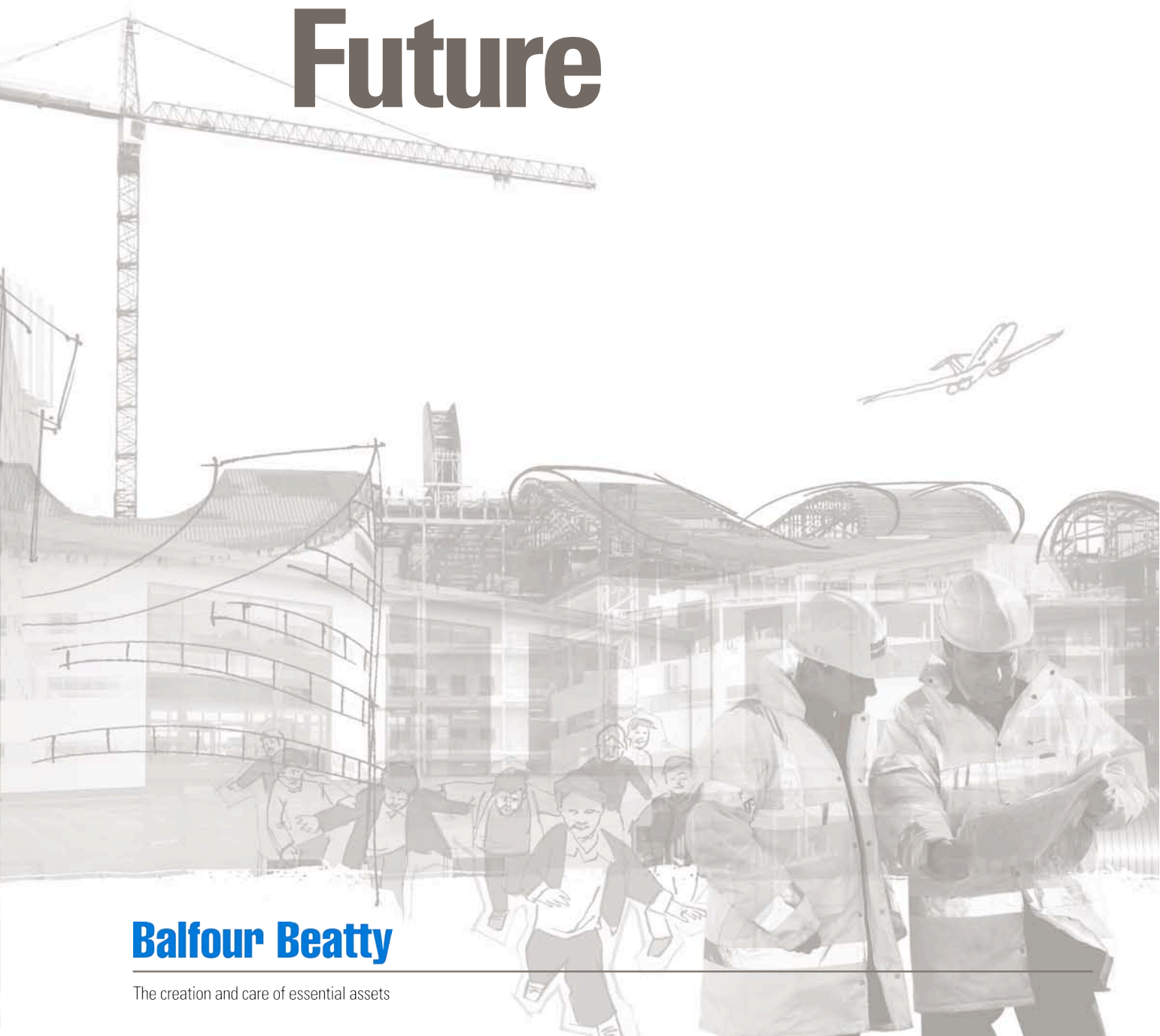


Directors' report and accounts 2007

Strong Performance Sustainable Future



Balfour Beatty

The creation and care of essential assets

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Our business

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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, which is set out in the following pages, is designed to continue to deliver **strong, reliable, responsible growth in shareholder value** over the long term.

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Our performance

reflects the increasing
success of our
business strategy

Strong growth in profits* and earnings*

Strong operating cash performance

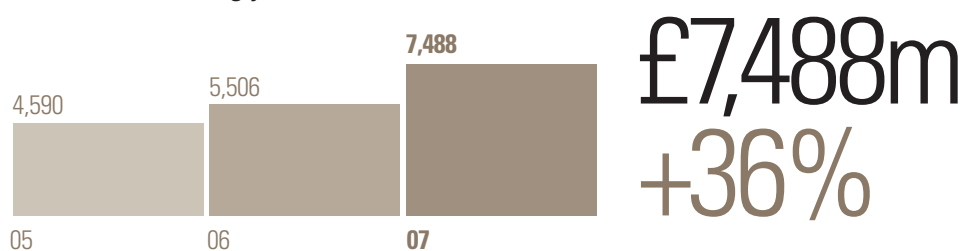
Good progress in strategic acquisition
and investment programme

Record order book and future workflows

Dividend increase of 26%

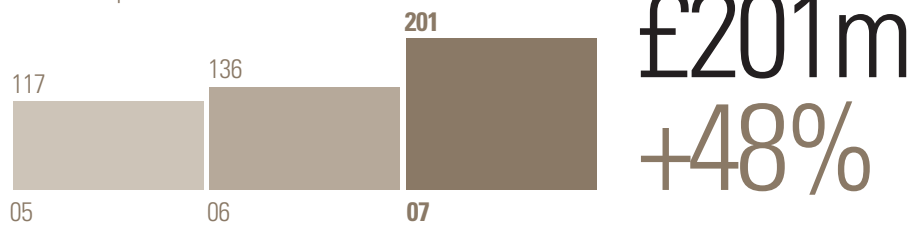
*Before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations in adjusted earnings per share.

Revenue including joint ventures and associates



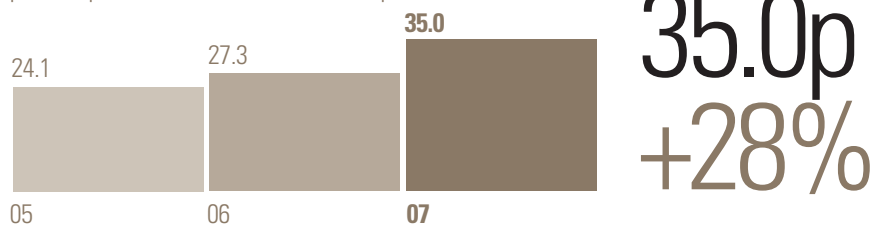
Pre-tax profit from continuing operations

before exceptional items and amortisation

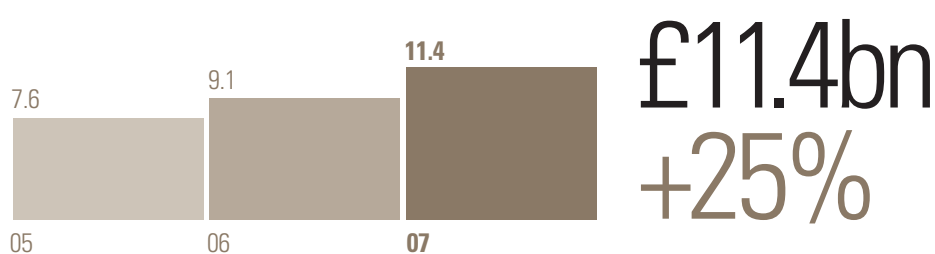


Adjusted earnings per share

before exceptional items and including the pre-exceptional results of discontinued operations

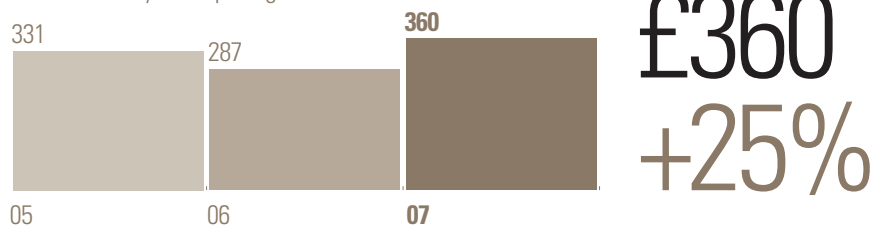


Order book



Total shareholder return

value at year-end of £100 investment made five years previously, as measured by share price growth and reinvested dividends



Overview

Balfour Beatty had a very good year in 2007. Achieving a 48% improvement in pre-tax profits from continuing operations and a 28% increase in adjusted earnings clearly demonstrates the all-round health of the business and the strength of our many long-term, blue-chip customer relationships. Our results reflect great credit on people at all levels and locations across the Group.



Ian Tyler Chief Executive

Financial review

Pre-tax profit before exceptional items and amortisation increased from £136m to £201m (48%).

Results

Revenue in 2007 from continuing operations, including the Group's share of the revenue of joint ventures and associates, was £7,488m (2006: £5,506m), an increase of 36%, of which 22% was attributable to acquisitions.

Profit from continuing operations before exceptional items and amortisation of intangible assets increased from £128m to £191m (49%). In the building and building services sector, there was a first contribution from Balfour Beatty Construction US and good performances from the UK businesses. Performance in the civil and specialist engineering sector improved substantially, with improved contributions from the Group's joint ventures in Hong Kong and Dubai, the elimination of losses in Balfour Beatty Infrastructure Inc in the US and positive contributions in the UK businesses. In the rail sector, there was good progress on major UK projects, and steady performances in the international rail electrification business and the US business. In the investments sector, five concessions reached financial close during 2007, Edinburgh Royal Infirmary was refinanced and preferred bidder status was achieved on four projects, including the Institute of Technical Education in Singapore, the Group's first overseas PPP project.

A more detailed analysis of performance in our operating businesses is contained in the Annual review and summary financial statement.

Acquisitions and goodwill

During 2007, the Group acquired Centex Construction (now Balfour Beatty Construction US) for £212m (including £20m deferred consideration), Cowlin for £53m, Covion for £33m, and a number of smaller businesses for a further £25m. Goodwill arising on these acquisitions amounted to £263m, and a further £59m intangible assets were recognised in respect of brand names and customer contracts and relationships. As a result, the goodwill on the Group's balance sheet at 31 December 2007 increased to £694m (2006: £427m) and other intangible assets to £59m (2006: £9m).

Exceptional items

The Group has recorded a net exceptional gain of £7m (2006: £25m charge). This reflects a post-tax charge of £95m in respect of the write-off of the Group's 20% investment in Metronet and an estimate of other consequential write-offs, which was offset by credits arising from the sale of the Group's 24.5% interest in Devonport Management (£57m) and the crystallisation of tax benefits in the US following the acquisition of Balfour Beatty Construction US (£51m). There were also £3m integration costs following the acquisition of Balfour Beatty Construction US, £3m further reorganisation costs for Balfour Beatty Rail Inc and Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc) and £2m premium on the purchase of preference shares, less a further £2m tax credit.

Taxation

The Group's effective tax rate in 2007 was 39% (2006: 40%) of profit from continuing operations before taxation, exceptional items and amortisation of intangible assets, excluding the Group's share of the results of joint ventures and associates. Eliminating the finance cost of the preference shares which does not attract tax relief, the Group's effective tax rate would be 36% (2006: 35%).

Pre-tax profits and earnings

Profits from continuing operations before taxation, exceptional items and amortisation of intangible assets amounted to £201m (2006: £136m), an increase of 48%, and adjusted earnings per share were 35.0p (2006: 27.3p), an increase of 28%.

Cash

The Group has again benefited from a strong cash flow from operations and improvements in working capital management.

	2007 £m	2006 £m
Group operating profit	78	60
Trading (loss)/profit from discontinued operations	(1)	1
Depreciation	50	43
Amortisation and impairment	9	17
Other items	4	3
Working capital decrease	141	93
Cash generated from operations	281	217

Cash flow from operations and the sale of the Group's interest in Devonport Management for £84m (after costs) provided further capacity to grow the Group's core activities through acquisitions (£198m outflow). The level of the Group's net cash at 31 December 2007 increased to £374m (2006: £305m), before taking into account the consolidation of £61m (2006: £21m) of non-recourse net debt held in wholly-owned PPP project companies.

Pensions

Valuation

The last formal actuarial valuation of the Balfour Beatty Pension Fund was carried out at 31 March 2004 and showed a funding position of 102%. A valuation as at 31 March 2007 is in preparation by the actuaries to that fund and is due to be completed by 30 June 2008. A formal actuarial valuation of the Railways Pension Scheme was carried out at 31 December 2004 and showed a funding position of 92%. Formal actuarial valuations of the Mansell schemes were carried out at 31 March 2005 and 31 July 2005 for the Hall & Tawse Retirement Benefit Plan and the Mansell plc Pension Scheme and showed funding positions of 79% and 78% respectively. The Birse scheme was merged into the Balfour Beatty Pension Fund on 5 April 2007.

The position of each of the funds has been updated by the actuaries at 31 December 2007 to review ongoing funding levels and details are included in Note 26.2. The funding position of the Balfour Beatty Pension Fund has reduced to 90% as a result of strengthening in the mortality assumptions. The Group contributed £31m to the defined benefit section of the Balfour Beatty Pension Fund for the year ended 31 December 2007 (2006: £24m).

Charges

Pension charges of £58m (2006: £52m) have been made to the income statement in accordance with IAS 19, including £36m (2006: £32m) for the defined benefit section of the Balfour Beatty Pension Fund.

Balance sheet impact

The Group's balance sheet includes the deficits of £286m (2006: £288m) for the Group's funds as required by IAS 19 on the assumptions set out in Note 26.1. The Group recorded net actuarial losses for 2007 on those funds totalling £1m (2006: £26m gains), with the effects of the higher discount rates applied to the funds' liabilities countered by changes to mortality assumptions as a result of continuing improvements in life expectancy, and worse than expected returns on the assets held by the funds. The deficits recorded at 31 December 2007 have increased by £126m from the position at 30 June 2007 as a result of the strengthening of mortality assumptions.

Public Private Partnerships (PPP)

During 2007, the Group invested £40m in a combination of equity in and shareholder loans to its PPP project companies, including £32m in Metronet. Following Metronet's request to the Arbiter for an Extraordinary Review of the incurred and forecast costs on the BCV concession, his subsequent interim award, and the consequent appointment of a PPP Administrator, the Group has written off its investment in the Metronet holding companies and classified the Metronet activities as discontinued operations. At 31 December 2007, the Group had invested a total of £144m in equity in and subordinated loans to its 23 continuing PPP project companies and had committed to provide a further £88m over the period 2008 to 2012. The Group has also been appointed preferred bidder for a further four PPP projects to which it is expected at financial close to commit to provide approximately £19m funding.

At 31 December 2007, the Group's share of non-recourse net debt within its continuing PPP project companies amounted to £1,418m (2006: £1,281m), comprising £1,357m (2006: £1,260m) in relation to joint ventures and associates as disclosed in Note 16.2 and £61m (2006: £21m) on the Group balance sheet in relation to wholly-owned project companies as disclosed in Note 24.1.

The Directors have carried out a valuation of the Group's PPP concessions and this is set out on pages 6 to 7.

Infrastructure investments

In the early part of 2007, the Group invested £18m for a 60% interest in Exeter International Airport. This now forms part of Balfour Beatty Capital's non-PPP infrastructure investment portfolio, along with the Group's 25.5% interest in Barking Power. At 31 December 2007, the Group's share of non-recourse net debt in relation to these investments amounted to £24m (2006: £9m), as disclosed in Note 16.2.

Treasury

The Group's policy remains to carry no significant net debt, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

The Group's financial instruments, other than derivatives, comprise cash and liquid investments, and borrowings. The Group enters into derivatives transactions (principally forward foreign currency contracts and interest rate swaps) to manage the currency and interest rate risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. Compliance with policy is monitored through regular reporting and internal audits. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the Group's financial risk factors and financial instruments are shown in Note 21.

Finance and liquidity risk

Balfour Beatty's cash and liquid investments comprise cash, term deposits and the use of liquidity funds. Counterparty risk is monitored regularly and mitigated by limiting deposits in value and duration to reflect the credit rating of the counterparty. Additionally, the Group has a series of bilateral facilities which total £395m, the majority of which mature in 2012. The purpose of these facilities is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities.

Contract bonds

In the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities (commonly referred to as "bonds"). Such bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from Balfour Beatty plc. As at 31 December 2007, contract bonds in issue by financial institutions covered £2.1bn (2006: £1.2bn) of contract commitments of the Group.

Currency risk

The Group's businesses manage their known foreign currency transactional exposures by taking out forward foreign exchange contracts. The Group has decided not to adopt hedge accounting for its foreign currency transactional exposures. As a result, there was a charge to profit of less than £1m which would otherwise have been charged directly to equity.

Balfour Beatty also faces currency exposures on the translation into sterling of the profits and net assets of overseas subsidiaries and associates, primarily in the US and Europe, and on its overseas trading transactions.

Balfour Beatty does not hedge these profit translation exposures as these are an accounting rather than cash exposure. However, the effect of volatile short-term currency movements on profits is reduced because the Group accounts for currency profits using average exchange rates.

Balfour Beatty's balance sheet translation exposure is managed by matching approximately 90% of significant net assets denominated in currencies other than sterling by way of forward foreign exchange contracts.

Interest rate risk

The Group has no significant fixed rate borrowings (excluding PPP non-recourse term loans).

Going concern

The Directors, having made appropriate enquiries, consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the accounts.



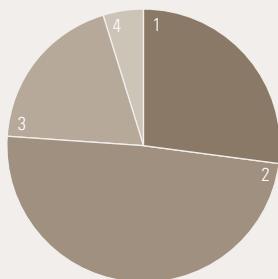
Anthony Rabin Finance Director

Directors' valuation of PPP concessions

Our portfolio

Total equity committed by sector

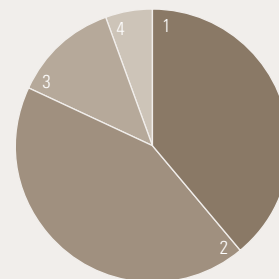
	2007	2006
1 Connect: 8 projects	£68m	£63m
2 Consort: 9 projects	£123m	£113m
3 Transform: 7 projects	£48m	£50m
4 Other: 3 projects	£12m	£8m
	£251m	£234m



Our portfolio

Cash invested by December 2007

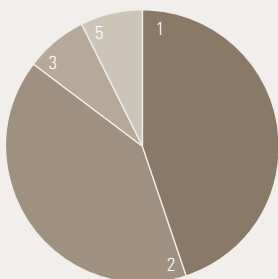
	2007	2006
1 Connect: 8 projects	£56m	£56m
2 Consort: 9 projects	£62m	£62m
3 Transform: 7 projects	£18m	£10m
4 Other: 3 projects	£8m	£7m
	£144m	£135m



Portfolio valuation: December 2007

Value by sector

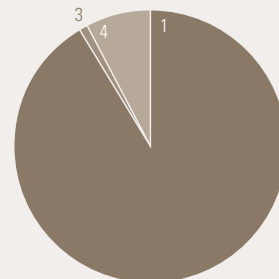
	2007	2006
1 Connect	£134m	£113m
2 Consort	£121m	£138m
3 Transform	£22m	£13m
4 Metronet	–	£59m
5 Other	£22m	£18m
	£299m	£341m



Portfolio valuation: December 2007

Value by phase

	2007	2006
1 Operations	£273m	£264m
2 Metronet	–	£59m
3 Preferred bidder	£3m	£6m
4 Construction	£23m	£12m
	£299m	£341m



Directors' valuation – movement in value 2006/2007 (£m)

2006	Equity invested	Distributions	Unwind of discount	Rebased	New projects at preferred bidder	Preferred bidder projects achieving financial close	Operational performance gains	Metronet	2007	Growth
341	40	(77)	20	324	3	5	58	(91)	299	(7.7%)

Alternative valuation – movement in value 2006/2007 (£m)

2006	Equity invested	Distributions	Unwind of discount	Rebased	New projects at preferred bidder	Preferred bidder projects achieving financial close	Operational performance gains	Metronet	2007	Growth
506	40	(81)	22	487	17	21	32	(91)	466	(4.3%)

Introduction

Balfour Beatty's PPP concession portfolio has grown in recent years to become a very significant part of the Group's business and a major driver of shareholder value. At 31 December 2007, Balfour Beatty had total committed equity and subordinated debt of £251m across 27 continuing projects, four of which were at preferred bidder stage. At that date, £144m had already been invested and £107m is due over the next six years. The book value of PPP investments at 31 December 2007 was £209m (2006: £314m).

Valuations of PPP equity often rely on the use of multiples to produce a proxy cash flow valuation. This produces somewhat crude benchmarks as such an approach takes no account of the time value of money, expected rate of return of the asset, the performance of the asset or the potential for capital restructuring.

In order to provide a more reliable indicator of value, Balfour Beatty has decided to publish its own valuation benchmark for the Group's PPP investments, based largely on discounting expected future cash flows but without taking into account potential refinancing gains. The valuations do not include Balfour Beatty's non-PPP infrastructure investments in Barking Power and Exeter International Airport.

Distributions

Value from the portfolio was realised during 2007 through a series of distributions from the concessions, of which the most significant was £47m from the refinancing of Consort Healthcare's Edinburgh Royal Infirmary.

Operational performance gains

Operational performance gains arise principally from reduced financing costs resulting from refinancing in the year and operational improvements identified in the year leading to a revision of future cost estimates.

Metronet

Metronet was included at its book value of £59m in the 2006 Directors' valuation. In 2007, the remaining committed equity of £32m was invested, there was £1m of negative reserve movements and the remaining balance of £90m was written off. Metronet has been removed from the committed equity and invested cash amounts as it is now a discontinued operation.

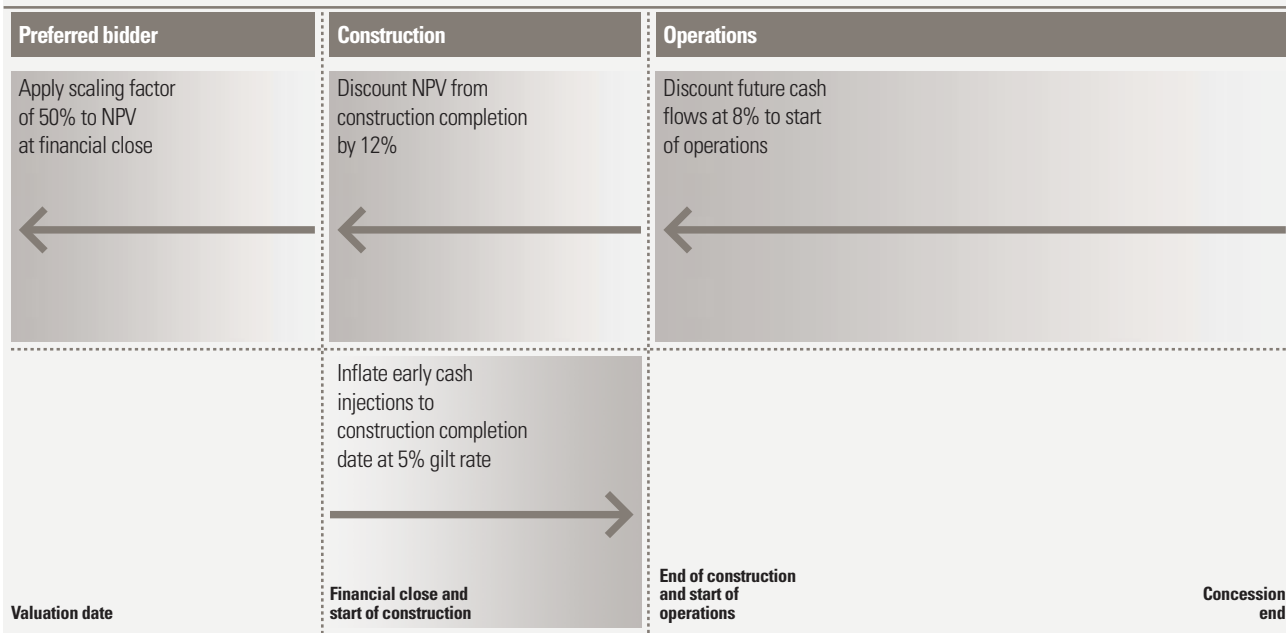
DCF methodology

The DCF methodology discounts forecast cash flows at differing discount rates depending on the project phase, and therefore the risk associated with the cash flows.

- Any investment cash flows occurring during the construction period are rolled forward at a risk-free rate (5%) to the final injection of equity at construction completion.
- Cash flows, anticipated to occur during the operations period, are discounted back to the beginning of the operations phase at 8%.

- A net present value is calculated at the end of the construction period by deducting the investment cash flows that occur at this time from the value of the discounted cash flows at the beginning of operations.
- The net present value at the end of the construction period is then discounted back to financial close at 12%.
- Any projects at preferred bidder have a scaling factor of 50% applied to the NPV at financial close.

A diagrammatic illustration of the process is shown below.



Directors' valuation

At 31 December 2007, the Directors' valuation of Balfour Beatty's portfolio stood at £299m, at a weighted average, post-tax nominal discount rate of 8.1% (2006: £341m at 8.1%). The movement in value arises through shareholder cash inflows and outflows and through underlying growth in the portfolio arising from the unwinding of the discount from year to year. A 1% change in the discount rate impacts value by approximately £35m.

Alternative valuation

In response to the increased importance of infrastructure investment, Balfour Beatty is also providing an alternative valuation. This method uses DCF to value the portfolio but applies a single discount rate of 6% to the cash flows excluding shareholder tax. This methodology has been used for all the concessions, both at financial close and preferred bidder. Using this methodology, the valuation of Balfour Beatty's portfolio as at 31 December 2007 stood at £466m (2006: £506m). The 2006 comparator valuation includes Metronet (£59m) and Powerlink (£7m) at book values. A 1% change in the discount rate impacts value by approximately £65m.

The Directors' valuation methodology

The valuation does not set out to estimate the realisable 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 23 concessions that have reached financial close and four at preferred bidder stage. One of two methods has been used to establish the value of individual concessions.

DCF

The principal method used to value the 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 (NPV). DCF has been used on all the investments in 2007. 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.

Book value

In 2006 the Metronet (£59m) and Powerlink (£7m) concessions were included at the current carrying value in the accounts (book value). Metronet has now been written off and discussions with London Underground on Powerlink have concluded such that the cash flows now have a sufficient degree of certainty for the concession to be valued using DCF. Accordingly no concessions have been included in the 2007 valuation at book value. Moving from a book value to a DCF valuation of Powerlink increased its Directors' valuation in 2007 from £7m to £10m.

Assurance

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

Principal risks and risk management

The identification, assessment, pursuit and management of opportunities and the associated risks is an integral and inseparable part of management skills and processes. These are a core element of activity throughout the Group and, as such, are especially important for stakeholders.

As referred to in the Directors' report, under the heading "Risk management" on page 13, a Group-wide opportunity and risk management system underpins and assists in the delivery of this principle. The system is founded upon a process that drives perceived opportunities and risks progressively, against formal impact and likelihood rating criteria, up through the management chain for review and challenge.

In addition to a discrete review of each individual opportunity and risk, various exercises are carried out at Group level, three times a year, to identify key issues facing the Group as a whole, the changing risk profile facing the Group and emerging issues that may affect the Group, as well as to assess if

the aggregation effect of lower-level risks is material. Such reviews identify the extent to which further initiatives are required, for example, to develop specific additional risk management capability and mitigation measures. The output from these reviews is contained in reports to the Board and Audit Committee

Furthermore, senior management at operating company and Group level review regularly the opportunity and risk management system and its application with a view to identifying potential improvements to the system and/or its application. The output from these reviews is captured in development plans, which are reviewed at Group level. Progress against the plans is reported upon three times a year to Group senior management and the Board and Audit Committee. Occasionally, independent third parties are engaged to assist the Group with the identification and implementation of potential improvements.

Risk management process



Principal risks and risk management

The following table shows the key business risks, which are then addressed below.

Risk group	Type of risk
• External	<ul style="list-style-type: none"> • Government policy and funding • Customer
• Strategic	<ul style="list-style-type: none"> • Bidding • Joint venture • Acquisition • Investment
• Organisation and management	<ul style="list-style-type: none"> • People • Pension • Information technology
• Delivery and operational	<ul style="list-style-type: none"> • Asset and service delivery and management • Supply chain • Financial • Health and safety • Environmental

External risks

The Group addresses continually the impact of the external business environment, updating as appropriate its strategy and medium-term planning both at Group and operating company level. Areas of focus include the following:

Government policy and funding risk

A significant proportion of the Group's revenue flows from contracts founded upon government policy and/or public funding, both in the UK and overseas. The Group seeks to mitigate the exposure to an adverse change in national policy or funding by broadening incrementally the portfolio of dependency and by diversifying on a measured and controlled basis into other areas of activity, as referred to in the Chief Executive's review from page 8 of the Annual review and summary financial statement.

Customer risk

The increasing demand from customers for innovation and the provision of professional services, whether as a discrete contract or as a component in a contract, has been sustained. The Group has in place its own specialist operating company with such skills, which along with selected operating companies is developing further such capabilities.

