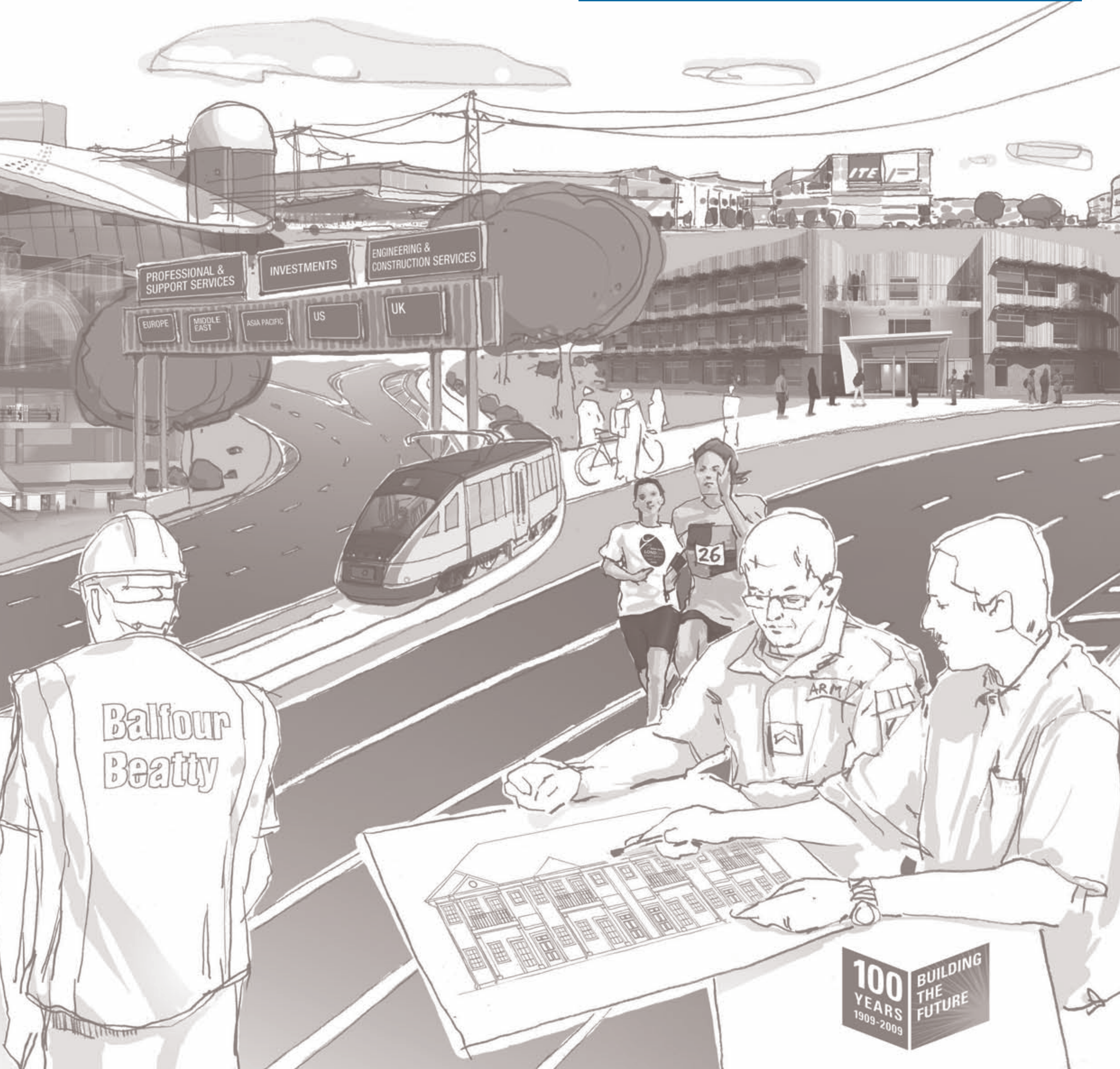
Half-year financial report 2009

Balfour Beatty

INTEGRATED INFRASTRUCTURE



Our business

Our accounts

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 goal is to deliver strong, reliable, responsible growth in shareholder value over the long-term.

Half-year highlights

- Profit from operations† up 30% to £114m
- Pre-tax profit† up 14% to £108m
- Adjusted earnings per share† up 6% to 17.2p
- Good cash generation from operations of £78m
- Average net cash in the first half of £224m, consistent with long-term policy of no net debt (excluding non-recourse)
- Interim dividend increased 8% to 5.5p

	2009 first half	2008 first half
Revenue including joint ventures and associates*	**£5,072m**	£4,332m
Group revenue*	**£4,388m**	£3,788m
Profit from operations*		
– before exceptional items and amortisation	**£114m**	£88m
– after exceptional items and amortisation	**£87m**	£137m
Pre-tax profit*		
– before exceptional items and amortisation	**£108m**	£95m
– after exceptional items and amortisation	**£66m**	£144m
Earnings per share		
– adjusted†	**17.2p**	16.2p
– basic	**10.9p**	24.1p
Financing		
– net cash before PPP subsidiaries (non-recourse)	**£394m**	£333m
– net borrowings of PPP subsidiaries (non-recourse)	**£(190)m**	£(91)m

† before exceptional items and amortisation of intangible assets.
* continuing operations.

Half-year results

"The first half of 2009 was a further period of growth for the Group.

We have made good progress in growing our business presence in the US, based on the principles which have made our UK business so successful. We have won important contracts in Asia and closed a number of UK PPP projects.

Our strong first half performance, together with the visibility provided by our significant order book of high-quality work, underpins our confidence in the prospects of the Group and we anticipate making good progress in 2009.

We are confident in our ability to continue our success in our key markets as our customers increasingly seek an integrated infrastructure partner and we see significant opportunities in the medium and long-term."

Ian Tyler Chief Executive

Interim management report

Balfour Beatty provides a range of high-quality services to sophisticated infrastructure owners, is a leading business in the majority of its markets, is financially strong and has an excellent reputation for operational delivery.

Overview

The first half of 2009 was a further period of growth for the Group, underpinned by continued infrastructure expenditure by our customers and the benefit of acquisitions.

Our order book was £12.5bn at the period end, which continues to give us good forward visibility.

We have made good progress in growing our major business presence in the US, which now represents 30% of Group revenue, based on the principles which have made our UK business so successful. We have won important contracts in Asia and reached financial close on a number of UK PPP projects. We are confident in our ability to sustain successful growth in our key markets.

Our goal is to deliver consistent, long-term growth to our shareholders. We do this by striving to remain, or to become, the leading provider of high-quality infrastructure in each of our key markets.

Our core skills are focused in three areas which span the infrastructure project life cycle: professional services, engineering and construction services (including facilities and infrastructure management), and investments.

By applying these skills to become the partner of choice for sophisticated infrastructure owners in our chosen disciplines and geographies, we believe we will, increasingly, provide the valued, front-end planning, design and management skills required to deliver complex, integrated projects; generate strong, sustainable value from our contracting and engineering activities; and secure substantial equity returns from our investment portfolio.

Our customers' requirements are evolving. Increasingly, they are seeking to partner with a small number of trusted suppliers to eliminate unnecessary interfaces which accentuate both risk and cost. A supply chain partner who can integrate knowledge and expertise across a range of disciplines and effectively manage risk on behalf of its customer is increasingly perceived to offer the greatest value.

Our proven capability to integrate professional and support services, engineering and construction, and investment skills is a key differentiator for customers and is generating a growing range of large-scale opportunities.

Over time, our aim is to continue to move towards a business model where our activities in the US have the same scale and depth as the UK, while continuing to develop businesses in other sophisticated markets around the world.

First half-year results

Revenue including joint ventures and associates* was up 17% at £5,072m (2008: £4,332m).

