

News Release

5 March 2008

BALFOUR BEATTY PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

EXCELLENT PROGRESS IN BUILDING SHAREHOLDER VALUE

Financial Summary

	2007	2006	Increase
Revenue including joint ventures and associates¹	£7,488m	£5,506m	36%
Pre-tax profit¹			
- before exceptional items and amortisation	£201m	£136m	48%
- after exceptional items and amortisation	£157m	£109m	44%
Earnings per share			
- adjusted ²	35.0p	27.3p	28%
- basic	35.1p	21.2p	66%
Financing			
- net cash before PFI/PPP subsidiaries (non-recourse)	£374m	£305m	
- net borrowings of PFI/PPP subsidiaries (non-recourse)	£(61)m	£(21)m	

¹ continuing operations

² before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations

³ from continuing operations, before exceptional items and amortisation of intangible assets

Highlights

- Pre-tax profit³ up by 48% to £201 million
- Adjusted earnings per share² up by 28% to 35.0p
- Cash generated from operations up by 29% at £281 million
- Order book increased by 25% to £11.4 billion
- Acquisition of Centex Construction significantly advances US strategy
- GMH Military Housing acquisition to enhance US and PPP strategy
- Good progress in other strategic acquisitions and investments
- Final dividend of 6.9p, full-year dividend up 26% at 11.5p

“2007 was a very good year for the Group, both in terms of financial performance and progress made in pursuing our medium and long-term strategic objectives. Our cash position and our order book also improved significantly.

“We have record order books and an exceptionally strong pipeline of high-quality new work approaching contract. Our acquisitions will add substantially to our earning power. We are confident that we will continue to make further good progress in 2008 and beyond.”

Sir David John, Chairman

Ian Tyler, Chief Executive

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PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

OVERVIEW

2007 was a very good year for the Group, both in terms of financial performance and progress made in pursuing our medium and long-term strategic objectives. Our cash position and our order book also improved significantly.

We continued to enhance the earnings capacity of the Group. The acquisition of Centex Construction (now Balfour Beatty Construction US) was a very important step in creating a major domestic business in the United States. This process has continued with the agreement to acquire GMH Military Housing, announced in February 2008. The acquisitions of Exeter International Airport, Cowlin and Covion, and a number of smaller acquisitions in rail technology and upstream professional services further strengthened our business core.

We are absolutely committed to the continuing delivery of the reliable, responsible growth that our shareholders have enjoyed over recent years. We are clear about our priorities for the further development of the business and have the proven management capability to deliver.

RESULTS

Pre-tax profits³ for the 12 months to 31 December 2007 were up 48% at £201 million (2006: £136 million). Adjusted earnings per ordinary share² were up 28% at 35.0p (2006: 27.3p). Basic earnings per ordinary share stood at 35.1p (2006: 21.2p).

The Board recommends a final dividend of 6.9p per ordinary share, making a total dividend for the year of 11.5p (2006: 9.1p), an increase of 26%.

Operating profits from continuing operations in the building sector increased by 74%, in the engineering sector by 83% and in the rail sector by 16%. Reported results in the investments sector were down on 2006 as our investment in resources in markets outside the UK and our bidding activity increased significantly.

There were a number of exceptional items, resulting in a net exceptional profit of £7 million (2006: £25 million charge).

Operating cash flow was, once again, strong and in line with profits. Year-end net cash stood at £374 million (2006: £305 million), despite net acquisition expenditure of £106 million and before taking account of the consolidation of £61 million of non-recourse net debt held in PPP subsidiaries (2006: £21 million).

The year-end order book increased by 25% to £11.4 billion (2006: £9.1 billion), with almost £2 billion of further work at preferred bidder stage.

Revenue from continuing operations, including the Group's share of joint ventures and associates, at £7,488 million (2006: £5,506 million) was up by 36%.

