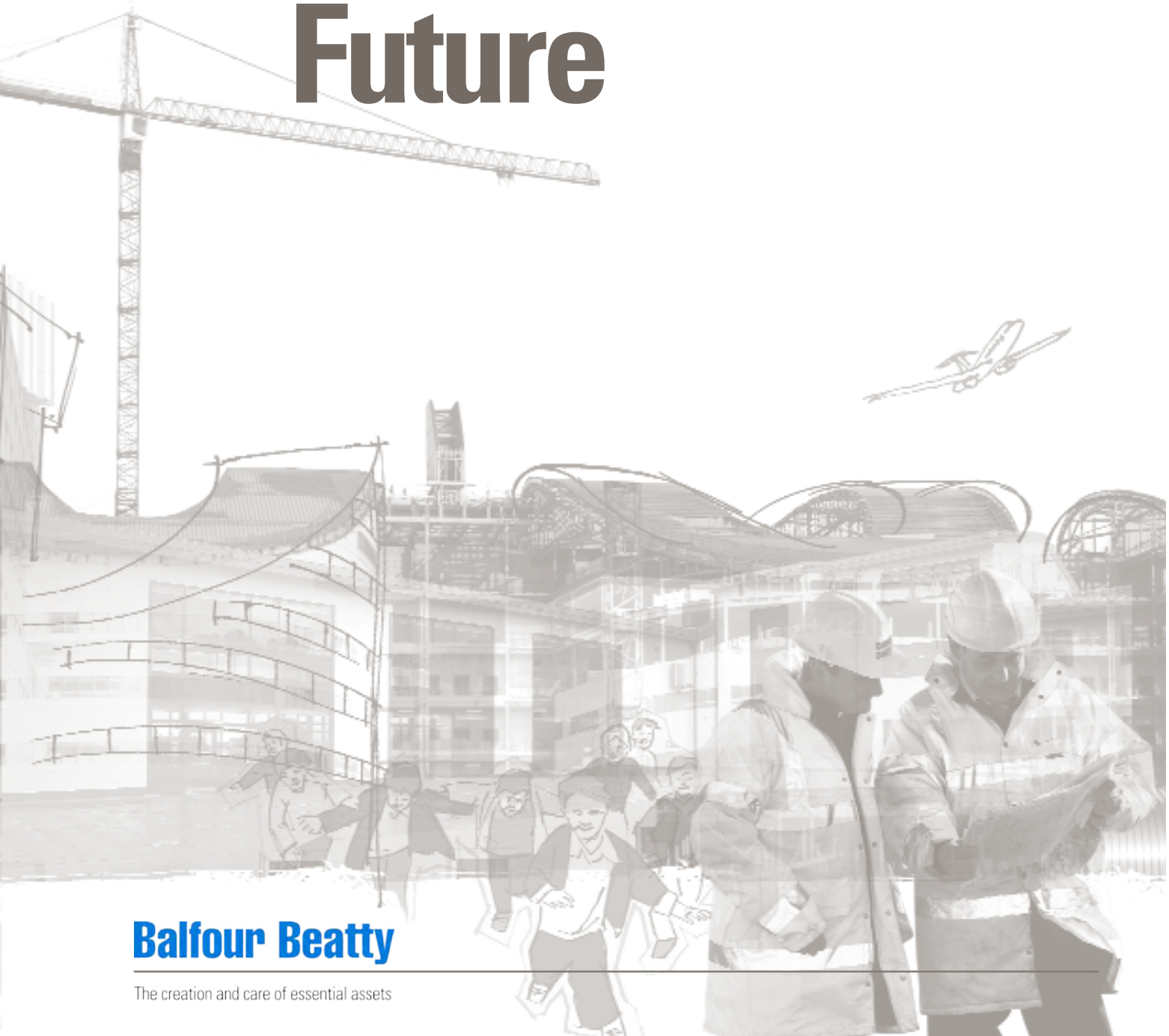


Half-year financial report 2008

---

# Strong Performance Sustainable Future



**Balfour Beatty**

The creation and care of essential assets

# Contents

## Our business

Half-year highlights	<b>01</b>
Half-year results	<b>02</b>

Balfour Beatty is a world-class engineering, construction, services and investment business well-positioned in infrastructure markets which offer significant long-term growth.

We work in partnership with sophisticated customers who value the highest levels of quality, safety and technical expertise. Our skills are applied in appropriate combinations to meet individual customer need.

Our strategy is designed to continue to deliver strong, reliable, responsible growth in shareholder value over the long term.

## Our accounts

Condensed Group income statement	<b>04</b>
Condensed Group statement of recognised income and expense	<b>05</b>
Condensed Group balance sheet	<b>06</b>
Condensed Group cash flow statement	<b>07</b>
Notes	<b>08</b>
Responsibility statement	<b>20</b>
Independent review report	<b>21</b>

## Half-year highlights

Revenue<sup>†</sup> up 28% at £4,332m

Pre-tax profit\* up 25% at £95m

Adjusted earnings per share\* up 14% to 16.2p

Interim dividend increased 11% to 5.1p

Order book up 14% at £12.1bn

Net cash of £333m, after £272m acquisition expenditure and £183m share placing

Acquisition of GMH Military Housing establishes strong US PPP presence

Preferred bidder position achieved for M25 widening PPP

	2008 first half	2007 first half
<b>Revenue including joint ventures and associates</b>	<b>£4,332m</b>	£3,375m
<b>Pre-tax profit from continuing operations</b>		
– before exceptional items and amortisation	<b>£95m</b>	£76m
– after exceptional items and amortisation	<b>£144m</b>	£35m
<b>Profit attributable to equity shareholders</b>	<b>£106m</b>	£60m
<b>Earnings per share</b>		
– adjusted*	<b>16.2p</b>	14.2p
– basic	<b>24.1p</b>	14.0p
<b>Interim dividend per share</b>	<b>5.1p</b>	4.6p
<b>Financing</b>		
– net cash before PPP subsidiaries (non-recourse)	<b>£333m</b>	£479m
– net borrowings of PPP subsidiaries (non-recourse)	<b>£(91)m</b>	£(27)m

<sup>†</sup> including share of revenue of joint ventures and associates.

\* before exceptional items and amortisation of intangible assets, and, in the case of earnings per share in 2007, including the pre-exceptional results of discontinued operations.

---

## Half-year results

Balfour Beatty's pre-tax profit from continuing operations\* for the six months to 28 June 2008, were up 25% at £95m (2007: £76m). Adjusted earnings per share\* were up by 14% to 16.2p (2007: 14.2p).

### Interim management report

#### Overview

The first half of 2008 was a further period of substantial growth for the Group both organically and through acquisitions. Financial performance improved significantly, our order book continued to increase and our cash position remains strong.

We continued to enhance our earnings potential through the acquisition of GMH Military Housing in the US (now Balfour Beatty Communities); Barnhart, a leading Californian construction management company; Dean & Dyball, a leading UK regional contractor; Blackpool International Airport; and, in July 2008, the German rail engineer, Schreck-Mieves.

We are committed to the continuing delivery of the reliable, responsible growth that our shareholders have enjoyed over recent years. We have a clear strategy for the development of the business in both the medium and long term and a proven track record of delivery.

#### First half-year results

Balfour Beatty's pre-tax profit from continuing operations\* for the six months to 28 June 2008, were up 25% at £95m (2007: £76m). Adjusted earnings per share\* were up by 14% to 16.2p (2007: 14.2p). This reflects good performance across the Group's business mix with particularly strong progress in the building and engineering sectors.

Operating cash performance was satisfactory. In May, the Company raised £183m from an equity placing which helped fund £272m expenditure on acquisitions in the first half. Period end net cash stood at £333m (2007: £479m), before taking account of the consolidation of £91m (2007: £27m) of non-recourse net debt held in PPP subsidiaries.

