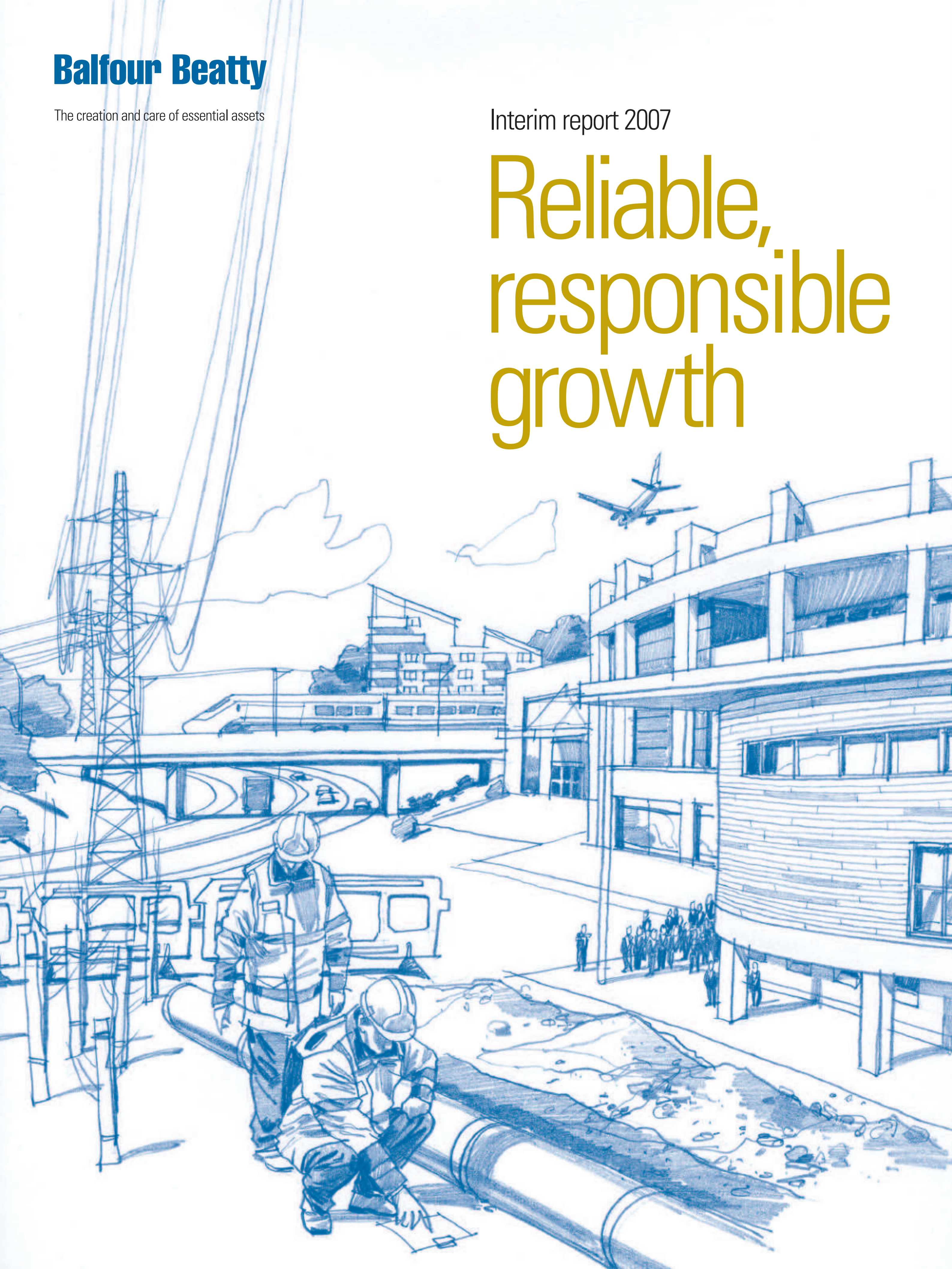
Balfour Beatty

The creation and care of essential assets

Interim report 2007

Reliable, responsible growth



Introduction

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 combination to meet individual customer need.

We are committed to long-term growth in shareholder value and to operating safely and sustainably.

Contents

Overview

What we do

Building, Building Management and Services

Balfour Beatty is an international specialist in the design, construction, equipping, maintenance and management of buildings and selected aspects of their internal environment.

Companies
- Balfour Beatty Construction (UK)
- Balfour Beatty Construction (US)
- Balfour Kilpatrick
- Haden Building Management
- Haden Young
- Heery International
- Mansell

Specialist areas
- Design
- Construction
- Construction and Programme Management
- Electrical Engineering
- Mechanical Engineering
- Building and Facilities Management
- Refurbishment and Fit-out
- Social Housing

Civil and Specialist Engineering and Services

Balfour Beatty is a leading international provider of civil and other specialist engineering, design and management services, principally in the transport, energy and water sectors.

Companies
- Balfour Beatty Civil Engineering
- Balfour Beatty Ground Engineering
- Balfour Beatty Infrastructure Inc
- Balfour Beatty Infrastructure Services
- Balfour Beatty Management
- Balfour Beatty Power Networks
- Balfour Beatty Utilities
- Balfour Beatty Sakti (49%)
- Dutco Balfour Beatty (49%)
- BK Gulf (49%)
- Gammon (50%)

Specialist areas
- Design
- Construction
- Project Management
- Foundations, Strengthening, Testing
- Civil Engineering
- Electrical Engineering
- Transmission Lines
- Road Management and Maintenance
- Utility Upgrade and Maintenance
- Professional and Technical Services

Rail Engineering and Services

Balfour Beatty is an international leader in the design, construction, equipping, maintenance, management and renewal of rail assets and systems.

Companies
- Balfour Beatty Rail UK
  - Infrastructure Services and Plant
  - Projects
  - London Underground Services
  - Track Systems and Technologies
- Balfour Beatty Rail Germany
- Balfour Beatty Rail Italy
- Balfour Beatty Rail International
- Balfour Beatty Rail Inc

Specialist areas
- Design
- Construction
- Project Management
- Maintenance
- Track Renewals
- Specialist Plant, Products and Systems
- Electrification and Power Supplies
- Signalling

Investments and Developments

Balfour Beatty promotes and invests in privately funded infrastructure assets and developments in selected sectors, in the UK and internationally.

Companies
- Balfour Beatty Capital
  - Aberdeen Environmental Services
  - Connect Roads
  - Consort Healthcare
  - Health Management (UCLH)
  - Powerlink
  - Transform Schools
- Gammon Capital
- Balfour Beatty Capital Inc
- Balfour Beatty Capital GmbH
- Barking Power
- Regional & City Airports
  - Exeter International Airport

Specialist areas
- Healthcare
- Education
- Roads
- Rail
- Airports
- Integrated Transport
- Power Systems
- Water

Where we work – half-year revenue by destination – continuing operations

£2,559m
UK

£564m
US

£164m
Asia Pacific

£114m
Africa, Middle East, Near East

£102m
Continental Europe

£2m
Central and South America

Some of the asset owners for whom we work

Interim results

"It is pleasing to report a first half year of particularly strong profit and earnings growth, coupled with a further significant strengthening of our cash position and growth in our order book.

"With our workloads continuing to increase, projects progressing well and a full six months' contribution from Balfour Beatty Construction US, we anticipate further good progress in the second half of the year."