Strategic risks

Additionally, in the pursuit of business opportunities the Group is particularly aware of the potential for importing risk, whether by way of winning new contracts, forming joint ventures, acquiring businesses or investment. Rigorous processes are therefore in place for managing such exposure within a specified opportunity and risk management framework that applies to all operating companies and Group functions, as follows:

Bidding risk

The Group's operating companies bid selectively for a large number of contracts each year and a more limited number of concession opportunities. Tenders and investment appraisals are developed in accordance with thorough processes for estimating and risk identification and assessment, with particular attention to new or unique characteristics. They are subject to formal review and approval by tender review and investment committees established at Board, sector or operating company level depending upon the value and nature of the contract.

Joint venture risk

Joint ventures are formed for contracts where to do so will strengthen the quality of the bid and prospects of delivering a contract successfully. Procedures are in place to ensure that joint venture partners bring skills, experience and resources that complement and add to those provided from within the Group.

Acquisition risk

Potential acquisitions are identified by the operating companies and subject to review with Group management to address, inter alia, the strategic fit and the capacity of the Group to manage the projected level of growth. Group management project manages the due diligence, with the operating company drawing on its own resources and those from other parts of the Group in order to ensure that the most appropriate personnel with relevant experience and knowledge conduct the detailed due diligence. Where necessary, specialist external resources are engaged. Post-acquisition integration is closely managed, drawing on the detailed due diligence material and integration tracker system for each functional activity, with reviews conducted formally at prescribed periods following the acquisition. As the Group grows it recognises that acquisitions may bring new approaches to opportunity and risk management from which the Group can learn and these are factored into reviews of potential improvements referred to under the introduction above.

Investment risk

The Group's basic approach is the pursuit of investment opportunities on a limited recourse finance basis in those business sectors where it has appropriate experience. It uses this platform as a basis for moving incrementally into new sectors with appropriate partners. The degree of leverage associated with such investments reinforces the need for the application of a rigorous risk management process drawing on standard operating procedures. Such activity is conducted by a discrete group of personnel with extensive experience in the relevant fields of activity. The consequent delivery risk arising on investment activities is managed and mitigated by the careful selection of delivery and service partners.

Organisation and management risk

Similarly, a premium is placed by the Group on the review, development and maintenance of the operating fabric and culture that is fundamental to managing risks. Attention is being paid to the following:

People risk

The retention and recruitment of staff for an organisation that is continually growing significantly, either organically or by acquisition, is a challenge faced by the Group and the industries in which it operates.

The Group utilises a range of recruitment processes relevant to specific labour markets. The recruitment of graduates is centrally managed and co-ordinated as is their induction and training.

Remuneration and incentive policies and programmes are designed to be market competitive and, while locally determined, are centrally co-ordinated.

Pension risk

The Financial review from page 4, together with Note 26 to the accounts, addresses the Group's pension risks.

Information technology risk

The Group is conscious of the reliance placed on IT systems as a platform for efficient delivery of day-to-day operational activities and for knowledge gathering and sharing. Following an internal review, supported by an independent third party review team, the Group has positioned itself to respond more rapidly to increasing demands in this area by augmenting its central IT team to work with operating companies and Group functions to develop and deliver further improvements in line with the Group's IT and disaster recovery strategies.

Delivery and operational risks

In delivering contracts and business improvement initiatives, rigorous processes are in place for managing the potential risk exposure:

Asset and service delivery and management risk

The Group is engaged on a wide range of contracts eg asset creation, long-term maintenance, facilities management and/or service contracts, with the successful discharge of all contracts being controlled and managed through the Group's operating structure. The Group's procedures embrace regular and frequent reviews with an agenda centred on health, safety and environmental performance, issues affecting delivery and the impact on costs to completion and forecast revenue. This approach is underpinned by a continuing focus on assurance as to the effectiveness of the relevant controls.

Supply chain risk

An increasing proportion of the Group's supply base is retained in long-term relationships based on the compatibility of their values and behaviour with the requirements of the Group as well as product quality and price.

Financial risk

The Financial review from page 4, together with Note 21 to the accounts, addresses the Group's financial and treasury risks.

Health, safety and environmental risks

The Group has sustained the attention it gives to HS&E, along with a continuing objective of improving its performance, as reported on in more detail in the Corporate Responsibility statement from page 44 of the Annual review and summary financial statement.

Directors' report

Business review

The Chairman's statement, the Chief Executive's review, the Operating review and the Corporate responsibility statement, included in the Annual review and summary financial statement, and the Financial review on pages 4 to 5, report on the principal activities of the Group, its operations during 2007 and future developments in its businesses and are incorporated by reference into the Directors' report and accounts.

Dividends

The Directors recommend a final dividend on ordinary shares of 6.9p (net) per share, making, with the interim dividend of 4.6p, a total dividend for 2007 of 11.5p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2007.

Directors' interests

No Director had any material interest in any contract of significance with the Group during the period under review. The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive schemes (the Performance Share Plans 2001 and 2006), the deferred bonus plan and in respect of options, are set out in the tables in the Remuneration report beginning on page 16.

The Company has provided a qualifying third party indemnity to each of the Directors, which remains in force.

Share capital and major shareholders

Details of the share capital of the Company as at 31 December 2007, including the rights attaching to each class of share, are set out in Note 28 on pages 65 and 66. During the year to 31 December 2007 no ordinary shares were repurchased for cancellation and 4,957,163 preference shares (representing 4.23% of the preference share capital) were repurchased for cancellation for a total consideration of £7,500,534 at an average price of 151.3p. 1,286,018 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 1,271,342 ordinary shares were issued following the exercise of options held under the Company's executive share option schemes. No other shares were issued during the year.

At 31 December 2007, the Directors had authority, under the shareholders' resolutions approved at the AGM and separate class meeting held in May 2007, to purchase through the market 43,071,984 ordinary shares and 17,245,795 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which follows the 2008 Annual General Meeting.

Throughout the year all the Company's issued share capital was publicly listed on the London Stock Exchange, and it remains so as at the date of this report. There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the Articles of Association and the prevailing law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

Details of employee share schemes are set out in Note 31 on pages 71 and 72. Shares held by the Balfour Beatty Employee Share Ownership Trust are not voted.

There is no person who has special rights of control over the Company's share capital and all issued shares are fully paid. A number of the Company's significant banking, joint venture and contract bond agreements include provisions which become exercisable by a counterparty upon a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

As at 4 March 2008, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

Standard Life Investments Limited	9.06%
Lloyds TSB Group plc	6.30%
Schroder Investment Management Limited	6.06%
Legal & General Group plc	4.01%
Prudential plc	3.43%

Corporate governance and the Combined Code

Overview

The Board continues to endorse and apply the principles of good corporate governance reflected in the 2006 Combined Code (the "Code"), as appended to the Listing Rules of the UK Listing Authority.

The governance of the Company through the year in the light of the principles and supporting principles and provisions of the Code is described in the following paragraphs. Throughout the year ended 31 December 2007 and save as otherwise explained in the paragraph headed "Compliance with the Code" on page 15, the Board believes that the Company was in compliance with the provisions of the Code.

Honorary President

Viscount Weir is Honorary President of the Company, having been appointed to this position in May 2003 following his retirement as Chairman.

The Board

The Board currently comprises 10 Directors, of whom seven, including the Chairman, are non-executive. Details of the one change during the year can be found under the heading "Directors" below. In addition, Duncan Magrath was appointed an executive Director from 31 March 2008. The Directors believe that the Board continues to include an appropriate balance of skills and, with them, the ability to provide effective leadership for the Group.

Throughout 2007 and as at the date of this report, the Chairman was Sir David John, the Chief Executive was Ian Tyler and the senior independent Director was Robert Walvis. Sir David John continued as chairman of each of the Nomination Committee and the Business Practices Committee. Robert Walvis continued as chairman of the Remuneration Committee and Steven Marshall continued as chairman of the Audit Committee throughout the year, and each remains chairman as indicated, at the date of this report.

As stated in the announcement made on 19 February 2008, Anthony Rabin was appointed Deputy Chief Executive with effect from 31 March 2008 and Duncan Magrath was appointed Finance Director with effect from the same date. As stated in the further announcement made on 26 February 2008, Sir David John is retiring as Chairman and from the Company after the AGM on 15 May 2008, and will be succeeded as Chairman by Steven Marshall.

The Board operates both formally, through Board and Board Committee meetings, and informally through regular contact between Directors as required. Decisions on a list of specific matters, including the approval of financial statements, major tenders and capital expenditure, and most acquisitions and disposals, are reserved to the Board or Board Committees. Matters falling outside the list are delegated to management. The list of these reserved matters is reviewed by the Board from time to time, most recently in December 2006.

Most meetings of the Board during 2007 were held in London, with two meetings held elsewhere. In July, a meeting was held on the site of the new Birmingham Hospital, which is in the course of construction by the Group. In November, a meeting was held in Washington DC, when Directors were able to meet the management of Balfour Beatty Construction US and view some of its projects in the Washington area.

Procedures for Board meetings remain unchanged from previous years. Papers are generally sent out at least three days in advance of the meeting. These include a written report from each of the Chief Executive, the Finance Director, the director of Safety, Health and the Environment, and the group managing directors. At the meetings, oral reports are made on issues arising from the written reports, and both those and other matters of immediate interest or concern are discussed by the Board. Apart from the meetings that approve the interim and final results respectively, and the meeting prior to the Annual General Meeting, a separate presentation on a topic of interest or concern, such as the operations of a particular business, is normally made to the Board. Each meeting lasts three to four hours, but can be longer.

The Board met on 12 occasions in the course of 2007. Two of the meetings were called at short notice respectively to consider issues surrounding the Company's shareholding in Metronet and a potential acquisition. Directors unable to attend either meeting due to other commitments were briefed separately.

A table showing attendance at Board meetings, and at meetings of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Business Practices Committee, is set out on page 12. In addition, the non-executive Directors held two separate meetings during the year, one being attended by the Chairman and one taking place without the Chairman.

Chairman

Sir David John became Chairman in May 2003, having joined the Board in August 2000. Sir David spends an average of two days per week on the business of the Company. He has other significant commitments as non-executive chairman of The BSI Group and of Premier Oil plc. The Board considers that his other commitments are not of such a nature as to hinder his activities as chairman of the Company or those as chairman of the Nomination and Business Practices Committees. It was announced on 26 February 2008 that Sir David would be stepping down as Chairman after the AGM on 15 May 2008.

Directors

Brief biographical details of the Directors, including the Chairman, are given in the Annual review and summary financial statement. All the Directors shown served throughout the year other than Duncan Magrath, who was appointed an executive Director from 31 March 2008 and will attend the AGM. Jim Cohen, who is not pictured, served as a Director until his retirement on 18 February 2007.

From September 2003, non-executive Directors have been appointed for specific three year terms, and it is part of the terms of reference of the Nomination Committee to review all appointments of non-executive Directors at three year intervals, or as near to that as is practicable, and make recommendations to the Board accordingly.

The Board considers that all the non-executive Directors continue to be independent.

Rotation of Directors, election and re-election

The appointment and replacement of Directors is governed by the Articles of Association and the prevailing law. The Articles may be amended by the shareholders through special resolution. The powers of directors are set out in the Articles and the general law.

The Articles of Association of the Company provide that each Director shall retire from office in the third year following the year in which last elected or re-elected, and shall be eligible for re-election. This year, the only Director to retire is Anthony Rabin, the Deputy Chief Executive from 31 March 2008, who is seeking re-election, being eligible. In addition, Duncan Magrath who was appointed from 31 March 2008, seeks election for the first time.

Board Committees

The main Board Committees, the membership of which is either wholly or substantially comprised of non-executive Directors, continue to be the Audit Committee, the Nomination Committee, the Remuneration Committee and the Business Practices Committee.

Reports on the workings of these Committees are set out below. The activities of the Remuneration Committee are set out in the Remuneration report beginning on page 16.

– The Audit Committee

The terms of reference for the Committee, based on the Smith report and the requirements of the Code, were approved by the Board in October 2003. They are subject to regular review but remain unchanged to date and are available on the Company's website. The main responsibilities of the Audit Committee remain as stated in previous reports. In summary they are:

- (1) to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- (2) to review the Group's internal financial controls established to identify, assess, manage and monitor financial risks, and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by the internal and external auditors;
- (3) to monitor and review the effectiveness of the internal audit function;
- (4) to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (5) to assess the independence, objectivity and effectiveness of the external auditor and to develop and implement policy on the engagement of the external auditor to supply non-audit services; and
- (6) to review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting.

The Committee continues to be chaired by Steven Marshall. The other members of the Committee currently are Mike Donovan, Stephen Howard, Gordon Sage and Christoph von Rohr. Chris Pearson, the Company Secretary, continued as secretary of the Committee. All members of the Committee have extensive experience of management in large international organisations. The chairman, Steven Marshall, is a fellow of the Chartered Institute of Management Accountants, and a former group finance director and group chief executive of Thom plc. He later held both these appointments at Railtrack plc.

It was announced on 26 February 2008 that Sir David John was retiring as Chairman and from the Company after five years as Chairman, having joined the Board in 2000. He will be succeeded by Steven Marshall, who has been a non-executive Director of the Company since 2005. The Board has agreed that Mr Marshall should remain chairman of the Audit Committee on an interim basis after his appointment as Company Chairman becomes effective, until a replacement with the appropriate financial and accounting background has been identified and appointed to the Board.

The Board accepted that this situation, albeit temporary, would not be compliant with the Code, but considered nonetheless that the interests of the Company and shareholders would best be served if Mr Marshall remained chairman of the Audit Committee for the time being. It is anticipated that a successor to Mr Marshall as Audit Committee chairman will be appointed in time for the Audit Committee which precedes the interim results for 2008.

Appointments to the Committee are made by the Board for a period of up to three years, extendable by no more than two additional three year periods, so long as members continue to be independent. At the Board meeting following each meeting of the Committee, the Committee chairman provides an oral report on the work of the Committee and any significant issues that may have arisen. The minutes of Committee meetings are circulated to all members of the Board.

Four meetings of the Committee were held in 2007. At the invitation of the Committee, partners from the external auditor, the Head of Group Audit, the Finance Director and the Company Chairman regularly attend each meeting. In addition, any independent non-executive Director who is not a Committee member has an open invitation to attend meetings.

Directors' report continued

In 2007, as in previous years, the main purpose of the March and August meetings of the Committee was to consider the final and interim results respectively, a process which is well established. At each of these meetings, the Committee reviewed significant accounting policies, financial reporting issues and judgements, and reports from internal financial management and internal and external auditors.

The May and November meetings of the Committee are not driven by financial results, and at these meetings the Committee was able to review a wider range of matters in addition to its usual business. In May, the Committee considered a review of taxation issues and in November, the Committee conducted a further review of the Group's enterprise resource planning system.

Throughout 2007, the Committee has continued to review the Group's financial risk management processes. This review has included reports from the Head of Group Audit on the Group's internal controls and on the work of the internal auditors, a consideration of the effectiveness both of the internal audit function and of the external audit process, a review of the resources of the external and internal auditor, and a consideration of the external auditor's management letter in respect of accounting procedures and internal financial controls. As a result, the Committee felt able to recommend to the Board that it might properly conclude that the Company continued to maintain a sound system of internal financial control, and that a proper review of the effectiveness of the Company's systems of internal financial controls had been completed.

The Committee has also considered the independence of the external auditor and received confirmation that, in its view, it remained independent of the Company. Consideration of the independence of the external auditor included the non-audit work carried out by the external auditor during the year, which continues to be covered by the policy approved by the Board in June 2003 (an analysis of non-audit fees incurred is set out in Note 4.2 on page 36). The Committee has carried out a review of the proposal made by the external auditor in respect of the audit fees and terms of engagement for the 2007 audit and has recommended that the Board proposes to shareholders that Deloitte & Touche LLP continues as the Company's external auditor.

The administrative procedures of the Committee were unchanged through the year. The Head of Group Audit continues to have direct access to the Chairman of the Committee. Separate meetings between the Committee Chairman, and the Finance Director, the Head of Group Audit and the external auditor respectively, took place after the March and August meetings.

– The Nomination Committee

The Committee was established by the Board in November 2003. Its terms of reference are available on the Company's website.

The Committee continues to be chaired by Sir David John. Its other members, currently, are Mike Donovan, Stephen Howard, Steven Marshall, Gordon Sage, Ian Tyler and Robert Walvis. The secretary of the Committee is Chris Pearson, Company Secretary.

The Committee held no formal meetings in 2007.

– The Remuneration Committee

Information about the working and membership of this Committee is contained in the Remuneration report beginning on page 16.

– The Business Practices Committee

The Business Practices Committee was chaired throughout the year by Sir David John, its other members being Mike Donovan, Christoph von Rohr, and Robert Walvis. Chris Pearson, the Company Secretary, continued as secretary to the Committee. Its terms of reference cover matters of business conduct, ethics, reputation, health, safety and the environment and matters of corporate social responsibility generally. It is also charged with reviewing the effectiveness of the whistle-blowing procedures established in the Group.

The Committee met twice in 2007. As usual, the main topics considered by the Committee throughout the year related to health, safety and the environment, including final approval of the Group's sixth corporate responsibility report, published in May 2007. The Committee also discussed, among other things, the questions of safety from a long-term perspective, the importance of a safety culture, progress in safety generally given the Group's expansion, and the practical difficulties of applying common safety standards in different jurisdictions. Regular reports were received by the Committee on the Group's charitable activities and about whistle-blowing procedure and practice.

– Table of attendance at meetings

Details of the number of meetings of, and attendances at, the Board meetings and meetings of the Audit, Nomination, Remuneration and Business Practices Committees during the year are set out in the table following. The relevant total number of meetings held in 2007 in each case is included in brackets after the name of the Board or Committee. It should be noted in reviewing attendance of meetings that when meetings are called at short notice it is not always possible for all Directors to attend, due to prior commitments.

Name of Director	Board (12)	Audit (4)	Nomination (0)	Remuneration (4)	Business Practices (2)
M J Donovan	12	4	–	–	2
S L Howard	11	3	–	4	–
J L Cohen*	1	–	–	–	–
Sir David John	12	–	–	–	2
S Marshall	11	4	–	3	–
A L P Rabin	12	–	–	–	–
Dr H C von Rohr	10	3	–	3	2
G H Sage	11	4	–	3	–
I P Tyler	12	–	–	–	–
R J W Walvis	12	–	–	4	2
P J L Zinkin	12	–	–	–	–

*Retired on 18 February 2007.

Board, Committee and individual director evaluation

The Board as a whole and its main Committees were the subject of an evaluation exercise carried out in 2004 by an external consultant. The actions agreed which arose from the report were implemented through 2005. A further full evaluation exercise, of the Board and its main Committees, was carried out during 2007 by an external consultant. While no substantive issues emerged from the exercise, a number of minor procedural matters were identified as meriting attention and possible changes to current practice, and these are under consideration for implementation during 2008 together with any changes to Board procedures necessitated by the coming into force of the Companies Act 2006.

Dialogue with shareholders

The Company has continued its long-established programme of communication with institutional investors and brokers throughout 2007. Presentations of the half year and full year results were made in accordance with the practice of previous years. Some 60 meetings have been held at regular intervals through the year with institutional shareholders, in addition to meetings with brokers and analysts, and a number of analysts and key shareholders were invited to visit the operations of Balfour Beatty Construction in the USA in October 2007. This programme will continue and be expanded where appropriate, subject to the constraints of regulation and practice.

Reports to the Board on meetings or other contact with shareholders or their representatives are made by executive Directors on a regular basis. As before and on occasion, the Chairman attends meetings with shareholders and any non-executive Director is always welcome to do so too. The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman, through Mr Walvis, the senior independent Director, and through the regular reports to the Board, they are kept fully aware of the views of the larger shareholders in the Company and the investment community generally.

Risk management

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Group's principal risks and how they are mitigated are summarised on pages 8 and 9. As for previous years the Board has continued to assess the effectiveness of the risk management processes and internal controls during 2007 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

- the results of internal audit's reviews of internal financial controls;
- a Group-wide certification that effective internal controls had been maintained, or, where any significant non-compliance or breakdown had occurred with or without loss, the status of corrective action; and
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

The Group's systems and controls are designed to ensure that the Group's exposure to significant risk is properly managed, but the Board recognises that any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved are treated, for these purposes, as part of the Group. Where they are not, systems of internal control are applied as agreed between the parties to the venture.

Central to the Group's systems of internal control are its processes and framework for risk management. These accord with the revised Turnbull Guidance on internal controls and were in place throughout the year and up to the date of signing this report.

The Group's systems of internal control operate through a number of different processes, some of which are interlinked. As stated in the report for 2006, these include:

- the annual review of the strategy and plans of each operating company and of the Group as a whole in order to identify, inter alia, the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions;

- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and line management, including particular areas of business or project risk. This is used to update both management's understanding of the environment in which the Group operates and the methods used to mitigate and control the risks identified;
- individual tender and project review procedures commencing at operating company level and progressing to Board Committee level if value or perceived exposure breaches certain thresholds;
- regular reporting, monitoring and review of health, safety and environmental matters;
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself;
- the review of specific material areas of Group-wide risk and the formulation and monitoring of risk mitigating actions;
- the formulation and review of properly documented policies and procedures, updated through the free and regular flow of information to address the changing risks of the business;
- specific policies set out in the Group Finance Manual, covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls;
- a Group-wide risk management framework which is applied to all functions in the Group, whether operational, financial or support. Under it, the key risks facing each part of the Group are regularly reviewed and assessed, together with the steps to avoid or mitigate those risks. The results of those reviews are placed on risk registers and, where necessary, specific action plans are developed;
- reviews and tests by the internal audit team of critical business financial processes and controls and spot checks in areas of perceived high business risk; and
- the Group's whistle-blowing policy.

These systems are extended, as soon as possible and as appropriate, to all companies joining the Group.

Annual General Meeting

Sir David John, who chairs the Nomination and Business Practices Committees, Steven Marshall, who chairs the Audit Committee, and Robert Walvis, who chairs the Remuneration Committee, will be available at the Annual General Meeting to answer any questions arising from the work of these committees. The Board continues to regard the Annual General Meeting as an important occasion on which to communicate with shareholders, and research into subjects of likely interest to shareholders is undertaken so that questions can be answered during the meeting for the benefit of all shareholders present. Shareholders may also put questions in advance of the Annual General Meeting by writing to the Company Secretary. The business to be put to the Annual General Meeting is set out in the separate circular to shareholders.

Directors' report continued

Political donations

In common with previous years, neither the Company nor its EU subsidiaries have made political donations or incurred such expenditure during the year and there is no intention to do so in the future.

Due to a perceived lack of clarity in the law and the severe penalties for infringement, the Company has over the past few years sought limited authority from shareholders to make "political donations", even though the Company's policy in that regard, which (as stated) remains firmly in place, is that the Company shall not make such donations.

In the past year, the provisions of the Companies Act 2006 relating to political donations have come into force. These supersede the earlier rules. Unfortunately, although the law is now clearer in some respects, the new Act has still left areas of uncertainty, while the penalties remain the same. On the positive side, it is now clear that "donations" to a trade union (other than to its political fund) are not "political", and it is now reasonably clear that the grant of paid time off for local government elections has the same status. However, support for independent candidates in elections, or support for some lobbying groups, could be regarded as "political" for the purposes of the relevant laws, and the introduction of an overall £5,000 aggregate limit for all "donations" is unhelpful. It is for these reasons, among others, that the Company, on the advice of its solicitors, feels obliged to seek further limited authority from shareholders, which it will do at the Annual General Meeting in May.

Corporate responsibility

A full description of our approach to corporate responsibility appears in the Annual review and summary financial statement. This includes more information about the Group's charitable activities, which are described briefly below.

Written report

For the seventh year we are publishing a separate corporate responsibility report including safety, social and environmental issues. A copy will be available to shareholders attending the Annual General Meeting and to preference shareholders attending the separate class meeting.

Group policies

Our published policies on health and safety, the environment, ethics and human rights remain in place and are subject to regular reviews. Our progress in the areas of health and safety and the environment is described in the separate report.

Employment

As the Group operates across a number of business sectors in different environments, it has evolved a decentralised management structure, with employment policies designed to suit the needs of individual businesses. However, each employing company is expected to comply with certain key principles in its design and practice of employment policy.

These are:

- to provide an open, challenging and participative environment;
- to enable all employees to utilise their talents and skills to the full, through appropriate encouragement, training and development;
- to communicate a full understanding of the objectives and performance of the Group and the opportunities and challenges facing it;

- to provide pay and other benefits which reflect good local practices and reward individual and collective performance; and
- to ensure that all applicants and employees receive equal treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief.

Individual businesses use a variety of methods to communicate key business goals and issues to employees and also consult and involve their employees through local publications, briefing groups, consultative meetings, training programmes and working groups to assist the process of continuous improvement in the way they operate and do business. Regular publications inform employees of major business and technical achievements. Most of our UK-based businesses have either attained or have committed to attain the UK Investors in People standard.

Regular communication is maintained with the in-service and pensioner members of the Group's Pension Funds.

Charitable activities

During 2007 the Group has continued to help raise funds for charity and has also continued to provide donations in cash and kind to charitable organisations. The total amount of funds both raised by employees and donated by the Company and its UK subsidiaries during the year was £400,000.

As in previous years, the Group's main efforts have been directed to a small number of charities. Following the expiry of a two year fund raising and support agreement with Marie Curie, the charities committee decided that the Company should next turn its support to a child based charity and NCH – homes for children, was duly selected as the main focus for the Group's UK charitable fundraising efforts for 2007 and 2008. During the year, through a wide variety of fundraising events and efforts, employees raised a total of over £83,000 for NCH, a sum which was increased by a further £33,000 donated directly by the Company to NCH under a matched funding agreement.

The Company's two other main charities, Groundwork UK and the Prince's Trust – Building Better Lives, received donations of £30,000 and £10,000 respectively during the year.

Support for other charities has continued, as follows, on the basis that it was and is right to do so when charities have been supported by the Company for many years. Thus, £1,500 in cash and considerable in-kind support (estimated value £5,000) has been provided to Engineers against Poverty, and a similar cash sum was provided to RedR, which provides emergency engineering help particularly in remote locations. During the year the Company became a patron of CRASH, the construction charity, at a cost of £7,800, and has continued its membership of the charities Business in the Community (£15,000) and the Institute of Business Ethics (£5,000). Finally, £500 was again provided to the Glasgow-based charity, clubs for young people (cyp) ScotWest.

In addition, the Group's UK subsidiaries have raised a further aggregate sum of £213,000 for a very wide variety of other UK charitable causes in 2007, including a notable sum of just over £30,000 raised by Haden Young employees and supporters for Marie Curie. Much of this sum was raised by the efforts of employees, with the employing company making an additional contribution.

As in previous years, the Group continues to enable UK employees to donate to charities of their choice through the Give as you Earn scheme.

The Company has decided to provide sponsorship for the annual London Youth Games. Pursuant to that, in 2007 the Company donated £125,000 for the 2007 Games and a further £150,000 towards the 2008 Games.

Post balance sheet events

Details of post balance sheet events are set out in Note 35 on page 74.

Payment of creditors

In the UK, the Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions; to seek to ensure that suppliers are aware of the terms of payment; and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. At 31 December 2007 the year end creditors' days of the Company were 19 (2006: 17).

Financial instruments

The Group's financial risk management objectives and policies and its exposures to foreign exchange risk, interest rate risk, price risk, credit risk and liquidity risk are described in the Financial review on page 5 and detailed in Note 21 on pages 48 to 53.

Research and development

The Group continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology and asset management systems.

We continue to undertake a range of development initiatives throughout our businesses which are supported by links with selected universities.

Details of the Group's 2007 research and development expenditure are given in Note 4.1 on page 35.

Compliance with the Code

The Company believes it is compliant with the Code save only in the following respect, namely that the effectiveness of the Group's whistle-blowing procedures is reviewed by the Business Practices Committee, and not the Audit Committee. The reason for this is that, in the Company's experience, the great majority of "whistle-blowing" type complaints arise out of non-financial matters, mainly employment related. The Audit Committee is copied with all reports made to the Business Practices Committee on the whistle-blowing procedure and practice.

As stated in the column describing the Audit Committee on page 11, the Company will not comply with the Code for a temporary period later in 2008 while the new Chairman of the Company, Steven Marshall, remains chairman of the Audit Committee.

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' report on page 23, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the International Accounting Standard (IAS) regulation.

IAS 1 requires that financial statements present the Company's and the Group's financial position, financial performance and cash flows fairly (ie. give a true and fair view for each financial year). This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the preparation and presentation of Financial Statements". In nearly all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- (1) properly select and apply accounting policies;
- (2) present information, including accounting policies, in a manner which provides relevant, reliable, comparable and comprehensible information: and
- (3) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance.

The Directors consider that they have met these requirements in preparing these financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group, and are reasonably directed at safeguarding the assets and detecting and preventing fraud and other irregularities. Directors are also responsible for the preparation of a Directors' report and a Remuneration report which comply with the requirements of the Companies Act 1985.

Disclosure of information to auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

Auditors

Deloitte & Touche LLP have indicated their willingness to continue as auditors to the Company and a resolution for their reappointment will be proposed at the Annual General Meeting.

Directors' report

Signed by order of the Board

C R O'N Pearson Secretary
4 March 2008

Remuneration report

Remuneration Committee

The Remuneration Committee of the Board ("RemCo") is primarily responsible for determining the remuneration policy and conditions of service for executive Directors and the Chairman of the Company. It also reviews and monitors the level and structure of remuneration for senior management immediately below the level of the Board. The terms of reference of the RemCo can be found on the Company's website.