The Board has declared an interim dividend up 11% at 5.1p per ordinary share (2007: 4.6p). There was an exceptional non-cash credit of £60m, representing a reduction in past service liability arising from announced measures to limit increases in pensionable pay under the Balfour Beatty defined benefit pension scheme. There were also £3m of exceptional acquisition integration, reorganisation and other costs.

Profit for the period attributable to equity shareholders was £106m (2007: £60m, including £18m loss from discontinued operations) and basic earnings per share were 24.1p (2007: 14.0p).

Revenue, including the Group's share of joint ventures and associates, at £4,332m (2007: £3,375m) was up by 28%.

The period end order book stood at £12.1bn, up by 14% since 30 June 2007, and by 6% since the year end.

Information about the Group's related party transactions and principal risks and uncertainties is included in Notes 18 and 20 respectively of the condensed Group financial statements.

#### The first half in brief

##### Strategy and acquisitions

The Group has made excellent progress in the first half-year in developing its position in the four areas for medium-term growth identified within its strategic plan. Dean & Dyball is an important addition to Balfour Beatty's UK regional contracting network. The Group's professional services businesses in both the UK and the US have continued to grow. Balfour Beatty's infrastructure investment portfolio has been further broadened in PPP outside the UK and in the airports sector. The Group's overall US presence has been further augmented and its size and composition continue to move closer to its successful UK business model.

During the first half of the year, the Group made five acquisitions at a net cash cost of £272m.

On 15 May 2008, Balfour Beatty launched, and successfully completed, an underwritten placing of ordinary shares raising £183m after costs. Balfour Beatty's very substantial acquisition programme since May 2000 had been funded from operating cash flow and the proceeds of disposals. The placing was undertaken in order to enable the Group to take advantage of continuing attractive acquisition opportunities to deliver incremental growth while, at the same time, retaining the strength and liquidity of its balance sheet. This is desirable both to secure major new customers and business, and to satisfy increasing surety bonding requirements resulting from the Group's growth in the US.

##### Order book

During the first half of the year, the Group's order book grew by £0.7bn to £12.1bn. In addition to the consolidation of the order books of Dean & Dyball and Barnhart, it was a successful period for the Group in securing major project awards.

These included the Midfield Pier Project for BAA at Heathrow Airport; the new Tamar Government Complex in Hong Kong; an extension of the contract to provide facilities management for BT; the Aquatics Centre for the London Olympics; the rail systems work for the new Gotthard Tunnel in Switzerland; and major public and private sector projects in Dubai and the US, including a \$330m Toll Road in Texas.

Since 28 June 2008, Balfour Beatty has been awarded a £300m rail contract in Malaysia and has also reached financial close on the Islington schools BSF project, the Institute of Technical Education in Singapore and two large military housing projects in the US, all of which generate substantial construction orders for the Group.

#### The Board

At the AGM on 15 May 2008, Steve Marshall succeeded Sir David John as Chairman of Balfour Beatty plc after the latter's five-year tenure.

In July, it was announced that Hubertus Krossa will join the Board as a non-executive Director in September 2008 and that Hans-Christoph von Rohr will retire from the Board at that time.

#### Business sectors

##### Building, Building Management and Services

Profit from operations in the building sector, before exceptional items and amortisation, rose by 30% to £39m (2007: £30m) during the first half of the year. This reflected a full six-month contribution from Balfour Beatty Construction US, which was acquired at the end of March 2007, the impact of the acquisitions of Cowlin and Covion in the second half of 2007 and very satisfactory organic growth in Balfour Beatty's established business, held back somewhat by a write-down on a building services project pending resolution of income recovery negotiations, arising from design issues.

Major projects were secured in the UK from BAA, BT and in the education sector; and in the US from the Navy, Army and Air Force.

In June, Balfour Beatty acquired Douglas E Barnhart Inc, the largest construction management and building company in San Diego and the sixth largest education sector builder in the US, for a cash consideration of \$121m. Barnhart, which provides a strong base in the fast-growing markets for education and other building sectors in California, has become part of the Group's US professional services business, Heery International.

The sector order book increased by 5% to £6.4bn during the period. We anticipate continuing strong progress in the second half of the year.

##### Civil and Specialist Engineering and Services

Profit from continuing operations in the engineering sector, before exceptional items and amortisation, rose by 69% to £44m (2007: £26m). This represents a very strong performance across the board with particularly good progress being made in Dubai, where half-year revenues were up almost 40% on last year and full-year revenues of the joint venture business will exceed £0.7bn. Progress was also particularly marked in Balfour Beatty Utility Solutions, which continues to enjoy the benefits of its major re-organisation in 2007.

Major projects were secured in the UK for the Olympic Development Authority, the Scottish Office and Network Rail; in the US for Texas Department of Transportation and the water industry in California; in Dubai for Novotel and in the healthcare sector; and in South-East Asia for the Hong Kong Government.

The Group's strategy to build further on its already strong UK regional contracting base progressed in March through the acquisition for £45m cash of Dean & Dyball, a leading UK regional civil engineering and building contractor. This has given the Group a substantially stronger position in the southern half of England and Wales.

The order book in the engineering sector has grown by 7% to £4.7bn since the year end, with several major projects scheduled to be awarded in the near future. We expect to make good progress in the second half of the year.

##### Rail Engineering and Services

Profit from operations in the rail sector, before exceptional items and amortisation, fell by £3m to £10m (2007: £13m) in the first half. Improvement in performance in the US was more than offset by the phasing of profit recognition on major contracts in the UK. In the UK, Thameslink, Crossrail and other major rail project expenditure in the coming years will create substantial opportunities for Balfour Beatty, as will the investment plans of a number of other rail network owners around the world.

Major projects were secured for the rail systems for the new Gotthard Tunnel and for electrification in Malaysia.

In July, the Group completed the acquisition of the German rail trackwork engineering group, Schreck-Mieves, for €36m. This further strengthens Balfour Beatty's position in Germany, through enhancing its ability to deliver major, multi-disciplinary projects in that market.

The sector order book has grown by 11% to £1.0bn during the period. We expect performance to be steady for the rest of the year.

##### Investments

Profit from continuing operations in the investments sector, before exceptional items and amortisation, fell by £3m to £14m (2007: £17m) during the first half of the year. Underlying concession performance was satisfactory, although profitability was impacted by further increases in bidding costs as Balfour Beatty Capital extends its activities beyond UK PPP markets. There was a first contribution from Balfour Beatty Communities (formerly GMH Military Housing).

Profits in Barking Power were somewhat lower than last year as a result of the benefit of some one-off items in last year's performance.

On 30 April, the Group acquired Balfour Beatty Communities for \$350m cash. Balfour Beatty Communities is a leader in the US market for major military housing PPP concessions. This acquisition secured a reliable, long-term profit and cash flow from a high-quality portfolio of PPP concessions and added an experienced and successful management team to develop further Balfour Beatty's presence in the growing US PPP market. Balfour Beatty Communities is responsible for the development, renovation, financing, operations and management of military accommodation projects for the US Army, Navy and Air Force and has secured rights to 16 concessions covering 43 military bases across the US.

The first phase of the Islington Schools BSF concession reached financial close in July, followed in August by the Institute of Technical Education in Singapore, the Group's first PPP project outside the UK.

Balfour Beatty Capital has three further concessions at preferred bidder stage, including the £1.5bn M25 widening and maintenance scheme which is expected to reach financial close before the year end.

Balfour Beatty's strategy to extend its infrastructure investment business beyond the UK PPP market, which began with last year's acquisition of Exeter International Airport, was continued in May with the acquisition of Blackpool International Airport for an initial cash consideration of £14m. As is the case with Exeter, Blackpool is a well-located regional airport with significant growth potential.