Financial summary

	2007 first half	2006 first half
Revenue including joint ventures and associates	**£3,505m**	£2,719m
Pre-tax (loss) /profit from continuing operations		
– before exceptional items and amortisation	**£76m**	£56m
– after exceptional items and amortisation	**£(52)m**	£35m
Profit attributable to equity shareholders	**£60m**	£28m
Earnings per share		
– adjusted*	**14.2p**	11.4p
– basic	**14.0p**	6.5p
Interim dividend per share	**4.6p**	3.9p
Financing		
– net cash before PFI/PPP subsidiaries (non-recourse)	**£479m**	£353m
– net borrowings of PFI/PPP subsidiaries (non-recourse)	**£(27)m**	£(17)m

Highlights

- Pre-tax profit* up by 36% at £76m
- Cash generated from operations up 36% at £181m
- Adjusted earnings per share* up 25% to 14.2p
- Interim dividend increased by 18% to 4.6p
- Order book at record £10.6bn
- £1m net exceptional gain, after £103m Metronet post-tax write-off
- Acquisition of Centex Construction establishes critical mass in the US
- Niche acquisitions strengthen core businesses
- Financial close reached for new PPP concessions to a value of £350m

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

Overview

It is pleasing to report a first half year of particularly strong profit and earnings growth, coupled with a further significant strengthening of our cash position and growth in our order book.

We have also substantially enhanced the future earnings growth potential of the business with the acquisitions of Centex Construction in the US (now Balfour Beatty Construction US), Exeter International Airport and a number of other small but important niche acquisitions.

We remain committed to the delivery of the reliable, responsible growth that our shareholders have enjoyed over recent years. We are clear about our priorities for the continued development of the business in both the medium and the long term and have the proven management capability to deliver.

First half year results

Pre-tax profits* from continuing operations for the six months to 30 June 2007 were up 36% at £76m (2006: £56m). Adjusted earnings per share* were up by 25% to 14.2p (2006: 11.4p).

This reflects strong performances in all sectors, including a first quarter's contribution from Balfour Beatty Construction US in line with our expectations.

Operating cash performance was again strong in the period and period-end net cash, further enhanced by certain one-off inflows, stood at £479m (2006: £353m), before taking account of the consolidation of £27m (2006: £17m) of non-recourse net debt in our wholly-owned PPP street lighting concessions.

The Board has declared an interim dividend up 18% at 4.6p per ordinary share (2006: 3.9p).

There was a net exceptional credit, after tax, of £1m (2006: £21m charge). This reflects a post-tax charge of £103m in respect of the write-off of our investment in Metronet and an estimate of other consequential write-offs, which was more than offset by credits arising from the sale of our 24.5% interest in Devonport Management Limited (£57m) and the crystallisation of tax benefits in the US following the acquisition of Centex Construction in late March (£50m).

Profit for the period attributable to equity shareholders, including profit from discontinued operations, was £60m (2006: £28m) and basic earnings per share were 14.0p (2006: 6.5p).

From left to right:
Sir David John KCMG Chairman
Ian Tyler Chief Executive

Interim results

The period-end order book stood at £10.6bn, up by 20% since 1 July 2006 and by 16% since the year-end.

Revenue, including the Group's share of joint ventures and associates, at £3,505m (2006: £2,719m) was up by 29%.

The first half in brief

Acquisitions and disposals

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 UK professional and technical services business and the broadening of its regional contracting base in the UK. The longer-term objective of creating substantial domestic businesses in selected markets outside the UK, particularly the US, was also progressed.

On 30 March, we completed the acquisition of Centex Construction (which has subsequently been renamed Balfour Beatty Construction US) for a cash consideration, including costs, of $377m ($126m, net of cash acquired). This acquisition of a high-quality, top-tier US building company, well placed in a number of growth markets, with annual sales in excess of $2bn and with highly compatible management processes and culture, is a major step forward in our long-term strategy of building a major domestic construction, services and investment presence in the US on our UK model. The acquisition provides significant and immediate earnings enhancement, strong market presence and substantial potential to exploit new growth opportunities in conjunction with our established US businesses.

The acquisition of Exeter International Airport for £60m was completed in January, through our specialist company, Regional & City Airports. 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 £30m equity invested in this asset has been sold to Galaxy, the international transportation equity investment fund, for £12m. 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.

Other, smaller acquisitions were completed in the first half year in Swedish rail and professional and technical services in the UK and the US. Since the end of the period, further acquisitions have been made in rail, professional and technical services and UK road management and maintenance. The aggregate cost of these acquisitions was approximately £17m. These transactions add to our earning power in markets where we are already strong.

On 28 June, we completed the sale of our 24.5% interest in Devonport Management Ltd (DML) for a cash consideration of £86m. Long-term involvement in DML was not core to our strategy and the sale represented excellent value to our shareholders.

Order book

During the first half of the year, the order book has grown by £1.5bn to £10.6bn, largely as a result of the consolidation of the order book of Balfour Beatty Construction US. The underlying order book also continued to grow. Notable additions to the order book arose from the Eastern Electricity Alliance contract with National Grid, substantial works for Grosvenor Estates in Liverpool and some major wins for our civil engineering and programme management businesses in the US.

The Board

Jim Cohen, an executive Director since 2000, 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.

Business sectors

Building, Building Management and Services

Profit from operations in the building sector before exceptional items and amortisation rose by 76% to £30m (2006: £17m) during the first half of the year. This reflected a 47% increase in the underlying profits of the existing businesses, augmented by a first quarter's contribution from Balfour Beatty Construction US in line with our expectations.

The UK-based construction businesses performed strongly. Balfour Beatty Construction made good progress on a range of major projects, including major schools schemes in Bassetlaw, North Lanarkshire, Birmingham and Manchester, and on the £550m New Birmingham Hospital project. Mansell also made progress in strong markets for regional construction and social housing. Heery in the US, augmented by recent acquisitions, performed well and in June was awarded the $230m contract to design and build a new Federal Correctional Institution at Berlin, New Hampshire. Haden Building Management in the UK, now fully mobilised for its major new contracts for the Department for Work and Pensions and the Metropolitan Police, also performed well.

The sector order book increased to £5.1bn during the period, including £1.2bn arising on the acquisition of Balfour Beatty Construction US. With activity levels continuing to expand and a full six-month contribution from Balfour Beatty Construction US, we expect significant further growth in the second half of the year.

Civil and Specialist Engineering and Services

Profit from continuing operations in the engineering sector before exceptional items and amortisation rose by 30% to £26m (2006: £20m) in the period. This represented a strong all-round performance, with particularly notable improvements in Gammon in Hong Kong and in Balfour Beatty Infrastructure Inc (previously Balfour Beatty Construction Inc) in the US and continuing growth in the contribution from Balfour Beatty Management.

In March, Balfour Beatty Power Networks, which also performed strongly, was awarded the £550m five-year contract to upgrade and develop the electricity transmission network in the eastern half of England, working in conjunction with Balfour Beatty Management. There is an option to extend the contract for a further five years. Other major contracts were secured in the engineering sector in street lighting, US infrastructure and for Yorkshire Water.

Following the sale of our interest in Devonport Management Ltd at the end of June, operating profits in that business are accounted for under discontinued businesses.

At the end of June, the sector order book stood at £4.65bn. It is anticipated that progress will accelerate significantly in the second half of the year.

The Group's accident frequency rate continued to reduce during the first half of the year following the consistent trend of recent years.

The acquisition of Centex Construction (now Balfour Beatty Construction US) gives us critical mass in the US through a high quality top-tier building company serving growth markets.