Profit from operations† in the building sector increased by 39%, in the engineering sector by 5% and in the investments sector by 86%, while profits† in the rail sector decreased by £2m.

Pre-tax profit† was up 14% at £108m (2008: £95m).

Adjusted earnings per ordinary share† were up 6% at 17.2p (2008: 16.2p). Basic earnings per ordinary share were 10.9p (2008: 24.1p).

Period-end net cash stood at £394m (2008: £333m), before taking account of the consolidation of £190m of non-recourse net debt held in PPP subsidiaries (2008: £91m). Cash generated from operations was good at £78m (2008: £84m) despite a very strong cash inflow at the end of 2008.

The Board has declared an interim dividend up 8% at 5.5p per ordinary share (2008: 5.1p).

Information about the Group's related party transactions and principal risks and uncertainties is included in Notes 15 and 17 respectively of the condensed Group financial statements.

Business sector performance

Building, Building Management and Services

Balfour Beatty is the UK's largest building construction and building services provider and has a strong position in building construction and professional services in the US.

Profit from operations in the building sector, before exceptional items and amortisation, increased by 39% to £53m (2008: £38m).

There was a good overall performance in the UK in a difficult market with our facilities management business, Balfour Beatty WorkPlace, continuing its strong organic growth, offset by a weaker performance in our UK regional building business.

In the US, Balfour Beatty Construction performed particularly strongly. Major contracts in the US were secured in North Carolina, Texas and California from customers including the US Army Corps of Engineers and the Parkland Health Authority.

† before exceptional items and amortisation of intangible assets.
* continuing operations.

There was a four-month contribution from RT Dooley, the construction firm based in North Carolina, acquired for a net £22m in February 2009. RT Dooley's activities in corporate headquarters, fit-out and mission-critical work such as data centres complements Balfour Beatty Construction US' South-East division, which is also based in Charlotte. The integration of RT Dooley is proceeding well.

Heery benefited from a contribution from Barnhart, the largest construction management and building company in San Diego and the sixth largest education sector builder in the US acquired in June 2008, which performed well.

The sector order book was £5.5bn, a decrease of 18% since the year end, reflecting the impact of exchange and the downturn in commercial building markets.

We expect to make strong progress in the building sector for the year as a whole.

Civil and Specialist Engineering and Services

Balfour Beatty is a leading UK civil engineering business and has strong positions in the Middle East, South-East Asia and in Texas and California.

Profit from operations in the engineering sector, before exceptional items and amortisation, rose by 5% to £45m (2008: £43m).

There was a strong performance in UK civil engineering, with good progress on a number of major road projects including the M74 in Scotland and the A3 and A421 in England. We have received notice to proceed on the A46 Newark to Widmerpool project, which was identified for accelerated delivery under the Government's fiscal stimulus package and is scheduled for completion in late 2011.

Following financial close, work started in May on the construction contract to add 40 lane miles of additional capacity to the M25.

Balfour Beatty Management, our professional services business, continued to grow, playing an important role in integrating project management and delivery for customers such as the Highways Agency, Transport for London and National Grid.

As anticipated, volumes were down in Balfour Beatty Utility Solutions, as its UK customers reduced spend at the end of the regulatory cycle. We anticipate increased orders in the second half of 2009 and in early 2010 ahead of AMP5, the asset management plan period which will run from 2010 to 2015. We announced in August that we have been selected as an alliance partner for the delivery of South West Water's capital programme for a five-year period commencing April 2010.

Good early progress has been made on the contract to support National Grid's US electricity transmission capital investment programme in New England, the first time we have won work with a major UK infrastructure owner in a different geography.

There was a good performance by Gammon, which operates in Hong Kong and Singapore. Major contract wins included those for the redevelopment of the Hennessy Centre in the Causeway Bay district of Hong Kong with a value in excess of HK$1.5bn (£120m) and, after the period end, the HK$3.76bn (£300m) contract for the construction of a sewage conveyance system in Hong Kong, the largest single civil engineering contract won by Gammon.

In the Middle East, performance has been steady and in line with the first half of last year. In the US, profitability has continued to improve.

The sector order book increased by 16% to £5.7bn during the period.

We expect to make strong progress in the engineering sector in the year as a whole.

Rail Engineering and Services

Balfour Beatty is an international fixed infrastructure provider to the railway industry.

Profit from operations in the rail sector, before exceptional items and amortisation, was £7m (2008: £9m).

In the UK, as expected, reduced volumes impacted the first half of the year as Network Rail's new Control Period (CP4) commenced.

In Germany, there has been a reduced workload from Deutsche Bahn in the first half of the year, although we are well-positioned to benefit from their future spending plans. Schreck-Mieves, acquired in July 2008, has added a leading position in the German trackwork market and enhances our ability to deliver major, multi-disciplinary projects.

Elsewhere in Europe, there was a strong performance with good progress on the Bologna to Florence and Madrid to Levante high-speed lines, which are elements of the ongoing high-speed rail programme to connect Europe's major cities.

We secured a contract to implement the rail electrification and power supply systems package for the Ipoh to Padang Besar double tracking rail extension in Malaysia and anticipate further work in China, where we are well-established.

The sector order book increased by 8% to £1.3bn during the period, with new projects secured with Network Rail, London Underground and the Malaysian Rail Authority.

We expect performance for the year as a whole in the rail sector to be broadly in line with last year.

Investments

Balfour Beatty is a leading PPP concession company in the UK and the US.

Profit from operations in the investments sector, before exceptional items and amortisation, increased by 86% to £26m (2008: £14m).

The primary driver of this was a full-period contribution from Balfour Beatty Communities in the US, which was acquired in April 2008, and has performed in line with expectations.

Balfour Beatty Communities provides reliable, long-term profit and cash flows from a high-quality portfolio of PPP military housing concessions, as well as an experienced and successful management team to develop our presence in the growing US PPP market.

In the UK, there was a good underlying concession performance from our PPP portfolio of education, health, road and other infrastructure assets.

During the period, we reached financial close in the UK on three PPP projects, including the £170m Fife General Hospital and the £200m Southwark Schools for the Future programme. As part of the Connect Plus consortium, we reached financial close in May on the PPP project for the design, build, finance and operate (DBFO) contract to provide additional capacity to, and to maintain and operate, the M25 motorway.

In July, we reached financial close for the £176m Carlisle Northern Development Route PPP concession for Cumbria County Council.

There is a healthy pipeline of UK PPP projects and our bidding activity, especially in the education sector, is intense. This will increase bid costs in the second half.

Profit from infrastructure investments increased to £9m (2008: £8m). There was a strong performance from Barking Power in the first half, following a good second half last year, benefiting from the strength of spot electricity prices. This was offset by small losses in our regional airport investments in Exeter and Blackpool, which experienced reduced passenger volumes in the period.

We expect to make good progress in the investments sector for the year as a whole.

Half-year results continued

Exceptional items and amortisation of intangible assets

The Group has recorded an exceptional loss of £22m (2008: £57m gain), before a related £6m tax credit (2008: £16m charge). Included within this is a £15m loss (£11m after tax) on the revaluation of foreign exchange options which were entered into in order to limit the cash downside on the closing of our net investment hedges. This has enabled the Group progressively to reduce the total cash impact of closing the hedges from the £70m disclosed in March to £42m in September 2009, resulting in a total outflow for the year of £53m (after tax) including the option premium incurred in the first half.

A non-cash impairment charge of £4m has been incurred in the first half of 2009 in respect of writing down the value of assets related to railway facilities in Germany to their net realisable value as a result of a major customer deciding to consolidate procurement from fewer facilities.

During the period £3m of reorganisation costs were incurred, resulting from the acquisition and integration of businesses.

