HALF-YEAR FINANCIAL REPORT 2011

THE INFRASTRUCTURE BUSINESS

Our business

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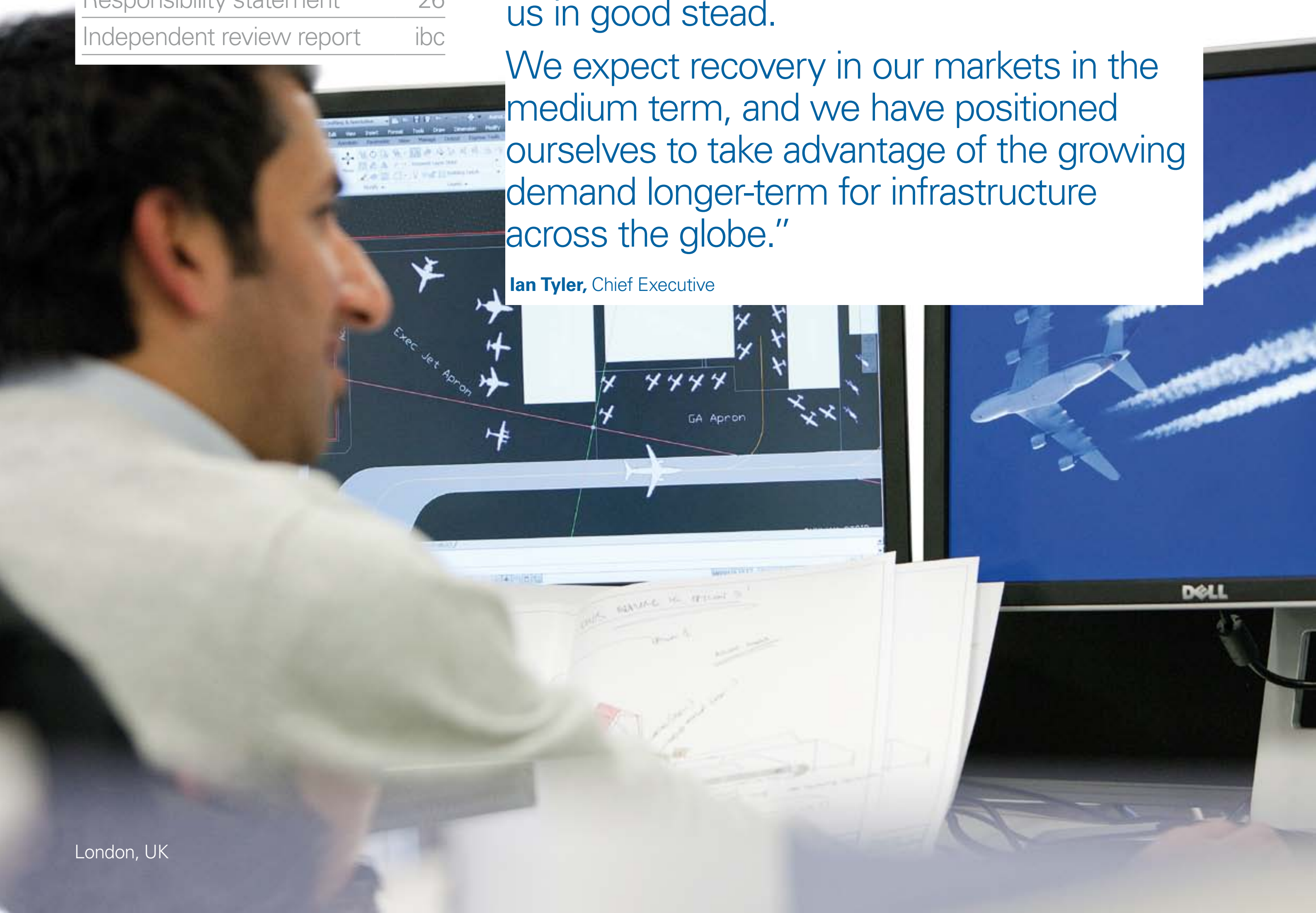
"Although there are significant challenges in many of our markets, we have planned and structured our business to address these challenges, and we are confident of making progress this year.

Looking ahead, we will continue to manage the business on the basis that market conditions will remain tough. The clear strategy we have put in place, the scale and capabilities we have built over the last several years, the actions we have taken in individual markets and the cost measures we started implementing in 2010 will stand us in good stead.

We expect recovery in our markets in the medium term, and we have positioned ourselves to take advantage of the growing demand longer-term for infrastructure across the globe."

Ian Tyler, Chief Executive



London, UK

Half-year highlights

First-half performance demonstrates the diversity, flexibility and resilience of our business

Order book up 6% at £15.5bn; up 8% on a constant currency basis

Revenue[1] up 1%; up 3% on a constant currency basis

£14m gain from infrastructure investment disposal, improving underlying profit from operations

Underlying pre-tax profit up 4%

Interim dividend increased by 5% to 5.3p

Strong net cash position at £292m after acquisitions, investments and working capital outflow (before non-recourse net debt)

Financial summary

(£m unless otherwise specified)	**2011 first half**	2010 first half	Change (%)
Revenue[1]	**5,222**	5,160	+1
Group revenue	**4,512**	4,605	-2
Profit from continuing operations			
– underlying[2]	**136**	143	-5
– reported	**89**	110	-19
Pre-tax profit from continuing operations			
– underlying[2]	**138**	133	+4
– reported	**91**	100	-9
Earnings per share			
– underlying from continuing operations[2]	**14.7p**	14.3p	+3
– basic	**10.2p**	9.2p	+11
Dividends per share	**5.3p**	5.05p	+5
Financing			
– net cash before PPP subsidiaries (non-recourse)	**292**	500	
– net borrowings of PPP subsidiaries (non-recourse)	**(294)**	(252)	

2010 financial statements have been re-presented for the classification of Barking Power as a discontinued operation (see Note 8).

1 including joint ventures and associates.

2 before non-underlying items (see Note 6).

A CLEAR STRATEGY TO BUILD THE INFRASTRUCTURE BUSINESS

Interim management report

Overview

In the first six months of 2011, trading has evolved broadly in line with our expectations in all of our markets. The diversity and flexibility of our business allowed us to increase our focus on the areas of greatest opportunity and therefore, we continued to grow both revenue and order book in a tough market.

Nearly a year on from the UK Government's Comprehensive Spending Review, the impact of the reduction in government spending is evident in UK infrastructure markets and consequently in our UK order book. We have been adapting our business by shifting our focus to where we see opportunities and by implementing our cost reduction initiatives efficiently and without delay. Meanwhile, the commercial markets in London are showing signs of recovery, although it is too early to call this a trend.

In the US market, the delay in the re-authorisation of a six-year transportation bill and the lack of bank financing in commercial markets are adversely impacting our business.

Our US professional services business, which is focused on the transportation market, has performed very well in these circumstances, keeping its order book and revenues stable. However, its growth performance would be enhanced by the availability of additional transportation funding, be it from the federal government or through alternative forms of financing such as Public Private Partnerships.

Our construction business in the US has had success in the federal building market in the last couple of years; however, in an increasingly competitive environment, growth will be dependent on the recovery of the commercial market. While the leading indicators of a pick-up in commercial activity have been discernible, they have not yet established a trend, and fiscal contraction in the US may delay the recovery further.

In other parts of the world we see our business developing favourably. The Australian market is buoyant with natural resource related activity and this is adding to our order book. We are also actively pursuing opportunities in the Middle East, most notably in countries such as Qatar, Kuwait and Saudi Arabia where governments are determined to improve domestic infrastructure to support and stimulate their growing economies.

The actions we have been taking in line with our strategy have been effective. Firstly, we have continued to develop our business. In June, we completed the Howard S. Wright ("HSW") acquisition to fill the gap in our US construction coverage on the West Coast of the US which is a significant growth market that is emerging from the downturn. We have also launched our infrastructure funds management business to leverage the skills of our investments and professional services businesses.

Secondly, we have increased our focus on markets with the greatest opportunities. In the period, we opened an office in India, and we are building on our presence in Australia and Canada. We made further progress in renewables by becoming preferred bidder on our second OFTO asset and thus will become a leading investor in offshore transmission assets. We are also broadening our capabilities to take advantage of the UK power market which offers substantial value.

Thirdly, the major cost efficiency programmes we started implementing in 2010 have proven to be timely and effective. We have been rolling out procurement and back office initiatives successfully and are on track to reach an annualised cost reduction target of £30m by 2013.

Finally, we have sharpened our focus on strengthening our core skills. We are developing the culture and mechanisms to share and transfer knowledge around the Group. We believe that combining our skills and building on our asset knowledge gives us a clear competitive advantage.

While infrastructure markets will be tough over the next couple of years, we believe we have a clear strategy to continue the development of the business and we are executing it successfully.

For the long term, infrastructure is a good place to be. The need for better transportation, clean water, waste-management and cleaner energy is increasing globally. We are confident that we are very well-placed to serve these markets. We are continuing to broaden and integrate our capabilities in ways that provide value to our customers.

Financial summary

Our order book increased to £15.5bn from £14.6bn at June 2010. This 6% increase over the last 12 months is attributable to good order intake in US construction, particularly in the second half of 2010, and support services contract wins in 2011. The acquisitions of Howard S. Wright and Fru-Con in the US improved the order book by £0.5bn while foreign exchange movements had a negative impact of £0.2bn. At constant currency, the order book increased by 8%.

Revenue from continuing operations including joint ventures and associates improved to £5,222m representing 1% growth in revenue compared to the same period in 2010 or 3% at constant currency. Acquisitions added 1% to revenue in the period.

