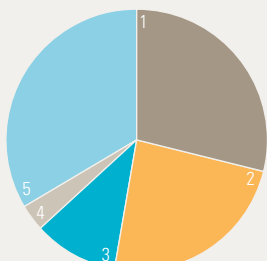


# Directors' valuation of PPP concessions

### Our portfolio

Equity committed by sector

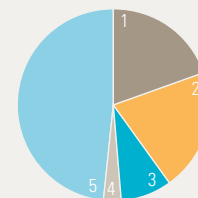
	2008	2007
1 Connect: 9 projects	<b>£149m</b>	£68m
2 Consort: 9 projects	<b>£123m</b>	£123m
3 Transform: 8 projects	<b>£54m</b>	£48m
4 Other: 4 projects	<b>£17m</b>	£12m
5 BB Communities: 17 projects	<b>£173m</b>	–
	<b>£516m</b>	£251m



### Our portfolio

Cash invested by December 2008

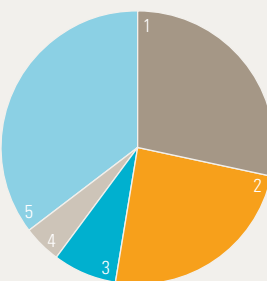
	2008	2007
1 Connect: 9 projects	<b>£59m</b>	£56m
2 Consort: 9 projects	<b>£62m</b>	£62m
3 Transform: 8 projects	<b>£26m</b>	£18m
4 Other: 4 projects	<b>£9m</b>	£8m
5 BB Communities: 17 projects	<b>£146m</b>	–
	<b>£302m</b>	£144m



### Portfolio valuation: December 2008

Value by sector

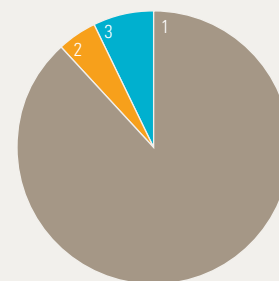
	2008	2007 (Restated)
1 Connect	<b>£158m</b>	£135m
2 Consort	<b>£135m</b>	£125m
3 Transform	<b>£42m</b>	£23m
4 Other	<b>£25m</b>	£23m
5 BB Communities	<b>£196m</b>	–
	<b>£556m</b>	£306m



### Portfolio valuation: December 2008

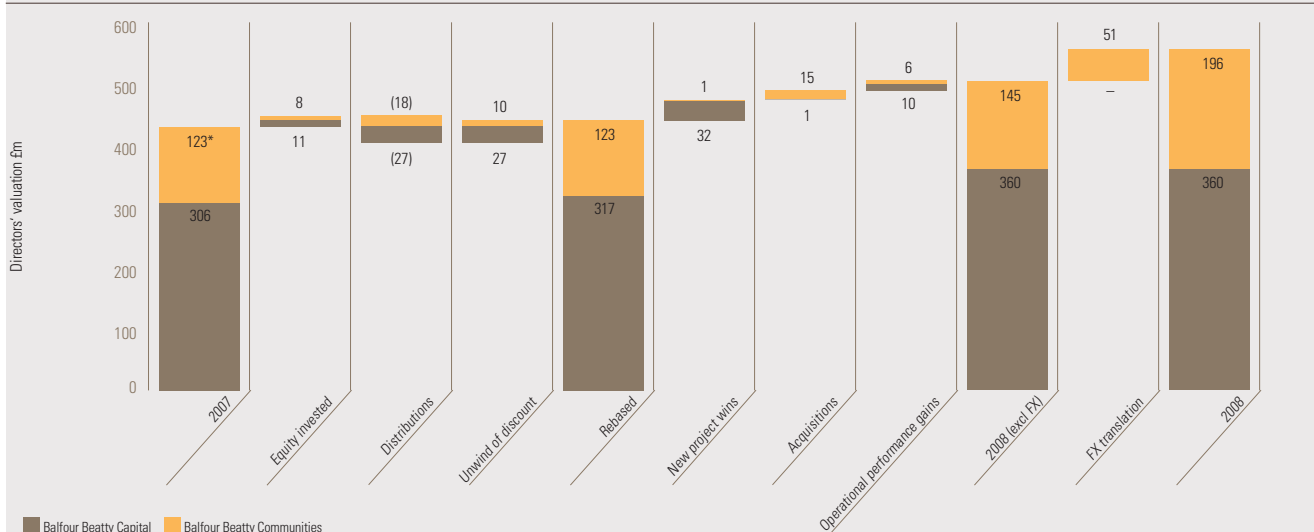
Value by phase

	2008	2007 (Restated)
1 Operations	<b>£490m</b>	£273m
2 Construction	<b>£26m</b>	£27m
3 Preferred bidder	<b>£40m</b>	£6m
	<b>£556m</b>	£306m



