects working in partnership with Tata Projects.

In November 2010 we announced plans to set up an investment management business. Our objective was to leverage our capabilities into greater pools of capital, earning both a return on our capital and advisory fees.

We launched this business, Balfour Beatty Infrastructure Partners (BBIP), in 2011 with the appointment of four fund management experts. Since then they have worked on obtaining the relevant registrations, establishing a presence in London and New York, identifying investors and pursuing the initial assets for the fund to invest in.

In January 2013 the BBIP fund reached first close with US$317 million of commitments, of which Balfour Beatty has committed US$110 million. In February 2013, the commitments increased to US$420 million and subsequent levels of close are expected during 2013, ultimately reducing the Group's share in the fund to around 10%. Drawdowns will depend on the timing of investments by the fund, but we expect our commitment to be invested over the next three to four years.

The BBIP fund will make investments in predominantly brownfield operational assets in its key target sectors of transport, energy and utilities across the UK, Europe and North America.

We made significant progress in the year towards diversifying our activities into new sectors and new geographies, reducing our reliance on PFI in the UK and military housing in the US. We see significant opportunity to develop the model further.

COST AND EFFICIENCY UPDATE

We started on the journey to improve our cost effectiveness with the announcement of the creation of a shared service centre in Newcastle in August 2010. By the end of 2011 we had 230 employees accounting for 50% of UK transactions and procuring £300 million of indirect spend. The success of this initiative convinced us to expand the project and apply what we had learnt elsewhere, so in March 2012 we announced that we would target to save a further £50 million per annum by 2015 for one-off costs estimated at £50 million to £75 million.

In addition to expanding the scope of the Newcastle service centre including some global procurement, we are setting up an equivalent service centre in Lancaster, PA which will be operational by April 2013. We are also restructuring our businesses; in particular, UK Construction has been reorganised into three business streams and is in the process of reducing the number of offices from 75 down to 37, and US construction has been reorganised into three regions. We have booked non-underlying costs for redundancy, relocation, property and other associated costs for these programmes of £61 million in the year. Savings in the year from the original and expanded programmes were £36 million, and we remain on track to deliver combined annual savings of £80 million in 2015.

FINANCIAL SUMMARY

Revenue including joint ventures and associates declined 1% in the year to £10,896 million (2011: £11,035 million). Excluding the impact of currency and acquisitions, underlying revenue declined by 4%.

Our share of underlying post-tax profits from continuing joint ventures and associates increased to £97 million from £75 million last year, principally due to increased profits from our overseas construction joint ventures, with improved liquidity in Dubai and continuing growth in Hong Kong.

Underlying profit from continuing operations decreased by 7% to £309 million (2011: £331 million), including the benefit of £52 million of gains from PPP disposals. Net finance income of £1 million was broadly in line with the prior year (2011: £3 million). Underlying pre-tax profit from continuing operations therefore decreased 7% to £310 million (2011: £334 million).

The underlying tax charge for continuing operations for the year of £70 million (2011: £91 million), excluding the Group's share of the results of joint ventures and associates, equates to an effective tax rate of 32.9% (2011: 35.1%). Adjusting to include tax in joint ventures and associates, and comparing this to pre-tax profits for the continuing Group and joint ventures and associates, the effective tax rate was 25.7% (2011: 30.2%).

Non-underlying items

Non-underlying items of £235 million (2011: £88 million) before tax were charged to the income statement. This comprised amortisation of acquired intangible assets of £45 million (2011: £62 million) and other items of £190 million (2011: £26 million). The amortisation charge declined in the year as some intangible assets became fully written down. Other items included rail restructuring costs of £104 million, of which £95 million comprised goodwill write downs. These are as a result of our strategic decision to divest all of our Mainland European rail businesses over time. During the year we also announced a major restructuring of our business to rationalise the cost base, expand our use of shared service centres and aid collaboration by colocating employees. Costs incurred on this during the year were £61m. Post-acquisition integration, reorganisation and other costs totalled £9 million, principally due to the settlement of a pre-acquisition legal case in Parsons Brinckerhoff. We also wrote down our investment in Exeter International Airport in the first half from £12 million to £nil, as a result of continued poor traffic volumes in the regional airport market and increased tariffs.

Earnings per share

Underlying earnings per share for continuing operations of 35.0p were down 1% on last year (2011: 35.5p).

Cash flow performance

Cash used in operations of £219 million (2011: generated £35 million) was impacted by a working capital outflow of £310 million (2011: £201 million). Including the impact of exchange, negative working capital decreased from £1,085 million at the end of 2011 to £777 million at the end of 2012. Of this decrease of £308 million, the biggest component was £250 million in Construction Services. This was largely due to changes in the mix of business, away from larger more complex projects which have the potential for more favourable terms, to smaller projects plus the impact of volume reductions with revenue down 10% in the UK and 8% in the US in the second half year on year.

Cash from operations was also impacted by pension deficit payments of £61 million (2011: £58 million).

Average borrowings in the second half of the year were £126 million, although the Group's net cash at 31 December 2012 was £35 million (2011: £340 million), before taking into account the consolidation of £368 million (2011: £332 million) of non-recourse net debt held in wholly-owned PPP project companies.

Goodwill and intangible assets

Total consideration for the acquisition of Subsurface Group in the year amounted to £10 million, with goodwill of £9 million arising and a further £3 million of other intangible assets being recognised. These increases were more than offset by the write-down in the European rail business, so that the goodwill on the Group's balance sheet at 31 December 2012 decreased to £1,160 million (2011: £1,279 million). Other intangible assets, after amortisation charges of £49 million (2011: £66 million), reduced to £212 million (2011: £239 million).

Balance sheet and capital structure

In the composition of our balance sheet, we look to achieve a balance between the negative working capital, liquid funds and the PPP investments portfolio. Whilst we have seen a reduction in net cash during 2012, we have also seen a reduction in the levels of negative working capital, with the Directors' valuation of our investments portfolio remaining broadly unchanged.

These items are considered further below.

Investments portfolio

During 2012, the Group invested £55 million (2011: £52 million) in a combination of equity and shareholder loans to PPP project companies and at the end of the year had committed to provide a further £47 million from 2013 onwards, with some £77 million expected in addition for six projects at preferred bidder stage.

During the year total proceeds of £84 million were received from the disposal of the Group's 50% interest in Transform Schools (North Lanarkshire) and 33.3% interest in Health Management (UCLH), realising £17 million in excess of Directors' valuation.

At 31 December 2012, the Group's share of non-recourse net borrowings within Balfour Beatty Investments' continuing PPP project companies amounted to £2,086 million (2011: £2,127 million), comprising £1,718 million (2011: £1,795 million) in relation to joint ventures and associates as disclosed in Note 12 and £368 million (2011: £332 million) on the Group balance sheet in relation to wholly-owned subsidiaries as disclosed in Note 17.3.

The Directors have carried out a valuation of the Group's PPP concessions which shows that the value of the portfolio has decreased during the year from £743 million to £734 million, after receiving cash net of re-investment of £114m.

Working capital

Negative working capital reduced from £1,085 million to £777 million, so total working capital as a percentage of annualised revenue ("WCPR") at the end of the year was (8.3)% (2011: (10.9)%). The most significant component of negative working capital relates to Construction Services, which ended the year with WCPR of (12.1)% (2011: (14.7)%).

We have seen a shift of our construction business away from larger and more complex projects, many of which are project financed, to shorter term smaller projects, which tend to have less scope for favourable payment terms, in addition to which we have been impacted by revenue reductions.

In 2013, we would expect further reductions in negative working capital in UK construction as a result of anticipated revenue reductions, and the greater proportion of smaller contracts. We also expect an increase in working capital in Support Services, due to one very large contract with positive working capital characteristics. Professional Services will continue trending towards 5% positive working capital. We would however, expect negative working capital to be broadly stable in US construction, before increasing again when the market recovers.

Pensions

The Group's balance sheet includes aggregate deficits of £338 million (2011: £275 million) for the Group's pension funds. Note 15 sets out the assumptions used and a sensitivity analysis which identifies the impact on the balance sheet from changes in those assumptions.

The Group recorded net actuarial losses for 2012 on those funds totalling £121 million (2011: gains £60 million), with the effects of the lower discount rates applied to the funds' obligations exceeding the better than expected returns on the assets held by the funds and revised mortality assumptions based on historical experience.

For our 2013 financial statements onwards, the new IAS19 standard is applicable. This requires the return on assets within the pension net finance cost to be calculated using the same rate as the discount rate on the obligations. This has no cash impact, but the effect of this change is to increase the net pension interest cost. If the new standard had been adopted in 2012 it would have increased the finance cost by £10 million (2011: £17 million). In our 2012 interim announcement, we estimated the effect on 2013 as £13 million based on the actuarial assumptions applicable at that time. We have updated this estimate using the 31 December 2012 actuarial assumptions, and the estimated impact for 2013 is now £21 million, £8 million higher than before.