There are a number of factors that account for the 5% decrease in underlying profit from operations to £136m. As announced last year, the 2010 first half results benefited from one-off incentive income of £8m and unusually high profitability in US construction, neither of which was expected to be repeated this year. Foreign exchange reduced profits by £3m. Excluding these items, we have maintained good margin discipline in very competitive markets and have benefited from gains of £14m from infrastructure investment disposals, which are part of our regular programme announced in 2010 and hence reflected in the underlying results.

Net finance income was £2m compared to a net cost of £10m last year, and this resulted in underlying pre-tax profit of £138m, up 4% on last year. The increase in net finance income was mainly due to the reduction in pension net finance cost and higher subordinated debt interest income from PPP concessions following the significant cash investments in both areas previously reported.

Underlying earnings per share rose by 3% to 14.7p – a slightly smaller increase than in underlying pre-tax profit due to lower proportion of profits from joint ventures and associates.

The Board has declared an interim dividend of 5.3p per ordinary share, an increase of 5% and ahead of underlying EPS growth, reflecting our confidence in our ability to deliver growth over the medium term.

Cash used in operations increased in the period to £114m from £21m last year predominantly due to working capital outflow arising from funding new contract start-ups in Support services, the outflow from Parsons Brinckerhoff ("PB") as identified at the time of the acquisition and unwinding of some very favourable working capital positions in the construction businesses. Excluding the £294m non-recourse net debt held in PPP subsidiaries, our net cash position at period-end was strong at £292m.

Operational performance

Professional Services

	HY 2011	HY 2010	Actual growth (%)	Constant currency growth (%)	FY 2010
Order book (£bn)	**1.6**	1.6	-2	+2	1.5
Revenue[1] (£m)	**840**	829	+1	+3	1,613
Profit from operations[2] (£m)	**38**	49	-22	-23	85
Margin[2] (%)	**4.5**	5.9			5.3

1 including joint ventures and associates.
2 before non-underlying items (see Note 2.1).

Despite the negative impact of the reductions in government funding in the UK and the US, we have held our order book stable at £1.6bn owing to strong growth in Australasia, as well as our reputation for technical expertise and our relationships with our customers.

In the Americas, the stalemate on the US transportation bill has delayed the commissioning of large, long-term public infrastructure projects. By maintaining stable revenues and margins, we believe we have gained market share.

In the EUMENA division, the profit comparison with last year was impacted by the unusually high level of incentive income in HY2010. In addition, the shortage of consultancy work in the public sector in the UK and the persistently weak market in Dubai have held back results. In response, we have been adjusting our overhead structure in the UK to protect profitability. We are, however, encouraged by the opportunities presented by governments of countries such as Qatar, Kuwait and Saudi Arabia which are looking to upgrade their national infrastructure significantly in line with their recently-revised national vision programmes, and we are actively addressing these opportunities.

Australia is currently a buoyant market, particularly in the mineral industries, and our strong order book development is testament to the strength of our business there. Revenues in Australia as well as parts of Asia have resulted in profitable growth in the region despite the project delays caused by the Queensland floods.

Looking ahead, we are encouraged by the developments in higher growth regions and expect the professional services business to remain resilient despite the difficulties around US transportation funding and in the UK's public sector.

Construction Services

	HY 2011	HY 2010	Actual growth (%)	Constant currency growth (%)	FY 2010
Order book (£bn)	**9.1**	8.5	+7	+9	9.2
Revenue[1] (£m)	**3,270**	3,278	–	+2	6,734
Profit from operations[2] (£m)	**67**	79	-15	-12	201
Margin[2] (%)	**2.0**	2.4			3.0

The Group's segmentation was revised in 2011, moving Plant and Fleet Services from Construction Services into Support Services. Accordingly comparative information has been re-presented to reflect this change (see Note 1.3).

[1] including joint ventures and associates.

[2] before non-underlying items (see Note 2.1).

Our UK construction business has depth of capability across a range of end-markets from schools and hospitals to roads and power plants and covers customers in the public, regulated and private sectors. This diversity has benefited us greatly in the current economic turmoil by giving us the flexibility to shift our resources to where the opportunities are. This is evident in the stability of our revenues in a market with severe competition from local and overseas companies. Profit performance was also strong in the UK helped by cost reduction initiatives as well as good operational performance. We recently delivered the A3 Hindhead dual carriageway and the Olympic Aquatics Centre and are on programme for the completion of Blackfriars Bridge station and the widening of the M25 motorway.

US construction markets, where our strength is in building, continue to be adversely impacted by lack of federal and private financing. The significant order intake in the second half of 2010 stands us in good stead in the short term, and we are looking for opportunities in the commercial markets to continue our growth. As indicated previously, the margins we achieved in the first half of 2010 were higher than the norm and have not been repeated this year, although the profitability in US construction is still good, particularly considering the competitive environment.

The acquisition of Howard S. Wright in June extends Balfour Beatty's skill base and reach in construction in Northern California and the US Pacific Northwest, a significant growth region that is emerging from the downturn. HSW is an excellent geographic and strategic fit with our existing US capabilities, and following the acquisition, we are the third largest construction services provider in the US general building market. We see significant opportunities in leveraging HSW's relationships with customers who we could serve on a much broader geographic basis.

Revenue has continued to grow in Hong Kong on the back of very strong order intake by Gammon last year. Middle Eastern revenue remains at a low level and growth is going to rely on expanding the business more significantly beyond Dubai, particularly using PB's power and programme management skills. In the meantime, the rebalancing of overhead costs has helped margins.

Our rail business has demonstrated a solid performance overall, although we have had a small number of projects in Europe that have reduced overall profitability. We sold our UK specialist rail manufacturing business in May, a decision precipitated by the evolution of the procurement model in recent years, which eliminated the competitive advantage of owning manufacturing capability.

Overall, reduced levels of construction activity both in the UK and in the US will have an impact on our performance in the short term and thus construction revenue growth will be constrained. Moreover, while the CM at risk (construction management at risk) model in the US provides a base margin and our cost reduction programmes underpin margins in the UK, the shortage of higher margin specialist projects is likely to restrain our margins. Finally, the shift from public contracts to private contracts will impact the cash dynamics, shrinking the amount of negative working capital we work with as we have seen in the first half.

Support Services

	HY 2011	HY 2010	Actual growth (%)	Constant currency growth (%)	FY 2010
Order book (£bn)	**4.8**	4.5	+7	+7	4.5
Revenue[1] (£m)	**757**	739	+2	+2	1,443
Profit from operations[2] (£m)	**25**	25	–	–	62
Margin[2] (%)	**3.3**	3.4			4.3

The Group's segmentation was revised in 2011, moving Plant and Fleet Services from Construction Services into Support Services. Accordingly comparative information has been re-presented to reflect this change (see Note 1.3).

[1] including joint ventures and associates.

[2] before non-underlying items (see Note 2.1).

Support Services has maintained its positive momentum in the first half, demonstrating good order book growth, particularly in buildings and local authorities. Our order book in buildings has been boosted by the renewal of our facilities management contract with Royal Mail, several PPP maintenance contracts for schools and Fire and Rescue services. The AMP5 water utility work has accelerated following the slow start last year with a 28% increase in revenues compared to the first half of 2010.

We have made two acquisitions in the period to strengthen our capabilities in buildings management. Romec Services, the mobile engineering services business acquired as part of the Royal Mail agreement, has given Balfour Beatty a highly-skilled technical services business with scale and a nationwide footprint. Power Efficiency, a leading energy services business acquired in April, marks an important development for Balfour Beatty WorkPlace, bringing together a powerful combination of M&E (mechanical and electrical) and energy capabilities to reduce customers' energy spend and implement carbon reduction targets. It further strengthens our ability to maintain large complex property portfolios, monitor consumption and deliver end-to-end energy and carbon management services.

Our initiatives to strengthen our business with local authorities have been successful. In the first half, we have been awarded contracts, totalling around £200m, for highways maintenance in Warwickshire and Coventry and for street lighting in Cambridgeshire.

The substantial new contracts we have won in the first six months required up-front investment. While these contracts promise future benefit, the start-up costs have held cash and profits back in the period.

In the short and medium term, we expect to see steady growth in support services activity driven by government outsourcing at the local authority level and by the energy sector. The full benefits to the bottom line of this growth arise towards the back-end of contracts as a result of both the mobilisation costs we incur at the early stages and the benefits we get as we deliver the efficiencies at the later stages.

Infrastructure Investments

	HY 2011	HY 2010
Profit from operations[2] (£m)	**22**	6
Subordinated debt interest income[2] (£m)	**12**	9
Pre-tax result[2] (£m)	**34**	15
Directors' valuation of PPP concessions (£m)	**682**	624

2010 financial statements have been re-presented for the classification of Barking Power as a discontinued operation.
[2] before non-underlying items (see Notes 2.1 and 4).

Infrastructure investments had a very productive start to the year with success on many fronts. We were appointed preferred bidder on the £317m Greater Gabbard Offshore transmission asset which, combined with our Thanet project, positions us as a leading investor in this new and growing market in the UK.

We have also achieved financial close on Hertfordshire BSF, North West Fire and Rescue and Cambridgeshire street lighting and, in August, on Northamptonshire street lighting.

In November 2010, we announced our intention to make regular disposals of assets in our portfolio in order to release some of the accumulated value and generate income of approximately £20m per annum. Accordingly we have disposed of a 60% interest in Connect A50, reducing our holding to 25%, and have achieved proceeds of £16m, £2m above Directors' valuation. The £14m book gain has been accounted for as part of our underlying profits and will support our progressive dividend policy.

Despite this disposal, the Directors' valuation update as at June 2011 was £682m, up slightly from £679m at December 2010 reflecting the net effect of our continued investment and the disposal. We will continue to develop our infrastructure investments portfolio both in the UK and internationally.