We expect to make progress in the investments sector for the year as a whole with a better second-half performance than last year, including a full six-month contribution from Balfour Beatty Communities.

##### Outlook

We anticipate that order intake and trading performance will remain strong throughout the year and that we will make further good progress in the second half of the year.



Ian Tyler Chief Executive

\* before exceptional items and amortisation of intangible assets and, in the case of earnings per share in 2007 including the pre-exceptional results of discontinued operations.

For the half-year ended 28 June 2008 based on unaudited figures

## Condensed Group income statement

	Notes	2008 first half			2007 first half			2007 year		
		Before exceptional items* £m	Exceptional items* (Note 6) £m	Total £m	Before exceptional items* £m	Exceptional items* (Note 6) £m	Total £m	Before exceptional items* £m	Exceptional items* (Note 6) £m	Total £m
<b>Continuing operations</b>										
Revenue including share of joint ventures and associates		<b>4,332</b>	–	<b>4,332</b>	3,375	–	3,375	7,488	–	7,488
Share of revenue of joint ventures and associates	3	<b>(544)</b>	–	<b>(544)</b>	(512)	–	(512)	(1,022)	–	(1,022)
<b>Group revenue</b>		<b>3,788</b>	–	<b>3,788</b>	2,863	–	2,863	6,466	–	6,466
Cost of sales		<b>(3,520)</b>	–	<b>(3,520)</b>	(2,655)	(35)	(2,690)	(5,959)	(33)	(5,992)
<b>Gross profit</b>		<b>268</b>	–	<b>268</b>	208	(35)	173	507	(33)	474
Net operating expenses										
– amortisation of intangible assets		–	<b>(8)</b>	<b>(8)</b>	–	(3)	(3)	–	(9)	(9)
– other		<b>(213)</b>	<b>57</b>	<b>(156)</b>	(169)	(2)	(171)	(381)	(6)	(387)
<b>Group operating profit/(loss)</b>		<b>55</b>	<b>49</b>	<b>104</b>	39	(40)	(1)	126	(48)	78
Share of results of joint ventures and associates	3	<b>36</b>	–	<b>36</b>	34	–	34	65	6	71
<b>Profit from operations</b>		<b>91</b>	<b>49</b>	<b>140</b>	73	(40)	33	191	(42)	149
Investment income	4	<b>16</b>	–	<b>16</b>	13	–	13	29	–	29
Finance costs	5	<b>(12)</b>	–	<b>(12)</b>	(10)	(1)	(11)	(19)	(2)	(21)
<b>Profit before taxation</b>		<b>95</b>	<b>49</b>	<b>144</b>	76	(41)	35	201	(44)	157
Taxation	7	<b>(24)</b>	<b>(14)</b>	<b>(38)</b>	(17)	60	43	(53)	65	12
<b>Profit for the period from continuing operations</b>		<b>71</b>	<b>35</b>	<b>106</b>	59	19	78	148	21	169
Loss for the period from discontinued operations	8	–	–	–	2	(20)	(18)	2	(20)	(18)
<b>Profit for the period attributable to equity shareholders</b>		<b>71</b>	<b>35</b>	<b>106</b>	61	(1)	60	150	1	151

\*and amortisation of intangible assets.

	Notes	2008 first half pence	2007 first half pence	2007 year pence
<b>Basic earnings per ordinary share</b>				
– continuing operations	9	<b>24.1</b>	18.2	39.3
– discontinued operations	9	–	(4.2)	(4.2)
		<b>24.1</b>	14.0	35.1
<b>Diluted earnings per ordinary share</b>				
– continuing operations	9	<b>23.9</b>	18.1	39.0
– discontinued operations	9	–	(4.2)	(4.2)
		<b>23.9</b>	13.9	34.8
<b>Dividends per ordinary share proposed for the period</b>	10	<b>5.1</b>	4.6	11.5

For the half-year ended 28 June 2008 based on unaudited figures

## Condensed Group statement of recognised income and expense

	Notes	2008 first half £m	2007 first half £m	2007 year £m
Actuarial (losses)/gains on retirement benefit obligations		<b>(105)</b>	126	2
PPP cash flow hedges – fair value revaluations		<b>21</b>	39	(7)
– reclassified and reported in net profit		–	7	7
PPP financial assets – fair value revaluations		<b>19</b>	(36)	(26)
– reclassified and reported in net profit		–	(3)	(3)
Changes in fair value of net investment hedges		<b>(3)</b>	5	(4)
Currency translation differences		<b>8</b>	(7)	7
Tax on items taken directly to equity		<b>21</b>	(43)	5
<b>Net (expense)/income recognised directly in equity</b>		<b>(39)</b>	88	(19)
Profit for the period from continuing operations		<b>106</b>	78	169
Loss for the period from discontinued operations		–	(18)	(18)
<b>Total recognised income for the period attributable to equity shareholders</b>	14	<b>67</b>	148	132



At 28 June 2008 based on unaudited figures

## Condensed Group balance sheet

	Notes	2008 first half £m	2007 first half £m	2007 year £m
<b>Non-current assets</b>				
Intangible assets – goodwill		819	603	694
– other		170	44	59
Property, plant and equipment		257	199	215
Investments in joint ventures and associates	3	433	356	381
Investments		57	46	57
PPP financial assets		99	28	62
Deferred tax assets		135	92	125
Derivative financial instruments		6	8	3
Trade and other receivables		61	42	77
		<b>2,037</b>	1,418	1,673
<b>Current assets</b>				
Inventories		93	92	72
Due from customers for contract work		442	349	338
Derivative financial instruments		6	3	1
Trade and other receivables		1,086	828	881
Current tax assets		–	10	–
Cash and cash equivalents – PPP subsidiaries		1	–	3
– other		351	481	391
		<b>1,979</b>	1,763	1,686
<b>Total assets</b>		<b>4,016</b>	3,181	3,359
<b>Current liabilities</b>				
Trade and other payables		(2,106)	(1,798)	(1,718)
Due to customers for contract work		(418)	(365)	(415)
Derivative financial instruments		(1)	–	(6)
Current tax liabilities		(12)	(8)	(7)
Borrowings – PPP non-recourse term loans		(3)	–	(3)
– other		(14)	(1)	(16)
		<b>(2,554)</b>	(2,172)	(2,165)
<b>Non-current liabilities</b>				
Trade and other payables		(121)	(97)	(135)
Derivative financial instruments		(1)	–	(6)
Borrowings – PPP non-recourse term loans		(89)	(27)	(61)
– other		(4)	(1)	(1)
Deferred tax liabilities		(7)	(5)	(7)
Liability component of preference shares		(87)	(88)	(87)
Retirement benefit obligations	12	(309)	(160)	(286)
Provisions		(144)	(118)	(128)
		<b>(762)</b>	(496)	(711)
<b>Total liabilities</b>		<b>(3,316)</b>	(2,668)	(2,876)
<b>Net assets</b>		<b>700</b>	513	483
<b>Equity</b>				
Called-up share capital	14	238	216	216
Share premium account	14	52	46	52
Equity component of preference shares	14	16	16	16
Special reserve	14	142	167	164
Share of joint ventures' and associates' reserves	14	193	167	178
Other reserves	14	20	3	9
Retained profits/(accumulated losses)	14	38	(102)	(152)
<b>Equity attributable to equity holders of the parent</b>		<b>699</b>	513	483
Minority interests		1	–	–
<b>Total equity</b>		<b>700</b>	513	483