The RemCo consists entirely of independent non-executive Directors and has been chaired by Robert Walvis since November 2003. Its other members are Stephen Howard, Steven Marshall, Gordon Sage and Christoph von Rohr. Sir David John attends meetings by invitation. No member of the RemCo has any personal financial interest, other than as a shareholder, in the matters to be decided by the RemCo, nor potential conflicts of interest arising from cross-directorships, and no member of the RemCo has any day-to-day involvement in the executive management of the Group.

During 2007 the Chief Executive, Ian Tyler, was invited to join meetings of the RemCo when appropriate. Paul Raby, the human resources director, has acted as secretary of the RemCo during the year. No Director has any involvement in discussions relating to his own remuneration.

The RemCo is responsible for appointing external independent consultants to advise on executive remuneration matters. This advice and assistance has been provided to the RemCo throughout the year by New Bridge Street Consultants LLP ("NBSC") and PricewaterhouseCoopers LLP ("PwC"). The human resources director has also provided advice to the RemCo. The terms of reference of the independent consultants are available on the Company's website. During the year PwC also provided other tax and consultancy services to the Company. The RemCo is satisfied that no conflict of interest arises from the provision of this advice.

Executive Directors' remuneration

General policy

It is the policy of the RemCo to provide an overall remuneration package that is competitive and which facilitates the recruitment and retention of high calibre management. The annual and long-term incentive plans make up an important part of each executive Director's remuneration and are structured so as to motivate senior managers to deliver high standards of performance, without encouraging excessive risk taking. It is intended that the share-based elements of the package will not only drive performance over the long term but will also assist in aligning the interests of senior management with those of shareholders.

The structure of executive Directors' remuneration was similar in 2007 to that in 2006 and no significant changes to the existing policy are currently envisaged for 2008. Under the current arrangements, if target performance is achieved, basic salary will represent around one-half of total earnings. If maximum is achieved, which would involve a superior level of performance substantially in excess of business plan, basic salary will represent around one-third of total earnings.

Executive Directors are eligible to be members of the Balfour Beatty Pension Fund and the general pensions policy is described below.

Basic salaries

It is the policy of the RemCo to set basic salaries at levels which it believes are competitive given the size and complexity of the Company, as well as the broad business sectors in which it operates. To assist in this, NBSC and PwC provide data and independent advice on remuneration levels in companies considered to be comparable in terms of annual sales, market capitalisation and industry sector. The RemCo looks to set basic salaries at around the median of the market, but also takes into account its own judgement of the performance of the Group's businesses and the performance of individual Directors. The RemCo intends to continue to use this approach in the foreseeable future.

The basic salaries of executive Directors are reviewed annually at 1 July and the basic salaries following the review at 1 July 2007 are shown in the table below. The average increase was 8.8%.

Name of Director	Salary at 1 July 2007
A L P Rabin	£380,000
I P Tyler	£580,000
P J L Zinkin	£380,000

Annual incentive plan

Each executive Director participates in an annual incentive plan, under which predetermined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2007 was 80% of basic salary and the performance indicator chosen was profit before tax and exceptional items ("profit"). A bonus of 40% of basic salary would have been earned for the achievement of performance in line with target. Two-thirds of these bonuses are payable in cash, while the remaining one-third is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan (the "DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time (unless specified leaver conditions are met in which case early vesting may be permitted under the rules of the DBP). Bonuses are non-pensionable. The actual profit for the year ended 31 December 2007 resulted in a bonus of 80% of basic salary for each executive Director. Details are shown in the table on page 19.

Shares awarded under the DBP in respect of the annual incentive plan are shown in the table on page 21.

It is currently intended that the annual incentive plan for 2008 will operate in the same way as for 2007 and the RemCo will continue to review the competitiveness and structure of the annual incentive plan in future years.

Long-term incentive scheme

The RemCo believes that performance related long-term incentives which align executives with both business strategy and shareholders' interests are an important component of overall executive remuneration arrangements.

The Company operates a Performance Share Plan (the "Plan") under which conditional awards of shares in the Company are made to executive Directors and other selected operational and functional senior managers. The maximum market value of any award, at the award date, will be 150% of basic salary, other than in exceptional circumstances, where the limit is 200% of basic salary. It is currently the intention of the RemCo that an award of 150% of salary will only be made to the Chief Executive, with the other executive Directors receiving conditional awards over shares with a market value of 125% of basic salary.

The awards will vest, subject to the achievement of performance conditions, three years after the date of grant. It is the intention of the RemCo to make awards under the Plan in 2008 and that the performance conditions will follow a similar format to those which apply to the award made in 2007. For this award there are two performance conditions each applying to separate parts of the award.

50% of an award is linked to an adjusted earnings per share ("EPS") growth target, and will vest as shown in the table below. The RemCo will review these targets when setting the performance conditions for the 2008 award to ensure they remain appropriately stretching given the business outlook.

EPS growth over three years	Proportion of award vesting
Less than RPI + 15%	Zero
RPI + 15%	25%
RPI + 45%	100%
Between RPI + 15% and RPI + 45%	Between 25% and 100% pro-rata

Growth in EPS will be determined following independent verification of the calculations made internally.

The performance condition attached to the other 50% of an award is based on total shareholder return ("TSR") performance, measured against a group of UK listed companies operating in comparable markets to the Company. The companies used for the 2007 award were as follows: Aggreko, AMEC, Atkins (WS), Babcock International, Capita, Carillion, Costain, Hanson, Interserve, Keller, Kier, Alfred McAlpine, MITIE, Morgan Sindall, Serco, SIG, Travis Perkins and Wolseley. It is currently anticipated that a similar peer group will be used for the awards to be made in 2008.

The TSR performance of all companies will be measured over the three year performance period, with the TSR of Balfour Beatty compared to the TSR of the other companies. This part of an award will vest (in part) if Balfour Beatty's TSR is equivalent to the company whose TSR performance is at the median, with full vesting if Balfour Beatty's TSR is equivalent to, or above, that of the company whose TSR performance is at the upper quartile. The precise scale of vesting is shown in the table below:

Total shareholder return	Proportion of award vesting
Below median	Zero
Median	25%
Upper quartile	100%
Between median and upper quartile	Between 25% and 100% pro-rata

TSR will be independently calculated and verified by the RemCo. There is no provision for the re-testing of these performance conditions.

The RemCo considers that the EPS and TSR performance conditions provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market performance, providing a strong and direct alignment with investors.

Pensions

The Company's pension policy was reviewed in the light of the changes to the taxation of pensions which were introduced in April 2006. The Company is not compensating any member of the Balfour Beatty Pension Fund (the "Fund") (or any other pension scheme operated by the Company) for any additional tax which is payable as a result of the new legislation. If members choose to opt out of the Fund as a result of their benefits reaching or exceeding the Lifetime Allowance, a cash supplement will be payable to them. A Fund specific earnings cap has been maintained in the Fund for those members who were subject to the HMRC earnings cap and, in line with previous policy, a discretionary cash supplement will be paid in lieu of pension provision above the Fund specific earnings cap.

Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and other key senior managers are subject to share ownership guidelines. Executive Directors are required to build up a holding in ordinary shares in the Company to the value of 100% of their basic salary at a reference date. In order to achieve this, they will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the Plan and the DBP. At 31 December 2007, each executive Director's shareholding in the Company exceeded this guideline.

Share options

No grants of options have been made under the Executive Share Option Scheme 2001 since 31 December 2004 and it remains the intention of the RemCo that no further grants will be made under this plan to any level of management, other than in exceptional circumstances.

Executive Directors are eligible to participate in a HMRC approved savings-related share option scheme.

Service contracts

It remains the Company's policy and practice to include in executive Directors' contracts a 12 months' rolling notice period from the Company and six months' notice on the part of the Director. This policy will continue in the future.

Details of the service contracts of the executive Directors are shown in the table below.

Name of Director	Date of contract	Notice period from Company (months)
A L P Rabin	28 August 2002	12
I P Tyler	22 December 2004	12
P J L Zinkin	10 December 1991	12

Service contracts of executive Directors do not include provision for specific payment in the event of early termination, nor do they provide for extended notice periods or compensation in the event of a change of control. It is not the RemCo's intention to introduce such provisions. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period. The RemCo would seek to ensure that the Director fulfils his obligation to mitigate his losses and would also give consideration to phased payments where appropriate.

Remuneration report continued

External appointments

The RemCo recognises that benefits can arise from allowing executive Directors to take a non-executive role elsewhere. With approval of the Board in each case, executive Directors may therefore accept one external appointment and retain any related fees. Jim Cohen was appointed as a non-executive director of office2office plc on 29 June 2004 and fees of £4,711 were paid to him for his services from 1 January 2007 to his retirement from the Company on 18 February 2007.

Non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. The Chairman's remuneration falls within the remit of the RemCo and the Board determines the terms on which the services of other non-executive Directors are provided. All non-executive Directors are elected for a term of three years and must retire and, if eligible, seek re-election at the AGM in the third calendar year following the year in which they were elected (or last re-elected). They are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share option, annual incentive or long-term incentive schemes. None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause.

The dates of the letters of appointment or last election (or last re-election) of the non-executive Directors are shown in the table below.

Name of Director	Date of appointment or last election	Unexpired period at 31 December 2007 (months)
M J Donovan	10 May 2007	29
S L Howard	10 May 2007	29
Sir David John	10 May 2007	29
S Marshall	11 May 2006	17
G H Sage	10 May 2007	29
Dr H C von Rohr	10 May 2007	29
R J W Walvis	10 May 2007	29

The fees of the non-executive Directors are reviewed from time to time with the last review having taken effect from 1 July 2006, when the Board increased annual fees for the non-executive Directors (excluding the Chairman) to £42,000 and for the Chairman to £190,000.

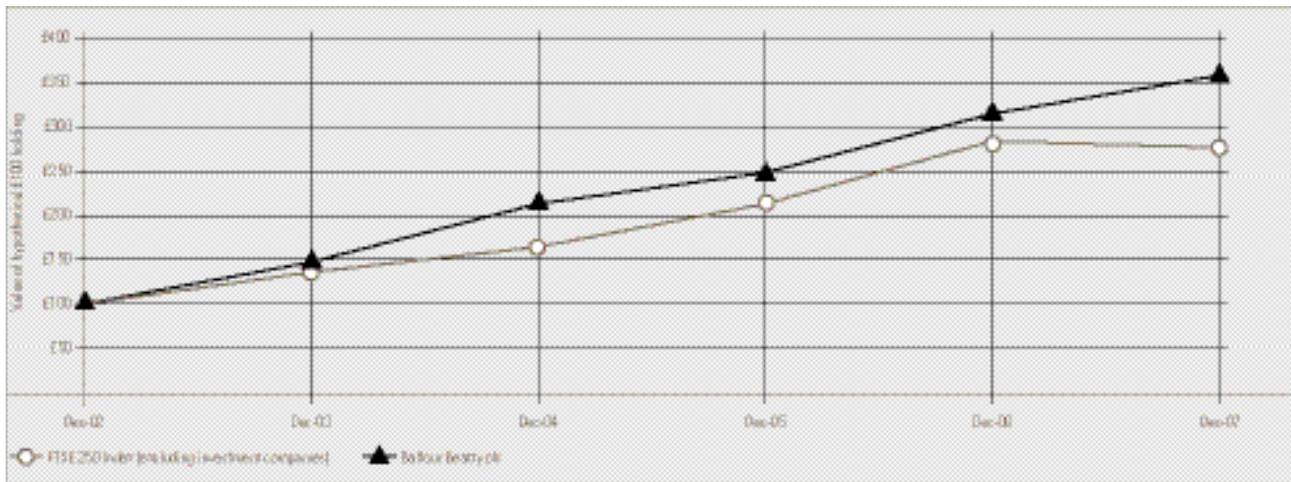
Additional fees of £7,000 per annum are payable to Robert Walvis and Steven Marshall for their chairmanship of the RemCo and Audit Committees respectively. A fee of €30,000 per annum is payable to Christoph von Rohr for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH during 2007.

Performance graph

The graph below shows Balfour Beatty's Total Shareholder Return ("TSR") performance compared to the FTSE 250 Index (excluding investment companies) TSR over the five financial years ended 31 December 2007.

The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index at the start of the period and have been calculated using 30 trading day average values.

As in previous reports, the RemCo has elected to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment companies) principally because this is a broad index of which the Company is a constituent member.



Directors' remuneration earned in 2007

The detailed information about the Directors' remuneration, set out on pages 19 to 22, has been audited by the Company's independent auditors, Deloitte & Touche LLP.

Name of Director	Basic salary £	Fees £	Pension supplement £	Benefits in kind £	Annual cash bonus £	Total remuneration 2007 £	Total remuneration 2006 £
J L Cohen	42,731	–	5,000	2,477	–	50,208	587,023
M J Donovan	–	42,000	–	–	–	42,000	22,500
S L Howard	–	42,000	–	–	–	42,000	21,000
Sir David John	–	190,000	–	–	–	190,000	181,500
S Marshall	–	49,000	–	–	–	49,000	44,000
A L P Rabin	367,500	–	64,129	19,655	202,667	653,951	561,928
G H Sage	–	42,000	–	–	–	42,000	37,500
I P Tyler	548,500	–	65,217	26,378	309,333	949,428	793,287
Dr H C von Rohr	–	62,548	–	–	–	62,548	58,048
R J W Walvis	–	49,000	–	–	–	49,000	44,000
P J L Zinkin	367,500	–	–	17,123	202,667	587,290	521,301
Former Directors	–	–	–	–	–	–	23,500
Total	1,326,231	476,548	134,346	65,633	714,667	2,717,425	2,895,587

Notes:

- (i) Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors. Jim Cohen retired from the Company on 18 February 2007.
- (ii) Jim Cohen, Anthony Rabin and Ian Tyler received taxable cash supplements in lieu of pension provision on their salary above the Balfour Beatty Pension Fund specific earnings cap.
- (iii) The performance target for annual bonus was profit before tax and exceptional items ("profit"). The profit for the year ended 31 December 2007 resulted in a bonus of 80% of basic salary for each executive Director. Two-thirds of this bonus is payable in cash and these are the amounts shown in the table above. The remaining one-third will be deferred in the form of ordinary shares in the Company which will be released to the Director on 31 March 2011, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 31 March 2008.
- (iv) Christoph von Rohr received a fee of €30,000 for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.
- (v) Benefits in kind are calculated in terms of UK taxable values. For the executive Directors they comprise: a fully expensed car, a fuel card and private medical insurance for the Director and his immediate family.
- (vi) No Director receives any expense allowance.
- (vii) Awards made under the Performance Share Plan in 2004 to Jim Cohen, Anthony Rabin, Ian Tyler and Peter Zinkin vested during the year. At the date of vesting the closing market price was 476p and the value of the shares which vested was £280,516, £275,594, £324,813 and £305,126 respectively.
- (viii) Jim Cohen, Anthony Rabin and Peter Zinkin exercised savings-related share options during the year. The closing market prices on the dates of exercise ranged between 438.5p and 462.75p and the values realisable on exercise were £2,525, £1,603 and £2,888 respectively.

Directors' interests

The interests of the Directors and their immediate families in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below.

Name of Director	Number of ordinary shares	
	At 1 January 2007	At 31 December 2007
M J Donovan	–	5,000
S L Howard	–	5,000
Sir David John	5,000	5,000
S Marshall	5,000	5,000
A L P Rabin	101,153	101,728
G H Sage	5,000	5,000
I P Tyler	113,005	133,005
R J W Walvis	10,000	10,000
P J L Zinkin	102,110	122,171

Notes:

- (i) In common with other employees of the Balfour Beatty Group, the executive Directors have an interest, as potential beneficiaries, in the entire shareholding of the Balfour Beatty Employee Share Ownership Trust, which at 31 December 2007 amounted to 1.8m ordinary shares in Balfour Beatty plc.
- (ii) All interests at the dates shown are beneficial and are in respect of 50p ordinary shares in Balfour Beatty plc. There were no changes between 31 December 2007 and 4 March 2008.

Remuneration report continued

(iii) Peter Zinkin was also interested at 1 January 2007 and 31 December 2007 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc.

Directors' long-term incentives: the Performance Share Plan

Name of Director	Date awarded	Maximum number of shares subject to award				At 31 December 2007	Exercisable from
		At 1 January 2007	Awarded during the year	Lapsed during the year	Vested during the year		
J L Cohen	19 April 2004	109,439	—	50,507	58,932	—	
	18 April 2005	98,226	—	30,014	—	68,212	April 2008
A L P Rabin	19 April 2004	107,519	—	49,621	57,898	—	
	18 April 2005	99,863	—	—	—	99,863	April 2008
	13 June 2006	131,721	—	—	—	131,721	June 2009
	17 April 2007	—	90,269	—	—	90,269	April 2010
I P Tyler	19 April 2004	126,719	—	58,481	68,238	—	
	18 April 2005	144,065	—	—	—	144,065	April 2008
	13 June 2006	228,586	—	—	—	228,586	June 2009
	17 April 2007	—	157,755	—	—	157,755	April 2010
P J L Zinkin	19 April 2004	119,039	—	54,937	64,102	—	
	18 April 2005	106,411	—	—	—	106,411	April 2008
	13 June 2006	136,989	—	—	—	136,989	June 2009
	17 April 2007	—	90,269	—	—	90,269	April 2010

Notes:

- (i) All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc.
- (ii) For the awards made in April 2005, the performance period is the three years ended 31 December 2007. The maximum award of shares shown in the table above will vest only if earnings per share before exceptional items and amortisation of intangible assets ("EPS") grows by at least 70% over the performance period. If EPS growth is 25%, the Directors will be entitled to 30% of the maximum award of shares. If EPS growth is between 25% and 70%, the number of shares vesting will be pro-rata to actual growth. No shares will vest if EPS growth is less than 25%, and there is no provision for re-testing.
- (iii) For the awards made in June 2006 and April 2007, the performance periods are the three years ending 31 December 2008 and 31 December 2009 respectively. 50% of each award is subject to an EPS growth target. The maximum number of shares subject to this performance condition will only vest if EPS growth exceeds the retail prices index ("RPI") by 45% over the performance period. If EPS growth exceeds RPI by 15% then 25% of this part of the award will vest. For growth in EPS between these points, vesting will be on a pro-rata basis. No shares will vest from this part of the award if EPS growth exceeds RPI by less than 15%. The other 50% of each award is subject to a total shareholder return ("TSR") target under which the TSR of the Company is compared to that of a comparator group of 18 companies listed in the UK, at the start of the performance period. The maximum number of shares subject to this performance condition will only vest if the Company's TSR is at the upper quartile of the comparator group. If the Company's TSR is equal to that of the median of the comparator group then 25% of this part of the award will vest. No shares from this part of the award will vest if the Company's TSR is below that of the median of the comparator group. For TSR performance between median and upper quartile, vesting will be on a pro-rata basis. There is no provision for re-testing of either of the performance conditions.
- (iv) The average middle market price of ordinary shares in the Company for the three dealing dates before the award dates which was used for calculating the number of awards granted, was 260.417p for the 2004 award, 305.417p for the 2005 award, 308.417p for the 2006 award and 491.583p for the 2007 award. The closing middle market price of ordinary shares on the date of the awards was 260p, 290p, 301.25p and 490.75p respectively.
- (v) Jim Cohen retired from the Company on 18 February 2007. At this time a proportion of his 2005 award lapsed reflecting the proportion of the performance period for this award which had not been completed at the date of retirement. The remainder of this award will vest in the same proportion, and at the same time, as the awards made to other participants in 2005.
- (vi) The performance period for the awards made in April 2005 was completed on 31 December 2007. The growth in EPS for this period was 58.37% and as a result, 81.91% of each participant's conditional award will vest on 18 April 2008.
- (vii) The performance period for the awards made in April 2004 was completed on 31 December 2006. The growth in EPS for this period was 40.33% and as a result, 53.85% of each participant's conditional award vested on 19 April 2007. The closing middle market price of ordinary shares on the vesting date was 476p.

Directors' Deferred Bonus Plan awards

Name of Director	Date of initial award	Number of shares awarded							At 31 December 2007	Vesting date
		At 1 January 2007	Awarded during the year	Awarded during the year in respect of dividends		Lapsed during the year	Vested during the year			
				2 July 2007	12 December 2007					
J L Cohen	31 March 2006	13,448	—	—	—	—	—	13,448	—	
A L P Rabin	31 March 2006	13,874	—	164	130	—	—	—	14,168	31 March 2009
	30 March 2007	—	16,427	195	153	—	—	—	16,775	30 March 2010
I P Tyler	31 March 2006	20,066	—	238	187	—	—	—	20,491	31 March 2009
	30 March 2007	—	23,924	283	223	—	—	—	24,430	30 March 2010
P J L Zinkin	31 March 2006	14,430	—	171	135	—	—	—	14,736	31 March 2009
	30 March 2007	—	16,427	194	153	—	—	—	16,774	30 March 2010

Notes:

- All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc.
- The awards made in 2006 will vest on 31 March 2009 and the awards made in 2007 will vest on 30 March 2010, providing the Director is still employed by the Company at the vesting date (unless specified leaver conditions are met in which case early vesting may be permitted).
- The shares awarded on 31 March 2006 and 30 March 2007 were purchased at average prices of 374.641p and 474.989p respectively.
- The shares awarded on 2 July 2007 and 12 December 2007 in lieu of dividends payable were purchased at average prices of 438.75p and 498.188p respectively.
- Jim Cohen retired from the Company on 18 February 2007. Under the rules of the Deferred Bonus Plan, the award made to him in March 2006, along with the subsequent awards in respect of dividends, vested on 18 February 2007.

Directors' share options

Name of Director	Date granted	Number of options					Exercise price	Exercisable from	Exercisable to
		At 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2007			
J L Cohen	5 May 2004	646	—	646	—	—	210.0p		
	4 May 2005	803	—	541	262	—	250.0p		
A L P Rabin	8 May 2002	575	—	575	—	—	184.0p		
	7 May 2003	444	—	—	—	444	133.0p	July 2008	December 2008
	5 May 2004	903	—	—	—	903	210.0p	July 2009	December 2009
	4 May 2005	1,031	—	—	—	1,031	250.0p	July 2010	December 2010
	3 May 2006	971	—	—	—	971	305.0p	July 2011	December 2011
	2 May 2007	—	993	—	—	993	389.0p	July 2012	December 2012
	4 May 2005	1,046	—	—	—	1,046	250.0p	July 2008	December 2008
I P Tyler	2 May 2007	—	825	—	—	825	389.0p	July 2010	December 2010
	8 May 2002	1,151	—	1,151	—	—	184.0p		
P J L Zinkin	7 May 2003	839	—	—	—	839	133.0p	July 2008	December 2008
	5 May 2004	716	—	—	—	716	210.0p	July 2009	December 2009
	4 May 2005	687	—	—	—	687	250.0p	July 2010	December 2010
	3 May 2006	717	—	—	—	717	305.0p	July 2011	December 2011
	2 May 2007	—	1,178	—	—	1,178	389.0p	July 2012	December 2012

Notes:

- All options are granted under the savings-related share option scheme, for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
- The closing market price of the Company's ordinary shares on 31 December 2007 was 497.25p. During the year the highest and lowest closing market prices were 516.5p and 402.5p respectively.
- Jim Cohen retired from the Company on 18 February 2007. Under the rules of the savings-related share option scheme, he was able to exercise his 2004 grant in full and also an element of his 2005 grant.

Remuneration report continued

Directors' pensions

Executive Directors participate in the Balfour Beatty Pension Fund (the "Fund"). The scheme provides for a pension at a normal retirement age of 62 (under the Fund's rules) and each Director pays an annual contribution equal to 5% of pensionable salary. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to HMRC limits. With effect from 6 April 2006, HMRC limits were changed, and as a result the HMRC earnings cap is no longer in force. However, a Fund-specific earnings cap has been retained in the Fund. The salaries of Jim Cohen, Anthony Rabin and Ian Tyler were subject to the Fund earnings cap for pension purposes. Details of the taxable cash supplements paid to them by the Company, in lieu of pension provision above the Fund earnings cap are shown in the table on page 19. Directors may be paying additional voluntary contributions, but neither the contributions nor the resulting benefits are included in the tables below.

The table below sets out the accrued deferred pension which would be paid annually from the scheme at normal retirement age based on each executive Director's service to 31 December 2007 as well as the additional pension benefit secured in respect of service during the year.

Name of Director	Age at 31 December 2007 years	Pensionable service at 31 December 2007 years	Accrued deferred pension at 31 December 2006 £ pa	Increase in accrued deferred pension during the year		Accrued deferred pension at 31 December 2007 £ pa	Transfer value corresponding to increase in excess of inflation at 31 December 2007 less Director's contributions (Note i) £
				Inflation £ pa	Increase in excess of inflation £ pa		
J L Cohen (note iii)	65	13	40,480	—	908	41,388	15,727
A L P Rabin	52	14	48,748	1,755	3,691	54,194	41,515
I P Tyler	47	11	28,620	1,030	2,780	32,430	21,409
P J L Zinkin	54	26	166,191	5,983	11,295	183,469	144,121

Notes:

- The transfer value of the increase in accrued deferred pension is the present value of the increase in excess of inflation in the deferred pension and associated benefits during the period, less the Director's contributions, calculated using the transfer basis in force at 31 December 2007 and on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pensions arrangements.
- Jim Cohen retired from the Company on 18 February 2007 and started to draw his pension from 6 April 2007. The year end figure shown above is the annual pension receivable from 6 April 2007. The figure shown at 31 December 2006 is the pension Mr Cohen would have received had he drawn his pension from that date.

The table below sets out the transfer value at 31 December 2007 of each executive Director's accrued deferred pension at that date as well as the movement in that transfer value over the period. The transfer values represent the cash equivalent values that would have been payable from the scheme had the Directors left service on the dates shown, and reflect the age of the Director, his period of membership of the scheme and his pensionable salary.

Name of Director	Age at 31 December 2007 years	Pensionable service at 31 December 2007 years	Transfer value at 31 December 2006 (Note i) £	Contributions made by Director during the year £	Increase in transfer value during the year less Director's contributions (Note ii) £	Transfer value at 31 December 2007 (Note i) £
A L P Rabin	52	14	598,658	5,657	73,539	677,854
I P Tyler	47	11	273,235	5,657	32,438	311,330
P J L Zinkin	54	26	2,280,644	19,123	290,517	2,590,284

Notes:

- The transfer value is the present value of the accrued deferred pension and associated benefits at the relevant date, calculated using the transfer basis then in force and on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- The figure is the difference between the transfer value of the accrued benefits at the start and end of the period, less the Director's contributions during the period.
- Jim Cohen retired on 18 February 2007. Despite the additional pension benefit secured in respect of service during the year, the transfer value has decreased during the year ended 31 December 2007 reflecting the shorter expected payment period and changing market conditions which reduce the transfer value of the pension benefits.

No past Director of the Company has received or become entitled to receive retirement benefits in excess of his entitlements on the date on which those benefits first became payable, or 31 March 1997 if later.

