

Balfour Beatty

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INFRASTRUCTURE**

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Our business

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Balfour Beatty

The creation and care of essential assets

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The full Annual report and accounts 2008 comprises this Directors' report and accounts together with the Annual review 2008. Copies of both documents may be obtained, free of charge, by writing to Capita Registrars, at the address on the inside back cover, and are also available on the Group's website at www.balfourbeatty.com

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Why not view our online Annual review 2008 at:
www.balfourbeatty.com/bby/investors/reports/

Our business – Introduction

We operate in a world where quality, exceptional service, a strong safety record, technical expertise and a trusted brand are real differentiators.

Balfour Beatty is focused on **Engineering and Construction, Professional and Support Services** and **Investments**.

A key strength is the breadth of capability we bring to major infrastructure projects that often require an integrated approach.

We continually assess what our customers want, and deliver it.

Balfour Beatty produced another excellent financial performance in 2008, together with further progress in the Group's strategic development. We are strong both operationally and financially. Our scale and the resilience of our business model will serve us well in this difficult economic environment. The majority of our work is in partnership with public sector and regulated customers, who are long-term investors in infrastructure.



Ian Tyler Chief Executive

Group performance

Our performance demonstrates the resilience of our business model

Strong growth in profits* and earnings*

Average net cash in the year of £239m

Order book of £12.8bn at year-end

Recent acquisitions performing well

Dividend increase of 11%

*Before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations in adjusted earnings per share in 2007.

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Financial review

The Financial review covers the topics shown below. Additional information can be found elsewhere in the Annual review 2008 as indicated.

| Topic | Additional information |
|---|--|
| Group trading performance | See Annual review 2008 pages 26 to 43 for more detailed comments on performance by segment. |
| Group cash flow performance | More detailed analysis on the movements in net cash are shown in Note 36. |
| Group balance sheet and capital structure | A key part of the Group's balance sheet is the investment in PPP concessions, which is dealt with in detail on pages 6 to 8. |

Group trading performance

Results for the year

| | 2008 | 2007 | Percentage increase |
|--|---------|---------|---------------------|
| Revenue including joint ventures and associates* | £9,486m | £7,488m | +27% |
| Group revenue* | £8,261m | £6,466m | +28% |
| Pre-tax profit from continuing operations | | | |
| – before exceptional items and amortisation | £249m | £201m | +24% |
| – after exceptional items and amortisation | £270m | £157m | +72% |
| Earnings per share | | | |
| – adjusted** | 39.9p | 35.0p | +14% |
| – basic | 42.9p | 35.1p | +22% |

* Continuing operations.

** Before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations in 2007.

2008 has been an extraordinary year for the world economy. In the early part of the year, there were concerns over the level of inflation driven in part by the price of oil and commodities. The risk of inflation receded to be replaced by concerns over the stability of the banking sector, and the year ended with concerns over deflation and recession.

Through this period we have demonstrated the resilience of the Group's business model and in particular the conservative management of its balance sheet. The lack of debt has seen the Group end the year in a very strong position.

2008 was a year of very good progress across the Group. Revenue in 2008 from continuing operations, including the Group's share of the revenue of joint ventures and associates, was £9,486m (2007: £7,488m), an increase of 27%, of which half was attributable to acquisitions. Profit from operations before exceptional items and amortisation of intangible assets increased from £178m to £230m (29%).

Pension charges of £73m (2007: £71m) have been made to the income statement in accordance with IAS 19, including a service charge of £38m (2007: £47m) for the defined benefit section of the Balfour Beatty Pension Fund. In 2008, to help show true underlying trading performance movements, the net of the expected return on pension assets and the interest cost of £5m (2007: £13m) is now shown within investment income, leaving only the service charge within profit from operations. The figures for 2007 have been re-presented on the same basis.

Investment income, net of finance costs, reduced from £23m in 2007 to £19m in 2008, before exceptional items. An increase in interest income from net investment hedging of £6m was more than offset by a reduction of £8m in the net return on pension scheme assets and liabilities.

The Directors expect a further reduction in net investment income in 2009, as a result of a reduced pension return, a reduction in our hedging programme and lower interest rates.

Pre-tax profit before exceptional items and amortisation increased from £201m to £249m (24%).

The accounting policies used by the Group are outlined in Note 1 to the financial statements, and there have been no changes to these policies in the year. The presentation of pension costs has changed in the year, and this is explained below.

| | |
|--------------------------|---|
| Treasury risk management | The Financial review largely focuses on treasury related risk matters. A broader description of the Group's principal risks and risk management is included on pages 9 to 10. |
| Going concern | To appreciate the prospects for the Group as a whole, the complete Annual report and accounts 2008 needs to be read, with particular reference to Notes 21 and 24. |

Exceptional items

The Group has recorded a net exceptional gain after tax of £33m (2007: £7m). The single biggest component of this was a £60m gain from a reduction in past service pension liabilities in certain sections of the Balfour Beatty Pension Fund. This resulted from measures to limit future increases in salary used for defined benefit pension purposes. This change is part of the work being performed to manage the impact on the Group of the liabilities that arise from the pension schemes.

During the year £6m of reorganisation costs were incurred, largely resulting from the acquisition and integration of businesses.

The tax impact of these items is a net charge of £15m, in addition to which there was a one-off write-off of deferred tax balances of £6m in the year, as a result of changes in tax legislation from the 2008 Finance Act relating to the phased withdrawal of industrial building allowances.

Taxation

The Group's effective tax rate in 2008 was 38% (2007: 39%) of profit from continuing operations before taxation, exceptional items and amortisation of intangible assets, excluding the Group's share of the results of joint ventures and associates. Eliminating the finance cost of the preference shares which does not attract tax relief, the Group's effective tax rate would be 36% (2007: 36%). The benefit of lower UK tax rates has been offset by an increase in the proportion of profits from higher tax countries, notably the US.

Earnings per share

Adjusted earnings per ordinary share increased by 14% to 39.9p (2007: 35.0p). The percentage increase in EPS was less than the increase in profit before tax due principally to the impact of the shares issued in May 2008.

Cash flow performance

Cash flow performance in the year was again strong with cash generated from operations of £297m (2007: £277m) exceeding profit from operations of £251m (2007: £136m).

In the year, we used some of the Group's cash resources to continue to grow the business, and in particular continued to acquire businesses which had a good fit with our strategic objectives.

| Strategic objective | Segment | Acquisition | Consideration £m |
|---|-------------------|----------------------|------------------|
| UK regional contracting | Building & Civils | Dean & Dyball | 46 |
| Non-PPP and overseas | Investments | Blackpool Airport | 3 |
| PPP investments | | GMH Military Housing | 180 |
| Professional services and Domestic expansion outside UK | Building | Barnhart | 63 |
| Domestic expansion outside UK | Rail | Schreck-Mieves | 25 |
| | Various | Other | 16 |
| | | Total | 333 |

Financial review

The acquisition of Balfour Beatty Communities (formerly GMH Military Housing) in April 2008 for £180m resulted in the Group's net cash balance reducing substantially, following which we raised £182m of equity in May 2008.

The Company has agreed with the trustees of the Balfour Beatty Pension Fund to make deficit payments of £17m per year until April 2013. As the agreement was back dated to the date of the last valuation, being 31 March 2007, the total deficit payments in 2008 were £29m. Deficit payments for other funds during 2008 were £9m (2007: £10m in total).

Average cash in the second half of the year was £254m, although the Group's net cash at 31 December 2008 was significantly in excess of that at £440m (2007: £374m), before taking into account the consolidation of £143m (2007: £61m) of non-recourse net debt held in wholly-owned PPP project companies.

The year-end position benefited from favourable movements in exchange rates from holding significant cash balances in the US in US dollars, although as the US dollar cash position is broadly hedged, this will be offset, assuming exchange rates stay at the year-end level, by a £70m outflow in September 2009 when the hedges mature.

Balance sheet and capital structure

Goodwill and intangibles

As noted above, total consideration on acquisitions in the year amounted to £333m. Goodwill arising on these acquisitions amounted to £144m, and a further £137m of intangible assets were recognised in respect of brand names and customer contracts and relationships. As a result, and after exchange adjustments, the goodwill on the Group's balance sheet at 31 December 2008 increased to £975m (2007: £694m) and other intangible assets to £223m (2007: £59m).

Impairment reviews have been carried out, and none of the goodwill has been impaired. Details of the calculations and assumptions are shown in Note 13.

Charges for the amortisation of intangible assets have increased to £27m (2007: £9m) due to the impact of acquisitions, with a related tax credit of £7m (2007: £3m).

Public Private Partnerships (PPP)

During 2008, the Group invested £12m in a combination of equity in and shareholder loans to Balfour Beatty Capital's PPP project companies. At 31 December 2008, the Group had invested a total of £156m in equity and subordinated loans to its 26 continuing PPP project companies and had committed to provide a further £89m over the period 2009 to 2012. The Group has also been appointed preferred bidder for a further four PPP projects to which it is expected at financial close to commit to provide approximately £98m funding.

At 31 December 2008, the Group's share of non-recourse net debt within Balfour Beatty Capital's continuing PPP project companies amounted to £1,511m (2007: £1,418m), comprising £1,368m (2007: £1,357m) in relation to joint ventures and associates as disclosed in Note 16.2 and £143m (2007: £61m) on the Group balance sheet in relation to wholly-owned project companies as disclosed in Note 24.1.

The Group's share of the results of the military housing PPP concessions of Balfour Beatty Communities is contractually limited to a maximum pre-agreed level of return on funds invested, which is shown under the equity method of accounting within joint ventures and associates. The Group's investment in those concessions is recorded on the balance sheet at the initial equity investment plus the value of the Group's accrued preferred return. The fee income which is the bulk of the return earned by the Group from these concessions is included within Group operating profit.

The Directors have carried out a valuation of the Group's PPP concessions, including the military housing PPP concessions of Balfour Beatty Communities, and this is set out on pages 6 to 8.

Infrastructure investments

In 2008, the Group added to its existing non-PPP infrastructure investment portfolio, comprising the Group's 25.5% interest in Barking Power and 60% stake in Exeter International Airport, by purchasing a 95% stake in Blackpool

International Airport. At 31 December 2008, the Group's share of non-recourse net debt in relation to these investments amounted to £20m (2007: £24m), as disclosed in Note 16.2.

Pensions

The Group's balance sheet includes aggregate deficits of £261m (2007: £286m) for the Group's pension funds based on the assumptions set out in Note 26.1. The Group recorded net actuarial losses for 2008 on those funds totalling £62m (2007: £1m loss), with the effects of the higher discount rates applied to the funds' liabilities countered by worse than expected returns on the assets held by the funds.

The last formal actuarial valuation of the Balfour Beatty Pension Fund was carried out at 31 March 2007 and showed a funding position of 96%. A formal actuarial valuation of the Railways Pension Scheme was carried out at 31 December 2004 and showed a funding position of 92%. Formal actuarial valuations of the Mansell schemes were carried out at 31 March 2005 and 31 July 2005 for the Hall & Tawse Retirement Benefit Plan and the Mansell plc Pension Scheme and showed funding positions of 79% and 78% respectively.

Note 26 includes a sensitivity analysis which identifies the impact on the profit and loss account and the balance sheet from changes in the assumptions.

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Equity raising

In May 2008, the Company successfully placed 43.3m shares at a price of 430p, raising £182m of cash. This equated to just under 10% of the Company's issued ordinary share capital. This resulted in the total number of ordinary shares in issue at the end of the year being 478m (2007: 433m) and the average number of shares in the year being up 6% at 458m (2007: 430m).

Dividend policy

Balfour Beatty aims to grow the dividend broadly in line with the growth in earnings, taking into account the investment needs of the business. The Board has recommended a final dividend of 7.7p in respect of 2008, giving a full-year dividend of 12.8p (2007: 11.5p), up 11% on last year. Underlying dividend cover for 2008 is 3.1, similar to the cover of 3.0 last year.

Treasury risk management

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

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

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

Finance and liquidity risk

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

Balfour Beatty's cash and liquid investments comprise cash, term deposits and the use of money market liquidity funds.

Additionally, the Group has a series of bilateral facilities which total £404m, the majority of which mature in 2012. The purpose of these facilities is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities.

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Treasury counterparty risk

Treasury counterparty risk is monitored regularly and mitigated by limiting deposits in value and duration to reflect the credit rating of the counterparty.

Contract bonds

In the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities (commonly referred to as "bonds"). Such bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from Balfour Beatty plc. As at 31 December 2008, contract bonds in issue by financial institutions covered £3.7bn (2007: £2.1bn) of contract commitments of the Group.

Currency risk

The following exchange rates were applied in the preparation of the accounts:

Average rates

| £1 buys | 2008 | 2007 | Change |
|---------|------|------|--------|
| USD | 1.86 | 2.00 | (7)% |
| EUR | 1.26 | 1.46 | (14)% |

Closing rates

| £1 buys | 2008 | 2007 | Change |
|---------|------|------|--------|
| USD | 1.46 | 1.99 | (27)% |
| EUR | 1.05 | 1.36 | (23)% |

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The Group's businesses manage their known foreign currency transactional exposures by taking out forward foreign exchange contracts through Group Treasury. The Group has decided not to adopt hedge accounting for its foreign currency transactional exposures except where the exposure is in excess of pre-set materiality limits in which case a decision is made as to whether to hedge account or not. As a result, there was a charge to profit of £3m which would otherwise have been charged directly to equity.

The Group also faces currency exposures on the translation into sterling of the profits of overseas subsidiaries and associates, primarily in the US and Europe, and on its overseas trading transactions. Balfour Beatty does not hedge these profit translation exposures as these are an accounting rather than cash exposure. However, the effect of volatile short-term currency movements on profits is reduced because the Group accounts for currency profits using average exchange rates.

In addition the Group is exposed to currency exposures from translation of the net assets of overseas subsidiaries and associates. Balance sheet translation exposure can be managed by matching net assets denominated in currencies other than sterling by way of forward foreign exchange contracts. The hedging policy is reviewed periodically to consider the potential cash effect of the hedging programme against the potential effect that the movement in currencies can have on the Group's net assets, and the level of hedging is adjusted accordingly. Given the growth in the Group's net assets and the additional focus on cash due to the economic climate the level of hedging in 2008 was reduced. As at 31 December 2008 approximately 45% of the US dollar denominated net assets were hedged (2007: 81%), and none of the Euro denominated assets (2007: 81%). The level of US dollar hedging broadly equated to the level of US dollar cash balances that were held.

Interest rate risk

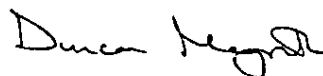
The Group has no significant borrowings (excluding PPP non-recourse term loans). Group policy is for PPP concessions to use interest rate swaps to swap floating rate borrowings to fixed rates to mitigate the risk of changing interest rates on the project cash flows. The Group's deposits (excluding PPP guaranteed investment contracts) earn interest at variable rates and are short-term in nature.

Going concern

In reviewing the future prospects of the Group the following factors are relevant:

- the Group has a strong order backlog, and good forward visibility;
- growth in the business is expected to continue to generate additional cash through cash backed profit; and
- the Group had in excess of £400m net cash at 31 December 2008, in addition to which it had undrawn committed facilities in excess of £400m, of which £279m last through until the fourth quarter of 2012.

Based on the above, and having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the accounts.