For the half-year ended 28 June 2008 based on unaudited figures

## Condensed Group cash flow statement

	Notes	2008 first half £m	2007 first half £m	2007 year £m
<b>Cash flows from operating activities</b>				
Cash generated from operations	16.1	73	181	281
Income taxes paid		(8)	(10)	(24)
<b>Net cash from operating activities</b>		<b>65</b>	<b>171</b>	<b>257</b>
<b>Cash flows from investing activities</b>				
Dividends received from joint ventures and associates		43	76	83
Interest received		13	13	26
Acquisition of businesses, net of cash and cash equivalents acquired		(272)	(95)	(198)
Purchase of property, plant and equipment		(49)	(39)	(80)
Purchase of investments		–	–	(11)
Investment in and loans made to joint ventures and associates		–	(33)	(50)
Investment in PPP financial assets		(35)	(7)	(39)
Disposal of businesses, net of cash and cash equivalents disposed		–	92	92
Disposal of property, plant and equipment		10	7	9
<b>Net cash (used in)/from investing activities</b>		<b>(290)</b>	<b>14</b>	<b>(168)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of ordinary shares		183	2	5
Purchase of ordinary shares		(9)	(4)	(4)
Proceeds from new loans		28	6	42
Repayment of loans		(4)	(1)	(1)
Buy-back of preference shares		–	(3)	(8)
Ordinary dividends paid		–	–	(42)
Interest paid		(5)	(7)	(7)
Preference dividends paid		(5)	(6)	(11)
<b>Net cash from/(used in) financing activities</b>		<b>188</b>	<b>(13)</b>	<b>(26)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(37)</b>	<b>172</b>	<b>63</b>
Effects of exchange rate changes		(1)	1	8
Cash and cash equivalents at beginning of period		379	308	308
<b>Cash and cash equivalents at end of period</b>	16.2	<b>341</b>	<b>481</b>	<b>379</b>

## Notes

### 1 Basis of presentation

The condensed Group financial statements for the half-year ended 28 June 2008 included in this report have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed Group financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which were prepared in accordance with IFRS as adopted by the European Union.

The condensed Group financial statements have been reviewed, not audited, and were approved for issue by the Board on 12 August 2008. The full year figures for 2007 included in this report do not constitute statutory accounts for the purposes of Section 240 of the Companies Act 1985. A copy of the Company's statutory accounts for the year ended 31 December 2007 has been delivered to the Registrar of Companies. The independent auditors' report on those accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

The condensed Group financial statements have been prepared on the basis of the accounting policies set out in the Directors' report and accounts 2007. The condensed Group income statement and condensed Group statement of recognised income and expense and related notes for the half-year ended 30 June 2007 have been re-presented following the classification of Metronet as a discontinued operation.

IAS 1 Presentation of Financial Statements (Revised 2007), IAS 23 Borrowing Costs (Revised 2007), IFRS 8 Operating Segments, IFRIC 11 IFRS 2 Group and Treasury Share Transactions, IFRIC 12 Service Concession Arrangements, IFRIC 13 Customer Loyalty Programmes and IFRIC 14 IAS 19 The Limit of the Defined Benefit Asset, Minimum Funding Requirements and their Interaction were either in issue but not yet effective or not yet adopted by the European Union at 28 June 2008.

IFRIC 15 Agreements for the Construction of Real Estate and IFRIC 16 Hedges of a Net Investment in a Foreign Operation were issued on 3 July 2008 and therefore in issue at the date of authorisation of these condensed Group financial statements but not yet effective.

### 2 Segment analysis – continuing operations

#### For the half-year ended 28 June 2008

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments £m	Corporate costs £m	Total £m
<b>Performance by activity:</b>						
Revenue including share of joint ventures and associates	2,151	1,563	398	220	–	4,332
Share of joint ventures and associates	(60)	(298)	(18)	(168)	–	(544)
Group revenue	2,091	1,265	380	52	–	3,788
Group operating profit	38	33	10	(10)	(16)	55
Share of results of joint ventures and associates	1	11	–	24	–	36
Profit from operations before exceptional items and amortisation	39	44	10	14	(16)	91
Exceptional items	–	(1)	–	(1)	59	57
Amortisation of intangible assets	(5)	(2)	(1)	–	–	(8)
Profit from operations	34	41	9	13	43	140
Investment income						16
Finance costs						(12)
Profit before taxation						144

	Europe £m	North America £m	Other* £m	Total £m
<b>Performance by geographic origin:</b>				
Group revenue	2,830	936	22	3,788
Profit from operations before exceptional items and amortisation	61	17	13	91
Exceptional items	59	(2)	–	57
Amortisation of intangible assets	(5)	(3)	–	(8)
Profit from operations	115	12	13	140

\*Other principally comprises the Group's operations in Hong Kong and Dubai.

## 2 Segment analysis – continuing operations continued

### For the half-year ended 30 June 2007

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments £m	Corporate costs £m	Total £m
<b>Performance by activity:</b>						
Revenue including share of joint ventures and associates	1,563	1,286	344	181	1	3,375
Share of joint ventures and associates	(54)	(282)	(3)	(173)	–	(512)
Group revenue	1,509	1,004	341	8	1	2,863
Group operating profit	30	20	12	(10)	(13)	39
Share of results of joint ventures and associates	–	6	1	27	–	34
Profit from operations before exceptional items and amortisation	30	26	13	17	(13)	73
Exceptional items	(25)	(11)	(1)	–	–	(37)
Amortisation of intangible assets	(2)	(1)	–	–	–	(3)
Profit from operations	3	14	12	17	(13)	33
Investment income						13
Finance costs						(11)
Profit before taxation						35

	Europe £m	North America £m	Other* £m	Total £m
<b>Performance by geographic origin:</b>				
Group revenue	2,290	559	14	2,863
Profit from operations before exceptional items and amortisation	65	–	8	73
Exceptional items	(35)	(2)	–	(37)
Amortisation of intangible assets	(1)	(2)	–	(3)
Profit from operations	29	(4)	8	33

### For the year ended 31 December 2007

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments £m	Corporate costs £m	Total £m
<b>Performance by activity:</b>						
Revenue including share of joint ventures and associates	3,640	2,668	785	394	1	7,488
Share of joint ventures and associates	(113)	(556)	(10)	(343)	–	(1,022)
Group revenue	3,527	2,112	775	51	1	6,466
Group operating profit	75	63	43	(25)	(30)	126
Share of results of joint ventures and associates	–	23	1	41	–	65
Profit from operations before exceptional items and amortisation	75	86	44	16	(30)	191
Exceptional items	(26)	(9)	2	–	–	(33)
Amortisation of intangible assets	(6)	(3)	–	–	–	(9)
Profit from operations	43	74	46	16	(30)	149
Investment income						29
Finance costs						(21)
Profit before taxation						157

	Europe £m	North America £m	Other* £m	Total £m
<b>Performance by geographic origin:</b>				
Group revenue	4,958	1,471	37	6,466
Profit from operations before exceptional items and amortisation	145	18	28	191
Exceptional items	(27)	(6)	–	(33)
Amortisation of intangible assets	(4)	(5)	–	(9)
Profit from operations	114	7	28	149

## Notes continued

### 3 Share of results and net assets of joint ventures and associates

	2008 first half £m	2007 first half £m	2007 year £m
<b>Income statement – continuing operations</b>			
Share of revenue of joint ventures and associates	544	512	1,022
Operating profit before exceptional items	28	24	47
Investment income	63	57	118
Finance costs	(43)	(39)	(83)
Taxation	(12)	(8)	(17)
Share of results of joint ventures and associates before exceptional items	36	34	65
<b>Balance sheet</b>			
Property, plant and equipment	134	157	132
PPP financial assets	1,472	1,277	1,375
Net cash/(borrowings) – PPP non-recourse	(1,352)	(1,278)	(1,357)
– other	70	73	69
Other net assets	109	127	162
Share of net assets of joint ventures and associates	433	356	381