BUSINESS SECTOR PERFORMANCE

Building, Building Management and Services

Profits from operations before exceptional items and amortisation of intangible assets in the building sector improved by 74% to £75 million (2006: £43 million). Balfour Beatty Construction US contributed a first nine months' profit at better than anticipated levels, while very good progress was made across the board in building construction, building services and facilities management in the UK and in professional services in the US.

We achieved our ambition to become a major player in the US building construction market through the acquisition of Balfour Beatty Construction US.

This is a high-quality business operating in those state markets which enjoyed higher than average growth and with a management culture and strategic objectives highly compatible with Balfour Beatty.

In the UK, our programme to extend our leading presence in regional UK building construction markets continued with the acquisition of Cowlin, which has a strong position in the south and south-west of England and in Wales. We also enhanced our offer to the outsourced services market with the acquisition of Covion, a fast-growing integrated services business.

UK public spending and private investor markets remain buoyant and conditions in our key US markets are also positive. Our high-quality, long-term order books, strong blue-chip customer relationships and current pipeline give us confidence in further substantial progress in the sector in 2008.

Civil and Specialist Engineering and Services

Profits from continuing operations before exceptional items and amortisation of intangible assets in the engineering sector improved by 83% to £86 million (2006: £47 million). This reflects improvements across the board, with particularly strong progress in the UK from the regional civil engineering business and the utility businesses and significantly improved performance from Gammon in South-East Asia, Balfour Beatty Dutco in Dubai and Balfour Beatty Infrastructure Inc (previously Balfour Beatty Construction Inc) in the US.

In June, we completed the sale of our 24.5% interest in Devonport Management Limited (DML) to Babcock International. Long-term involvement in DML was not core to our strategy and the sale, part of a wider rationalisation in the ownership of the defence supply industry, represented excellent value to shareholders.

Towards the end of the year, Balfour Beatty Utilities and Balfour Beatty Power Networks were merged to form Balfour Beatty Utility Solutions. Subsequent reorganisation has created a structure designed to optimise the service levels which the business offers to its UK utility customers.

Our markets continue to offer substantial opportunity, with Dubai, Singapore and regional markets in the UK particularly buoyant and further improvement in performance in the US is anticipated. We expect to see another year of good progress in the sector in 2008.

Rail Engineering and Services

Profits from operations before exceptional items and amortisation of intangible assets in the rail sector improved by 16% to £44 million (2006: £38 million). Performance was good in all business streams in the UK, with our rail projects, renewals, track systems and plant businesses making progress in a largely flat market. Outside the UK, our international rail electrification and power supply business continued to perform well and our performance in the US improved.

The 2007 uncertainties for our rail business arising from the entry into PPP administration of Metronet and the stated intention of Network Rail to reduce its supply base for rail renewals from six to four were resolved positively, with confirmation of our ongoing role on both the underground and overground networks.

We continued to strengthen our market position with acquisitions in systems technology and in the Swedish market, and the formation of new signalling joint ventures in both the UK and Germany. The UK business was reorganised better to match evolving customer requirements.

During 2007, our rail business operated in largely flat markets, which are not expected to grow during 2008. There are now, however, clear signs of medium-term improvement in many of our principal markets. The stimulus of the UK Government White Paper and the confirmation of the Thameslink and Crossrail projects create the best market outlook in the UK for some years. Investment in mass transit systems and high-speed rail links around the world is growing and major project bidding opportunities are increasing.

Investments

Profits from continuing operations before exceptional items in the investments sector were £16 million (2006: £24 million). This reflected good underlying concession performance, but also substantial and increasing investment in developing our PPP operations in the US, Germany and South-East Asia, in bidding for projects in these markets and for non-PPP assets.

Core UK PPP growth continued. Five PPP projects reached financial close and preferred bidder status was achieved on three UK projects, namely Fife Hospital, Islington Schools and the Carlisle Northern Distributor Road.

Barking Power again performed satisfactorily, with profits in line with those of 2006.

The strategic extension of our investment business into non-PPP investments and PPP markets outside the UK was marked by the completion of our acquisition of Exeter International Airport and the award of preferred bidder status on our first non-UK PPP project – the £90 million Institute of Technical Education in Singapore.