As previously announced and in line with our intention to dispose of our interest in Barking Power, the asset has been classified as held for sale and treated as a discontinued operation. Since classification as a discontinued operation, all income and expenses relating to Barking are classified as non-underlying items which included the receipt of £5m of dividends in the first half. The disposal process is ongoing.

Cost and efficiency update

The UK Shared Service Centre, which was launched in August 2010, has made very good progress in back office initiatives and in procurement where we have increased our focus on leveraging our scale. We now have procurement deals covering £150m of spend, creating gross annualised benefits of £15m.

Overall, we are on track to reach our annualised cost reduction target of £30m by 2013. £10m of this amount will be utilised to improve competitiveness at project level while £20m should impact the structural cost base and hence underpin our margins.

In addition to Group-wide plans, individual operating units, where necessary, have continued to size their business to the level of activity and this has seen a reduction in our work force over the last 12 months. The associated redundancy costs have been borne in underlying trading.

Non-underlying items
In the half-year ended 1 July 2011, non-underlying items from continuing operations charged against profit were £47m which included amortisation of acquired intangible assets of £29m and other non-underlying items of £18m. Non-underlying items from discontinued operations contributed £5m to profit as a result of dividends received from Barking.

As announced in April we disposed of our UK specialist rail manufacturing business. Losses of £7m associated with the disposal were recognised, of which £4m was the loss on disposal after a non-cash goodwill write-off of £7m, and £3m as an onerous lease liability for vacant property.

The continued rollout of the UK Shared Service Centre incurred £7m of incremental costs in the period. Acquisition, integration and reorganisation costs amounted to £4m.

The net tax effect of the above items was a tax credit of £11m.

(Please refer to Note 6.)

Other financial matters
Gains on investment disposals in the first half were £14m, 70% of the average annual gains we expect to make, which has increased the weighting of first half profits. This along with the proceeds from the disposal of our specialist rail manufacturing business, which was no longer core to our offering, resulted in total disposal proceeds of £53m. This helped net cash remain strong at £292m at the end of the period and at £296m on average in the first half, excluding non-recourse debt.

There was a cash outflow of £203m from movements in working capital in the period. There were three factors affecting this. Firstly, an unwinding of some of the negative working capital positions in the construction business, principally in the US, as a result of a change in mix in the business. Secondly, an expected cash outflow in PB as identified at the time of the acquisition. Thirdly, cash investment for contract start-ups in Support Services.

We have continued to invest cash to strengthen our business through selective acquisitions, which totalled £95m, and also to progressively reduce our pension liabilities. Total company contributions of £50m in the period helped reduce the pension deficit from £441m at the start of the period to £328m, or £240m net of tax, at the end of the period. This was in addition to total actuarial gains of £89m, which included £35m from increasing the difference assumed between the rates of CPI and RPI inflation from 0.5% to 0.9%.

Looking forward, the changing mix of business is likely to result in a lower level of negative working capital for the Group. However, we intend to maintain an appropriate balance between working capital, cash and pension liabilities to ensure that we continue to maintain a strong balance sheet going forward.

The effective tax rate for the Group, excluding joint ventures and associates, was 35% in the first half, in line with last year. We expect the rate for the full year to be similar.

Outlook
Although there are significant challenges in many of our markets, we have planned and structured our business to address these challenges, and we are confident of making progress this year.

Looking ahead, we will continue to manage the business on the basis that market conditions will remain tough. The clear strategy we have put in place, the scale and capabilities we have built over the last several years, the actions we have taken in individual markets and the cost measures we started implementing in 2010 will stand us in good stead.

We expect recovery in our markets in the medium term, and we have positioned ourselves to take advantage of the growing demand longer-term for infrastructure across the globe.

Ian Tyler
Chief Executive

CONDENSED GROUP INCOME STATEMENT

FOR THE HALF-YEAR ENDED 1 JULY 2011 BASED ON UNAUDITED FIGURES

		2011 first half			2010 first half			2010 year		
	Notes	**Underlying items (Note 6) £m**	**Non-underlying items (Note 6) £m**	**Total £m**	Underlying items[1] (Note 6) £m	Non-underlying items[1] (Note 6) £m	Total[1] £m	Underlying items[1] (Note 6) £m	Non-underlying items[1] (Note 6) £m	Total[1] £m
Continuing operations										
Revenue including share of joint ventures and associates		**5,222**	**–**	**5,222**	5,160	–	5,160	10,473	–	10,473
Share of revenue of joint ventures and associates	3	**(710)**	**–**	**(710)**	(555)	–	(555)	(1,237)	–	(1,237)
Group revenue		**4,512**	**–**	**4,512**	4,605	–	4,605	9,236	–	9,236
Cost of sales		**(3,979)**	**–**	**(3,979)**	(4,082)	–	(4,082)	(8,132)	–	(8,132)
Gross profit		**533**	**–**	**533**	523	–	523	1,104	–	1,104
Net operating expenses										
– amortisation of acquired intangible assets		**–**	**(29)**	**(29)**	–	(42)	(42)	–	(82)	(82)
– other		**(427)**	**(18)**	**(445)**	(413)	9	(404)	(851)	(23)	(874)
Group operating profit		**106**	**(47)**	**59**	110	(33)	77	253	(105)	148
Share of results of joint ventures and associates	3	**30**	**–**	**30**	33	–	33	72	–	72
Profit from operations		**136**	**(47)**	**89**	143	(33)	110	325	(105)	220
Investment income	4	**27**	**–**	**27**	22	–	22	46	–	46
Finance costs	5	**(25)**	**–**	**(25)**	(32)	–	(32)	(65)	–	(65)
Profit before taxation		**138**	**(47)**	**91**	133	(33)	100	306	(105)	201
Taxation	7	**(38)**	**11**	**(27)**	(35)	17	(18)	(83)	39	(44)
Profit for the period from continuing operations		**100**	**(36)**	**64**	98	(16)	82	223	(66)	157
Profit/(loss) for the period from discontinued operations	8	**–**	**5**	**5**	8	(27)	(19)	13	(27)	(14)
Profit for the period		**100**	**(31)**	**69**	106	(43)	63	236	(93)	143
Attributable to:										
Equity holders		**100**	**(31)**	**69**	106	(43)	63	236	(93)	143
Non-controlling interests		**–**	**–**	**–**	–	–	–	–	–	–
		100	**(31)**	**69**	106	(43)	63	236	(93)	143

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

	Notes	**2011 first half pence**	2010 first half[1] pence	2010 year[1] pence
Basic earnings per ordinary share				
– continuing operations	9	**9.5**	12.0	23.0
– discontinued operations	9	**0.7**	(2.8)	(2.0)
		10.2	9.2	21.0
Diluted earnings per ordinary share				
– continuing operations	9	**9.4**	12.0	22.9
– discontinued operations	9	**0.7**	(2.8)	(2.0)
		10.1	9.2	20.9
Dividends per ordinary share proposed for the period	10	**5.30**	5.05	12.70

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 1 JULY 2011 BASED ON UNAUDITED FIGURES

	2011 first half £m	2010 first half £m	2010 year £m
Profit for the period	**69**	63	143
Other comprehensive income/(expense) for the period			
Actuarial gains/(losses) on retirement benefit obligations	**89**	(55)	87
Fair value revaluations – PPP financial assets	**(5)**	44	61
– PPP cash flow hedges	**(13)**	(74)	(67)
– other cash flow hedges	**1**	(5)	(2)
– available-for-sale investments in mutual funds	**2**	–	4
Currency translation differences	**(9)**	57	43
Tax relating to components of other comprehensive income	**(20)**	25	(25)
Total other comprehensive income/(expense) for the period	**45**	(8)	101
Total comprehensive income for the period	**114**	55	244
Attributable to:			
Equity holders	**114**	55	244
Non-controlling interests	**–**	–	–
	114	55	244

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 1 JULY 2011 BASED ON UNAUDITED FIGURES

	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: Hedging reserves £m	Other reserves: PPP financial assets £m	Other reserves: Currency translation reserve £m	Other reserves: Merger reserve £m	Other reserves: Other £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2010	343	57	16	32	157	(17)	–	36	249	20	102	4	999
Total comprehensive income/(expense) for the period	–	–	–	–	2	(15)	–	47	–	7	14	–	55
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(49)	–	(49)
Joint ventures' and associates' dividends	–	–	–	–	(26)	–	–	–	–	–	26	–	–
Recycling of revaluation reserves to the income statement on disposal	–	–	–	–	(4)	–	–	–	–	–	–	–	(4)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	(2)	3	–	1
At 26 June 2010	343	57	16	32	129	(32)	–	83	249	25	96	4	1,002
Total comprehensive income/(expense) for the period	–	–	–	–	51	1	19	(9)	–	(4)	131	–	189
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(35)	–	(35)
Joint ventures' and associates' dividends	–	–	–	–	(36)	–	–	–	–	–	36	–	–
Issue of ordinary shares	–	2	–	–	–	–	–	–	–	–	–	–	2
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	–	(1)	–	(1)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	2	1	–	3
Transfers	–	–	–	(2)	–	–	–	–	–	–	2	–	–
At 31 December 2010	343	59	16	30	144	(31)	19	74	249	23	230	4	1,160
Total comprehensive income/(expense) for the period	**–**	**–**	**1**	**–**	**21**	**(2)**	**(3)**	**(7)**	**–**	**2**	**102**	**–**	**114**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(52)**	**–**	**(52)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**–**	**(22)**	**–**	**–**	**–**	**–**	**–**	**22**	**–**	**–**
Issue of ordinary shares	**–**	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**
Recycling of revaluation reserves to the income statement on disposal	**–**	**–**	**–**	**–**	**(6)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**2**	**–**	**–**
Transfers	**–**	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**–**	**–**
At 1 July 2011	**343**	**61**	**17**	**28**	**137**	**(33)**	**16**	**67**	**249**	**23**	**306**	**4**	**1,218**