Remuneration report

Signed by order of the Board

R J W Walvis Director
Chairman of the Remuneration Committee
4 March 2008

Independent auditors' report to the members of Balfour Beatty plc

We have audited the Group and Company financial statements (the "financial statements") of Balfour Beatty plc for the year ended 31 December 2007 which comprise the Group and Company income statements, the Group and Company balance sheets, the Group and Company cash flow statements, the Group and Company statements of recognised income and expense and the related notes 1 to 37. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report having been audited, have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the operating review and financial review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section of the Directors' report and accounts and the contents section of the Annual review and summary financial statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs adopted by the European Union, of the state of the Group's and the Company's affairs as at 31 December 2007 and of the Group's profit and the Company's profit for the year then ended;
- the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985, and as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in Note 1 to the financial statements, the Group and the Company in addition to complying with their legal obligation to comply with IFRSs adopted by the European Union, have also complied with IFRSs issued by the International Accounting Standards Board. In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's and the Company's affairs as at 31 December 2007 and the Group's profit and the Company's profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
4 March 2008

For the year ended 31 December 2007

Group income statement

	Notes	2007			2006		
		Before exceptional items* £m	Exceptional items* (Note 8) £m	Total £m	Before exceptional items* £m	Exceptional items* (Note 8) £m	Total £m
Continuing operations							
Revenue including share of joint ventures and associates		7,488	–	7,488	5,506	–	5,506
Share of revenue of joint ventures and associates	16	(1,022)	–	(1,022)	(1,019)	–	(1,019)
Group revenue	2	6,466	–	6,466	4,487	–	4,487
Cost of sales		(5,959)	(33)	(5,992)	(4,121)	–	(4,121)
Gross profit		507	(33)	474	366	–	366
Net operating expenses							
– amortisation of intangible assets		–	(9)	(9)	–	(1)	(1)
– other		(381)	(6)	(387)	(286)	(19)	(305)
Group operating profit		126	(48)	78	80	(20)	60
Share of results of joint ventures and associates	16	65	6	71	48	–	48
Profit from operations	4	191	(42)	149	128	(20)	108
Investment income	6	29	–	29	26	–	26
Finance costs	7	(19)	(2)	(21)	(18)	(7)	(25)
Profit before taxation		201	(44)	157	136	(27)	109
Taxation	9	(53)	65	12	(35)	1	(34)
Profit for the year from continuing operations		148	21	169	101	(26)	75
(Loss)/profit for the year from discontinued operations	10	2	(20)	(18)	16	–	16
Profit for the year attributable to equity shareholders		150	1	151	117	(26)	91

*and amortisation of intangible assets (Note 14)

	Notes	2007 pence	2006 pence
Basic earnings per ordinary share			
– continuing operations	11	39.3	17.6
– discontinued operations	11	(4.2)	3.6
		35.1	21.2
Diluted earnings per ordinary share			
– continuing operations	11	39.0	17.4
– discontinued operations	11	(4.2)	3.6
		34.8	21.0
Dividends per ordinary share proposed for the year	12	11.5	9.1

For the year ended 31 December 2007

Group statement of recognised income and expense

	Notes	2007 £m	2006 £m
Actuarial gains on retirement benefit obligations		2	36
PFI/PPP cash flow hedges – fair value revaluations		(7)	32
– reclassified and reported in net profit		7	–
PFI/PPP financial assets – fair value revaluations		(26)	(2)
– reclassified and reported in net profit		(3)	–
Changes in fair value of net investment hedges		(4)	14
Currency translation differences		7	(17)
Tax on items taken directly to equity		5	(26)
Net (expense)/income recognised directly in equity		(19)	37
Profit for the year from continuing operations		169	75
(Loss)/profit for the year from discontinued operations		(18)	16
Total recognised income for the year attributable to equity shareholders	29.1	132	128

For the year ended 31 December 2007

Company income statement

	Notes	2007			2006		
		Before exceptional items £m	Exceptional items (Note 8) £m	Total £m	Before exceptional items £m	Exceptional items (Note 8) £m	Total £m
Revenue	2	56	—	56	93	—	93
Net operating expenses		(13)	82	69	(5)	—	(5)
Profit from operations		43	82	125	88	—	88
Investment income	6	28	—	28	21	—	21
Finance costs	7	(53)	(2)	(55)	(45)	(7)	(52)
Profit before taxation		18	80	98	64	(7)	57
Taxation	9	8	—	8	2	—	2
Profit for the year attributable to equity shareholders		26	80	106	66	(7)	59

For the year ended 31 December 2007

Company statement of recognised income and expense

	Notes	2007 £m	2006 £m
Actuarial (loss)/gain on retirement benefit obligations		(1)	1
Tax on items taken directly to equity		—	1
Net (expense)/income recognised directly in equity		(1)	2
Profit for the year		106	59
Total recognised income for the year attributable to equity shareholders	29.2	105	61

At 31 December 2007

Balance sheets

	Notes	Group		Company	
		2007 £m	2006 £m	2007 £m	2006 £m
Non-current assets					
Intangible assets – goodwill	13	694	427	–	–
– other	14	59	9	–	–
Property, plant and equipment	15	215	183	–	–
Investments in joint ventures and associates	16	381	458	–	–
Investments	17	57	46	1,446	904
PFI/PPP financial assets	18	62	22	–	–
Deferred tax assets	25	125	102	1	–
Derivative financial instruments	21	3	2	2	2
Trade and other receivables	22	77	50	32	32
		1,673	1,299	1,481	938
Current assets					
Inventories	19	72	75	–	–
Due from customers for contract work	20	338	252	–	–
Derivative financial instruments	21	1	3	7	3
Trade and other receivables	22	881	626	610	416
Current tax assets		–	–	6	–
Cash and cash equivalents – PFI/PPP subsidiaries	24	3	–	–	–
– other	24	391	323	80	167
		1,686	1,279	703	586
Total assets		3,359	2,578	2,184	1,524
Current liabilities					
Trade and other payables	23	(1,718)	(1,289)	(1,268)	(757)
Due to customers for contract work	20	(415)	(265)	–	–
Derivative financial instruments	21	(6)	(1)	(7)	(3)
Current tax liabilities		(7)	(28)	–	(2)
Borrowings – PFI/PPP non-recourse term loans	24	(3)	–	–	–
– other	24	(16)	(17)	(95)	(13)
		(2,165)	(1,600)	(1,370)	(775)
Non-current liabilities					
Trade and other payables	23	(135)	(77)	(25)	(25)
Derivative financial instruments	21	(6)	–	(2)	(2)
Borrowings – PFI/PPP non-recourse term loans	24	(61)	(21)	–	–
– other	24	(1)	(1)	–	–
Deferred tax liabilities	25	(7)	(5)	–	–
Liability component of preference shares	28	(87)	(90)	(87)	(90)
Retirement benefit obligations	26	(286)	(288)	(9)	(8)
Provisions	27	(128)	(109)	(10)	(9)
		(711)	(591)	(133)	(134)
Total liabilities		(2,876)	(2,191)	(1,503)	(909)
Net assets		483	387	681	615
Equity					
Called-up share capital	28	216	215	216	215
Share premium account	29	52	43	52	43
Equity component of preference shares	29	16	16	16	16
Special reserve	29	164	169	164	169
Share of joint ventures' and associates' reserves	29	178	243	–	–
Other reserves	29	9	5	48	46
Accumulated (losses)/profits	29	(152)	(304)	185	126
Total equity		483	387	681	615

On behalf of the Board

Sir David John Director
4 March 2008

A L P Rabin Director

For the year ended 31 December 2007

Cash flow statements

	Notes	Group		Company	
		2007 £m	2006 £m	2007 £m	2006 £m
Cash flows from operating activities					
Cash generated from operations	36.1	281	217	(3)	10
Income taxes paid		(24)	(24)	(2)	12
Net cash from operating activities		257	193	(5)	22
Cash flows from investing activities					
Dividends received from joint ventures and associates		83	24	52	13
Dividends received from subsidiaries		–	–	3	80
Interest received		26	29	29	21
Acquisition of businesses, net of cash and cash equivalents acquired		(198)	(80)	–	–
Purchase of property, plant and equipment		(80)	(57)	(1)	–
Purchase of investments		(11)	(8)	–	(35)
Investment in and loans made to joint ventures and associates		(50)	(22)	1	–
Investment in and loans made to subsidiaries		–	–	(231)	35
Investment in financial assets		(39)	(12)	–	–
Disposal of businesses, net of cash and cash equivalents disposed		92	–	–	–
Disposal of property, plant and equipment		9	9	–	–
Disposal of investments		–	–	84	–
Net cash (used in)/from investing activities		(168)	(117)	(63)	114
Cash flows from financing activities					
Proceeds from issue of ordinary shares		5	6	5	6
Purchase of ordinary shares		(4)	(3)	(4)	(3)
Proceeds from new loans		42	35	–	27
Repayment of loans		(1)	(27)	–	(27)
Finance lease principal repayments		–	(1)	–	–
Buy-back of preference shares		(8)	(19)	(8)	(19)
Ordinary dividends paid		(42)	(52)	(42)	(52)
Interest paid		(7)	(5)	(41)	(32)
Preference dividends paid		(11)	(12)	(11)	(12)
Net cash used in financing activities		(26)	(78)	(101)	(112)
Net increase/(decrease) in cash and cash equivalents		63	(2)	(169)	24
Effects of exchange rate changes		8	(6)	–	–
Cash and cash equivalents at beginning of year		308	316	154	130
Cash and cash equivalents at end of year	36.2	379	308	(15)	154

Notes to the accounts

1 Principal accounting policies

1.1 Basis of accounting

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 1985 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 relevant to its operations and effective for accounting periods beginning on 1 January 2007.

In the current year the Group has adopted IFRS 7 Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements. The effect of the adoption of IFRS 7 is to expand the disclosures provided in the financial statements of the Group's financial instruments and management of capital, as detailed in Note 21.

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 on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction were in issue at the date of authorisation of the financial statements but not yet effective.

IAS 1 (Revised) and IFRS 8 affect presentation and disclosures and therefore are not anticipated to have any material impact on the financial statements of the Group. IFRIC 11 will have no impact on the Group's financial statements but will affect the accounting by the Company for share options it grants to the employees of its subsidiaries. IFRIC 12 relates to the accounting for the Group's PFI/PPP concessions and would require certain assets constructed by certain of the concessions currently accounted for as "available-for-sale" financial assets to be accounted for as intangible assets. However, IFRIC 12 is not yet adopted by the European Union. The European Commission is currently preparing an effect study and an adoption decision is expected during 2008. IAS 23 (Revised 2007), IFRIC 13 and IFRIC 14 will have no impact on the financial statements of the Group.

The financial statements have been prepared under the historical cost convention, except as described under Note 1.19. The principal accounting policies adopted, all of which have been applied consistently throughout the year and the preceding year, are set out below.

1.2 Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries, together with the Group's share of the results of associates and joint ventures drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities over which the Group has control, being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or sold in the year are consolidated from the effective date of acquisition or to the effective date of disposal, as appropriate.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair value of the assets and liabilities recognised.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. Associates are entities over which the

Group is in a position to exercise significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee. The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale (see below). Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures or associates in excess of the Group's interest in those joint ventures and associates are not recognised.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate or joint venture entity at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

c) Jointly controlled operations

The Group's share of the results and net assets of contracts carried out in joint venture are included under each relevant heading in the income statement and balance sheet.

1.3 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and swaps (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Results of overseas subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year and their assets and liabilities are translated at the rates of exchange prevailing at the balance sheet date.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange prevailing at the balance sheet date. Exchange differences arising together with exchange differences on foreign currency forward contracts and other currency instruments designated as hedges of such investments are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in the income statement in the period in which the relevant entity is disposed of.

1.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales-based taxes, after eliminating sales within the Group. Revenue is recognised as follows:

- Revenue from construction and service activities represents the value of work carried out during the year, including amounts not invoiced.
- Revenue from manufacturing activities is recognised when title has passed.
- Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend income is recognised when the shareholder's right to receive payment is established.

1.5 Segmental reporting

Segmental information is based on two segment formats, of which the primary format is for business areas in accordance with the Group's internal reporting structure and the secondary format is for geographical areas. Further information on the business activities of each segment are set out in the Annual review and summary financial statement. Segment results

1 Principal accounting policies continued

represent the contribution directly attributable for the different segments to corporate overheads and the profit of the Group. Transactions between segments are conducted at arm's length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments, including the subordinated loans to PFI/PPP investments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable.

1.6 Construction and service contracts

When the outcome of individual contracts can be foreseen with reasonable certainty and can be estimated reliably, margin is recognised by reference to the stage of completion, based on the lower of the percentage margin earned to date and that prudently forecast at completion. The stage of completion is normally measured by the proportion of contract costs incurred for work performed to date to the estimated total contract costs or the proportion of the value of work done to the total value of work under the contract, except where these would not be representative of the stage of completion. Full provision is made for all known or expected losses on individual contracts immediately once such losses are foreseen. Margin in respect of variations in contract work, claims and incentive payments is recognised if it is probable they will result in revenue. Gross profit for the year includes the benefit of claims settled on contracts completed in prior years.

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

1.7 Profit from operations

Profit from operations is stated after the share of the post-tax results of equity accounted associates and joint venture entities, but before investment income and finance costs.

1.8 Finance costs

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method.

1.9 Research and development

Research expenditure is written off in the period in which it is incurred.

Internally-generated intangible assets arising from the Group's development would be recognised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

1.10 Exceptional items

Material and non-recurring items of income and expense are disclosed in the income statement as "Exceptional items". Examples of items which may give rise to disclosure as "Exceptional items" include gains or losses on the disposal of businesses, investments and property, plant and equipment, costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses, litigation and regulatory settlements, asset impairments and pension fund settlements and curtailments.

1.11 Taxation

The tax charge is composed of current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also dealt with in equity.

Current tax is based on the profit for the year.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and

liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint venture entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.12 Intangible assets

a) Goodwill

Goodwill represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired, arising on the acquisition of subsidiaries and other business entities, joint ventures and associates. Goodwill on acquisitions of subsidiaries and other business entities is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off or negative goodwill credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. The cost of intangible assets is amortised over their expected useful lives, which range from one to five years.

1.13 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes expenditure associated with bringing the asset to its operating location and condition.

Certain land and buildings were revalued under UK GAAP. On transition to IFRS, the Group has elected to use the revalued amount as deemed cost.

Except for land and assets in the course of construction, the cost of property, plant and equipment are depreciated over their expected useful lives, on a straight-line basis at rates of 2.5% for buildings and 4% to 33% for plant and equipment, or the life of the lease.

1.14 Leasing

Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease, and depreciation is provided accordingly. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the accounts continued

1 Principal accounting policies continued

1.15 Impairment of assets

Goodwill arising on acquisitions and other assets that have an indefinite useful life and are not subject to amortisation are reviewed at least annually for impairment. Other intangible assets and property, plant and equipment are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash generating units representing the lowest levels for which there are separately identifiable cash flows. Impairment losses for goodwill are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

1.16 Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

From 1 January 2005, investments are classified as either available-for-sale or held to maturity. Available-for-sale investments are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Held to maturity investments are measured at subsequent reporting dates at amortised cost.

1.17 Non-current assets held for sale

Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. Held for sale assets are measured at the lower of carrying amount and fair value less costs to sell.

1.18 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost, where appropriate, includes a proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and cost to be incurred in marketing, selling and distribution.

1.19 Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Cumulative convertible redeemable preference shares

The Company's cumulative convertible redeemable preference shares are regarded as a compound instrument, consisting of a liability component and an equity component. The fair value of the liability component at the date of issue was estimated using the prevailing market interest rate for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the embedded option to convert the liability into the Company's ordinary shares, is included in equity.

The interest expense on the liability component is calculated by applying the market interest rate for similar non-convertible debt prevailing at the date of issue to the liability component of the instrument. The difference between this amount and the dividend paid is added to the carrying amount of the liability component and is included in finance charges, together with the dividend payable, in the income statement.

b) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and

other financial instruments is set out in Note 21 and in the Financial review on page 5.

Derivatives are initially recognised on the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently remeasured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as hedges of net investments in foreign operations are recognised in equity. Changes in the fair value of the ineffective portion of net investment hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement when the foreign operation is disposed of.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded on the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised on the balance sheet are recognised in the income statement as they arise.

c) PFI/PPP concessions

Assets constructed by PFI/PPP concession companies are classified as "available-for-sale financial assets".

Income is recognised by allocating a proportion of total cash projected to be received over the life of the project to service costs, by means of a deemed constant rate of return on those costs. The residual element of projected cash is allocated to the financial asset, using the effective interest method, giving rise to interest income which is recognised in the income statement.

The fair value of the financial asset is measured at each balance sheet date by computing the discounted future value of the cash flows allocated to the financial asset. The movement in the fair value of the financial asset since the previous balance sheet date is taken to equity.

1.20 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

1.21 Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

1.22 Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to income on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

1 Principal accounting policies continued

1.23 Retirement benefit costs

The Group, through trustees, operates pension schemes the majority of which are of the defined benefit type and are funded. Contributions are determined in accordance with independent actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligation is determined at the balance sheet date using the projected unit credit method by independent actuaries. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the rate of interest on a high-quality corporate bond, less the fair value of the plan assets. Actuarial gains and losses are recognised in full outside the income statement in the period in which they occur in the statement of recognised income and expense.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

1.24 Provisions

Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability. Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

1.25 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

1.26 Share-based payments

Employee services received in exchange for the grant of share options, performance share plan awards and deferred bonus plan awards since 7 November 2002 are charged in the income statement over the vesting period, based on the fair values of the options or awards at the date of grant and the numbers expected to become exercisable. The credits in respect of the amounts charged are included within separate reserves in equity until such time as the options or awards are exercised, when the proceeds received in respect of share options are credited to share capital and share premium or the shares held by the employee trust are transferred to employees in respect of performance share plan awards and deferred bonus plan awards.

1.27 Key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make estimates and assumptions that affect amounts recognised for assets and liabilities at the balance sheet date and the amounts of revenue and the expenses incurred during the reporting period. Actual outcomes may therefore differ from these estimates and assumptions. The estimates and assumptions that have the most significant impact on the carrying value of assets and liabilities of the Group within the next financial year are discussed below.

a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in Notes 1.4 and 1.6 above, are central to the way the Group values the work it has carried out in each financial year. These policies require forecasts to be made of the outcomes of long-term construction and service contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes and maintenance liabilities.

b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash generating unit. The carrying value of goodwill at 31 December 2007 was £694m after an impairment loss of £nil was recognised in 2007. Details of the impairment loss calculation are provided in Note 13.

c) Available-for-sale financial assets

Assets constructed by the Group's PFI/PPP subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" and at 31 December 2007 had a value of £1,437m. The fair value of these financial assets is measured at each balance sheet date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates, varying from 6% to 11%, is used which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. A £26m loss was taken to equity in 2007 as a result of movements in the fair value of these financial assets.

d) PFI/PPP derivative financial instruments

The Group's PFI/PPP subsidiary, joint venture and associate companies use derivative financial instruments (principally swaps) to manage the interest rate and inflation rate risks to which the concessions are exposed by their long-term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each balance sheet date at their fair value. The fair value of derivatives constantly changes in response to prevailing market conditions. At 31 December 2007, a cumulative fair value loss of £42m had arisen on these financial instruments and a loss of £7m was taken to equity in 2007.

e) Retirement benefit obligations

Details of the Group's defined benefit pension schemes and the key valuation assumptions are set out in Note 26 and have been valued in accordance with IAS 19 "Employee Benefits". At 31 December 2007, the defined benefit obligation recognised on the Group's balance sheet was £286m (2006: £288m). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2007 the Group recognised a net actuarial gain of £2m in equity (2006: £36m), including its share of the actuarial gains and losses arising in joint ventures and associates.

f) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes.

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods, and such provisions are based upon management's assessment of exposures.

As set out in Note 1.11 above, deferred tax is accounted for on temporary differences using the liability method, with deferred tax liabilities generally being provided for in full and deferred tax assets being recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Note 25.2 details the unused tax losses for which deferred tax assets have not been recognised and the undistributed reserves of subsidiaries for which deferred tax liabilities have not been provided, together with the judgements which the Group has made at 31 December 2007 in respect of these matters. These judgements may change in the future and they will be reviewed at each balance sheet date.

g) Metronet

Estimated costs arising out of the appointment of a PPP Administrator to certain Metronet companies have been charged as an exceptional item in the accounts. At 31 December 2007 there were net liabilities totalling £23m covering, inter alia, final account settlements, running down supplier contracts, future running costs to termination, close down and redundancy costs.

Notes to the accounts continued

2 Revenue

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Revenue from contracting activities – construction	5,753	3,871	–	–
– services	602	523	–	–
Revenue from manufacturing activities	110	93	–	–
Proceeds from sale of development land	1	–	1	–
Dividends from subsidiaries	–	–	3	80
Dividends from joint ventures and associates	–	–	52	13
	6,466	4,487	56	93

3 Segment analysis – continuing operations

3.1 Total Group

	Building, building management and services 2007 £m	Civil and specialist engineering and services 2007 £m	Rail engineering and services 2007 £m	Investments 2007 £m	Corporate costs, assets and liabilities 2007 £m	Total 2007 £m
Performance by activity:						
Results						
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
Assets and liabilities						
Intangible assets – goodwill	330	213	151	–	–	694
– other	47	9	3	–	–	59
Investments in joint ventures and associates	3	75	4	299	–	381
Other assets	745	538	357	123	462	2,225
Total assets	1,125	835	515	422	462	3,359
Total liabilities	(1,315)	(677)	(403)	(123)	(358)	(2,876)
	(190)	158	112	299	104	483
Other information						
Capital expenditure	11	45	19	1	4	80
Depreciation	5	27	15	1	2	50

	Europe 2007 £m	North America 2007 £m	Other* 2007 £m	Total 2007 £m
Performance by geographic origin:				
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
Segment assets (net)	43	42	67	152
Liability component of preference shares				(87)
Net cash				313
Tax and dividends				105
Net assets				483
Capital expenditure	67	13	–	80

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

3 Segment analysis – continuing operations continued

3.1 Total Group continued

	Building, building management and services 2006 £m	Civil and specialist engineering and services 2006 £m	Rail engineering and services 2006 £m	Investments 2006 £m	Corporate costs, assets and liabilities 2006 £m	Total 2006 £m
Performance by activity:						
Results						
Group revenue	2,030	1,677	766	14	–	4,487
Group operating profit	42	46	35	(19)	(24)	80
Share of results of joint ventures and associates	1	1	3	43	–	48
Profit from operations before exceptional items and amortisation	43	47	38	24	(24)	128
Exceptional items	–	(21)	2	–	–	(19)
Amortisation of intangible assets	–	(1)	–	–	–	(1)
Profit from operations	43	25	40	24	(24)	108
Investment income						26
Finance costs						(25)
Profit before taxation						109
Assets and liabilities						
Intangible assets – goodwill	78	213	136	–	–	427
– other	1	8	–	–	–	9
Investments in joint ventures and associates	4	68	2	384	–	458
Other assets	395	506	298	44	441	1,684
Total assets	478	795	436	428	441	2,578
Total liabilities	(825)	(678)	(405)	(68)	(215)	(2,191)
	(347)	117	31	360	226	387
Other information						
Capital expenditure	6	36	14	1	–	57
Depreciation	4	23	15	1	–	43
Impairment of goodwill	–	16	–	–	–	16

Comparative figures have been restated to reflect the transfer of the property development and other legacy properties no longer used by the Group for operational purposes to Corporate costs, assets and liabilities.

	Europe 2006 £m	North America 2006 £m	Other* 2006 £m	Total 2006 £m
Performance by geographic origin:				
Group revenue	3,893	572	22	4,487
Profit from operations before exceptional items and amortisation	125	(12)	15	128
Exceptional items	(1)	(18)	–	(19)
Amortisation of intangible assets	(1)	–	–	(1)
Profit from operations	123	(30)	15	108
Segment assets (net)	64	14	52	130
Liability component of preference shares				(90)
Net cash				284
Tax and dividends				63
Net assets				387
Capital expenditure	52	5	–	57

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

Notes to the accounts continued

3 Segment analysis – continuing operations continued

3.2 Investments (Balfour Beatty Capital)

The Investments segment includes the Group's PFI/PPP activities and infrastructure investments details of which are set out below.

	Group 2007 £m	Share of joint ventures and associates 2007 £m	Total 2007 £m	Group 2006 £m	Share of joint ventures and associates 2006 £m	Total 2006 £m
Revenue						
PFI/PPP						
– joint ventures and associates (Note 16.2)	–	275	275	–	223	223
– subsidiaries (Note 3.3)	51	–	51	14	–	14
	51	275	326	14	223	237
Infrastructure (Note 16.2)	–	68	68	–	83	83
	51	343	394	14	306	320

	Group 2007 £m	Share of joint ventures and associates 2007 £m	Total 2007 £m	Group 2006 £m	Share of joint ventures and associates 2006 £m	Total 2006 £m
Profit from operations – before exceptional items and amortisation of intangible assets*						
PFI/PPP						
– joint ventures and associates (Note 16.2)	–	29	29	–	28	28
– subsidiaries (Note 3.3)	1	–	1	–	–	–
– bidding costs and overheads	(26)	–	(26)	(19)	–	(19)
	(25)	29	4	(19)	28	9
Infrastructure (Note 16.2)	–	12	12	–	15	15
	(25)	41	16	(19)	43	24

*Profit from operations before exceptional items and amortisation of intangible assets includes the Group's share of profit after taxation of joint ventures and associates (excluding exceptional items and amortisation of intangible assets).

	Group 2007 £m	Share of joint ventures and associates 2007 £m	Total 2007 £m	Group 2006 £m	Share of joint ventures and associates 2006 £m	Total 2006 £m
Net assets						
PFI/PPP						
– joint ventures and associates (Note 16.2 and 16.3)	–	212	212	–	314	314
– subsidiaries (Note 3.3)	58	–	58	21	–	21
– bidding costs and overheads	(33)	–	(33)	(20)	–	(20)
– loans from joint ventures and associates	(25)	–	(25)	(25)	–	(25)
	–	212	212	(24)	314	290
Infrastructure (Note 16.2)	–	87	87	–	70	70
	–	299	299	(24)	384	360

3 Segment analysis – continuing operations continued

3.3 PFI/PPP subsidiaries

The Group has a 100% interest in four PFI/PPP 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 PFI/PPP concessions and their balance sheets are summarised below:

	2007 £m	2006 £m
Income statement		
Group revenue	51	14
Profit from operations	1	–
Investment income	2	1
Finance costs	(2)	(1)
Profit before taxation	1	–
Taxation	–	–
Profit for the year	1	–
Cash flow		
Profit from operations	1	–
(Increase)/decrease in working capital	(3)	1
Income taxes paid	–	–
Net cash (outflow)/inflow from operating activities	(2)	1
Net cash outflow from investing activities	(36)	(7)
Net cash outflow from financing activities	(2)	(1)
Net cash outflow	(40)	(7)
Net borrowings at beginning of year	(21)	(14)
Net borrowings at end of year	(61)	(21)
Balance sheet		
PFI/PPP financial assets (Note 18)	62	22
Other net current liabilities	(4)	(1)
Cash and cash equivalents	3	–
Non-recourse term loans	(64)	(21)
Net liabilities	(3)	–

4 Profit from operations

4.1 Profit from operations is stated after charging/(crediting):

	2007 £m	2006 £m
Research and development costs	3	4
Depreciation of property, plant and equipment	50	43
Impairment of goodwill	–	16
Amortisation of other intangible assets	9	1
Impairment of trade receivables	(1)	3
Profit on disposal of property, plant and equipment	(3)	(1)
Cost of manufacturing inventory recognised as an expense	72	58
Auditors' remuneration	4	3
Hire charges for plant and equipment	115	80
Other operating lease rentals	45	43

Notes to the accounts continued

4 Profit from operations continued

4.2 Analysis of auditors' remuneration:

	2007 £m	2006 £m
Services as auditors	0.6	0.6
Other services – auditing of accounts of subsidiaries	2.1	1.6
Group audit fee	2.7	2.2
Other services – independent review of interim report	0.2	0.2
– tax services – compliance	0.1	0.1
– advisory	0.2	0.1
– other services – acquisition due diligence	0.4	0.1
– other	0.2	–
	3.8	2.7

5 Employee costs

5.1 Group

Employee costs during the year amounted to:

	2007 £m	2006 £m
Wages and salaries	1,202	923
Social security costs	116	95
Other pension costs (Note 26.1)	58	52
Share-based payments (Note 31.1)	7	4
	1,383	1,074

The average number of Group employees (including executive Directors) was:

	2007 Number	2006 Number
Building, building management and services	15,398	11,457
Civil and specialist engineering and services	13,412	11,624
Rail engineering and services	5,642	5,512
Investments	232	167
Corporate	95	102
	34,779	28,862

At 31 December 2007, the total number of Group employees was 36,080 (2006: 30,467).

5.2 Company

The average number of employees of Balfour Beatty plc was 90 (2006: 87). Total employee costs of Balfour Beatty plc were £19m (2006: £14m).

6 Investment income

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
PFI/PPP non-recourse – interest on financial assets	2	1	–	–
PFI/PPP subordinated debt interest receivable	11	8	3	3
Interest receivable from subsidiaries	–	–	21	11
Other interest receivable and similar income	16	16	4	7
Gains on derivatives designated as hedges of net investments in foreign operations	–	1	–	–
	29	26	28	21

7 Finance costs

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
PFI/PPP non-recourse – other interest payable	2	1	–	–
Interest payable to subsidiaries	–	–	38	29
Other interest payable – bank loans and overdrafts	3	3	3	3
– other loans	1	2	–	1
Losses on derivatives designated as hedges of net investments in foreign currencies	1	–	–	–
Preference shares – finance cost	12	12	12	12
	19	18	53	45
Exceptional items – premium on buy-back of preference shares	2	7	2	7
	21	25	55	52

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 2007 on 1 July 2007 to holders of these shares on the register on 1 June 2007. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share was paid in respect of the six months ended 31 December 2007 on 1 January 2008 to holders of these shares on the register on 23 November 2007.

8 Exceptional items and amortisation of intangible assets

	Group			Group 2006 £m	Company 2007 £m	Company 2006 £m
	Metronet 2007 £m	Other 2007 £m	Total 2007 £m			
8.1 (Charged against)/credited to profit from operations						
Cost of sales – Metronet – contract losses	(33)	–	(33)	–	–	–
Net operating expenses – North America integration and reorganisation costs	–	(6)	(6)	(2)	–	–
– sale of investment	–	–	–	–	82	–
– National Engineering and Contracting Company – impairment of goodwill	–	–	–	(16)	–	–
– litigation settlements and fines	–	–	–	2	–	–
– Birse Group integration costs	–	–	–	(3)	–	–
Share of joint ventures and associates – Metronet – contract profits	6	–	6	–	–	–
	(27)	(6)	(33)	(19)	82	–
8.2 Charged to finance costs						
– premium on buy-back of preference shares	–	(2)	(2)	(7)	(2)	(7)
(Charged against)/credited to profit before taxation	(27)	(8)	(35)	(26)	80	(7)
8.3 Credited to taxation – tax on items above	9	2	11	1	–	–
– recognition of US deferred tax assets	–	51	51	–	–	–
Credited to/(charged against) profit from continuing operations	(18)	45	27	(25)	80	(7)
8.4 (Charged against)/credited to profit from discontinued operations						
– profit on sale of operations	–	57	57	–	–	–
– Metronet – impairment of investment	(87)	–	(87)	–	–	–
– tax thereon	10	–	10	–	–	–
Exceptional items credited to/(charged against) profit for the year	(95)	102	7	(25)	80	(7)
Amortisation of intangible assets	–	(9)	(9)	(1)	–	–
Tax thereon	–	3	3	–	–	–
Credited to/(charged against) profit for the year	(95)	96	1	(26)	80	(7)

Notes to the accounts continued

8 Exceptional items and amortisation of intangible assets continued

8.1 In 2007, as a result of the request by Metronet Rail BCV Ltd to the Arbiter 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 has been 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 contract, and other direct contracts with Group subsidiaries. These costs include, where relevant, provision for winding down contracts, outstanding receivables and settlement of other trading items. In the US, costs of £3m incurred in the reorganisation and integration of Balfour Beatty Construction (formerly Centex Construction) acquired in the year have been charged against Group operating profit, together with costs of £2m (2006: £nil) incurred on the reorganisation of Balfour Beatty Rail Inc and further costs of £1m (2006: £2m) arising on the reorganisation of the central division of Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc).