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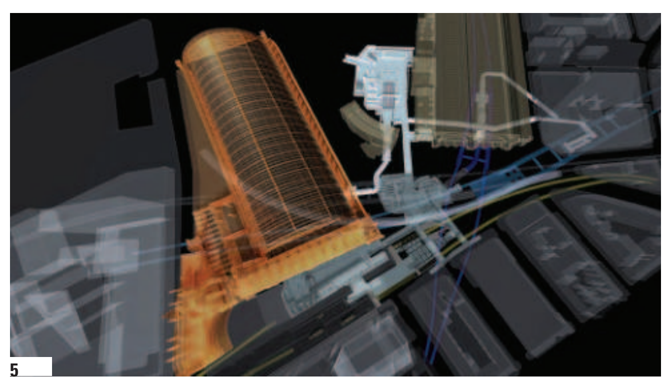

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1 Fort Stewart military housing: Balfour Beatty Construction US

2 Milan-Bologna high speed rail project, Balfour Beatty Rail Italy

3 Your Homes, Newcastle: Mansell

4 Venetian Hotel, Macau: Gammon Construction

5 King's Cross St Pancras Underground Station: Balfour Beatty Management (image created by Arup – Allies and Morrison)

1 Birmingham Hospital:
Consort Healthcare

2 Orlando Courthouse, Florida:
Heery International

3 Rail and station works at Heathrow Terminal 5:
Balfour Beatty Group

4 Barking Power Station:
Balfour Beatty Capital

5 Islington Schools BSF:
Transform Schools

The acquisition of Exeter International Airport moves Balfour Beatty Capital into a new asset class and utilises the Group's wealth of expertise in airport asset development.

The new £550m Eastern Electricity Alliance with National Grid is the latest in a growing number of long-term partnerships with blue-chip customers.

Rail Engineering and Services

Profit from operations in the rail sector before exceptional items increased by 18% to £13m (2006: £11m) during the period. Performance in the UK rail businesses improved, with high levels of activity in overground renewals for Network Rail and underground and sub-surface trackwork on the London Underground system. The highly-complex project at Heathrow Terminal 5 made excellent progress and reached its final stages during the period.

Performance in Balfour Beatty Rail Power Systems, the international electrification and power supply business, was in line with the first half of last year as were results in Balfour Beatty Rail Inc in the US. Projects in Germany, Italy, the US and other markets generally progressed well. In May, our Italian business was awarded the contract for the design, construction and maintenance of the new LRV (Trolleybus) system connecting Pescara and Montesilvano in the centre of Italy.

The acquisition of a multi-disciplinary rail business and SAAB's signalling operations, to augment our established position in Sweden, has created the leading privately-owned rail infrastructure contractor in the Nordic region.

The order book stood at £0.85bn at the end of the period. In July, the UK Government published its 30-year rail strategy White Paper with the welcome news that some £10bn is to be invested in network capacity enhancement between 2009 and 2014, including major projects for Thameslink and Birmingham and Reading stations.

We expect to see continuing good progress in the second half of the year.

Investments and developments

Profit from operations before exceptional items in the investments sector improved by 13% to £17m (2006: £15m), despite the planned increase in bid investment and costs in the UK and elsewhere. Barking Power had a particularly strong half year with excellent reliability and availability and other concessions performed at anticipated levels.

Early in the year, the acquisition of Exeter International Airport was completed for £60m, with 40% of the £30m equity invested being subsequently sold to Galaxy, the infrastructure investment fund. During the period, the £311m Pinderfields and Pontefract Hospital project and the £36m Derby Street Lighting project reached financial close.

On 18 July, the Metronet concessions for the London Underground PPP, in which we had a 20% interest, went into PPP Administration. The costs to the Group have been accounted as exceptional and are further described below. The London Underground PPP is unique and we do not anticipate any negative impact on the UK PPP market as a whole to arise as a result of Metronet's Administration.

Balfour Beatty is working closely with Metronet, London Underground and the Administrator in order to ensure that the daily operations of the network remain unaffected over the period of Metronet's Administration. The Group remains committed to the creation of a world-class underground system for London and will continue to provide such services to London Underground as required and requested under the new ownership structure which succeeds Metronet.

Two major new preferred bidder positions were secured during the first half of the year. In January, Consort Healthcare was appointed preferred bidder for the 30-year, £152m Fife General Hospital and Maternity Services PPP for NHS Fife. In May, Transform Schools was appointed preferred bidder for the £140m Islington Building Schools for the Future programme. In both cases, all construction and long-term services will be provided by Balfour Beatty subsidiary companies.

We now have five major projects at preferred bidder stage and are well advanced in bidding for a further eight, including the £1.5bn M25 widening scheme. The development of our PPP businesses in the US, South-East Asia and Germany made good progress during the first half. We have been short listed for the Oakland Connector rail project in California, the North Tarrant Expressway project in Texas, the Institute of Technical Education in Singapore and Bremen Hospital in Germany.

The UK PPP market remains strong, with major opportunities continuing to arise in transportation, healthcare and particularly education through the Building Schools for the Future initiative which is now gaining momentum. PPP procurement also continues to gather pace in the US, South-East Asia and western Europe.

In the second half of the year there will be a further acceleration in bid costs as activity intensifies on the later stages of some major bids and we continue to expand our activities in the US, Hong Kong and Germany. As a result, as previously anticipated, we do not expect performance in this sector for the full year to match that of the previous year.

Exceptional items

There are a number of exceptional items in the first half year accounts, resulting in a net exceptional credit of £1m.

On 18 July, the directors of Metronet Rail BCV Ltd and Metronet Rail SSL Ltd, the PPP concession companies in which Balfour Beatty had a 20% interest and which were responsible for the upgrade of two-thirds of London Underground's rail system, asked the Mayor of London to seek the appointment of a PPP Administrator.

In its June trading update, Balfour Beatty indicated its intention to write-off approximately £100m, representing the equity invested in the Metronet concessions, the profits recognised in respect of these investments in prior years and certain other, related issues. Following the entry of the concessions into PPP Administration and pending final agreement with the Administrator in respect of the recovery of certain day-to-day trading balances between Balfour Beatty operating and affiliate companies and Metronet, a total post-tax exceptional charge of £103m has been recorded in the half-year accounts. This comprises a net investment write-off of £87m, estimated contract provisions of £35m, and related tax credits of £19m.

A further £3m charge arises from some reorganisation costs in the US and the premium on the buy-back of preference shares.

These charges are very largely offset by two exceptional credits. There is a £57m exceptional profit arising from the disposal of our 24.5% interest in Devonport Management Ltd. In addition, consequent to the acquisition of Centex Construction, the crystallisation of the benefits of tax losses and other tax assets in the US, which have to be recognised in full under IAS 12, has resulted in an exceptional gain of £50m.

Outlook

With our workloads continuing to increase, projects progressing well and a full six months' contribution from Balfour Beatty Construction US, we anticipate further good progress in the second half of the year.