Charges for the amortisation of intangible assets have increased, due to the impact of acquisitions, to £20m (2008: £8m) with a related tax credit of £6m (2008: £2m).

Other financial information

Average cash in the first half of the year was £224m, in line with the average of £223m for the same period last year. The period-end net cash position was £394m (2008: £333m), excluding the non-recourse net debt in PPP subsidiaries, and was impacted adversely by the strengthening of sterling from $1.46 at December 2008 to $1.65 at June 2009.

Cash generated from operations was good at £78m (2008: £84m) despite a very strong cash inflow at the end of 2008.

Net investment income and finance costs was an expense of £6m (2008: £7m income) before exceptional items. The primary driver of the movement is an £11m anticipated reduction in the net return on pension scheme assets and liabilities, with the balance being principally due to lower interest rates on cash balances.

Our pension deficit has increased to £587m pre-tax, or £427m after tax, largely due to a reduction in the effective real discount rate used to value liabilities from 3.65% at the 2008 year end to 2.8% at the period end. The Group has written to certain groups of in-service members in August to inform them that from 1 January 2011 there will be no further increase in the pensionable pay used to calculate defined benefit pensions. The impact of this would have been to reduce the deficit by approximately £115m pre-tax at the half year, and will be accounted for in the 2009 full-year results. In addition, the Group has committed to increasing deficit payments by £1m per month to £3m per month from April 2010, while the results of the next formal valuation as at 31 March 2010 are being finalised.

The effective tax rate for the period was 39% (2008: 40%), due to the mix of overseas profits. The tax rate for the full year is anticipated to be below last year's rate of 38%, based on a different mix of profits from the half year, together with the benefits of not having to provide additional tax on overseas dividends remitted to the UK.

Outlook

Our strong first half performance, together with the visibility provided by our significant order book of high-quality work, underpins our confidence in the prospects of the Group and we anticipate making good progress in 2009.

We are confident in our ability to continue our success in our key markets as our customers increasingly seek an integrated infrastructure partner and we see significant opportunities in the medium and long-term.

Ian Tyler Chief Executive

For the half-year ended 27 June 2009 based on unaudited figures

Condensed Group statement of financial performance

	Notes	2009 first half Before exceptional items* £m	2009 first half Exceptional items* (Note 6) £m	2009 first half Total £m	2008 first half Before exceptional items*# £m	2008 first half Exceptional items* (Note 6) £m	2008 first half Total# £m	2008 year Before exceptional items* £m	2008 year Exceptional items* (Note 6) £m	2008 year Total £m
Revenue including share of joint ventures and associates		5,072	–	5,072	4,332	–	4,332	9,486	–	9,486
Share of revenue of joint ventures and associates	3	(684)	–	(684)	(544)	–	(544)	(1,225)	–	(1,225)
Group revenue		4,388	–	4,388	3,788	–	3,788	8,261	–	8,261
Cost of sales		(4,060)	–	(4,060)	(3,520)	–	(3,520)	(7,628)	–	(7,628)
Gross profit		328	–	328	268	–	268	633	–	633
Net operating expenses										
– amortisation of intangible assets		–	(20)	(20)	–	(8)	(8)	–	(27)	(27)
– other		(255)	(7)	(262)	(216)	57	(159)	(478)	51	(427)
Group operating profit		73	(27)	46	52	49	101	155	24	179
Share of results of joint ventures and associates	3	41	–	41	36	–	36	75	(3)	72
Profit from operations		114	(27)	87	88	49	137	230	21	251
Investment income	4	17	–	17	19	–	19	43	–	43
Finance costs	5	(23)	(15)	(38)	(12)	–	(12)	(24)	–	(24)
Profit before taxation		108	(42)	66	95	49	144	249	21	270
Taxation	7	(26)	12	(14)	(24)	(14)	(38)	(66)	(8)	(74)
Profit for the period attributable to equity shareholders		82	(30)	52	71	35	106	183	13	196

* and amortisation of intangible assets.

Re-presented (Note 1.3).

	Notes	2009 first half pence	2008 first half pence	2008 year pence
Basic earnings per ordinary share	8	10.9	24.1	42.9
Diluted earnings per ordinary share	8	10.9	23.9	42.7
Dividends per ordinary share proposed for the period	9	5.5	5.1	12.8

For the half-year ended 27 June 2009 based on unaudited figures

Condensed Group statement of comprehensive income

	2009 first half £m	2008 first half £m	2008 year £m
Profit for the period	52	106	196
Other comprehensive (expense)/income for the period			
Actuarial losses on retirement benefit obligations	(332)	(105)	(76)
Fair value revaluations – Cash flow hedges	(3)	–	(1)
– PPP cash flow hedges	10	21	(107)
– PPP financial assets	(47)	19	102
Changes in fair value of net investment hedges	18	(3)	(105)
Currency translation differences	(98)	8	217
Tax relating to components of other comprehensive income	103	21	25
Total other comprehensive (expense)/income for the period	(349)	(39)	55
Total comprehensive (expense)/income for the period attributable to equity shareholders	(297)	67	251

For the half-year ended 27 June 2009 based on unaudited figures

Condensed Group statement of changes in equity

						Other reserves					
	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	Hedging reserves £m	Currency translation reserves £m	Other reserves £m	(Accumulated losses)/ retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2008	216	52	16	164	178	(4)	(2)	15	(152)	–	483
Total comprehensive (expense)/income for the period	–	–	–	–	58	7	6	–	(4)	–	67
Ordinary dividends	–	–	–	–	–	–	–	–	(30)	–	(30)
Joint ventures' and associates' dividends	–	–	–	–	(43)	–	–	–	43	–	–
Issue of ordinary shares	22	–	–	–	–	–	–	161	–	–	183
Movements relating to share-based payments	–	–	–	–	–	–	–	(2)	(2)	–	(4)
Non-controlling interests acquired	–	–	–	–	–	–	–	–	–	1	1
Transfers	–	–	–	(22)	–	–	–	(161)	183	–	–
At 28 June 2008	238	52	16	142	193	3	4	13	38	1	700
Total comprehensive (expense)/income for the period	–	–	–	–	47	(29)	81	1	83	1	184
Ordinary dividends	–	–	–	–	–	–	–	–	(24)	–	(24)
Joint ventures' and associates' dividends	–	–	–	–	(10)	–	–	–	10	–	–
Issue of ordinary shares	1	2	–	–	–	–	–	–	–	–	3
Movements relating to share-based payments	–	–	–	–	–	–	–	6	(6)	–	–
Non-controlling interests acquired	–	–	–	–	–	–	–	–	–	2	2
Transfers	–	–	–	(3)	–	–	–	–	3	–	–
At 31 December 2008	239	54	16	139	230	(26)	85	20	104	4	865
Total comprehensive (expense)/income for the period	**–**	**–**	**–**	**–**	**(6)**	**11**	**(71)**	**–**	**(231)**	**–**	**(297)**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(37)**	**–**	**(37)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**–**	**(27)**	**–**	**–**	**–**	**27**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**(1)**	**–**	**2**
At 27 June 2009	**239**	**54**	**16**	**139**	**197**	**(15)**	**14**	**23**	**(138)**	**4**	**533**