In 2006, as a result of unsatisfactory performance in the central division of Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc), the goodwill arising on the acquisition of National Engineering and Contracting Company was written off and charged against Group operating profit (£16m). The exceptional item credited to Group operating profit in 2006 (£2m) arose from the reduction in the fine (less associated costs) imposed on Balfour Beatty Rail Infrastructure Services Ltd in respect of the Hatfield derailment in October 2000. Costs incurred in the reorganisation and integration of Birse Group acquired in 2006 (£3m) were charged against Group operating profit.

8.2 The exceptional items charged against finance costs are the premium of £2m (2006: £7m) arising on the repurchase for cancellation of 5.0m (2006: 12.0m) preference shares at a cost of £8m (2006: £19m).

8.3 The exceptional items charged against profit from operations have given rise to a net tax credit of £11m (2006: £1m). As a result of the acquisition of Balfour Beatty Construction (formerly Centex Construction), the benefits of tax losses and other tax assets arising from temporary differences in the US have crystallised and have been recognised in full in accordance with IAS 12, giving rise to an exceptional gain of £51m in 2007.

8.4 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 2007, 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 has been credited to profit from discontinued operations. The carrying value of this investment at the date of sale was £27m and the costs associated with the disposal amounted to £2m. The gain reported by the Company on the sale of this investment was £82m. 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, has been written down to £nil.

9 Taxation

9.1 Taxation charge

	Group					
	Before exceptional items* £m	Exceptional items* (Note 8) £m	Total 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
UK current tax						
– corporation tax for the year at 30% (2006: 30%)	31	(9)	22	19	(6)	(5)
– double tax relief	(6)	–	(6)	(4)	–	–
– adjustments in respect of previous periods	(2)	–	(2)	–	(1)	–
	23	(9)	14	15	(7)	(5)
Foreign current tax						
– foreign tax on profits for the year	11	–	11	7	–	–
Adjustments in respect of previous periods	2	–	2	–	–	–
	13	–	13	7	–	–
Total current tax	36	(9)	27	22	(7)	(5)
Deferred tax						
– UK	6	(1)	5	11	(1)	3
– foreign tax	11	(55)	(44)	1	–	–
Total deferred tax	17	(56)	(39)	12	(1)	3
Total tax (credit)/charge	53	(65)	(12)	34	(8)	(2)

*and amortisation of intangible assets.

The Group tax charge above does not include any amounts for joint ventures and associates (see Note 16.2) or discontinued operations (see Note 10), whose results are disclosed in the income statement net of tax.

In addition to the Group tax charge above is £5m of tax credited (2006: £26m charged) directly to equity, comprising a current tax credit of £1m (2006: £8m charge), a deferred tax charge of £3m (2006: £7m), and a credit in respect of joint ventures and associates of £7m (2006: £11m charge). Further, there is a credit of £10m (2006: £nil) which relates to tax on discontinued operations as disclosed in Note 10.

In addition to the Company tax credit above are amounts credited directly to equity for current tax of £nil (2006: £nil) and deferred tax of £nil (2006: £1m).

The weighted average applicable tax rate is 33% (2006: 32%) based on profit before taxation, exceptional items and amortisation of intangible assets, excluding the results of joint ventures and associates.

9 Taxation continued

9.2 Taxation reconciliation

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Profit before taxation from continuing operations	157	109	98	57
Less: share of results of joint ventures and associates	(71)	(48)	—	—
Group/Company profit before taxation	86	61	98	57
Add/(less): exceptional items* charged/(credited) excluding share of joint ventures and associates	50	27	(80)	7
Profit before exceptional items, amortisation of intangible assets and taxation	136	88	18	64
Tax on Group/Company profit before taxation at standard UK corporation tax rate of 30% (2006: 30%)	26	19	29	17
Effects of:				
Expenses not deductible for tax purposes including amortisation of goodwill	5	5	2	2
Dividend income not taxable	—	—	(17)	(27)
Preference shares finance costs not deductible	4	6	4	6
Losses not available for offset	—	2	—	—
Higher/(lower) tax rates on foreign earnings	3	2	—	—
Disposal of investments and other assets not taxable	—	—	(25)	—
Adjustments in respect of other periods	—	—	(1)	—
Recognition of losses not previously recognised	(52)	—	—	—
Impact of change in UK tax rate on deferred tax balances	2	—	—	—
Total tax charge/(credit) on Group/Company profit from continuing operations	(12)	34	(8)	(2)
Add: tax credit on exceptional items and amortisation of intangible assets	65	1	—	—
Tax and amortisation of intangible assets charge/(credit) on Group/Company profit before exceptional items and amortisation of intangible assets	53	35	(8)	(2)

*and amortisation of intangible assets.

10 Discontinued operations

	EDAL 2007 £m	DML 2007 £m	Metronet 2007 £m	Total 2007 £m	DML 2006 £m	Metronet 2006 £m	Total 2006 £m
Group revenue	3	—	—	3	—	—	—
Group share of revenue of joint ventures and associates	—	55	142	197	111	235	346
Group operating profit	(1)	—	—	(1)	1	—	1
Group share of results of joint ventures and associates	—	3	—	3	7	8	15
	(1)	3	—	2	8	8	16
Profit on sale of operations	—	57	—	57	—	—	—
Impairment of investment	—	—	(87)	(87)	—	—	—
Taxation thereon	—	—	10	10	—	—	—
(Loss)/profit for the year from discontinued operations	(1)	60	(77)	(18)	8	8	16

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 has been treated as an asset held for resale, and its results 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, has been classified as discontinued. The results of Metronet Rail BCV Holdings Ltd and Metronet Rail SSL Holdings Ltd ("Metronet") previously included in Investments have been classified as discontinued as a result of the appointment of a PPP Administrator to the concession companies on 18 July 2007.

DML contributed £2m to the Group's cash generated from investing activities during the year (2006: £nil), excluding net proceeds of sale. Cash used in investing activities during 2007 in respect of Metronet was £32m (2006: £11m). EDAL used £1m cash from operating activities and £1m cash in financing activities during the year.

In accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, the results of DML and Metronet are shown as discontinued operations in the prior year.

Notes to the accounts continued

11 Earnings per ordinary share

	Basic 2007 £m	Diluted 2007 £m	Basic 2006 £m	Diluted 2006 £m
Earnings				
– continuing operations	169	169	75	75
– discontinued operations	(18)	(18)	16	16
	151	151	91	91
Exceptional items	(7)		25	
Amortisation of intangible assets	6		1	
Adjusted earnings	150		117	
Comprising:				
– continuing operations	148		101	
– discontinued operations	2		16	
	150		117	
	Basic 2007 m	Diluted 2007 m	Basic 2006 m	Diluted 2006 m
Weighted average number of ordinary shares	430.0	433.7	427.1	431.0
	Basic 2007 Pence	Diluted 2007 Pence	Basic 2006 Pence	Diluted 2006 Pence
Earnings per ordinary share				
– continuing operations	39.3	39.0	17.6	17.4
– discontinued operations	(4.2)	(4.2)	3.6	3.6
	35.1	34.8	21.2	21.0
Exceptional items	(1.6)		5.9	
Amortisation of intangible assets	1.5		0.2	
Adjusted earnings per ordinary share	35.0		27.3	
Comprising:				
– continuing operations	34.4		23.7	
– discontinued operations	0.6		3.6	
	35.0		27.3	

The calculation of basic earnings is based on profit for the year attributable to equity shareholders. The weighted average number of ordinary shares used to calculate diluted earnings per ordinary share has been adjusted for the conversion of share options. 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 year. Adjusted earnings per ordinary share, before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

12 Dividends on ordinary shares

	Per share 2007 Pence	Amount 2007 £m	Per share 2006 Pence	Amount 2006 £m
Proposed dividends for the year:				
Interim – current year	4.6	20	3.9	17
Final – current year	6.9	30	5.2	22
	11.5	50	9.1	39
Recognised dividends for the year:				
Final – prior year		22		20
Interim – current year		20		17
		42		37

An interim dividend of 4.6p (2006: 3.9p) per ordinary share was paid on 12 December 2007. Subject to approval at the Annual General Meeting on 15 May 2008, the final 2007 dividend will be paid on 1 July 2008 to holders of ordinary shares on the register on 25 April 2008 by direct credit or, where no mandate has been given, by cheque posted on 24 June 2008 payable on 1 July 2008. These shares will be quoted ex-dividend on 23 April 2008.

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2006	308	(24)	284
Exchange adjustments	(11)	3	(8)
Businesses acquired	167	–	167
Impairment losses for the year	–	(16)	(16)
At 31 December 2006	464	(37)	427
Exchange and other adjustments	3	1	4
Businesses acquired (see Note 30)	263	–	263
At 31 December 2007	730	(36)	694

The carrying amounts of goodwill by business segment are as follows:

	Europe 2007 £m	North America 2007 £m	Total 2007 £m	Europe 2006 £m	North America 2006 £m	Total 2006 £m
Building, building management and services	132	198	330	58	20	78
Civil and specialist engineering and services	213	–	213	213	–	213
Rail engineering and services	143	8	151	128	8	136
	488	206	694	399	28	427

The recoverable amount of goodwill has been based on value in use. Forecast cash flows are based on approved budgets for the next three years. The key assumptions, which have been based on past experience, are revenue growth and forecast operating margin. Subsequent cash flows have been increased in line with projected GDP for each territory. The cash flows have been discounted using a pre-tax discount rate of 14.9% (2006: 14.7%) based on the Group's weighted average cost of capital. The cash flows assume a residual value based on a multiple of earnings before interest and tax.

In 2006, as a result of unsatisfactory performance in the Central division of Balfour Beatty Construction Inc, the goodwill of £16m arising on the acquisition of National Engineering and Contracting Company was written off and charged against Group operating profit. Residual goodwill carried by the business was £nil.

14 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Total £m
Cost				
At 1 January 2006	–	–	–	–
Businesses acquired	3	4	3	10
At 31 December 2006	3	4	3	10
Businesses acquired	28	26	5	59
At 31 December 2007	31	30	8	69
Accumulated amortisation				
At 1 January 2006	–	–	–	–
Charge for the year	(1)	–	–	(1)
At 31 December 2006	(1)	–	–	(1)
Charge for the year	(6)	(2)	(1)	(9)
At 31 December 2007	(7)	(2)	(1)	(10)
Carrying amount				
At 31 December 2007	24	28	7	59
At 31 December 2006	2	4	3	9

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to five years for customer relationships and up to five years for brand names.

Notes to the accounts continued

15 Property, plant and equipment

15.1 Movements

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Group Total £m	Company Plant and equipment £m
Cost or valuation					
At 1 January 2006	45	351	3	399	2
Exchange adjustments	–	(11)	–	(11)	–
Additions	2	55	–	57	–
Disposals	(2)	(32)	–	(34)	(1)
Businesses acquired	1	12	–	13	–
Transfers	–	3	(3)	–	–
At 31 December 2006	46	378	–	424	1
Exchange adjustments	–	2	–	2	–
Additions	9	70	1	80	1
Disposals	(1)	(26)	–	(27)	–
Businesses acquired	4	3	–	7	–
Transfers	1	(1)	–	–	–
At 31 December 2007	59	426	1	486	2
Accumulated depreciation					
At 1 January 2006	10	222	–	232	2
Exchange adjustments	–	(8)	–	(8)	–
Charge for the year	2	41	–	43	–
Disposals	–	(26)	–	(26)	(1)
At 31 December 2006	12	229	–	241	1
Exchange adjustments	–	1	–	1	–
Charge for the year	3	47	–	50	1
Disposals	–	(21)	–	(21)	–
At 31 December 2007	15	256	–	271	2
Carrying amount					
At 31 December 2007	44	170	1	215	–
At 31 December 2006	34	149	–	183	–

The carrying amount of the Group's property, plant and equipment held under finance leases was £1m (2006: £1m). The Company has no land and buildings and no property, plant and equipment held under finance leases.

15.2 Analysis of carrying amount of land and buildings

	Group 2007 £m	Group 2006 £m
Freehold	33	26
Long leasehold – over 50 years unexpired	1	2
Short leasehold	10	6
	44	34

16 Investments in joint ventures and associates

16.1 Movements

	Net assets £m	Loans £m	Provisions £m	Total £m
At 1 January 2006	309	91	(25)	375
Income recognised – continuing operations	48	–	–	48
– discontinued operations	15	–	–	15
Actuarial gains on retirement benefit obligations	10	–	–	10
Fair value revaluation of PFI/PPP cash flow hedges	32	–	–	32
Fair value revaluation of PFI/PPP financial assets	(2)	–	–	(2)
Exchange adjustments	(7)	–	–	(7)
Tax on items taken directly to equity	(11)	–	–	(11)
Dividends	(24)	–	–	(24)
Additions	3	–	–	3
Loans granted/repaid	–	19	–	19
At 31 December 2006	373	110	(25)	458
Income recognised – continuing operations	71	–	–	71
– discontinued operations	3	–	–	3
Impairment of investment	–	–	(90)	(90)
Actuarial gains on retirement benefit obligations	3	–	–	3
Fair value revaluation of PFI/PPP cash flow hedges	(2)	–	–	(2)
Fair value revaluation of PFI/PPP financial assets	(26)	–	–	(26)
Tax on items taken directly to equity	7	–	–	7
Dividends	(83)	–	–	(83)
Additions	1	–	–	1
Loans granted/repaid	–	49	–	49
Business acquired	3	14	–	17
Business sold	(27)	–	–	(27)
At 31 December 2007	323	173	(115)	381

Principal subsidiaries, joint ventures and associates are shown in Note 37(b). The original cost of the Group's investments in joint ventures and associates was £127m (2006: £124m). The Group's share of borrowings of joint ventures and associates is shown in 16.2 below. The amount of these which was supported by the Group and the Company was £nil (2006: £nil). The borrowings of Barking Power Ltd, Regional & City Airports (Exeter) Ltd and the PFI/PPP joint venture and associate companies are repayable over periods extending up to 2040. As disclosed in Note 32, the Company has committed to provide its share of further equity funding of joint ventures and associates in PFI/PPP projects. Further, in respect of a number of these investments the Company has committed not to dispose of its equity interest until the relevant construction has been accepted. As is customary in such projects, dividend payments and other distributions are restricted until certain banking covenants are met.

Notes to the accounts continued

16 Investments in joint ventures and associates continued

16.2 Share of results and net assets of joint ventures and associates

	Building, building management and services 2007 £m	Civil and specialist engineering and services 2007 £m	Rail engineering and services 2007 £m	Investments			Total 2007 £m
				PFI/PPP 2007 £m	Infrastructure 2007 £m	Total 2007 £m	
Revenue	113	556	10	275	68	343	1,022
Operating profit before exceptional items	–	23	1	5	18	23	47
Investment income	–	3	–	113	2	115	118
Finance costs	–	–	–	(78)	(5)	(83)	(83)
Profit before taxation and exceptional items	–	26	1	40	15	55	82
Taxation	–	(3)	–	(11)	(3)	(14)	(17)
Exceptional items	–	6	–	–	–	–	6
Profit after taxation – continuing operations	–	29	1	29	12	41	71
Profit after taxation – discontinued operations	–	–	–	–	–	–	3
Profit after taxation	–	–	–	–	–	–	74
Non-current assets							
Intangible assets – goodwill	–	22	2	–	24	24	48
– other	–	–	–	2	–	2	2
Property, plant and equipment	2	17	1	–	112	112	132
PFI/PPP financial assets	–	–	–	1,375	–	1,375	1,375
Other non-current assets	–	13	–	177	–	177	190
Current assets							
Cash and cash equivalents	–	106	5	87	21	108	219
Other current assets	16	199	4	202	9	211	430
Total assets	18	357	12	1,843	166	2,009	2,396
Current liabilities							
Borrowings	(2)	(13)	–	(89)	(11)	(100)	(115)
Other current liabilities	(11)	(252)	(8)	(75)	(11)	(86)	(357)
Non-current liabilities							
Borrowings	(2)	(1)	–	(1,355)	(34)	(1,389)	(1,392)
Other non-current liabilities	–	(16)	–	(112)	(23)	(135)	(151)
Total liabilities	(15)	(282)	(8)	(1,631)	(79)	(1,710)	(2,015)
Net assets	3	75	4	212	87	299	381

16 Investments in joint ventures and associates continued

16.2 Share of results and net assets of joint ventures and associates continued

	Building, building management and services 2006 £m	Civil and specialist engineering and services 2006 £m	Rail engineering and services 2006 £m	Investments			Total 2006 £m
				PFI/PPP 2006 £m	Barking Power 2006 £m	Total 2006 £m	
Revenue	115	594	4	223	83	306	1,019
Operating profit before exceptional items	2	–	3	5	23	28	33
Investment income	–	3	–	106	2	108	111
Finance costs	–	(1)	–	(69)	(4)	(73)	(74)
Profit before taxation and exceptional items	2	2	3	42	21	63	70
Taxation	(1)	(1)	–	(14)	(6)	(20)	(22)
Profit after taxation – continuing operations	1	1	3	28	15	43	48
Profit after taxation – discontinued operations							15
Profit after taxation							63
Non-current assets							
Intangible assets – goodwill	–	22	2	–	–	–	24
– other	–	–	–	2	–	2	2
Property, plant and equipment	2	61	–	29	105	134	197
PFI/PPP financial assets	–	–	–	1,541	–	1,541	1,541
Other non-current assets	–	10	–	121	–	121	131
Current assets							
Cash and cash equivalents	–	109	6	144	52	196	311
Other current assets	18	199	1	150	13	163	381
Total assets	20	401	9	1,987	170	2,157	2,587
Current liabilities							
Borrowings	(2)	(16)	–	(42)	(14)	(56)	(74)
Other current liabilities	(14)	(287)	(7)	(159)	(13)	(172)	(480)
Non-current liabilities							
Borrowings	–	–	–	(1,362)	(47)	(1,409)	(1,409)
Other non-current liabilities	–	(30)	–	(110)	(26)	(136)	(166)
Total liabilities	(16)	(333)	(7)	(1,673)	(100)	(1,773)	(2,129)
Net assets	4	68	2	314	70	384	458

16.3 PFI/PPP investments

The Group's investment in PFI/PPP joint ventures and associates comprises:

	Net investment 2007 £m	Reserves 2007 £m	Total 2007 £m	Net investment 2006 £m	Reserves 2006 £m	Total 2006 £m
Metronet	–	–	–	38	21	59
Roads	43	68	111	44	62	106
Hospitals	60	6	66	61	59	120
Schools	18	7	25	10	7	17
Other concessions	2	8	10	3	9	12
	123	89	212	156	158	314

Notes to the accounts continued

16 Investments in joint ventures and associates continued

16.4 Cash flow from/(to) joint ventures and associates

Net cash flow from/(to) joint ventures and associates comprises:

	PFI/PPP 2007 £m	Infrastructure 2007 £m	Other 2007 £m	Total 2007 £m	PFI/PPP 2006 £m	Infrastructure 2006 £m	Other 2006 £m	Total 2006 £m
Cash flows from investing activities								
Dividends from joint ventures and associates	58	13	12	83	15	–	9	24
Investment in and loans made to joint ventures and associates:								
– Equity	(38)	–	(12)	(50)	(22)	–	–	(22)
– Subordinated debt	–	–	(1)	(1)	(3)	–	–	(3)
– Subordinated debt repaid	(40)	–	–	(40)	(21)	–	–	(21)
– Other loans	2	–	–	2	2	–	–	2
– Other loans	–	–	(11)	(11)	–	–	–	–
Cash flows from financing activities								
Subordinated debt interest received	8	–	–	8	8	–	–	8
Net cash flow from joint ventures and associates	28	13	–	41	1	–	9	10

16.5 Share of joint ventures' and associates' reserves

	Accumulated profit/(loss) £m	Hedging reserves £m	PFI/PPP financial assets £m	Currency translation reserves £m	Total £m
Balance at 1 January 2006	153	(52)	77	4	182
Income recognised – continuing operations	48	–	–	–	48
– discontinued operations	15	–	–	–	15
Actuarial gains on retirement benefit obligations	10	–	–	–	10
Fair value revaluation of PFI/PPP cash flow hedges	–	32	–	–	32
Fair value revaluation of PFI/PPP financial assets	–	–	(2)	–	(2)
Exchange adjustments	–	–	–	(7)	(7)
Tax on items taken directly to equity	(2)	(10)	1	–	(11)
Dividends paid	(24)	–	–	–	(24)
Balance at 31 December 2006	200	(30)	76	(3)	243
Income recognised – continuing operations	71	–	–	–	71
– discontinued operations	3	–	–	–	3
Actuarial gains on retirement benefit obligations	3	–	–	–	3
Fair value revaluation of PFI/PPP cash flow hedges	–	(2)	–	–	(2)
Fair value revaluation of PFI/PPP financial assets	–	–	(26)	–	(26)
Reclassified and reported in net profit	–	7	(3)	–	4
Tax on items taken directly to equity	–	–	7	–	7
Dividends paid	(83)	–	–	–	(83)
Transfers	(42)	–	–	–	(42)
Balance at 31 December 2007	152	(25)	54	(3)	178

17 Investments

17.1 Group

Group investments comprise £57m (2006: £46m) held to maturity bonds held by Delphian Insurance Company Ltd, the Group's captive insurance company. These investments comprise fixed rate bonds or Treasury Stock with an average interest rate of 5.41% and weighted average life of 3.96 years. Market value is determined by using the market price of the bonds at the relevant valuation date and is not significantly different to the book value. The maximum exposure to credit risk at 31 December 2007 is the carrying amount.

17.2 Company

	2007 £m	2006 £m
Investment in subsidiaries	1,618	1,035
Investment in joint ventures and associates	14	16
Provisions	(186)	(147)
	1,446	904

18 PFI/PPP subsidiaries' financial assets

	Schools £m	Street fighting £m	Total £m
Balance at 1 January 2006	—	14	14
Cash expenditure	—	12	12
Cash received	—	(5)	(5)
Interest	—	1	1
Balance at 31 December 2006	—	22	22
Cash expenditure	26	15	41
Cash received	—	(3)	(3)
Interest	—	2	2
Balance at 31 December 2007	26	36	62

Assets constructed by PFI/PPP subsidiary concession companies are classified as available for sale financial assets. The maximum exposure to credit risk at the balance sheet date is the fair value of the PFI/PPP financial asset. PFI/PPP financial assets are denominated in sterling. There were no disposals or impairment provisions in 2007 or 2006.

19 Inventories

	2007 £m	2006 £m
Unbilled work in progress	27	37
Development and housing land and work in progress	6	6
Manufacturing work in progress	12	9
Raw materials and consumables	22	20
Finished goods and goods for resale	5	3
	72	75

20 Construction contracts

Contracts in progress at balance sheet date:

	2007 £m	2006 £m
Due from customers for contract work	338	252
Due to customers for contract work	(415)	(265)
	(77)	(13)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress that had not reached practical completion at the balance sheet date was £10,929m (2006: £7,707m).

Notes to the accounts continued

21 Financial instruments

21.1 Group

Accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are set out in Note 1.

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group comprises equity attributable to equity holders of Balfour Beatty plc consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 28 and 29, preference shares as disclosed in Note 28, and cash and cash equivalents and borrowings as disclosed in Note 24.

The Group maintains or adjusts its capital structure through the payment of dividends to shareholders, issue of new shares and buy-back of existing shares and incurring new borrowings or repaying existing borrowings. The Group's policy is to carry no significant debt, other than the non-recourse borrowings of companies engaged in PFI/PPP projects and infrastructure investments.

The Group's overall capital risk management strategy remains unchanged from 2006.

Categories of financial instruments

Group	Loans and receivables at amortised cost including cash and cash equivalents 2007 £m	Financial liabilities at amortised cost 2007 £m	Available for sale 2007 £m	Held to maturity financial assets 2007 £m	Derivatives Note (i) 2007 £m	Loans and receivables at amortised cost including cash and cash equivalents 2006 £m	Financial liabilities at amortised cost 2006 £m	Available for sale 2006 £m	Held to maturity financial assets 2006 £m	Derivatives Note (i) 2006 £m
Financial assets										
Bonds – fixed rate bonds and Treasury Stock	–	–	–	57	–	–	–	–	46	–
PFI/PPP financial assets	–	–	62	–	–	–	–	22	–	–
Cash and cash equivalents	394	–	–	–	–	323	–	–	–	–
Trade and other receivables	922	–	–	–	–	650	–	–	–	–
Derivatives	–	–	–	–	4	–	–	–	–	5
Total	1,316	–	62	57	4	973	–	22	46	5
Financial liabilities										
Liability component of preference shares	–	(87)	–	–	–	–	(90)	–	–	–
Trade and other payables	–	(1,646)	–	–	–	–	(1,188)	–	–	–
Unsecured borrowings	–	(16)	–	–	–	–	(16)	–	–	–
Secured borrowings	–	(1)	–	–	–	–	(2)	–	–	–
PFI/PPP non recourse term loans	–	(64)	–	–	–	–	(21)	–	–	–
Derivatives	–	–	–	–	(12)	–	–	–	–	(1)
Total	–	(1,814)	–	–	(12)	–	(1,317)	–	–	(1)
Net	1,316	(1,814)	62	57	(8)	973	(1,317)	22	46	4

Note:

(i) Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2007 £m	Non-current 2007 £m	Total 2007 £m	Current 2007 £m	Non-current 2007 £m	Total 2007 £m	Current 2006 £m	Non-current 2006 £m	Total 2006 £m	Current 2006 £m	Non-current 2006 £m	Total 2006 £m
At fair value through profit and loss – forward contracts in respect of currency transactions – held for trading	–	–	–	–	–	–	–	–	–	–	–	–
Designated as net investment hedging instruments – forward contracts	1	2	3	(6)	–	(6)	3	2	5	(1)	–	(1)
Designated as cash flow hedges – interest rate swaps	–	1	1	–	(6)	(6)	–	–	–	–	–	–
	1	3	4	(6)	(6)	(12)	3	2	5	(1)	–	(1)

21 Financial instruments continued

Non-derivative financial liabilities gross maturity

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that has not been included in the carrying value of the financial liability.

The maturity profile of the Group's non-derivative financial liabilities at 31 December was as follows:

	PFI/PPP non-recourse project finance 2007 £m	Other borrowings 2007 £m	Other financial liabilities 2007 £m	Total non- derivative financial liabilities 2007 £m	Total discount 2007 £m	Carrying value 2007 £m
Due on demand or within one year	(8)	(16)	(1,524)	(1,548)	16	(1,532)
Due within one to two years	(10)	(1)	(57)	(68)	21	(47)
Due within two to five years	(63)	–	(61)	(124)	91	(33)
Due after more than five years	(365)	–	(258)	(623)	421	(202)
	(446)	(17)	(1,900)	(2,363)	549	(1,814)
Discount	382	–	167	549		
Carrying value	(64)	(17)	(1,733)	(1,814)		

	PFI/PPP non-recourse project finance 2006 £m	Other borrowings 2006 £m	Other financial liabilities 2006 £m	Total non- derivative financial liabilities 2006 £m	Total discount 2006 £m	Carrying value 2006 £m
Due on demand or within one year	(2)	(17)	(1,122)	(1,141)	13	(1,128)
Due within one to two years	(4)	(1)	(31)	(36)	12	(24)
Due within two to five years	(10)	–	(44)	(54)	40	(14)
Due after more than five years	(74)	–	(261)	(335)	184	(151)
	(90)	(18)	(1,458)	(1,566)	249	(1,317)
Discount	69	–	180	249		
Carrying value	(21)	(18)	(1,278)	(1,317)		

Derivative financial liabilities maturity

The following table details the Group's expected maturity for its derivative financial liabilities. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that require gross settlement (foreign exchange contracts). When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves existing at the reporting date.

The maturity profile of the Group's derivative financial liabilities (which include interest rate swaps and foreign exchange contracts) was as follows:

	Payable 2007 £m	Receivable 2007 £m	Payable 2006 £m	Receivable 2006 £m
Due on demand or within one year	(175)	173	(49)	48
Due within one to two years	(17)	17	(1)	1
Due within two to five years	(2)	–	–	–
Due after more than five years	(3)	1	–	2
Total	(197)	191	(50)	51

Notes to the accounts continued

21 Financial instruments continued

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse impact of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury communicates with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

The Group's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on contracting activities transacted in a currency that is not the functional currency of the operating company;
- forward foreign exchange contracts to manage the foreign currency risk associated with the Group's investments in foreign subsidiaries, associates and joint ventures;
- interest rate swaps to mitigate the risk of rising interest rates on PFI/PPP concessions.

There has been no material change to the Group's exposure to market risks and how it manages those risks from 2006.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, US and Hong Kong dollars. Foreign exchange risk arises from future trading transactions, recognised assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their foreign exchange risk against their functional currency. Group Treasury, on behalf of operating companies, enters into forward contracts to cover 100% of foreign exchange risk above pre-set materiality levels determined by the Finance Director whenever a current or future foreign currency exposure is identified. Due to the financial immateriality of these risks hedge accounting is not applied to these transactions.