A formal actuarial valuation of the Balfour Beatty Pension Fund ("BBPF") was carried out at 31 March 2010 and showed a funding position of 85%. A funding plan was agreed to eliminate that deficit over eight years. Under this funding plan, the Group is making regular monthly payments. The monthly payments increase each April by the growth in CPI up to a cap of 5%, plus 50% of any increase in the Company's dividend in excess of CPI. Monthly deficit payments from April 2012 were £4.5m. Regular deficit payments into the BBPF increased by £0.9 million per month to £5.4 million following the merger of the Parsons Brinckerhoff pension scheme into the BBPF on 30 June 2012. In advance of the triennial valuation as at 31 March 2013, additional contributions of £1 million per month are payable for any month where the BBPF funding levels drop below the targets set out in the BBPF funding plan.

Banking facilities

The Group's principal committed facility is a five-year revolving syndicated facility at £850 million which was arranged in November 2011. In December 2012 an expiring bilateral £100 million facility was extended through to 2016. The purpose of these facilities, and other smaller facilities, is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities. Over time, as the Group evolves we will continue to explore diversifying our sources of funds away from pure bank market, and as part of that process, after the year end, US$350 million was raised through a US private placement of a series of notes with an average coupon of 4.94% over 9.3 years. The incremental cost of this funding is approximately £9 million per annum.

Dividends

The Board has recommended a final dividend of 8.5p in respect of 2012, giving a full-year dividend of 14.1p (2011: 13.8p), up 2% on last year. Underlying dividend cover, taking into account PPP disposal gains, for 2012 is 2.5 times.

OUTLOOK

We have delivered a set of results for the full year that demonstrated resilience in underlying earnings and a stable order book in the face of continuing challenging conditions in the construction markets in the UK and USA. We have also made good progress in the implementation of measures designed to increase organisational efficiency and are on track to realise the anticipated benefits. Furthermore, our growth strategy of focusing on key market sectors and geographies is making headway, and is reflected in the continuing shift in our order book towards economic infrastructure.

While we still believe that construction markets in 2013 will be challenging, our actions to date and ongoing strategic focus on growth markets position us well for the medium term.

ENDS

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Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates",

"plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this announcement and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, and failure in Balfour Beatty's health, safety or environmental policies.

No representation or warranty is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Forward-looking statements speak only as at the date of this announcement and Balfour Beatty plc and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this announcement. No statement in the announcement is intended to be, or intended to be construed as, a profit forecast or to be interpreted to mean that earnings per Balfour Beatty plc share for the current or future financial years will necessarily match or exceed the historical earnings per Balfour Beatty plc share. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

Notes to editors

Balfour Beatty (www.balfourbeatty.com) is a global infrastructure group that delivers world class services essential to the development, creation and care of infrastructure assets; from finance and development, through design and project management to construction and maintenance.

Our businesses draw on more than 100 years of experience to deliver the highest levels of quality, safety and technical expertise to our clients principally in the UK, the US, Southeast Asia and the Middle East. We continue to develop our business in key growth markets in South Africa, Australia, Canada, Brazil and India.

With proven expertise in delivering infrastructure critical to support communities and society today and in the future, our key market sectors include transportation (roads, rail and aviation), power and energy, mining, water and social infrastructure such as hospitals and schools.

Balfour Beatty employs 50,000 people around the world.

Additional information

A presentation to analysts and investors will be made at Bank of America Merrill Lynch Financial Centre, Auditorium, 2 King Edward Street, London EC1A 1HQ at 10:30 (UK time). There will be a live webcast of this presentation on www.balfourbeatty.com.

A teleconference for analysts and investors will be hosted at 15:00 (UK time). To join the call, please dial participant telephone number +44 (0)20 3140 8286 and quote confirmation code 2164793. A recording of the call and its transcript can be found on our website within 24 hours of the event.

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

The Company's statutory accounts for the year ended 31 December 2012 are expected to be posted to those shareholders who have requested a paper copy on 8 April 2013.

The Annual report and accounts 2012 will be available on the Company's website www.balfourbeatty.com from the date this is posted to shareholders. Paper copies of the document will also be available from the Company's registered office from this time.

The Company's Annual General Meeting (AGM) is scheduled to be held at Park Plaza Victoria, 239 Vauxhall Bridge Road, London SW1V 1EQ at 11:00 on Thursday, 16 May 2013.

Subject to approval at the AGM on 16 May 2013, the final 2012 dividend will be paid on 5 July 2013 to holders on the register on 26 April 2013 by direct credit or, where no mandate has been given, by cheque posted on 4 July 2013 payable on 5 July 2013. The ordinary shares will be quoted ex-dividend on 24 April 2013.

A preference dividend of 5.375p gross (4.8375p net at current tax rate) per cumulative convertible redeemable preference share will be paid on 1 July 2013 in respect of the six months ending 30 June 2013 to holders of these shares on the register on 24 May 2013 by direct credit or, where no mandate has been given, by cheque posted on 29 June 2013 payable on 1 July 2013. The preference shares will be quoted ex-dividend on 22 May 2013.

The Company's statutory accounts for the year ended 31 December 2012 comply with the Disclosure and Transparency Rules of the Financial Services Authority in respect of the requirement to produce an annual financial report. Those financial statements are the responsibility of, and were approved by the Directors, on 6 March 2013.

The responsibility statement below has been prepared in connection with the Company's Annual Report and Accounts 2012. Certain parts thereof are not included within this announcement.

The Directors confirm that to the best of their knowledge:

(i) the Company's financial statements for the year ended 31 December 2012, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(ii) the Operating Review and Chief Financial Officer's Review, which are incorporated into the Directors' Report in those financial statements, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 6 March 2013 and is signed on its behalf by:

I P Tyler
Chief Executive

D J Magrath
Chief Financial Officer

Group Income Statement

For the year ended 31 December 2012

	Notes	2012 Underlying Items [1] £m	2012 Non-underlying items (Note 5) £m	2012 Total £m	2011 Underlying items [1,2] £m	2011 Non-underlying items (Note 5) £m	2011 Total [2] £m
Continuing operations							
Revenue including share of joint ventures and associates		**10,896**	**–**	**10,896**	11,035	–	11,035
Share of revenue of joint ventures and associates	12	**(1,413)**	**–**	**(1,413)**	(1,541)	–	(1,541)
Group revenue		**9,483**	**–**	**9,483**	9,494	–	9,494
Cost of sales		**(8,433)**	**–**	**(8,433)**	(8,358)	–	(8,358)
Gross profit		**1,050**	**–**	**1,050**	1,136	–	1,136
Gain on disposals of investments [2]	18	**52**	**–**	**52**	20	–	20
Amortisation of acquired intangible assets		**–**	**(45)**	**(45)**	–	(62)	(62)
Other net operating expenses [2]		**(890)**	**(190)**	**(1,080)**	(900)	(26)	(926)
Group operating profit/(loss)		**212**	**(235)**	**(23)**	256	(88)	168
Share of results of joint ventures and associates	12	**97**	**–**	**97**	75	–	75
Profit/(loss) from operations		**309**	**(235)**	**74**	331	(88)	243
Investment income	3	**62**	**–**	**62**	57	–	57
Finance costs	4	**(61)**	**–**	**(61)**	(54)	–	(54)
Profit/(loss) before taxation		**310**	**(235)**	**75**	334	(88)	246
Taxation	6	**(70)**	**39**	**(31)**	(91)	27	(64)
Profit/(loss) for the year from continuing operations		**240**	**(196)**	**44**	243	(61)	182
Profit for the year from discontinued operation	7	**–**	**–**	**–**	–	4	4
Profit for the year		**240**	**(196)**	**44**	243	(57)	186
Attributable to							
Equity holders		**240**	**(196)**	**44**	243	(57)	186
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit for the year		**240**	**(196)**	**44**	243	(57)	186

1 Before non-underlying items (Note 5).
2 Re-presented to separately disclose the gain on disposals of investments (Note 1.5).

	Notes	2012 pence	2011 pence
Basic earnings per ordinary share			
- continuing operations	8	**6.5**	26.7
- discontinued operation	8	**–**	0.6
		6.5	27.3
Diluted earnings per ordinary share			
- continuing operations	8	**6.5**	26.7
- discontinued operation	8	**–**	0.6
		6.5	27.3
Dividends per ordinary share proposed for the year	9	**14.1**	13.8

Group Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 £m	2011 [3] £m
Profit for the year	**44**	186
Other comprehensive income/(expense) for the year		
Items which will not subsequently be reclassified to the income statement		
Actuarial movements on retirement benefit liabilities	**(126)**	53
Tax on above	**20**	(18)
	(106)	35
Items which will subsequently be reclassified to the income statement		
Currency translation differences	**(56)**	4
Fair value revaluations – PPP financial assets	**405**	204
– PPP cash flow hedges	**(20)**	(239)
– other cash flow hedges	**1**	–
– available-for-sale investments in mutual funds	**4**	(2)
Tax on above	**(90)**	6
	244	(27)
Total other comprehensive income for the year	**138**	8
Total comprehensive income for the year	**182**	194
Attributable to		
Equity holders	**182**	194
Non-controlling interests	**–**	–
Total comprehensive income for the year	**182**	194

[3] Re-presented to reflect the adoption of amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Note 1.3).