### 4 Investment income

	2008 first half £m	2007 first half £m	2007 year £m
PPP interest on financial assets	3	1	2
PPP subordinated debt interest receivable	6	4	11
Other interest receivable and similar income	7	8	16
	16	13	29

### 5 Finance costs

	2008 first half £m	2007 first half £m	2007 year £m
PPP non-recourse – other interest payable	3	1	2
Other interest payable – bank loans and overdrafts	2	1	3
– other	1	2	1
Losses on derivatives designated as hedges of net investments in foreign operations	–	–	1
Preference shares – finance cost	6	6	12
	12	10	19
Exceptional items – premium on buy-back of preference shares	–	1	2
	12	11	21

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid in respect of the six months ended 30 June 2008 on 1 July 2008 to holders of these shares on the register on 30 May 2008. A preference dividend of 5.375p gross (4.8375p net at current tax rate) per cumulative convertible redeemable preference share will be paid in respect of the six months ending 31 December 2008 on 1 January 2009 to holders of these shares on the register on 21 November 2008 by direct credit or, where no mandate has been given, by cheque posted on 31 December 2008 payable on 1 January 2009. These shares will be quoted ex-dividend on 19 November 2008.

## 6 Exceptional items and amortisation of intangible assets

	Notes	2008 first half £m	2007 first half £m	2007 year £m
<b>6.1 Credited to/(charged against) profit from operations</b>				
Net operating expenses	12	<b>60</b>	–	–
– reduction in pension past service liabilities				
– post-acquisition integration, reorganisation and other costs		<b>(3)</b>	(2)	(6)
Cost of sales		–	(35)	(33)
– Metronet – contract losses				
Share of joint ventures and associates – Metronet – contract profits		–	–	6
		<b>57</b>	(37)	(33)
<b>6.2 Charged against finance costs</b>				
– premium on buy-back of preference shares		–	(1)	(2)
Credited to/(charged against) profit before taxation		<b>57</b>	(38)	(35)
<b>6.3 (Charged against)/credited to taxation</b>				
– tax (charged)/credited on items above		<b>(16)</b>	9	11
– recognition of US deferred tax assets		–	50	51
Credited to profit for the period from continuing operations		<b>41</b>	21	27
<b>6.4 Credited to/(charged against) profit for the period from discontinued operations</b>				
– profit on sale of operations		–	57	57
– Metronet – impairment of investment		–	(87)	(87)
– tax thereon		–	10	10
Exceptional items credited to profit for the period		<b>41</b>	1	7
Amortisation of intangible assets		<b>(8)</b>	(3)	(9)
Tax thereon		<b>2</b>	1	3
<b>Credited to/(charged against) profit for the period</b>		<b>35</b>	(1)	1

**6.1** In 2008, the Group has announced measures to limit the increase in pension benefits of certain groups of in service members of the Balfour Beatty Pension Fund to the movement in RPI inflation, giving rise to a reduction in past service liabilities of £60m (2007: first half £nil, full year £nil).

Costs of £2m (2007: first half £nil, full year £nil) have been incurred relating to Balfour Beatty Communities (formerly GMH Military Housing) comprising integration and other costs. Further costs of £1m have been incurred in the US on the reorganisation of the central division of Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc) (2007: first half £1m, full year £1m). The 2007 exceptional items also included costs incurred on the reorganisation and integration of Balfour Beatty Construction Group Inc (formerly Centex Construction) (2007: first half £1m, full year £3m) and the reorganisation of Balfour Beatty Rail Inc (2007: first half £nil, full year £2m).

In 2007, as a result of the request by Metronet Rail BCV Ltd to the Arbitrator for an Extraordinary Review of the incurred and forecast costs, his subsequent interim award, and the consequent appointment to both Metronet Rail BCV Ltd and Metronet Rail SSL Ltd (collectively "Metronet") of a PPP Administrator, provision was made for an estimate of the costs resulting from the administration of Metronet, including the impact on its contract with Trans4m Ltd, in which the Group owns 25% of the ordinary share capital and with which certain Group subsidiaries contracted, and other direct contracts with Group subsidiaries. These costs included, where relevant, provision for winding down contracts, outstanding receivables and settlement of other trading items.

**6.2** The exceptional items charged against finance costs are the premium of £0.1m (2007: first half £1m, full year £2m) arising on the repurchase for cancellation of 0.3m (2007: first half 2.1m, full year 5.0m) preference shares at a cost of £0.4m (2007: first half £3m, full year £8m).

**6.3** The exceptional items credited to/(charged against) profit from operations have given rise to a net tax charge of £16m (2007: first half £9m credit, full year £11m credit). In 2007, as a result of the acquisition of Balfour Beatty Construction Group Inc (formerly Centex Construction), the benefits of tax losses and other tax assets arising from temporary differences in the US crystallised and were recognised in full in accordance with IAS 12, giving rise to an exceptional gain (first half £50m, full year £51m).

**6.4** In 2007, approval of the sale of the Group's 24.5% interest in its associate, Devonport Management Ltd, was obtained from the Ministry of Defence on 26 June, at which time this investment became held for sale. On 28 June 2007, the Group completed the sale of this investment for a total cash consideration of £86m, resulting in a gain on disposal of £57m, which was credited to profit from discontinued operations. The carrying value of the investment at the date of sale was £27m. Costs associated with the disposal amounted to £2m. As a result of the appointment to Metronet of a PPP Administrator, the Group's investment in the Metronet concessions, including profits recognised in previous periods, was written down to £nil.

## Notes continued

### 7 Taxation

	2008 first half £m	2007 first half £m	2007 year £m
UK current tax	11	6	23
Foreign current tax	5	5	13
Deferred tax	8	6	17
	24	17	53
Exceptional items and amortisation of intangible assets	14	(60)	(65)
Total tax charge/(credit)	38	(43)	(12)

The Group tax charge above does not include any amounts for joint ventures and associates, whose results are disclosed in the income statement net of tax (see Note 3).

Under IAS 34 the half-year tax charge represents the expected tax rate applicable for the full-year, calculated as far as practicable for each tax jurisdiction, applied to the profit before taxation, exceptional items and amortisation of intangible assets for each tax jurisdiction. If the profit mix between tax jurisdictions differs between the half-year and full-year, a different overall effective tax rate for the half-year and full-year will arise.

In addition to the Group tax charge above is £21m of tax credited directly to equity (2007: first half £43m charged, full year £5m credited), comprising a current tax credit of £2m (2007: first half £2m charge, full year £1m credit), a deferred tax credit of £28m (2007: first half £43m charge, full year £3m charge) and a charge of £9m in respect of joint ventures and associates (2007: first half £2m credit, full year £7m credit). Further, in 2007, there was a credit of £10m which related to discontinued operations as disclosed in Note 8.

### 8 Discontinued operations

	2008 first half £m	2007 first half £m	2007 year £m
Group revenue	–	3	3
Group share of revenue of joint ventures and associates	–	185	197
Group operating profit	–	(1)	(1)
Group share of results of joint ventures and associates	–	3	3
	–	2	2
Profit on sale of operations	–	57	57
Impairment of investment	–	(87)	(87)
Taxation thereon	–	10	10
Loss for the period from discontinued operations	–	(18)	(18)

On 5 January 2007, the Group acquired a 100% indirect interest in Exeter and Devon Airport Ltd (“EDAL”) with the intent of selling on a 40% equity interest. Consequently, from 5 January 2007 to 4 April 2007, when the 40% equity interest was sold, EDAL was treated as an asset held for resale, and its results (£1m loss) shown under discontinued operations. The Group’s 24.5% interest in Devonport Management Ltd (“DML”), sold on 28 June 2007 and previously included in Civil and specialist engineering and services, was classified as discontinued. The results of Metronet Rail BCV Holdings Ltd and Metronet Rail SSL Holdings Ltd (“Metronet”) previously included in Investments were classified as discontinued as a result of the appointment of a PPP Administrator to the concession companies on 18 July 2007.