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

AS AT 1 JULY 2011 BASED ON UNAUDITED FIGURES

	Notes	**2011 first half £m**	2010 first half[2] £m	2010 year £m
Non-current assets				
Intangible assets – goodwill	11	**1,263**	1,178	1,196
– other		**260**	286	251
Property, plant and equipment		**299**	315	320
Investments in joint ventures and associates	3	**445**	438	488
Investments		**101**	85	95
PPP financial assets		**351**	290	327
Deferred tax assets		**119**	198	163
Trade and other receivables		**86**	76	70
		2,924	2,866	2,910
Current assets				
Inventories		**122**	106	89
Due from customers for contract work		**694**	689	591
Derivative financial instruments		**8**	2	4
Trade and other receivables		**1,364**	1,406	1,197
Current tax assets		**6**	21	4
Cash and cash equivalents – PPP subsidiaries		**23**	17	18
– other		**547**	516	566
		2,764	2,757	2,469
Assets held for sale	8	**55**	–	–
		2,819	2,757	2,469
Total assets		**5,743**	5,623	5,379
Current liabilities				
Trade and other payables		**(2,441)**	(2,500)	(2,232)
Due to customers for contract work		**(624)**	(650)	(651)
Derivative financial instruments		**(3)**	(2)	(2)
Current tax liabilities		**(27)**	(5)	(29)
Borrowings – PPP non-recourse loans		**(19)**	(6)	(8)
– other		**(245)**	(3)	(37)
		(3,359)	(3,166)	(2,959)
Non-current liabilities				
Trade and other payables		**(151)**	(147)	(144)
Derivative financial instruments		**(47)**	(44)	(45)
Borrowings – PPP non-recourse loans		**(298)**	(263)	(280)
– other		**(10)**	(13)	(11)
Deferred tax liabilities		**(10)**	(9)	(8)
Liability component of preference shares		**(90)**	(89)	(89)
Retirement benefit obligations	12	**(328)**	(629)	(441)
Provisions		**(232)**	(261)	(242)
		(1,166)	(1,455)	(1,260)
Total liabilities		**(4,525)**	(4,621)	(4,219)
Net assets		**1,218**	1,002	1,160
Equity				
Called-up share capital	13	**343**	343	343
Share premium account		**61**	57	59
Equity component of preference shares		**17**	16	16
Special reserve		**28**	32	30
Share of joint ventures' and associates' reserves		**137**	129	144
Other reserves		**322**	325	334
Retained profits		**306**	96	230
Equity attributable to equity holders of the parent		**1,214**	998	1,156
Non-controlling interests		**4**	4	4
Total equity		**1,218**	1,002	1,160

[2] Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc (Notes 1.4 and 14).

CONDENSED GROUP STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 1 JULY 2011 BASED ON UNAUDITED FIGURES

	Notes	**2011 first half £m**	2010 first half[1] £m	2010 year[1] £m
Cash flows from operating activities				
Cash (used in)/generated from operations	15.1	**(114)**	(21)	169
Income taxes paid		**(14)**	(21)	(21)
Net cash (used in)/from operating activities		**(128)**	(42)	148
Cash flows from investing activities				
Dividends received from joint ventures and associates		**22**	21	53
Dividends received from discontinued operation		**5**	5	9
Interest received		**14**	10	19
Acquisition of businesses, net of cash and cash equivalents acquired		**(95)**	(5)	(44)
Purchase of intangible assets – other		**(10)**	(6)	(14)
Purchase of property, plant and equipment		**(41)**	(39)	(85)
Purchase of other investments		**(14)**	(2)	(13)
Investment in and loans made to joint ventures and associates		**(20)**	(21)	(56)
Investment in PPP financial assets		**(17)**	(12)	(22)
Disposal of businesses		**37**	–	–
Disposal of investments in joint ventures		**16**	24	24
Disposal of property, plant and equipment		**6**	4	13
Disposal of other investments		**9**	3	7
Net cash used in investing activities		**(88)**	(18)	(109)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**2**	–	2
Purchase of ordinary shares		**(3)**	(3)	(3)
Proceeds from new loans		**240**	22	49
Proceeds from new finance leases		**–**	–	4
Repayment of loans		**(5)**	(22)	(30)
Repayment of finance leases		**(2)**	–	(5)
Ordinary dividends paid		**–**	–	(84)
Interest paid		**(19)**	(16)	(31)
Preference dividends paid		**(11)**	(5)	(11)
Net cash from/(used in) financing activities		**202**	(24)	(109)
Net decrease in cash and cash equivalents		**(14)**	(84)	(70)
Currency translation differences		**(3)**	9	12
Cash and cash equivalents at beginning of period		**550**	608	608
Cash and cash equivalents at end of period	15.2	**533**	533	550

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

NOTES TO THE ACCOUNTS

1 Accounting policies

1.1 Basis of preparation

The condensed Group financial statements for the half-year ended 1 July 2011 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 financial statements for the year ended 31 December 2010, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The condensed Group financial statements have been reviewed, not audited, and were approved for issue by the Board on 16 August 2011. The financial information included in this report does not constitute statutory accounts for the purposes of Section 434 of the Companies Act 2006. A copy of the Company's audited statutory accounts for the year ended 31 December 2010 has been delivered to the Registrar of Companies. The independent auditor's 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 a statement under Section 498(2) or (3) of the Companies Act 2006.

The condensed Group financial statements have been prepared on the basis of the accounting policies set out in the Annual report and accounts 2010 except as described in Note 1.2 below.

The Group's principal risks and uncertainties are set out in Note 20 of these financial statements and Note 1.28 on pages 112 to 113 of the Annual report and accounts 2010.

Having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Group has 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 policies

IAS 24 Related Party Disclosures (revised 2009); IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments; Improvements to IFRSs (issued May 2010); and the amendments to: IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters; and IFRIC 14 Prepayments of a Minimum Funding Requirement came into effect and were adopted in the current period with no effect on the condensed Group financial statements.

1.3 Revision to segmentation

The Group's segmentation was revised following a change in the Group management structure on 1 January 2011 when Balfour Beatty Plant and Fleet Services was moved from Construction Services into Support Services. The information disclosed in Note 2 has been re-presented for the 2010 first half and full year based on the new Group management structure as disclosed in Note 16.

1.4 Restatement of comparative information

On 2 March 2011 the Directors resolved to dispose of the Group's effective 25.5% interest in Barking Power Ltd ("Barking"), subject to receiving a satisfactory offer. Barking's carrying value is expected to be recovered principally through a sale transaction within one year rather than through continuing use and accordingly from 2 March 2011 the Group's interest in Barking has been classified as a discontinued operation held for sale. As a result the financial statements for the 2010 first half and full year have been re-presented to show all amounts relating to Barking as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Refer to Note 8.

The acquisition fair values of net assets recognised in respect of Parsons Brinckerhoff Inc were finalised in the second half of 2010 and resulted in changes to the fair value of net assets disclosed in the 2010 half-year statement of financial position. As a result the adjustments disclosed in Note 14 have been made to the acquisition date statement of financial position with the 2010 first half statement of financial position being restated accordingly.

The income statement has been reformatted to reflect the re-presentation of "Exceptional items" as "Non-underlying items" in order to clarify the nature of these items, resulting in "Before exceptional items" being classified as "Underlying items". Refer to Note 6.

1.5 Accounting standards not yet adopted by the Group

IFRS 9 Financial Instruments; IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interests in Other Entities; IFRS 13 Fair Value Measurement; IAS 27 Separate Financial Statements; IAS 28 Investments in Associates and Joint Ventures; and the amendments to: IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; IFRS 7 Financial Instruments: Disclosures; IAS 1 Presentation of Items in Other Comprehensive Income; IAS 12 Deferred Tax: Recovery of Underlying Assets; IAS 19 Employee Benefits; and IAS 32 Financial Instruments: Presentation: Classification of Rights Issues; were either in issue but not yet effective or not yet adopted by the European Union at 16 August 2011.

Of the above, IFRS 9 is expected to have the most significant effect. IFRS 9 is expected to replace IAS 39 Financial Instruments: Recognition and Measurement from 2015, subject to EU adoption. IFRS 9 in issue as at 16 August 2011 only concerns the classification and measurement of financial assets and financial liabilities. New requirements for de-recognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in the second half of 2011. The requirements of IFRS 9 in issue as at 16 August 2011 would result in the Group's PPP financial assets being reclassified from "available-for-sale", which is a category that will no longer exist under the new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. As a result, movements in the fair value of PPP financial assets would no longer be recognised in other comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings. The effect within the Group's reserves would be a transfer of £16m from PPP financial asset reserves to retained earnings. The effect within the share of joint ventures' and associates' reserves would be a transfer of £77m from PPP financial asset reserves to retained earnings.