Group Statement of Changes in Equity

For the year ended 31 December 2012

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2011	343	59	16	30	144	334	230	4	1,160
Total comprehensive income/(expense) for the year	–	–	1	–	60	(18)	151	–	194
Ordinary dividends	–	–	–	–	–	–	(88)	–	(88)
Joint ventures' and associates' dividends	–	–	–	–	(54)	–	54	–	–
Issue of ordinary shares	1	2	–	–	–	–	–	–	3
Recycling of revaluation reserves to the income statement on disposal	–	–	–	–	(6)	–	–	–	(6)
Movements relating to share-based payments	–	–	–	–	–	(5)	5	–	–
Other transfers	–	–	–	(3)	–	–	3	–	–
At 31 December 2011	344	61	17	27	144	311	355	4	1,263
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**–**	**371**	**(37)**	**(152)**	**–**	**182**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(96)**	**(1)**	**(97)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**–**	**(58)**	**–**	**58**	**–**	**–**
Issue of ordinary shares	**–**	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**2**
Recycling of revaluation reserves to the income statement on disposal	**–**	**–**	**–**	**–**	**(48)**	**–**	**–**	**–**	**(48)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**(2)**	**9**	**–**	**7**
Other reserve transfers relating to joint venture and associate disposals [4]	**–**	**–**	**–**	**–**	**(72)**	**–**	**72**	**–**	**–**
Other transfers	**–**	**–**	**–**	**(2)**	**–**	**–**	**2**	**–**	**–**
At 31 December 2012	**344**	**63**	**17**	**25**	**337**	**272**	**248**	**3**	**1,309**

[4] Includes £52m transfers between the joint ventures' and associates' reserves and retained profits relating to joint ventures disposed or liquidated in prior years.

Group Statement of Financial Position

As at 31 December 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Intangible assets – goodwill	10	**1,160**	1,279
– other	11	**212**	239
Property, plant and equipment		**247**	288
Investments in joint ventures and associates	12	**726**	466
Investments		**94**	96
PPP financial assets		**542**	457
Trade and other receivables		**100**	87
Deferred tax assets		**117**	105
		3,198	3,017
Current assets			
Inventories and non-construction work in progress		**172**	140
Due from construction contract customers		**634**	604
Trade and other receivables	13	**1,241**	1,410
Cash and cash equivalents – PPP subsidiaries		**25**	18
– other		**517**	577
Current tax assets		**4**	5
Derivative financial instruments		**1**	1
		2,594	2,755
Total assets		**5,792**	5,772
Current liabilities			
Due to construction contract customers		**(382)**	(576)
Trade and other payables	14	**(2,214)**	(2,426)
Provisions		**(116)**	(107)
Borrowings – PPP non-recourse loans		**(12)**	(21)
– other		**(477)**	(231)
Current tax liabilities		**(42)**	(30)
Derivative financial instruments		**(20)**	(10)
		(3,263)	(3,401)
Non-current liabilities			
Trade and other payables		**(159)**	(142)
Provisions		**(112)**	(130)
Borrowings – PPP non-recourse loans		**(381)**	(329)
– other		**(5)**	(6)
Deferred tax liabilities		**(10)**	(15)
Retirement benefit liabilities	15	**(338)**	(275)
Liability component of preference shares		**(92)**	(91)
Derivative financial instruments		**(123)**	(120)
		(1,220)	(1,108)
Total liabilities		**(4,483)**	(4,509)
Net assets		**1,309**	1,263
Equity			
Called-up share capital	16	**344**	344
Share premium account		**63**	61
Equity component of preference shares		**17**	17
Special reserve		**25**	27
Share of joint ventures' and associates' reserves		**337**	144
Other reserves		**272**	311
Retained profits		**248**	355
Equity attributable to equity holders of the parent		**1,306**	1,259
Non-controlling interests		**3**	4
Total equity		**1,309**	1,263

Group Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Cash (used in)/generated from underlying operations	17.1	**(219)**	35
Income taxes paid		**(19)**	(18)
Net cash (used in)/from operating activities		**(238)**	17
Cash flows from investing activities			
Dividends received from joint ventures and associates		**58**	54
Dividends received from discontinued operation		**–**	5
Interest received		**33**	23
Acquisition of businesses, net of cash and cash equivalents acquired		**(4)**	(100)
Purchase of intangible assets - other		**(25)**	(19)
Purchase of property, plant and equipment		**(49)**	(77)
Purchase of other investments		**(5)**	(21)
Investments in and loans to joint ventures and associates		**(27)**	(41)
Investments in PPP financial assets		**(22)**	(40)
Disposal of investments in joint ventures		**81**	28
Disposal of UK specialist rail manufacturing business		**–**	37
Disposal of property, plant and equipment		**21**	21
Disposal of other investments		**9**	19
Net cash from/(used in) investing activities		**70**	(111)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**2**	3
Purchase of ordinary shares		**(3)**	(4)
Proceeds from new loans		**350**	282
Repayment of loans		**(53)**	(8)
Repayment of finance leases		**(4)**	(4)
Ordinary dividends paid		**(96)**	(88)
Other dividends paid – non-controlling interest		**(1)**	–
Interest paid		**(47)**	(44)
Preference dividends paid		**(11)**	(11)
Net cash from financing activities		**137**	126
Net (decrease)/increase in cash and cash equivalents		**(31)**	32
Effects of exchange rate changes		**(17)**	(2)
Cash and cash equivalents at beginning of year		**580**	550
Cash and cash equivalents at end of year	17.2	**532**	580

Notes to the financial statements

1 Accounting policies

1.1 Basis of preparation

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee as adopted by the European Union relevant to its operations and effective for accounting periods beginning on 1 January 2012. The presentational currency of the Group is sterling.

1 Accounting policies continued

1.1 Basis of preparation continued

The financial information in this announcement, which was approved by the Board of Directors on 6 March 2013, does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 2011, but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; the report is unqualified, did not draw attention to any matters by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements for the Group and the Company that comply with IFRS in April 2013.

1.2 Going concern

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

1.3 Adoption of new and revised standards

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income was adopted in the current period requiring items of other comprehensive income during the period to be presented as items which will subsequently be reclassified to the income statement and items which will not. The tax applicable to each category is also shown separately and as a result the comparative information has been re-presented.

Amendments to the following standards were also adopted during the current year with no effect on the Group:

- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets.

1.4 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2012:

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Amendments to the following standards:
  - IFRS 1 Government Loans
  - IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
  - IAS 19 Employee Benefits
  - IAS 27 Separate Financial Statements
  - IAS 28 Investments in Associates and Joint Ventures
  - IAS 32 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
  - Improvements to IFRSs (2009 – 2011)
  - IFRS 10, IFRS 11 and IFRS 12: Investment entities
  - IFRS 10, IFRS 11 and IFRS 12: Transition guidance.

Of these, IFRS 9 and IAS 19 revised are expected to have the most significant effect.

IFRS 9 is expected to replace IAS 39 Financial Instruments: Recognition and Measurement from 2015, subject to EU adoption. IFRS 9 in issue as at 31 December 2012 concerns the classification and measurement of financial assets and financial liabilities and the de-recognition of financial instruments. New requirements for impairment and hedge accounting are expected to be added to IFRS 9 in the first half of 2013.

On 28 November 2012 the IASB issued an Exposure Draft, Classification and Measurement: Limited Amendments to IFRS 9, which proposes a new category for the classification of financial assets and liabilities, “Fair value through other comprehensive income”. Should these proposals be adopted, the Group’s PPP financial assets will be classified as “Fair value through other comprehensive income” which would not result in material changes to the current accounting of the Group’s PPP financial assets.

The requirements of IFRS 9 in issue as at 31 December 2012 would result in the Group’s PPP financial assets being reclassified from “available-for-sale”, which is a category that will no longer exist under the current new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. Assuming the Group adopts fair value through profit or loss, movements in the fair value of PPP financial assets will no longer be recognised in other comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings. The effect within the Group’s reserves would be a transfer of £93m from PPP financial asset reserves to retained earnings. The effect within the share of joint ventures’ and associates’ reserves would be a transfer of £399m from PPP financial asset reserves to retained earnings.

1.4 Accounting standards not yet adopted by the Group continued

Adopting amendments to IAS 19 Employee Benefits would have increased the 2012 net finance cost by £10m (2011: £17m). The estimated effect for 2013, based on current actuarial assumptions, is to increase the net finance cost by £21m.

1.5 Re-presentation of comparative information

The 2011 Income Statement has been re-presented to separately disclose the gain on disposals of interests in PPP joint ventures on the face of the income statement. Previously this amount was included within other net underlying operating expenses.

	As re-presented 2011 £m	As previously reported 2011 £m
Gain on disposals of investments	20	–
Other net underlying operating expenses	(900)	(880)

The 2011 trade and other receivables note has been re-presented to separately identify current trade receivables and other receivables which were previously amalgamated. Refer to Note 13.

	As re-presented 2011 £m	As previously reported 2011 £m
Trade receivables	970	1,094
Other receivables	124	–
Trade and other receivables	1,094	1,094

1.6 Exchange rates

The following key exchange rates were applied in these financial statements.

Average rates

£1 buys	**2012**	2011	Change
US$	**1.59**	1.60	(0.6)%
Euro	**1.23**	1.15	7.0%

Closing rates

£1 buys	**2012**	2011	Change
US$	**1.62**	1.55	4.5%
Euro	**1.23**	1.20	2.5%

2 Segment analysis

Reportable segments of the Group:

Professional Services – the provision of project management, architectural, design or other technical services performed by the Group as a consultant

Construction Services – activities resulting in the physical construction of an asset

Support Services – activities which support existing assets or functions such as facilities management, asset maintenance and refurbishments

Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as PPP concessions and airports.