Duncan Magrath Finance Director

Directors' valuation of PPP concessions

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Movement in value 2007/2008 (£m)

| | 2007 | Equity invested | Distributions | Unwind of discount | Rebased | New project wins | Acquisitions | Operational performance gains | 2008 (excl FX) | FX translation | 2008 | Growth (excl FX) |
|---------------------------------------|-------------|--------------------|---------------|-----------------------|------------|------------------------|--------------|-------------------------------------|-------------------|-------------------|------------|---------------------|
| Balfour Beatty Capital | 306 | 11 | (27) | 27 | 317 | 32 | 1 | 10 | 360 | — | 360 | 13.6% |
| Balfour Beatty Communities | 123* | 8 | (18) | 10 | 123 | 1 | 15 | 6 | 145 | 51 | 196 | 17.9% |
| Total | 429 | 19 | (45) | 37 | 440 | 33 | 16 | 16 | 505 | 51 | 556 | 14.8% |

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Balfour Beatty Capital restated 2007 Directors' valuation

| | 2007 Directors' valuation | Unwind PB discount | 2007 Directors' valuation no PB discount | Move to 8.0% discount rate | Restated 2007 Directors' valuation | Move to 8.0% discount rate | 2007 Alternative valuation post tax | Move to post shareholder tax | 2007 Alternative valuation |
|-------------------------------|---------------------------------|-----------------------|---|----------------------------------|---|----------------------------------|--|------------------------------------|----------------------------------|
| Balfour Beatty Capital | 299 | 3 | 302 | 4 | 306 | (93) | 399 | (67) | 466 |

Introduction

Balfour Beatty's PPP concession portfolio has grown both organically and through acquisition to become a very significant part of the Group's business and a major driver of shareholder value. At 31 December 2008, Balfour Beatty had total committed equity and subordinated debt of £516m across 47 projects (29 UK, 17 US and 1 Singapore), four of which were at preferred bidder stage. At that date, £302m had already been invested and £214m is due over the next six years. The accounting book value of PPP investments at 31 December 2008 was £295m (2007: £209m).

In order to provide an indicator of value, Balfour Beatty publishes its own valuation benchmark for the Group's PPP investments, based on discounting expected future cash flows ("DCF valuation") but without taking into account potential refinancing gains. The valuations do not include Balfour Beatty's non-PPP infrastructure investments in Barking Power, Exeter International Airport and Blackpool International Airport.

Directors' valuation

At 31 December 2008, the Directors' valuation of Balfour Beatty's PPP concession portfolio stood at £556m, at a post-tax nominal discount rate of 8.0% (2007: £306m). The movement in value arises principally through the acquisition on 30 April 2008 of Balfour Beatty Communities (formerly GMH Military Housing). In addition, shareholder cash inflows and outflows during the year, acquisitions, project wins, operational performance gains and underlying growth in the portfolio arising from the unwinding of the discount from year to year also had an effect.

The Directors' valuation incorporates all future distributions to equity and repayment thereof, interest and principal payments on shareholder subordinated debt and fees payable to shareholders from projects that have either reached financial close or are at the preferred bidder stage. The DCF valuation does not take into account profits made by other Balfour Beatty Group companies that perform the construction, maintenance or facilities management services associated with the projects.

Acquisition of Balfour Beatty Communities

Balfour Beatty acquired Balfour Beatty Communities on 30 April 2008 for consideration of £177m (\$350m). This comprised working capital £7m (\$13m), the existing portfolio and preferred bidder projects £123m (\$244m) (including related tax benefit of £26m (\$51m)), and £47m (\$93m) for the ability of the management team to win future projects (the "Pipeline"). The Directors' valuation of the Balfour Beatty Communities portfolio at 31 December 2008 of £196m (\$286m) represents only the closed and preferred bidder projects acquired, plus post acquisition movements. All projects involve the simultaneous transfer of responsibility for existing housing stock and commencement of construction activity at financial close and are therefore classified as operations.

Balfour Beatty Communities holds a market leading position in the US military housing sector for married personnel ("MPH") and derives its income both from fees associated with managing construction and operations and from returns on equity and debt capital. The value at acquisition attributed to the future Pipeline projects, but not included in the Directors' valuation, reflects the company's ability to secure further projects in the MPH sector as well as leveraging its market leading position to secure projects in the developing unaccompanied personnel military housing sector ("UPH") and into the US PPP market generally.

The valuation method

The valuation does not set out to estimate the market value of the investments in the portfolio, but rather, through the application of a consistent methodology, illustrates movements in underlying values between periods and highlights the impact of intervening transactions. The valuation covers 43 concessions that have reached financial close and a further four at preferred bidder stage.

DCF

The method used to value the PPP concession portfolio is discounted cash flow ("DCF"). This is applied to the future forecast cash flows to which Balfour Beatty as a shareholder and a holder of subordinated debt is entitled in order to create a net present value. DCF has been used on all the investments. For projects which have reached financial close, forecast future cash flows are extracted from detailed financial models, updated in line with operational experience and lenders' requirements. For projects at preferred bidder stage, the current financial model has been used.

Discount rate

In order to simplify the valuation methodology, and to align the valuation more readily with market benchmarks, the Directors have adopted a single discount rate of 8.0% nominal post shareholder tax to value the portfolio of closed and preferred bidder projects. The Directors' valuation of Balfour Beatty Capital's portfolio at 31 December 2007 of £299m restated for this approach consequently increases to £306m as at that date. The Directors' valuation of Balfour Beatty's PPP concession portfolio is sensitive to the discount rate adopted. The valuations for a range of discount rates are shown on page 8.

Shareholder tax

Balfour Beatty receives a number of cash flow streams from its investments. Most, but not all, of these cash flows are subject to tax upon receipt by the Balfour Beatty Group. The Directors' valuation takes into account these cash flows after the imposition of taxation upon the Group and thus uses a post tax discount rate. The post tax discount rate of 8.0% used in the Directors' valuation equates to a discount rate of 10.3% (9.4% for Balfour Beatty Capital and 12.5% for Balfour Beatty Communities) were the value of the cash flows to be reported before the imposition of Group taxation, a methodology also currently used in the marketplace.

Operational performance gains

In 2008, operational performance gains arise principally from operational improvements identified leading to a revision of the future cost and/or revenue forecasts.

Translation gain

The USD exchange rate on 30 April 2008, the acquisition date of Balfour Beatty Communities, was 1.98. At 31 December 2008 the exchange rate was 1.46, generating an unrealised gain on translation relating to the Balfour Beatty Communities portfolio valuation of £51m. Of the Balfour Beatty Capital portfolio of 30 projects, one project, ITE West in Singapore, has non GBP denominated cash flows. The unrealised translation gain on the value of ITE West is immaterial and does not register in the movement analysis. The values of Balfour Beatty Communities and the ITE West project are included in the Directors' valuation as at 31 December 2008 at the exchange rates prevailing on that date.

The values shown as at 31 December 2008 for equity committed of £516m and equity invested of £302m include the acquired Balfour Beatty Communities portfolio of £123m (\$244m) together with equity contributed during the year at the exchange rate applicable at the acquisition date of 1.98. A further £27m (\$39m) of future equity commitments for Balfour Beatty Communities have been translated into sterling at the 31 December 2008 exchange rate of 1.46. In addition, the movement in value analysis for Balfour Beatty Communities between years has been translated at an exchange rate of 1.98; the movement between that rate and the year-end exchange rate is shown separately as FX translation.

Assurance

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

Directors' valuation of PPP concessions

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Principal risks and risk management

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

As referred to in the Directors' report, under the heading "Risk management" on page 15, a Group-wide risk management system underpins and assists in the delivery of this principle.

The system is founded upon a process that drives perceived opportunities and risks progressively, against formal impact and likelihood rating criteria, up through the management chain for review and challenge.

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

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

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

Risk management process

| | | | | | |
|---------------------------------|--|--|--|--|------------------------------------|
| Business objectives are defined | Opportunities and risks are identified | Benefits and risks are assessed and quantified | Action plans are developed to mitigate risks | Risk mitigation delivery is reviewed on an ongoing basis | Periodic reviews up to Board level |
|---------------------------------|--|--|--|--|------------------------------------|

Principal risks and risk management

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

| Risk group | Type of risk |
|-----------------------------|--|
| External | <ul style="list-style-type: none"> Economic environment Increased customer expectations Commercial counterparty solvency Legal and regulatory |
| Strategic | <ul style="list-style-type: none"> Bidding Joint venture Acquisition Investment |
| Organisation and management | <ul style="list-style-type: none"> Growth People Business conduct Information technology Information security |
| Financial and treasury | <ul style="list-style-type: none"> Treasury risk management Finance and liquidity Treasury counterparty Contract bonds Currency Interest rate Pension |
| Delivery and operational | <ul style="list-style-type: none"> Performance Supply chain Health, safety and environmental |

External risks

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

Economic environment

The Group has a broad exposure to infrastructure markets across its various operating companies. A significant proportion of the Group's revenue flows from contracts founded upon government policy and/or public funding. The current economic environment may cause some customers to delay or postpone their capital investment and asset maintenance plans which would then impact the Group's order book. The breadth of the Group's

exposure to infrastructure markets mitigates the risk of changes in government/regulated entities' expenditure policy in any one market.

The difficult economic environment has also seen increased competition in tenders for work in some private markets and has also resulted in challenges in completing project financing.

Increased customer expectations

Customers are increasingly demanding the provision of an integrated approach to the delivery of infrastructure projects. The Group has specialist operating companies which support cross-Group activities and provide customers with management of the delivery of those services.

Commercial counterparty solvency

The Group's financial exposure to any of its major customers, subcontractors and suppliers is mitigated by rigorous checks on their financial strength prior to the signing of contracts. To the extent possible, the Group seeks to ensure that it is not over-reliant on any one counterparty.

Legal and regulatory

The Group operates in a diverse number of territories and its businesses are therefore subject to a number of complex, demanding and evolving legal and regulatory requirements. In addition to ensuring rigorous compliance with existing regulations, the Group continually monitors and responds to legal and regulatory developments.

Strategic risks

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

Bidding

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

Joint venture

Joint ventures are formed for contracts where to do so will strengthen the quality of the bid and prospects of delivering a contract successfully.

Principal risks and risk management

Procedures are in place to ensure that joint venture partners bring skills, experience and resources that complement and add to those provided from within the Group.

Acquisition

The Group seeks to identify, in alignment with its strategy, a small number of acquisitions in defined sectors. Group management project manages the due diligence, with operating companies drawing on their own resources and those from other parts of the Group, in order to ensure that the most appropriate personnel, with relevant experience and knowledge, conduct the detailed due diligence. Where necessary, specialist external resources are engaged.

Post-acquisition integration is closely managed, drawing on the detailed due diligence material and integration tracker system for each functional activity, with reviews conducted formally at prescribed periods following the acquisition. As the Group grows, it recognises that acquisitions may bring new approaches to opportunity and risk management from which the Group can learn and these are considered as part of regular improvement reviews.

Investment

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

Organisation and management risks

As the Group grows, it responds to the challenges this brings to its organisational and management structures, in particular:

Growth

The recent and sustained pace of growth of the Group has acted as a catalyst for a number of targeted reviews of the Group's organisation and management structure. Where the results of such reviews indicate a need for changes, these are made promptly, with the allocation of suitably experienced and qualified staff.

People

The retention and recruitment of staff is a key challenge for a business which is growing both organically and by acquisition. Defined recruitment and remuneration processes exist at a local level and are centrally co-ordinated to ensure that the Group is competitive and continues to attract the best candidates.

As part of its overall talent management process the Group has well developed succession planning procedures which have ensured that high calibre management is developed and successfully retained within the Group to fill key roles as they arise. In addition, where appropriate, the Group seeks to complement and supplement its existing talent pool with selected strategic hires from outside the Group.

Business conduct

The Group expects the highest standards of integrity and conduct from all its employees in their dealings with customers, suppliers and other stakeholders. The Group's "Business Conduct Guidelines" and "Stakeholder Codes of Practice" clearly set out a framework of behaviour expected by the Group of its employees and operating companies. The Group is carrying out a review of its existing codes of practice to ensure they are consistent with best practice. More details are given in the Corporate responsibility statement on page 45 of the Annual review 2008.

Information technology

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

Information security

In common with most large organisations, the Group is exposed to potential information security threats and consequently takes active steps to protect both its customers' and partners' as well as its own information and systems from loss or compromise. The Group currently has an initiative in progress to upgrade further its capabilities in this area, following an independent third-party review to identify areas where already effective protection may be strengthened.

Financial and treasury risks

The Financial review from page 3, together with Note 21 to the accounts, addresses the Group's financial and treasury risks.

Pension

The Group's pension deficit in respect of its defined benefit schemes is subject to changes in market conditions and increasing longevity assumptions. The assets of the schemes are managed in the light of updated liability assumptions. In addition, specific steps have been taken during the year to restrict certain future increases in the principal defined benefit scheme's liabilities and these are detailed on page 3 of the Financial review and in Note 26 to the accounts.

Delivery and operational risks

The Group is engaged on a wide range of contracts e.g. asset creation, long-term maintenance, facilities management and asset management, with the successful discharge of all contracts being controlled and managed through the Group's operating structure. In delivering these contracts, rigorous processes are in place for managing the potential risk exposure:

Performance

The Group's procedures embrace regular and frequent reviews with an agenda centred on health, safety and environmental performance, issues affecting delivery and the impact on costs to completion and forecast revenue. Where the Group provides services or manages the delivery of such services on behalf of clients or manages assets, such reviews also concentrate on key operational and performance measures. This approach is underpinned by a continuing focus on assurance as to the effectiveness of the relevant controls. Emphasis is also placed on ensuring that the assurance mechanism responds to the challenges posed by the Group's growth.

Supply chain

The execution of a large number of the Group's contracts is dependent on the availability of appropriately skilled subcontractors. An increasing proportion of the Group's supply base is retained in long-term relationships based on their alignment with the aims and objectives of the Group, in particular, in respect of adherence to health and safety, ethical standards and financial stability, as well as product quality and price.

Health, safety and environmental

The Group has further enhanced the attention it gives to HS&E, along with the continuing objective of improving its performance, as embraced in the safety commitment, Zero Harm, as reported on in more detail in the Chief Executive's review on page 12 and Corporate responsibility statement from page 44 of the Annual review 2008.

Directors' report

Business and financial review

The Chairman's statement, the Chief Executive's review, the Operating review and the Corporate responsibility statement, included in the Annual review 2008 and the Financial review from pages 3 to 5, which report on the principal activities of the Group, its operations during 2008 and future developments in its businesses are incorporated by reference into the Directors' report and accounts 2008.

Results and dividends

The results for the year are shown in the audited financial statements presented on pages 27 to 93 and are explained more fully in the Chief Executive's review, the Operating review and the Financial review. An interim dividend payment of 5.1p (net) per ordinary share was approved by the Board on 12 August 2008 and a final dividend of 7.7p (net) per ordinary share will be recommended at the Annual General Meeting making a total of 12.8p (net) per ordinary share. This compares with a total dividend per ordinary share of 11.5p (net) in 2007. Preference dividends totalling 10.75p (gross) per preference share have been paid for 2008 (2007: 10.75p (gross) per preference share).

The Directors continued to offer the dividend reinvestment plan (DRIP).

Research and development

The Group continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology and asset management systems. A range of development initiatives is undertaken throughout the businesses which is supported by links with selected universities.

A Group innovation forum has been formed which is one of several fora through which the Company is enhancing the sharing of knowledge and the encouragement of joint working between the various businesses. The forum has representatives from each of the Group's operating companies. Improving the ability to tap into the depth and breadth of expertise and capability which exists within the Group, and sharing it, is seen as a key enabler and catalyst for innovation, as well as serving to identify where the Group can respond better to the needs of its various stakeholders.

Details of the Group's 2008 research and development expenditure are given in Note 4.1 on page 40.

Share capital and shareholders

Details of the share capital of the Company as at 31 December 2008, including the rights attaching to each class of share, are set out in Note 28 on pages 73 and 74. During the year to 31 December 2008 no ordinary shares were repurchased for cancellation and 300,017 preference shares (representing 0.27% of the preference share capital) were repurchased for cancellation for a total consideration of £407,337 at an average price of 135.8p. 1,286,053 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 334,927 ordinary shares were issued following the exercise of options held under the Company's executive share option schemes.

On 15 May 2008, a total of 43,320,411 new ordinary shares in the Company were placed with institutions at a price of 430p per ordinary share raising £182m after issue costs. This placing represented an increase of approximately (but less than) 10% of the issued ordinary share capital. These placing shares were issued fully paid and ranked *pari passu* in all respects with the existing ordinary shares.