## 9 Earnings per ordinary share

	2008 first half		2007 first half		2007 year	
	Basic £m	Diluted £m	Basic £m	Diluted £m	Basic £m	Diluted £m
<b>Earnings</b>						
– continuing operations	<b>106</b>	<b>106</b>	78	78	169	169
– discontinued operations	–	–	(18)	(18)	(18)	(18)
	<b>106</b>	<b>106</b>	60	60	151	151
Exceptional items	<b>(41)</b>		(1)		(7)	
Amortisation of intangible assets	<b>6</b>		2		6	
Adjusted earnings	<b>71</b>		61		150	
Comprising:						
– continuing operations	<b>71</b>		59		148	
– discontinued operations	–		2		2	
	<b>71</b>		61		150	
	<b>m</b>	<b>m</b>	<b>m</b>	<b>m</b>	<b>m</b>	<b>m</b>
<b>Weighted average number of ordinary shares</b>	<b>440.2</b>	<b>443.7</b>	429.1	432.2	430.0	433.7
	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
<b>Earnings per ordinary share</b>						
– continuing operations	<b>24.1</b>	<b>23.9</b>	18.2	18.1	39.3	39.0
– discontinued operations	–	–	(4.2)	(4.2)	(4.2)	(4.2)
	<b>24.1</b>	<b>23.9</b>	14.0	13.9	35.1	34.8
Exceptional items	<b>(9.3)</b>		(0.2)		(1.6)	
Amortisation of intangible assets	<b>1.4</b>		0.4		1.5	
Adjusted earnings per ordinary share	<b>16.2</b>		14.2		35.0	
Comprising:						
– continuing operations	<b>16.2</b>		13.7		34.4	
– discontinued operations	–		0.5		0.6	
	<b>16.2</b>		14.2		35.0	

The calculation of basic earnings is based on profit for the period attributable to equity shareholders. The calculation of the weighted average number of ordinary shares was impacted by the issue of 43,320,411 ordinary shares on 20 May 2008, and has been adjusted for the conversion of share options for the calculation of diluted earnings per ordinary share. No adjustment has been made in respect of the potential conversion of the cumulative convertible redeemable preference shares, the effect of which would have been antidilutive throughout each period. Adjusted earnings per ordinary share, before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations in 2007, has been disclosed to give a clearer understanding of the Group's underlying trading performance.



## Notes continued

### 10 Dividends on ordinary shares

	2008 first half		2007 first half		2007 year	
	Per share pence	Amount £m	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period:						
Interim 2007	–	–	4.6	20	4.6	20
Final 2007	–	–	–	–	6.9	30
Interim 2008	<b>5.1</b>	<b>24</b>	–	–	–	–
	<b>5.1</b>	<b>24</b>	4.6	20	11.5	50
Recognised dividends for the period:						
Final 2006		–		22		22
Interim 2007		–		–		20
Final 2007		<b>30</b>		–		–
		<b>30</b>		22		42

The interim 2008 dividend will be paid on 10 December 2008 to holders of ordinary shares on the register on 24 October 2008 by direct credit or, where no mandate has been given, by cheque posted on 9 December 2008 payable on 10 December 2008. These shares will be quoted ex-dividend on 22 October 2008.

### 11 PPP service company concession subsidiaries

The Group has a 100% interest in four PPP service company concessions through its shareholdings in Connect Roads Sunderland Holdings Ltd, Connect Roads South Tyneside Holdings Ltd, Connect Roads Derby Holdings Ltd and Transform Schools (Knowsley) Holdings Ltd. The performance of the wholly-owned PPP concessions and their balance sheets are summarised below:

	2008 first half £m	2007 first half £m	2007 year £m
<b>Income statement</b>			
Group revenue	<b>42</b>	8	51
Profit from operations	–	–	1
Investment income	<b>3</b>	1	2
Finance costs	<b>(3)</b>	(1)	(2)
Profit before taxation	–	–	1
Taxation	–	–	–
Profit for the period	–	–	1
<b>Cash flow</b>			
Profit from operations	–	–	1
Decrease/(increase) in working capital	<b>7</b>	–	(3)
Income taxes paid	–	–	–
Net cash inflow/(outflow) from operating activities	<b>7</b>	–	(2)
Net cash outflow from investing activities	<b>(34)</b>	(5)	(36)
Net cash outflow from financing activities	<b>(3)</b>	(1)	(2)
Net cash outflow	<b>(30)</b>	(6)	(40)
Net borrowings at beginning of period	<b>(61)</b>	(21)	(21)
Net borrowings at end of period	<b>(91)</b>	(27)	(61)
<b>Balance sheet</b>			
PPP financial assets	<b>99</b>	28	62
Other net current (liabilities)/assets	<b>(4)</b>	2	(4)
Cash and cash equivalents	<b>1</b>	–	3
Non-recourse term loans	<b>(92)</b>	(27)	(64)
Net assets/(liabilities)	<b>4</b>	3	(3)

## 12 Retirement benefit obligations

The Group has announced measures to limit the increase in pension benefits of certain groups of in service members of the Balfour Beatty Pension Fund to the movement in RPI inflation, giving rise to a reduction in past service liabilities of £60m, which has been classified as an exceptional item.

The following actuarial assumptions have been used in the IAS 19 valuations of the Group's principal defined benefit pension schemes:

	2008 first half %	2007 first half %	2007 year %
Inflation rate	4.10	3.30	3.35
Discount rate	6.70	5.85	5.85
Future increases in pensionable salary – certain members of the Balfour Beatty Pension Fund	4.10	4.80	4.85
Future increases in pensionable salary – other	5.60	4.80	4.85
Future pension increases	4.10	3.30	3.35
Expected return on plan assets – Balfour Beatty Pension Fund	6.53	6.35	6.53
Expected return on plan assets – Railways Pension Scheme	7.45	7.30	7.45
Expected return on plan assets – Mansell schemes	6.83	6.79	6.83

The movement in retirement benefit obligations for the period was as follows:

	2008 first half £m	2007 first half £m	2007 year £m
At beginning of period	(286)	(288)	(288)
Exchange adjustments	(1)	–	(1)
Service cost	(23)	(26)	(54)
Interest cost	(67)	(59)	(120)
Expected return on plan assets	70	66	133
Contributions from employer – deficit funding	24	5	10
Contributions from employer – regular funding	18	16	34
Benefits paid	1	–	2
Exceptional past service cost release	60	–	–
Actuarial gains and losses – assets	(170)	(35)	(21)
– liabilities	65	161	20
Businesses acquired	–	–	(1)
At end of period	(309)	(160)	(286)

## 13 Share capital

On 20 May 2008, 43,320,411 ordinary shares were issued and placed with institutions at a price of 430p per share, raising £183m after issue costs.

During the half-year ended 28 June 2008, 49,816 ordinary shares were issued following the exercise of savings-related share options and 230,427 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £0.6m.

During the half-year ended 28 June 2008, 300,017 preference shares were repurchased for cancellation by the Company for a total cash consideration of £0.4m at an average cost of 135.8p.