1.6 Exchange rates

Exchange rates applied in the preparation of these financial statements:

Average rates

£1 buys	**2011 first half**	2010 first half	Change	**2011 first half**	2010 year	Change
US$	**1.61**	1.53	5.2%	**1.61**	1.55	3.9%
Euro	**1.14**	1.15	(0.9)%	**1.14**	1.16	(1.7)%

Closing rates

£1 buys	**2011 first half**	2010 first half	Change	**2011 first half**	2010 year	Change
US$	**1.60**	1.50	6.7%	**1.60**	1.56	2.6%
Euro	**1.11**	1.22	(9.0)%	**1.11**	1.16	(4.3)%

2 Segment analysis – continuing operations

2.1 For the half-year ended 1 July 2011

	Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Performance by activity						
Revenue including share of joint ventures and associates	**840**	**3,270**	**757**	**355**	**–**	**5,222**
Share of revenue of joint ventures and associates	**(4)**	**(382)**	**(64)**	**(260)**	**–**	**(710)**
Group revenue	**836**	**2,888**	**693**	**95**	**–**	**4,512**
Underlying group operating profit/(loss)	**38**	**59**	**24**	**1**	**(16)**	**106**
Share of results of joint ventures and associates	**–**	**8**	**1**	**21**	**–**	**30**
Underlying profit/(loss) from operations	**38**	**67**	**25**	**22**	**(16)**	**136**
Amortisation of acquired intangible assets	**(15)**	**(7)**	**(2)**	**(5)**	**–**	**(29)**
Other non-underlying items	**(1)**	**(9)**	**(1)**	**–**	**(7)**	**(18)**
Profit/(loss) from operations	**22**	**51**	**22**	**17**	**(23)**	**89**
Investment income						**27**
Finance costs						**(25)**
Profit before taxation						**91**
Other information						
Total assets[3]	**865**	**2,569**	**592**	**959**	**758**	**5,743**
Total liabilities	**(556)**	**(2,512)**	**(418)**	**(174)**	**(865)**	**(4,525)**
Net assets/(liabilities)	**309**	**57**	**174**	**785**	**(107)**	**1,218**
Capital expenditure	**4**	**15**	**18**	**2**	**1**	**40**
Depreciation	**6**	**16**	**13**	**1**	**–**	**36**
Gain on part disposal of interest in joint venture	**–**	**–**	**–**	**14**	**–**	**14**

[3] Infrastructure Investments includes Barking Power classified as an asset held for sale (Note 8).

2.2 For the half-year ended 26 June 2010

	Professional Services £m	Construction Services[4] £m	Support Services[4] £m	Infrastructure Investments[1] £m	Corporate activities £m	Total[1] £m
Performance by activity						
Revenue including share of joint ventures and associates	829	3,278	739	313	1	5,160
Share of revenue of joint ventures and associates	(4)	(275)	(64)	(212)	–	(555)
Group revenue	825	3,003	675	101	1	4,605
Underlying group operating profit/(loss)	49	65	23	(11)	(16)	110
Share of results of joint ventures and associates	–	14	2	17	–	33
Underlying profit(loss) from operations	49	79	25	6	(16)	143
Amortisation of acquired intangible assets	(26)	(8)	(1)	(7)	–	(42)
Other non-underlying items	(10)	(1)	–	20	–	9
Profit/(loss) from operations	13	70	24	19	(16)	110
Investment income						22
Finance costs						(32)
Profit before taxation						100

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

[4] Re-presented to reflect the change in the group management structure (Notes 1.3 and 16).

2 Segment analysis – continuing operations continued

2.2 For the half-year ended 26 June 2010 continued

	Professional Services[2] £m	Construction Services[4] £m	Support Services[4] £m	Infrastructure Investments £m	Corporate activities £m	Total[2] £m
Other information						
Total assets	875	2,617	482	874	775	5,623
Total liabilities	(618)	(2,797)	(489)	(128)	(589)	(4,621)
Net assets/(liabilities)	257	(180)	(7)	746	186	1,002
Capital expenditure	7	18	13	–	1	39
Depreciation	6	18	12	1	–	37

[2] Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc (Notes 1.4 and 14).

[4] Re-presented to reflect the change in the group management structure (Notes 1.3 and 16).

2.3 For the year ended 31 December 2010

	Professional Services £m	Construction Services[4] £m	Support Services[4] £m	Infrastructure Investments[1] £m	Corporate activities £m	Total[1] £m
Performance by activity						
Revenue including share of joint ventures and associates	1,613	6,734	1,443	682	1	10,473
Share of revenue of joint ventures and associates	(4)	(616)	(131)	(486)	–	(1,237)
Group revenue	1,609	6,118	1,312	196	1	9,236
Underlying group operating profit/(loss)	84	170	57	(23)	(35)	253
Share of results of joint ventures and associates	1	31	5	35	–	72
Underlying profit/(loss) from operations	85	201	62	12	(35)	325
Amortisation of acquired intangible assets	(50)	(18)	(1)	(13)	–	(82)
Other non-underlying items	(25)	(6)	(12)	20	–	(23)
Profit/(loss) from operations	10	177	49	19	(35)	220
Investment income						46
Finance costs						(65)
Profit before taxation						201

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

[4] Re-presented to reflect the change in the group management structure (Notes 1.3 and 16).

	Professional Services £m	Construction Services[4] £m	Support Services[4] £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Other information						
Total assets	842	2,336	472	934	795	5,379
Total liabilities	(579)	(2,454)	(428)	(171)	(587)	(4,219)
Net assets/(liabilities)	263	(118)	44	763	208	1,160
Capital expenditure	13	37	32	1	2	85
Depreciation	11	34	26	2	1	74

[4] Re-presented to reflect the change in the group management structure (Notes 1.3 and 16).

2 Segment analysis – continuing operations continued

2.4 Infrastructure Investments (Balfour Beatty Capital UK and Balfour Beatty Capital US)

	2011 first half £m	2010 first half[1] £m	2010 year[1] £m
Underlying profit from operations			
PPP UK*			
– joint ventures and associates[5]	**19**	15	30
– subsidiaries	**–**	1	1
– gain on part disposal of interest in joint venture	**14**	–	–
PPP US			
– joint ventures and associates[5]	**3**	3	6
– subsidiaries	**9**	9	14
Infrastructure			
– joint ventures and associates[5]	**(1)**	(1)	(1)
– subsidiaries	**(2)**	(2)	(4)
	42	25	46
Bidding costs and overheads	**(20)**	(19)	(34)
	22	6	12

* including Singapore.

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

[5] 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

Continuing operations	**2011 first half £m**	2010 first half[1] £m	2010 year[1] £m
Income statement			
Share of revenue of joint ventures and associates	**710**	555	1,237
Underlying operating profit	**20**	26	60
Investment income	**90**	78	159
Finance costs	**(73)**	(62)	(131)
Taxation	**(7)**	(9)	(16)
Share of underlying results of joint ventures and associates	**30**	33	72

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

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

	2011 first half £m	2010 first half £m	2010 year £m
Statement of financial position			
Intangible assets – goodwill	**54**	56	55
– PPP concession assets	**20**	22	21
– other	**1**	2	1
Property, plant and equipment	**51**	105	106
PPP financial assets	**2,259**	1,967	2,121
Military housing projects	**49**	50	45
Net cash/(borrowings) – PPP non-recourse	**(1,749)**	(1,674)	(1,616)
– other	**131**	300	121
Other net liabilities	**(371)**	(390)	(366)
Share of net assets of joint ventures and associates	**445**	438	488

4 Investment income

	2011 first half £m	2010 first half £m	2010 year £m
PPP subordinated debt interest receivable	**12**	9	19
PPP interest on financial assets	**12**	9	19
Other interest receivable and similar income	**3**	4	8
	27	22	46

5 Finance costs

	2011 first half £m	2010 first half £m	2010 year £m
PPP non-recourse – bank loans and overdrafts	**12**	9	20
Preference shares – finance cost	**6**	6	12
Other interest payable – bank loans and overdrafts	**2**	3	7
– other loans	**2**	2	1
– commitment fees	**2**	1	4
Net finance cost on pension schemes' assets and liabilities	**1**	11	21
	25	32	65

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 2011 on 1 July 2011 to holders on the register on 27 May 2011. 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 2011 on 1 January 2012 to holders on the register on 25 November 2011 by direct credit or, where no mandate has been given, by cheque posted on 30 December 2011 payable on 1 January 2012. The preference shares will be quoted ex-dividend on 23 November 2011.

6 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will affect the absolute amount of the results for the period and the trend of results. Underlying items are items before non-underlying items.

Non-underlying items include gains and losses on the disposal of businesses, investments and property, plant and equipment, unless this is part of a programme of realising value from the disposal of similar businesses or investments; costs of restructuring and reorganisation of existing businesses; costs of integrating newly acquired businesses; acquisition and similar costs related to business combinations; impairment and amortisation charges on intangible assets arising on business combinations ("amortisation of acquired intangible assets"); and impairment of goodwill. These are examples; from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group. Amortisation charges in respect of software are included in underlying items.

	2011 first half £m	2010 first half [1] £m	2010 year [1] £m
6.1 Operating expenses (charged against)/credited to profit			
Continuing operations			
6.1.1 Amortisation of acquired intangible assets	**(29)**	(42)	(82)
6.1.2 Other non-underlying items:			
– loss on disposal of UK specialist rail manufacturing business	**(7)**	–	–
– cost of implementing UK shared service centre	**(7)**	–	(12)
– post-acquisition integration, reorganisation and other costs	**(3)**	(11)	(29)
– acquisition related expenses	**(1)**	–	(2)
– gain on sale of investments in joint ventures	**–**	20	20
Total other non-underlying items	**(18)**	9	(23)
Charged against profit before taxation	**(47)**	(33)	(105)
6.2 Tax on items above	**11**	17	39
Non-underlying items charged against profit for the period from continuing operations	**(36)**	(16)	(66)
Discontinued operations			
6.3 Barking			
– dividends received	**5**	–	–
– share of joint ventures and associates – impairment of Barking Power Station	**–**	(27)	(27)
Charged against profit for the period	**(31)**	(43)	(93)

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

In addition to the items included above in the first half of 2011, a net £nil non-underlying item arose in respect of Romec Services Ltd comprising: revaluation of the existing 49% stake on step acquisition £13m; service credit (£4m); and preference dividend to Royal Mail Group (£9m). Refer to Note 14.