At 31 December 2008, the Directors had authority, under the shareholders' resolutions approved at the AGM and separate Class meeting held in May 2008, to purchase through the market 43,314,839 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which will follow the 2009 AGM.

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

Details of employee share schemes are set out in Note 31 on pages 79 and 80. Shares held by the Balfour Beatty Employee Share Ownership Trust are not voted.

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

As at 4 March 2009, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

| | Number of ordinary shares held | Percentage of ordinary shares held |
|--|--------------------------------|------------------------------------|
| Standard Life Investments Limited | 42,849,463 | 8.96% |
| Lloyds Banking Group plc | 33,370,340 | 6.98% |
| Legal & General Group plc | 32,807,704 | 6.86% |
| Prudential plc | 25,285,102 | 5.28% |
| Schroder Investment Management Limited | 22,057,637 | 4.61% |

Directors

The names of the Directors at the year-end are shown on pages 52 and 53 of the Annual review 2008 together with brief biographical details. Full details of Directors' service agreements, emoluments and share interests, can be found in the Remuneration report on pages 18 to 25.

Sir David John and Hans Christoph von Rohr retired from the Board on 15 May 2008 and 9 September 2008 respectively and Hubertus Krossa was appointed as a non-executive Director on 9 September 2008.

Duncan Magrath and Andrew McNaughton were appointed as executive Directors on 31 March 2008 and 1 January 2009 respectively, and Graham Roberts was appointed as a non-executive Director with effect from 1 January 2009.

Steve Marshall, Ian Tyler and Peter Zinkin are due to retire by rotation as Directors at the forthcoming AGM and, being eligible, offer themselves for re-election. Hubertus Krossa, Andrew McNaughton and Graham Roberts, who have been appointed by the Board since the date of the last AGM, will offer themselves for election in accordance with the Company's Articles of Association.

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

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

Directors' report

Details of the number of meetings of, and attendances at, the Board meetings and meetings of the Audit, Business Practices, Nomination and Remuneration Committees during the year are set out in the table following.

| Name of Director | Board | Audit | Business Practices | Nomination | Remuneration |
|-------------------------------|--------|-------|--------------------|------------|--------------|
| M J Donovan | 10(10) | 3(4) | 3(3) | 3(4) | — |
| S L Howard | 9(10) | 2(3) | 2(2) | 4(4) | 3(3) |
| Sir David John ⁽²⁾ | 5(5) | — | — | 1(1) | — |
| G E H Krossa ⁽³⁾ | 4(4) | 0(1) | 1(1) | — | — |
| D J Magrath ⁽⁴⁾ | 7(7) | — | — | — | — |
| S Marshall | 10(10) | 4(4) | 2(2) | 4(4) | 2(3) |
| A L P Rabin | 9(10) | — | — | — | — |
| H C von Rohr ⁽⁵⁾ | 5(7) | 3(3) | 2(2) | — | 3(3) |
| G H Sage | 10(10) | 2(4) | — | 3(4) | 3(3) |
| I P Tyler | 10(10) | — | — | 4(4) | — |
| R J W Walvis | 10(10) | 1(1) | 2(2) | 3(4) | 3(3) |
| P J L Zinkin | 9(10) | — | — | — | — |

Notes:

- (1) The number shown in brackets is the total number of meetings the Directors could attend either following their appointment during the year, or as a result of changes to Committee memberships.
- (2) Retired on 15 May 2008.
- (3) Appointed on 9 September 2008.
- (4) Appointed on 31 March 2008.
- (5) Retired on 9 September 2008.

Owing to the changes in the composition of the Board, the membership of each of the Company's Board Committees has been reassessed. As at 4 March 2009, the membership of the Committees is as follows:

| Audit | Business Practices | Nomination | Remuneration |
|--|---------------------------|---------------------------|--------------------------|
| Steve Marshall (Chairman) ⁽¹⁾ | Stephen Howard (Chairman) | Steve Marshall (Chairman) | Robert Walvis (Chairman) |
| Mike Donovan | Mike Donovan | Mike Donovan | Stephen Howard |
| Hubertus Krossa | Hubertus Krossa | Stephen Howard | Hubertus Krossa |
| Graham Roberts ⁽²⁾ | Steve Marshall | Gordon Sage | Steve Marshall |
| Gordon Sage | Graham Roberts | Ian Tyler | Gordon Sage |
| Robert Walvis | | Robert Walvis | |

Notes:

- (1) Steve Marshall continues as chairman of the Audit Committee until 5 March 2009.
- (2) On 5 March 2009, Graham Roberts will assume the role as chairman of the Audit Committee and has been designated the member with recent and relevant financial experience.

Directors' interests

No Director had any material interest in any contract of significance with the Group during the period under review. The Directors have put in place procedures to ensure the Board collectively and the Directors individually comply with the disclosure requirements on conflicts of interest introduced on 1 October 2008 under the Companies Act 2006. The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive schemes (the Performance Share Plans 2001 and 2006), the deferred bonus plan and in respect of share options, are set out in the tables in the Remuneration report commencing on page 18.

Directors' indemnities

The Company grants an indemnity to all of its Directors to the extent permitted by law. These indemnity amounts are uncapped in relation to certain losses and liabilities which Directors may incur to third parties, in the course of acting as a Director of the Company, or in any office where such duties are performed at the request of the Board, or as a result of their appointment as Directors.

Directors' training

Directors receive a significant induction programme and a range of information about the Company when they join the Board. This includes considerable background information on Balfour Beatty, its codes of business conduct and ethics, processes for dealing in Balfour Beatty shares and Board procedures. In addition, they also take part in a series of one-to-one meetings with other members of the Board and senior executives which include briefings on the Company's business strategy, financial procedures and business development. The training programme is supplemented throughout the year by a series of internal and external updates, including visits to operating companies to meet local management and visits to Balfour Beatty projects both in the UK and overseas. Normally, day-long meetings take place for each non-executive Director four times each year. Presentations on ad-hoc topics are then arranged as appropriate, for example, on new material laws or regulations as they affect the Group or the Directors. In addition, each Director has been enrolled in an external facility which provides a wide-ranging programme of technical briefing, education and training.

Auditors

Deloitte LLP (previously Deloitte & Touche LLP, the firm having changed its name on 1 December 2008) have indicated their willingness to continue as auditors to the Company and a resolution for their appointment will be proposed at the AGM.

Corporate governance and the Combined Code

Overview

The Company is committed to high standards of corporate governance. The UK Listing Authority requires listed companies to disclose, in relation to Section 1 of the Combined Code issued by the Financial Reporting Council which is appended to the UK Listing Rules, how they have applied its principles and whether they have complied with its provisions through the accounting period. The Company has complied with the requirements of the UK Listing Authority relating to the provisions of the Combined Code throughout the accounting period other than in two respects:

- (i) Code provision C.3.1 – The chairman of the Audit Committee: following Steve Marshall's appointment as Chairman of the Company, the Board decided that he should continue as chairman of the Audit Committee temporarily pending the appointment of a successor. Graham Roberts was appointed non-executive Director on 1 January 2009 and he will assume the chairmanship of the Audit Committee on 5 March 2009.
- (ii) Code provision C.3.4 – Whistleblowing arrangements: the effectiveness of the Group's whistleblowing procedures is kept under review by the Business Practices Committee (BPC) and not by the Audit Committee. The principal reason for this is that the BPC, in particular, focuses on the Company's business conduct, its ethics and values and whistleblowing is an integral element within this overall remit. In addition, from the Company's experience, whistleblowing-type complaints often relate to non-financial matters and, in particular, employment issues.

Honorary President

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

Chairman

Steve Marshall became Chairman in May 2008, having joined the Board in November 2005. Steve Marshall spends an average of two days per week on the business of the Company. He has other commitments as non-executive chairman of Delta plc and as a non-executive director of Southern Water. The Board considers that these other commitments are not of such a nature as to hinder his activities as Chairman of the Company or Committees.

The Board

The Board currently comprises 12 Directors, of whom seven, including the Chairman, are non-executive. Details of the changes during the year can be found under the heading "Directors" on page 11. The Directors believe that the Board continues to include an appropriate balance of skills and retains the ability to provide effective leadership to the Group.

Sir David John retired as Chairman following the AGM on 15 May 2008 whereupon Steve Marshall became Chairman. Throughout 2008, Ian Tyler has been Chief Executive and the Senior Independent Director has been Robert Walvis.

The Board is collectively responsible for the success of the Company and has a formal schedule of matters reserved for its decision. Its role is to determine the strategic direction of the Company within a framework of prudent and effective controls which enables risks to be assessed and managed; to approve annual budgets, financial reporting, major acquisitions and disposals and significant capital expenditure, to ensure that the necessary financial and human resources are in place for the Company to achieve its objectives and to review management performance. In addition, the Board sets the Company's values and ethical standards, including matters relating to corporate social responsibility and ensures that its obligations to its shareholders and others are understood and met. The Board reviews its list of reserved matters from time to time, most recently in October 2008. The terms of reference of the Board and the Board Committees are available on request from the Company Secretary and are also displayed on Balfour Beatty's website www.balfourbeatty.com. Descriptions of the specific responsibilities which have been delegated to the principal Board committees are also provided on pages 13 to 15.

Most meetings of the Board during 2008 were held in London, with two meetings held elsewhere. On the evening preceding a Board meeting, the Directors will meet and focus their discussion on a pre-determined developmental theme, led by one of the executive Directors, other senior management or a specialist external speaker.

In addition, the Board dedicates particular meetings to certain key business themes, for example health and safety, strategy, or succession planning. In September, a meeting was held on the site of the new A3 Hindhead tunnel, which is in the course of construction by the Group. In November, the Board held its meeting outside London and focused on the Group's "Zero Harm" safety programme.

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

The Company Secretary is responsible for advising the Board on appropriate governance matters, ensuring good information flow and for ensuring that Board procedures are followed. He is also available to individual Directors for advice on these procedures.

Evaluation

Formal evaluation of the performance of the Board and of the principal Board Committees, as well as individual assessments of the Directors themselves, are normally carried out by an external consultant tri-annually, with internal assessments carried out in the intervening two years. The last external evaluation was completed in October 2007.

In the intervening years, an evaluation process is carried out by the Company Secretary, at the request of the Chairman. This comprises an assessment questionnaire covering the effectiveness of the Board and its Committees including composition, arrangements for and content of meetings, access to information, and administrative procedures.

The findings are then reported back to the Board by the Chairman and an action plan addressing any areas of concern is established.

Following Steve Marshall's appointment as Chairman on 15 May 2008, an internal evaluation process commenced in January 2009. As a result of the feedback, the Board has concluded that both it and the Directors operate effectively.

Board Committees

The Board has established several Committees, each with defined terms of reference, procedures, responsibilities and powers. In accordance with the requirements of the Combined Code, the Board reviewed the terms of reference of each Committee during the year and these were adopted by the Board in October 2008. The principal Committees' terms of reference are displayed on the website www.balfourbeatty.com. The minutes of the Committee meetings are sent to all Directors and oral updates are given at Board meetings. Committee membership is shown on page 12.

– Audit Committee

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council (formerly "Smith Guidance") which was updated in October 2008. The terms of reference were approved by the Board in October 2003 and updated most recently in October 2008. The main responsibilities of the Audit Committee remain as stated in previous reports. In summary they are:

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

Directors' report

The Committee has been chaired by Steve Marshall pending the appointment of Graham Roberts as Audit Committee chairman following publication of the 2008 preliminary results on 5 March 2009. Members' attendance at Committee meetings is shown on page 12. The Committee is supported by the Company Secretariat. All members of the Committee have extensive experience of management in large international organisations. The incoming chairman, Graham Roberts, is a chartered accountant and is finance director of The British Land Company PLC. Graham Roberts has been identified by the Board as having recent and relevant financial experience.

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

Four meetings of the Committee were held in 2008. At the invitation of the Committee, partners from the external auditor, the Head of Group Risk Management and Assurance, the Deputy Chief Executive and the Finance Director regularly attend each meeting. In addition, any independent non-executive Director who is not a Committee member has an open invitation to attend meetings.

In 2008, as in previous years, the main purpose of the February and August meetings of the Committee was to consider the final and interim results respectively, a process which is well established. At each of these meetings, the Committee reviewed significant accounting policies, financial reporting issues and judgements and reports from internal financial management and internal and external auditors.

The May and November meetings of the Committee are not driven by financial results and at these meetings the Committee was able to review a wider range of matters in addition to its usual business. For example, in May, the Committee carried out an assessment of the audit process followed in the preceding financial year whilst also considering the proposals for the 2008 audit plan and in November, the Committee reviewed the draft internal audit plan for 2009 and considered proposals on internal control and assurance.

Throughout 2008, the Committee has continued to review the Group's risk management processes. This review has included reports from the Head of Group Risk Management and Assurance on the Group's internal controls and on the work of the internal auditors, a consideration of the effectiveness both of the internal audit function and of the external audit process, a review of the resources of the external and internal auditor, and a consideration of the external auditor's management letter in respect of accounting procedures and internal financial controls. As a result, the Committee felt able to recommend to the Board that it might properly conclude that the Company continued to maintain a sound system of internal financial control and that a proper review of the effectiveness of the Company's systems of internal financial controls had been completed.

The Committee has also considered the independence of the external auditor and received confirmation that, in its view, it remained independent of the Company. Consideration of the independence of the external auditor included the non-audit work carried out by the external auditor during the year, which continues to be covered by the policy approved by the Board in June 2003 (an analysis of non-audit fees incurred is set out in Note 4.2 on page 40). All requests to engage the external auditor for non-audit work are subject to the approval of the Finance Director and reviewed at each Committee meeting. The external auditor also complies with the Accounting Practices Board (APB) Ethical Standards applying to non-audit services. There is no inconsistency between these APB standards and the Company's policy. The Committee has carried out a review of the proposal made by the external auditor in respect of the audit fees and terms of engagement for the 2008 audit and has recommended that the Board proposes to shareholders that Deloitte LLP continue as the Company's external auditor.

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

– Nomination Committee

The Committee is chaired by Steve Marshall and members' attendance at the meetings of the Committee is given on page 12. The Committee is supported by the Company Secretariat. The Committee, which meets as and when required (2008: four meetings), keeps under review the composition and balance of the Board and makes recommendations to the Board on all new appointments and re-appointments of non-executive Directors. During the 2008 financial year, external search consultancies were engaged to seek candidates to join the Board as non-executive Directors, one with financial experience and one with business experience gained predominantly in Europe and internationally. The Committee reviewed candidates as presented by the consultancies and Committee members were involved in the interview process before making their recommendations to the Board. All members of the Board were given the opportunity to meet Graham Roberts and Hubertus Krossa prior to their appointments.

– Remuneration Committee

The Committee is chaired by the Senior Independent Director, Robert Walvis and members' attendance at the meetings of the Committee is given on page 12. The Committee met three times during 2008. The Committee is supported by the Company Secretariat. Information about the workings of this Committee during the financial year is set out in the Remuneration report commencing on page 18.

– Business Practices Committee

The Committee is chaired by Stephen Howard and members' attendance at the meetings of the Committee is given on page 12. The Committee is supported by the Company Secretariat.

The Committee met three times in 2008. The main topics considered by the Committee during the year related to health, safety and sustainability, and ethics, values and business conduct. In light of the settlement with the Serious Fraud Office in October 2008, this Committee will focus significant attention on values, the Group's Codes of Conduct (which are being revised) and on the training which will ensure that the Group's business principles are properly embedded throughout the business. The Committee discussed the delivery of health and safety in the long term. Recognising the ambitious aims of the Group's Zero Harm campaign, it reviewed the leadership, resources and actions required for delivery. A particular challenge was to ensure that the Zero Harm initiative could be adopted and implemented in multiple jurisdictions and cultures around the world. The Committee noted early indications that Zero Harm was eagerly embraced by businesses both inside and outside the UK. Regular reports were received by the Committee on the Group's charitable activities, on its whistleblowing procedure and practice and on specific whistleblowing incidents.