Sir David John KCMG Chairman

Ian Tyler Chief Executive

Group income statement

For the half-year ended 30 June 2007 based on unaudited figures

	Notes	2007 first half Before exceptional items* £m	2007 first half Exceptional items* (Note 6) £m	2007 first half Total £m	2006 first half Before exceptional items* £m	2006 first half Exceptional items* (Note 6) £m	2006 first half Total £m	2006 year Before exceptional items* £m	2006 year Exceptional items* (Note 6) £m	2006 year Total £m
Continuing operations										
Revenue including share of joint ventures and associates		**3,505**	**–**	**3,505**	2,719	–	2,719	5,741	–	5,741
Share of revenue of joint ventures and associates	3	**(642)**	**–**	**(642)**	(665)	–	(665)	(1,254)	–	(1,254)
Group revenue		**2,863**	**–**	**2,863**	2,054	–	2,054	4,487	–	4,487
Cost of sales		**(2,655)**	**(35)**	**(2,690)**	(1,900)	–	(1,900)	(4,121)	–	(4,121)
Gross profit		**208**	**(35)**	**173**	154	–	154	366	–	366
Net operating expenses										
– amortisation of intangible assets		**–**	**(3)**	**(3)**	–	–	–	–	(1)	(1)
– other		**(169)**	**(89)**	**(258)**	(129)	(15)	(144)	(286)	(19)	(305)
Group operating (loss)/profit		**39**	**(127)**	**(88)**	25	(15)	10	80	(20)	60
Share of results of joint ventures and associates	3	**34**	**–**	**34**	27	–	27	56	–	56
(Loss)/profit from operations		**73**	**(127)**	**(54)**	52	(15)	37	136	(20)	116
Investment income	4	**13**	**–**	**13**	12	–	12	26	–	26
Finance costs	5	**(10)**	**(1)**	**(11)**	(8)	(6)	(14)	(18)	(7)	(25)
(Loss)/profit before taxation		**76**	**(128)**	**(52)**	56	(21)	35	144	(27)	117
Taxation	7	**(17)**	**70**	**53**	(11)	–	(11)	(35)	1	(34)
Profit for the period from continuing operations		**59**	**(58)**	**1**	45	(21)	24	109	(26)	83
Profit for the period from discontinued operations	8	**2**	**57**	**59**	4	–	4	8	–	8
Profit for the period attributable to equity shareholders		**61**	**(1)**	**60**	49	(21)	28	117	(26)	91

*and amortisation of intangible assets

	Notes	2007 first half Pence	2006 first half Pence	2006 year Pence
Basic earnings per ordinary share				
– continuing operations	9	**0.3**	5.6	19.3
– discontinued operations	9	**13.7**	0.9	1.9
		14.0	6.5	21.2
Diluted earnings per ordinary share				
– continuing operations	9	**0.3**	5.6	19.1
– discontinued operations	9	**13.6**	0.9	1.9
		13.9	6.5	21.0
Dividends per ordinary share proposed for the period	10	**4.6**	3.9	9.1

Group statement of recognised income and expense

For the half-year ended 30 June 2007 based on unaudited figures

	Notes	2007 first half £m	2006 first half £m	2006 year £m
Actuarial gains on retirement benefit obligations		**126**	46	36
PFI/PPP cash flow hedges – net fair value gains		**39**	25	32
– reclassified and reported in net profit		**7**	–	–
PFI/PPP financial assets – fair value revaluation		**(36)**	(28)	(2)
– reclassified and reported in net profit		**(3)**	–	–
Changes in fair value of net investment hedges		**5**	7	14
Currency translation differences		**(7)**	(7)	(17)
Tax on items taken directly to equity		**(43)**	(15)	(26)
Net income recognised directly in equity		**88**	28	37
Profit for the period from continuing operations		**1**	24	83
Profit for the period from discontinued operations		**59**	4	8
Total recognised income for the period attributable to equity shareholders	14	**148**	56	128

Group balance sheet

At 30 June 2007 based on unaudited figures

	Notes	2007 first half £m	2006 first half £m	2006 year £m
Non-current assets				
Intangible assets – goodwill		**603**	292	427
– other		**44**	–	9
Property, plant and equipment		**199**	170	183
Investments in joint ventures and associates	3	**356**	400	458
Investments		**46**	47	46
PFI/PPP financial assets		**28**	20	22
Deferred tax assets		**92**	67	102
Derivative financial instruments		**8**	1	2
Trade and other receivables		**42**	35	50
		1,418	1,032	1,299
Current assets				
Inventories		**92**	75	75
Due from customers for contract work		**349**	263	252
Derivative financial instruments		**3**	5	3
Trade and other receivables		**828**	614	626
Current tax assets		**10**	–	–
Cash and cash equivalents		**481**	381	323
		1,763	1,338	1,279
Total assets		**3,181**	2,370	2,578
Current liabilities				
Trade and other payables		**(1,798)**	(1,182)	(1,289)
Due to customers for contract work		**(365)**	(274)	(265)
Derivative financial instruments		**–**	–	(1)
Current tax liabilities		**(8)**	(32)	(28)
Borrowings		**(1)**	(28)	(17)
		(2,172)	(1,516)	(1,600)
Non-current liabilities				
Trade and other payables		**(97)**	(68)	(77)
Borrowings – PFI/PPP non-recourse term loans		**(27)**	(17)	(21)
– other		**(1)**	–	(1)
Deferred tax liabilities		**(5)**	(4)	(5)
Liability component of preference shares		**(88)**	(90)	(90)
Retirement benefit obligations	12	**(160)**	(237)	(288)
Provisions		**(118)**	(112)	(109)
		(496)	(528)	(591)
Total liabilities		**(2,668)**	(2,044)	(2,191)
Net assets		**513**	326	387
Equity				
Called-up share capital	14	**216**	214	215
Share premium account	14	**46**	40	43
Equity component of preference shares	14	**16**	16	16
Special reserve	14	**167**	172	169
Share of joint ventures' and associates' reserves	14	**167**	199	243
Other reserves	14	**3**	10	5
Accumulated losses	14	**(102)**	(325)	(304)
Total equity		**513**	326	387

Our accounts

Group cash flow statement

For the half-year ended 30 June 2007 based on unaudited figures

	Notes	2007 first half £m	2006 first half £m	2006 year £m
Cash flows from operating activities				
Cash generated from operations	16.1	**181**	133	217
Income taxes paid		**(10)**	(9)	(24)
Net cash from operating activities		**171**	124	193
Cash flows from investing activities				
Dividends received from joint ventures and associates		**76**	7	24
Interest received		**13**	14	29
Acquisition of businesses, net of cash and cash equivalents acquired		**(95)**	(21)	(80)
Purchase of property, plant and equipment		**(39)**	(28)	(57)
Purchase of investments		**–**	(10)	(8)
Investment in and loans made to joint ventures and associates		**(33)**	(8)	(22)
Investment in financial assets		**(7)**	(4)	(12)
Disposal of businesses, net of cash and cash equivalents disposed		**92**	–	–
Disposal of property, plant and equipment		**7**	6	9
Net cash from/(used in) investing activities		**14**	(44)	(117)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**2**	3	6
Purchase of ordinary shares		**(4)**	(4)	(3)
Proceeds from new loans		**6**	30	35
Repayment of loans		**(1)**	–	(27)
Finance lease principal repayments		**–**	(1)	(1)
Buy-back of preference shares		**(3)**	(17)	(19)
Ordinary dividends paid		**–**	(15)	(52)
Interest paid		**(7)**	(2)	(5)
Preference dividends paid		**(6)**	(6)	(12)
Net cash used in financing activities		**(13)**	(12)	(78)
Net increase/(decrease) in cash and cash equivalents		**172**	68	(2)
Effects of exchange rate changes		**1**	(3)	(6)
Cash and cash equivalents at beginning of period		**308**	316	316
Cash and cash equivalents at end of period	16.2	**481**	381	308

Notes

1 Basis of presentation

The interim financial statements have been prepared on the basis of the accounting policies set out in the 2006 Balfour Beatty plc Annual Report and Accounts.