At at 27 June 2009 based on unaudited figures

Condensed Group statement of financial position

	Notes	2009 first half £m	2008 first half £m	2008 year £m
Non-current assets				
Intangible assets – goodwill		**928**	819	975
– other		**190**	170	223
Property, plant and equipment		**288**	257	296
Investments in joint ventures and associates	3	**444**	433	469
Investments		**53**	57	55
PPP financial assets		**205**	99	151
Deferred tax assets		**206**	135	132
Derivative financial instruments		**–**	6	3
Trade and other receivables		**68**	61	74
		2,382	2,037	2,378
Current assets				
Inventories		**120**	93	125
Due from customers for contract work		**451**	442	383
Derivative financial instruments		**1**	6	2
Trade and other receivables		**1,203**	1,086	1,193
Cash and cash equivalents – PPP subsidiaries		**4**	1	2
– other		**406**	351	461
		2,185	1,979	2,166
Total assets		**4,567**	4,016	4,544
Current liabilities				
Trade and other payables		**(2,258)**	(2,106)	(2,168)
Due to customers for contract work		**(483)**	(418)	(540)
Derivative financial instruments		**(47)**	(1)	(66)
Current tax liabilities		**(6)**	(12)	(23)
Borrowings – PPP non-recourse loans		**(16)**	(3)	–
– other		**(2)**	(14)	(12)
		(2,812)	(2,554)	(2,809)
Non-current liabilities				
Trade and other payables		**(152)**	(121)	(152)
Derivative financial instruments		**(20)**	(1)	(40)
Borrowings – PPP non-recourse loans		**(178)**	(89)	(145)
– other		**(10)**	(4)	(9)
Deferred tax liabilities		**(10)**	(7)	(10)
Liability component of preference shares		**(88)**	(87)	(87)
Retirement benefit obligations	10	**(587)**	(309)	(261)
Provisions		**(177)**	(144)	(166)
		(1,222)	(762)	(870)
Total liabilities		**(4,034)**	(3,316)	(3,679)
Net assets		**533**	700	865
Equity				
Called-up share capital	11	**239**	238	239
Share premium account		**54**	52	54
Equity component of preference shares		**16**	16	16
Special reserve		**139**	142	139
Share of joint ventures' and associates' reserves		**197**	193	230
Other reserves		**22**	20	79
(Accumulated losses)/retained profits		**(138)**	38	104
Equity attributable to equity holders of the parent		**529**	699	861
Non-controlling interests		**4**	1	4
Total equity		**533**	700	865

For the half-year ended 27 June 2009 based on unaudited figures

Condensed Group statement of cash flows

	Notes	2009 first half £m	2008 first half £m	2008 year £m
Cash flows from operating activities				
Cash generated from operations	13.1	**78**	84	297
Income taxes paid		**(17)**	(8)	(18)
Net cash from operating activities		**61**	76	279
Cash flows from investing activities				
Dividends received from joint ventures and associates		**27**	43	53
Interest received		**12**	13	27
Acquisition of businesses, net of cash and cash equivalents acquired		**(26)**	(272)	(302)
Purchase of property, plant and equipment		**(44)**	(49)	(93)
Investment in and loans made to joint ventures and associates		**(13)**	–	(9)
Investment in PPP financial assets		**(48)**	(35)	(81)
Settlement of financial derivatives		**(15)**	(11)	(48)
Disposal of property, plant and equipment		**7**	10	17
Disposal of investments		**3**	–	2
Net cash used in investing activities		**(97)**	(301)	(434)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**–**	183	186
Purchase of ordinary shares		**(3)**	(9)	(13)
Proceeds from new loans		**55**	28	81
Repayment of loans		**(3)**	(4)	(18)
Repayment of finance leases		**(1)**	–	(2)
Ordinary dividends paid		**–**	–	(54)
Interest paid		**(9)**	(5)	(12)
Preference dividends paid		**(5)**	(5)	(11)
Net cash from financing activities		**34**	188	157
Net (decrease)/increase in cash and cash equivalents		**(2)**	(37)	2
Effects of exchange rate changes		**(41)**	(1)	72
Cash and cash equivalents at beginning of period		**453**	379	379
Cash and cash equivalents at end of period	13.2	**410**	341	453

Notes

1 Accounting policies

1.1 Basis of preparation

The condensed Group financial statements for the half-year ended 27 June 2009 included in this report have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed Group financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which were prepared in accordance with IFRS as adopted by the European Union.

IFRIC 12 Service Concession Arrangements; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 16 Hedges of a Net Investment in a Foreign Operation; IFRIC 17 Distributions of Non-Cash Assets to Owners; IFRIC 18 Transfers of Assets from Customers; Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items; Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition; Amendments to IFRS 7 Improving Disclosures about Financial Instruments; Amendments to IFRIC 9 and IAS 39 Embedded Derivatives; and Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions were either in issue but not yet effective or not yet endorsed by the European Union at 11 August 2009.

IFRIC 12 relates to the accounting for the Group's 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. IFRIC 12 was endorsed by the European Union in March 2009 and will be adopted by the Group for the 2010 financial statements. IFRIC 12, IFRIC 15 and the amendments to IFRS 2 and IFRS 7 are not expected to have a significant impact on the Group's financial statements. IFRIC 16, IFRIC 17, IFRIC 18 and the amendments to IAS 39 and IFRIC 9 will have no impact on the financial statements of the Group.

The condensed Group financial statements have been reviewed, not audited, and were approved for issue by the Board on 11 August 2009. The full year figures for 2008 included in this report do not constitute statutory accounts for the purposes of Section 240 of the Companies Act 1985. A copy of the Company's statutory accounts for the year ended 31 December 2008 has been delivered to the Registrar of Companies. The independent auditors' report on those accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

The condensed Group financial statements have been prepared on the basis of the accounting policies set out in the Directors' report and accounts 2008 except as noted at 1.2.

The Group's principal risks and uncertainties are set out in Note 17 and on pages 9 and 10 of the Directors' report and accounts 2008. Having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors 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 half-year condensed Group financial statements.

1.2 Changes in accounting policy

The adoption of the following standards has resulted in changes to the Group's accounting policies in the current period:

- IAS 1 Presentation of Financial Statements (revised 2007);
- IAS 27 Consolidated and Separate Financial Statements (revised 2008);
- IFRS 3 Business Combinations (revised 2008); and
- IFRS 8 Operating Segments.

IAS 1 (revised 2007) has been applied in the preparation of these condensed Group financial statements. The revised standard requires the presentation of a statement of changes in equity in the primary statements with the information previously disclosed in a movements in equity note in the financial statements. In addition the Group has elected to present a separate statement of financial performance and statement of comprehensive income. The revised standard also suggests certain changes in terminology which have been adopted in these condensed Group financial statements. The income statement has been renamed statement of financial performance, the balance sheet has been renamed statement of financial position and the statement of recognised income and expense has been renamed statement of comprehensive income.

The revisions to IAS 27 (2008) and IFRS 3 (2008) are related. The Group has decided to adopt this set of revised standards early. The main change in accounting policy resulting from the revised standards is the requirement to expense acquisition costs in the statement of financial performance when incurred. As a result, the Group has expensed £1m of acquisition costs in the current period that previously would have been capitalised within goodwill. Non-controlling shareholder interests previously referred to as minority interests are now referred to as non-controlling interests.

IFRS 8 replaces IAS 14 Segment Reporting. Under IFRS 8 the Group's operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to assess the performance of the Group's components, which are organised based on the types of services the Group provides, and allocate resources to them. The Group has assessed the revised requirements of IFRS 8 and concluded that no change in segmentation is required. The Group's management reports present segment information after all material eliminations have been performed and therefore no inter-segment eliminations are presented. The profitability measure used to assess the performance of the Group is profit from operations before exceptional items and amortisation of intangible assets. The segmental information required by IAS 34 Interim Financial Reporting is included in Note 2 below.

IAS 23 Borrowing Costs (revised 2007); IFRIC 13 Customer Loyalty Programmes and IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction also came into effect and were adopted in the current period but had no impact on the condensed Group financial statements.

1.3 Change in classification of retirement benefit costs

In order to better reflect the operating performance of the Group, certain pension related income and costs were reclassified within the statement of financial performance in the second half of 2008. The net amount of the interest cost for the unwind of the pension obligations and the expected return on scheme assets has been reclassified out of net operating expenses to investment income. The comparative amounts for the half-year ended 28 June 2008 have been re-presented to reflect this change.