In July, the Metronet concessions for the London Underground PPP, in which we had a 20% interest, entered PPP administration. The London Underground PPP was unique and we do not believe that any lasting negative impact on the PPP market will arise as a result of Metronet's administration.

The UK PPP market remains buoyant and is expected to continue to produce a steady flow of opportunities. In the US, the road and rail transport sector is proving slow to take off, but accommodation markets look very promising. Our investment in resources to exploit new PPP markets and in bidding projects is accelerating, the costs of which will impact reported results in this segment in 2008.

EXCEPTIONAL ITEMS

The write-off of our investment in Metronet and other consequential write-offs amounted to £95 million post-tax. These were more than offset by credits arising from the sale of our 24.5% interest in Devonport Management Limited (£57 million) and the crystallisation of tax benefits in the US following the acquisition of Balfour Beatty Construction US (£51 million). In addition, other small exceptional items netted to a £6 million charge, resulting in a net exceptional profit of £7 million.

STRATEGY AND ACQUISITIONS

Good progress was made in pursuing the Group's medium-term growth strategy which centres on the expansion of its privately financed project business in the UK and overseas, further expansion of its professional and technical services business and the broadening of its regional contracting base in the UK. We also made very significant progress in our longer-term objective of creating substantial domestic businesses on our successful UK model in selected markets outside the UK, particularly the US.

Private finance

In the period since the UK Government first turned to private finance to add momentum to its public service agenda, Balfour Beatty has become a leader in the field. The expertise which has been developed in the Group, as a result, represents an ideal base from which to extend our reach into other infrastructure investment markets both in the UK and internationally.

The acquisition of Exeter International Airport for £60 million was completed in January 2007. This constitutes a first step in our strategy of investing in non-PPP infrastructure assets in the UK. Exeter International is one of the UK's fastest-growing regional airports, with passenger numbers forecast to double by 2016. Subsequently, 40% of the £30 million equity invested in this asset has been sold to Galaxy, the international transportation equity investment fund, for £12 million. We have significant expertise in the design and construction of airport assets and

are currently developing a master plan for the long-term development of the airport.

The completion of the acquisition of GMH Military Housing will add a substantial US investment base to our portfolio and will increase our potential to pursue PPP opportunities in a growth market.

Professional and technical services

Balfour Beatty Management, our UK-based professional and technical services business, has grown substantially in 2007. This puts us in an increasingly powerful position to satisfy our long-term relationship customers' demand for a higher-level, integrated presence at the top of their supply chain and to engage in design, project planning and programme management in the broader marketplace.

Three small acquisitions, two in the UK and one in the US, were completed to extend the scope and coverage of Balfour Beatty Management and Heery International respectively. Balfour Beatty Management is now an integral part of Balfour Beatty's major UK project bids and was instrumental in securing major projects for BAA, National Grid and British Energy during the year.

UK infrastructure

We make amongst our best and most reliable margins where we lead the market in infrastructure provision in the UK's regions. These markets are delivering and promise further vigorous demand growth as investment in new buildings, affordable housing, roads, bridges and other transport facilities continues to increase.

In August, we acquired Cowlin, a high-quality building and refurbishment contractor based in Bristol, for £53 million. Cowlin provides a strong, established presence in the south and south-west of England and in Wales. The acquisition provides the Group with additional coverage in a UK building market which is growing significantly, underpinned by government spending on infrastructure and by buoyant private sector investments.

International markets

To sustain strong growth in earnings and shareholder value in the long term, Balfour Beatty must establish substantial contracting and investment businesses outside the UK. Our primary objective is to create, in the US, a multi-disciplinary business with similar characteristics to our successful UK model, adapted to local conditions, with the capacity to integrate financing, professional and technical services, project delivery and long-term support services.