## Notes continued

### 14 Movements in equity

For the half-year ended 28 June 2008

	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/(accumulated losses) £m	Total £m
At 1 January 2008	216	52	16	164	178	9	(152)	483
Net profit for the period	–	–	–	–	36	–	70	106
Actuarial losses on retirement benefit obligations	–	–	–	–	–	–	(105)	(105)
PPP cash flow hedges								
– fair value revaluations	–	–	–	–	12	9	–	21
PPP financial assets								
– fair value revaluations	–	–	–	–	19	–	–	19
Changes in fair value of net investment hedges	–	–	–	–	–	(3)	–	(3)
Currency translation differences	–	–	–	–	–	8	–	8
Tax on items taken directly to equity	–	–	–	–	(9)	(1)	31	21
Total recognised income for the period	–	–	–	–	58	13	(4)	67
Ordinary dividends	–	–	–	–	–	–	(30)	(30)
Joint ventures' and associates' dividends	–	–	–	–	(43)	–	43	–
Issue of ordinary shares	22	–	–	–	–	161	–	183
Movements relating to share-based payments	–	–	–	–	–	(2)	(2)	(4)
Transfers	–	–	–	(22)	–	(161)	183	–
At 28 June 2008	238	52	16	142	193	20	38	699

On 20 May 2008, 43,320,411 ordinary shares were issued and placed with institutions at a price of 430p per share, raising £183m after issue costs. The placing utilised a cash box structure, qualifying for merger relief under Section 131 of the Companies Act 1985 so that the premium arising was not required to be credited to the Company's share premium account. As a result of the placing, £22m reflecting the nominal value of the new ordinary shares issued was transferred from the Company's special reserve to the profit and loss reserve. In addition, the Company transferred the £161m premium from a merger reserve to the profit and loss reserve.

For the half-year ended 30 June 2007

	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	Accumulated losses £m	Total £m
At 1 January 2007	215	43	16	169	243	5	(304)	387
Net profit for the period	–	–	–	–	37	–	23	60
Actuarial gains on retirement benefit obligations	–	–	–	–	–	–	126	126
PPP cash flow hedges								
– fair value revaluations	–	–	–	–	35	4	–	39
– reclassified and reported in net profit	–	–	–	–	7	–	–	7
PPP financial assets								
– fair value revaluations	–	–	–	–	(36)	–	–	(36)
– reclassified and reported in net profit	–	–	–	–	(3)	–	–	(3)
Changes in fair value of net investment hedges	–	–	–	–	–	5	–	5
Currency translation differences	–	–	–	–	(1)	(6)	–	(7)
Tax on items taken directly to equity	–	–	–	–	2	(3)	(42)	(43)
Total recognised income for the period	–	–	–	–	41	–	107	148
Ordinary dividends	–	–	–	–	–	–	(22)	(22)
Joint ventures' and associates' dividends	–	–	–	–	(76)	–	76	–
Issue of ordinary shares	1	1	–	–	–	–	–	2
Buy-back of preference shares	–	2	–	–	–	–	(3)	(1)
Movements relating to share-based payments	–	–	–	–	–	(2)	1	(1)
Transfers	–	–	–	(2)	(41)	–	43	–
At 30 June 2007	216	46	16	167	167	3	(102)	513

For the year ended 31 December 2007

	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	Accumulated losses £m	Total £m
At 1 January 2007	215	43	16	169	243	5	(304)	387
Net profit for the year	–	–	–	–	74	–	77	151
Actuarial gains/(losses) on retirement benefit obligations	–	–	–	–	3	–	(1)	2
PPP cash flow hedges								
– fair value revaluations	–	–	–	–	(2)	(5)	–	(7)
– reclassified and reported in net profit	–	–	–	–	7	–	–	7
PPP financial assets								
– fair value revaluations	–	–	–	–	(26)	–	–	(26)
– reclassified and reported in net profit	–	–	–	–	(3)	–	–	(3)
Changes in fair value of net investment hedges	–	–	–	–	–	(4)	–	(4)
Currency translation differences	–	–	–	–	–	7	–	7
Tax on items taken directly to equity	–	–	1	–	7	2	(5)	5
Total recognised income for the year	–	–	1	–	60	–	71	132
Ordinary dividends	–	–	–	–	–	–	(42)	(42)
Joint ventures' and associates' dividends	–	–	–	–	(83)	–	83	–
Issue of ordinary shares	1	4	–	–	–	–	–	5
Buy-back of preference shares	–	5	(1)	–	–	–	(5)	(1)
Movements relating to share-based payments	–	–	–	–	–	4	(2)	2
Transfers	–	–	–	(5)	(42)	–	47	–
At 31 December 2007	216	52	16	164	178	9	(152)	483

15 Acquisitions

On 18 March 2008, the Group acquired 100% of the issued share capital of Dean & Dyball Ltd, a leading UK regional civil engineering and building business, for a cash consideration of £43.7m, deferred consideration of £1.3m and costs of £1.0m. The provisional fair value of net assets acquired was £6.9m and provisional goodwill arising was £39.1m. The provisional goodwill arising is attributable to the acquisition strengthening the Group's UK regional civil engineering and building business.

On 30 April 2008, the Group acquired Balfour Beatty Communities (formerly GMH Military Housing), the military PPP accommodation business of GMH Communities Trust, a US real estate investment trust, for a cash consideration of £176.8m and costs of £2.4m. The provisional fair value of net assets acquired was £149.4m and provisional goodwill arising was £29.8m. The provisional goodwill arising is attributable to the acquisition extending the Group's position in the UK PPP and facilities management markets to the US.

On 5 May 2008, the Group acquired a 95% interest in the issued share capital of Regional & City Airports (Blackpool) Ltd for a cash consideration of £14.0m, costs of £1.1m and deferred costs of £3.6m. The provisional fair value of net assets acquired was £12.1m and provisional goodwill arising was £6.6m. The provisional goodwill arising is attributable to the acquisition strengthening the Group's non-PPP infrastructure investment portfolio.

On 4 June 2008, the Group acquired 100% of the issued share capital of Douglas E Barnhart Inc, a US programme and construction management business, for a cash consideration of £60.6m, deferred consideration of £2.4m and costs of £0.8m. The provisional fair value of net assets acquired was £24.6m and provisional goodwill arising was £39.2m. The provisional goodwill arising is attributable to the acquisition complementing the Group's US project and programme management business.

On 26 June 2008, the Group acquired a joint venture interest in Leonard Wood Family Communities LLC, a PPP military accommodation business where the Group earns a pre-determined share of profits subject to the performance of the LLC, for a cash consideration of £1.7m. The provisional fair value of net assets acquired was £1.7m and provisional goodwill arising was £nil.

## Notes continued

### 15 Acquisitions continued

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

	Balfour Beatty Communities (formerly GMH Military Housing)			Other			Total		
	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
<b>Net assets acquired:</b>									
Intangible assets – other	–	108	108	–	11	11	–	119	119
Investments in joint ventures and associates	36	–	36	–	1	1	36	1	37
Property, plant and equipment	–	–	–	32	(2)	30	32	(2)	30
Working capital	5	–	5	(7)	(18)	(25)	(2)	(18)	(20)
Deferred taxation	–	–	–	–	5	5	–	5	5
Cash and cash equivalents	–	–	–	33	–	33	33	–	33
Borrowings	–	–	–	(9)	–	(9)	(9)	–	(9)
Minority interests	–	–	–	(1)	–	(1)	(1)	–	(1)
	<b>41</b>	<b>108</b>	<b>149</b>	<b>48</b>	<b>(3)</b>	<b>45</b>	<b>89</b>	<b>105</b>	<b>194</b>
Goodwill			30			85			115
			<b>179</b>			<b>130</b>			<b>309</b>
<b>Satisfied by:</b>									
Cash consideration			177			120			297
Costs incurred			2			3			5
			<b>179</b>			<b>123</b>			<b>302</b>
Deferred consideration and costs			–			7			7
			<b>179</b>			<b>130</b>			<b>309</b>

Fair value adjustments comprise intangible assets recognised in respect of customer contracts and relationships, adjustments to harmonise accounting methods for the recognition of profit on long-term contracts and provision for onerous commitments.