The unaudited results for the half-year ended 30 June 2007 were approved by the Board on 14 August 2007. The full year figures for 2006 included in this report do not constitute statutory accounts for the purposes of Section 240 of the Companies Act 1985. A copy of the Company's statutory accounts for the year ended 31 December 2006 has been delivered to 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.

2 Segment analysis – continuing operations

For the half-year ended 30 June 2007

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Performance by activity:						
Group revenue	**1,509**	**1,004**	**341**	**9**	**–**	**2,863**
Group operating profit	**30**	**20**	**12**	**(10)**	**(13)**	**39**
Share of results of joint ventures and associates	**–**	**6**	**1**	**27**	**–**	**34**
Profit from operations before exceptional items and amortisation	**30**	**26**	**13**	**17**	**(13)**	**73**
Exceptional items	**(25)**	**(11)**	**(1)**	**(87)**	**–**	**(124)**
Amortisation of intangible assets	**(2)**	**(1)**	**–**	**–**	**–**	**(3)**
Loss from operations	**3**	**14**	**12**	**(70)**	**(13)**	**(54)**
Investment income						**13**
Finance costs						**(11)**
Loss before taxation						**(52)**

	Europe £m	North America £m	Other* £m	Total £m
Performance by geographic origin:				
Group revenue	**2,290**	**559**	**14**	**2,863**
Profit from operations before exceptional items and amortisation	**65**	**–**	**8**	**73**
Exceptional items	**(122)**	**(2)**	**–**	**(124)**
Amortisation of intangible assets	**(1)**	**(2)**	**–**	**(3)**
Loss from operations	**(58)**	**(4)**	**8**	**(54)**

For the half-year ended 1 July 2006

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Performance by activity:						
Group revenue	955	717	376	6	–	2,054
Group operating profit	16	17	11	(8)	(11)	25
Share of results of joint ventures and associates	1	3	–	23	–	27
Profit from operations before exceptional items	17	20	11	15	(11)	52
Exceptional items	–	(17)	2	–	–	(15)
Profit from operations	17	3	13	15	(11)	37
Investment income						12
Finance costs						(14)
Profit before taxation						35

	Europe £m	North America £m	Other* £m	Total £m
Performance by geographic origin:				
Group revenue	1,756	283	15	2,054
Profit from operations before exceptional items	57	(9)	4	52
Exceptional items	2	(17)	–	(15)
Profit from operations	59	(26)	4	37

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

Notes (continued)

2 Segment analysis – continuing operations continued

For the year ended 31 December 2006

	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Performance by activity:						
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	51	–	56
Profit from operations before exceptional items and amortisation	43	47	38	32	(24)	136
Exceptional items	–	(21)	2	–	–	(19)
Amortisation of intangible assets	–	(1)	–	–	–	(1)
Profit from operations	43	25	40	32	(24)	116
Investment income						26
Finance costs						(25)
Profit before taxation						117

	Europe £m	North America £m	Other* £m	Total £m
Performance by geographic origin:				
Group revenue	3,893	572	22	4,487
Profit from operations before exceptional items and amortisation	133	(12)	15	136
Exceptional items	(1)	(18)	–	(19)
Amortisation of intangible assets	(1)	–	–	(1)
Profit from operations	131	(30)	15	116

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

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

	2007 first half £m	2006 first half £m	2006 year £m
Income statement – continuing operations			
Share of revenue of joint ventures and associates	**642**	665	1,254
Operating profit before exceptional items	**25**	20	43
Investment income	**66**	60	127
Finance costs	**(49)**	(43)	(89)
Taxation	**(8)**	(10)	(25)
Share of results of joint ventures and associates before exceptional items	**34**	27	56
Balance sheet			
Property, plant and equipment	**157**	200	197
PFI/PPP financial assets	**1,277**	1,369	1,541
Net cash/(borrowings) – PFI/PPP non-recourse	**(1,278)**	(1,186)	(1,260)
– other	**73**	83	88
Other net assets/(liabilities)	**127**	(66)	(108)
Share of net assets of joint ventures and associates	**356**	400	458

4 Investment income

	2007 first half £m	2006 first half £m	2006 year £m
PFI/PPP interest on financial assets	**1**	1	1
PFI/PPP subordinated debt interest receivable	**4**	3	8
Other interest receivable and similar income	**8**	8	17
	13	12	26

5 Finance costs

		2007 first half £m	2006 first half £m	2006 year £m
PFI/PPP non-recourse	– other interest payable	**1**	1	1
Other interest payable	– bank loans and overdrafts	**1**	–	3
	– other	**2**	1	2
Preference shares	– finance cost	**6**	6	12
		10	8	18
Exceptional items	– premium on buy-back of preference shares	**1**	6	7
		11	14	25

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 at current tax rate) per cumulative convertible redeemable preference share will be paid in respect of the six months ending 31 December 2007 on 1 January 2008 to holders of these shares on the register on 23 November 2007 by direct credit or, where no mandate has been given, by cheque posted on 28 December 2007 payable on 1 January 2008. These shares will be quoted ex-dividend on 21 November 2007.

6 Exceptional items and amortisation of intangible assets

		2007 first half			2006 first half £m	2006 year £m
		Metronet £m	Other £m	Total £m		
6.1 (Charged against)/credited to (loss)/profit from operations						
Cost of sales	– Metronet – contract losses	**(35)**	**–**	**(35)**	–	–
Net operating expenses	– Metronet – impairment of investment	**(87)**	**–**	**(87)**	–	–
	– North America integration and reorganisation costs	**–**	**(2)**	**(2)**	–	(2)
	– National Engineering and Contracting Company – impairment of goodwill	**–**	**–**	**–**	(17)	(16)
	– litigation settlements and fines	**–**	**–**	**–**	2	2
	– Birse Group integration costs	**–**	**–**	**–**	–	(3)
		(122)	**(2)**	**(124)**	(15)	(19)
6.2 Charged to finance costs						
	– premium on buy-back of preference shares	**–**	**(1)**	**(1)**	(6)	(7)
Charged against (loss)/profit before taxation		**(122)**	**(3)**	**(125)**	(21)	(26)
6.3 Credited to taxation						
	– tax on items above	**19**	**–**	**19**	–	1
	– recognition of US deferred tax assets	**–**	**50**	**50**	–	–
Charged against profit for the period from continuing operations		**(103)**	**47**	**(56)**	(21)	(25)
6.4 Credited to profit for the period from discontinued operations						
	– profit on sale of operations	**–**	**57**	**57**	–	–
Exceptional items credited to/(charged against) profit for the period		**(103)**	**104**	**1**	(21)	(25)
Amortisation of intangible assets		**–**	**(3)**	**(3)**	–	(1)
Tax thereon		**–**	**1**	**1**	–	–
		(103)	**102**	**(1)**	(21)	(26)

6.1 In 2007 first half, as a result of the request by Metronet Rail BCV Ltd to the Arbiter for an Extraordinary Review of the incurred and forecast costs, his subsequent interim award, and the consequent appointment to both Metronet Rail BCV Ltd and Metronet Rail SSL Ltd (collectively "Metronet") of a PPP Administrator, the Group's investment in the Metronet concessions, including profits recognised in previous periods, has been written down to £nil. In addition, 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 £1m incurred in the reorganisation and integration of Balfour Beatty Construction (formerly Centex Construction) acquired in the period have been charged against Group operating (loss)/profit, together with further costs of £1m (2006: first half £nil, full year £2m) arising on the reorganisation of the central division of Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc).