2.1 Income statement – performance by activity

	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments 2012 £m	Corporate activities 2012 £m	Total 2012 £m
Revenue including share of joint ventures and associates	**1,668**	**6,959**	**1,633**	**636**	**–**	**10,896**
Share of revenue of joint ventures and associates	**(21)**	**(830)**	**(135)**	**(427)**	**–**	**(1,413)**
Group revenue	**1,647**	**6,129**	**1,498**	**209**	**–**	**9,483**
Underlying group operating profit/(loss) [1]	**97**	**69**	**49**	**29**	**(32)**	**212**
Share of results of joint ventures and associates	**1**	**53**	**3**	**40**	**–**	**97**
Underlying profit/(loss) from operations [1]	**98**	**122**	**52**	**69**	**(32)**	**309**
Non-underlying items						
- amortisation of acquired intangible assets	**(19)**	**(13)**	**(5)**	**(8)**	**–**	**(45)**
- goodwill impairment in respect of Mainland European rail businesses	**–**	**(95)**	**–**	**–**	**–**	**(95)**
- other non-underlying items	**(13)**	**(51)**	**(16)**	**(12)**	**(3)**	**(95)**
Profit/(loss) from operations	**66**	**(37)**	**31**	**49**	**(35)**	**74**
Investment income						**62**
Finance costs						**(61)**
Profit before taxation						**75**

	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m
Revenue including share of joint ventures and associates	1,645	7,050	1,584	756	–	11,035
Share of revenue of joint ventures and associates	(1)	(849)	(140)	(551)	–	(1,541)
Group revenue	1,644	6,201	1,444	205	–	9,494
Underlying group operating profit/(loss) [1]	87	141	63	–	(35)	256
Share of results of joint ventures and associates	–	28	4	43	–	75
Underlying profit/(loss) from operations [1]	87	169	67	43	(35)	331
Non-underlying items						
- amortisation of acquired intangible assets	(30)	(17)	(4)	(11)	–	(62)
- other non-underlying items	(1)	(11)	(14)	–	–	(26)
Profit/(loss) from operations	56	141	49	32	(35)	243
Investment income						57
Finance costs						(54)
Profit before taxation						246

[1] Before non-underlying items (Note 5).

2.2 Assets and liabilities by activity

	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments 2012 £m	Corporate activities 2012 £m	Total 2012 £m
Due from construction contract customers	**187**	**387**	**60**	**–**	**–**	**634**
Due to construction contract customers	**(127)**	**(243)**	**(12)**	**–**	**–**	**(382)**
Inventories and non-construction work in progress	**5**	**79**	**87**	**–**	**1**	**172**
Trade and other receivables – current	**309**	**663**	**208**	**49**	**12**	**1,241**
Trade and other payables – current	**(302)**	**(1,455)**	**(368)**	**(43)**	**(46)**	**(2,214)**
Provisions	**(15)**	**(156)**	**(34)**	**(4)**	**(19)**	**(228)**
Working capital*	**57**	**(725)**	**(59)**	**2**	**(52)**	**(777)**

* Includes non-operating items, current working capital and provisions.

	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments 2012 £m	Corporate activities 2012 £m	Total 2012 £m
Total assets	**864**	**2,268**	**579**	**1,341**	**740**	**5,792**
Total liabilities	**(571)**	**(2,087)**	**(449)**	**(256)**	**(1,120)**	**(4,483)**
Net assets/(liabilities)	**293**	**181**	**130**	**1,085**	**(380)**	**1,309**

2.2 Assets and liabilities by activity continued

	Professional Services 2011 £m	Construction Services 2011 £m	Support Services 2011 £m	Infrastructure Investments 2011 £m	Corporate activities 2011 £m	Total 2011 £m
Due from construction contract customers	165	412	27	–	–	604
Due to construction contract customers	(151)	(415)	(10)	–	–	(576)
Inventories and non-construction work in progress	1	69	69	–	1	140
Trade and other receivables – current	309	794	233	49	25	1,410
Trade and other payables – current	(272)	(1,679)	(355)	(52)	(68)	(2,426)
Provisions	(22)	(156)	(36)	(2)	(21)	(237)
Working capital *	30	(975)	(72)	(5)	(63)	(1,085)

* Includes non-operating items, current working capital and provisions.

	Professional Services 2011 £m	Construction Services 2011 £m	Support Services 2011 £m	Infrastructure Investments 2011 £m	Corporate activities 2011 £m	Total 2011 £m
Total assets	858	2,519	581	1,041	773	5,772
Total liabilities	(566)	(2,414)	(430)	(249)	(850)	(4,509)
Net assets/(liabilities)	292	105	151	792	(77)	1,263

2.3 Other information

	Professional Services 2012 £m	Construction Services 2012 £m	Support Services 2012 £m	Infrastructure Investments 2012 £m	Corporate activities 2012 £m	Total 2012 £m
Capital expenditure on property, plant and equipment	**11**	**23**	**13**	**1**	**1**	**49**
Depreciation	**13**	**27**	**21**	**2**	**1**	**64**
Gain on disposals of interests in PPP joint ventures	**–**	**–**	**–**	**52**	**–**	**52**
	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m	2011 £m
Capital expenditure on property, plant and equipment	9	31	34	2	1	77
Depreciation	12	29	26	2	1	70
Gain on disposals of interests in PPP joint ventures	–	–	–	20	–	20

2.4 Performance by geographic destination

	United Kingdom 2012 £m	United States 2012 £m	Mainland Europe 2012 £m	Rest of world 2012 £m	Total 2012 £m
Revenue including share of joint ventures and associates	**5,319**	**3,543**	**485**	**1,549**	**10,896**
Share of revenue of joint ventures and associates	**(564)**	**(119)**	**(7)**	**(723)**	**(1,413)**
Group revenue	**4,755**	**3,424**	**478**	**826**	**9,483**
	2011 £m	2011 £m	2011 [5] £m	2011 [5] £m	2011 £m
Revenue including share of joint ventures and associates	5,700	3,413	520	1,402	11,035
Share of revenue of joint ventures and associates	(675)	(112)	(26)	(728)	(1,541)
Group revenue	5,025	3,301	494	674	9,494

[5] Re-presented to separately disclose the geographic information relating to Mainland Europe.

2.5 Infrastructure Investments (Balfour Beatty Investments UK and Balfour Beatty Investments US)

Underlying profit from operations [1]	Group 2012 £m	Share of joint ventures and associates [6] 2012 £m	Total 2012 £m	Group 2011 £m	Share of joint ventures and associates [6] 2011 £m	Total 2011 £m
PPP UK ^	**2**	**35**	**37**	1	37	38
PPP US	**12**	**6**	**18**	12	7	19
Infrastructure	**(3)**	**(1)**	**(4)**	(3)	(1)	(4)
Gain on disposals of interests in PPP joint ventures	**52**	**–**	**52**	20	–	20
	63	**40**	**103**	30	43	73
Bidding costs and overheads	**(34)**	**–**	**(34)**	(30)	–	(30)
	29	**40**	**69**	–	43	43

[1] Before non-underlying items (Note 5).
[6] The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Singapore.

3 Investment income

	2012 £m	2011 £m
PPP subordinated debt interest receivable	**24**	25
Interest receivable on PPP financial assets	**31**	25
Other interest receivable and similar income	**7**	7
	62	57

4 Finance costs

		2012 £m	2011 £m
PPP non-recourse	– bank loans and overdrafts	**27**	22
Preference shares	– finance cost	**12**	12
Other interest payable	– loans under committed facilities [7]	**8**	3
	– other bank loans and overdrafts [7]	**3**	6
	– commitment fees	**4**	4
	– other finance charges	**7**	4
Net finance cost on pension scheme assets and liabilities		**–**	3
		61	54

[7] Re-presented to separately disclose interest payable on loans under committed facilities.

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid on 1 July 2012 in respect of the six months ended 30 June 2012 to holders of these shares on the register on 25 May 2012. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share was paid on 1 January 2013 in respect of the six months ended 31 December 2012 to holders of these shares on the register on 23 November 2012.

5 Non–underlying items

	2012 £m	2011 £m
5.1 Operating expenses (charged against)/credited to profit		
Continuing operations		
5.1.1 Amortisation of acquired intangible assets	**(45)**	(62)
5.1.2 Other non-underlying items		
– goodwill impairment in respect of Mainland European rail businesses	**(95)**	–
– other restructuring charges in respect of Mainland European rail businesses	**(9)**	–
– restructuring and reorganisation costs relating to other existing businesses	**(61)**	–
– post-acquisition integration, reorganisation and other costs	**(9)**	(4)
– write-down of investment in Exeter International Airport	**(12)**	–
– cost of implementing UK shared service centre	**(4)**	(12)
– acquisition related expenses	**–**	(3)
– loss on disposal of UK specialist rail manufacturing business	**–**	(7)
Total other non-underlying items	**(190)**	(26)
Charged against profit before taxation	**(235)**	(88)
5.2 Tax on items above	**39**	27
Non-underlying items charged against profit for the year from continuing operations	**(196)**	(61)
Discontinued operation		
5.3 Barking		
– dividends received	**–**	5
– loss on disposal of Barking	**–**	(1)
	–	4
Charged against profit for the year	**(196)**	(57)

5 Non–underlying items continued

5.1.1 The amortisation of acquired intangible assets comprises: customer contracts £16m (2011: £24m); customer relationships £19m (2011: £27m); and brand names £10m (2011: £11m).