In March 2007, we completed the acquisition of Balfour Beatty Construction US for a cash consideration of £106 million, net of cash acquired. This acquisition of a top-tier building construction and construction management business, well placed in a number of growth markets, with annual revenues in excess of \$2 billion and with highly compatible management processes and culture, is a major step forward in our long-term US strategy. The acquisition provides strong market presence and substantial potential to exploit new growth opportunities in conjunction with our established US businesses.

In February 2008, we announced that we had agreed to acquire GMH Military Housing for a cash consideration of \$350 million, subject to regulatory and other clearances. GMH, a leader in its market, is responsible for the development, renovation, financing, operation and management of military accommodation projects for the US Army, Navy and Air Force. It has, to date, been awarded 15 concession projects covering over 30,000 family units at 42 bases across the US.

Other acquisitions

In October, we acquired Covion, the facilities infrastructure services business, for £33 million. Covion provides integrated packages to manufacturing facilities and the corporate business sector and is one of the fastest growing companies in the UK. The acquisition has increased our penetration of the private sector facilities management market and broadens and deepens our range of expertise in technology, property and people-related services. This provides Haden Building

Management, which is already growing strongly, with a significantly enhanced service offering.

A number of small acquisitions and new joint venture arrangements were also completed in the rail sector at a total cost of £12 million.

THE BOARD

Jim Cohen retired from the Board on 18 February 2007. He took lead responsibility for the development of both our UK PPP business and our international rail operations and left with the Board's sincere gratitude and best wishes.

On 19 February 2008, it was announced that Anthony Rabin will become Deputy Chief Executive with effect from 31 March 2008, with responsibility for the management and development of our international infrastructure investment business, which is of increasing strategic importance to the Group. Duncan Magrath will become Finance Director and join the Board, having been Deputy Finance Director since he joined the Group in 2006.

On 26 February 2008, it was announced that Sir David John is to retire as Chairman after the AGM on 15 May 2008. He will be succeeded by Steven Marshall, who has been a non-executive Director since 2005.

During Sir David's period of five years as Chairman, the Group's revenues and earnings have doubled. He is owed a great debt of thanks by the Company for his untiring work as Chairman.

SAFETY AND ENVIRONMENT

The Group's Accident Frequency Rate reduced by a further 16% in 2007, continuing the positive trend of recent years, despite very significant increases in the numbers of people employed by the Group and for whom we are responsible on project sites. We also continued to make good progress in minimising our environmental impacts.

OUTLOOK

We have record order books and an exceptionally strong pipeline of high-quality new work approaching contract. Our acquisitions will add substantially to our earning power.

We are confident that we will continue to make further good progress in 2008 and beyond.

ENDS

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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. Balfour Beatty's financial position, with significant net cash and with strong operating cash flows, offers continuing flexibility to add additional capacity and expertise to the business mix and to make appropriate investments in PPP and other long-term growth opportunities.

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

A presentation to analysts and investors will be made at ABN AMRO, 250 Bishopsgate, London, EC2 at 10.30 am.

There will be a live webcast of this presentation on www.balfourbeatty.com and the slides presented will be available on the website from 10.30 am.

Group income statement

For the year ended 31 December 2007

	Notes	2007			2006		
		Before exceptional items* £m	Exceptional items* (Note 5) £m	Total £m	Before exceptional items* £m	Exceptional items* (Note 5) £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	13	(1,022)	-	(1,022)	(1,019)	-	(1,019)
Group revenue		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	13	65	6	71	48	-	48
Profit from operations		191	(42)	149	128	(20)	108
Investment income	3	29	-	29	26	-	26
Finance costs	4	(19)	(2)	(21)	(18)	(7)	(25)
Profit before taxation		201	(44)	157	136	(27)	109
Taxation	6	(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	7	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 12)

		2007 pence	2006 pence
Basic earnings per ordinary share			
- continuing operations	8	39.3	17.6
- discontinued operations	8	(4.2)	3.6
		<u>35.1</u>	<u>21.2</u>
Diluted earnings per ordinary share			
- continuing operations	8	39.0	17.4
- discontinued operations	8	(4.2)	3.6
		<u>34.8</u>	<u>21.0</u>
Dividends per ordinary share proposed for the year	9	<u>11.5</u>	<u>9.1</u>