### Movement in value 2007/2008 (£m)

	2007	Equity invested	Distributions	Unwind of discount	Rebased	New project wins	Acquisitions	Operational performance gains	2008 (excl FX)	FX translation	2008	Growth (excl FX)
<b>Balfour Beatty Capital</b>	<b>306</b>	11	(27)	27	<b>317</b>	32	1	10	<b>360</b>	–	<b>360</b>	13.6%
<b>Balfour Beatty Communities</b>	<b>123*</b>	8	(18)	10	<b>123</b>	1	15	6	<b>145</b>	51	<b>196</b>	17.9%
<b>Total</b>	<b>429</b>	<b>19</b>	<b>(45)</b>	<b>37</b>	<b>440</b>	<b>33</b>	<b>16</b>	<b>16</b>	<b>505</b>	<b>51</b>	<b>556</b>	14.8%



■ Balfour Beatty Capital ■ Balfour Beatty Communities

\*Value of closed and preferred bidder projects acquired on 30 April 2008

### Balfour Beatty Capital restated 2007 Directors' valuation

	2007 Directors' valuation	Unwind PB discount	2007 Directors' valuation no PB discount	Move to 8.0% discount rate	Restated 2007 Directors' valuation	Move to 8.0% discount rate	2007 Alternative valuation post tax	Move to post shareholder tax	2007 Alternative valuation
<b>Balfour Beatty Capital</b>	<b>299</b>	3	<b>302</b>	4	<b>306</b>	(93)	399	(67)	<b>466</b>

## Introduction

Balfour Beatty's PPP concession portfolio has grown both organically and through acquisition to become a very significant part of the Group's business and a major driver of shareholder value. At 31 December 2008, Balfour Beatty had total committed equity and subordinated debt of £516m across 47 projects (29 UK, 17 US and 1 Singapore), four of which were at preferred bidder stage. At that date, £302m had already been invested and £214m is due over the next six years. The accounting book value of PPP investments at 31 December 2008 was £295m (2007: £209m).

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

## Directors' valuation

At 31 December 2008, the Directors' valuation of Balfour Beatty's PPP concession portfolio stood at £556m, at a post-tax nominal discount rate of 8.0% (2007: £306m). The movement in value arises principally through the acquisition on 30 April 2008 of Balfour Beatty Communities (formerly GMH Military Housing). In addition, shareholder cash inflows and outflows during the year, acquisitions, project wins, operational performance gains and underlying growth in the portfolio arising from the unwinding of the discount from year to year also had an effect.

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

## Acquisition of Balfour Beatty Communities

Balfour Beatty acquired Balfour Beatty Communities on 30 April 2008 for consideration of £177m (\$350m). This comprised working capital £7m (\$13m), the existing portfolio and preferred bidder projects £123m (\$244m) (including related tax benefit of £26m (\$51m)), and £47m (\$93m) for the ability of the management team to win future projects (the "Pipeline"). The Directors' valuation of the Balfour Beatty Communities portfolio at 31 December 2008 of £196m (\$286m) represents only the closed and preferred bidder projects acquired, plus post acquisition movements. All projects involve the simultaneous transfer of responsibility for existing housing stock and commencement of construction activity at financial close and are therefore classified as operations.

Balfour Beatty Communities holds a market leading position in the US military housing sector for married personnel ("MPH") and derives its income both from fees associated with managing construction and operations and from returns on equity and debt capital. The value at acquisition attributed to the future Pipeline projects, but not included in the Directors' valuation, reflects the company's ability to secure further projects in the MPH sector as well as leveraging its market leading position to secure projects in the developing unaccompanied personnel military housing sector ("UPH") and into the US PPP market generally.