5.1.2.1 Following a strategic review in the light of low activity levels and the commoditisation of work, the Group has decided to divest all of its Mainland European rail businesses over time. As a result, £95m (2011: £nil) of goodwill in Mainland European rail businesses has been impaired, comprising: Germany £80m; Scandinavia £12m; and Spain £3m. Refer to Note 10.

5.1.2.2 In addition to the goodwill impairment, restructuring costs of £9m (2011: £nil) were incurred during the year in respect of the Mainland European rail businesses.

5.1.2.3 The Group is restructuring a number of its other businesses in order to increase its focus on the needs of customers and upon growth sectors, further integrate its service offering to these customers, and realise operational efficiencies. In 2012 restructuring costs of £61m were incurred (2011: £nil) relating to: Construction Services UK £34m, where six business units will be streamlined and restructured into one business with three business streams; Support Services UK £7m; other UK entities £10m; and other non-UK entities £10m. These 2012 restructuring costs comprise: redundancy costs £20m; external advisers £10m; impairment of land and buildings £5m; other property related costs £11m; pension curtailment cost £2m; and other restructuring costs £13m.

5.1.2.4 Post-acquisition integration and reorganisation costs of £9m (2011: £4m) have been incurred in 2012, of which £8m (2011: £nil) relates to a liability in respect of a geotechnical survey carried out by a company acquired by Parsons Brinckerhoff, prior to its own acquisition by Balfour Beatty in 2009. The remaining £1m comprises: £1m (2011: £1m) relating to Parsons Brinckerhoff post-acquisition reorganisation costs; £nil (2011: £1m) relating to SpawMaxwell; £nil (2011: £1m) relating to Rok; and £nil (2011: £1m) relating to various other acquisitions.

5.1.2.5 An impairment charge of £12m (2011: £nil) arose on the Group's 60% interest in Regional & City Airports (Exeter) Holdings Ltd from writing the carrying value of the Group's joint venture investment down to £nil, as a result of the continued effect of adverse economic conditions upon traffic at regional airports, which was exacerbated by an increase in Air Passenger Duty effective from April 2012.

5.1.2.6 The implementation of the UK shared service centre in Newcastle-upon-Tyne during 2012 led to incremental costs of £4m (2011: £12m) being incurred.

5.1.2.7 No significant costs were incurred in the acquisition of Subsurface on 31 December 2012. Costs of £3m were incurred during 2011 which were directly attributable to the following acquisitions: Romec Services Ltd £1m; Fru-Con £1m; and Howard S. Wright £1m.

5.1.2.8 The UK specialist rail manufacturing business was sold during 2011. A loss of £7m arose on the sale which comprises: a loss on the disposal of the rail business operations of £4m, including writing off £7m goodwill; and an onerous lease liability of £3m due to a property becoming vacant.

5 Non–underlying items continued

5.1.2.9 In addition to the items included above during 2011, a net £nil non-underlying item arose in respect of Romec Services Ltd comprising: revaluation of the existing 49% stake on step acquisition £13m; service credit £(4)m; and preference dividend to Royal Mail Group £(9)m.

5.2 The non-underlying items charged against Group operating profit have given rise to a tax credit of £39m, comprising: £14m on amortisation of acquired intangible assets; and £25m on other non-underlying items (2011: £27m comprising: £23m on amortisation of acquired intangible assets; and £4m on other non-underlying items).

5.3 On 2 March 2011 it was resolved to dispose of the Group's effective 25.5% interest in Barking Power Ltd (Barking), which became a discontinued operation with all items from this date classified as non-underlying items. Subsequent to 2 March 2011, dividends of £5m were received by the Group. On 21 December 2011 the Group disposed of its interest in Barking which resulted in a loss on disposal of £1m after transaction costs. Refer to Note 7.

6 Taxation

	Underlying Items [1] 2012 £m	Non-underlying items (Note 5) 2012 £m	Total 2012 £m	Total 2011 £m
Total UK tax	**17**	**(21)**	**(4)**	25
Total non-UK tax	**53**	**(18)**	**35**	39
Total tax charge/(credit)	**70**	**(39)**	**31**	64
UK current tax				
- corporation tax for the year at 24.5% (2011: 26.5%)	**15**	**(14)**	**1**	–
- adjustments in respect of previous periods	**(3)**	**–**	**(3)**	–
	12	**(14)**	**(2)**	–
Non-UK current tax				
- non-UK tax on profits for the year	**31**	**4**	**35**	24
- adjustments in respect of previous periods	**2**	**–**	**2**	(8)
	33	**4**	**37**	16
Total current tax	**45**	**(10)**	**35**	16
UK deferred tax				
- current year charge/(credit)	**3**	**(7)**	**(4)**	22
- adjustments in respect of previous periods	**(1)**	**–**	**(1)**	1
- UK corporation tax rate change	**3**	**–**	**3**	2
	5	**(7)**	**(2)**	25
Non-UK deferred tax				
- current year charge/(credit)	**27**	**(22)**	**5**	14
- adjustments in respect of previous periods	**(7)**	**–**	**(7)**	9
	20	**(22)**	**(2)**	23
Total deferred tax	**25**	**(29)**	**(4)**	48

1 Before non-underlying items (Note 5).

In addition to the Group tax charge, tax of £70m is charged directly to equity (2011: £12m), comprising a deferred tax credit of £15m (2011: £12m charge); a current tax credit of £1m (2011: £1m charge); and a deferred tax charge in respect of joint ventures and associates of £86m (2011: £1m credit).

7 Discontinued operation

On 2 March 2011 the Directors resolved to dispose of the Group's effective 25.5% interest in Barking Power Ltd (Barking) and accordingly, from 2 March 2011, the Group's interest in Barking was classified as a discontinued operation held for sale.

Barking was previously accounted for as an associate using the equity method. Subsequent to classification as a discontinued operation, equity accounting was no longer applied and all income and expenses relating to Barking were classified as non-underlying items.

On 21 December 2011 the Group disposed of its effective 25.5% interest in Barking to the Balfour Beatty Pension Fund (BBPF) for its carrying value of £55m. Transaction costs of £1m were incurred in respect of the disposal resulting in a £1m loss on disposal.

The £55m proceeds from the disposal of Barking to the BBPF and the £55m one-off BBPF deficit contribution were net settled.

Barking was part of the Infrastructure Investments segment.

8 Earnings per ordinary share

	2012		2011	
Earnings	**Basic £m**	**Diluted £m**	Basic £m	Diluted £m
Continuing operations				
Earnings	**44**	**44**	182	182
Amortisation of acquired intangible assets - net of tax credit of £14m (2011: £23m)	**31**	**31**	39	39
Other non-underlying items - net of tax credit of £25m (2011: £4m)	**165**	**165**	22	22
Underlying earnings	**240**	**240**	243	243
Discontinued operation				
Earnings	**–**	**–**	4	4
Other non-underlying items - net of tax of £nil (2011: £nil)	**–**	**–**	(4)	(4)
Underlying earnings	**–**	**–**	–	–
Total operations				
Earnings	**44**	**44**	186	186
Amortisation of acquired intangible assets - net of tax credit of £14m (2011: £23m)	**31**	**31**	39	39
Other non-underlying items - net of tax credit of £25m (2011: £4m)	**165**	**165**	18	18
Underlying earnings	**240**	**240**	243	243

	Basic m	**Diluted m**	Basic m	Diluted m
Weighted average number of ordinary shares	**684**	**685**	683	684

Earnings per share	**Basic pence**	**Diluted pence**	Basic pence	Diluted pence
Continuing operations				
Earnings per ordinary share	**6.5**	**6.5**	26.7	26.7
Amortisation of acquired intangible assets	**4.4**	**4.4**	5.7	5.7
Other non-underlying items	**24.1**	**24.1**	3.1	3.1
Underlying earnings per ordinary share	**35.0**	**35.0**	35.5	35.5
Discontinued operation				
Earnings per ordinary share	**–**	**–**	0.6	0.6
Other non-underlying items	**–**	**–**	(0.6)	(0.6)
Underlying earnings per ordinary share	**–**	**–**	–	–
Total operations				
Earnings per ordinary share	**6.5**	**6.5**	27.3	27.3
Amortisation of acquired intangible assets	**4.4**	**4.4**	5.7	5.7
Other non-underlying items	**24.1**	**24.1**	2.5	2.5
Underlying earnings per ordinary share	**35.0**	**35.0**	35.5	35.5

9 Dividends on ordinary shares

	2012		2011	
	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the year				
Interim – current year	**5.6**	**38**	5.3	36
Final – current year	**8.5**	**58**	8.5	58
	14.1	**96**	13.8	94
Recognised dividends for the year				
Final – prior year		**58**		52
Interim – current year		**38**		36
		96		88

The interim 2012 dividend was paid on 7 December 2012. Subject to approval at the Annual General Meeting on 16 May 2013, the final 2012 dividend will be paid on 5 July 2013 to holders on the register on 26 April 2013. The ordinary shares will be quoted ex-dividend on 24 April 2013.