Group statement of recognised income and expense

For the year ended 31 December 2007

	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	17	132	128

Group balance sheet

At 31 December 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Intangible assets			
- goodwill	11	694	427
- other	12	59	9
Property, plant and equipment		215	183
Investments in joint ventures and associates	13	381	458
Investments		57	46
PFI/PPP financial assets		62	22
Deferred tax assets		125	102
Derivative financial instruments		3	2
Trade and other receivables		77	50
		1,673	1,299
Current assets			
Inventories		72	75
Due from customers for contract work		338	252
Derivative financial instruments		1	3
Trade and other receivables		881	626
Cash and cash equivalents		3	-
- PFI / PPP subsidiaries			
- other		391	323
		1,686	1,279
Total assets		3,359	2,578
Current liabilities			
Trade and other payables		(1,718)	(1,289)
Due to customers for contract work		(415)	(265)
Derivative financial instruments		(6)	(1)
Current tax liabilities		(7)	(28)
Borrowings		(3)	-
- PFI / PPP non-recourse loans			
- other		(16)	(17)
		(2,165)	(1,600)
Non-current liabilities			
Trade and other payables		(135)	(77)
Derivative financial instruments		(6)	-
Borrowings		(61)	(21)
- PFI/PPP non-recourse term loans			
- other		(1)	(1)
Deferred tax liabilities		(7)	(5)
Liability component of preference shares		(87)	(90)
Retirement benefit obligations	16	(286)	(288)
Provisions		(128)	(109)
		(711)	(591)
Total liabilities		(2,876)	(2,191)
Net assets		483	387
Equity			
Called-up share capital	15	216	215
Share premium account	17	52	43
Equity component of preference shares	17	16	16
Special reserve	17	164	169
Share of joint ventures' and associates' reserves	17	178	243
Other reserves	17	9	5
Accumulated losses	17	(152)	(304)
Total equity	17	483	387

Group cash flow statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	18(a)	281	217
Income taxes paid		(24)	(24)
Net cash from operating activities		257	193
Cash flows from investing activities			
Dividends received from joint ventures and associates		83	24
Interest received		26	29
Acquisition of businesses, net of cash and cash equivalents acquired		(198)	(80)
Purchase of property, plant and equipment		(80)	(57)
Purchase of investments		(11)	(8)
Investment in and loans made to joint ventures and associates		(50)	(22)
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
Net cash used in investing activities		(168)	(117)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		5	6
Purchase of ordinary shares		(4)	(3)
Proceeds from new loans		42	35
Repayment of loans		(1)	(27)
Finance lease principal repayments		-	(1)
Buy-back of preference shares		(8)	(19)
Ordinary dividends paid		(42)	(52)
Interest paid		(7)	(5)
Preference dividends paid		(11)	(12)
Net cash used in financing activities		(26)	(78)
Net increase/(decrease) in cash and cash equivalents		63	(2)
Effects of exchange rate changes		8	(6)
Cash and cash equivalents at beginning of year		308	316
Cash and cash equivalents at end of year	18(b)	379	308

Notes

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. IAS 1 Presentation of Financial Statements (Revised 2007), IAS 23 Borrowing Costs (Revised 2007), IFRS 8 Operating Segments, IFRIC 12 Service Concession Arrangements, IFRIC 13 Customer Loyalty Programmes and IFRIC 14 IAS19 – 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 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. IFRIC 12 is not yet adopted for use by the European Union. The European Commission is currently preparing an effect study and an adoption decision is expected during 2008. IAS 23 (Revised), IFRIC 13 and IFRIC 14 will have no impact on the financial statements of the Group.

The financial statements have been prepared using accounting policies which have been applied consistently throughout the year and the preceding year.