During the first half 2008, £3.3m deferred consideration was paid in respect of acquisitions completed in earlier years.

The acquired businesses earned revenues of £121.0m and profit from continuing operations of £0.8m (after charging exceptional items of £1.0m and amortisation of intangible assets of £0.6m) in the period since acquisition.

The following summary presents the Group as if all of the businesses acquired during the half-year ended 28 June 2008 had been acquired on 1 January 2008. The amounts include the results of the acquired businesses, depreciation and amortisation of the acquired fixed assets and intangible assets recognised on acquisition. The amounts do not include any possible synergies from the acquisition. The results of acquired companies for the period before acquisition have not been adjusted to reflect Balfour Beatty accounting policies nor to reflect the fair value adjustments made on acquisition. The information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results from operations of the combined companies.

	£m
Group revenue	4,082
Profit for the period from continuing operations	114

## 16 Notes to the cash flow statement

	2008 first half £m	2007 first half £m	2007 year £m
<b>16.1 Cash generated from operations comprises:</b>			
Profit from operations – continuing	140	33	149
Exceptional reduction in pension past service liabilities	(60)	–	–
Trading loss from discontinued operations	–	(1)	(1)
Share of results of joint ventures and associates	(36)	(34)	(71)
Depreciation of property, plant and equipment	31	21	50
Amortisation of other intangible assets	8	3	9
Pension deficit payments	(24)	(5)	(10)
Movements relating to share-based payments	3	2	7
Profit on disposal of property, plant and equipment	(3)	(1)	(3)
Operating cash flows before movements in working capital	59	18	130
Decrease in working capital	14	163	151
Cash generated from operations	73	181	281
<b>16.2 Cash and cash equivalents comprise:</b>			
Cash and deposits	323	218	293
Term deposits	28	263	98
PPP cash balances	1	–	3
Bank overdrafts	(11)	–	(15)
	341	481	379
<b>16.3 Analysis of net cash:</b>			
Bank overdrafts	(11)	–	(15)
Other short-term loans	(3)	–	(1)
Finance leases	(4)	(1)	(1)
Other borrowings	–	(1)	–
Cash and deposits	323	218	293
Term deposits	28	263	98
	333	479	374
PPP non-recourse project finance – Sterling floating rate term loan (2008–2027)	(25)	(19)	(22)
– Sterling floating rate term loan (2011–2030)	(11)	(6)	(9)
– Sterling floating rate term loan (2012–2031)	(4)	(2)	(2)
– Sterling floating rate term loan (2010–2034)	(52)	–	(31)
PPP cash and cash equivalents	1	–	3
Net cash	242	452	313
<b>16.4 Analysis of movement in net cash:</b>			
Opening net cash	313	284	284
Net (decrease)/increase in cash and cash equivalents	(37)	172	63
Acquisitions – borrowings at date of acquisition	(9)	(35)	(36)
Businesses sold – borrowings at date of disposal	–	35	35
New loans	(28)	(6)	(42)
Repayment of loans	4	1	1
Exchange adjustments	(1)	1	8
Closing net cash	242	452	313
<b>16.5 Borrowings</b>			

During the period to 28 June 2008 the significant movements in borrowings were an increase of £28m in non-recourse borrowings funding the development of financial assets in PPP subsidiaries, the inclusion of £9m of borrowings in acquired companies and repayment of £4m of loans.

---

## Notes continued

### 17 Contingent liabilities

On 17 April 2008, the Office of Fair Trading ("OFT") issued a Statement of Objections arising from its widescale investigation into tender activities across the construction sector. The Company has provided the OFT with its response to the Statement of Objections. Whilst the Company has, subject to ongoing co-operation, been granted leniency, which will reduce any fines ultimately levied, the outcome remains uncertain.

### 18 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £280m (2007: first half £683m, full year £1,020m). 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 charged at cost with no mark-up. The amount due from joint ventures and associates from trading activities was £37m (2007: first half £35m, full year £38m). The amount due to joint ventures and associates from trading activities was £22m (2007: first half £32m, full year £27m).

### 19 Post balance sheet events

On 2 July 2008, the Finance Act 2008 was substantively enacted, implementing the phased withdrawal of industrial buildings allowances. This will affect certain PPP road concessions, where the Directors believe agreement will be reached with HMRC on an alternative basis of taxation, together with the Group's industrial buildings, and will give rise to an overall one-off exceptional tax charge of £5m in the second half of the year.

On 31 July 2008, the Group acquired 100% of the share capital of Schreck-Mieves GmbH, a railway engineering business based in Germany with net assets of €17m at 31 December 2007, for a cash consideration of €36m. As this company has been acquired recently and prepares its local accounts under German GAAP, at the date of authorisation of these condensed Group financial statements it is impracticable to determine the fair value of the net assets acquired and goodwill.

### 20 Principal risks and uncertainties

The weaknesses emerging in some of the world's major economies which have occurred during the first half of the year have increased uncertainties concerning the commercial property market, which may affect some of the Group's building businesses. In addition, these macro economic trends, together with liquidity issues arising from the "credit crunch" will increase pressure on some of the Group's customers and its supply chain. However, given the strength of the Group's order book and careful management of its supply chain, the Directors consider that these will have very limited impact on the Group's results in the second half of the year.

Other than the specific risks detailed above, the Directors consider that the nature of the principal risks and uncertainties which may have a material effect on the Group's performance in the second half of the year is unchanged from those identified on pages 08 to 09 of the Directors' Report and Accounts 2007. These include the impact of the external business environment including government policy and customer risks; strategic risks over tendering, acquisitions and investments; organisational and management risks including information technology and human resources; and delivery and operational risks encompassing asset and service delivery risk, supply chain risk and health, safety and environmental risks.

### 21 Seasonality

The Group's construction and services activities are not subject to significant seasonal variation.

---

## Responsibility statement

We confirm that to the best of our knowledge:

- the condensed Group financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting;
- the interim management report includes a fair review of important events during the first six months and their impact on the condensed Group financial statements and a description of the principal risks and uncertainties for the remaining six months of the year, as required by the Disclosure and Transparency Rule 4.2.7R; and
- the interim management report includes a fair review of related parties' transactions and changes therein, as required by the Disclosure and Transparency Rule 4.2.8R.

On behalf of the Board

**I P Tyler**  
Chief Executive

**D J Magrath**  
Finance Director

12 August 2008



# Independent review report to Balfour Beatty plc

We have been engaged by Balfour Beatty plc ("the Company") to review the condensed Group financial statements of Balfour Beatty plc for the half-year ended 28 June 2008 which comprise the condensed Group income statement, the condensed Group statement of recognised income and expense, the condensed Group balance sheet, the condensed Group cash flow statement and the related Notes 1 to 21. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed Group financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The half-year financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-year financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union. The condensed Group financial statements included in this half-year financial report have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed Group financial statements in the half-year financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed Group financial statements in the financial report for the half-year ended 28 June 2008 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London, UK

12 August 2008

**Balfour Beatty plc**

130 Wilton Road  
London SW1V 1LQ  
Telephone: 44 (0) 20 7216 6800  
Facsimile: 44 (0) 20 7216 6950  
[www.balfourbeatty.com](http://www.balfourbeatty.com)

Print or online?

it's **quick and easy** online...

it's more **environmentally friendly** online...

it's more **cost-effective** online.

Why not try online?

Why not view our online annual report at:

**[www.balfourbeatty.com/bby/investors/reports/](http://www.balfourbeatty.com/bby/investors/reports/)**