6.1.1 The amortisation of acquired intangible assets comprises: customer contracts £11m (2010: first half £18m, full-year £34m); customer relationships £13m (2010: first half £17m, full-year £35m); and brand names £5m (2010: first half £7m, full-year £13m).

6.1.2 The UK specialist rail manufacturing business was sold during the first half of 2011. A loss of £7m arose on the sale which comprises: a loss on the disposal of the rail business operations of £4m which includes writing off £7m goodwill; and an onerous lease liability of £3m due to a property becoming vacant. Refer to Note 14.

In the first half of 2011, the implementation of the UK shared service centre in Newcastle-upon-Tyne led to incremental costs of £7m (2010: first half £nil, full-year £12m) being incurred.

Reorganisation and integration costs of £3m (2010: first half £11m, full-year £29m) have been incurred: £1m (2010: first half £10m, full-year £23m) relating to Parsons Brinckerhoff; £1m (2010: first half £1m, full-year £1m) relating to SpawMaxwell; £1m (2010: first half £nil, full-year £3m) relating to Rok; and £nil (2010: first half £nil, full-year £2m) relating to Schreck-Mieves.

In the first half of 2011, costs of £1m directly attributable to the acquisition of Romec Services Ltd were incurred. In the second half of 2010, costs of £2m directly attributable to the acquisition of Halsall were incurred.

During 2010, the Group disposed of its 50% interest in Aberdeen Environmental Services (Holdings) Ltd and a 23.9% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd. The Group retains a 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd following the transaction. The aggregate consideration received was £24m. The disposals resulted in a total gain of £20m being realised, comprising £16m in respect of gains on disposal of the investments in the joint ventures and £4m in respect of revaluation reserves recycled to the income statement. Subsequent to these transactions, and following the development of the Group's strategy to release regularly the value contained in the PPP portfolio, from 2011 gains or losses from disposals of PPP investments are treated as part of underlying profits.

6.2 The non-underlying items charged against Group operating profit have given rise to a tax credit of £11m, comprising: £9m on amortisation of acquired intangible assets; and £2m on other non-underlying items (2010: first half £17m credit comprising: £14m on amortisation of acquired intangible assets; and £3m on other non-underlying items, full-year £39m credit comprising: £27m on amortisation of acquired intangible assets; and £12m on other non-underlying items).

6 Non-underlying items continued

6.3 On 2 March 2011 it was resolved to dispose of the Group's effective 25.5% interest in Barking Power Ltd ("Barking"), which became a discontinued operation with all items from this date classified as non-underlying items. Refer to Note 8. Subsequent to 2 March 2011, dividends of £5m were received by the Group. In 2010, a post-tax impairment charge of £27m was incurred in respect of writing down the value of the assets held by Barking.

7 Taxation

	2011 first half £m	2010 first half £m	2010 year £m
UK current tax	**2**	(4)	14
Foreign current tax	**17**	12	55
Deferred tax*	**19**	27	14
	38	35	83
Non-underlying items	**(11)**	(17)	(39)
Total tax charge	**27**	18	44

*The Group charged £1m to the income statement and £2m to equity in the first half of 2011 in relation to the reduction in the UK corporation tax rate from 27% to 26%.

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 underlying profit before taxation in each tax jurisdiction. If the profit mix between tax jurisdictions differs between the half-year and full-year, a different overall effective tax rate will arise between the half-year and full-year.

In addition to the Group tax charge above is £20m of tax charged directly to equity (2010: first half £25m credited, full-year £25m charged), comprising a deferred tax charge of £25m (2010: first half £18m credit, full-year £28m charge) and a credit in respect of joint ventures and associates of £5m (2010: first half £7m, full-year £3m).

8 Discontinued operation

On 2 March 2011 the Directors resolved to dispose of the Group's effective 25.5% interest in Barking Power Ltd ("Barking"), subject to receiving a satisfactory offer. Barking's carrying value is expected to be recovered principally through a sale transaction within one year rather than through continuing use and accordingly, from 2 March 2011, the Group's interest in Barking is classified as a discontinued operation held for sale.

Barking was previously accounted for as an associate using the equity method. Since classification as a discontinued operation, equity accounting is no longer applied and all income and expenses relating to Barking are classified as non-underlying items.

Barking is part of the Infrastructure Investments segment.

The results included in the consolidated income statement are as follows:

	2011 first half £m	2010 first half £m	2010 year £m
Share of revenue of joint ventures and associates	**8**	39	68
Underlying operating profit	**–**	11	18
Taxation	**–**	(3)	(5)
Share of underlying results of joint ventures and associates	**–**	8	13
Non-underlying items – impairment of Barking Power Station (Note 6)	**–**	(27)	(27)
Share of results of joint ventures and associates	**–**	(19)	(14)
Non-underlying items – dividends received (Note 6)	**5**	–	–
Profit/(loss) attributable to discontinued operation	**5**	(19)	(14)

The major classes of assets and liabilities of Barking are as follows:

	2011 first half £m
Property, plant and equipment	**59**
Net cash	**15**
Other net liabilities	**(19)**
Net assets held for sale	**55**

During the first half of 2011, Barking contributed £5m to the Group's net investing cash flows (2010: first half £5m, full-year £9m).

9 Earnings per ordinary share

	2011 first half		2010 first half		2010 year	
	Basic £m	**Diluted £m**	Basic[1] £m	Diluted[1] £m	Basic[1] £m	Diluted[1] £m
Continuing operations						
Earnings after tax	**64**	**64**	82	82	157	157
Amortisation of acquired intangible assets net of tax	**20**	**20**	28	28	55	55
Other non-underlying items net of tax	**16**	**16**	(12)	(12)	11	11
Underlying earnings	**100**	**100**	98	98	223	223
Discontinued operations						
Earnings after tax	**5**	**5**	(19)	(19)	(14)	(14)
Non-underlying items net of tax	**(5)**	**(5)**	27	27	27	27
Underlying earnings	**–**	**–**	8	8	13	13

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

	Basic m	**Diluted m**	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**683**	**684**	682	682	682	683

	Basic pence	**Diluted pence**	Basic[1] pence	Diluted[1] pence	Basic[1] pence	Diluted[1] pence
Continuing operations						
Earnings per ordinary share	**9.5**	**9.4**	12.0	12.0	23.0	22.9
Amortisation of acquired intangible assets	**2.8**	**2.8**	4.1	4.1	8.1	8.1
Other non-underlying items	**2.4**	**2.4**	(1.8)	(1.8)	1.6	1.6
Underlying earnings per ordinary share	**14.7**	**14.6**	14.3	14.3	32.7	32.6
Discontinued operations						
Earnings per ordinary share	**0.7**	**0.7**	(2.8)	(2.8)	(2.0)	(2.0)
Non-underlying items	**(0.7)**	**(0.7)**	4.0	4.0	4.0	4.0
Underlying earnings per ordinary share	**–**	**–**	1.2	1.2	2.0	2.0

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

10 Dividends on ordinary shares

	2011 first half		2010 first half		2010 year	
	Per share pence	**Amount £m**	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period						
Interim 2010	**–**	**–**	5.05	35	5.05	35
Final 2010	**–**	**–**	–	–	7.65	52
Interim 2011	**5.30**	**36**	–	–	–	–
	5.30	**36**	5.05	35	12.70	87
Recognised dividends for the period						
Final 2009		**–**		49		49
Interim 2010		**–**		–		35
Final 2010		**52**		–		–
		52		49		84

The interim 2011 dividend will be paid on 9 December 2011 to holders on the register on 14 October 2011 by direct credit or, where no mandate has been given, by cheque posted on 8 December 2011 payable on 9 December 2011. The ordinary shares will be quoted ex-dividend on 12 October 2011.

11 Goodwill

	Cost[2] £m	Accumulated impairment losses £m	Carrying amount[2] £m
At 1 January 2010[2]	1,189	(44)	1,145
Currency translation differences	36	(4)	32
Businesses acquired	1	–	1
At 26 June 2010[2]	1,226	(48)	1,178
Currency translation differences	(15)	2	(13)
Businesses acquired	31	–	31
At 31 December 2010	1,242	(46)	1,196
Currency translation differences	**(8)**	**1**	**(7)**
Businesses acquired	**81**	**–**	**81**
Businesses sold	**(7)**	**–**	**(7)**
At 1 July 2011	**1,308**	**(45)**	**1,263**

[2] Restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff Inc (Notes 1.4 and 14).

12 Retirement benefit obligations

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

		2011 first half %	2010 first half %	2010 year %
Inflation rate	– RPI	**3.50**	3.25	3.40
	– CPI	**2.60**	–	2.90
Discount rate		**5.55**	5.30	5.45
Future increases in pensionable salary	– certain members of the Balfour Beatty Pension Fund	**–**	–	–
	– other members	**5.00**	4.75	4.90
Expected return on plan assets	– Balfour Beatty Pension Fund	**6.10**	5.93	6.10
	– Railways Pension Scheme	**7.10**	7.30	7.10
	– Parsons Brinckerhoff Pension Scheme	**6.45**	6.75	6.45

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

	2011 first half £m	2010 first half £m	2010 year £m
Present value of obligations	**(2,772)**	(2,815)	(2,785)
Fair value of plan assets	**2,444**	2,186	2,344
Liability in the statement of financial position	**(328)**	(629)	(441)

The present value of obligations comprises £93m (2010: first half £82m, full-year £87m) arising from wholly unfunded plans and £2,679m (2010: first half £2,733m, full-year £2,698m) arising from plans that are wholly or partly funded.