2 Segment analysis – continuing operations

For the year ended 31 December 2007

Performance by activity:	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
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

Performance by geographic origin:	Europe £m	North America £m	Other* £m	Total £m
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

For the year ended 31 December 2006

Performance by activity:	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
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

Performance by geographic origin:	Europe £m	North America £m	Other* £m	Total £m
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

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

3 Investment income

	2007 £m	2006 £m
PFI/PPP non-recourse – interest on financial assets	2	1
PFI/PPP subordinated debt interest receivable	11	8
Other interest receivable and similar income	16	16
Gains on derivatives designated as hedges of net investments in foreign operations	-	1
	<u>29</u>	<u>26</u>

4 Finance costs

	2007 £m	2006 £m
PFI/PPP non-recourse - other interest payable	2	1
Other interest payable - bank loans and overdrafts	3	3
- other loans	1	2
Losses on derivatives designated as hedges of net investments in foreign currencies	1	-
Preference shares - finance cost	12	12
	<u>19</u>	<u>18</u>
Exceptional items - premium on buy-back of preference shares	2	7
	<u>21</u>	<u>25</u>

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.

5 Exceptional items and amortisation of intangible assets

	Metronet £m	Other £m	2007 Total £m	2006 Total £m
(a) (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)
- 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	-
	<u>(27)</u>	<u>(6)</u>	<u>(33)</u>	<u>(19)</u>
(b) Charged to finance costs				
- premium on buy-back of preference shares	-	(2)	(2)	(7)
(Charged against)/credited to profit before taxation	<u>(27)</u>	<u>(8)</u>	<u>(35)</u>	<u>(26)</u>
(c) 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	<u>(18)</u>	<u>45</u>	<u>27</u>	<u>(25)</u>
(d) (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	<u>(95)</u>	<u>102</u>	<u>7</u>	<u>(25)</u>
Amortisation of intangible assets	-	(9)	(9)	(1)
Tax thereon	-	3	3	-
Credited to/(charged against) profit for the year	<u>(95)</u>	<u>96</u>	<u>1</u>	<u>(26)</u>

- (a) 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 CV 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 re-organisation 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.

- (b) 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).
- (c) 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 IAS12, giving rise to an exceptional gain of £51m in 2007.
- (d) 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. 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.

6 Taxation

	2007			2006
	Before exceptional items* £m	Exceptional items* £m	Total £m	Total £m
UK current tax				
- corporation tax for the year at 30% (2006: 30%)	31	(9)	22	19
- double tax relief	(6)	-	(6)	(4)
- adjustments in respect of previous periods	(2)	-	(2)	-
	23	(9)	14	15
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
Deferred tax				
- UK	6	(1)	5	11
- foreign tax	11	(55)	(44)	1
Total deferred tax	17	(56)	(39)	12
Total tax (credit)/charge * and amortisation of intangible assets	53	(65)	(12)	34

The Group tax charge above does not include any amounts for joint ventures and associates (see Note 13) or discontinued operations (see Note 7), 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 7.

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.

7 Discontinued operations

	2007				2006
	EDAL £m	DML £m	Metronet £m	Total £m	Total £m
Group revenue	3	-	-	3	-
Group share of revenue of joint ventures and associates	-	55	142	197	346
Group operating profit	(1)	-	-	(1)	1
Group share of results of joint ventures and associates	-	3	-	3	15
	(1)	3	-	2	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)	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.

8 Earnings per ordinary share

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

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.

9 Dividends on ordinary shares

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

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.

10 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.

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	Fair value adjust- ments	Fair value of assets acquired	Book value of assets acquired	Fair value adjust- ments	Fair value of assets acquired	Book value of assets acquired	Fair value adjust- ments	Fair value of assets acquired
	£m	£m	£m	£m	£m	£m	£m	£m	£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 commitments.

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

Centex Construction (now Balfour Beatty Construction Group Inc) 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 period since acquisition.