	2012 £m	2011 £m
Dividends on ordinary shares of the Company	**96**	88
Other dividends to non-controlling interests	**1**	–
Total recognised dividends for the year	**97**	88

10 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2012	1,325	(46)	1,279
Currency translation differences	**(34)**	**2**	**(32)**
Impairment charges in respect of Mainland European rail businesses (Note 5)	**–**	**(95)**	**(95)**
Business acquired (Note 18.1)	**9**	**–**	**9**
Businesses acquired – prior year (Note 18.2)	**(1)**	**–**	**(1)**
At 31 December 2012	**1,299**	**(139)**	**1,160**

Carrying amounts of goodwill by segment

	United Kingdom 2012 £m	United States 2012 £m	Mainland Europe 2012 £m	Rest of world 2012 £m	Total 2012 £m	United Kingdom 2011 £m	United States 2011 £m	Mainland Europe 2011 [5] £m	Rest of world 2011 [5] £m	Total 2011 £m
Professional Services	**10**	**169**	**1**	**57**	**237**	10	166	1	60	237
Construction Services	**329**	**362**	**61**	**–**	**752**	329	379	162	–	870
Support Services	**125**	**–**	**–**	**–**	**125**	125	–	–	–	125
Infrastructure Investments	**4**	**42**	**–**	**–**	**46**	4	43	–	–	47
	468	**573**	**62**	**57**	**1,160**	468	588	163	60	1,279

[5] Re-presented to separately disclose the geographic information relating to Mainland Europe.

The recoverable amount of goodwill is based on value in use. Cash flow forecasts are based on the expected workload of each cash-generating unit (CGU) giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years (2011: four years) are based on the Group's 2013 budget and strategic roadmap. The other key inputs in assessing each CGU are its revenue growth rate and discount rate. The revenue growth rates have been applied to cash flows after three years (2011: four years) into perpetuity and have been derived from estimated GDP growth rates based on published data for the economic environment of each CGU less 1.0% to reflect current economic uncertainties and their consequent estimated effect on public sector spending on infrastructure. The cash flows assume a residual value based on a multiple of earnings before interest and tax.

10 Intangible assets – goodwill

The cash flows have been discounted using CGU specific pre-tax discount rates of 9.0% to 13.7% (2011: 10.3% to 13.4%). The discount rates are revised annually applying updated market inputs to the capital asset pricing model.

	United Kingdom 2012 %	United States 2012 %	Mainland Europe 2012 %	Rest of world 2012 %	United Kingdom 2011 %	United States 2011 %	Mainland Europe 2011 [5] %	Rest of world 2011 [5] %
Inflation rate	**2.2**	**2.2**	**2.2**	**2.2**	2.0	1.7	2.0	1.7
Real growth rate	**1.3**	**1.7**	**0.3**	**2.1**	1.7	2.4	0.5	2.4
Nominal long term revenue growth rate applied	**3.5**	**3.9**	**2.5**	**4.3**	3.7	4.1	2.5	4.1

5 Re-presented to separately disclose the geographic information relating to Mainland Europe.

Following a strategic review in the light of low activity levels and the commoditisation of work, the Group has decided to divest all of its Mainland European rail businesses over time. As a result, £95m (2011: £nil) of goodwill in Mainland European rail businesses has been impaired, comprising: Germany £80m; Scandinavia £12m; and Spain £3m. The residual goodwill in the CGU is £61m.

Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the discount rate and the revenue growth rate.

Except as noted below, a reasonably possible change in a single assumption will not give rise to further impairment in any of the Group's CGUs.

Following the impairment in Mainland European rail businesses using a discount rate of 9.2% and revenue growth rate of 2.5% the recoverable amount of goodwill is £61m based on value in use, with a consequent headroom of £nil. A 1.0% increase in the discount rate or a 1.0% reduction in the growth rate would lead to a further impairment of £16m or £13m respectively.

The recoverable amount of the Blackpool International Airport goodwill is £4m with headroom of £nil, based on the value in use of the trading business and the fair value of the land. Any decrease in the fair value of the land will lead to a commensurate impairment of the goodwill.

11 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2012	478	(239)	239
Currency translation differences	**(15)**	**9**	**(6)**
Additions	**25**	**–**	**25**
Business acquired (Note 18.1)	**3**	**–**	**3**
Charge for the year	**–**	**(49)**	**(49)**
At 31 December 2012	**491**	**(279)**	**212**

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

12 Joint ventures and associates

	2012						
				Infrastructure Investments			
	Professional Services £m	Construction Services £m	Support Services £m	UK PPP ^ £m	US PPP £m	Infrastructure £m	Total £m
Revenue	21	830	135	422	–	5	1,413
Underlying operating profit [1]	1	57	3	19	6	–	86
Investment income	–	1	–	180	–	–	181
Finance costs	–	–	–	(155)	–	(2)	(157)
Profit/(loss) before taxation	1	58	3	44	6	(2)	110
Taxation	–	(5)	–	(9)	–	1	(13)
Profit/(loss) after taxation	1	53	3	35	6	(1)	97
Intangible assets							
- goodwill	–	30	–	–	–	12	42
- PPP concession intangible	–	–	–	18	–	–	18
- other	–	2	–	1	–	–	3
Property, plant and equipment	–	41	7	1	–	13	62
PPP financial assets	–	–	–	2,641	–	–	2,641
Military housing projects [6]	–	–	–	–	65	–	65
Net cash /(borrowings)	5	157	9	(1,718)	–	(36)	(1,583)
Other net assets/(liabilities)	(4)	(106)	(8)	(415)	–	11	(522)
Net assets	1	124	8	528	65	–	726

^ Including Singapore.

1 Before non-underlying items (Note 5).

6 The Group's investment in joint ventures' and associates' military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

12 Joint ventures and associates continued

	2011						
				Infrastructure Investments			
	Professional Services £m	Construction Services £m	Support Services £m	UK PPP ^ £m	US PPP £m	Infrastructure £m	Total £m
Revenue	1	849	140	536	2	13	1,541
Underlying operating profit [1]	–	31	4	12	7	1	55
Investment income	–	1	–	184	–	–	185
Finance costs	–	–	–	(148)	–	(3)	(151)
Profit/(loss) before taxation	–	32	4	48	7	(2)	89
Taxation	–	(4)	–	(11)	–	1	(14)
Profit/(loss) after taxation	–	28	4	37	7	(1)	75
Intangible assets							
- goodwill	–	31	–	–	–	24	55
- PPP concession intangible	–	–	–	19	–	–	19
- other	–	–	–	1	–	–	1
Property, plant and equipment	–	42	1	–	–	11	54
PPP financial assets	–	–	–	2,481	–	–	2,481
Military housing projects [6]	–	–	–	–	55	–	55
Net cash /(borrowings)	3	145	9	(1,795)	–	(35)	(1,673)
Other net assets/(liabilities)	(2)	(124)	1	(407)	1	5	(526)
Net assets	1	94	11	299	56	5	466

^ Including Singapore.
[1] Before non-underlying items (Note 5).
[6] The Group's investment in joint ventures' and associates' military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

13 Trade and other receivables – current

	2012 £m	2011 [8] £m
Trade receivables [8]	**851**	970
Less: Provision for impairment of trade receivables	**(29)**	(46)
	822	924
Other receivables [8]	**69**	124
Due from joint ventures and associates	**38**	24
Due from jointly controlled operations	**1**	2
Contract retentions receivable	**199**	244
Accrued income	**38**	34
Prepayments	**74**	58
	1,241	1,410

[8] Re-presented to separately identify trade receivables and other receivables which were previously disclosed as trade receivables (Note 1.5).

14 Trade and other payables – current

	2012 £m	2011 £m
Trade and other payables	**900**	1,183
Accruals	**1,130**	1,052
Deferred income	**15**	32
Advance payments on contracts *	**19**	18
VAT, payroll taxes and social security	**108**	114
Due to joint ventures and associates	**15**	8
Dividends on preference shares	**5**	5
Due on acquisitions	**22**	14
	2,214	2,426

* Includes £14m (2011: £12m) advances on construction contracts.

15 Retirement benefit liabilities

The latest actuarial funding valuations of the Group's principal defined benefit schemes have been updated by the actuaries to 31 December 2012 on the basis prescribed by IAS 19. In particular, scheme obligations have been discounted using the rate of return on high quality corporate bonds rather than the expected rate of return on the assets in the scheme used in the funding valuations.

During the year ended 31 December 2011 the Group made a pension increase exchange (PIE) offer to certain current pensioners, widows and widowers of the Balfour Beatty Pension Fund (BBPF) to forego their entitlement to future non-statutory inflationary increases in return for a higher pension than their current entitlement. At 31 December 2011, 509 members had accepted the PIE offer, resulting in a £2m reduction in obligations and a consequential past service cost credit of £2m in 2011. The offer closed in February 2012 resulting in an additional £2m reduction to the pension obligation and a consequential net past service cost credit of £2m in 2012.