Details of forward foreign exchange contracts outstanding at the balance sheet date in respect of foreign currency transactional exposures are set out on page 48. The notional principal amounts of forward foreign exchange contracts in respect of foreign currency transactions at 31 December 2007 was £8m (2006: £13m). The period during which the cash flows are expected to occur is up to two years. This will impact the income statement throughout the same periods.

The Group's investments in foreign operations are exposed to foreign currency translation risk which is managed by matching approximately 90% of significant net assets of the Group's foreign operations in currencies other than sterling, primarily through forward contracts. The impact of a 5% strengthening/weakening in US dollar exchange rates against sterling would be an £11m (2006: £3m) reduction/increase in the fair value of the financial instruments used to hedge the Group's net assets in US dollars. The effect of a 5% strengthening/weakening in Hong Kong dollar exchange rates against sterling would be a £2m (2006: £1m) reduction/increase in the fair value of the financial instruments used to hedge the Group's net assets in Hong Kong dollars. The effect of a 3% strengthening/weakening in Euro exchange rates against sterling would be a £1m (2006: £1m) reduction/increase in the fair value of the financial instruments used to hedge the Group's net assets in Euros. These movements would be taken directly to equity. However, these effects would be more than compensated by opposing gains/losses in the fair value of the net assets denominated in foreign currencies for which the financial instruments were taken out.

The percentage change applied to each currency is based on the average movement in the previous five reporting periods.

The notional principal amounts of forward foreign exchange contracts designated as hedges of net investments in foreign operations at 31 December 2007 was £314m (2006: £147m). The gains and losses in equity on hedges of net investments in foreign operations will be released to the income statement on the disposal of the underlying net investment.

21 Financial instruments continued

(ii) Interest rate risk management

Interest rate risk arises in the Group's PFI/PPP concessions which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets.

Floating rate borrowings expose the Group to cash flow interest rate risk. Group policy is to swap floating rate interest to fixed rate, using interest rate swaps, to hedge the cash flow variability of the interest.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the year end is determined by discounting the future cash flows using the applicable year end yield curve. The net impact of a movement in interest rates on income would therefore be immaterial.

During 2007 and 2006, the Group's PFI/PPP borrowings at variable rate were denominated in sterling.

The notional principal amounts of the outstanding PFI/PPP subsidiaries' interest rate swaps outstanding at 31 December 2007 were £68m (2006: £22m) with maturities that match the maturity of the underlying borrowings ranging from one year to 26 years. At 31 December 2007, the fixed interest rates range from 4.565% to 5.118% (2006: 4.565% to 5.055%) and the principal floating rates are LIBOR.

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £10m (2006: £1m) increase/decrease in amounts taken directly by the Group to equity. This is attributable to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its PFI/PPP subsidiaries.

Interest rate risk also arises on the group's cash and cash equivalents, term deposits and non-PFI/PPP borrowings. A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £1m (2006: £1m) increase/decrease in the Group's net investment income.

(iii) Price risk management

The Group's principal price risk exposure arises in its PFI/PPP concessions. At the commencement of the concession an element of the unitary payment by the client is indexed to offset the effect of inflation on the concession's costs. To the extent that inflation differs from the index used, the Group is exposed to a price risk.

(b) Credit risk

Credit risk is the risk that the counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and cash equivalents, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and cash equivalents and derivative financial instruments, only independently rated counterparties with a minimum long-term credit rating of A are accepted. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly. No credit limits were exceeded during the reporting period and no losses are expected from non-performance by these counterparties.

For trade and other receivables ongoing credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or quasi public sector entities which have high credit ratings due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at 31 December is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 24.1. The maturity profile of the Group's financial liabilities is set out above.

Fair value estimation

The fair value of financial assets and liabilities traded in active markets is determined with reference to quoted market prices at the balance sheet date.

The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods (such as estimated discounted cash flows) and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the accounts continued

21 Financial instruments continued

21.2 Company

Categories of financial instruments

	Loans and receivables at amortised cost including cash and cash equivalents 2007 £m	Financial liabilities at amortised cost 2007 £m	Available for sale 2007 £m	Held to maturity financial assets 2007 £m	Derivatives Note (i) 2007 £m	Loans and receivables at amortised cost including cash and cash equivalents 2006 £m	Financial liabilities at amortised cost 2006 £m	Available for sale 2006 £m	Held to maturity financial assets 2006 £m	Derivatives Note (i) 2006 £m
Financial assets										
Cash and cash equivalents	80	—	—	—	—	167	—	—	—	—
Trade and other receivables	641	—	—	—	—	447	—	—	—	—
Derivatives	—	—	—	—	9	—	—	—	—	5
Total	721	—	—	—	9	614	—	—	—	5
Financial liabilities										
Liability component of preference shares	—	(87)	—	—	—	—	(90)	—	—	—
Trade and other payables	—	(1,277)	—	—	—	—	(768)	—	—	—
Unsecured borrowings	—	(95)	—	—	—	—	(13)	—	—	—
Derivatives	—	—	—	—	(9)	—	—	—	—	(5)
Total	—	(1,459)	—	—	(9)	—	(871)	—	—	(5)
Net	721	(1,459)	—	—	—	614	(871)	—	—	—

Note:

(i) Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2007 £m	Non-current 2007 £m	Total 2007 £m	Current 2007 £m	Non-current 2007 £m	Total 2007 £m	Current 2006 £m	Non-current 2006 £m	Total 2006 £m	Current 2006 £m	Non-current 2006 £m	Total 2006 £m
At fair value through profit and loss – forward contracts in respect of currency transactions – held for trading	—	—	—	—	—	—	—	—	—	—	—	—
At fair value through profit and loss – forward contracts relating to net investment hedging – held for trading	7	2	9	(7)	(2)	(9)	3	2	5	(3)	(2)	(5)
	7	2	9	(7)	(2)	(9)	3	2	5	(3)	(2)	(5)

Non-derivative financial liabilities gross maturity

The maturity profile of the Company's non-derivative financial liabilities at 31 December was as follows:

	Borrowings 2007 £m	Other financial liabilities 2007 £m	Total non-derivative financial liabilities 2007 £m	Total discount 2007 £m	Carrying value 2007 £m
Due on demand or within one year	(95)	(1,278)	(1,373)	26	(1,347)
Due within one to two years	—	(11)	(11)	11	—
Due within two to five years	—	(32)	(32)	32	—
Due after more than five years	—	(219)	(219)	107	(112)
	(95)	(1,540)	(1,635)	176	(1,459)
Discount	—	176	176		
Carrying value	(95)	(1,364)	(1,459)		

21 Financial instruments continued

	Borrowings 2006 £m	Other financial liabilities 2006 £m	Total non- derivative financial liabilities 2006 £m	Total discount 2006 £m	Carrying value 2006 £m
Due on demand or within one year	(13)	(755)	(768)	12	(756)
Due within one to two years	–	(11)	(11)	11	–
Due within two to five years	–	(34)	(34)	34	–
Due after more than five years	–	(239)	(239)	124	(115)
	(13)	(1,039)	(1,052)	181	(871)
Discount	–	181	181		
Carrying value	(13)	(858)	(871)		

Derivative financial liabilities maturity

The maturity profile of the Company's derivative financial liabilities, which comprise foreign exchange contracts was as follows:

	Payable 2007 £m	Receivable 2007 £m	Payable 2006 £m	Receivable 2006 £m
Due on demand or within one year	(201)	194	(176)	173
Due within one to two years	(190)	184	(1)	1
Due within two to five years	–	–	(54)	52
Due after more than five years	–	–	–	–
Total	(391)	378	(231)	226

Financial risk factors

(a) Market risk

(i) Foreign currency risk management

For the Company, there would be no material impact of a 5% strengthening/weakening in US dollar exchange rates or Hong Kong dollar rates against sterling or a 3% strengthening/weakening in Euro exchange rates against sterling, because the Company enters into forward foreign exchange contracts with Group companies that offset its external forward foreign exchange contracts.

(ii) Interest rate risk management

A 50 basis point increase/decrease in the interest rate of each currency in which interest bearing financial assets are held would lead to a £2m (2006: £2m) decrease/increase in the Company's investment income. This is mainly attributable to the Company's exposure to interest rates on its cash and cash equivalents and term deposits and amounts due to and from its subsidiaries. There would be no effect on amounts taken directly by the Company to equity.

(b) Credit risk

The additional credit risk that the Company bears is in respect of amounts due from subsidiaries. There were no amounts past due at the balance sheet date. The maximum exposure is the carrying value of the financial asset recorded in the financial statements.

Notes to the accounts continued

22 Trade and other receivables

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Current				
Trade receivables	672	491	7	6
Less: Provision for impairment of trade receivables	(11)	(13)	—	—
	661	478	7	6
Due from subsidiaries	—	—	602	409
Due from joint ventures and associates	38	35	—	—
Due from jointly controlled operations	6	6	—	—
Contract retentions	127	72	—	—
Accrued income	13	9	—	—
Prepayments	36	26	1	1
	881	626	610	416
Non-current				
Trade and other receivables	16	12	—	—
Due from joint ventures and associates	—	—	32	32
Contract retentions	52	29	—	—
Due on acquisitions	9	9	—	—
	77	50	32	32
	958	676	642	448
Comprising:				
Loans and receivables at amortised cost	922	650	641	447
Prepayments	36	26	1	1
	958	676	642	448

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision required in excess of the normal provision for impairment of trade receivables.

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. The fair value of non-current trade and other receivables amounts to £71m (2006: £50m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the balance sheet date.

It is Group policy that forward foreign exchange contracts are entered into as soon as a foreign currency trade receivable is identified.

22 Trade and other receivables continued

The movement in the provision for impairment of trade receivables is as follows:

	2007 £m	2006 £m
Balance at 1 January	(13)	(9)
Credited/(charged) to the income statement		
– additional provisions	–	(6)
– unused amounts reversed	1	1
Used during the year	1	1
Balance at 31 December	(11)	(13)

The provision for impairment of trade receivables is based on a review of the financial circumstances of individual customers. The ageing of the impaired receivables is as follows:

	2007 £m	2006 £m
Up to three months	–	1
Three to six months	1	–
Six to nine months	1	2
Nine to twelve months	3	4
More than twelve months	6	6
	11	13

At 31 December 2007, trade and other receivables of the Group of £91m (2006: £56m) were past due but not impaired. These relate to a number of individual customers for whom there is no reason to believe that the debt is not recoverable. The ageing analysis of these trade receivables is as follows:

	2007 £m	2006 £m
Up to three months	60	25
Three to six months	12	14
Six to nine months	3	7
Nine to twelve months	6	3
More than twelve months	10	7
	91	56

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

Notes to the accounts continued

23 Trade and other payables

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Current				
Trade and other payables	803	525	4	4
Accruals	717	599	11	8
Deferred income	58	54	1	1
Advance payments on contracts	7	9	–	–
VAT, payroll taxes and social security	87	77	15	13
Due to subsidiaries	–	–	1,230	722
Due to joint ventures and associates	27	12	–	–
Due to jointly controlled operations	7	3	–	–
Dividends on preference shares	6	6	6	6
Due on acquisitions	6	4	1	3
	1,718	1,289	1,268	757
Non-current				
Trade and other payables	83	47	–	–
Due on acquisitions	20	–	–	–
Accruals	5	5	–	–
Deferred income	2	–	–	–
Due to joint ventures and associates	25	25	25	25
	135	77	25	25
	1,853	1,366	1,293	782
	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Comprising:				
At amortised cost	1,646	1,188	1,277	768
Accruals not at amortised cost	60	47	–	–
Deferred income	60	54	1	1
VAT, payroll taxes and social security	87	77	15	13
	1,853	1,366	1,293	782

The maturity profile of the Group's non-current trade and other payables at 31 December was:

	Trade and other payables 2007 £m	Due on acquisitions 2007 £m	Due to joint ventures and associates 2007 £m	Accruals 2007 £m	Deferred income 2007 £m	Total 2007 £m	Trade and other payables 2006 £m	Due to joint ventures and associates 2006 £m	Accruals 2006 £m	Deferred income 2006 £m	Total 2006 £m
Due within one to two years	40	3	–	3	–	46	17	–	4	–	21
Due within two to five years	19	6	–	2	1	28	10	–	1	–	11
Due after more than five years	24	11	25	–	1	61	20	25	–	–	45
	83	20	25	5	2	135	47	25	5	–	77
Fair values	77	19	13	4	2	115	44	14	4	–	62

The fair value of non-current trade and other payables has been determined by using yield curves and exchange rates prevailing at the balance sheet date and discounting future cash flows at interest rates prevailing at the balance sheet date.

It is Group policy that forward foreign exchange contracts are taken out as soon as a foreign currency trade or other payable is identified. Amounts due to joint ventures and associates and accruals and deferred income are all denominated in sterling.

24 Cash and cash equivalents and borrowings

24.1 Group

	Current 2007 £m	Non-current 2007 £m	Total 2007 £m	Current 2006 £m	Non-current 2006 £m	Total 2006 £m
Unsecured borrowings at amortised cost:						
– bank overdrafts	(15)	–	(15)	(15)	–	(15)
– other short-term loans	(1)	–	(1)	(1)	–	(1)
Secured borrowings at amortised cost:						
– finance leases	–	(1)	(1)	–	(1)	(1)
– other	–	–	–	(1)	–	(1)
	(16)	(1)	(17)	(17)	(1)	(18)
Cash and deposits at amortised cost	293	–	293	142	–	142
Term deposits at amortised cost	98	–	98	181	–	181
Non-PFI/PPP cash and cash equivalents	391	–	391	323	–	323
	375	(1)	374	306	(1)	305
PFI/PPP non-recourse term loans at amortised cost:						
– sterling floating rate term loan (2008–2027)	(3)	(19)	(22)	–	(17)	(17)
– sterling floating rate term loan (2011–2030)	–	(9)	(9)	–	(4)	(4)
– sterling floating rate term loan (2012–2031)	–	(2)	(2)	–	–	–
– sterling floating rate term loan (2010–2034)	–	(31)	(31)	–	–	–
	(3)	(61)	(64)	–	(21)	(21)
PFI/PPP cash and cash equivalents	3	–	3	–	–	–
	–	(61)	(61)	–	(21)	(21)
Net cash/(borrowings)	375	(62)	313	306	(22)	284

The PFI/PPP project finance sterling debt obligations arise under non-recourse facilities in the concession companies Connect Roads Sunderland Ltd, Connect Roads South Tyneside Ltd, Connect Roads Derby Ltd and Transform Schools (Knowsley) Ltd. The borrowings are secured by fixed and floating charges over each concession company's right, title and interest in certain assets and/or revenues and over each concession company's shares held by their immediate parent companies, Connect Roads Sunderland Holdings Ltd, Connect Roads South Tyneside Holdings Ltd, Connect Roads Derby Holdings Ltd and Transform Schools (Knowsley) Holdings Ltd.

A significant part of the PFI/PPP non-recourse project finance floating rate term loans has been swapped into fixed rate debt by the use of interest rate swaps.

Cash, deposits and term deposits include the Group's share of amounts held by contracting joint arrangements of £122m (2006: £94m).

The Group's undrawn committed borrowing facilities in respect of which all conditions precedent were satisfied at 31 December were:

	PFI/PPP non-recourse project finance 2007 £m	Other 2007 £m	Total 2007 £m	PFI/PPP non-recourse project finance 2006 £m	Other 2006 £m	Total 2006 £m
Expiring in one year or less	5	–	5	–	–	–
Expiring in more than one year but not more than two years	–	–	–	–	–	–
Expiring in more than two years	198	395	593	33	396	429
	203	395	598	33	396	429

Notes to the accounts continued

24 Cash and cash equivalents and borrowings continued

Group borrowings carrying value maturity

The maturity profile of the Group's borrowings at 31 December is as follows:

	PFI/PPP non-recourse project finance 2007 £m	Other borrowings 2007 £m	Total 2007 £m	PFI/PPP non-recourse project finance 2006 £m	Other borrowings 2006 £m	Total 2006 £m
Due on demand or within one year	(3)	(16)	(19)	—	(17)	(17)
Due within one to two years	—	(1)	(1)	(3)	(1)	(4)
Due within two to five years	(22)	—	(22)	(3)	—	(3)
Due after more than five years	(39)	—	(39)	(15)	—	(15)
Total	(64)	(17)	(81)	(21)	(18)	(39)

The table below compares the book values and the fair values of the Group's borrowings at 31 December:

	Book value 2007 £m	Fair value 2007 £m	Book value 2006 £m	Fair value 2006 £m
Unsecured borrowings				
– bank overdrafts	15	15	15	15
– other short-term loans	1	1	1	1
Secured borrowings				
– finance leases	1	1	1	1
– other	—	—	1	1
	17	17	18	18
PFI/PPP non-recourse term loans				
– sterling floating rate term loan (2008–2027)	22	22	17	17
– sterling floating rate term loan (2011–2030)	9	9	4	4
– sterling floating rate term loan (2012–2031)	2	2	—	—
– sterling floating rate term loan (2010–2034)	31	31	—	—
	64	64	21	21
Borrowings	81	81	39	39

The fair values have been determined by using yield curves and exchange rates prevailing at the balance sheet date and discounting future cash flows at interest rates prevailing at the balance sheet date.

24.2 Company

	Current 2007 £m	Non-current 2007 £m	Total 2007 £m	Current 2006 £m	Non-current 2006 £m	Total 2006 £m
Unsecured borrowings						
– bank overdrafts	(95)	—	(95)	(13)	—	(13)
	(95)	—	(95)	(13)	—	(13)
Term deposit	80	—	80	167	—	167
Net (borrowings)/cash	(15)	—	(15)	154	—	154

The unsecured borrowings and term deposits are sterling denominated and variable rate instruments. The bank overdrafts are repayable on demand and the term deposit matured on 2 January 2008.

25 Deferred taxation

25.1 Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities. The net deferred tax position at 31 December was:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Deferred tax assets	125	102	1	—
Deferred tax liabilities	(7)	(5)	—	—
	118	97	1	—

The movement in the net deferred tax position was as follows:

	Group £m	Company £m
At 1 January 2006	80	1
(Charged) to income statement	(12)	(2)
(Charged)/credited to equity	(7)	1
Businesses acquired	36	—
At 31 December 2006	97	—
Credited to income statement		39
Charged to equity		(3)
Businesses acquired		(4)
Transfer to current tax		(11)
At 31 December 2007	118	1

25.2 Group

The following are the major deferred tax assets and liabilities recognised and the movements thereon:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Fair value adjustments £m	Total £m
Deferred tax assets							
At 1 January 2006	3	76	—	7	16	—	102
(Charged)/credited to income statement	(2)	—	—	1	1	(11)	(11)
(Charged) to equity	—	(8)	—	—	—	—	(8)
Businesses sold	1	11	1	—	(2)	25	36
At 31 December 2006	2	79	1	8	15	14	119
Credited/(charged) to income statement	(1)	(5)	47	1	(1)	(1)	40
(Charged)/credited to equity	—	(1)	—	(2)	(1)	1	(3)
Businesses acquired	—	—	—	—	—	(4)	(4)
Transfer to current taxation	—	—	—	—	2	(13)	(11)
Transfer to deferred taxation liabilities	—	—	—	—	—	3	3
At 31 December 2007	1	73	48	7	15	—	144
Deferred tax liabilities							
At 1 January 2006		(1)	(6)	(6)	(9)	—	(22)
Charged to income statement		—	(1)	—	—	—	(1)
Credited to equity		—	—	—	1	—	1
At 31 December 2006		(1)	(7)	(6)	(8)	—	(22)
(Charged)/credited to income statement		—	—	(2)	1	—	(1)
Transfer from deferred tax assets		—	—	—	—	(3)	(3)
At 31 December 2007		(1)	(7)	(8)	(7)	(3)	(26)
Total net deferred tax asset							118

Notes to the accounts continued

25 Deferred taxation continued

At the balance sheet date, the Group has unused tax losses that arose over a number of years of approximately £250m (2006: £250m) which are available for offset against future profits. Following the acquisition of Balfour Beatty Construction Group Inc, £110m of these losses were recognised, together with £24m of previously unrecognised deferred tax assets arising from temporary differences. Of the remaining losses, £14m (2006: £140m) will expire 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2019. The remaining losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed reserves of subsidiaries for which deferred tax liabilities have not been recognised is £220m (2006: £130m) and for joint ventures and associates is £13m (2006: £11m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

25.3 Company

The following represents the major deferred tax assets and liabilities recognised by the Company and the movement thereon:

	Deferred tax liability			Deferred tax assets		Net deferred tax asset £m
	Preference shares £m	Share-based payments £m	Retirement benefit obligations £m	Provisions £m	Total £m	
At 1 January 2006	(9)	7	2	1	10	1
(Charged)/credited to income statement	—	(3)	1	—	(2)	(2)
Credited to equity	1	—	—	—	—	1
At 31 December 2006	(8)	4	3	1	8	—
Credited/(charged) to income statement	—	1	(1)	1	1	1
(Charged)/credited to equity	1	(1)	—	—	(1)	—
At 31 December 2007	(7)	4	2	2	8	1

26 Retirement benefit obligations

a) Group

The Group, through trustees, operates a number of pension schemes, the majority of which are of the defined benefit type and are funded. Contributions are determined in consultation with the trustees, after taking independent actuarial advice. Details of the IAS 19 valuations are set out in 26.1 below. Details of the last actuarial valuations and reviews and the assumptions used by the actuaries are set out in 26.2 below.

26.1 IAS 19 valuations

The latest actuarial funding valuations of the Group's principal defined benefit schemes have been updated by the actuaries to 31 December 2007 on the basis prescribed by IAS 19. In particular, scheme liabilities have been discounted using the rate of return on a high-quality corporate bond rather than the expected rate of return on the assets in the scheme used in the funding valuations. On 5 April 2007 the Birse Group Retirement Benefit Scheme ("Birse scheme") was merged with the Balfour Beatty Pension Fund (BBPF).

Other than the mortality assumptions set out in 26.2, the principal actuarial assumptions used were as follows:

	Balfour Beatty Pension Fund 2007 %	Railways Pension Scheme 2007 %	Mansell schemes 2007 %	Balfour Beatty Pension Fund 2006 %	Railways Pension Scheme 2006 %	Mansell schemes 2006 %	Birse scheme 2006 %
Inflation rate	3.35	3.35	3.35	3.10	3.10	3.10	3.10
Discount rate	5.85	5.85	5.85	5.15	5.15	5.15	5.15
Future salary increases	4.85	4.85	4.85	4.60	4.60	4.60	4.60
Future pension increases	3.35	3.35	3.35	3.10	3.10	3.10	3.10
Expected return on plan assets	6.53	7.45	6.83	6.35	7.30	6.79	7.36

The amounts recognised in the balance sheet are determined as follows:

	Balfour Beatty Pension Fund 2007 £m	Railways Pension Scheme 2007 £m	Mansell schemes 2007 £m	Other schemes 2007 £m	Total 2007 £m	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m
Present value of funded obligations	(2,036)	(164)	(207)	(12)	(2,419)	(1,876)	(158)	(210)	(94)	(11)	(2,349)
Fair value of plan assets	1,796	160	191	11	2,158	1,688	150	177	62	10	2,087
Deficit	(240)	(4)	(16)	(1)	(261)	(188)	(8)	(33)	(32)	(1)	(262)
Present value of unfunded obligations	–	–	–	(25)	(25)	–	–	–	–	(26)	(26)
Liability in the balance sheet	(240)	(4)	(16)	(26)	(286)	(188)	(8)	(33)	(32)	(27)	(288)

Other schemes comprise funded and unfunded post-retirement benefit obligations in Europe and North America, the majority of which arrangements are closed to new entrants.

The amounts recognised in the income statement are as follows:

	Balfour Beatty Pension Fund 2007 £m	Railways Pension Scheme 2007 £m	Mansell schemes 2007 £m	Other schemes 2007 £m	Total 2007 £m	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m
Current service cost	(47)	(3)	(3)	(1)	(54)	(44)	(3)	(3)	(1)	(1)	(52)
Interest cost	(99)	(8)	(11)	(2)	(120)	(84)	(6)	(10)	(2)	(2)	(104)
Expected return on plan assets	110	10	12	1	133	96	8	10	2	1	117
Defined contribution charge	(36)	(1)	(2)	(2)	(41)	(32)	(1)	(3)	(1)	(2)	(39)
Total, included in employee costs (Note 5)	(46)	(1)	(2)	(9)	(58)	(39)	(1)	(3)	(1)	(8)	(52)

The Balfour Beatty Pension Fund includes a defined contribution section. Employer contributions paid and charged to the income statement have been separately identified in the above table and the defined contribution section assets and liabilities amounting to £42m (2006: £25m) have been excluded from the tables below. Defined contribution charges for other schemes include contributions to a multi-employer pension scheme.

Pension expense, including interest cost and net of expected return on plan assets, is charged to contracts or overheads based on the function of scheme members and is included in cost of sales, net operating expenses and amounts due to or from customers. Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual return on plan assets was £112m (2006: £138m).

Notes to the accounts continued

26 Retirement benefit obligations continued

The movement in the present value of funded obligations is as follows:

	Balfour Beatty Pension Fund 2007 £m	Railways Pension Scheme 2007 £m	Mansell schemes 2007 £m	Birse Pension Fund 2007 £m	Other schemes 2007 £m	Total 2007 £m	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m
At 1 January	(1,876)	(158)	(210)	(94)	(37)	(2,375)	(1,806)	(159)	(212)	—	(40)	(2,217)
Exchange adjustments	—	—	—	—	(1)	(1)	—	—	—	—	3	3
Transfer	(94)	—	—	94	—	—	—	—	—	—	—	—
Service cost	(47)	(3)	(3)	—	(1)	(54)	(44)	(3)	(3)	(1)	(1)	(52)
Interest cost	(99)	(8)	(11)	—	(2)	(120)	(84)	(6)	(10)	(2)	(2)	(104)
Actuarial gains and losses	5	1	11	—	3	20	(10)	5	11	(1)	—	5
Contributions from members	(11)	—	(1)	—	—	(12)	(10)	—	(2)	(1)	—	(13)
Benefits paid	86	4	7	—	3	100	78	5	6	1	3	93
Businesses acquired	—	—	—	—	(2)	(2)	—	—	—	(90)	—	(90)
At 31 December	(2,036)	(164)	(207)	—	(37)	(2,444)	(1,876)	(158)	(210)	(94)	(37)	(2,375)

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

	Balfour Beatty Pension Fund 2007 £m	Railways Pension Scheme 2007 £m	Mansell schemes 2007 £m	Birse Pension Fund 2007 £m	Other schemes 2007 £m	Total 2007 £m	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m
At 1 January	1,688	150	177	62	10	2,087	1,629	136	160	—	12	1,937
Transfer	62	—	—	(62)	—	—	—	—	—	—	—	—
Exchange adjustments	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Expected return on plan assets	110	10	12	—	1	133	96	8	10	2	1	117
Actuarial gains and losses	(20)	—	(1)	—	—	(21)	7	9	2	4	(1)	21
Contributions from employer	31	4	9	—	—	44	24	2	9	1	—	36
Contributions from members	11	—	1	—	—	12	10	—	2	1	—	13
Benefits paid	(86)	(4)	(7)	—	(1)	(98)	(78)	(5)	(6)	(1)	(1)	(91)
Businesses acquired	—	—	—	—	1	1	—	—	—	55	—	55
At 31 December	1,796	160	191	—	11	2,158	1,688	150	177	62	10	2,087

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

	Balfour Beatty Pension Fund		Railways Pension Scheme		Mansell schemes		Other schemes	
	Expected rate of return 2007 %	Value 2007 £m	Expected rate of return 2007 %	Value 2007 £m	Expected rate of return 2007 %	Value 2007 £m	Expected rate of return 2007 %	Value 2007 £m
Equities	8.25	694	8.25	104	8.25	107	—	—
Bonds	5.47	1,078	5.85	40	5.02	83	4.89	11
Property	6.40	3	6.40	15	—	—	—	—
Cash and other net current assets	4.40	21	4.35	1	4.35	1	—	—
Rate of return/total	6.53	1,796	7.45	160	6.83	191	4.89	11

	Balfour Beatty Pension Fund		Railways Pension Scheme		Mansell schemes		Birse scheme		Other schemes	
	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m
Equities	8.15	717	8.15	100	8.15	106	8.15	45	—	—
Bonds	5.05	946	5.15	35	4.80	69	5.15	10	4.55	10
Property	—	—	6.35	15	—	—	6.35	3	—	—
Cash and other net current assets	4.10	25	4.10	—	4.10	2	4.10	4	—	—
Rate of return/total	6.35	1,688	7.30	150	6.79	177	7.36	62	4.55	10

26 Retirement benefit obligations continued

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

- equities and property: the rate adopted is consistent with the median assumption used in the actuary's asset modelling work as at 31 December;
- bonds: the overall rate has been set to reflect the yields available on the gilts and corporate bond holdings held at 31 December;
- cash and other net current assets: this class is mostly made up of cash holdings and the rate adopted reflects current short-term returns on such deposits.

The estimated amounts of contributions expected to be paid to the principal schemes during 2008 is £75m. Contributions paid in 2007 for the principal schemes were £31m (2006: £24m) for the Balfour Beatty Pension Fund, £4m (2006: £2m) for the Railways Pension Scheme and £9m (2006: £9m) for the Mansell schemes.

The Railways Pension Scheme is a shared cost scheme. Accordingly the deficit shown above assumes that the Group will obtain economic benefit from, or be required to finance, only a proportion of the surplus or deficit in the Balfour Beatty section of the scheme. This proportion has been based on the apportionment of the surplus which has already been agreed together with the relevant provisions of the Trust Deed and Rules and Trustee guidelines regarding future surplus apportionments and deficit financing.