– Group Tender and Investment Committee

This Committee comprises the executive Directors and the Group managing directors and is chaired by the Chief Executive, or in his absence, one of the other executive Directors. Its main purpose is to review all major proposed contracts with projected contract values above a specified level delegated to it. The Committee also has authority to approve capital expenditure applications and any proposed investments or divestments up to certain specified limits determined by the Board. The Committee met on numerous occasions throughout the year and minutes of its meetings are circulated to all the Directors. The Committee is supported by the Company Secretariat.

– Finance and General Purposes Committee

The Committee comprises the executive Directors and the deputy finance director and is chaired by the Chief Executive, or in his absence, one of the executive Directors and is supported by the Company Secretariat. Its main purpose is to approve various routine banking and treasury matters, share option grants under the Company's incentive schemes and other matters relating to share capital (eg allotments). The Committee met several times throughout the year and a summary of the business conducted at the meetings is provided to all the Directors.

Relations with shareholders

The Board attaches great importance to maintaining good relationships with all shareholders and ensures that shareholders are kept informed of significant Company developments.

The Company has therefore continued its long-established programme of communication with institutional investors and brokers throughout 2008. Presentations of the half-year and full-year results were made in accordance with the practice of previous years. Approximately 100 meetings have been held at regular intervals through the year with institutional shareholders, brokers and analysts. This programme will continue and be expanded where appropriate, subject to the constraints of regulation and practice.

Whilst the Chairman attends as many meetings with institutional shareholders as possible, senior executives, led by the Chief Executive and Finance Director, hold meetings with the Company's principal institutional shareholders to discuss the Company's strategy, financial performance and specific major investments. The Chairman has also met with a number of these institutional shareholders and the other non-executive Directors are invited to do so whenever they wish. Care is exercised to ensure that any price sensitive information is released to all shareholders at the same time in accordance with UK Listing Authority requirements.

Reports to the Board on meetings or other contact with shareholders or their representatives are made by executive Directors on a regular basis. The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman, and Robert Walvis (the Senior Independent Director) and through the regular reports to the Board, they are kept fully aware of the views of the larger shareholders in the Company and the investment community generally.

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders. The chairmen of the Board Committees attend the AGM each year as well as the other Directors and are available to answer questions from shareholders.

The website www.balfourbeatty.com is a primary source of information on the Group, including financial press releases, shareholder documentation, annual and interim results presentations and the terms of reference of the principal Board Committees.

Risk management

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Group's principal risks and how they are mitigated are summarised on pages 9 and 10. As for previous years, the Board has continued to assess the effectiveness of the risk management processes and internal controls during 2008 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

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

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

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

The Group's systems of internal control operate through a number of different processes, some of which are interlinked. These include:

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

Directors' report

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

Following an internal reorganisation at the end of 2008, the separate roles of Group Risk Management and Internal Audit were amalgamated under a Head of Group Risk Management and Assurance, who is responsible for developing a comprehensive framework of assurance (including internal audit) and co-ordinating the risk management activities across the Group.

No significant failings or weaknesses have been identified by the Board in carrying out its review of the effectiveness of the risk management and internal control systems.

Political donations

At the AGM held on 15 May 2008, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2009 AGM.

Corporate responsibility

A full description of our approach to corporate responsibility appears in the Annual review 2008. This includes more information about the Group's charitable activities, which are described briefly below.

Written report

For the eighth year, the Company is publishing a separate corporate responsibility report including safety, social and environmental issues. A copy will be available to shareholders attending the AGM and to preference shareholders attending the separate Class meeting. The report will also be displayed on the Company's website www.balfourbeatty.com

Group policies

The Group's published policies on health and safety, the environment, business conduct and ethics and human rights remain in place and are subject to regular reviews. Most recently, the business conduct and ethics policy is in the process of being reviewed and updated. Progress in these areas is described in the separate corporate responsibility report.

Employment

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

These are:

- to provide an open, challenging and participative environment;
- to enable all employees to utilise their talents and skills to the full, through appropriate encouragement, training and development;
- to communicate a full understanding of the objectives and performance of the Group and the opportunities and challenges facing it;
- to provide pay and other benefits which reflect good local practices and reward individual and collective performance;
- to ensure that all applicants receive equal treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief; and
- to ensure that all employees similarly receive equal treatment and specifically in relation to training, development, and career progression.

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

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

Charitable activities

During 2008, the Group has continued to help raise funds for charity and has also continued to provide donations in cash and kind to charitable organisations. The total amount of funds both raised by employees and donated by the Company and its UK subsidiaries during the year was £415,000.

As in previous years, the Group's main efforts have been directed to a small number of charities. The Company's charities committee decided that support should be provided to a child-based charity and Action for Children was duly selected as the main focus for the Group's UK charitable fundraising efforts for 2008 and 2009. During the year, through a wide variety of fundraising events and efforts, employees raised a total of over £150,000 for Action for Children, a sum which was increased by a further £28,000 donated directly by the Company under a matched funding agreement.

The Company's other main charity, The Prince's Trust – Building Better Lives, received a donation of £10,000 during the year. At the beginning of 2009, the Company established The Balfour Beatty Charitable Trust. Through this, the Company will be working in partnership with Action for Children and The Prince's Trust to deliver a series of programmes aimed at helping disadvantaged young people.

Support for other charities including Engineers Against Poverty, RedR which provides emergency engineering help particularly in remote locations, and Marie Curie Cancer Care has continued. The Company is also a patron of CRASH, the construction charity and has continued its membership of the charities Business in the Community and the Institute of Business Ethics.

In addition, the Group's UK subsidiaries have paid a further aggregate sum of £190,000 to a very wide variety of other UK charitable causes in 2008.

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

The Company has decided to continue its sponsorship of the annual London Youth Games, Europe's largest youth sports programme. In 2008, the Company donated £250,000 for the 2008 Games. As title sponsor, the Company has committed a further £1.45m to the Games in the period to 2013.

Further information on the Group's activities is given in the Corporate responsibility section of the Annual review 2008 on pages 50 and 51.

Post balance sheet events

Details of post balance sheet events are set out in Note 35 on page 82.

Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities. The disclosure in this report of information about any of those third parties is not considered necessary for the understanding of the development, performance or position of the Group's businesses.

Change of control provisions

The Group's bank facility agreements contain provisions that, upon 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control and cancel all commitments under the agreement concerned. There are no agreements providing for compensation for the Directors or employees on a change of control.

Payment of creditors

In the UK, the Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions; to seek to ensure that suppliers are aware of the terms of payment; and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. At 31 December 2008, the year-end creditors' days of the Company were 24 (2007: 19).

Financial instruments

The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are described in the Financial review on pages 4 and 5 and detailed in Note 21 on pages 54 to 60.

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' report on page 26, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

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

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

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

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- (i) the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (ii) the Business and financial review, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Statements of Directors as to disclosure of information to auditors

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

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


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

Directors' report

By order of the Board

C D Vaughan General Counsel and Company Secretary
4 March 2009

Registered Office:
130 Wilton Road
London SW1V 1LQ



Remuneration report

Introduction

This report has been prepared in accordance with schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved.

Remuneration Committee

The Remuneration Committee of the Board ("RemCo") is primarily responsible for determining the remuneration policy and conditions of service for executive Directors and the Chairman of the Company. It also reviews and monitors the level and structure of remuneration for certain senior managers immediately below the level of the Board. The terms of reference of the RemCo, which were reviewed in October 2008, can be found on the Company's website www.balfourbeatty.com.

The RemCo has been chaired by Robert Walvis since November 2003. Its other members during the year were Stephen Howard, Steve Marshall, Gordon Sage, Christoph von Rohr until September 2008 and, from September 2008, Hubertus Krossa. Sir David John, the former Company Chairman, attended meetings by invitation. No member of the RemCo has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group.

During 2008 the Chief Executive, Ian Tyler, was invited to join meetings of the RemCo, when appropriate. Paul Raby, the human resources director, acted as secretary of the RemCo until September 2008 at which point this role transferred to the Company Secretariat. No Director has any involvement in discussions relating to his own remuneration.

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

Executive Directors' remuneration

General policy

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

The structure of executive Directors' remuneration was similar in 2008 to that in 2007 and no significant changes to the existing policy are currently envisaged for 2009. Under the current arrangements, if target performance is achieved, basic salary will represent around one-half of total earnings. If maximum is achieved, which would involve a superior level of performance substantially in excess of business plan, basic salary will represent around one-third of total earnings.

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

Basic salaries

It is the policy of the RemCo to set basic salaries at levels which it believes are competitive given the size and complexity of the Company, as well as the broad business sectors in which it operates. To assist in this, HNBS and

PwC provide data and independent advice on remuneration levels in companies considered to be comparable in terms of annual sales, market capitalisation and industry sector. The RemCo sets basic salaries around mid-market levels, but also takes into account its own judgement of the performance of the Group's businesses and the performance of individual Directors. The RemCo intends to continue to use this approach in the foreseeable future.

The basic salaries for the executive Directors are reviewed annually at 1 July. The salary for Duncan Magrath was set at £340,000 effective from his appointment as Finance Director on 31 March 2008 and was not reviewed again during the year. The basic salaries of the other three executive Directors, following the review at 1 July 2008, are shown in the table below. The average increase was 9.0% based on a review of personal performance, market position and recognition of new responsibilities for Anthony Rabin.

| Name of Director | Salary at 1 July 2008 |
|------------------|-----------------------|
| A L P Rabin | £425,000 |
| I P Tyler | £630,000 |
| P J L Zinkin | £405,000 |

Annual incentive plan

Each executive Director participates in an annual incentive plan, under which pre-determined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2008 was 80% of basic salary and the performance indicator chosen was profit before tax, exceptional items and amortisation of intangible assets ("profit"). A bonus of 40% of basic salary would have been earned for the achievement of performance in line with target. Two-thirds of any bonus achieved is payable in cash, whilst the remaining one-third is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan (the "DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time (unless specified leaver conditions are met, in which case early vesting may be permitted under the rules of the DBP). Bonuses are non-pensionable. The actual profit for the year ended 31 December 2008 resulted in a maximum bonus of 80% of basic salary for each executive Director. Details are shown in the table on page 21.

It is currently intended that the annual incentive plan for 2009 will operate in the same way and at the same level as for 2008 and the RemCo will continue to review the competitiveness and structure of the annual incentive plan in future years.

Long-term incentive scheme

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

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

The awards will vest, subject to the achievement of performance conditions, three years after the date of grant, together with shares in lieu of dividends payable. There is no provision for the re-testing of these performance conditions. For the 2008 award, there are two performance conditions, each applying to separate parts of the award.

50% of an award is linked to an adjusted earnings per share ("EPS") growth target, and will vest as shown in the table below.

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

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

The performance condition attached to the other 50% of an award is linked to total shareholder return ("TSR") performance, measured against a group of UK listed companies operating in comparable markets to the Company. The companies used for the 2008 award were as follows: Aggreko, Atkins (WIS), Babcock International, Capita, Carillion, Costain, Interserve, Keller, Kier, MITIE, Morgan Sindall, Serco, SIG, Travis Perkins and Wolseley.

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

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

TSR will be independently calculated and approved by the RemCo.

The RemCo considers that the EPS and TSR performance conditions provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market performance, which aligns with investors' interests.

It is the intention of the RemCo to make awards under the PSP in 2009. For the TSR element of the award, it is currently anticipated that a similar peer group of companies will be used. The RemCo is currently reviewing the EPS targets and individual levels of award, to ensure these continue to remain stretching and appropriate given current market conditions and business outlook.

The PSP and other share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Pensions

The Company provides pension benefits to UK employees principally through the Balfour Beatty Pension Fund (the "Fund"), which has both defined benefit ("DB") and defined contribution ("DC") sections. The DB section provides for the build up of pension benefits based on different accrual rates (as determined by job position) and has life cover, disability and spouse/dependants pension arrangements.

Following the changes to the taxation of pensions which were introduced in April 2006, a Fund-specific earnings cap has been maintained for those members who were previously subject to the HMRC earnings cap. This cap also applies to members of the DC section of the Fund. A discretionary cash supplement is paid in lieu of pension provision above the earnings cap. The Company is not compensating any member of the Fund (or any other pension scheme operated by the Company) for any additional tax which is payable as a result of the April 2006 legislation. If members choose to opt out of the Fund as a result of their benefits reaching or exceeding the lifetime allowance, a cash supplement will be paid to them.

The specific pension arrangements for executive Directors are outlined in more detail in the Directors' pensions section on pages 24 and 25.

During 2008 the Company announced new measures to limit the growth of liabilities in the DB section of the Fund. These will, in effect, limit future increases in basic salary which will count for DB purposes to a level set by the Company each year. This figure will ordinarily be RPI up to a cap

of 5%. Any increase in basic salary above that limit will be eligible for DC benefits from the Fund.

Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and certain other senior managers are subject to share ownership guidelines. Executive Directors are required to accumulate a holding of ordinary shares in the Company to the value of 100% of their basic salary at a reference date. In order to achieve this, they will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the PSP and the DBP.

Share options

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

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

Service contracts

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

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

| Name of Director | Date of contract | Notice period from Company (months) |
|------------------|------------------|-------------------------------------|
| D J Maqrath | 31 March 2008 | 12 |
| A L P Rabin | 28 August 2002 | 12 |
| I P Tyler | 22 December 2004 | 12 |
| P J L Zinkin | 10 December 1991 | 12 |

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

Andrew McNaughton was appointed to the Board as Chief Operating Officer on 1 January 2009, with the same notice and termination provisions as the other executive Directors.

External appointments

The RemCo recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. With approval of the Board in each case, executive Directors may therefore accept one external appointment and retain any related fees. Ian Tyler was appointed as a non-executive director of VT Group plc on 12 May 2008. The fees received for this role are set out in the notes to the Directors' remuneration table on page 21.

Non-executive Directors

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

Remuneration report

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

| Name of Director | Date of appointment or last election | Unexpired period at 31 December 2008 (months) |
|---------------------------------|--------------------------------------|---|
| M J Donovan | 10 May 2007 | 17 |
| S L Howard | 10 May 2007 | 17 |
| Sir David John ⁽ⁱ⁾ | 10 May 2007 | — |
| G E H Krossa ⁽ⁱⁱ⁾ | 9 September 2008 | 33 |
| S Marshall ⁽ⁱⁱⁱ⁾ | 11 May 2006 | 5 |
| G H Sage | 10 May 2007 | 17 |
| Dr H C von Rohr ^(iv) | 10 May 2007 | — |
| R J W Walvis | 10 May 2007 | 17 |

Notes

- (i) retired on 15 May 2008
- (ii) appointed on 9 September 2008
- (iii) appointed as Chairman on 15 May 2008
- (iv) retired on 9 September 2008

The fees of the non-executive Directors are reviewed from time to time with the last review having taken effect from 1 July 2008, when the Board agreed an increase in the annual fees (excluding the Chairman) from £42,000 to £48,000 and for Steve Marshall as Chairman to £240,000 per annum. The annual fee for chairing Board Committees was increased from £7,000 to £8,000 with effect from 1 July 2008. During the year, the RemCo was chaired by Robert Walvis, the Audit Committee by Steve Marshall, and the Business Practices Committee by Sir David John up to May 2008 and Stephen Howard for the remainder of the year.

A fee of €30,000 was paid to Christoph von Rohr for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH until 31 December 2008. Hubertus Krossa joined the supervisory board of Balfour Beatty Rail GmbH on 1 December 2008 and was appointed chairman on 1 January 2009. He received fees of €2,000 for his services to the supervisory board in 2008.

Performance graph

The graph below shows Balfour Beatty's TSR performance compared to the FTSE 250 Index (excluding investment trusts) TSR over the five financial years ended 31 December 2008.

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

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

The detailed information about the Directors' remuneration, set out on pages 21 to 25 has been audited by the Company's independent auditors, Deloitte LLP.