Following the formal triennial funding valuation of the BBPF carried out as at 31 March 2010, the Group agreed to certain one-off deficit funding contributions and to increase the amount of ongoing deficit payments to the BBPF to £48m per annum from April 2010, increasing each year by CPI (capped at 5%) plus 50% of any increase in the Company's dividend in excess of capped CPI. In December 2011 a one-off deficit funding contribution of £55m was made.

In anticipation of the formal triennial funding valuation as at 31 March 2013, the Group has agreed to make additional conditional deficit contributions of £1m per month, payable quarterly in arrears, if the BBPF funding levels in any given month are below certain self-funding targets set out in the BBPF journey plan. The first payment was made in January 2013.

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 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 obligations. 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 obligations and enhance the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

On 21 December 2011, the BBPF acquired the Group's effective 25.5% interest in Barking Power Ltd at its carrying value of £55m. Refer to Note 7.

During the year ended 31 December 2012, Parsons Brinckerhoff Ltd operated a defined benefit scheme which has been closed to new members (Parsons Brinckerhoff Scheme) since 31 July 2003. On 28 June 2012 the Parson Brinckerhoff Scheme released its legal charge over a Group leasehold property with a book value of £4m at 31 December 2011 in return for a one-off deficit contribution of £2.5m. On 30 June 2012 the Parsons Brinckerhoff Scheme merged with the BBPF and agreed to make additional deficit payments of £11m per annum to the BBPF, with the first payment made in October 2012.

In the year ended 31 December 2012, the Group reassessed the difference between the RPI and CPI measures of price inflation from 0.90% to 0.70%.The reduction was applied following consideration of proposals made by the Office for National Statistics to change the method to calculate RPI and independent advice received from the Group's actuaries. This change in assumptions gave rise to a £25m actuarial increase in obligations which was charged to equity in the statement of comprehensive income.

15 Retirement benefit liabilities continued

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes

	2012		2011		
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Parsons Brinckerhoff Scheme %
Discount rate on obligations	**4.40**	**4.40**	4.85	4.85	4.85
Expected return on plan assets	**5.10**	**6.05**	5.20	5.85	5.30
Inflation rate - RPI	**2.90**	**2.90**	2.95	2.95	2.95
- CPI	**2.20**	**2.20**	2.05	2.05	2.05
Future increases in pensionable salary					
– certain members of the BBPF whose increase in pensionable pay is limited	**–**	**–**	–	–	–
– certain other members of the BBPF that have a protected right to a defined benefit membership	**2.20**	**–**	4.45	–	–
– other members	**4.40**	**2.20**	4.45	3.95	–
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.80**	**2.20**	2.85	2.05	3.00
	Number	**Number**	Number	Number	Number
Total number of defined benefit members	**37,877**	**3,226**	35,879	3,237	2,190

The mortality assumptions as at 31 December 2012 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 1997 to 31 March 2012. The mortality tables adopted for the 2012 and 2011 IAS 19 valuations are the SAPS tables with a multiplier of 90% (2011: 94%) for males and 103% (2011: 103%) for females and an improvement rate of 1.6% pa from 2004 to 2013 (2011: 1.5% pa from 2003 to 2010), plus future improvements from 2013 (2011: 2010) in line with the CMI core projection model applicable to each member's year of birth with a long term rate of 1.25% pa for males and 1.00% pa for females (2011: 1.5% pa for both males and females).

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

The demographic of the former members of the Parsons Brinckerhoff Scheme is different to that of other members and allowance has been made for approximately three further years of life expectancy for these members of the BBPF.

	2012		2011	
	Average life expectancy at 65 years of age		Average life expectancy at 65 years of age	
Former members of the Parsons Brinckerhoff Scheme	**Male**	**Female**	Male	Female
Members in receipt of a pension	**24.6**	**27.0**	24.7	27.3
Members not yet in receipt of a pension (current age 50)	**26.0**	**28.2**	26.5	29.2

15 Retirement benefit liabilities continued

Amounts recognised in the Statement of Financial Position

	2012				2011				
	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Other schemes ^ £m	Total £m	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Parsons Brinckerhoff Scheme £m	Other schemes ^ £m	Total £m
Present value of obligations	**(2,863)**	**(189)**	**(99)**	**(3,151)**	(2,465)	(174)	(187)	(89)	(2,915)
Fair value of plan assets	**2,665**	**147**	**1**	**2,813**	2,370	141	127	2	2,640
Liability in the statement of financial position	**(198)**	**(42)**	**(98)**	**(338)**	(95)	(33)	(60)	(87)	(275)

^ Available-for-sale investments in mutual funds of £52m (2011: £50m) are held by the Group to satisfy the Group's deferred compensation obligations.

The defined benefit obligation comprises £97m (2011: £87m) arising from wholly unfunded plans and £3,054m (2011: £2,828m) arising from plans that are wholly or partly funded.

Movements in the retirement benefit liabilities for the year		2012 £m
At 1 January 2012		(275)
Currency translation differences		**2**
Current service cost		**(48)**
Past service cost credit		**2**
Curtailment cost (Note 5)		**(2)**
Interest cost		**(137)**
Expected return on plan assets		**137**
Contributions from employer	– regular funding	**35**
	– ongoing deficit funding	**58**
	– one-off deficit funding	**3**
Benefits paid		**8**
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**(25)**
	– on obligations from the change in the mortality assumptions	**49**
	– on obligations from other movements	**(218)**
	– on assets	**73**
At 31 December 2012		**(338)**

The BBPF includes a defined contribution section with 10,373 members at 31 December 2012 (2011: 8,953 members) with £35m (2011: £33m) of contributions paid and charged in the income statement in respect of this section.

The total net pension cost recognised in the income statement in respect of employee service for defined benefit and defined contribution schemes was £104m (2011: £108m).

Sensitivity of the Group's retirement benefit obligations at 31 December 2012 to different actuarial assumptions

Obligations	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Increase in discount rate	**0.5%**	**(7.9)%**	**(241)**
Increase in market expectation of RPI inflation	**0.5%**	**6.6%**	**202**
Increase in salary growth	**0.5%**	**0.2%**	**7**
Increase in life expectancy	**1 year**	**3.5%**	**106**

Sensitivity of the Group's retirement benefit assets at 31 December 2012 to changes in market conditions

Assets	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	(5.2)%	(146)
Increase in market expectation of RPI inflation	**0.5%**	3.4%	96

16 Share capital

During the year ended 31 December 2012, 866,427 (2011: 665,516) ordinary shares were issued following the exercise of savings-related share options and 229,220 (2011: 302,586) ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £2m (2011: £3m).

17 Notes to the statement of cash flows

17.1 Cash (used in)/generated from operations		Total 2012 £m	Total 2011 £m
Profit from continuing operations		**74**	243
Profit from discontinued operation		**–**	4
Share of results of joint ventures and associates	– continuing operations	**(97)**	(75)
Dividends received – discontinued operation		**–**	(5)
Depreciation of property, plant and equipment		**64**	70
Amortisation of other intangible assets		**49**	66
Pension deficit payments	– ongoing deficit funding	**(58)**	(58)
	– one-off deficit funding	**(3)**	–
Pension past service cost credit		**(2)**	(2)
Pension curtailment cost		**2**	–
Movements relating to share-based payments		**6**	6
Profit on disposal of investments in joint ventures		**(52)**	(20)
Profit on disposal of property, plant and equipment		**(7)**	(4)
Loss on disposal of Barking		**–**	1
Loss on disposal of UK specialist rail manufacturing business		**–**	7
Write-down of investment in Exeter International Airport		**12**	–
Goodwill impairment in respect of Mainland European Rail		**95**	–
Impairment of property, plant and equipment		**5**	–
Impairment of inventory		**4**	2
Other non-cash items		**(1)**	1
Operating cash flows before movements in working capital		**91**	236
Increase in operating working capital		**(310)**	(201)
Cash (used in)/generated from operations		**(219)**	35

17.2 Cash and cash equivalents	2012 £m	2011 £m
Cash and deposits	**515**	574
Term deposits	**2**	3
Bank overdrafts	**(10)**	(15)
	507	562
PPP cash balances	**25**	18
	532	580

17.3 Analysis of net cash/(borrowings)

		2012 £m	2011 £m
Cash and cash equivalents, excluding PPP cash balances		**507**	562
Loans under committed facilities expiring in less than one year [7]		**–**	(32)
Loans under committed facilities expiring in more than one year [7]		**(410)**	(180)
Other loans		**(58)**	(2)
Finance leases		**(4)**	(8)
		35	340
PPP non-recourse project finance	– sterling floating rate term loan (2008–2027)	**(22)**	(22)
	– sterling floating rate term loan (2011–2030)	**(24)**	(25)
	– sterling floating rate term loan (2012–2031)	**(25)**	(24)
	– sterling floating rate term loan (2010–2034)	**(170)**	(167)
	– sterling floating rate term loan (2016–2035)	**(19)**	(7)
	– sterling floating rate term loan (2016–2035)	**(10)**	(3)
	– sterling floating rate term loan (2016–2036)	**(11)**	(3)
	– sterling floating rate term loan (2012–2037)	**(68)**	(76)
	– sterling floating rate term loan (2013–2037)	**(44)**	(23)
		(393)	(350)
PPP cash and cash equivalents		**25**	18
		(368)	(332)
Net (borrowings)/cash		**(333)**	8

[7] Re-presented to separately disclose loans under committed facilities.