## The valuation method

The valuation does not set out to estimate the market value of the investments in the portfolio, but rather, through the application of a consistent methodology, illustrates movements in underlying values between periods and highlights the impact of intervening transactions. The valuation covers 43 concessions that have reached financial close and a further four at preferred bidder stage.

## DCF

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

## Discount rate

In order to simplify the valuation methodology, and to align the valuation more readily with market benchmarks, the Directors have adopted a single discount rate of 8.0% nominal post shareholder tax to value the portfolio of closed and preferred bidder projects. The Directors' valuation of Balfour Beatty Capital's portfolio at 31 December 2007 of £299m restated for this approach consequently increases to £306m as at that date. The Directors' valuation of Balfour Beatty's PPP concession portfolio is sensitive to the discount rate adopted. The valuations for a range of discount rates are shown on page 8.

## Shareholder tax

Balfour Beatty receives a number of cash flow streams from its investments. Most, but not all, of these cash flows are subject to tax upon receipt by the Balfour Beatty Group. The Directors' valuation takes into account these cash flows after the imposition of taxation upon the Group and thus uses a post tax discount rate. The post tax discount rate of 8.0% used in the Director's valuation equates to a discount rate of 10.3% (9.4% for Balfour Beatty Capital and 12.5% for Balfour Beatty Communities) were the value of the cash flows to be reported before the imposition of Group taxation, a methodology also currently used in the marketplace.

## Operational performance gains

In 2008, operational performance gains arise principally from operational improvements identified leading to a revision of the future cost and/or revenue forecasts.

## Translation gain

The USD exchange rate on 30 April 2008, the acquisition date of Balfour Beatty Communities, was 1.98. At 31 December 2008 the exchange rate was 1.46, generating an unrealised gain on translation relating to the Balfour Beatty Communities portfolio valuation of £51m. Of the Balfour Beatty Capital portfolio of 30 projects, one project, ITE West in Singapore, has non GBP denominated cash flows. The unrealised translation gain on the value of ITE West is immaterial and does not register in the movement analysis. The values of Balfour Beatty Communities and the ITE West project are included in the Directors' valuation as at 31 December 2008 at the exchange rates prevailing on that date.

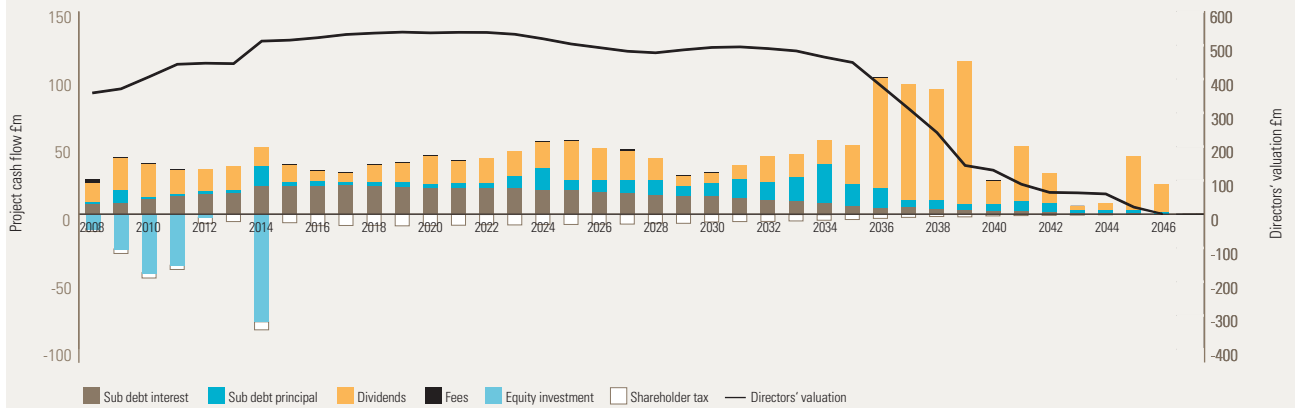
The values shown as at 31 December 2008 for equity committed of £516m and equity invested of £302m include the acquired Balfour Beatty Communities portfolio of £123m (\$244m) together with equity contributed during the year at the exchange rate applicable at the acquisition date of 1.98. A further £27m (\$39m) of future equity commitments for Balfour Beatty Communities have been translated into sterling at the 31 December 2008 exchange rate of 1.46. In addition, the movement in value analysis for Balfour Beatty Communities between years has been translated at an exchange rate of 1.98; the movement between that rate and the year-end exchange rate is shown separately as FX translation.