Analysis of liabilities	**2011 first half £m**	2010 first half £m	2010 year £m
Balfour Beatty Pension Fund	**(170)**	(432)	(273)
Railways Pension Scheme	**(19)**	(48)	(30)
Parsons Brinckerhoff Pension Scheme	**(46)**	(66)	(51)
Other schemes*	**(93)**	(83)	(87)
Liability in the statement of financial position	**(328)**	(629)	(441)

* Available-for-sale investments in mutual funds of £52m (2010: first half £46m, full-year £49m) are held by the Group to satisfy the Group's deferred compensation obligations.

12 Retirement benefit obligations continued

		2011 first half £m	2010 first half £m	2010 year £m
Movement in retirement benefit obligations for the period				
At beginning of period		**(441)**	(586)	(586)
Currency translation differences		**–**	(3)	(2)
Service cost		**(27)**	(26)	(53)
Interest cost		**(73)**	(75)	(151)
Expected return on plan assets		**72**	64	130
Settlement gain		**–**	8	8
Contributions from employer	– ongoing deficit funding	**30**	16	41
	– one-off deficit funding	**–**	–	40
	– regular funding	**20**	20	40
Benefits paid		**2**	2	6
Actuarial gains and losses	– on liabilities from rebasing certain pension obligations to CPI	**35**	–	52
	– on liabilities from other actuarial gains and losses	**8**	(76)	(85)
	– on assets	**46**	27	119
At end of period		**(328)**	(629)	(441)

On 30 November 2010 the UK Government published the Occupational Pensions (Revaluation) Order 2010 which, with effect from 1 January 2011, changed the basis of UK general statutory pension indexation from the retail price index (RPI) to the consumer price index (CPI). The benefits of certain members of the Group's schemes are defined by reference to the statutory measure of inflation rather than being specifically linked by the scheme rules to RPI. The consequent change in assumptions gave rise to a £52m actuarial reduction in liabilities in the second half of 2010 which was credited to equity in the statement of comprehensive income.

During the half-year ended 1 July 2011 the Group reassessed the difference between the RPI and CPI measures of price inflation from 0.50% to 0.90%. The increase was applied following consideration of research published by the Office for National Statistics and independent advice received from the Group's actuaries and gave rise to a reduction in liabilities of £35m which was credited to equity in the statement of comprehensive income.

During the half-year ended 26 June 2010 the Group offered certain deferred members of the Balfour Beatty Pension Fund ("BBPF") enhanced benefits to leave the BBPF and transfer to a freestanding defined contribution scheme, resulting in a £42m reduction in assets, a £50m reduction in liabilities and a settlement gain of £8m. A net gain of £2m was recognised after payment of £6m of enhancements and other expenses.

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	0.50%	(7.8)	(216)
Increase in inflation rate	0.50%	6.6	183
Increase in salary above inflation	0.50%	0.3	8
Increase in life expectancy	1 year	3.3	92

13 Share capital

During the half-year ended 1 July 2011, 486,670 ordinary shares were issued following the exercise of savings-related share options and 185,468 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £2m.

In the half-year ended 1 July 2011 1,044,696 ordinary shares were purchased for £3m by the Group's employee discretionary trust to satisfy awards under the Balfour Beatty Performance Share Plan and the Balfour Beatty Deferred Bonus Plan.

14 Acquisitions and disposals

14.1 Current period acquisitions

14.1.1 On 30 March 2011 an associate, Romec Ltd, in which Royal Mail Group ("RMG") and the Group hold 51% and 49% respectively, agreed a new facilities management contract for a further 10 years whereby Romec Ltd will provide a wide range of technical and building services to RMG worth £0.9bn with further variable scope for works worth £0.9bn over the 10-year term. In addition Romec Ltd credited RMG with £10m in respect of the previous 10-year management contract and a special dividend of £19m was paid on a class of preference shares owned 100% by RMG. The Group's share of these items is disclosed in non-underlying items.

On 30 March 2011, the Group acquired 100% of Romec Services Ltd ("RSL") from Romec Ltd for a cash consideration of £29m. RSL provides services to third party customers and will enhance the Group's mobile engineering and maintenance services capabilities. The provisional fair value of net assets acquired was £2m, intangible assets arising net of deferred tax were £3m and goodwill of £24m has been recognised. A gain of £13m disclosed in non-underlying items arose on the revaluation of the Group's existing 49% interest in RSL.

14.1.2 On 7 April 2011 the Group acquired 100% of Power Efficiency Holdings Ltd, a leader in the energy management market, for £18m of consideration, £14m in cash to vendors and £4m to an escrow account to be payable over two years subject to certain provisions of the purchase agreement. The acquisition strengthens the Group's ability to maintain large complex energy portfolios and deliver end-to-end energy and carbon management services. The provisional fair value of net assets acquired was £3m, intangible assets arising net of deferred tax were £7m and goodwill of £8m has been recognised.

14.1.3 On 15 June 2011 the Group acquired 100% of Fru-Con Construction LLC ("Fru-Con"), a water and wastewater infrastructure contractor, for cash consideration of £14m. The acquisition of Fru-Con enhances the Group's expertise in water infrastructure projects. The provisional fair value of net assets acquired was £3m, intangible assets arising were £3m and goodwill of £8m has been recognised.

14.1.4 On 30 June 2011 the Group acquired 100% of Howard S. Wright ("HSW") for a cash consideration of £44m with a further estimated £10m contingent consideration payable on the satisfaction of certain financial projections. HSW provides pre-construction, general contracting and construction management services and enhances the Group's presence in Northern California and the US Pacific Northwest. The provisional fair value of net assets acquired was £nil, intangible assets arising were £16m and goodwill of £38m has been recognised.

14.1.5 In the first half of 2011 additional contracts were transferred in respect of certain operations of Rok's business which extends the Group's capabilities in the affordable new build housing market. In addition, management reassessed contracts that were acquired on 19 November 2010, resulting in additional liabilities of (£3m), intangibles arising of £2m and goodwill of £1m. These amounts are provisional at the half-year.

14.1.6 Net assets acquired on acquisitions include: property, plant and equipment of £5m; net negative working capital liabilities of (£9m); loans of (£4m); and cash of £13m.

14.1.7 Goodwill is expected to be deductible for income tax purposes in respect of Rok, Fru-Con and the majority of Howard S. Wright's goodwill.

14.1.8 Costs directly attributable to each acquisition have been expensed within non-underlying items. Refer to Note 6.

14.1.9 Had the acquisitions been completed at the beginning of the period, the contribution to revenue would have been £226m with a contribution to underlying profit from operations of £2m. The contributions since the acquisition dates did not have a material effect on the Group's results.

14.2 Current period disposals

14.2.1 On 3 May 2011, the Group disposed of its UK specialist rail manufacturing business for £37m. The business generated revenue of £55m in 2010 and had profit from operations of £4m. A loss on disposal of £4m, including £7m goodwill written off, was recognised within non-underlying items.

14.2.2 On 23 June 2011 the Group disposed of a 60% interest in its Connect Roads Ltd joint venture for cash consideration of £16m. Connect Roads Ltd holds a 100% interest in Connect A50 Ltd. The disposal resulted in a total gain of £14m being recognised in operating profit, comprising £8m in respect of the gain on disposal of the investment in the joint venture and £6m in respect of revaluation reserves recycled to the income statement. The Group retains a 25% interest in Connect Roads Ltd following the transaction.

14.3 Prior period acquisitions

14.3.1 The fair values of acquired assets and liabilities previously disclosed as provisional for Ethos56 Ltd ("Halsall") were finalised during the first half of 2011 resulting in an increase in goodwill of £2m shown in the current year.

14.3.2 The fair values of the acquired assets and liabilities disclosed as provisional at the half-year ended 26 June 2010 in respect of Parsons Brinckerhoff Inc were finalised during the year ended 31 December 2010, giving rise to a £2m increase in both provisions and goodwill.

14.3.3 The fair values of all other assets and liabilities previously disclosed as provisional in the 2010 half-year financial statements have been finalised with no material changes.

14 Acquisitions and disposals continued

14.4 Contingent consideration

	SpawMaxwell £m	Parsons Brinckerhoff Inc £m	Power Efficiency £m	Howard S. Wright £m	Total £m
Contingent consideration (payable)/recoverable					
At 31 December 2010	(3)	16	–	–	13
Arising in the period	–	–	(4)	(10)	(14)
Fair value of contingent consideration recognised at 1 July 2011	(3)	16	(4)	(10)	(1)

The fair value of the contingent consideration is estimated by applying the provisions of the purchase agreement to the current management assessment of possible outcomes and discounting the expected contract costs and insurance claim proceeds to their present value. The maximum amount that the Group could be required to pay or receive under the terms of the contingent consideration arrangements is £11m payable or £16m receivable in respect of Parsons Brinckerhoff, £3m payable in respect of SpawMaxwell, £4m payable in respect of Power Efficiency and £25m payable in respect of Howard S. Wright.

15 Notes to the statement of cash flows

	2011 first half £m	2010 first half[1] £m	2010 year[1] £m
15.1 Cash (used in)/generated from operations			
Profit from continuing operations	**89**	110	220
Profit from discontinued operations	**5**	(19)	(14)
Share of results of joint ventures and associates – continuing operations	**(30)**	(33)	(72)
Share of results of joint ventures and associates – discontinued operations	**–**	19	14
Dividends received – discontinued operations	**(5)**	–	–
Depreciation of property, plant and equipment	**36**	37	74
Amortisation of intangible assets	**29**	42	82
Pension deficit payments – ongoing deficit funding	**(30)**	(16)	(41)
– one-off deficit funding	**–**	–	(40)
Movements relating to share-based payments	**4**	3	8
Loss on disposal of business	**7**	–	–
Profit on disposal of investment in joint ventures	**(14)**	(20)	(20)
Profit on disposal of property, plant and equipment	**(2)**	(2)	(2)
Other non-cash items	**–**	(8)	(8)
Operating cash flows before movements in working capital	**89**	113	201
Increase in working capital	**(203)**	(134)	(32)
Cash (used in)/generated from operations	**(114)**	(21)	169

[1] Re-presented for the classification of Barking Power as a discontinued operation (Note 8).