17.4 Analysis of movement in net (borrowings)/cash

	PPP 2012 £m	Other 2012 £m	Total 2012 £m	Total 2011 £m
Opening net (borrowings)/cash	**(332)**	**340**	**8**	248
Currency translation differences	**–**	**(17)**	**(17)**	(2)
Net increase/(decrease) in cash and cash equivalents	**7**	**(38)**	**(31)**	32
Proceeds from new loans	**(64)**	**(286)**	**(350)**	(282)
Repayment of loans	**21**	**32**	**53**	8
Repayment of finance leases	**–**	**4**	**4**	4
Closing net (borrowings)/cash	**(368)**	**35**	**(333)**	8

17.5 Borrowings

During the year ended 31 December 2012 the significant movements in borrowings were a drawdown of short term loans of £286m (2011: £212m); repayment of other short term loans of £32m (2011: £nil); a £5m net decrease (2011: £19m decrease) in bank overdrafts; an increase of £64m (2011: £70m increase) in non-recourse loans funding the development of financial assets in PPP subsidiaries; and repayment of £21m (2011: £8m) of non-recourse PPP loans.

18 Acquisitions and disposals

18.1 Current year acquisitions

Note	Acquisition date	Subsidiary	Percentage acquired	Cash consideration £m	Deferred/ contingent consideration £m	Fair values of net assets acquired £m	Goodwill arising on acquisition £m	Costs (ii) £m
18.1.1	31 December 2012	Subsurface (i)(iii)	100%	1	9	1	9	–

i) As at 31 December 2012 the fair values of acquired assets, liabilities and goodwill for this business have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair values of the acquired net assets.
ii) Costs directly attributable to the acquisition have been expensed within non-underlying items, refer to Note 5.
iii) Goodwill is not expected to be deductible for income tax purposes.

18.1.1 On 31 December 2012 the Group acquired 100% of Subsurface Group Inc (Subsurface) for consideration of £10m, of which £1m was paid in cash before the year end and £8m was paid on 14 January 2013. £1m is payable over three years subject to certain provisions of the purchase agreement.

The maximum consideration payable is £11m however the final purchase price is contingent on the closing statement of financial position, before fair value adjustments, and achieving a working capital and property, plant and equipment target value. The estimated consideration payable based on the provisional statement of financial position at 31 December 2012 is £10m.

The acquisition of Subsurface enhances the Group's capabilities in injection waste wells and depleted aquifer and reservoir storage. The provisional fair value of net liabilities acquired was £(2)m, intangible assets arising were £3m and goodwill of £9m has been recognised.

18.2 Prior year acquisitions

18.2.1 The fair values of the acquired assets and liabilities disclosed as provisional at 31 December 2011 in respect of Fru-Con Construction LLC; and Howard S. Wright were finalised during 2012, giving rise to a decrease in both goodwill and amounts due to construction contract customers of £1m which is disclosed in the current year.

18.2.2 The fair values of all other assets and liabilities previously disclosed as provisional at 31 December 2011 have been finalised with no material changes.

18.2.3 Deferred consideration paid during 2012 in respect of acquisitions completed in earlier years was £3m.

18.3 Current year disposals

18.3.1 On 1 February 2012, the Group disposed of its 50% interest in the shares and loan notes issued by Transform Schools (North Lanarkshire) Holdings Ltd for a cash consideration of £18m. This disposal resulted in a gain of £8m being recognised within underlying operating profit, comprising a loss of £2m in respect of the disposal of the investment in the joint venture and a gain of £10m in respect of revaluation reserves recycled to the income statement.

18.3.2 On 11 May 2012 the Group disposed of its 33.3% interest in the shares and loan notes issued by Health Management (UCLH) Holdings Ltd (HMU) for an agreed cash consideration of £66m. On this date the Group ceased to jointly control HMU by virtue of a put/call structure with a preferred bidder. The other shareholders in HMU exercised pre-emption provisions in the shareholders' agreement and the disposal was completed on 11 July 2012.

As a consequence of the disposal, £2m was donated to the UCLH Charity and treated as a cost of disposal. This donation would not have taken place had the disposal of HMU not taken place. Additional transaction costs of £1m were incurred in respect of the disposal. The disposal resulted in a net gain of £44m being recognised within underlying operating profit, comprising a gain of £6m in respect of the disposal of the investment in the joint venture and a £38m gain in respect of revaluation reserves recycled to the income statement.

18.4 Prior year disposals

18.4.1 On 3 May 2011, the Group disposed of its UK specialist rail manufacturing business for £37m. The fair value of net assets disposed comprise property, plant and equipment £26m and working capital £8m. No cash and cash equivalents were disposed. A total loss on disposal of £7m, including £7m goodwill written off and an onerous lease provision of £3m, was recognised within non-underlying items.

18.4.2 On 23 June 2011 the Group disposed of a 60% interest in its Connect Roads Ltd joint venture for a cash consideration of £16m. Connect Roads Ltd holds a 100% interest in Connect A50 Ltd. The disposal resulted in a total gain of £14m being recognised in underlying operating profit, comprising £8m in respect of the gain on disposal of the investment in the joint venture and £6m in respect of revaluation reserves recycled to the income statement. The Group retains a 25% interest in Connect Roads Ltd following the transaction.

18.4.3 On 7 November 2011 the Group disposed of its 50% interest in the shares and loan notes issued by Consort Healthcare Blackburn (Holdings) Ltd for a cash consideration of £12m. This resulted in a gain on disposal of £6m being recognised in underlying operating profit. There were no revaluation reserves relating to Consort Healthcare Blackburn (Holdings) Ltd.

18.4.4 On 21 December 2011 the Group disposed of its effective 25.5% interest in Barking Power Ltd at its carrying value of £55m. Transaction costs of £1m were incurred resulting in a £1m loss on disposal being recognised within non-underlying items.

18.5 Contingent consideration arrangements

Contingent consideration recoverable/(payable)	Parsons Brinckerhoff £m	Howard S. Wright £m	SpawMaxwell £m	Subsurface £m	Total £m
At 31 December 2011	16	(7)	(3)	–	6
Movements/discount unwind	**–**	**(2)**	**2**	**(1)**	**(1)**
At 31 December 2012	**16**	**(9)**	**(1)**	**(1)**	**5**

The fair value of the contingent consideration arrangements is estimated by applying the provisions of the purchase agreement to management’s assessment of possible outcomes and discounting the expected contract costs and insurance claim proceeds to their present value. The maximum amount that the Group could be required to pay or receive under the terms of the contingent consideration arrangements is £11m payable or £16m receivable in respect of Parsons Brinckerhoff; £9m payable in respect of Howard S. Wright; £3m payable in respect of SpawMaxwell; and £1m payable in respect of Subsurface.

In addition to the amounts shown above, at 31 December 2012 £2m (2011: £4m) and £1m (2011: £1m) relating to the acquisitions of Power Efficiency and Office Projects respectively are held in escrow to be paid in 2013 subject to certain provisions of the purchase agreement.

19 Contingent liabilities

The Group and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of their share of certain contractual obligations of joint ventures and associates and certain retirement benefit liabilities of the Balfour Beatty Pension Fund and the Railways Pension Scheme. Where such agreements are entered into they are considered to be and are accounted for as insurance arrangements. Guarantees are treated as contingent liabilities until such time as it becomes probable payment will be required under the terms of the guarantee.

Provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

20 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £1,018m (2011: £851m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amount due from joint ventures and associates from trading activities was £40m (2011: £26m). The amount due to joint ventures and associates from trading activities was £40m (2011: £33m).

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £8m in 2012 (2011: £6m).

21 Principal risks and uncertainties

The nature of the principal risks and uncertainties which could adversely affect the Group's performance and its ability to achieve its strategic objectives include: external risks arising from the continued effects of the global economic downturn and the evolving legal and regulatory environments in which the Group operates; strategic risks which may arise as the Group expands through acquisitions and moves into new territories; organisation and management risks including business conduct and people related risks; and operational risks arising from bidding, project execution and health, safety and sustainability matters.

In certain of our markets infrastructure spending by governments and other customers continues to be depressed and this has increased the intensity of competition, which in turn has put pressure on margins.

22 Events after the reporting date

Infrastructure Fund

In January 2013, the Balfour Beatty Infrastructure Partners Fund reached first close with US$317m of commitments, of which Balfour Beatty has committed US$110m. In February 2013, the commitments increased to US$420m and subsequent levels of close are expected during 2013, ultimately reducing the Group's share in the fund to around 10%. Drawdowns will depend on the timing of investments by the fund, but Balfour Beatty expects its commitment to be invested over the next three to four years.

The fund will make investments in predominantly brownfield operational assets in its key target sectors of transport, energy and utilities across the UK, Europe, and North America.

Bilateral facility

In February 2013 the BNP Paribas Fortis bilateral facility maturing in April 2013 was extended to April 2018 and increased from £50m to £75m.

US private placement

In March 2013 the Group raised US$350m through a US private placement of a series of notes with an average coupon of 4.94% over an average of 9.3 years.

The Group has designated the US$ denominated borrowings as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements.

Disposal of Rail Spain

In March 2013, as the initial step in executing its policy of divesting its Mainland European rail businesses, the Group sold its Spanish rail engineering business to its local management.