Notes continued

1 Accounting policies continuing

1.4 Exchange rates
The following exchange rates were applied in the preparation of these financial statements:

Average rates

£1 buys	2009 first half	2008 first half	Change	2009 first half	2008 year	Change
USD	**1.50**	1.98	(24)%	**1.50**	1.86	(19)%
EUR	**1.12**	1.30	(14)%	**1.12**	1.26	(11)%

Closing rates

£1 buys	2009 first half	2008 first half	Change	2009 first half	2008 year	Change
USD	**1.65**	1.99	(17)%	**1.65**	1.46	13%
EUR	**1.17**	1.27	(8)%	**1.17**	1.05	11%

2 Segment analysis

2.1 For the half-year ended 27 June 2009

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments £m	Corporate costs £m	Total £m
Performance by activity:						
Revenue including share of joint ventures and associates	**2,575**	**1,564**	**529**	**386**	**18**	**5,072**
Share of revenue of joint ventures and associates	**(67)**	**(337)**	**(17)**	**(263)**	**–**	**(684)**
Group revenue	**2,508**	**1,227**	**512**	**123**	**18**	**4,388**
Group operating profit	**51**	**35**	**7**	**(3)**	**(17)**	**73**
Share of results of joint ventures and associates	**2**	**10**	**–**	**29**	**–**	**41**
Profit from operations before exceptional items and amortisation	**53**	**45**	**7**	**26**	**(17)**	**114**
Exceptional items	**(1)**	**(1)**	**(4)**	**(1)**	**–**	**(7)**
Amortisation of intangible assets	**(9)**	**(2)**	**(1)**	**(8)**	**–**	**(20)**
Profit from operations	**43**	**42**	**2**	**17**	**(17)**	**87**
Investment income						**17**
Finance costs						**(38)**
Profit before taxation						**66**

	Europe £m	North America £m	Other* £m	Total £m
Performance by geographic origin:				
Revenue including share of joint ventures and associates	**3,187**	**1,498**	**387**	**5,072**
Share of revenue of joint ventures and associates	**(322)**	**(4)**	**(358)**	**(684)**
Group revenue	**2,865**	**1,494**	**29**	**4,388**
Profit from operations before exceptional items and amortisation	**55**	**46**	**13**	**114**
Exceptional items	**(5)**	**(2)**	**–**	**(7)**
Amortisation of intangible assets	**(5)**	**(15)**	**–**	**(20)**
Profit from operations	**45**	**29**	**13**	**87**

* Other principally comprises the Group's operations in Hong Kong and the United Arab Emirates.

2 Segment analysis continued

2.1 For the half-year ended 28 June 2008

	Building, building management and services# £m	Civil and specialist engineering and services# £m	Rail engineering and services# £m	Investments# £m	Corporate costs# £m	Total# £m
Performance by activity:						
Revenue including share of joint ventures and associates	2,151	1,563	398	220	–	4,332
Share of revenue of joint ventures and associates	(60)	(298)	(18)	(168)	–	(544)
Group revenue	2,091	1,265	380	52	–	3,788
Group operating profit	37	32	9	(10)	(16)	52
Share of results of joint ventures and associates	1	11	–	24	–	36
Profit from operations before exceptional items and amortisation	38	43	9	14	(16)	88
Exceptional items	–	(1)	–	(1)	59	57
Amortisation of intangible assets	(5)	(2)	(1)	–	–	(8)
Profit from operations	33	40	8	13	43	137
Investment income						19
Finance costs						(12)
Profit before taxation						144

	Europe# £m	North America# £m	Other*# £m	Total# £m
Performance by geographic origin:				
Revenue including share of joint ventures and associates	3,074	936	322	4,332
Share of revenue of joint ventures and associates	(244)	–	(300)	(544)
Group revenue	2,830	936	22	3,788
Profit from operations before exceptional items and amortisation	58	17	13	88
Exceptional items	59	(2)	–	57
Amortisation of intangible assets	(5)	(3)	–	(8)
Profit from operations	112	12	13	137

* Other principally comprises the Group's operations in Hong Kong and the United Arab Emirates.

Re-presented (Note 1.3).

Notes continued

2 Segment analysis continued

2.1 For the year ended 31 December 2008

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments £m	Corporate costs £m	Total £m
Performance by activity:						
Revenue including share of joint ventures and associates	4,635	3,243	1,055	553	–	9,486
Share of revenue of joint ventures and associates	(137)	(656)	(39)	(393)	–	(1,225)
Group revenue	4,498	2,587	1,016	160	–	8,261
Group operating profit	84	85	39	(19)	(34)	155
Share of results of joint ventures and associates	4	19	2	50	–	75
Profit from operations before exceptional items and amortisation	88	104	41	31	(34)	230
Exceptional items	(1)	(5)	–	(5)	59	48
Amortisation of intangible assets	(14)	(3)	(1)	(9)	–	(27)
Profit from operations	73	96	40	17	25	251
Investment income						43
Finance costs						(24)
Profit before taxation						270

	Europe £m	North America £m	Other* £m	Total £m
Performance by geographic origin:				
Revenue including share of joint ventures and associates	6,521	2,227	738	9,486
Share of revenue of joint ventures and associates	(540)	(11)	(674)	(1,225)
Group revenue	5,981	2,216	64	8,261
Profit from operations before exceptional items and amortisation	147	59	24	230
Exceptional items	51	(3)	–	48
Amortisation of intangible assets	(10)	(17)	–	(27)
Profit from operations	188	39	24	251

* Other principally comprises the Group's operations in Hong Kong and the United Arab Emirates.

	2009 first half £m	2008 first half £m	2008 year £m
Segment assets:			
Building, building management and services	**1,511**	1,278	1,464
Civil and specialist engineering services	**1,127**	1,079	950
Rail engineering and services	**702**	587	751
Investments	**804**	674	765
Corporate	**423**	398	614
Total assets	**4,567**	4,016	4,544

2 Segment analysis continued

2.2 Investments (Balfour Beatty Capital and Balfour Beatty Communities)

	2009 first half £m	2008 first half £m	2008 year £m
Revenue			
PPP			
– joint ventures and associates	**214**	127	293
– subsidiaries	**57**	42	95
Military housing	**64**	11	63
	335	180	451
Infrastructure			
– joint ventures and associates	**49**	41	100
– subsidiaries	**2**	1	2
	386	222	553

	2009 first half £m	2008 first half £m	2008 year £m
Profit from operations – before exceptional items and amortisation of intangible assets			
PPP			
– joint ventures and associates*	**16**	16	31
– subsidiaries	**1**	–	1
– bidding costs and overheads	**(13)**	(13)	(27)
Military housing			
– joint ventures and associates*	**2**	–	2
– subsidiaries	**11**	3	10
	17	6	17
Infrastructure			
– joint ventures and associates*	**11**	8	17
– subsidiaries	**(2)**	–	(3)
	26	14	31

* The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.

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

	2009 first half £m	2008 first half £m	2008 year £m
Statement of financial performance			
Share of revenue of joint ventures and associates	**684**	544	1,225
Operating profit before exceptional items	**35**	28	63
Investment income	**67**	63	126
Finance costs	**(49)**	(43)	(90)
Taxation	**(12)**	(12)	(24)
Share of results of joint ventures and associates before exceptional items	**41**	36	75
Statement of financial position			
Property, plant and equipment	**140**	134	145
PPP financial assets	**1,794**	1,472	1,663
Military housing projects	**43**	36	48
Net cash/(borrowings) – PPP non-recourse	**(1,580)**	(1,352)	(1,481)
– other	**263**	70	227
Other net assets/(liabilities)	**(216)**	73	(133)
Share of net assets of joint ventures and associates	**444**	433	469

Notes continued

4 Investment income

	2009 first half £m	2008 first half# £m	2008 year £m
PPP subordinated debt interest receivable	**6**	6	12
PPP interest on financial assets	**6**	3	7
Income arising from derivatives designated as hedges of net investments in foreign operations	**1**	–	6
Net investment income on pension scheme assets and liabilities	**–**	3	5
Other interest receivable and similar income	**4**	7	13
	17	19	43

Re-presented (Note 1.3).