In 2006, as a result of unsatisfactory performance in the central division of Balfour Beatty Infrastructure Inc, the goodwill arising on the acquisition of National Engineering and Contracting Company was written off and charged against Group operating profit (first half £17m, full year £16m). The exceptional item credited to Group operating profit in 2006 (first half £2m, full year £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 (first half £nil, full year £3m) were charged against Group operating profit.

6 Exceptional items and amortisation of intangible assets continued

6.2 The exceptional items charged against finance charges are the premium of £1m (2006: first half £6m, full year £7m) arising on the repurchase for cancellation of 2.1m (2006: first half 10.8m, full year 12.0m) preference shares at a cost of £3m (2006: first half £17m, full year £19m).

6.3 The exceptional items charged against (loss)/profit from operations have given rise to a net tax credit of £19m (2006: first half £nil, full year £1m). Consequent to the acquisition of Balfour Beatty Construction (formerly Centex Construction), the benefits of tax losses and other tax assets arising from temporary differences in the US have crystallised and have been recognised in full in accordance with IAS 12, giving rise to an exceptional gain of £50m in the 2007 first half.

6.4 Approval of the sale of the Group's 24.5% interest in its associate, Devonport Management Ltd, was obtained from the Ministry of Defence on 26 June 2007, at which time this investment became held for sale. On 28 June 2007, the Group completed the sale of this investment for a total cash consideration of £86m, resulting in a gain on disposal of £57m, which has been credited to profit from discontinued operations. The carrying value of the investment at the date of sale was £27m. Costs associated with the disposal amounted to £2m.

7 Taxation

	2007 first half £m	2006 first half £m	2006 year £m
UK current tax	**6**	6	16
Foreign current tax	**5**	3	7
Deferred tax	**6**	2	12
	17	11	35
Exceptional items and amortisation of intangible assets	**(70)**	–	(1)
Total tax (credit)/charge	**(53)**	11	34

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

In addition to the Group tax charge above is £43m (2006: first half £15m, full year £26m) of tax charged directly to equity, comprised of current tax of £2m (2006: first half £2m, full year £8m), deferred tax of £43m (2006: first half £14m, full year £7m) and a credit in respect of joint ventures and associates of £2m (2006: first half £1m credit, full year £11m charge).

Corporation tax for the period is charged at 40% (2006: first half 39%, full year 39%), representing the best estimate of the weighted average annual applicable tax rates expected for the full financial year applied to the first half profits, based on profit before taxation, exceptional items and amortisation of intangible assets, excluding the results of joint ventures and associates.

8 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 profit for the period from discontinued operations includes the Group's share of the post-tax results of and management fees from DML of £3m (2006: first half £4m, full year £8m) and the profit on sale of the Group's interest in DML of £57m, after charging taxation of £nil. In the first half 2007, DML generated cash flows from investing activities of £2m (2006: first half £nil, full year £nil), excluding net proceeds of sale.

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 (£1m loss) shown under discontinued operations.

In the first half 2007, Metronet Rail BCV Holdings Ltd and Metronet Rail SSL Holdings Ltd recorded a result of £nil in share of results of joint ventures and associates, together with an exceptional impairment charge of £87m before taxation. In the Group's financial statements for the full year 2007, these will be included as discontinued operations, as a result of the appointment of a PPP Administrator to the concession companies on 18 July 2007.

9 Earnings per ordinary share

	2007 first half		2006 first half		2006 year	
	Basic £m	Diluted £m	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings						
– continuing operations	**1**	**1**	24	24	83	83
– discontinued operations	**59**	**59**	4	4	8	8
	60	**60**	28	28	91	91
Exceptional items	**(1)**		21		25	
Amortisation of intangible assets	**2**		–		1	
Adjusted earnings	**61**		49		117	
Comprising:						
– continuing operations	**59**		45		109	
– discontinued operations	**2**		4		8	
	61		49		117	

	2007 first half		2006 first half		2006 year	
	Basic m	Diluted m	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**429.1**	**432.2**	426.2	430.9	427.1	431.0

	2007 first half		2006 first half		2006 year	
	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
Earnings per ordinary share						
– continuing operations	**0.3**	**0.3**	5.6	5.6	19.3	19.1
– discontinued operations	**13.7**	**13.6**	0.9	0.9	1.9	1.9
	14.0	**13.9**	6.5	6.5	21.2	21.0
Exceptional items	**(0.2)**		4.9		5.9	
Amortisation of intangible assets	**0.4**		–		0.2	
Adjusted earnings per ordinary share	**14.2**		11.4		27.3	
Comprising:						
– continuing operations	**13.7**		10.5		25.4	
– discontinued operations	**0.5**		0.9		1.9	
	14.2		11.4		27.3	

The calculation of basic earnings is based on profit for the period 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 period. 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.

10 Dividends on ordinary shares

	2007 first half		2006 first half		2006 year	
	Per share Pence	Amount £m	Per share Pence	Amount £m	Per share Pence	Amount £m
Proposed dividends for the period:						
Interim 2006	**–**	**–**	3.9	17	3.9	17
Final 2006	**–**	**–**	–	–	5.2	22
Interim 2007	**4.6**	**20**	–	–	–	–
	4.6	**20**	3.9	17	9.1	39
Recognised dividends for the period:						
Final 2005		**–**		20		20
Interim 2006		**–**		–		17
Final 2006		**22**		–		–
		22		20		37

The interim 2007 dividend will be paid on 12 December 2007 to holders of ordinary shares on the register on 26 October 2007 by direct credit or, where no mandate has been given, by cheque posted on 10 December 2007 payable on 12 December 2007. These shares will be quoted ex-dividend on 24 October 2007.

11 PFI/PPP subsidiaries

The Group has a 100% interest in three PFI/PPP concessions through its shareholdings in Connect Roads Sunderland Holdings Ltd, Connect Roads South Tyneside Holdings Ltd and Connect Roads Derby Holdings Ltd. The performance of the wholly-owned PFI/PPP concessions and their balance sheets are summarised below:

	2007 first half £m	2006 first half £m	2006 year £m
Income statement			
Group revenue	**8**	6	14
Profit from operations	**–**	–	–
Investment income	**1**	1	1
Finance costs	**(1)**	(1)	(1)
Profit before taxation	**–**	–	–
Taxation	**–**	–	–
Profit for the period	**–**	–	–
Cash flow			
Profit from operations	**–**	–	–
Decrease in working capital	**–**	–	1
Income taxes paid	**–**	–	–
Net cash inflow from operating activities	**–**	–	1
Net cash outflow from investing activities	**(5)**	(3)	(7)
Net cash outflow from financing activities	**(1)**	–	(1)
Net cash outflow	**(6)**	(3)	(7)
Net borrowings at beginning of period	**(21)**	(14)	(14)
Net borrowings at end of period	**(27)**	(17)	(21)
Balance sheet			
PFI/PPP financial assets	**28**	20	22
Other net current assets	**2**	(1)	(1)
Non-recourse term loans	**(27)**	(17)	(21)
Net assets	**3**	2	–

12 Retirement benefit obligations

The following actuarial assumptions used in the IAS 19 valuations of the Group's principal defined benefit pension schemes have been updated from those used at 31 December 2006:

	2007 first half %	2006 first half %	2006 year %
Inflation rate	**3.30**	3.00	3.10
Discount rate	**5.85**	5.25	5.15
Future salary increases	**4.80**	4.50	4.60
Future pension increases	**3.30**	3.00	3.10

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

	2007 first half £m	2006 first half £m	2006 year £m
At beginning of period	**(288)**	(280)	(280)
Exchange adjustments	**–**	–	2
Service cost	**(26)**	(26)	(52)
Interest cost	**(59)**	(51)	(104)
Expected return on plan assets	**66**	58	117
Contributions from employer	**21**	18	36
Benefits paid	**–**	1	2
Actuarial gains and losses – assets	**(35)**	(42)	21
– liabilities	**161**	87	5
Businesses acquired	**–**	(2)	(35)
At end of period	**(160)**	(237)	(288)

13 Share capital

During the half-year ended 30 June 2007, 58,191 ordinary shares were issued following the exercise of savings-related share options and 858,837 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £2m.