Directors' remuneration earned in 2008

| Name of Director | Basic salary £ | Fees £ | Pension supplement £ | Benefits in kind £ | Annual cash bonus £ | Total remuneration 2008 £ | Total remuneration 2007 £ |
|------------------|-------------------|----------------|----------------------------|--------------------------|------------------------------|------------------------------------|------------------------------------|
| M J Donovan | — | 45,000 | — | — | — | 45,000 | 42,000 |
| S L Howard | — | 49,000 | — | — | — | 49,000 | 42,000 |
| Sir David John | — | 71,372 | — | — | — | 71,372 | 190,000 |
| G E H Krossa | — | 16,540 | — | — | — | 16,540 | — |
| D J Magrath | 256,308 | — | 33,531 | 12,008 | 181,333 | 483,180 | — |
| S Marshall | — | 162,273 | — | — | — | 162,273 | 49,000 |
| A L P Rabin | 402,500 | — | 70,236 | 20,852 | 226,667 | 720,255 | 653,951 |
| G H Sage | — | 45,000 | — | — | — | 45,000 | 42,000 |
| I P Tyler | 605,000 | — | 71,934 | 27,187 | 336,000 | 1,040,121 | 949,428 |
| Dr H C von Rohr | — | 54,092 | — | — | — | 54,092 | 62,548 |
| R J W Walvis | — | 52,500 | — | — | — | 52,500 | 49,000 |
| P J L Zinkin | 392,500 | — | — | 17,890 | 216,000 | 626,390 | 587,290 |
| Former Directors | — | — | — | — | — | — | 50,208 |
| Total | 1,656,308 | 495,777 | 175,701 | 77,937 | 960,000 | 3,365,723 | 2,717,425 |

Notes:

- (i) Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors.
- (ii) Ian Tyler, Anthony Rabin and Duncan Magrath received taxable cash supplements in lieu of pension provision on their salary above the Balfour Beatty Pension Fund specific earnings cap.
- (iii) The performance target for annual bonus was profit before tax, exceptional items and amortisation of intangible assets ("profit"). The profit for the year ended 31 December 2008 resulted in a maximum bonus of 80% of basic salary for each executive Director. Two-thirds of this bonus is payable in cash and these are the amounts shown in the table above. The remaining one-third is deferred in the form of ordinary shares in the Company which will be released to the Director on 31 March 2012, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 31 March 2009.
- (iv) Christoph von Rohr received an additional fee of €30,000 for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.
- (v) Hubertus Krossa received an additional fee of €2,000 related to his membership of the supervisory board of Balfour Beatty Rail GmbH.
- (vi) In addition, Ian Tyler received a fee of £24,577 for his services as a non-executive director of VT Group plc.
- (vii) Benefits in kind are calculated in terms of UK taxable values. All executive Directors receive private medical insurance for the Director and his immediate family. Ian Tyler, Anthony Rabin and Peter Zinkin receive a fully expensed car and a fuel card. Duncan Magrath receives a car allowance of £14,000 p.a.
- (viii) No Director receives any expense allowance.
- (ix) Awards made under the Performance Share Plan in 2005 to Ian Tyler, Anthony Rabin, and Peter Zinkin vested during the year. At the date of vesting on 18 April 2008 the closing market price was 463p and the total values of the shares which vested were £546,354, £378,720, and £403,555 respectively.
- (x) Ian Tyler, Anthony Rabin, and Peter Zinkin exercised savings-related share options during the year. The closing market prices on the dates of exercise ranged between 411.25p and 400.0p and the values realisable on exercise were £4,184, £1,826, and £3,450 respectively.

Remuneration report

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

Directors' interests

| Name of Director | Number of ordinary shares | |
|------------------|---------------------------|---------------------------|
| | At 1 January 2008* | At 31 December 2008 |
| M J Donovan | 5,000 | 5,000 |
| S L Howard | 5,045 | 5,045 |
| G E H Krossa | — | 5,000 |
| D J Magrath | 6,000 | 16,000 |
| S Marshall | 5,000 | 5,000 |
| A L P Rabin | 101,728 | 142,172 |
| G H Sage | 5,000 | 5,000 |
| I P Tyler | 133,005 | 154,051 |
| R J W Walvis | 10,000 | 10,000 |
| P J L Zinkin | 122,171 | 148,686 |

*or date of appointment, if later.

Notes:

- (i) All interests at the dates shown are beneficial and are in respect of 50p ordinary shares in Balfour Beatty plc. There were no changes between 31 December 2008 and 4 March 2009.
- (ii) Peter Zinkin was also interested at 1 January 2008 and 31 December 2008 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc.

Directors' long-term incentives: the Performance Share Plan

| Name of Director | Date awarded | Maximum number of shares subject to award | | | | | Exercisable from |
|------------------|---------------|---|-------------------------------|------------------------------|------------------------------|---------------------------|------------------|
| | | At 1 January 2008* | Awarded during the year | Lapsed during the year | Vested during the year | At 31 December 2008 | |
| D J Magrath | 13 June 2006 | 64,847 | — | — | — | 64,847 | June 2009 |
| | 17 April 2007 | 43,125 | — | — | — | 43,125 | April 2010 |
| | 15 April 2008 | — | 94,618 | — | — | 94,618 | April 2011 |
| A L P Rabin | 18 April 2005 | 99,863 | — | 18,066 | 81,797 | — | |
| | 13 June 2006 | 131,721 | — | — | — | 131,721 | June 2009 |
| | 17 April 2007 | 90,269 | — | — | — | 90,269 | April 2010 |
| | 15 April 2008 | — | 105,750 | — | — | 105,750 | April 2011 |
| I P Tyler | 18 April 2005 | 144,065 | — | 26,062 | 118,003 | — | |
| | 13 June 2006 | 228,586 | — | — | — | 228,586 | June 2009 |
| | 17 April 2007 | 157,755 | — | — | — | 157,755 | April 2010 |
| | 15 April 2008 | — | 193,690 | — | — | 193,690 | April 2011 |
| P J L Zinkin | 18 April 2005 | 106,411 | — | 19,250 | 87,161 | — | |
| | 13 June 2006 | 136,989 | — | — | — | 136,989 | June 2009 |
| | 17 April 2007 | 90,269 | — | — | — | 90,269 | April 2010 |
| | 15 April 2008 | — | 105,750 | — | — | 105,750 | April 2011 |

*or date of appointment, if later.

Notes:

- (i) All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
- (ii) For the awards made in June 2006, April 2007 and April 2008, the performance periods are the three years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively. 50% of each award is subject to an EPS growth target. The maximum number of shares subject to this performance condition will only vest if EPS growth exceeds the retail prices index ("RPI") by 45% over the performance period. If EPS growth exceeds RPI by 15% then 25% of this part of the award will vest. For growth in EPS between these points, vesting will be on a pro-rata basis. No shares will vest from this part of the award if EPS growth exceeds RPI by less than 15%. The other 50% of each award is subject to a total shareholder return ("TSR") target under which the TSR of the Company is compared to that of a comparator group of similar companies listed in the UK at the start of the performance period. The maximum number of shares subject to this performance condition will only vest if the Company's TSR is at the upper quartile of the comparator group. If the Company's TSR is equal to that of the median of the comparator group then 25% of this part of the award will vest. No shares from this part of the award will vest if the Company's TSR is below that of the median of the comparator group. For TSR performance between median and upper quartile, vesting will be on a pro-rata basis. There is no provision for re-testing of either of the performance conditions.
- (iii) The average middle market price of ordinary shares in the Company for the three dealing dates before the award dates, which was used for calculating the number of awards granted, was 305.417p for the 2005 award, 308.417p for the 2006 award, 491.583p for the 2007 award and 449.17p for the 2008 award. The closing middle market price of ordinary shares on the date of the awards was 290p, 301.25p, 490.75p and 450p respectively.
- (iv) The performance period for the awards made in June 2006 was completed on 31 December 2008. The growth in EPS for this period exceeded RPI by more than 45%. The Company's TSR for this period ranked between sixth and seventh of the 14 remaining companies in the comparator group. The combined effect of these performance measures is that 69.6% of each participant's conditional award will vest on 13 June 2009. Each participant will also receive shares equal in value to the dividends, which would have been payable on the shares which vest.
- (v) The performance period for the awards made in April 2005 was completed on 31 December 2007. The growth in EPS for this period was 58.37% and as a result, 81.91% of each participant's conditional award vested on 18 April 2008. The closing middle market price of ordinary shares on the vesting date was 463p.

Directors' Deferred Bonus Plan awards

| Name of Director | Date of initial award | Number of shares awarded | | | | | | | Vesting date |
|------------------|-----------------------|--------------------------|-------------------------------|--|---------------------|------------------------------|------------------------------|---------------------------|---------------|
| | | At 1 January 2008* | Awarded during the year | Awarded during the year in respect of dividends | | Lapsed during the year | Vested during the year | At 31 December 2008 | |
| | | | | 3 July 2008 | 10 December 2008 | | | | |
| D J Magrath | 30 March 2007 | 7,814 | — | 133 | 117 | — | — | 8,064 | 30 March 2010 |
| | 31 March 2008 | — | 11,865 | 202 | 178 | — | — | 12,245 | 31 March 2011 |
| A L P Rabin | 31 March 2006 | 14,168 | — | 241 | 213 | — | — | 14,622 | 31 March 2009 |
| | 30 March 2007 | 16,775 | — | 286 | 252 | — | — | 17,313 | 30 March 2010 |
| | 31 March 2008 | — | 21,268 | 362 | 320 | — | — | 21,950 | 31 March 2011 |
| I P Tyler | 31 March 2006 | 20,491 | — | 349 | 308 | — | — | 21,148 | 31 March 2009 |
| | 30 March 2007 | 24,430 | — | 416 | 368 | — | — | 25,214 | 30 March 2010 |
| | 31 March 2008 | — | 32,462 | 553 | 489 | — | — | 33,504 | 31 March 2011 |
| P J L Zinkin | 31 March 2006 | 14,736 | — | 251 | 222 | — | — | 15,209 | 31 March 2009 |
| | 30 March 2007 | 16,774 | — | 288 | 252 | — | — | 17,314 | 30 March 2010 |
| | 31 March 2008 | — | 21,268 | 362 | 320 | — | — | 21,950 | 31 March 2011 |

* or date of appointment, if later.

Notes:

- (i) All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
- (ii) The awards made in 2006, 2007 and 2008 will vest on 31 March 2009, 30 March 2010 and 31 March 2011 respectively, providing the Director is still employed by the Company at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
- (iii) The shares awarded on 31 March 2006, 30 March 2007 and 31 March 2008 were purchased at average prices of 374.641p, 474.989p and 476.454p respectively.
- (iv) The shares awarded on 3 July 2008 and 10 December 2008 in lieu of dividends payable were allocated at average prices of 404.502p and 344.249p respectively.

Remuneration report

Directors' Savings-Related Share Option Scheme grants

| Name of Director | Date granted | At 1 January 2006* | Granted during the year | Exercised during the year | Lapsed during the year | Number of options | | Exercise price | Exercisable from | Exercisable to |
|------------------|--------------|--------------------------|-------------------------------|---------------------------------|------------------------------|---------------------|---------------------------|----------------|------------------|----------------|
| | | | | | | 31 December 2008 | At 31 December 2008 | | | |
| D J Magrath | 2 May 2007 | 1,136 | — | — | — | 1,136 | 389.0p | July 2010 | December 2010 | |
| | 7 May 2008 | — | 935 | — | — | 935 | 362.0p | July 2013 | December 2013 | |
| A L P Rabin | 7 May 2003 | 444 | — | 444 | — | — | 133.0p | July 2008 | December 2008 | |
| | 5 May 2004 | 903 | — | — | — | 903 | 210.0p | July 2009 | December 2009 | |
| | 4 May 2005 | 1,031 | — | — | — | 1,031 | 250.0p | July 2010 | December 2010 | |
| | 3 May 2006 | 971 | — | — | — | 971 | 305.0p | July 2011 | December 2011 | |
| | 2 May 2007 | 993 | — | — | — | 993 | 389.0p | July 2012 | December 2012 | |
| | 7 May 2008 | — | 321 | — | — | 321 | 362.0p | July 2011 | December 2011 | |
| I P Tyler | 4 May 2005 | 1,046 | — | 1,046 | — | — | 250.0p | July 2008 | December 2008 | |
| | 2 May 2007 | 825 | — | — | — | 825 | 389.0p | July 2010 | December 2010 | |
| | 7 May 2008 | — | 664 | — | — | 664 | 362.0p | July 2011 | December 2011 | |
| P J L Zinkin | 7 May 2003 | 839 | — | 839 | — | — | 133.0p | July 2008 | December 2008 | |
| | 5 May 2004 | 716 | — | — | — | 716 | 210.0p | July 2009 | December 2009 | |
| | 4 May 2005 | 687 | — | — | — | 687 | 250.0p | July 2010 | December 2010 | |
| | 3 May 2006 | 717 | — | — | — | 717 | 305.0p | July 2011 | December 2011 | |
| | 2 May 2007 | 1,178 | — | — | — | 1,178 | 389.0p | July 2012 | December 2012 | |
| | 7 May 2008 | — | 701 | — | — | 701 | 362.0p | July 2013 | December 2013 | |

* or date of appointment, if later.

Notes:

- (i) All options are granted under the savings-related share option scheme, for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
- (ii) The closing market price of the Company's ordinary shares on 31 December 2008 was 329.25p. During the year the highest and lowest closing market prices were 497.25p and 224.25p respectively.

Directors' pensions

The executive Directors participate in the Balfour Beatty Pension Fund (the "Fund"). The Fund provides for a pension at a normal retirement age, for pension purposes, of 62 and each Director pays an annual contribution equal to 5% of pensionable salary. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to HMRC limits. With effect from 6 April 2006, HMRC limits were changed, with one of the changes being to no longer use the earnings cap, when determining the maximum permissible benefits. However, the Fund has retained a Fund specific earnings cap for pension purposes. The salaries of Ian Tyler, Anthony Rabin and Duncan Magrath are subject to the Fund-specific earnings cap for pension purposes and details of the Company's contributions to additional arrangements for them are shown in the Directors' remuneration table on page 21.

The table below sets out the accrued deferred pension which would be paid annually from the Fund at normal retirement age based on each executive Director's service to 31 December 2008 as well as the additional pension benefit secured in respect of service during the year.

| Name of Director | Age at 31 December 2008 Years | Pensionable service at 31 December 2008 Years | Accrued deferred pension at 31 December 2007* £ pa | Increase in accrued deferred pension during the year | | Accrued deferred pension at 31 December 2008 £ pa | Transfer value corresponding to increase in excess of inflation at 31 December 2008 less Director's contributions (Note i) £ |
|-----------------------|--|---|---|---|---|--|--|
| | | | | Inflation £ pa | Increase in excess of inflation £ pa | | |
| D J Magrath | 44 | 2 | 7,788 | 226 | 3,059 | 11,073 | 20,755 |
| A L P Rabin (Note ii) | 53 | 15 | 54,194 | 2,114 | 3,291 | 59,599 | 39,001 |
| I P Tyler | 48 | 12 | 32,430 | 1,265 | 3,976 | 37,671 | 35,524 |
| P J L Zinkin | 55 | 27 | 183,469 | 7,155 | 12,987 | 203,611 | 176,033 |

* or date of appointment, if later.