## Assurance

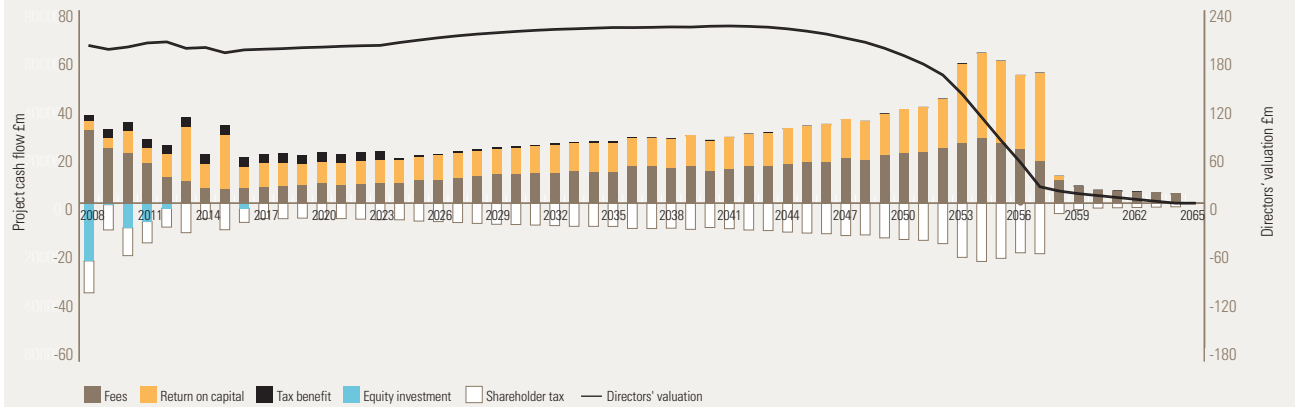
The calculations underpinning the valuation have been independently checked to ensure that the valuation has been accurately carried out in accordance with the specified methodology. However, the detailed financial models have not been audited.

Directors' valuation of PPP concessions

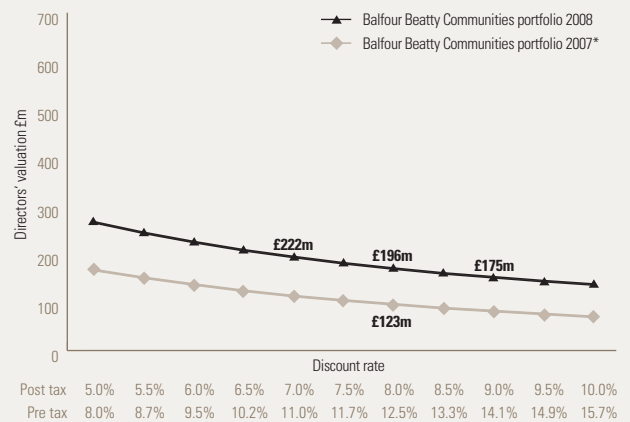
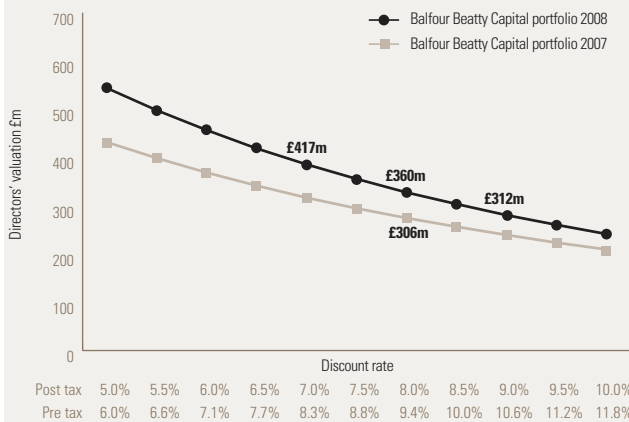
**Balfour Beatty Capital – Annual forecast cash flows and DCF valuation over time**



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



**Balfour Beatty PPP concessions' valuation range**



\* Value of closed and preferred bidder projects acquired on 30 April 2008