During the half-year ended 30 June 2007, 2,125,000 preference shares were repurchased for cancellation by the Company for a total consideration of £3,385,509 at an average price of 159.3p.

14 Movements in equity

For the half-year ended 30 June 2007

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

For the half-year ended 1 July 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 period	–	–	–	–	31	–	(3)	28
Actuarial gains on retirement benefit obligations	–	–	–	–	1	–	45	46
PFI/PPP cash flow hedges								
– net fair value gains	–	–	–	–	25	–	–	25
PFI/PPP financial assets								
– fair value revaluation	–	–	–	–	(31)	3	–	(28)
Changes in fair value of net investment hedges	–	–	–	–	–	7	–	7
Currency translation differences	–	–	–	–	(3)	(4)	–	(7)
Tax on items taken directly to equity	–	–	1	–	1	(3)	(14)	(15)
Total recognised income for the period	–	–	1	–	24	3	28	56
Ordinary dividends	–	–	–	–	–	–	(20)	(20)
Joint ventures' and associates' dividends	–	–	–	–	(7)	–	7	–
Issue of ordinary shares	–	3	–	–	–	–	–	3
Buy-back of preference shares	–	11	(3)	–	–	–	(11)	(3)
Movements relating to share-based payments	–	–	–	–	–	–	(2)	(2)
Transfers	–	–	–	(3)	–	2	1	–
At 1 July 2006	214	40	16	172	199	10	(325)	326

Notes (continued)

14 Movements in equity continued

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								
– net fair value gains	–	–	–	–	32	–	–	32
PFI/PPP financial assets								
– fair value revaluation	–	–	–	–	(2)	–	–	(2)
Changes in fair value of net investment hedges	–	–	–	–	–	14	–	14
Currency translation differences	–	–	–	–	(7)	(10)	–	(17)
Tax on items taken directly to equity	–	–	1	–	(11)	(8)	(8)	(26)
Total recognised income for the year	–	–	1	–	85	(4)	46	128
Ordinary dividends	–	–	–	–	–	–	(37)	(37)
Joint ventures' and associates' dividends	–	–	–	–	(24)	–	24	–
Issue of ordinary shares	1	5	–	–	–	–	–	6
Buy-back of preference shares	–	12	(3)	–	–	–	(12)	(3)
Movements relating to share-based payments	–	–	–	–	–	2	(1)	1
Transfers	–	–	–	(6)	–	2	4	–
At 31 December 2006	215	43	16	169	243	5	(304)	387

15 Acquisitions

On 5 January 2007, the Group invested £30.1m in an investment vehicle, Regional & City Airport (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 for a 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 £6m cash acquired and provisional goodwill inherent in this transaction amounting to £42.7m. 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 an initial consideration of £3.1m, subject to adjustment to reflect the net assets acquired. The provisional fair value of net assets acquired was £1.2m and provisional goodwill arising was £1.9m. The provisional 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 a consideration of £191.0m, deferred consideration of £20.0m and costs of £1.5m. The provisional fair value of net assets acquired was £33.6m and provisional goodwill arising was £178.9m. The provisional 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 consideration of £0.5m and deferred consideration of £0.2m. The provisional fair value of net assets acquired was £0.7m and provisional 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 consideration of £2.4m, deferred consideration of £1.5m and costs of £0.2m. The provisional fair value of net assets acquired was £0.6m and provisional goodwill arising was £3.5m. The provisional goodwill recognised is attributable to the acquisition complementing the Group's US project and programme management business.

15 Acquisitions continued

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

	Balfour Beatty Construction (formerly Centex Construction)			Other			Total		
	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
Net assets acquired:									
Intangible assets – other	–	38	38	–	1	1	–	39	39
Property, plant and equipment	4	–	4	–	–	–	4	–	4
Assets held for sale	–	–	–	30	–	30	30	–	30
Working capital	(132)	(7)	(139)	1	–	1	(131)	(7)	(138)
Deferred taxation	–	2	2	–	–	–	–	2	2
Cash and cash equivalents	128	–	128	–	–	–	128	–	128
	–	33	33	31	1	32	31	34	65
Goodwill			179			5			184
			212			37			249
Satisfied by:									
Cash consideration			191			36			227
Costs incurred			1			–			1
			192			36			228
Deferred consideration			20			1			21
			212			37			249

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

The acquired businesses earned revenues of £305m and profit from continuing operations of £2m (after charging exceptional items of £1m and amortisation of intangible assets of £2m) in the period since acquisition.

During the first half 2007, £1m deferred consideration was paid in respect of acquisitions completed in earlier years.

16 Notes to the cash flow statement

16.1 Cash generated from operations comprises:

	2007 first half £m	2006 first half £m	2006 year £m
(Loss)/profit from operations – continuing	**(54)**	37	116
Trading (loss)/profit from discontinued operations	**(1)**	–	1
Share of results of joint ventures and associates	**(34)**	(27)	(56)
Depreciation of property, plant and equipment	**21**	21	43
Amortisation of other intangible assets	**3**	–	1
Impairment charges	**87**	17	16
Movements relating to share-based payments	**2**	2	4
Profit on disposal of property, plant and equipment	**(1)**	(1)	(1)
Operating cash flows before movements in working capital	**23**	49	124
Decrease in working capital	**158**	84	93
Cash generated from operations	**181**	133	217

16.2 Cash and cash equivalents comprise:

	2007 first half £m	2006 first half £m	2006 year £m
Cash and deposits	**218**	113	142
Term deposits	**263**	268	181
Bank overdrafts	**–**	–	(15)
	481	381	308

16.3 Analysis of net cash:

	2007 first half £m	2006 first half £m	2006 year £m
Bank overdrafts	**–**	–	(15)
Other short-term loans	**–**	(27)	(1)
Finance leases	**(1)**	(1)	(1)
Other borrowings	**(1)**	–	(1)
Cash and deposits	**218**	113	142
Term deposits	**263**	268	181
	479	353	305
PFI/PPP non-recourse project finance – Sterling floating rate term loan (2008–2027)	**(19)**	(15)	(17)
– Sterling floating rate term loan (2011–2030)	**(6)**	(2)	(4)
– Sterling floating rate term loan (2012–2031)	**(2)**	–	–
Net cash	**452**	336	284

16.4 Analysis of movement in net cash:

	2007 first half £m	2006 first half £m	2006 year £m
Opening net cash	**284**	301	301
Net increase/(decrease) in cash and cash equivalents	**172**	68	(2)
Acquisitions – borrowings at date of acquisition	**(35)**	(1)	(2)
Businesses sold – borrowings at date of disposal	**35**	–	–
New loans	**(6)**	(30)	(35)
Repayment of loans	**1**	–	27
Finance lease principal repayments	**–**	1	1
Exchange adjustments	**1**	(3)	(6)
Closing net cash	**452**	336	284

17 Post balance sheet events

On 17 July 2007, the Group acquired Carillion Rail Sverige AB, a Swedish rail contracting company, for a cash consideration of approximately SEK37m.