5 Finance costs

		2009 first half £m	2008 first half £m	2008 year £m
Preference shares	– finance cost	**6**	6	12
PPP non-recourse	– bank loans and overdrafts	**6**	3	6
Net finance costs on pension scheme assets and liabilities		**8**	–	–
Other interest payable	– bank loans and overdrafts	**1**	2	5
	– other loans	**2**	1	1
		23	12	24
Exceptional items – fair value revaluation on foreign exchange options		**15**	–	–
		38	12	24

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 2009 on 1 July 2009 to holders of these shares on the register on 29 May 2009. A preference dividend of 5.375p gross (4.8375p net at current tax rate) per cumulative convertible redeemable preference share will be paid in respect of the six months ending 31 December 2009 on 1 January 2010 to holders of these shares on the register on 27 November 2009 by direct credit or, where no mandate has been given, by cheque posted on 30 December 2009 payable on 1 January 2010. These shares will be quoted ex-dividend on 25 November 2009.

6 Exceptional items and amortisation of intangible assets

	2009 first half £m	2008 first half £m	2008 year £m
6.1 (Charged against)/credited to profit from operations			
Net operating expenses – costs relating to the acquisition of RT Dooley	**(1)**	–	–
– post-acquisition integration, reorganisation and other costs	**(2)**	(3)	(6)
– impairment charge in respect of railway facilities and inventory	**(4)**	–	–
– reduction in pension past service liabilities	**–**	60	60
– adjustment to Birse Group goodwill	**–**	–	(3)
– tax adjustments	**–**	–	(3)
	(7)	57	48
6.2 Charged against finance costs			
– fair value revaluation on foreign exchange options	**(15)**	–	–
6.3 (Charged against)/credited to profit before taxation	**(22)**	57	48
– tax on items above	**6**	(16)	(15)
– tax credits on recognition of Birse Group losses	**–**	–	3
– industrial buildings allowances	**–**	–	(3)
Exceptional items (charged against)/credited to profit for the period	**(16)**	41	33
Amortisation of intangible assets	**(20)**	(8)	(27)
Tax thereon	**6**	2	7
(Charged against)/credited to profit for the period	**(30)**	35	13

6.1 In 2009, costs directly attributable to the acquisition of Dooley Construction Limited Partnership ("RT Dooley") of £1m have been incurred.

Reorganisation and integration costs of £2m (2008: first half £3m, full year £6m) have been incurred, £1m (2008: first half £2m, full year £3m) relating to Balfour Beatty Communities (formerly GMH Military Housing), and £1m (2008: first half £nil, full year £2m) relating to Dean & Dyball. Further costs of £nil (2008: first half £1m, full year £1m) have been incurred in the US on the reorganisation of the central division of Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc).

An impairment charge of £4m has been incurred in the first half of 2009 in respect of writing down buildings and inventory of railway facilities in Germany to their net realisable value due to a decision by a main customer to consolidate procurement over fewer production facilities (2008: first half £nil, full year £nil).

In 2008 the Group implemented measures to limit the increase in pension benefits of certain groups of in-service members of the Balfour Beatty Pension Fund giving rise to a reduction in past service liabilities of £60m.

On the acquisition of Birse Group, tax losses were acquired which did not satisfy the criteria for recognition in the statement of financial position at the date of acquisition. A portion of these losses was recognisable and the benefit was recorded as part of the Group's tax charge in exceptional items in 2008. IAS 12 applicable to the 2008 results stipulated that in addition to recognising the tax benefit the carrying amount of goodwill recognised on the acquisition is reduced, with the reduction treated as an expense.

Following enactment of the UK Finance Act 2008, tax depreciation allowances on industrial buildings are being reduced to nil on a phased basis. In 2008 joint ventures and associates of the Group recognised a £4m deferred tax charge which was required under IAS 12 to establish a deferred tax liability. This liability will be released to the statement of financial performance as the relevant assets are depreciated for accounting purposes. In addition, a £1m deferred tax credit was recognised in 2008 following agreement with HMRC on the basis of taxing certain PPP concessions.

6.2 Due to the volatile currency markets, the Group entered into a number of foreign exchange option contracts in 2009 to limit the cash outflow for the planned settlement of the Group's foreign exchange contracts in respect of net investment hedging, giving rise to a fair value revaluation charge of £15m.

6.3 The exceptional items (charged against)/credited to profit before taxation have given rise to a net tax credit of £6m (2008: half year £16m charge, full year £12m charge). In addition, subsidiaries of the Group recognised a £3m deferred tax charge in 2008 to establish a deferred tax liability, in relation to industrial building allowances which was required under IAS 12. This liability will be released to the statement of financial performance as the relevant buildings are depreciated for accounting purposes.

Notes continued

7 Taxation

	2009 first half £m	2008 first half £m	2008 year £m
UK current tax	**2**	11	25
Foreign current tax	**7**	5	13
Deferred tax	**17**	8	28
	26	24	66
Exceptional items and amortisation of intangible assets	**(12)**	14	8
Total tax charge	**14**	38	74

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

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

In addition to the Group tax charge above is £103m of tax credited directly to equity (2008: first half £21m credited, full year £25m credited), comprising a current tax credit of £nil (2008: first half £2m credit, full year £6m credit), a deferred tax credit of £87m (2008: first half £28m credit, full year £23m credit) and a credit of £16m in respect of joint ventures and associates (2008: first half £9m charge, full year £4m charge).

8 Earnings per ordinary share

	2009 first half		2008 first half		2008 year	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings	**52**	**52**	106	106	196	196
Exceptional items	**16**		(41)		(33)	
Amortisation of intangible assets	**14**		6		20	
Adjusted earnings	**82**		71		183	

	m	**m**	m	m	m	m
Weighted average number of ordinary shares	**474.4**	**475.7**	440.2	443.7	457.6	459.5

	pence	**pence**	pence	pence	pence	pence
Earnings per ordinary share	**10.9**	**10.9**	24.1	23.9	42.9	42.7
Exceptional items	**3.4**		(9.3)		(7.2)	
Amortisation of intangible assets	**2.9**		1.4		4.2	
Adjusted earnings per ordinary share	**17.2**		16.2		39.9	

The calculation of basic earnings is based on profit for the period attributable to equity shareholders. No adjustment has been made in respect of the potential conversion of the cumulative convertible redeemable preference shares, the effect of which would have been antidilutive throughout each period. The weighted average number of shares has been adjusted for the conversion of share options in the calculation of diluted earnings per ordinary share. Adjusted earnings per ordinary share, before exceptional items and amortisation of intangible assets, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

9 Dividends on ordinary shares

	2009 first half		2008 first half		2008 year	
	Per share pence	**Amount £m**	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period						
Interim 2008	**–**	**–**	5.1	24	5.1	24
Final 2008	**–**	**–**	–	–	7.7	37
Interim 2009	**5.5**	**26**	–	–	–	–
	5.5	**26**	5.1	24	12.8	61
Recognised dividends for the period:						
Final 2007		**–**		30		30
Interim 2008		**–**		–		24
Final 2008		**37**		–		–
		37		30		54

The interim 2009 dividend will be paid on 4 December 2009 to holders of ordinary shares on the register on 9 October 2009 by direct credit or, where no mandate has been given, by cheque posted on 3 December 2009 payable on 4 December 2009. These shares will be quoted ex-dividend on 7 October 2009.