Notes:

- (i) The transfer value of the increase in accrued deferred pension is the present value of the increase in excess of inflation in the deferred pension and associated benefits during the period, less the Director's contributions. Transfer values before 1 October 2008 were calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. Transfer values with effective dates after 1 October 2008 are calculated using the transfer value basis as determined by the Fund Trustee in accordance with the new transfer value regulations.
- (ii) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

The table below sets out the transfer value at 31 December 2008 of each executive Director's accrued deferred pension at that date as well as the movement in that transfer value over the period. The transfer values represent the cash equivalent values that would have been payable from the Fund had the Directors left service on the dates shown, and reflect the age of the Director, his period of Fund membership and his pensionable salary.

| Name of Director | Age at 31 December 2008 years | Pensionable service at 31 December 2008 years | Transfer value at 31 December 2007* (Note ii) £ | Contributions made by Director during the year £ | Increase in transfer value during the year less Director's contributions (Note ii) £ | Transfer value at 31 December 2008 (Note ii) £ |
|------------------------|--|---|--|---|--|---|
| D J Magrath | 44 | 2 | 48,527 | 4,528 | 37,208 | 90,263 |
| A L P Rabin (Note iii) | 53 | 15 | 677,854 | 6,037 | 108,569 | 792,460 |
| I P Tyler | 48 | 12 | 311,330 | 6,037 | 71,493 | 388,860 |
| P J L Zinkin | 55 | 27 | 2,590,284 | 20,361 | 415,035 | 3,025,680 |

* or date of appointment, if later.

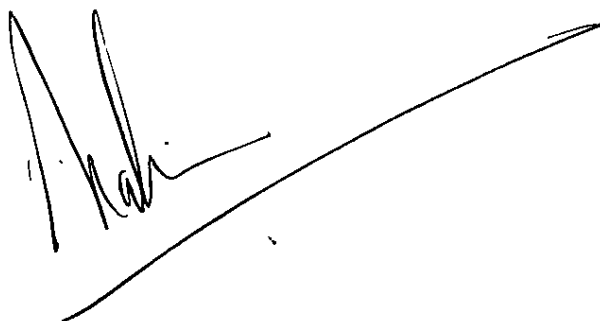
Notes:

- (i) The transfer value is the present value of the accrued deferred pension and associated benefits at the relevant date, calculated using the transfer basis then in force. Transfer values before 1 October 2008 were calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. Transfer values with effective dates after 1 October 2008 are calculated using the transfer value basis as determined by the Fund Trustee in accordance with the new transfer value regulations.
- (ii) The figure is the difference between the transfer value of the accrued benefits at the start and end of the period, less the Director's contributions during the period.
- (iii) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

Remuneration report

By order of the Board

R J W Walvis Senior Independent Director and chairman of the Remuneration Committee
4 March 2009



Independent auditors' report to the members of Balfour Beatty plc

We have audited the Group and Company financial statements (the "financial statements") of Balfour Beatty plc for the year ended 31 December 2008 which comprise the Group and Company income statements, the Group and Company balance sheets, the Group and Company cash flow statements, the Group and Company statements of recognised income and expense and the related notes 1 to 37. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

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

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

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

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

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

We read the other information contained in the annual report as described in the contents section of the Directors' report and accounts 2008 and the contents section of the Annual review 2008, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Company's affairs as at 31 December 2008 and of the Group's profit and the Company's loss for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Deloitte LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
4 March 2009



For the year ended 31 December 2008

Group income statement

| | | 2008 | | | 2007 | | |
|--|-------|---------------------------------------|---|-------------|---------------------------------------|---|--------------------------|
| | Notes | Before exceptional items* £m | Exceptional items* (Note 8) £m | Total £m | Before exceptional items* £m | Exceptional items* (Note 8) £m | Total [#] £m |
| Continuing operations | | | | | | | |
| Revenue including share of joint ventures and associates | | 9,486 | — | 9,486 | 7,488 | — | 7,488 |
| Share of revenue of joint ventures and associates | 16 | (1,225) | — | (1,225) | (1,022) | — | (1,022) |
| Group revenue | 2 | 8,261 | — | 8,261 | 6,466 | — | 6,466 |
| Cost of sales | | (7,628) | — | (7,628) | (5,959) | (33) | (5,992) |
| Gross profit | | 633 | — | 633 | 507 | (33) | 474 |
| Net operating expenses | | | | | | | |
| — amortisation of intangible assets | | — | (27) | (27) | — | (9) | (9) |
| — other | | (478) | 51 | (427) | (394) | (6) | (400) |
| Group operating profit | | 155 | 24 | 179 | 113 | (48) | 65 |
| Share of results of joint ventures and associates | 16 | 75 | (3) | 72 | 65 | 6 | 71 |
| Profit from operations | 4 | 230 | 21 | 251 | 178 | (42) | 136 |
| Investment income | 6 | 43 | — | 43 | 42 | — | 42 |
| Finance costs | 7 | (24) | — | (24) | (19) | (2) | (21) |
| Profit before taxation | | 249 | 21 | 270 | 201 | (44) | 157 |
| Taxation | 9 | (66) | (8) | (74) | (53) | 65 | 12 |
| Profit for the year from continuing operations | | 183 | 13 | 196 | 148 | 21 | 169 |
| Loss for the year from discontinued operations | 10 | — | — | — | 2 | (20) | (18) |
| Profit for the year attributable to equity shareholders | | 183 | 13 | 196 | 150 | 1 | 151 |

* and amortisation of intangible assets (Note 14).

Re-presented (Note 1.28 and Note 6).

| | Notes | 2008 pence | 2007 pence |
|--|-------|---------------|---------------|
| Basic earnings per ordinary share | | | |
| — continuing operations | 11 | 42.9 | 39.3 |
| — discontinued operations | 11 | — | (4.2) |
| | | 42.9 | 35.1 |
| Diluted earnings per ordinary share | | | |
| — continuing operations | 11 | 42.7 | 39.0 |
| — discontinued operations | 11 | — | (4.2) |
| | | 42.7 | 34.8 |
| Dividends per ordinary share proposed for the year | 12 | 12.8 | 11.5 |

For the year ended 31 December 2008

Group statement of recognised income and expense

| | Notes | 2008 £m | 2007 £m |
|--|-------|------------|------------|
| Actuarial (losses)/gains on retirement benefit obligations | | (76) | 2 |
| Cash flow hedges — fair value revaluations | | (1) | — |
| PPP cash flow hedges — fair value revaluations | | (107) | (7) |
| — reclassified and reported in net profit | | — | 7 |
| PPP financial assets — fair value revaluations | | 102 | (26) |
| — reclassified and reported in net profit | | — | (3) |
| Changes in fair value of net investment hedges | | (105) | (4) |
| Currency translation differences | | 217 | 7 |
| Tax on items taken directly to equity | | 25 | 5 |
| Net income/(expense) recognised directly in equity | | 55 | (19) |
| Profit for the year from continuing operations | | 196 | 169 |
| Loss for the year from discontinued operations | | — | (18) |
| Total recognised income for the year attributable to equity shareholders | 29.1 | 251 | 132 |

For the year ended 31 December 2008

Company income statement

| | Notes | 2008 | | | 2007 | | |
|--|-------|--------------------------------------|--|-------------|---|--|--------------------------|
| | | Before exceptional items £m | Exceptional items (Note 8) £m | Total £m | Before exceptional items [#] £m | Exceptional items (Note 8) £m | Total [#] £m |
| Revenue | 2 | 28 | — | 28 | 56 | — | 56 |
| Net operating expenses | | (14) | 1 | (13) | (14) | 82 | 68 |
| Profit from operations | | 14 | 1 | 15 | 42 | 82 | 124 |
| Investment income | 6 | 24 | — | 24 | 29 | — | 29 |
| Finance costs | 7 | (83) | — | (83) | (53) | (2) | (55) |
| (Loss)/Profit before taxation | | (45) | 1 | (44) | 18 | 80 | 98 |
| Taxation | 9 | 17 | (1) | 16 | 8 | — | 8 |
| (Loss)/Profit for the year attributable to equity shareholders | | (28) | — | (28) | 26 | 80 | 106 |

[#] Re-presented (Note 1.28 and Note 6).

For the year ended 31 December 2008

Company statement of recognised income and expense

| | Notes | 2008 £m | 2007 £m |
|--|-------|------------|------------|
| Actuarial loss on retirement benefit obligations | | (1) | (1) |
| Tax on items taken directly to equity | | (1) | — |
| Net expense recognised directly in equity | | (2) | (1) |
| (Loss)/Profit for the year | | (28) | 106 |
| Total recognised (expense)/income for the year attributable to equity shareholders | 29.2 | (30) | 105 |

At 31 December 2008

Balance sheets

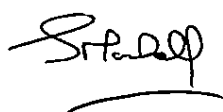
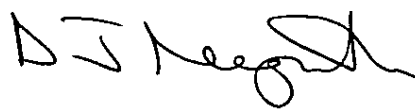
| | Notes | Group | | Company | |
|---|-------|----------------|----------------|----------------|----------------|
| | | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Non-current assets | | | | | |
| Intangible assets – goodwill | 13 | 975 | 694 | – | – |
| – other | 14 | 223 | 59 | – | – |
| Property, plant and equipment | 15 | 296 | 215 | 1 | – |
| Investments in joint ventures and associates | 16 | 469 | 381 | – | – |
| Investments | 17 | 55 | 57 | 1,738 | 1,446 |
| PPP financial assets | 18 | 151 | 62 | – | – |
| Deferred tax assets | 25 | 132 | 125 | – | 1 |
| Derivative financial instruments | 21 | 3 | 3 | 3 | 2 |
| Trade and other receivables | 22 | 74 | 77 | 31 | 32 |
| | | 2,378 | 1,673 | 1,773 | 1,481 |
| Current assets | | | | | |
| Inventories | 19 | 125 | 72 | – | – |
| Due from customers for contract work | 20 | 383 | 338 | – | – |
| Derivative financial instruments | 21 | 2 | 1 | 68 | 7 |
| Trade and other receivables | 22 | 1,193 | 881 | 587 | 610 |
| Current tax assets | | – | – | 23 | 6 |
| Cash and cash equivalents – PPP subsidiaries | 24 | 2 | 3 | – | – |
| – other | 24 | 461 | 391 | 50 | 80 |
| | | 2,166 | 1,686 | 728 | 703 |
| Total assets | | 4,544 | 3,359 | 2,501 | 2,184 |
| Current liabilities | | | | | |
| Trade and other payables | 23 | (2,168) | (1,718) | (1,460) | (1,268) |
| Due to customers for contract work | 20 | (540) | (415) | – | – |
| Derivative financial instruments | 21 | (66) | (6) | (68) | (7) |
| Current tax liabilities | | (23) | (7) | – | – |
| Borrowings – PPP non-recourse loans | 24 | – | (3) | – | – |
| – other | 24 | (12) | (16) | (51) | (95) |
| | | (2,809) | (2,165) | (1,579) | (1,370) |
| Non-current liabilities | | | | | |
| Trade and other payables | 23 | (152) | (135) | (25) | (25) |
| Derivative financial instruments | 21 | (40) | (6) | (3) | (2) |
| Borrowings – PPP non-recourse loans | 24 | (145) | (61) | – | – |
| – other | 24 | (9) | (1) | – | – |
| Deferred tax liabilities | 25 | (10) | (7) | (1) | – |
| Liability component of preference shares | 28 | (87) | (87) | (87) | (87) |
| Retirement benefit obligations | 26 | (261) | (286) | (7) | (9) |
| Provisions | 27 | (166) | (128) | (11) | (10) |
| | | (870) | (711) | (134) | (133) |
| Total liabilities | | (3,679) | (2,876) | (1,713) | (1,503) |
| Net assets | | 865 | 483 | 788 | 681 |
| Equity | | | | | |
| Called-up share capital | 28 | 239 | 216 | 239 | 216 |
| Share premium account | 29 | 54 | 52 | 54 | 52 |
| Equity component of preference shares | 29 | 16 | 16 | 16 | 16 |
| Special reserve | 29 | 139 | 164 | 139 | 164 |
| Share of joint ventures' and associates' reserves | 29 | 230 | 178 | – | – |
| Other reserves | 29 | 79 | 9 | 64 | 48 |
| Retained profits/(accumulated losses) | 29 | 104 | (152) | 276 | 185 |
| Equity attributable to equity holders of the parent | | 861 | 483 | 788 | 681 |
| Minority interests | 29 | 4 | – | – | – |
| Total equity | | 865 | 483 | 788 | 681 |

Our accounts

On behalf of the Board

Steve Marshall Director
4 March 2009

Duncan Magrath Director

For the year ended 31 December 2008

Cash flow statements

| | Notes | Group | | Company | |
|--|-------|--------------|------------|-------------|------------|
| | | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Cash flows from operating activities | | | | | |
| Cash generated from/(used in) operations | 36.1 | 297 | 277 | (9) | (3) |
| Income taxes paid | | (18) | (24) | (1) | (2) |
| Net cash from/(used in) operating activities | | 279 | 253 | (10) | (5) |
| Cash flows from investing activities | | | | | |
| Dividends received from joint ventures and associates | | 53 | 83 | 28 | 52 |
| Dividends received from subsidiaries | | — | — | — | 3 |
| Interest received | | 27 | 26 | 24 | 29 |
| Acquisition of businesses, net of cash and cash equivalents acquired | | (302) | (198) | — | — |
| Purchase of property, plant and equipment | | (93) | (80) | (1) | (1) |
| Purchase of investments | | — | (11) | — | — |
| Investment in and loans made to joint ventures and associates | | (9) | (50) | — | 1 |
| Investment in and loans made to subsidiaries | | — | — | (64) | (231) |
| Investment in PPP financial assets | | (81) | (39) | — | — |
| Settlement of financial derivatives | | (48) | 4 | — | — |
| Disposal of businesses, net of cash and cash equivalents disposed | | — | 92 | — | — |
| Disposal of property, plant and equipment | | 17 | 9 | — | — |
| Disposal of investments | | 2 | — | — | 84 |
| Net cash used in investing activities | | (434) | (164) | (13) | (63) |
| Cash flows from financing activities | | | | | |
| Proceeds from issue of ordinary shares | | 186 | 5 | 186 | 5 |
| Purchase of ordinary shares | | (13) | (4) | (13) | (4) |
| Proceeds from new loans | | 81 | 42 | — | — |
| Repayment of loans | | (18) | (1) | — | — |
| Repayment of finance leases | | (2) | — | — | — |
| Buy-back of preference shares | | — | (8) | — | (8) |
| Ordinary dividends paid | | (54) | (42) | (54) | (42) |
| Interest paid | | (12) | (7) | (71) | (41) |
| Preference dividends paid | | (11) | (11) | (11) | (11) |
| Net cash from/(used in) financing activities | | 157 | (26) | 37 | (101) |
| Net increase/(decrease) in cash and cash equivalents | | 2 | 63 | 14 | (169) |
| Effects of exchange rate changes | | 72 | 8 | — | — |
| Cash and cash equivalents at beginning of year | | 379 | 308 | (15) | 154 |
| Cash and cash equivalents at end of year | 36.2 | 453 | 379 | (1) | (15) |

Notes to the accounts

1 Principal accounting policies

1.1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on page 5 and in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee and adopted by the European Union relevant to its operations and effective for accounting periods beginning on 1 January 2008.

IAS 1 Presentation of Financial Statements (Revised 2007); IAS 23 Borrowing Costs (Revised 2007); IFRS 3 Business Combinations (revised 2008); IFRS 8 Operating Segments; IFRIC 12 Service Concession Arrangements; IFRIC 13 Customer Loyalty Programmes; IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 16 Hedges of a Net Investment in a Foreign Operation; IFRIC 17 Distributions of Non-Cash Assets to Owners; IFRIC 18 Transfers of Assets from Customers; Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations; Amendments to IFRS 1 and IAS 27 Cost of Investment in a Subsidiary, Jointly-Controlled Entity or Associate; Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation; Amendments to IAS 27 Consolidated and Separate Financial Statements; Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items and Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition were either in issue but not yet effective or not yet endorsed by the European Union at 4 March 2009.

IAS 1 (Revised 2007) and IFRS 8 affect presentation and disclosures and therefore are not anticipated to have any material impact on the financial statements of the Group. IFRIC 12 relates to the accounting for the Group's PPP concessions and would require certain assets constructed by certain of the concessions currently accounted for as "available-for-sale" financial assets to be accounted for as intangible assets. IFRIC 12 is not yet adopted for use by the European Union. IAS 23 (Revised 2007), IFRS 3 (revised 2008), IFRIC 13, IFRIC 14, IFRIC 15, IFRIC 16, IFRIC 17, IFRIC 18 and the amendments to IFRS 2, IFRS 1, IAS 27, IAS 32 and IAS 39 listed above, are not expected to have a significant impact on the Group's financial statements.