11 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2007	464	(37)	427
Exchange and other adjustments	3	1	4
Businesses acquired (see Note 10)	263	-	263
At 31 December 2007	730	(36)	694

12 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2007	10	(1)	9
Businesses acquired (see Note 10)	59	-	59
Amortisation charge for the year	-	(9)	(9)
At 31 December 2007	69	(10)	59

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

13 Joint ventures and associates

Share of results and net assets of joint ventures and associates

	2007					
	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments		Total £m
				PFI/PPP £m	Infra- structure £m	
Revenue	113	556	10	275	68	1,022
Operating profit before exceptional items	-	23	1	5	18	47
Investment income	-	3	-	113	2	118
Finance costs	-	-	-	(78)	(5)	(83)
Profit before taxation and exceptional items	-	26	1	40	15	82
Taxation	-	(3)	-	(11)	(3)	(17)
Exceptional items	-	6	-	-	-	6
Profit after taxation – continuing operations	-	29	1	29	12	71
Profit after taxation – discontinued operations	-	-	-	-	-	3
Profit after taxation	-	-	-	-	-	74
Intangible assets - goodwill	-	22	2	-	24	48
- other	-	-	-	2	-	2
Property, plant and equipment	2	17	1	-	112	132
PFI/PPP financial assets	-	-	-	1,375	-	1,375
Net (borrowings)/cash	(4)	92	5	(1,357)	(24)	(1,288)
Other net assets/(liabilities)	5	(56)	(4)	192	(25)	112
Net assets	3	75	4	212	87	381
	2006					
	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments		Total £m
PFI/PPP £m				Barking Power £m		
Revenue	115	594	4	223	83	1,019
Operating profit before exceptional items	2	-	3	5	23	33
Investment income	-	3	-	106	2	111
Finance costs	-	(1)	-	(69)	(4)	(74)
Profit before taxation and exceptional items	2	2	3	42	21	70
Taxation	(1)	(1)	-	(14)	(6)	(22)
Profit after taxation - continuing operations	1	1	3	28	15	48
Profit after taxation - discontinued operations	-	-	-	-	-	15
Profit after taxation	-	-	-	-	-	63
Intangible assets - goodwill	-	22	2	-	-	24
- other	-	-	-	2	-	2
Property, plant and equipment	2	61	-	29	105	197
PFI/PPP financial assets	-	-	-	1,541	-	1,541
Net (borrowings)/cash	(2)	93	6	(1,260)	(9)	(1,172)
Other net assets/(liabilities)	4	(108)	(6)	2	(26)	(134)
Net assets	4	68	2	314	70	458

14 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	62	22
Other net current liabilities	(4)	(1)
Cash and cash equivalents	3	-
Non-recourse term loans	(64)	(21)
Net liabilities	(3)	-

15 Share capital

During the year ended 31 December 2007, 1,286,018 ordinary shares were issued following the exercise of savings-related share options and 1,271,342 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £5m.

During the year ended 31 December 2007, 4,957,163 preference shares were repurchased for cancellation by the Company for a total consideration of £8m at an average price of 151.3p.

16 Retirement benefit obligations

The latest actuarial funding valuations of the Group's principal defined benefit schemes have been updated by the actuaries to 31 December 2007, using mortality assumptions strengthened compared with their valuations at 31 December 2006, 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 was merged with the Balfour Beatty Pension Fund. Details of these valuations and the disclosures prescribed by IAS 19 are set out in the Directors' report and accounts along with the funding valuation reviews.

The principal assumptions used by the actuaries, the scheme details and IAS 19 disclosures for the Group's principal defined benefit schemes are summarised below:

	2007			2006			
	Balfour Beatty Pension Fund	Railways Pension Scheme	Mansell schemes	Balfour Beatty Pension Fund	Railways Pension Scheme	Mansell schemes	Birse scheme
	%	%	%	%	%	%	%
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
Total number of members	Number 36,406	Number 3,308	Number 3,321	Number 33,943	Number 3,322	Number 3,361	Number 2,086
IAS 19 DEFICIT	£m	£m	£m	£m	£m	£m	£m
Present value of funded obligations	(2,036)	(164)	(207)	(1,876)	(158)	(210)	(94)
Fair value of plan assets	1,796	160	191	1,688	150	177	62
Liability in the balance sheet	(240)	(4)	(16)	(188)	(8)	(33)	(32)

In addition, the Group has funded and unfunded post-retirement defined benefit obligations in Europe and North America amounting to £26m (2006: £27m), the majority of which arrangements are closed to new entrants.