10 Retirement benefit obligations

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

	2009 first half %	2008 first half %	2008 year %
Inflation rate	**3.40**	4.10	2.80
Discount rate	**6.20**	6.70	6.45
Future increases in pensionable salary – certain members of the Balfour Beatty Pension Fund	**3.40**	4.10	2.80
– other	**4.90**	5.60	4.30
Future pension increases	**3.40**	4.10	2.80
Expected return on plan assets – Balfour Beatty Pension Fund	**6.27**	6.53	6.27
– Railways Pension Scheme	**7.45**	7.45	7.45
– Mansell schemes	**6.40**	6.83	6.40

The amounts recognised in the statement of financial position are as follows:

	2009 first half £m	2008 first half £m	2008 year £m
Present value of funded obligations	**(2,383)**	(2,334)	(2,073)
Fair value of plan assets	**1,822**	2,051	1,841
Deficit	**(561)**	(283)	(232)
Present value of unfunded obligations	**(26)**	(26)	(29)
Liability in the statement of financial position	**(587)**	(309)	(261)

In the first half of 2008 the Group implemented measures to limit the increase in pensionable pay of certain groups of in-service defined benefit members of the Balfour Beatty Pension Fund to RPI inflation, giving rise to a reduction in retirement benefit obligations of £60m (2008: full year £60m). On 11 August 2009 the Group wrote to those groups of members informing them of further measures so that any salary increase from 1 January 2011 will not increase their defined benefit pensions. If these further measures had been implemented with effect from 27 June 2009 they would have given rise to a reduction in retirement benefit obligations of approximately £115m.

	2009 first half £m	2008 first half £m	2008 year £m
The movement in retirement benefit obligations for the period was as follows:			
At beginning of period	**(261)**	(286)	(286)
Exchange adjustments	**4**	(1)	(5)
Service cost	**(16)**	(23)	(45)
Interest cost	**(65)**	(67)	(136)
Expected return on plan assets	**57**	70	141
Contributions from employer – deficit funding	**13**	24	38
– regular funding	**16**	18	32
Benefits paid	**–**	1	3
Exceptional past service cost release	**–**	60	60
Actuarial gains and losses – assets	**(56)**	(170)	(432)
– liabilities	**(279)**	65	370
Businesses acquired	**–**	–	(1)
At end of period	**(587)**	(309)	(261)

The sensitivity of the Group's retirement benefit obligations to different actuarial assumptions is as follows:

	Percentage points/years	Increase/ (decrease) in obligations %	Increase/ (decrease) in obligations £m
Increase in discount rate	0.5%	(7.7)	(185)
Increase in inflation rate	0.5%	6.5	157
Increase in salary above inflation	0.5%	0.5	12
Increase in life expectancy	one year	3.2	77

Notes continued

11 Share capital

During the half-year ended 27 June 2009, 61,558 ordinary shares were issued following the exercise of savings-related share options and 198,000 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £0.4m.

On 20 May 2008, 43,320,411 ordinary shares were issued and placed with institutions at a price of 430p per share, raising £182m after issue costs. The placing qualified for merger relief under Section 131 of the Companies Act 1985 so that the premium arising was not required to be credited to the Company's share premium account.

12 Acquisitions

On 23 February 2009 the Group acquired 100% of Dooley Construction Limited Partnership ("RT Dooley"), a leading North Carolina USA firm in the interiors construction market, for a cash consideration of £28m. The provisional fair value of net assets acquired was £11m and provisional goodwill arising was £17m. The provisional goodwill arising is attributable to the acquisition strengthening and expanding the Group's US interior construction capabilities. At 27 June 2009 the fair values of acquired assets, liabilities and goodwill for RT Dooley have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.

	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
Net assets acquired:			
Intangible assets – other	–	10	10
Property, plant and equipment	1	–	1
Working capital	(6)	–	(6)
Cash and cash equivalents	6	–	6
	1	10	11
Goodwill			17
			28
Satisfied by:			
Cash consideration			28
Acquisition costs recognised within exceptional items			1

Fair value adjustments comprise intangible assets recognised in respect of the brand name and customer contracts and relationships.

RT Dooley earned revenues of £57m and profit from continuing operations of £1m (after charging exceptional items of £1m and amortisation of intangible assets of £1m) in the period since acquisition.

The following summary presents the Group as if RT Dooley had been acquired on 1 January 2009. The amounts include the results of the acquired business, 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 RT Dooley for the period before acquisition have not been adjusted to reflect Balfour Beatty accounting policies nor to reflect the fair value adjustments made on acquisition. The information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results from operations of the combined companies.

	£m
Group revenue	4,421
Profit for the period	53

During the half-year ended 27 June 2009, £4m deferred consideration was paid in respect of acquisitions completed in earlier years.

The fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional for Leonard Wood Family Communities LLC, Schreck-Mieves GmbH and Branlow Limited have been finalised in the current period with no material changes to the fair values disclosed in the Directors' report and accounts 2008.

13 Notes to the statement of cash flows

	2009 first half £m	2008 first half# £m	2008 year £m
13.1 Cash generated from operations comprises:			
Profit from operations	**87**	137	251
Exceptional impairment charge in respect of railway facilities and inventory	**4**	–	–
Exceptional reduction in pension past service liabilities	**–**	(60)	(60)
Share of results of joint ventures and associates	**(41)**	(36)	(72)
Depreciation of property, plant and equipment	**36**	31	65
Amortisation of other intangible assets	**20**	8	27
Pension deficit payments	**(13)**	(24)	(38)
Movements relating to share-based payments	**5**	3	9
Profit on disposal of property, plant and equipment	**(3)**	(3)	(4)
Other non-cash items	**–**	–	5
Operating cash flows before movements in working capital	**95**	56	183
(Increase)/decrease in working capital	**(17)**	28	114
Cash generated from operations	**78**	84	297

Re-presented (Note 1.3).

	2009 first half £m	2008 first half# £m	2008 year £m
13.2 Cash and cash equivalents comprise:			
Cash and deposits	**298**	323	379
Term deposits	**108**	28	82
PPP cash balances	**4**	1	2
Bank overdrafts	**–**	(11)	(10)
	410	341	453
13.3 Analysis of net cash:			
Bank overdrafts	**–**	(11)	(10)
Other short-term loans	**(1)**	(3)	(2)
Finance leases	**(11)**	(4)	(9)
Cash and deposits	**298**	323	379
Term deposits	**108**	28	82
	394	333	440
PPP non-recourse project finance – Sterling floating rate term loan (2008–2027)	**(24)**	(25)	(27)
– Sterling floating rate term loan (2011–2030)	**(15)**	(11)	(13)
– Sterling floating rate term loan (2012–2031)	**(10)**	(4)	(6)
– Sterling floating rate term loan (2010–2034)	**(145)**	(52)	(99)
PPP cash and cash equivalents	**4**	1	2
Net cash	**204**	242	297
13.4 Analysis of movement in net cash:			
Opening net cash	**297**	313	313
Net (decrease)/increase in cash and cash equivalents	**(2)**	(37)	2
Acquisitions – borrowings at date of acquisition	**–**	(9)	(29)
Proceeds from new loans	**(55)**	(28)	(81)
Repayment of loans	**3**	4	18
Repayment of finance leases	**1**	–	2
Exchange adjustments	**(40)**	(1)	72
Closing net cash	**204**	242	297

13.5 Borrowings

During the period ended 27 June 2009 the significant movements in borrowings were a net increase of £49m in non-recourse borrowings funding the development of financial assets in PPP subsidiaries.