15 Notes to the statement of cash flows continued

	2011 first half £m	2010 first half £m	2010 year £m
15.2 Cash and cash equivalents			
Cash and deposits	**524**	498	518
Term deposits	**23**	18	48
PPP cash balances	**23**	17	18
Bank overdrafts	**(37)**	–	(34)
	533	533	550
15.3 Analysis of net (borrowings)/cash			
Cash and deposits	**524**	498	518
Term deposits	**23**	18	48
Bank overdrafts	**(37)**	–	(34)
Finance leases	**(10)**	(13)	(12)
Other short-term loans	**(208)**	(3)	(2)
	292	500	518
PPP non-recourse project finance – sterling floating rate term loan (2008–2027)	**(23)**	(23)	(23)
– sterling floating rate term loan (2011–2030)	**(25)**	(22)	(25)
– sterling floating rate term loan (2012–2031)	**(21)**	(16)	(19)
– sterling floating rate term loan (2010–2034)	**(164)**	(166)	(162)
– sterling floating rate term loan (2016–2035)	**(5)**	–	(3)
– sterling floating rate term loan (2016–2035)	**(2)**	–	–
– sterling floating rate term loan (2012–2037)	**(67)**	(42)	(56)
– sterling floating rate term loan (2013–2037)	**(10)**	–	–
	(317)	(269)	(288)
PPP cash and cash equivalents	**23**	17	18
Net (borrowings)/cash	**(2)**	248	248
15.4 Analysis of movement in net (borrowings)/cash			
Opening net cash	**248**	324	324
Net decrease in cash and cash equivalents	**(14)**	(84)	(70)
Proceeds from new loans	**(240)**	(22)	(49)
Proceeds from new finance leases	**–**	–	(4)
Repayment of loans	**5**	22	30
Repayment of finance leases	**2**	–	5
Currency translation differences	**(3)**	8	12
Closing net (borrowings)/cash	**(2)**	248	248

15.5 Borrowings

During the period ended 1 July 2011 the significant movements in borrowings were a net increase of £29m in non-recourse borrowings funding the development of financial assets in PPP subsidiaries, a £3m increase in overdrafts and an increase in other short-term loans of £206m.

16 Prior year comparisons

The income statement has been re-presented to reflect the classification of Barking Power Ltd as a discontinued operation from 2 March 2011. Refer to Note 8.

The statement of financial position has been restated for the amendments to the acquisition statement of financial position of Parsons Brinckerhoff. Refer to Note 14.

On 1 January 2011 management responsibility for Balfour Beatty Plant & Fleet Services ("BBPFS") was moved from Construction Services to Balfour Beatty WorkPlace ("BBW") in Support Services, to enhance its growth prospects utilising BBW's customer base.

	Construction Services as re-presented 2010 first half £m	Construction Services as previously reported 2010 first half £m	Support Services as re-presented 2010 first half £m	Support Services as previously reported 2010 first half £m	Construction Services as re-presented 2010 year £m	Construction Services as previously reported 2010 year £m	Support Services as re-presented 2010 year £m	Support Services as previously reported 2010 year £m
Performance by activity								
Revenue including share of joint ventures and associates	3,278	3,282	739	735	6,734	6,743	1,443	1,434
Share of revenue of joint ventures and associates	(275)	(275)	(64)	(64)	(616)	(616)	(131)	(131)
Group revenue	3,003	3,007	675	671	6,118	6,127	1,312	1,303
Underlying group operating profit	65	69	23	19	170	181	57	46
Share of results of joint ventures and associates	14	14	2	2	31	31	5	5
Underlying profit from operations	79	83	25	21	201	212	62	51
Amortisation of acquired intangible assets	(8)	(8)	(1)	(1)	(18)	(18)	(1)	(1)
Other non-underlying items	(1)	(1)	–	–	(6)	(6)	(12)	(12)
Profit from operations	70	74	24	20	177	188	49	38
Other information								
Total assets	2,617	2,685	482	414	2,336	2,412	472	396
Total liabilities	(2,797)	(2,861)	(489)	(425)	(2,454)	(2,519)	(428)	(363)
Net assets	(180)	(176)	(7)	(11)	(118)	(107)	44	33
Capital expenditure	18	22	13	9	37	52	32	17
Depreciation	18	25	12	5	34	48	26	12

17 Contingent liabilities

The Group and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of the Group's share of certain contractual obligations of joint ventures and associates and certain retirement benefit obligations of the Balfour Beatty Pension Fund and the Parsons Brinckerhoff Pension Scheme. Where the Group enters into such agreements, it considers them to be insurance arrangements, and accounts for them as such. Guarantees are treated as contingent liabilities until such time as it becomes probable that the Group will be required to make payment under the guarantee.

Provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

18 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £417m (2010: first half £468m, full-year £972m). 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 £22m (2010: first half £22m, full-year £26m). The amount due to joint ventures and associates from trading activities was £42m (2010: first half £14m, full-year £42m).

On 30 March 2011 the Group acquired Romec Services Ltd from its associate Romec Ltd for a cash consideration of £29m. Refer to Note 14.

19 Seasonality
The Group's activities are not subject to significant seasonal variation.

20 Principal risks and uncertainties
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 are more fully described on pages 55 to 61 of the Annual report and accounts 2010. These include: the effect of external risks including the economic environment, commercial counterparty solvency and legal and regulatory requirements; strategic risks over acquisitions and investments; organisation and management risks including people, business conduct, information technology and information security; financial and treasury risks including finance and liquidity, treasury counterparty, contract bonds, currency, interest rates and pensions; and delivery and operational risks including bidding, joint ventures, service delivery, health and safety, sustainability and supply chain.

The Directors do not consider that the principal risks and uncertainties facing the Group have changed since the publication of the Annual report and accounts 2010.

21 Events after the reporting date
On 5 July 2011, the Finance Act 2011 was substantively enacted, implementing a reduction to the main corporation tax rate from 26% to 25% effective from 1 April 2012. It has also been announced, although not enacted, that there will be a 1% reduction in the main corporation tax rate in each of the two subsequent years to reduce the rate to 23% from 1 April 2014.

The effect of the Finance Act 2011 is expected to reduce the Group's net deferred tax asset by £3m, with £1m being charged to the income statement and £2m being charged to reserves during the second half of the year. In addition, should the future corporation tax rate reductions be enacted, based on the latest forecasts, this will give rise to a further reduction in the Group's net deferred tax asset of £6m over the two years 2012 and 2013, with £2m being charged to the income statement and £4m being charged to reserves.

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 1 July 2011 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

Ian Tyler
Chief Executive

Duncan Magrath
Chief Financial Officer

16 August 2011

INDEPENDENT REVIEW REPORT TO BALFOUR BEATTY PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 1 July 2011 which comprises the condensed Group income statement, the condensed Group statement of financial position, the condensed Group statement of changes in equity, the condensed Group statement of comprehensive income, the condensed Group statement of cash flows and related notes 1 to 21. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of 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 it 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-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has 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 set of financial statements in the half-yearly 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 set of financial statements in the half-yearly financial report for the six months ended 1 July 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor

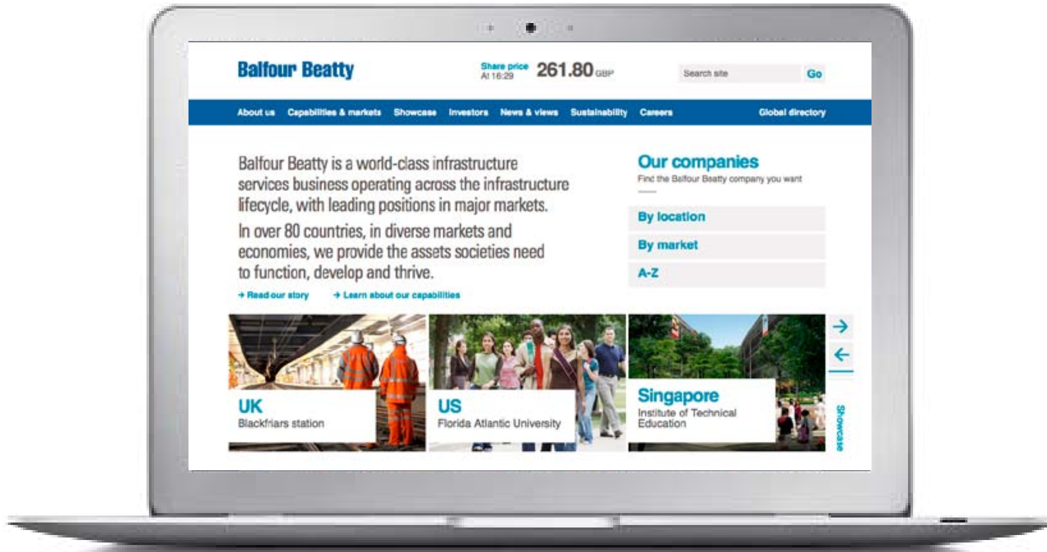
London, UK

16 August 2011

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Designed and produced by Radley Yeldar. www.ry.com

We recently launched a new and improved website. To view, please go to www.balfourbeatty.com



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