The movement in retirement benefit obligations of the Group's defined benefit schemes for the year ended 31 December 2007 was as follows:

At 1 January 2007	£m
Exchange adjustments	(288)
Service cost	(1)
Interest cost	(54)
Expected return on plan assets	(120)
Contributions from employer	133
Benefits paid	44
Businesses acquired	2
Actuarial gains and losses - assets	(1)
- liabilities	(21)
At 31 December 2007	<u>20</u>
	(286)

The Balfour Beatty Pension Fund includes a defined contribution section with 4,984 members as at 31 December 2007 (2006: 4,119 members). Including £10m (2006: £7m) contributions paid and charged in the income statement in respect of this section and £7m (2006: £6m) pension costs in respect of other defined contribution schemes, the total net pension cost recognised in the income statement in the year was £58m (2006: £52m), with contributions paid of £61m (2006: £49m).

17 Movements in equity

For the year ended 31 December 2007

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

For the year ended 31 December 2006

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

18 Notes to the cash flow statement

	2007 £m	2006 £m
(a) Cash generated from operations comprises:		
Profit from operations - continuing	149	108
Trading (loss)/profit from discontinued operations	(1)	1
Share of results of joint ventures and associates	(71)	(48)
Depreciation of property, plant and equipment	50	43
Amortisation of other intangible assets	9	1
Impairment charges	-	16
Movements relating to share-based payments	7	4
Profit on disposal of property, plant and equipment	(3)	(1)
Operating cash flows before movements in working capital	<u>140</u>	<u>124</u>
Decrease in working capital	141	93
Cash generated from operations	<u>281</u>	<u>217</u>
(b) Cash and cash equivalents comprise:		
Cash and deposits	293	142
Term deposits	98	181
PFI/PPP cash balances	3	-
Bank overdrafts	(15)	(15)
	<u>379</u>	<u>308</u>
(c) Analysis of net cash:		
Bank overdrafts	(15)	(15)
Other short-term unsecured loans	(1)	(1)
Finance leases	(1)	(1)
Other secured loans	-	(1)
Cash and deposits	293	142
Term deposits	98	181
	<u>374</u>	<u>305</u>
PFI/PPP non-recourse term loans		
- Sterling floating rate term loan (2008-2027)	(22)	(17)
- Sterling floating rate term loan (2011-2030)	(9)	(4)
- Sterling floating rate term loan (2012-2031)	(2)	-
- Sterling floating rate term loan (2010-2034)	(31)	-
PFI/PPP cash and cash equivalents	3	-
Net cash	<u>313</u>	<u>284</u>
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.		
(d) Analysis of movement in net cash:		
Opening net cash	284	301
Net increase/(decrease) in cash and cash equivalents	63	(2)
Acquisitions – borrowings at date of acquisition	(36)	(2)
Businesses sold – borrowings at date of disposal	35	-
New loans	(42)	(35)
Repayment of loans	1	27
Finance lease principal repayments	-	1
Exchange adjustments	8	(6)
Closing net cash	<u>313</u>	<u>284</u>

19 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.

The financial information set out above (which was approved by the Board on 4 March 2008) has been compiled in accordance with the recognition and measurement criteria of IFRS, but does not contain sufficient information to comply with IFRS. That financial information does not constitute the Company's statutory accounts for the year ended 31 December 2007 for the purpose of Section 240 of the Companies Act 1985 which comply with IFRS, but is extracted from those accounts. The Company's statutory accounts for the year ended 31 December 2007 will be filed with the Registrar of Companies following the Annual General Meeting. The independent auditors' report on those accounts was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985. The Company's statutory accounts for the year ended 31 December 2006 have been filed with the Registrar of Companies. The independent auditors' report on those accounts was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.