Notes continued

14 Contingent liabilities

On 17 April 2008, the Office of Fair Trading ("OFT") published its Statement of Objections arising from a major investigation into tender activities across the entire UK construction sector. The Company has provided the OFT with its response to the Statement of Objections. Subject to ongoing co-operation, the Company has been granted leniency, which will reduce any fines ultimately levied; however the outcome remains uncertain. A decision is expected to be made by the OFT within the next few months.

15 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £501m (2008: first half £280m, full year £693m). These transactions occurred in the normal course of business at market rates and terms. In addition the Group procured equipment and labour on behalf of certain joint ventures and associates which were charged at cost with no mark-up. The amount due from joint ventures and associates from trading activities was £18m (2008: first half £37m, full year £20m). The amount due to joint ventures and associates from trading activities was £7m (2008: first half £22m, full year £6m).

16 Seasonality

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

17 Principal risks and uncertainties

The weaknesses continuing in some of the world's major economies have increased uncertainties concerning the commercial property market, which are affecting some of the Group's building businesses. In addition, these macro economic trends, together with liquidity issues arising from the "credit crunch" have increased pressure on some of the Group's customers and its supply chain. However, given the strength of the Group's order book and careful management of its supply chain, the Directors consider that these will have limited impact on the Group's results in the second half of the year. The Group's pension deficit in respect of its defined benefit schemes is subject to changes in market discount and inflation rates, market returns on assets and longevity. The assets of the schemes are managed in the light of updated liability assumptions. In addition the Group has taken steps in 2008 and the second half of 2009 to restrict pension liabilities in respect of certain groups of in-service defined benefit members as detailed in Note 10.

Other than the specific risks detailed above, the Directors consider that the nature of the principal risks and uncertainties which may have a material effect on the Group's performance in the second half of the year is unchanged from those identified on pages 9 to 10 of the Directors' report and accounts 2008. These include the impact of the external business environment including government policy and customer risks; strategic risks over tendering, acquisitions and investments; organisation and management risks including information technology and people; and delivery and operational risks encompassing performance risk, supply chain risk and health, safety and environmental risks.

18 Post balance date events

On 8 July 2009, the Finance Act 2009 was substantively enacted resulting in changes to the taxation of foreign distributions whereby amounts received from 1 July 2009 will be exempt from UK corporation tax. This will give rise to the Group releasing a deferred tax credit of £10m during the second half of the year.

On 11 August 2009 the Group wrote to certain groups of in-service defined benefit members of the Balfour Beatty Pension Fund informing them of measures to limit their pensionable pay so that any salary increase from 1 January 2011 will not increase their defined benefit pensions. If these further measures had been implemented with effect from 27 June 2009 they would have given rise to a reduction in retirement benefit obligations of approximately £115m.

Responsibility statement

We confirm that to the best of our knowledge:

– the condensed Group financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting;

– the interim management report includes a fair review of important events during the half-year ended 27 June 2009 and their impact on the condensed Group financial statements and a description of the principal risks and uncertainties for the second half of the year, as required by the Disclosure and Transparency Rule 4.2.7R; and

– the interim management report includes a fair review of related parties' transactions and changes therein, as required by the Disclosure and Transparency Rule 4.2.8R.

On behalf of the Board

I P Tyler Chief Executive

D J Magrath Finance Director

11 August 2009

Independent review report to Balfour Beatty plc

We have been engaged by Balfour Beatty plc ("the Company") to review the condensed Group financial statements of Balfour Beatty plc in the financial report for the half-year ended 27 June 2009 which comprise the condensed Group statement of financial performance, the condensed Group statement of comprehensive income, the condensed Group statement of changes in equity, the condensed Group statement of financial position, the condensed Group statement of cash flows and the related Notes 1 to 18. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed Group financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed Group financial statements in the financial report for the half-year ended 27 June 2009 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdoms' Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

11 August 2009

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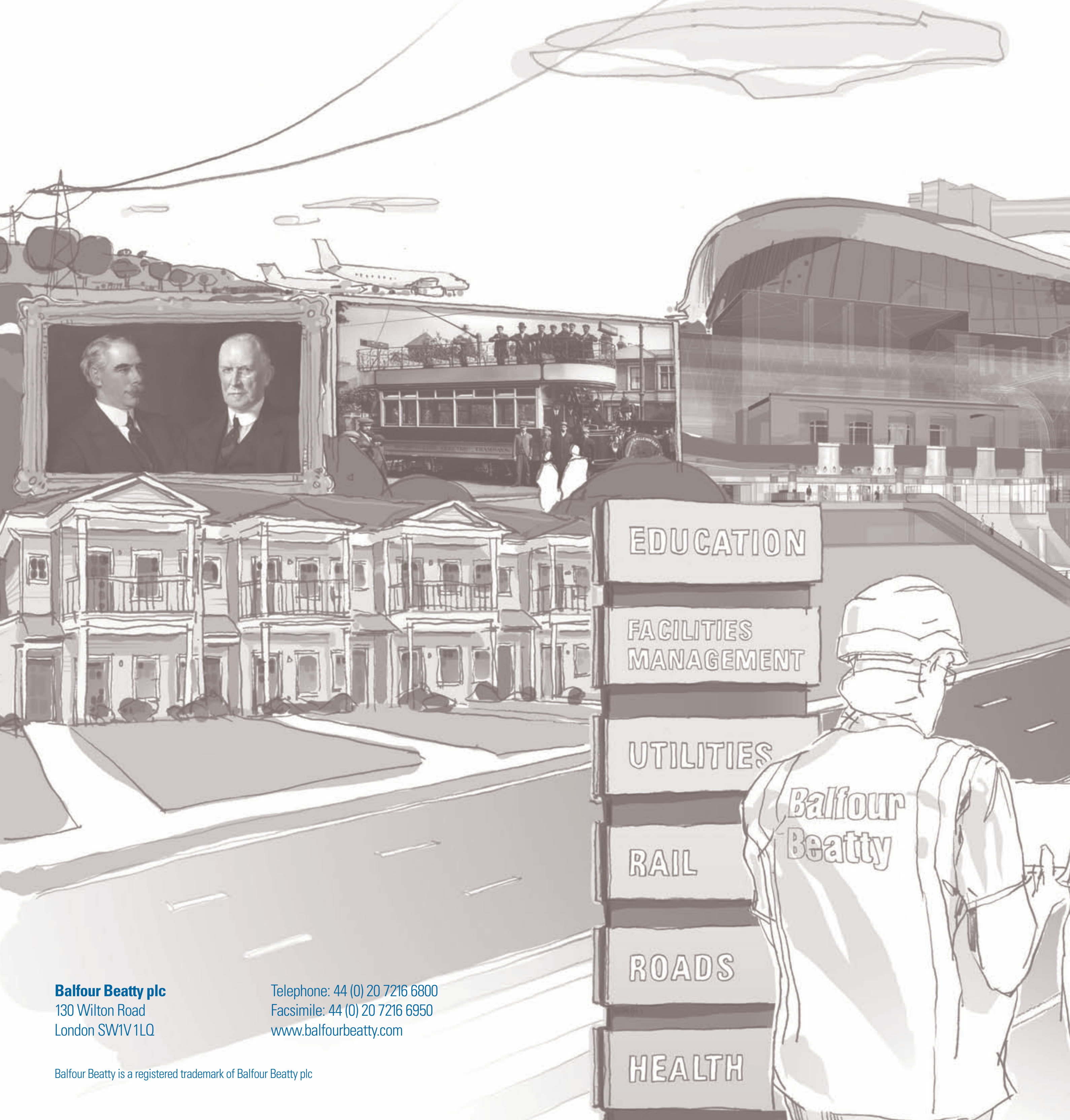

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