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

The functional and presentational currency of the Company, and the presentational currency of the Group, is sterling.

1.2 Basis of consolidation

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

a) Subsidiaries

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

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

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

b) Joint ventures and associates

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. Associates are entities over which the Group is in a position to exercise significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee. The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The equity return from the military housing joint ventures of Balfour Beatty Communities is contractually limited to a maximum pre-agreed level of return, beyond which Balfour Beatty Communities does not share in any increased return. Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet the obligations of the joint ventures and associates.

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

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

c) Jointly controlled operations

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

1.3 Foreign currencies

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

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

Notes to the accounts

1 Principal accounting policies continued

For the purpose of presenting consolidated financial statements, the results of overseas subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange prevailing at the balance sheet date.

Exchange differences arising are transferred to the Group's foreign currency translation reserve. These exchange differences are recognised in the income statement on disposal of the underlying net investment. Changes in the fair value of derivatives that are designated as hedges of net investments in foreign operations are recognised directly in equity, to the extent that they are effective, with the ineffective portion being recognised in the income statement.

1.4 Revenue recognition

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

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

1.5 Segmental reporting

Segmental information is based on two segment formats, of which the primary format is for business areas in accordance with the Group's internal reporting structure and the secondary format is for geographical areas. Further information on the business activities of each segment are set out in the Annual review 2008. Segment results represent the contribution of the different segments directly attributable to corporate overheads and the profit of the Group. Transactions between segments are conducted at arm's length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments, including the subordinated loans to PPP investments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable.

1.6 Construction and service contracts

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

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

1.7 Profit from operations

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

1.8 Finance costs

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

1.9 Research and development

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

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

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

1.10 Exceptional items

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

1.11 Taxation

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

Current tax is based on the profit for the year.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

1 Principal accounting policies continued

1.12 Intangible assets

a) Goodwill

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

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

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

b) Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. The cost of intangible assets is amortised over their expected useful lives, which range from one to eight years, except for intangible assets in respect of military housing contracts, which are amortised on a basis matching the returns earned over the life of the underlying contracts which have a duration of up to 50 years.

1.13 Property, plant and equipment

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

Certain land and buildings were revalued under UK GAAP.

On transition to IFRS, the Group has elected to use the revalued amount as deemed cost.

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

1.14 Leasing

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

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

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

1.15 Impairment of assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash generating units representing the lowest level at which they are monitored by the Group's Board of Directors for internal management purposes. Impairment losses for goodwill are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

1.16 Investments

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

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

1.17 Non-current assets held for sale

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

1.18 Inventories

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

1.19 Financial instruments

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

a) Cumulative convertible redeemable preference shares

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

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

Notes to the accounts

1 Principal accounting policies continued

b) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 21 and in the Financial review on pages 3 to 5.

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

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

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

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

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

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

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

c) PPP concession companies

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

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

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

1.20 Trade receivables

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

1.21 Trade payables

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

1.22 Bank borrowings

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

1.23 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution pension schemes the majority of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

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

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

1.24 Provisions

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

1.25 Financial liabilities and equity instruments

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

1 Principal accounting policies continued

1.26 Share-based payments

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

1.27 Key sources of estimation uncertainty

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

a) Revenue and margin recognition

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

b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash generating unit and the application of a suitable discount rate in order to calculate the present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash generating unit. The carrying value of goodwill at 31 December 2008 was £975m.

c) Available-for-sale financial assets

Assets constructed by the Group's PPP subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" and at 31 December 2008 had a value of £1,814m. The fair value of these financial assets is measured at each balance sheet date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates, varying from 6% to 9%, is used which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. A £102m gain was taken to equity in 2008 as a result of movements in the fair value of these financial assets.

d) PPP derivative financial instruments

The Group's PPP subsidiary, joint venture and associate companies use derivative financial instruments (principally swaps) to manage the interest rate and inflation rate risks to which the concessions are exposed by their long-term contractual agreements. These derivatives are initially recognised

as assets and liabilities at their fair value and subsequently remeasured at each balance sheet date at their fair value. The fair value of derivatives constantly changes in response to prevailing market conditions. At 31 December 2008, a cumulative fair value loss of £159m had arisen on these financial instruments and a loss of £107m was taken to equity in 2008.

e) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 26, including a table showing the sensitivity of the pension scheme obligations and the prospective 2009 charge to the income statement to different actuarial assumptions. At 31 December 2008, the defined benefit liability recognised on the Group's balance sheet was £261m (2007: £286m). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2008 the Group recognised net actuarial losses of £76m in equity (2007: £2m gain), including its share of the actuarial gains and losses arising in joint ventures and associates.

f) Taxation

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

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

As set out in Note 1.11 above, deferred tax is accounted for on temporary differences using the liability method, with deferred tax liabilities generally being provided for in full and deferred tax assets being recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Note 25.2 details the unused tax losses for which deferred tax assets have not been recognised and the undistributed reserves of subsidiaries for which deferred tax liabilities have not been provided, together with the judgements which the Group has made at 31 December 2008 in respect of these matters. These judgements may change in the future and they will be reviewed at each balance sheet date.

1.28 Change in classification of retirement benefit costs

In order to better reflect the operating performance of the Group, certain pension related income and costs have been reclassified within the income statement in the current year as permitted by IAS 19. The net amount of the interest cost for the unwind of the pension obligations and the expected return on scheme assets has been reclassified out of net operating expenses to investment income. 2007 comparative amounts have been re-presented to reflect this change.

1.29 Exchange rates

The following exchange rates were applied in the preparation of these accounts:

Average rates

| £1 buys | 2008 | 2007 | Change |
|---------|------|------|--------|
| USD | 1.86 | 2.00 | (7)% |
| EUR | 1.26 | 1.46 | (14)% |

Closing rates

| £1 buys | 2008 | 2007 | Change |
|---------|------|------|--------|
| USD | 1.46 | 1.99 | (27)% |
| EUR | 1.05 | 1.36 | (23)% |

Notes to the accounts

2 Revenue

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|--|---------------------|---------------------|-----------------------|-----------------------|
| Revenue from contracting activities – construction | 7,475 | 5,753 | – | – |
| – services | 643 | 602 | – | – |
| Revenue from manufacturing activities | 143 | 110 | – | – |
| Proceeds from sale of development land | – | 1 | – | 1 |
| Dividends from subsidiaries | – | – | – | 3 |
| Dividends from joint ventures and associates | – | – | 28 | 52 |
| | 8,261 | 6,466 | 28 | 56 |

3 Segment analysis – continuing operations

3.1 Total Group

| | Building, building management and services 2008 £m | Civil and specialist engineering and services 2008 £m | Rail engineering and services 2008 £m | Investments 2008 £m | Corporate costs, assets and liabilities 2008 £m | Total 2008 £m |
|--|---|--|---|---------------------------|--|---------------------|
| Performance by activity: | | | | | | |
| Results | | | | | | |
| Revenue including share of joint ventures and associates | 4,635 | 3,243 | 1,055 | 553 | – | 9,486 |
| Share of revenue of joint ventures and associates | (137) | (656) | (39) | (393) | – | (1,225) |
| Group revenue | 4,498 | 2,587 | 1,016 | 160 | – | 8,261 |
| Group operating profit | 84 | 85 | 39 | (19) | (34) | 155 |
| Share of results of joint ventures and associates | 4 | 19 | 2 | 50 | – | 75 |
| Profit from operations before exceptional items and amortisation | 88 | 104 | 41 | 31 | (34) | 230 |
| Exceptional items | (1) | (5) | – | (5) | 59 | 48 |
| Amortisation of intangible assets | (14) | (3) | (1) | (9) | – | (27) |
| Profit from operations | 73 | 96 | 40 | 17 | 25 | 251 |
| Investment income | | | | | | 43 |
| Finance costs | | | | | | (24) |
| Profit before taxation | | | | | | 270 |
| Assets and liabilities | | | | | | |
| Intangible assets – goodwill | 477 | 243 | 204 | 51 | – | 975 |
| – other | 60 | 8 | 4 | 151 | – | 223 |
| Investments in joint ventures and associates | 6 | 69 | 9 | 385 | – | 469 |
| Other assets | 921 | 630 | 534 | 178 | 614 | 2,877 |
| Total assets | 1,464 | 950 | 751 | 765 | 614 | 4,544 |
| Total liabilities | (1,769) | (845) | (553) | (105) | (407) | (3,679) |
| | (305) | 105 | 198 | 660 | 207 | 865 |
| Other information | | | | | | |
| Capital expenditure | 10 | 48 | 33 | 1 | 1 | 93 |
| Depreciation | 8 | 38 | 16 | 1 | 2 | 65 |

3 Segment analysis – continuing operations continued**3.1 Total Group continued**

| | Europe 2008 £m | North America 2008 £m | Other* 2008 £m | Total 2008 £m |
|--|----------------------|-----------------------------|----------------------|---------------------|
| Performance by geographic origin: | | | | |
| Group revenue | 5,981 | 2,216 | 64 | 8,261 |
| Profit from operations before exceptional items and amortisation | 147 | 59 | 24 | 230 |
| Exceptional items | 51 | (3) | – | 48 |
| Amortisation of intangible assets | (10) | (17) | – | (27) |
| Profit from operations | 188 | 39 | 24 | 251 |
| Segment assets (net) | 181 | 319 | 61 | 561 |
| Liability component of preference shares | | | | (87) |
| Net cash | | | | 297 |
| Tax and dividends | | | | 94 |
| Net assets | | | | 865 |
| Capital expenditure | 80 | 12 | 1 | 93 |

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

| | Building, building management and services 2007# £m | Civil and specialist engineering and services 2007# £m | Rail engineering and services 2007# £m | Investments 2007# £m | Corporate costs, assets and liabilities 2007# £m | Total 2007# £m |
|--|--|---|--|----------------------------|---|----------------------|
| Performance by activity: | | | | | | |
| Results | | | | | | |
| Revenue including share of joint ventures and associates | 3,640 | 2,668 | 785 | 394 | 1 | 7,488 |
| Share of revenue of joint ventures and associates | (113) | (556) | (10) | (343) | – | (1,022) |
| Group revenue | 3,527 | 2,112 | 775 | 51 | 1 | 6,466 |
| Group operating profit | 70 | 59 | 39 | (25) | (30) | 113 |
| Share of results of joint ventures and associates | – | 23 | 1 | 41 | – | 65 |
| Profit from operations before exceptional items and amortisation | 70 | 82 | 40 | 16 | (30) | 178 |
| Exceptional items | (26) | (9) | 2 | – | – | (33) |
| Amortisation of intangible assets | (6) | (3) | – | – | – | (9) |
| Profit from operations | 38 | 70 | 42 | 16 | (30) | 136 |
| Investment income | | | | | | 42 |
| Finance costs | | | | | | (21) |
| Profit before taxation | | | | | | 157 |
| Assets and liabilities | | | | | | |
| Intangible assets – goodwill | 330 | 213 | 151 | – | – | 694 |
| – other | 47 | 9 | 3 | – | – | 59 |
| Investments in joint ventures and associates | 3 | 75 | 4 | 299 | – | 381 |
| Other assets | 745 | 538 | 357 | 123 | 462 | 2,225 |
| Total assets | 1,125 | 835 | 515 | 422 | 462 | 3,359 |
| Total liabilities | (1,315) | (677) | (403) | (123) | (358) | (2,876) |
| | (190) | 158 | 112 | 299 | 104 | 483 |
| Other information | | | | | | |
| Capital expenditure | 11 | 45 | 19 | 1 | 4 | 80 |
| Depreciation | 5 | 27 | 15 | 1 | 2 | 50 |

Re-presented (Note 1.28 and Note 6).

Notes to the accounts

3 Segment analysis – continuing operations continued

3.1 Total Group continued

| | Europe 2007# £m | North America 2007# £m | Other* 2007# £m | Total 2007# £m |
|--|-----------------------|------------------------------|-----------------------|----------------------|
| Performance by geographic origin: | | | | |
| Group revenue | 4,958 | 1,471 | 37 | 6,466 |
| Profit from operations before exceptional items and amortisation | 132 | 18 | 28 | 178 |
| Exceptional items | (27) | (6) | – | (33) |
| Amortisation of intangible assets | (4) | (5) | – | (9) |
| Profit from operations | 101 | 7 | 28 | 136 |
| Segment assets (net) | 43 | 42 | 67 | 152 |
| Liability component of preference shares | | | | (87) |
| Net cash | | | | 313 |
| Tax and dividends | | | | 105 |
| Net assets | | | | 483 |
| Capital expenditure | 67 | 13 | – | 80 |

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

Re-presented (Note 1.28 and Note 6).

3.2 Investments (Balfour Beatty Capital and Balfour Beatty Communities)

The Investments segment includes the Group's PPP activities, infrastructure investments and US military housing.

| | Group 2008 £m | Share of joint ventures and associates 2008 £m | Total 2008 £m | Group 2007 £m | Share of joint ventures and associates 2007 £m | Total 2007 £m |
|---|---------------------|--|---------------------|---------------------|--|---------------------|
| Revenue | | | | | | |
| PPP | | | | | | |
| – joint ventures and associates (Note 16.2) | – | 293 | 293 | – | 275 | 275 |
| – subsidiaries (Note 3.3) | 95 | – | 95 | 51 | – | 51 |
| Military housing | 63 | – | 63 | – | – | – |
| | 158 | 293 | 451 | 51 | 275 | 326 |
| Infrastructure | | | | | | |
| – joint ventures and associates (Note 16.2) | – | 100 | 100 | – | 68 | 68 |
| – subsidiaries | 2 | – | 2 | – | – | – |
| | 160 | 393 | 553 | 51 | 343 | 394 |
| Profit from operations – before exceptional items and amortisation of intangible assets* | | | | | | |
| PPP | | | | | | |
| – joint ventures and associates (Note 16.2) | – | 31 | 31 | – | 29 | 29 |
| – subsidiaries (Note 3.3) | 1 | – | 1 | 1 | – | 1 |
| – bidding costs and overheads | (27) | – | (27) | (26) | – | (26) |
| Military housing | | | | | | |
| – joint ventures and associates (Note 16.2) | – | 2 | 2 | – | – | – |
| – subsidiaries | 10 | – | 10 | – | – | – |
| | (16) | 33 | 17 | (25) | 29 | 4 |
| Infrastructure | | | | | | |
| – joint ventures and associates (Note 16.2) | – | 17 | 17 | – | 12 | 12 |
| – subsidiaries | (3) | – | (3) | – | – | – |
| | (19) | 50 | 31 | (25) | 41 | 16 |

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

3 Segment analysis – continuing operations continued**3.2 Investments (Balfour Beatty Capital and Balfour Beatty Communities) continued**

| | Group 2008 £m | Share of joint ventures and associates 2008 £m | Total 2008 £m | Group 2007 £m | Share of joint ventures and associates 2007 £m | Total 2007 £m |
|--|---------------------|--|---------------------|---------------------|--|---------------------|
| Net assets | | | | | | |
| PPP | | | | | | |
| – joint ventures and associates (Note 16.2 and 16.3) | – | 253 | 253 | – | 212 | 212 |
| – subsidiaries (Note 3.3) | 118 | – | 118 | 58 | – | 58 |
| – Reimbursed pre-contract costs and development fees | (27) | – | (27) | (33) | – | (33) |
| – loans from joint ventures and associates | (25) | – | (25) | (25) | – | (25) |
| Military housing | | | | | | |
| – joint ventures and associates (Note 16.2) | – | 48 | 48 | – | – | – |
| – subsidiaries | 199 | – | 199 | – | – | – |
| | 265 | 301 | 566 | – | 212 | 212 |
| Infrastructure | | | | | | |
| – joint ventures and associates (Note 16.2) | – | 84 | 84 | – | 87 | 87 |
| – subsidiaries | 10 | – | 10 | – | – | – |
| | 275 | 385 | 660 | – | 299 | 299 |