On 17 July 2007, the Group acquired Chris Britton Consultancy Ltd, a UK consulting engineering company, for a cash consideration of approximately £3m.

On 18 July 2007, Metronet Rail BCV Ltd and Metronet Rail SSL Ltd went into PPP Administration (see Note 8).

On 31 July 2007, the Group acquired the business and assets of NAP Partnership LLP, a UK cost and contract consultancy, for a cash consideration of approximately £4m.

Independent review report to Balfour Beatty plc

Introduction

We have been instructed by the Company to review the financial information for the half-year ended 30 June 2007 which comprises the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow statement and the related Notes 1 to 17. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the half-year ended 30 June 2007.

Deloitte & Touche LLP
Chartered Accountants
London
14 August 2007

Our accounts

A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Shareholder information

Financial calendar

	2007
24 October	Ex-dividend date for interim 2007 ordinary dividend
26 October	Interim 2007 ordinary dividend record date
21 November	Final date for receipt of DRIP mandate forms (see below)
21 November	Ex-dividend date for January 2008 preference dividend
23 November	January 2008 preference dividend record date
12 December	Interim 2007 ordinary dividend payable

	2008
1 January	Preference dividend payable
5 March*	Announcement of 2007 full year results
May*	Annual General Meeting

*Provisional dates

Registrar and transfer office

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

The Balfour Beatty plc Registrar
Computershare Investor Services PLC
PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
Telephone 0870 702 0122 or by email to: web.queries@computershare.co.uk
or visit www.computershare.com/investor/uk

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

Computershare's Investor Centre also allows you to view your shareholding and update your address and payment instructions online. You can register at www.computershare.com/investor/uk. In order to register, you need your shareholder reference number, which you can find on your share certificate or tax voucher.

Dividend mandates

If you wish dividends to be paid directly into your bank or building society account, you should contact the Registrars for a dividend mandate form.

Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Information about Balfour Beatty's Dividend Reinvestment Plan ("DRIP") can also be obtained from the Registrars.

The interim dividend for 2007 will be paid on 12 December 2007. If you have already elected to join the DRIP, then you need take no further action. If you wish to join the DRIP, then you should apply online at www.computershare.com/investor/uk or, alternatively, you can complete a mandate form and return it to the Registrars. If you do not have a DRIP mandate form, please contact the Registrars. The Registrars must receive your completed mandate by no later than 21 November 2007 in order to participate in the DRIP for this dividend. Applications received by the Registrars after that date will be effective for the following dividend.

If you hold your shares in uncertificated form in the CREST system, you may elect to participate in the DRIP by means of the CREST procedures that require the use of the Dividend Election Input Message in accordance with the CREST Manual.

Shareholder information on the internet and electronic communications

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

Computershare Investor Services PLC have introduced a facility enabling Balfour Beatty shareholders to access details of their shareholding over the internet subject to complying with an identity check. You can access this service via the shareholder information section of the Balfour Beatty website at www.balfourbeatty.com. You can also obtain information on recent trends in Balfour Beatty's share price.

Balfour Beatty actively supports eTree, a programme designed to promote shareholder communication through electronic means rather than paper, by rewarding every shareholder who switches with a sapling to be planted on behalf of the Woodland Trust's Tree for All campaign. To register, or to find out more, please visit www.etreeuk.com/balfourbeatty. This service enables you to save paper, contribute to a better environment and give a child the chance to plant a tree.

In order to receive shareholder communications such as notices of shareholder meetings and the annual report and accounts electronically rather than by post, you need to register your details at www.etree.uk.com/balfourbeatty.

Unsolicited mail or telephone calls

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

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

In addition, it has come to our attention that in the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the Company.

If you receive any unsolicited investment advice:

- make sure that you obtain the correct name and address of the person and the organisation;
- check that they are properly authorised by the Financial Services Authority ("the FSA") before getting involved. You can check at www.fsa.gov.uk/register;

- the FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted UK investors, and any approach from such organisations should be reported direct to the FSA Consumer Helpline (Telephone: 0845 606 1234) so that this list can be kept up to date and any other appropriate action can be considered. Alternatively, you can report such approaches online via the FSA's website at www.fsa.gov.uk/Pages/Doing/Regulated/Law/Alerts/form.shtml. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. More detailed information on this or similar activity can be found on the FSA website at www.moneymadeclear.fsa.gov.uk. You should also report any approach to Operation Archway, an initiative by the City of London Police which combines the resources of the FSA, the Serious Fraud Office, the Serious Organised Crime Agency and every police force in the UK: email operationarchway@city-of-london.pnn.police.uk.

Identity theft

Identity theft has become a growing concern within financial services and poses an increasing threat to investors, including individual shareholders who are at particular risk from this type of fraud. Criminals may steal your personal information, putting your shareholding at risk. You may therefore wish to take the following precautions:

- ensure that all of your share certificates are kept securely in a safe place or hold your shares electronically in CREST via a nominee;
- keep all correspondence from the Registrars which shows your shareholder reference number securely in a safe place, or destroy correspondence by shredding. You should only divulge your shareholder reference number if requested to do so by the Registrars or an appropriate professional adviser eg your stockbroker or solicitor;
- if you use the Registrars' services via their website, you should ensure that your username and password are kept confidential at all times. Never respond to an email asking you to disclose your online password information;
- if you change address, please inform the Registrars. If you receive a letter from the Registrars regarding a change of address and have not recently moved, please contact them immediately. You may be a victim of identity theft;
- make sure that you know when the Company pays its dividends and consider having them paid directly into your bank or building society account through BACS, if you have not already done so. This will reduce the risk of your cheque being intercepted or lost in the post. If you change your bank or building society account, please inform the Registrars of the details of your new account. If, for example, a dividend payment or share certificate is late, please telephone the Registrars immediately and check the address to which it has been sent. Please respond to any letters that the Registrars send you about any of these issues;
- if you are buying or selling shares, only deal with brokers registered in your country of residence or the UK.

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports. Any shares that you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £10m has been given to more than 1,200 charities. The relevant share transfer form may be obtained from the Registrars; further information about the scheme is available from the ShareGift Internet site www.ShareGift.org.

Share dealing services

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

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

Alternatively, Hoare Govett Limited also offers a low-cost, execution-only, postal share dealing service for UK resident individuals. Further details can be obtained from:

Hoare Govett Limited (LCSD)
250 Bishopsgate, London EC2M 4AA
Telephone: 020 7678 8300

Both JPMorgan Cazenove Limited and Hoare Govett Limited are authorised and regulated by the Financial Services Authority.

Share price

The Balfour Beatty share price can be found at the Balfour Beatty website at www.balfourbeatty.com and in the appropriate sections of national newspapers under the classification "Construction and Building Materials". It is also available on Ceefax and Teletext and a number of personal finance websites on the Internet. Historic share prices are available from the library at Hoare Govett. Telephone: 020 7678 7556.

The London Stock Exchange Daily Official List (SEDOL) codes are:
Ordinary shares: 0096162
Preference shares: 0097820

The London Stock Exchange "ticker" codes are:
Ordinary shares: BBY
Preference shares: BBYB

Capital gains tax

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

Enquiries

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

Balfour Beatty

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