Year end historic information for the Group's post-retirement benefit plans is:

	2007 £m	2006 £m	2005 £m	2004 £m
Defined benefit obligation at end of year	(2,444)	(2,375)	(2,217)	(1,984)
Fair value of assets at end of year	2,158	2,087	1,937	1,730
Funded status at end of year	(286)	(288)	(280)	(254)
Experience adjustment for liabilities	(56)	(52)	24	(59)
Experience adjustment for assets	(21)	21	138	52

26.2 Funding valuations

The last formal valuation of the Balfour Beatty Pension Fund (BBPF) was carried out by the actuary at 31 March 2004 using the projected unit method and disclosed an excess of assets over past service liabilities of 1.7%. Due to the size of the membership of the BBPF (41,390 members at 31 December 2007) the scheme's actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and is able to make statistically credible comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. As a result of these reviews the Group is able to adopt with a measure of confidence consistent mortality assumptions for its IAS 19 valuations across its various defined benefit schemes. The reviews suggest continuing improvements in life expectancy and therefore the mortality assumptions have been strengthened compared with the last formal funding valuations and 31 December 2006 valuation reviews. A valuation is being carried out by the actuary as at 31 March 2007. Although not yet finalised, the assumptions are not expected to materially differ from those shown below.

The mortality tables adopted for the 2007 IAS 19 valuations and reviews of the funding valuations are the 1992 series calendar year 2007 tables, with future improvements from 2007 in line with those applicable to each member's year of birth under the medium cohort effect. The mortality tables adopted for the 2006 IAS 19 valuations and reviews of funding valuations were also based on the 1992 series CMI tables, as shown below:

	2007 Average life expectancy at 65 years of age	2006 Average life expectancy at 65 years of age
Members in receipt of a pension		
– Male	20.2 years	18.4 years
– Female	23.3 years	21.3 years
Members not yet in receipt of a pension (current age 50)		
– Male	21.2 years	20.0 years
– Female	24.2 years	22.9 years

Certain Group employees are members of the Balfour Beatty Shared Cost section of the Railways Pension Scheme ("Railways Pension Scheme"). The last formal valuation of this defined benefit scheme was carried out by independent actuaries at 31 December 2004 using the projected unit method and disclosed that the market value of the scheme's assets represented 92.4% of the benefits of which, being a shared cost scheme, the economic cost to the Group is circa 60% as represented in the scheme's assets and liabilities shown below. This proportion has been based on the apportionment of the surplus which has already been agreed together with the relevant provisions of the Trust Deed and Rules and Trustee guidelines regarding future surplus apportionments and deficit financing.

Mansell plc operates two funded defined benefit schemes, the Mansell plc Pension Scheme and the Hall & Tawse Retirement Benefit Plan ("Mansell schemes"). The most recent actuarial valuation of the Mansell plc Pension Scheme, which was closed to new members from 31 December 2001, was carried out by independent actuaries at 31 July 2005 using the projected unit method. The valuation showed that the market value of the scheme's assets represented 78.0% of the benefits that had accrued to members on an ongoing funding basis. The most recent actuarial valuation of the Hall & Tawse Retirement Benefit Plan, which was closed to new members from 1 July 1998, was carried out by independent actuaries at 31 March 2005 using the projected unit method. The valuation showed that the market value of the scheme's assets represented 79.0% of the benefits that had accrued to members on an ongoing funding basis.

Notes to the accounts continued

26 Retirement benefit obligations continued

The Group's actuaries have reviewed the funding valuations of the Balfour Beatty Pension Fund, the Railways Pension Scheme and the Mansell schemes at 31 December 2007. The results of these reviews along with the assumptions used by the actuaries are set out below together with comparatives at 31 December 2006.

	At the last formal actuarial funding valuation					At 31 December 2007 valuation review			At 31 December 2006 valuation review			
	Balfour Beatty Pension Fund 31/3/2004 %	Railways Pension Scheme 31/12/2004 %	Mansell schemes		Birse scheme 5/4/2004 %	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %	Birse scheme %
		H&T Plan 31/3/2005 %	Mansell plc Scheme 31/7/2005 %									
Principal actuarial valuation assumptions:												
Inflation assumption	2.7	2.8	2.9	2.8	3.0	3.35	3.35	3.35	3.1	3.1	3.1	3.1
Rate of increase in salaries	4.2	4.3	4.4	4.3	4.5	4.85	4.85	4.85	4.6	4.6	4.6	4.6
Rate of increase in pensions in payment (or such other fixed rate as is guaranteed)	2.7	2.8	2.9	3.0	2.8	3.35	3.35	3.35	3.1	3.1	3.1	3.1
Return on existing investments:												
– actives and deferred members												
– pre-retirement	8.1	6.8	6.6	6.4	6.5	7.15	7.15	7.15	7.75	7.75	7.75	7.75
– post-retirement	5.6	6.8	5.0	4.7	5.25	5.40	5.40	5.40	5.4	5.4	5.4	5.4
– pensioners, widows and dependants	5.1	4.8	5.0	4.7	5.25	5.40	5.40	5.40	4.9	4.9	4.9	4.9
Number of members:												
Active members	8,465	590	225	414	816	6,306	490	494	5,178	532	559	685
Deferred pensioners	11,540	1,776	1,001	610	1,061	13,248	1,625	1,536	12,113	1,651	1,558	1,306
Pensioners, widows and dependants	16,989	1,018	980	181	54	16,852	1,193	1,291	16,652	1,139	1,244	95
Defined contribution	1,196	–	–	–	–	4,984	–	–	4,119	–	–	–
Total	38,190	3,384	2,206	1,205	1,931	41,390	3,308	3,321	38,062	3,322	3,361	2,086
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Scheme surplus/(deficit)												
Market value of assets	1,396	120	90	51	38	1,796	160	191	1,689	150	177	63
Present value of scheme liabilities	(1,372)	(130)	(113)	(65)	(58)	(2,003)	(162)	(194)	(1,671)	(140)	(171)	(64)
Surplus/(deficit) in scheme	24	(10)	(23)	(14)	(20)	(207)	(2)	(3)	18	10	6	(1)
Funding level	101.7%	92.4%	79.0%	78.0%	65.5%	89.9%	98.6%	98.5%	101.0%	107.1%	103.3%	98.1%

b) Company

Certain employees of the Company are members of the Balfour Beatty Pension Fund. Assets, liabilities, income and expenditure relating to this fund are allocated to Group companies participating in the scheme in proportion to pensionable payroll for the year. The Company's share of the net IAS 19 deficit was £9m (2006: £8m).

27 Provisions

	Group			Company	
	Employee provisions £m	Contract provisions £m	Other provisions £m	Group total £m	Other provisions £m
At 1 January 2007	24	46	39	109	9
Charged to the income statement					
– additional provisions	3	9	22	34	1
– unused amounts reversed	(2)	(6)	(4)	(12)	–
Used during the year	–	(7)	(15)	(22)	–
Businesses acquired	–	4	15	19	–
At 31 December 2007	25	46	57	128	10

Employee provisions comprise obligations to employees other than retirement or post-retirement obligations. Contract provisions relate to provisions on contracts, including fault and warranty provisions, and other provisions principally comprise environmental, lease, legal claims and costs and other onerous commitments.

The majority of provisions, other than employee provisions, are expected to be utilised within five years. Where a reliable estimate can be made, provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress.

28 Share capital

28.1 Ordinary shares of 50p each

	Authorised		Issued	
	Million	£m	Million	£m
At 1 January 2006	696	348	427	214
Shares issued	–	–	3	1
At 31 December 2006	696	348	430	215
Shares issued	–	–	3	1
At 31 December 2007	696	348	433	216

All issued ordinary shares are fully paid. They carry no right to fixed income, but each share carries the right to one vote at general meetings of the Company.

Ordinary shares issued during the year credited as fully paid:

	Ordinary shares 2007 Number	Cash consideration 2007 £m	Ordinary shares 2006 Number	Cash consideration 2006 £m
Savings-related share options exercised	1,286,018	2	1,375,582	2
Executive share options exercised	1,271,342	3	1,999,231	4
	2,557,360	5	3,374,813	6

At 31 December, share options outstanding were as follows:

Year of issue	Exercise price Pence	Normally exercisable in periods to	Ordinary shares 2007 Number	Ordinary shares 2006 Number
Savings-related				
2001	154.0	March 2007	–	71,311
2002	184.0	December 2007	36,118	638,886
2003	133.0	December 2008	619,086	695,251
2004	210.0	December 2009	789,665	1,535,671
2005	250.0	December 2010	1,579,288	1,760,100
2006	305.0	December 2011	1,788,816	1,963,095
2007	389.0	December 2012	2,431,556	–
			7,244,529	6,664,314
Executive				
1997	231.0	May 2007	–	130,000
1998	181.0	May 2008	35,000	69,000
1999	110.0	November 2009	87,818	135,618
2000	79.0	April 2010	196,772	206,772
2001	200.0	June 2011	225,725	292,425
2002	238.0	April 2012	366,000	453,000
2003	173.0	April 2013	519,566	682,866
2004	261.0	April 2014	924,934	1,659,506
2004	268.0	September 2014	–	55,970
			2,355,815	3,685,157

On 2 May 2007, options were granted over 2,500,148 ordinary shares under the Balfour Beatty savings-related share option scheme, at 389p per share, and these are normally exercisable in the periods from July 2010 to December 2010 and from July 2012 to December 2012 depending upon the length of savings contract chosen by the participant.

Notes to the accounts continued

28 Share capital continued

28.2 Cumulative convertible redeemable preference shares of 1p each

	Authorised		Issued	
	Million	£m	Million	£m
At 1 January 2006	177	2	129	–
Shares repurchased	–	–	(12)	–
At 31 December 2006	177	2	117	–
Shares repurchased	–	–	(5)	–
At 31 December 2007	177	2	112	–

All issued preference shares are fully paid. During the year, 4,957,163 preference shares (2006: 12,012,640) were repurchased for cancellation by the Company for a total consideration of £8m (2006: £19m) at an average price of 151.3p (2006: 156.8p).

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. Any preference shares still outstanding are redeemable on 1 July 2020 at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2007 (2006: £117m).

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 21.05263 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances. The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30 day period exceeds 950p, subject to adjustment in certain circumstances.

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding-up of the Company. On a winding-up of the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares.

The preference shares are regarded as a compound instrument, consisting of an equity and a liability component. The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13.5% for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in shareholders' equity, net of deferred tax.

The liability component recognised on the balance sheet is calculated as follows:

	2007 £m	2006 £m
Redemption value of shares in issue at 1 January	120	129
Equity component	(16)	(18)
Deferred tax and interest element	(14)	(13)
Liability component at 1 January at amortised cost	90	98
Buy-back of preference shares	(3)	(8)
Liability component at 31 December at amortised cost	87	90

The fair value of the liability component of the preference shares at 31 December 2007 amounted to £142m (2006: £157m). The fair value is calculated by discounting the future cash flows at interest rates reflecting the yield curve at the balance sheet date.

Interest expense on the preference shares is calculated using the effective interest method.

29 Movements in equity

29.1 Group

	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				Accumulated losses £m	Total £m
						Hedging reserves £m	PFI/PPP financial assets £m	Currency translation reserves £m	Other £m		
At 1 January 2006	214	26	18	175	182	—	—	(2)	7	(328)	292
Net profit for the year	—	—	—	—	63	—	—	—	—	28	91
Actuarial gains on retirement benefit obligations	—	—	—	—	10	—	—	—	—	26	36
PFI/PPP cash flow hedges											
– fair value revaluations	—	—	—	—	32	—	—	—	—	—	32
PFI/PPP financial assets											
– fair value revaluations	—	—	—	—	(2)	—	—	—	—	—	(2)
Changes in fair value of net investment hedges	—	—	—	—	—	—	—	14	—	—	14
Currency translation differences	—	—	—	—	(7)	—	—	(10)	—	—	(17)
Tax on items taken directly to equity	—	—	1	—	(11)	—	—	(8)	—	(8)	(26)
Total recognised income for the year	—	—	1	—	85	—	—	(4)	—	46	128
Ordinary dividends	—	—	—	—	—	—	—	—	—	(37)	(37)
Joint ventures' and associates' dividends	—	—	—	—	(24)	—	—	—	—	24	—
Issue of ordinary shares	1	5	—	—	—	—	—	—	—	—	6
Buy-back of preference shares	—	12	(3)	—	—	—	—	—	—	(12)	(3)
Movements relating to share-based payments	—	—	—	—	—	—	—	—	2	(1)	1
Transfers	—	—	—	(6)	—	—	—	—	2	4	—
At 31 December 2006	215	43	16	169	243	—	—	(6)	11	(304)	387
Net profit for the year	—	—	—	—	74	—	—	—	—	77	151
Actuarial gains/(losses) on retirement benefit obligations	—	—	—	—	3	—	—	—	—	(1)	2
PFI/PPP cash flow hedges											
– fair value revaluations	—	—	—	—	(2)	(5)	—	—	—	—	(7)
– reclassified and reported in net profit	—	—	—	—	7	—	—	—	—	—	7
PFI/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	1	—	1	—	(5)	5
Total recognised income for the year	—	—	1	—	60	(4)	—	4	—	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	(4)	—	(2)	15	(152)	483

Fair value gains/losses on PFI/PPP financial assets and cash flow hedges reclassified and reported in net profit in 2007 are included in exceptional items.

Notes to the accounts continued

29 Movements in equity continued

29.2 Company

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Other reserves £m	Accumulated profits £m	Total £m
At 1 January 2006	214	26	18	175	49	111	593
Net profit for the year	–	–	–	–	–	59	59
Actuarial gain on retirement benefit obligations	–	–	–	–	–	1	1
Ordinary dividends	–	–	–	–	–	(37)	(37)
Issue of ordinary shares	1	5	–	–	–	–	6
Buy-back of preference shares	–	12	(3)	–	–	(12)	(3)
Movements relating to share-based payments	–	–	–	–	(3)	(2)	(5)
Tax on items taken directly to equity	–	–	1	–	–	–	1
Transfers	–	–	–	(6)	–	6	–
At 31 December 2006	215	43	16	169	46	126	615
Net profit for the year	–	–	–	–	–	106	106
Actuarial loss on retirement benefit obligations	–	–	–	–	–	(1)	(1)
Ordinary dividends	–	–	–	–	–	(42)	(42)
Issue of ordinary shares	1	4	–	–	–	–	5
Buy-back of preference shares	–	5	(1)	–	–	(5)	(1)
Movements relating to share-based payments	–	–	–	–	2	(3)	(1)
Tax on items taken directly to equity	–	–	1	–	–	(1)	–
Transfers	–	–	–	(5)	–	5	–
At 31 December 2007	216	52	16	164	48	185	681

The accumulated profits of Balfour Beatty plc are wholly distributable.

By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £5m occurred in 2007 (2006: £6m).

29.3 The accumulated losses in the Group and the accumulated profit of the Company are stated net of investments in Balfour Beatty plc ordinary shares of 50p each acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Balfour Beatty performance share plan and the Balfour Beatty deferred bonus plan. In 2007, 0.9m (2006: 1.1m) shares were purchased at a cost of £4.2m (2006: £3.9m). The market value of the 1.8m (2006: 1.6m) shares held by the Trust at 31 December 2007 was £8.9m (2006: £7.1m). Following confirmation of the performance criteria at the end of the performance period in the case of the performance share plan, and at the end of the vesting period in the case of the deferred bonus plan, the appropriate number of shares will be unconditionally transferred to participants. In 2007, 0.7m shares were transferred to participants in relation to the April 2004 awards under the performance share plan (2006: 1.0m shares for the April 2003 awards). The trustees have waived the rights to dividends on shares held by the Trust. Other reserves in the Group include £5.7m relating to unvested performance share plan awards (2006: £3.2m), £5.2m relating to unvested share options (2006: £4.8m), and £1.3m (2006: £0.3m) relating to unvested deferred bonus plan awards.

30 Acquisitions

On 5 January 2007, the Group invested £30.1m cash in Regional & City Airports (Exeter) Holdings Ltd ("RCAH"), which acquired a 100% interest in Exeter and Devon Airport Ltd, having entered into a put option agreement to dispose of a 40% interest in RCAH to Galaxy SARL ("Galaxy") for a cash consideration of £12.0m. The Group exercised this put option on 10 January 2007 and subsequently completed the sale of the 40% interest in RCAH to Galaxy on 4 April 2007. In the period 5 January 2007 to 4 April 2007, the Group's interest in RCAH was held as a non-current asset classified as held for sale, including £6.0m cash acquired and goodwill inherent in this transaction amounting to £39.2m. Due to the shareholders' agreement between Balfour Beatty and Galaxy requiring unanimity of agreement in respect of significant matters relating to the financial and operating policies of RCAH the remaining 60% interest in RCAH has been accounted for as a joint venture.

On 1 February 2007, the Group acquired the net assets of the Traffic Systems Division of SAAB AB in Sweden, for a cash consideration of £3.1m. The fair value of net assets acquired was £1.4m and goodwill arising was £1.7m. The goodwill recognised is attributable to the acquisition complementing the Group's rail electrification business in Sweden.

On 30 March 2007, the Group acquired 100% of the issued share capital of Balfour Beatty Construction Group Inc (formerly Centex Construction Group Inc), a leading US building company, for an initial cash consideration of £191.0m, deferred consideration of £20.0m and costs of £1.4m. The fair value of net assets acquired was £34.4m and goodwill arising was £178.0m. The goodwill recognised is attributable to the acquisition strengthening the Group's position in the US building market.

On 12 April 2007, the Group acquired 100% of the issued share capital of Bignell & Associates Ltd, a UK project management company, for an initial cash consideration of £0.5m and deferred consideration of £0.2m. The fair value of net assets acquired was £0.7m and goodwill arising was £nil.

On 1 May 2007, the Group acquired 100% of the issued share capital of Sequeira & Gavarette Inc, a US design and programme management business, for an initial cash consideration of £2.4m, deferred consideration of £1.5m and costs of £0.2m. The fair value of net assets acquired was £0.6m and goodwill arising was £3.5m. The goodwill recognised is attributable to the acquisition complementing the Group's US project and programme management business.

On 17 July 2007, the Group acquired 100% of the issued share capital of Chris Britton Consultancy Ltd, a UK consulting engineering company, for a cash consideration of £3.3m and costs of £0.1m. The fair value of net assets acquired was £0.9m and goodwill arising was £2.5m. The goodwill recognised is attributable to the acquisition strengthening the Group's road management and maintenance business.

On 17 July 2007, the Group acquired 100% of the issued share capital of Carillion Rail Sverige AB, a Swedish rail contracting company, for a cash consideration of £3.3m. The provisional fair value of net assets acquired was £3.3m and provisional goodwill arising was £nil, pending finalisation of the post-acquisition review of the fair value of the net assets.

On 31 July 2007, the Group acquired the business and assets of NAP Partnership LLP, a UK cost and contract consultancy, for an initial cash consideration of £4.3m, deferred consideration of £0.2m and costs of £0.1m. The fair value of net assets acquired was £3.7m and goodwill arising was £0.9m. The goodwill arising is attributable to the acquisition strengthening the regional presence of the Group's professional and technical services business.

On 29 August 2007, the Group acquired 100% of the issued share capital of Cowlin Group Ltd, a leading UK regional building business, for a cash consideration of £51.6m and costs of £1.4m. The fair value of net assets acquired was £7.2m and goodwill arising was £45.8m. The goodwill recognised is attributable to the acquisition strengthening the Group's position in the UK building market.

On 19 September 2007, the Group acquired 100% of the issued share capital of Laser Rail Ltd, a leading UK specialist rail asset monitoring and management business, for a cash consideration of £4.8m and costs of £0.1m. The fair value of net assets acquired was £2.7m and goodwill arising was £2.2m. The goodwill recognised is attributable to the acquisition strengthening the Group's position in the rail asset management market.

On 17 October 2007, the Group acquired 100% of the issued share capital of Covion Holdings Ltd, a UK integrated facilities infrastructure services business, for a cash consideration of £32.7m and costs of £0.3m. The provisional fair value of net assets acquired was £4.5m and provisional goodwill arising was £28.5m, pending finalisation of the post-acquisition review of the fair value of the net assets. The goodwill recognised is attributable to the acquisition strengthening the Group's position in the private sector facilities management market.

Notes to the accounts continued

30 Acquisitions continued

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

	Centex Construction (now Balfour Beatty Construction)			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
Net assets acquired:									
Intangible assets – other	–	38	38	–	21	21	–	59	59
Property, plant and equipment	4	–	4	4	(1)	3	8	(1)	7
Assets held for sale	–	–	–	30	–	30	30	–	30
Working capital	(92)	(4)	(96)	(6)	(11)	(17)	(98)	(15)	(113)
Retirement benefit obligations	–	–	–	(1)	–	(1)	(1)	–	(1)
Provisions	(18)	(1)	(19)	(1)	1	–	(19)	–	(19)
Current tax liabilities	–	–	–	(1)	3	2	(1)	3	2
Deferred taxation	–	1	1	(1)	(4)	(5)	(1)	(3)	(4)
Cash and cash equivalents	106	–	106	23	–	23	129	–	129
	–	34	34	47	9	56	47	43	90
Goodwill			178			85			263
			212			141			353
Satisfied by:									
Cash consideration			191			136			327
Costs incurred			1			3			4
			192			139			331
Deferred consideration			20			2			22
			212			141			353

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

In 2007, £2m deferred consideration was paid in respect of acquisitions completed in earlier years.

Centex Construction (now Balfour Beatty Construction) earned revenues of £879m and profits from operations of £18m in the period since acquisition.

Other acquired businesses earned revenues of £108m and profits from operations of £nil in the periods since acquisition.

The following summary presents the Group as if all of the businesses acquired during the year ended 31 December 2007 had been acquired on 1 January 2007. The amounts include the results of the acquired companies, 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 the 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
Revenue	6,958
Profit from continuing operations for the financial year	176
Loss from discontinued operations for the financial year	(18)
Profit for the year attributable to equity shareholders	158

31 Share-based payments

31.1 The Company operates four equity-settled share-based payment arrangements, namely the savings-related share option scheme, the executive share option scheme, the performance share plan and the deferred bonus plan. The Group recognised total expenses related to equity-settled share-based payment transactions since 7 November 2002 of £7.1m in 2007 (2006: £4.4m).

31.2 Savings-related share options:

The Company operates an Inland Revenue approved savings-related share option scheme ("SAYE") under which employees are granted an option to purchase ordinary shares in the Company in either three or five years time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise. This scheme is open to all employees based in the UK and performance conditions are not applied to the exercise of SAYE options. Employees normally have a period of six months after completion of the savings contributions during which to exercise the SAYE options, failing which they lapse. Details of SAYE options granted during the year and outstanding at the end of the year are shown in Note 28.1. The information in relation to SAYE options granted since 7 November 2002 was:

	SAYE options 2007 Number	Weighted average exercise price 2007 Pence	SAYE options 2006 Number	Weighted average exercise price 2006 Pence
Outstanding at 1 January	5,954,117	244.2	5,046,476	203.3
Granted during the year	2,500,148	389.0	2,001,414	305.0
Forfeited during the year	(557,931)	267.6	(420,401)	215.5
Exercised during the year	(666,656)	209.5	(673,372)	137.0
Expired during the year	(21,267)	133.0	–	–
Outstanding at 31 December	7,208,411	296.1	5,954,117	244.2
Exercisable at 31 December	44,417	210.0	24,418	133.0

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 450.0p (2006: 354.1p). Those SAYE options outstanding at 31 December 2007 had a weighted average remaining contractual life of 2.8 years (2006: 2.9 years).

The principal assumptions used by the consultants in the stochastic model for the SAYE options granted in 2007, including expected volatility determined from the historic weekly share price movements over the three year period immediately preceding the invitation date, were:

Invitation date	Exercise price Pence	Closing share price before invitation date Pence	Expected dividend yield %	Expected volatility of shares %	Expected term of options Years	Risk-free interest rate %	Calculated fair value of an option Pence
5 April 2007 – three years savings contract	389.0	484.25	1.86	21.3	3.25	5.35	141.9
5 April 2007 – five years savings contract	389.0	484.25	1.86	21.3	5.25	5.27	162.2

31.3 Executive share options:

The Company has not granted any executive share options in 2007, but has continued to operate a scheme under which employees have been granted options to purchase ordinary shares in the Company, which are exercisable between three and 10 years after the date of grant. Performance conditions have been met for all executive options granted since 7 November 2002, as earnings per share before goodwill amortisation and exceptional items ("eps") for the last year of the minimum three year performance period have grown from their respective fixed base eps by a total of at least 3% per annum plus the increase in RPI over the relevant period. Details of executive share options outstanding at the end of the year are shown in Note 28.1. The information in relation to executive options granted since 7 November 2002 was:

	Executive options 2007 Number	Weighted average exercise price 2007 Pence	Executive options 2006 Number	Weighted average exercise price 2006 Pence
Outstanding at 1 January	2,398,342	236.1	3,478,476	216.8
Granted during the year	–	–	–	–
Forfeited during the year	(10,000)	261.0	(53,000)	227.8
Exercised during the year	(943,842)	246.2	(1,027,134)	171.1
Expired during the year	–	–	–	–
Outstanding at 31 December	1,444,500	229.4	2,398,342	236.1
Exercisable at 31 December	1,444,500	229.4	682,866	173.0

The weighted average share price at the date of exercise for those executive options exercised during the year was 473.6p (2006: 386.5p). Those executive options outstanding at 31 December 2007 had a weighted average remaining contractual life of 5.9 years (2006: 7.0 years).

Notes to the accounts continued

31 Share-based payments continued

31.4 Performance share plan awards:

The Company operates a performance share plan under which executive Directors and key senior employees are granted conditional awards of ordinary shares in the Company, which are exercisable within three months of the third anniversary of the date of award. These awards will only vest to the extent that performance targets are met over a three year performance period. On 17 April 2007 a maximum of 1,465,383 conditional shares were awarded which are normally exercisable in the period between April 2010 and July 2010.

50% of the 2007 award is based on an eps growth target: the maximum award of shares is made only where the Company's eps increases by at least RPI +45% in the relevant performance period; 25% of this element of the award is made where the Company's eps increases by RPI +15% over the period; if growth in eps is between RPI +15% and RPI +45%, the number of shares will be awarded pro-rata to the growth in eps; and no shares from this element of the award can be awarded if growth in eps is less than RPI +15% over the period.

The other 50% of that 2007 award is based on total shareholder return (TSR) performance measured against a group of UK listed companies operating in comparable markets to the Company: the maximum award of shares is made only where the Company's TSR is in the upper quartile; 25% of this element of the award is made where the Company's TSR is at the median; if the Company's TSR is between the median and the upper quartile, the number of shares will be awarded pro-rata; and no shares can be awarded if the Company's TSR is below median.

The information in relation to performance share awards granted since 7 November 2002 was:

	Conditional awards 2007 Number	Conditional awards 2006 Number
Outstanding at 1 January	4,577,234	4,809,251
Granted during the year	1,465,383	1,879,339
Forfeited during the year	(170,445)	(129,572)
Exercised during the year	(668,023)	(972,450)
Expired during the year	(572,519)	(1,009,334)
Outstanding at 31 December	4,631,630	4,577,234
Exercisable at 31 December	—	—

The weighted average share price at the date of exercise for those performance share awards exercised during the year was 474.2p (2006: 365.0p).

Those performance share plan awards outstanding at 31 December 2007 had a weighted average remaining contractual life of 1.6 years (2006: 1.7 years).

The awards are satisfied by the transfer of shares for no consideration. For the 50% of the 2007 award which is subject to a performance test based on eps, the fair value of the award is the closing share price before the award date (490.75p). For the 50% of that 2007 award which is subject to a market condition based on TSR, the consultants have used a stochastic model, including expected volatility determined from the historic weekly share price movements over the three year period preceding the award date, with the following assumptions used:

Award date	Closing share price before award date Pence	Expected volatility of shares %	Expected term of awards Years	Risk-free interest rate %	Calculated fair value of an award Pence
17 April 2007	490.75	21.4	3.0	5.47	258.6

31.5 Deferred bonus plan awards:

The Company operates a deferred bonus plan under which one-third of the annual bonus of executive Directors and key senior employees is deferred in the form of ordinary shares in the Company, which will normally be released after three years, providing the individual is still in the Group's employment at that time.

On 30 March 2007 a maximum of 403,002 conditional shares were awarded which will normally be released on 30 March 2010. On 2 July 2007 a further 8,734 conditional shares were awarded in lieu of entitlements to the final 2006 dividend and on 12 December 2007 a further 6,705 conditional shares were awarded in lieu of entitlements to the interim 2007 dividend. The information in relation to deferred bonus plan awards granted since 7 November 2002 was:

	Conditional awards 2007 Number	Conditional awards 2006 Number
Outstanding at 1 January	358,126	—
Granted during the year	403,002	352,831
Awards in lieu of dividends	15,439	7,796
Forfeited during the year	(20,905)	(2,501)
Exercised during the year	(17,664)	—
Expired during the year	—	—
Outstanding at 31 December	737,998	358,126
Exercisable at 31 December	—	—

The weighted average share price at the date of exercise for those deferred bonus plan awards exercised during the year was 468.1p (2006: n/a). Those deferred bonus plan awards outstanding at 31 December 2007 had a weighted average remaining contractual life of 2.3 years (2006: 2.75 years).

As the awards are satisfied by the transfer of shares for no consideration, the fair values of the awards are the closing share price before award date, which was 477.0p, 443.0p and 504.5p for the awards made on 30 March 2007, 2 July 2007 and 12 December 2007 respectively.

32 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £7m (2006: £6m) in the Group and £nil (2006: nil) in the Company.

The Company has committed to provide its share of further equity funding and subordinated debt in PFI/PPP projects amounting to £66m (2006: £75m) in respect of joint ventures and associates and £22m (2006: £5m) in respect of subsidiaries.

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement is disclosed in Note 4.1.

Future operating lease expense commitments comprise:

	Land and buildings 2007 £m	Other 2007 £m	Land and buildings 2006 £m	Other 2006 £m
Group				
Due within one year	26	23	23	25
Due between one and five years	77	32	67	43
Due after more than five years	37	—	45	—
	140	55	135	68
Company				
Due within one year	3	—	3	—
Due between one and five years	14	—	14	—
Due after more than five years	7	—	10	—
	24	—	27	—

Future operating lease income comprises:

	Land and buildings 2007 £m	Plant 2007 £m	Land and buildings 2006 £m	Plant 2006 £m
Group				
Due within one year	3	1	4	2
Due between one and five years	6	2	2	1
	9	3	6	3
Company				
Due within one year	3	—	3	—
Due between one and five years	4	—	4	—
Due after more than five years	1	—	—	—
	8	—	7	—

33 Contingent liabilities

The Company 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 the Group's share of certain contractual obligations of joint ventures and associates. Where the Company enters into such agreements, it considers these to be insurance arrangements, and accounts for them as such. In this respect, guarantees are treated as contingent liabilities unless it becomes probable that the Company will be required to make payment under the guarantee.

As stated in Note 27, provision has been made for the Directors' best estimate of the known legal claims 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 a sufficiently reliable estimate of the potential obligation cannot be made.

As announced in June 2007, the Group has provided information to the Office of Fair Trading in relation to its review of tender activities in the building construction sector. The OFT investigation at this stage is ongoing and the outcome is uncertain.

34 Related party transactions

Joint ventures and associates:

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £1,020m (2006: £733m). 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 amounts due to or from joint ventures and associates at 31 December are disclosed within trade and other receivables and trade and other payables in Notes 22 and 23 respectively.

Pension schemes:

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £3.5m in 2007 (2006: £3.1m).

Key personnel:

The remuneration of key personnel of Balfour Beatty plc was:

	2007 £m	2006 £m
Short-term benefits	4.951	4.324
Post employment benefits	0.560	0.640
Termination benefits	—	0.453
Share-based payments	1.412	1.111
	6.923	6.528

Key personnel comprise the Board and five Group managing directors (2006: five) who are directly responsible for the Group's operating companies. The remuneration included above is that paid in respect of the period of the year during which the individuals were Directors and Group managing directors. Further details of Directors' emoluments, pension benefits and interests are set out in the Remuneration report on pages 16 to 22.

Notes to the accounts continued

35 Post balance sheet events

On 11 February 2008, the Group agreed to acquire the military PPP accommodation business of GMH Communities Trust for a cash consideration of approximately US\$350m. The transaction is conditional upon certain US military division, funder and regulatory consents.

36 Notes to the cash flow statement

36.1 Cash generated from operations comprises:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Profit from operations – continuing	149	108	125	88
Trading (loss)/profit from discontinued operations	(1)	1	–	–
Share of results of joint ventures and associates	(71)	(48)	–	–
Dividends received	–	–	(55)	(93)
Depreciation of property, plant and equipment	50	43	1	–
Amortisation of other intangible assets	9	1	–	–
Impairment charges	–	16	–	–
Movements relating to share-based payments	7	4	4	(2)
Profit on disposal of property, plant and equipment	(3)	(1)	–	–
Profit on disposal of investment	–	–	(82)	–
Operating cash flows before movements in working capital	140	124	(7)	(7)
Decrease in working capital	141	93	4	17
Cash generated from operations	281	217	(3)	10

36.2 Cash and cash equivalents comprise:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Cash and deposits	293	142	–	–
Term deposits	98	181	80	167
PFI/PPP cash balances	3	–	–	–
Bank overdrafts	(15)	(15)	(95)	(13)
	379	308	(15)	154

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities within the balance sheet.

36.3 Analysis of movement in net cash:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Opening net cash	284	301	154	130
Net increase/(decrease) in cash and cash equivalents	63	(2)	(169)	24
Acquisitions – borrowings at date of acquisition	(36)	(2)	–	–
Businesses sold – borrowings at date of disposal	35	–	–	–
New loans	(42)	(35)	–	(27)
Repayment of loans	1	27	–	27
Finance lease principal repayments	–	1	–	–
Exchange adjustments	8	(6)	–	–
Closing net cash/(debt)	313	284	(15)	154

36.4 Acquisitions of businesses:

	Group 2007 £m	Group 2006 £m
Net assets acquired:		
Intangible assets – goodwill	263	167
Intangible assets – other	59	10
Property, plant and equipment	7	13
Assets held for sale	24	–
Working capital	(113)	(104)
Retirement benefit obligations	(1)	(35)
Provisions	(19)	(13)
Current tax liability	2	(1)
Deferred taxation	(4)	36
Term loans	–	(2)
	218	71
Due on acquisitions	(20)	9
	198	80

Satisfied by:

Cash consideration	333	76
Cash, deposits and overdrafts acquired	(135)	4
Cash outflow	198	80

36.5 Disposals of businesses:

	Group 2007 £m	Group 2006 £m
Net assets disposed of:		
Investments in joint ventures and associates	10	–
Assets held for sale	25	–
	35	–
Profit on sale	57	–
	92	–
Satisfied by:		
Cash consideration	96	–
Cash, deposits and overdrafts sold	(4)	–
	92	–

37 Principal subsidiaries, joint ventures and associates

	Country of incorporation or registration	Country of incorporation or registration
(a) Principal subsidiaries		
Building, civil and rail engineering		
Balfour Beatty Civil Engineering Ltd		
Balfour Beatty Construction Group Inc	USA	
Balfour Beatty Construction LLC	USA	
Balfour Beatty Construction Northern Ltd		
Balfour Beatty Construction Scottish & Southern Ltd	Scotland	
Balfour Beatty Group Ltd		
Balfour Beatty Infrastructure Inc	USA	
Balfour Beatty Infrastructure Services Ltd		USA
Balfour Beatty Management Ltd		
Balfour Beatty Power Networks Ltd		Scotland
Balfour Beatty Rail AB	Sweden	
Balfour Beatty Rail GmbH	Germany	
Balfour Beatty Rail Inc	USA	USA
Balfour Beatty Rail Infrastructure Services Ltd		
Balfour Beatty Rail Plant Ltd		
Balfour Beatty Rail Projects Ltd		
Balfour Beatty Rail Signal GmbH	Germany	
Balfour Beatty Rail SpA	Italy	
Balfour Beatty Rail Technologies Ltd		
Balfour Beatty Rail Track Systems Ltd		
Balfour Beatty Refurbishment Ltd		
Balfour Beatty Utility Solutions Ltd		
Balfour Kilpatrick Ltd	Scotland	
Balvac Ltd		
Birse Build Ltd		USA
Birse Civils Ltd		
Birse Construction Ltd		
Birse Group plc*		
(a) Principal subsidiaries continued		
Building, civil and rail engineering		
Charter Builders Ltd		USA
Covion Holdings Ltd		
Cowlin Group Ltd		
Cruickshanks Ltd*		Scotland
Edgar Allen Ltd		
Haden Building Management Ltd		
Haden Building Services Ltd		
Haden Young Ltd		
Heery International Inc		USA
Heery International Ltd		
Lounsdale Electric Ltd		Scotland
Mansell Construction Services Ltd		
Mansell plc		
National Engineering and Contracting Company		USA
Painter Brothers Ltd		
Raynesway Construction Ltd		
Stent Foundations Ltd		
Investments		
Balfour Beatty Capital Ltd		
Balfour Beatty Infrastructure Investments Ltd*		
Connect Roads Derby Holdings Ltd		
Connect Roads South Tyneside Holdings Ltd		
Connect Roads Sunderland Holdings Ltd		
Transform Schools (Knowsley) Holdings Ltd		
Other		
Balfour Beatty Inc		USA
Balfour Beatty Investment Holdings Ltd*		
Balfour Beatty Property Ltd*		
BICC Finance BV		Netherlands
BICC Overseas Investments Ltd		
Delphian Insurance Company Ltd*		Isle of Man
Guinea Investments Ltd		

Notes to the accounts continued

37 Principal subsidiaries, joint ventures and associates continued

	Country of incorporation or registration	Ownership interest %
(b) Principal joint ventures and associates		
Building, civil and rail engineering		
Balfour Beatty Abu Dhabi LLC	Abu Dhabi	49.0
BK Gulf LLC	Dubai	49.0
Dutco Balfour Beatty LLC	Dubai	49.0
Dutco Construction Co LLC	Dubai	49.0
Gammon China Ltd	Hong Kong	50.0
Kerjaya Balfour Beatty Cementation Sdn Bhd	Malaysia	35.0
Monteray Ltd		24.5
PT Balfour Beatty Sakti Indonesia	Indonesia	49.0
Romec Ltd		49.0
Trans4m Ltd		25.0
Investments		
PFI/PPP		
Aberdeen Environmental Services (Holdings) Ltd	Scotland	45.0
Connect M1-A1 Holdings Ltd*		50.0
Connect M77/GSO Holdings Ltd (Note v)		85.0
Connect Roads Ltd* (Note v)		85.0
Consort Healthcare (Birmingham) Holdings Ltd		40.0
Consort Healthcare (Blackburn) Holdings Ltd		50.0
Consort Healthcare (Durham) Holdings Ltd*		50.0
Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd* (Note v)	Scotland	73.9
Consort Healthcare (Mid Yorkshire) Holdings Ltd		50.0
Consort Healthcare (Salford) Holdings Ltd		50.0
Consort Healthcare (Tameside) Holdings Ltd		50.0
EDF Energy Powerlink Ltd (Note vi)		10.0
Health Management (UCLH) Holdings Ltd		33.3
Metronet Rail BCV Holdings Ltd		20.0
Metronet Rail SSL Holdings Ltd		20.0
Power Asset Development Company Ltd		25.0
Transform Schools (Bassetlaw) Holdings Ltd		50.0
Transform Schools (Birmingham) Holdings Ltd		50.0
Transform Schools (North Lanarkshire) Holdings Ltd		50.0
Transform Schools (Rotherham) Holdings Ltd		50.0
Transform Schools (Stoke) Holdings Ltd		50.0
Infrastructure		
Regional & City Airports (Exeter) Holdings Ltd (Note v)		60.0
Thames Power Ltd* (Note iv)		50.0

	Country of incorporation or registration	Ownership interest %
(c) Principal jointly controlled operations		
The Group carries out a number of its larger construction contracts in joint arrangement with other contractors so as to share resources and risk. The principal projects in progress under such arrangements are detailed below:		
East London Line		50.0
Greenbush Railroad Rehabilitation Project	USA	50.0
High speed line Bologna:Firenze	Italy	26.0
High speed line Milano:Bologna	Italy	26.0
I-5/I-15 Highway Projects	USA	30.0
M1 Widening Junctions 6A-10		50.0
Scotland Transerv	Scotland	70.0
SH130 Highway	USA	35.0
South-West England Roads		73.0
South-East England Roads		60.0
University College London Hospital		50.0
Westminster Transerv		80.0

Notes:

(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.

(ii) * indicates held directly by Balfour Beatty plc, except Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd 42.5% held directly by Balfour Beatty plc.

(iii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England. The principal operations of each company are conducted in its country of incorporation.

(iv) Thames Power Ltd owns 51% of the equity capital in Barking Power Ltd.

(v) Due to the Connect Roads Ltd, Connect M77/GSO Holdings Ltd, Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd and Regional & City Airports (Exeter) Holdings Ltd shareholder agreements between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of those companies, the Directors are of the opinion that, as at the balance sheet date, the Group did not control those companies and they have been accounted for as joint ventures.

(vi) The Group exercises significant influence through its participation in the management of EDF Energy Powerlink and therefore accounts for its interest as an associate.

37 Principal subsidiaries, joint ventures and associates continued

(d) PFI/PPP concessions

Roads

Summary: Balfour Beatty is a promoter, developer and investor in roads projects under Balfour Beatty's Connect Roads brand to construct new roads and upgrade and maintain existing roads and to replace and maintain street lighting.

Project descriptions: The roads projects comprise the design, construction, operation, maintenance and associated financing of the following roads: the M1-A1 link road, A30 Honiton to Exeter, A35 Tolpuddle to Puddletown bypass, A50 Stoke-Derby, M77 Fenwick to Malletsheugh and the Glasgow Southern Orbital. The roads concessions typically run for 30 years and reached financial close at various dates between March 1996 and May 2003. The street lighting projects are for the replacement and maintenance and associated financing over a 25 year period of the street lighting and highway signs in Sunderland, South Tyneside and Derby. All construction is new build rather than refurbishment.

Contractual arrangements: The principal contract in the roads concessions is the project agreement with the governmental highway authority setting out the obligations for the construction, operation and maintenance of the roads including life cycle replacement by Connect for the life of the concession to specified standards. In the case of M1-A1, A30/A35 and A50, the inflation indexed payment is related to traffic volumes. In the case of M77/GSO, the inflation indexed payment is partly based on availability and partly on traffic volumes and subject to any performance related deductions. Construction of the roads was subcontracted to construction joint ventures in which Balfour Beatty had a 50% interest or, in the case of the M77/GSO, to Balfour Beatty Civil Engineering Ltd. On the street lighting projects, payment is by a periodic inflation indexed availability payment subject to performance deductions and the replacement and maintenance obligations have been subcontracted to Balfour Beatty Power Networks. There are no provisions to reprice the contracts and all assets transfer to the client at the end of the concession.

Concession company	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2007	Committed post 31 December 2007
Connect M1-A1 Ltd	M1-A1 30km road	£290m	50%	March 1996	30	1999	£14m	—
Connect A50 Ltd	A50 57km road	£42m	85%	May 1996	30	1998	£6m	—
Connect A30/A35 Ltd	A30/A35 102km road	£127m	85%	July 1996	30	2000	£21m	—
Connect M77/GSO plc	M77/GSO 25km road	£167m	85%	May 2003	32	2005	£15m	—
Connect Roads Sunderland Ltd	Street lighting apparatus in Sunderland	£27m	100%	August 2003	25	2008	—	£3m
Connect Roads South Tyneside Ltd	Street lighting apparatus in South Tyneside	£28m	100%	December 2005	25	2010	—	£2m
Connect Roads Derby Ltd	Street lighting apparatus in Derby	£36m	100%	April 2007	25	2012	—	£2m
							£56m	£7m

Hospitals

Summary: Balfour Beatty is a promoter, developer and investor in eight hospital projects, seven of which are under Balfour Beatty's Consort Healthcare brand, comprising the building or refurbishment of hospital accommodation and associated financing and the provision of certain non-medical facilities management services over the remainder of the concession period.

Project descriptions: The projects comprise University Hospital of North Durham, Edinburgh Royal Infirmary, Royal Blackburn Hospital, University College London Hospital, University Hospital Birmingham, Pinderfields and Pontefract Hospitals in mid Yorkshire, Hope Hospital Salford and Tameside General Hospital. Construction is new build rather than refurbishment.

Contractual arrangements: The principal contract is the project agreement between the concession company and the NHS Trust. An inflation indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. Construction of the hospitals has been subcontracted to construction joint ventures in which Balfour Beatty subsidiaries participated 100% (University Hospital of North Durham, Royal Blackburn Hospital, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford and Tameside General Hospital), 85% (Edinburgh Royal Infirmary), and 50% (University College London Hospital). In the case of Edinburgh Royal Infirmary, University Hospital of North Durham, Royal Blackburn Hospital, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford and Tameside General Hospital, facilities management has been subcontracted to a Balfour Beatty subsidiary, Haden Building Management Ltd. The payments for the facilities management services are repriced every five years.

All assets transfer to the client at the end of the concession, with the exception of Edinburgh Royal Infirmary, where the client has the option to terminate the arrangement for the provision of the hospital and services in 2028.

Notes to the accounts continued

37 Principal subsidiaries, joint ventures and associates continued

(d) PFI/PPP concessions continued

Concession company	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2007	Committed post 31 December 2007
Consort Healthcare (Durham) Ltd	Teaching hospital	£90m	50%	March 1998	30	2001	£7m	–
Consort Healthcare (Edinburgh Royal Infirmary) Ltd	Teaching hospital and medical school	£220m	73.9%	August 1998	30	2003	£40m	–
Health Management (UCLH) Ltd	University College London teaching hospital	£282m	33.3%	July 2000	40	2008	£9m	–
Consort Healthcare (Blackburn) Ltd	General hospital	£116m	50%	July 2003	38	2006	£6m	–
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	£553m	40%	June 2006	40	2011	–	£23m
Consort Healthcare (Mid Yorkshire) Ltd	Pinderfields and Pontefract general hospitals	£311m	50%	June 2007	35	2010	–	£15m
Consort Healthcare (Salford) Ltd	Teaching hospital and medical school	£136m	50%	September 2007	35	2012	–	£10m
Consort Healthcare (Tameside) Ltd	General hospital	£77m	50%	September 2007	34	2011	–	£6m
							£62m	£54m

Schools

Summary: Balfour Beatty is a promoter, developer and investor in six schools projects under Balfour Beatty's Transform Schools brand to design, build or refurbish schools and to provide certain non-educational services over the concession period.

Project descriptions: The projects comprise 98 schools in the city of Stoke-on-Trent, 15 schools in Rotherham, 21 schools in North Lanarkshire and six new schools, two post-16 learning centres and two leisure centres in Bassetlaw, Nottinghamshire, 12 schools in Birmingham and seven learning centres in Knowsley. Construction in Bassetlaw, North Lanarkshire and Knowsley is all new build. On Stoke, construction comprises £16m of new build and £63m of refurbishment, on Rotherham £78m of new build and £21m of refurbishment and on Birmingham £69m of new build and £5m of refurbishment.

Contractual arrangements: The principal contract is the project agreement between the concession company and the local authority that provides for an inflation indexed availability based payment subject to any performance related deductions. Construction is subcontracted to a construction joint venture of Balfour Beatty subsidiaries and the facilities management services are subcontracted to a Balfour Beatty subsidiary, Haden Building Management Ltd. The payments for the facilities management services are repriced every five years. All assets transfer to the client at the end of the concession.

Concession company	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2007	Committed post 31 December 2007
Transform Schools (Stoke) Ltd	Grouped schools project in Stoke-on-Trent	£84m	50%	October 2000	25	2005	£5m	–
Transform Schools (Rotherham) Ltd	Grouped schools project in Rotherham	£113m	50%	June 2003	31	2006	£5m	–
Transform Schools (North Lanarkshire) Ltd	Grouped schools project in North Lanarkshire	£140m	50%	June 2005	32	2008	£1m	£8m
Transform Schools (Bassetlaw) Ltd	Grouped schools project in Bassetlaw, Notts	£127m	50%	July 2005	27	2007	£7m	–
Transform Schools (Birmingham) Ltd	Grouped schools project in Birmingham	£89m	50%	March 2006	33	2009	–	£4m
Transform Schools (Knowsley) Ltd	BSF project in Knowsley	£163m	100%	December 2007	27	2010	–	£15m
							£18m	£27m

37 Principal subsidiaries, joint ventures and associates continued

(d) PFI/PPP concessions continued

Other concessions

Summary: Balfour Beatty is a promoter, developer and investor in a number of other infrastructure concessions.

Project descriptions: Aberdeen Environmental Services Ltd (AES) has a contract to design, build and finance wastewater treatment facilities in North-Eastern Scotland and operate them for the remainder of a 30 year period. The construction was principally new build. The Powerlink project comprises two companies: EDF Energy Powerlink Ltd (EDFEPL), which operates the London Underground high voltage power system under a 30 year contract and is responsible for procuring various new power assets, and Power Asset Development Company Ltd (PADCO), which constructed the new power assets and is leasing them to EDFEPL.

Contractual arrangements: For AES the principal agreement is the project agreement with Scottish Water under which AES receives inflation indexed payments on the basis of flows and loads of influent to the treatment works less any performance related deductions. AES subcontracted construction to a construction joint venture in which Balfour Beatty Civil Engineering Ltd had a 50% interest and subcontracted operations and maintenance to a subsidiary of one of the other shareholders. For the Powerlink project the principal project agreement is the power services contract between EDFEPL and London Underground Ltd that provides for an inflation indexed availability payment subject to any performance deductions. EDFEPL operates and maintains the power network using its own staff and is leasing the new power assets from PADCO, which subcontracted construction to a construction joint venture in which a Balfour Beatty subsidiary, Balfour Kilpatrick Ltd, had a 40% interest. There are no provisions to reprice contracts and all assets transfer to the client at the end of the concession.

Concession company	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt		
							Invested to 31 December 2007	Committed post 31 December 2007	
Aberdeen Environmental Services Ltd	Wastewater treatment in North-East Scotland	£92m	45%	May 2000	30	2002	£4m	—	
EDF Energy Powerlink Ltd/Power Asset Development Company Ltd	London Underground power system	£184m	10%/25%	August 1998	30	2006	£4m	—	
							£8m	—	
Total for all PFI/PPP concessions								£144m	£88m

(e) Non-PFI/PPP infrastructure investments

Summary: Balfour Beatty is an investor in and a promoter and developer of non-PFI/PPP infrastructure investments.

Project descriptions: Balfour Beatty is a 50% shareholder in Thames Power Ltd, which owns 51% of the equity in Barking Power Ltd, the company which built, equipped, owns and operates Barking Power Station, a combined cycle 1,000MW capacity gas-fired facility in East London. In January 2007 Regional & City Airports (RCA) purchased Exeter and Devon Airport Ltd, which owns and operates Exeter International Airport. Balfour Beatty is a 60% shareholder in Regional & City Airports Ltd.

Company	Project	Total debt and equity funding	Shareholding	Financial close	Equity and subordinated debt	
					Invested to 31 December 2007	Committed post 31 December 2007
Barking Power Ltd	Gas fired power station in East London	£661m	25.5%	March 1992	£24m	—
Exeter and Devon Airport Ltd	Exeter International Airport	£60m	60%	January 2007	£18m	—
					£42m	—

Group historical summary

IFRS	2007 £m	2006 £m	2005 £m	2004 pro forma £m
Income				
Revenue (including share of joint ventures and associates)	7,488	5,506	4,590	3,942
Profit from continuing operations before exceptional items and amortisation of intangible assets	191	128	98	82
Net investment income before exceptional items	10	8	19	13
Profit before taxation, exceptional items and amortisation of intangible assets	201	136	117	95
Exceptional items	(35)	(26)	7	(1)
Amortisation of intangible assets	(9)	(1)	–	–
Profit from continuing operations before taxation	157	109	124	94
Taxation on profit from continuing operations	12	(34)	(35)	(28)
(Loss)/profit from discontinued operations after taxation	(18)	16	17	180
Profit for the year attributable to equity shareholders	151	91	106	246
Capital employed				
Equity shareholders' funds	483	387	292	227
Liability component of preference shares	87	90	98	103
Net cash	(313)	(284)	(301)	(67)
	257	193	89	263
Statistics				
Adjusted earnings per ordinary share*	35.0p	27.3p	24.1p	22.1p
Basic earnings per ordinary share	35.1p	21.2p	24.9p	58.7p
Diluted earnings per ordinary share	34.8p	21.0p	24.7p	58.1p
Proposed dividends per ordinary share	11.5p	9.1p	8.1p	6.6p
Profit from continuing operations before exceptional items and amortisation as a percentage of revenue	2.6%	2.3%	2.1%	2.1%

Dividends per ordinary share for 2003 were 6.0p.

Notes:

Figures for the four years ended 31 December 2007 shown above were prepared under International Financial Reporting Standards (IFRS) with pro forma figures shown for the year ended 31 December 2004 which include the impact of IAS 32 and IAS 39 as if the Group had adopted them for that year.

The Company's annual report and accounts for 2004 and prior years were prepared under UK generally accepted accounting principles (UK GAAP) and as these results are not comparable with results under IFRS, they are not presented above.

An explanation of the transition from UK GAAP to IFRS and reconciliations showing the effect of changes in presentation and accounting policies arising from the adoption of IFRS on the figures prepared under UK GAAP for the year ended 31 December 2004 are set out in Note 37 of the Company's annual report and accounts 2005.

*Adjusted earnings per ordinary share before exceptional items and amortisation of intangible assets, and including the results of discontinued operations, have been disclosed to give a clearer understanding of the Group's underlying trading performance.

Shareholder information

Registrars and transfer office

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state the shareholder's registered address and, if available, the full shareholder reference number. Please write to:

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Telephone 0871 664 0300 from the UK (calls cost 10p per minute plus network extras) and +44 20 8639 3399 from outside the UK (Monday – Friday 9.00 a.m. – 5.30 p.m., UK time). Alternatively you can email them at: ssd@capitaregistrars.com.

They can help you to:

- check your shareholding;
- register a change of address or name;
- obtain a replacement dividend cheque or tax voucher;
- record the death of a shareholder;
- amalgamate multiple accounts;
- resolve any other question about your shareholding.

Dividend mandates

If you wish dividends to be paid directly into your bank or building society account, you should contact the Registrars for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS). Information about Balfour Beatty's Dividend Reinvestment Plan ("DRIP") can also be obtained from the Registrars.

Shareholder information on the internet and electronic communications

The Balfour Beatty website at www.balfourbeatty.com offers shareholders and prospective investors a wealth of information about the Company, its people and businesses and its policies on corporate governance and corporate responsibility. It should be regarded as your first point of reference for information on any of these matters.

In conjunction with Capita Registrars, you can access and manage your shareholdings whenever and wherever you like. By creating a Share Portal account, you are able to access the full range of online services, including the ability to:

- view your holdings and indicative share price and valuation;
- view movements on your holdings and your dividend payment history;
- register a bank mandate to have your dividends paid directly into your bank account;
- change your registered address;
- sign-up to receive e-communications or access the online proxy voting facility;
- download and print shareholder forms.

The Share Portal is easy to use. You can take control of your shareholding and keep your details up to date. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: shareportal@capita.co.uk.

Balfour Beatty actively supports Climate Care, a not-for-profit organisation that funds global sustainable energy and forest restoration projects that reduce greenhouse gases.

As well as cutting greenhouse gasses, Climate Care's projects also help to improve people's standard of living and to protect wildlife habitats. For more information on Climate Care, visit www.climatecare.org.

In support of the Climate Care programme, Balfour Beatty will donate £1 to Climate Care for every shareholder that registers to receive shareholder communications electronically.

Unsolicited mail

Balfour Beatty is obliged by law to make its share register available on request to other organisations who may then use it as a mailing list. This may result in you receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail, you may do so by writing to the Mailing Preference Service, an independent organisation whose services are free to you. Once your name and address have been added to its records, it will advise the companies and other bodies that support the service that you no longer wish to receive unsolicited mail. If you would like more details, please write to:

Mailing Preference Service, Freepost 29 LON20771, London W1E 0ZT
or visit the Mailing Preference Service website at www.mpsonline.org.uk.

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares that you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £11m has been given to almost 1,500 charities. The relevant share transfer form may be obtained from the Registrars; further information about the scheme is available from the ShareGift Internet site www.ShareGift.org.

Share dealing services

Capita IRG Trustees Limited provide a telephone and online share dealing service for UK resident shareholders. To use this service, shareholders should contact Capita Registrars on 0870 458 4577 or visit www.capitadeal.com.

The Company has also established an execution-only postal share dealing service, through JPMorgan Cazenove Limited, for private investors who wish to buy or sell Balfour Beatty plc's shares. Further details can be obtained from:

The Balfour Beatty Share Dealing Service, JPMorgan Cazenove Limited
20 Moorgate, London EC2R 6DA, Telephone: 020 7155 5155

Alternatively, a low-cost, execution-only postal share dealing service for the purchase and sale of Balfour Beatty plc shares is available from Pershing Securities Ltd. The service is restricted to UK residents, and transactions are limited to €15,000 (approximately £10,000) in value. For details, please contact:

Pershing Securities Ltd, Broker Services Team, The Royal Liver Building, Pier Head, Liverpool L3 1LL, Tel: 020 7661 6616 (purchases), 020 7661 6617 (sales)

Capita IRG Trustees Limited, JPMorgan Cazenove Limited and Pershing Securities Ltd are each authorised and regulated by the Financial Services Authority. Pershing Securities Ltd is also a member of LIFFE and the London Stock Exchange.

Share price

The Balfour Beatty share price can be found at the Balfour Beatty website at www.balfourbeatty.com and in the appropriate sections of national newspapers under the classification "Construction and Building Materials". It is also available on Ceefax and Teletext and a number of personal finance websites on the Internet. Historic share prices are available from the library at Hoare Govett. Telephone: 020 7678 5926.

The London Stock Exchange Daily Official List (SEDOL) codes are:

Ordinary shares: 0096162
Preference shares: 0097820

The London Stock Exchange "ticker" codes are:

Ordinary shares: BBY
Preference shares: BBYB

Capital gains tax

For capital gains tax purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 307.3p per share. This has been adjusted for the 1-for-5 rights issue in June 1992 and the 2-for-11 rights issue in September 1996.

Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the Company's Registered Office address or by email to info@balfourbeatty.com.

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

Why not try online?

Why not view our online annual report at:
www.balfourbeatty.com/bby/investors/reports/