3.3 PPP service company concession subsidiaries

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

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Income statement | | |
| Group revenue | 95 | 51 |
| Profit from operations | 1 | 1 |
| Investment income | 7 | 2 |
| Finance costs | (6) | (2) |
| Profit before taxation | 2 | 1 |
| Taxation | (1) | – |
| Profit for the year | 1 | 1 |
| Cash flow | | |
| Profit from operations | 1 | 1 |
| Decrease/(increase) in working capital | 3 | (3) |
| Income taxes paid | – | – |
| Net cash inflow/(outflow) from operating activities | 4 | (2) |
| Net cash outflow from investing activities | (80) | (36) |
| Net cash outflow from financing activities | (6) | (2) |
| Net cash outflow | (82) | (40) |
| Net borrowings at beginning of year | (61) | (21) |
| Net borrowings at end of year | (143) | (61) |
| Balance sheet | | |
| PPP financial assets (Note 18) | 151 | 62 |
| Derivative financial instruments | (39) | (5) |
| Other net current assets | 6 | 1 |
| Cash and cash equivalents | 2 | 3 |
| Non-recourse term loans | (145) | (64) |
| Net liabilities | (25) | (3) |

Notes to the accounts

4 Profit from operations

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

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Research and development costs | 4 | 3 |
| Depreciation of property, plant and equipment | 65 | 50 |
| Amortisation of other intangible assets | 27 | 9 |
| Impairment of trade receivables | 5 | (1) |
| Profit on disposal of property, plant and equipment | (4) | (3) |
| Cost of manufacturing inventory recognised as an expense | 99 | 72 |
| Auditors' remuneration | 5 | 4 |
| Hire charges for plant and equipment | 120 | 115 |
| Other operating lease rentals | 59 | 45 |

4.2 Analysis of auditors' remuneration:

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Services as auditors | 0.7 | 0.6 |
| Other services – auditing of accounts of subsidiaries | 2.9 | 2.1 |
| Group audit fee | 3.6 | 2.7 |
| Other services – independent review of interim report | 0.2 | 0.2 |
| – tax services – compliance | 0.1 | 0.1 |
| – advisory | 0.1 | 0.2 |
| – other services – acquisition due diligence | 2.0 | 0.4 |
| – other | 0.1 | 0.2 |
| | 6.1 | 3.8 |
| Acquisition due diligence fees capitalised | 1.1 | 0.2 |
| Fees in relation to audit and other services recognised within expenses | 5.0 | 3.6 |

5 Employee costs

5.1 Group

Employee costs during the year amounted to:

| | 2008 £m | 2007 £m |
|----------------------------------|------------|------------|
| Wages and salaries | 1,416 | 1,200 |
| Redundancy | 8 | 2 |
| Social security costs | 133 | 116 |
| Pension costs (Note 26.1)* | 73 | 71 |
| Share-based payments (Note 31.1) | 9 | 7 |
| | 1,639 | 1,396 |

* Re-presented (Note 1.28 and Note 6).

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

| | 2008 Number | 2007 Number |
|---|----------------|----------------|
| Building, building management and services | 18,114 | 15,398 |
| Civil and specialist engineering and services | 14,264 | 13,412 |
| Rail engineering and services | 6,121 | 5,642 |
| Investments | 913 | 232 |
| Corporate | 113 | 95 |
| | 39,525 | 34,779 |

At 31 December 2008, the total number of Group employees was 41,030 (2007: 36,080).

5 Employee costs continued

5.2 Company

The average number of employees of Balfour Beatty plc was 104 (2007: 90). Total employee costs of Balfour Beatty plc were £23m (2007: £19m). Total employee costs comprise wages and salaries £16m (2007: £13m), social security costs £1m (2007: £1m), pension costs £2m (2007: £2m) and share-based payments £4m (2007: £3m).

6 Investment income

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|---|---------------------|---------------------|-----------------------|-----------------------|
| PPP subordinated debt interest receivable | 12 | 11 | 4 | 3 |
| PPP interest on financial assets | 7 | 2 | — | — |
| Income arising from derivatives designated as hedges of net investments in foreign operations | 6 | — | — | — |
| Interest receivable from subsidiaries | — | — | 18 | 21 |
| Net investment income on pension scheme assets and liabilities (Note 26.1) | 5 | 13 | — | 1 |
| Other interest receivable and similar income | 13 | 16 | 2 | 4 |
| | 43 | 42 | 24 | 29 |

* Investment income has been re-presented to include the interest cost for the unwind of the pension obligations and the expected return on scheme assets, which have been reclassified out of net operating expenses. Refer to Note 26.1 for a breakdown of the Group pension related net investment income recognised.

7 Finance costs

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|--|---------------------|---------------------|-----------------------|-----------------------|
| Preference shares – finance cost | 12 | 12 | 12 | 12 |
| PPP non-recourse – bank loans and overdrafts | 6 | 2 | — | — |
| Finance costs arising from derivatives designated as hedges of net investments in foreign operations | — | 1 | — | — |
| Interest payable to subsidiaries | — | — | 65 | 38 |
| Other interest payable – bank loans and overdrafts | 5 | 3 | 6 | 3 |
| – other loans | 1 | 1 | — | — |
| | 24 | 19 | 83 | 53 |
| Exceptional items – premium on buy-back of preference shares | — | 2 | — | 2 |
| | 24 | 21 | 83 | 55 |

Our accounts

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 2008 on 1 July 2008 to holders of these shares on the register on 30 May 2008. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share was paid in respect of the six months ended 31 December 2008 on 1 January 2009 to holders of these shares on the register on 21 November 2008.

Notes to the accounts

8 Exceptional items and amortisation of intangible assets

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|--|---------------------|---------------------|-----------------------|-----------------------|
| 8.1 Credited to/(charged against) profit from operations | | | | |
| Net operating expenses – reduction in pension past service liabilities | 60 | – | 2 | – |
| – post-acquisition integration, reorganisation and other costs | (6) | (6) | (1) | – |
| – sale of investment | – | – | – | 82 |
| – adjustment to Birse Group goodwill | (3) | – | – | – |
| Cost of sales – Metronet – contract losses | – | (33) | – | – |
| Share of joint ventures and associates – Metronet – contract profits | – | 6 | – | – |
| – tax adjustments | (3) | – | – | – |
| | 48 | (33) | 1 | 82 |
| 8.2 Charged against finance costs | | | | |
| – premium on buy-back of preference shares | – | (2) | – | (2) |
| 8.3 Credited to/(charged against) profit before taxation | 48 | (35) | 1 | 80 |
| – tax on items above | (15) | 11 | (1) | – |
| – tax credit on recognition of Birse Group losses | 3 | – | – | – |
| – industrial buildings allowances | (3) | – | – | – |
| – recognition of US deferred tax assets | – | 51 | – | – |
| Credited to profit from continuing operations | 33 | 27 | – | 80 |
| 8.4 Credited to/(charged against) profit from discontinued operations | | | | |
| – profit on sale of operations | – | 57 | – | – |
| – Metronet – impairment of investment | – | (87) | – | – |
| – tax thereon | – | 10 | – | – |
| Exceptional items credited to profit for the year | 33 | 7 | – | 80 |
| Amortisation of intangible assets | (27) | (9) | – | – |
| Tax thereon | 7 | 3 | – | – |
| Credited to profit for the year | 13 | 1 | – | 80 |

8.1 In 2008 the Group has implemented measures to limit the increase in pension benefits of certain groups of in-service members of the Balfour Beatty Pension Fund giving rise to a reduction in past service liabilities of £60m (2007: £nil), of which £2m was recognised within the Company accounts.

Reorganisation and integration costs of £6m (2007: £6m) have been incurred, £3m relating to Balfour Beatty Communities (formerly GMH Military Housing), £1m of which was borne by the Company, and £2m relating to Dean & Dyball. Further costs of £1m have been incurred in the US on the reorganisation of the central division of Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc) (2007: £1m). The 2007 exceptional items also included costs incurred on the reorganisation and integration of Balfour Beatty Construction Group Inc (formerly Centex Construction) (2007: £3m) and the reorganisation of Balfour Beatty Rail Inc (2007: £2m).

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

In 2007, as a result of the request by Metronet Rail BCV Ltd to the Arbiter for an Extraordinary Review of the incurred and forecast costs, his subsequent interim award, and the consequent appointment to both Metronet Rail BCV Ltd and Metronet Rail SSL Ltd (collectively "Metronet") of a PPP Administrator, provision was 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 contracted, and other direct contracts with Group subsidiaries. These costs included, where relevant, provision for winding down contracts, outstanding receivables and settlement of other trading items.

Following enactment of the UK Finance Act 2008, tax depreciation allowances on industrial buildings are being reduced to nil on a phased basis. Joint ventures and associates of the Group have recognised a £4m deferred tax charge (2007: £nil) which is required under IAS 12 to establish a deferred tax liability. This liability will be released to the income statement as the relevant assets are depreciated for accounting purposes. In addition, a £1m deferred tax credit (2007: £nil) has been recognised following agreement with HMRC as to the basis of taxing certain PPP concessions.

8 Exceptional items and amortisation of intangible assets continued

8.2 The exceptional items charged against finance costs are the premium of £0.1m (2007: £2m) arising on the repurchase for cancellation of 0.3m (2007: 5.0m) preference shares at a cost of £0.4m (2007: £8m).

8.3 The exceptional items credited to/(charged against) profit from operations have given rise to a net tax charge of £12m (2007: £11m credit). In addition, subsidiaries of the Group have recognised a £3m deferred tax charge (2007: £nil) to establish a deferred tax liability, in relation to industrial building allowances which is required under IAS 12. This liability will be released to the income statement as the relevant buildings are depreciated for accounting purposes.

In 2007, as a result of the acquisition of Balfour Beatty Construction Group Inc (formerly Centex Construction), the benefits of tax losses and other tax assets arising from temporary differences in the US crystallised and were recognised in full in accordance with IAS 12, giving rise to an exceptional gain of £51m.

8.4 In 2007, 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, 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 was credited to profit from discontinued operations. The carrying value of this investment at the date of sale was £27m. Costs associated with the disposal amounted to £2m. As a result of the appointment to Metronet of a PPP Administrator, the Group's investments in the Metronet concessions, including profits recognised in previous periods, were written down to £nil.

9 Taxation

9.1 Taxation charge

| | Group | | | | | |
|---|---------------------------------------|---|---------------------|---------------------|-----------------------|-----------------------|
| | Before exceptional items* £m | Exceptional items* (Note 8) £m | Total 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
| UK current tax | | | | | | |
| – corporation tax for the year at 28.5% (2007: 30%) | 23 | (3) | 20 | 22 | (17) | (6) |
| – double tax relief | (2) | – | (2) | (6) | – | – |
| – ACT write off | 4 | – | 4 | – | – | – |
| – adjustments in respect of previous periods | – | – | – | (2) | – | (1) |
| | 25 | (3) | 22 | 14 | (17) | (7) |
| Foreign current tax | | | | | | |
| – foreign tax on profits for the year | 13 | (1) | 12 | 11 | – | – |
| – adjustments in respect of previous periods | – | – | – | 2 | – | – |
| | 13 | (1) | 12 | 13 | – | – |
| Total current tax | 38 | (4) | 34 | 27 | (17) | (7) |
| Deferred tax | | | | | | |
| – UK | 7 | 17 | 24 | 5 | 1 | (1) |
| – foreign tax | 21 | (5) | 16 | (44) | – | – |
| Total deferred tax | 28 | 12 | 40 | (39) | 1 | (1) |
| Total tax charge/(credit) | 66 | 8 | 74 | (12) | (16) | (8) |

* and amortisation of intangible assets.

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

In addition to the Group tax charge above is £25m of tax credited (2007: £5m credited) directly to equity, comprising a current tax credit of £6m (2007: £1m credit), a deferred tax credit of £23m (2007: £3m charge), and a charge in respect of joint ventures and associates of £4m (2007: £7m credit). Further, in 2007 there was a credit of £10m which related to tax on discontinued operations as disclosed in Note 10.

In addition to the Company tax credit above are amounts charged directly to equity for deferred tax of £1m (2007: £nil).

The weighted average applicable tax rate is 32% (2007: 33%) based on profit before taxation, exceptional items and amortisation of intangible assets, excluding the results of joint ventures and associates.

Notes to the accounts

9 Taxation continued

9.2 Taxation reconciliation

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|---|---------------------|---------------------|-----------------------|-----------------------|
| Profit/(Loss) before taxation from continuing operations | 270 | 157 | (44) | 98 |
| Less: share of results of joint ventures and associates | (72) | (71) | — | — |
| Profit/(loss) before taxation | 198 | 86 | (44) | 98 |
| (Less)/add: exceptional items* (credited)/charged excluding share of joint ventures and associates | (24) | 50 | (1) | (80) |
| Profit/(loss) before taxation, exceptional items and amortisation of intangible assets excluding the results of joint ventures and associates | 174 | 136 | (45) | 18 |
| Tax on profit/(loss) before taxation at standard UK corporation tax rate of 28.5% (2007: 30%) | 56 | 26 | (12) | 29 |
| Effects of: | | | | |
| Expenses not deductible for tax purposes including amortisation of goodwill | 6 | 5 | 1 | 2 |
| Dividend income taxable/(not taxable) | 5 | — | (8) | (17) |
| Preference shares finance costs not deductible | 3 | 4 | 3 | 4 |
| Losses not available for offset | 2 | — | — | — |
| Higher tax rates on foreign earnings | 4 | 3 | — | — |
| Disposal of investments and other assets not taxable | — | — | — | (25) |
| Adjustments in respect of other periods | (5) | — | — | (1) |
| Recognition of losses not previously recognised | (4) | (52) | — | — |
| Impact of change in UK tax rate on deferred tax balances | — | 2 | — | — |
| Withdrawal of industrial buildings allowances | 3 | — | — | — |
| Advance corporation tax write off | 4 | — | — | — |
| Total tax charge/(credit) on Group/Company profit/(loss) from continuing operations | 74 | (12) | (16) | (8) |
| (Less)/add: tax (charge)/credit on exceptional items and amortisation of intangible assets | (8) | 65 | (1) | — |
| Tax on Group/Company profit/(loss) before exceptional items and amortisation of intangible assets | 66 | 53 | (17) | (8) |

* and amortisation of intangible assets.

10 Discontinued operations

| | Total 2008 £m | EDAL 2007 £m | DML 2007 £m | Metronet 2007 £m | Total 2007 £m |
|---|---------------------|--------------------|-------------------|------------------------|---------------------|
| Group revenue | — | 3 | — | — | 3 |
| Group share of revenue of joint ventures and associates | — | — | 55 | 142 | 197 |
| Group operating profit | — | (1) | — | — | (1) |
| Group share of results of joint ventures and associates | — | — | 3 | — | 3 |
| | — | (1) | 3 | — | 2 |
| Profit on sale of operations | — | — | 57 | — | 57 |
| Impairment of investment | — | — | — | (87) | (87) |
| Taxation thereon | — | — | — | 10 | 10 |
| (Loss)/profit for the year from discontinued operations | — | (1) | 60 | (77) | (18) |

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. The Group's 24.5% interest in Devonport Management Ltd ("DML"), sold on 28 June 2007 and previously included in Civil and specialist engineering and services, has been classified as discontinued. The results of Metronet Rail BCV Holdings Ltd and Metronet Rail SSL Holdings Ltd ("Metronet") previously included in Investments have been classified as discontinued as a result of the appointment of a PPP Administrator to the concession companies on 18 July 2007.

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

11 Earnings per ordinary share

| | Basic 2008 £m | Diluted 2008 £m | Basic 2007 £m | Diluted 2007 £m |
|---|------------------------|--------------------------|------------------------|--------------------------|
| Earnings | | | | |
| – continuing operations | 196 | 196 | 169 | 169 |
| – discontinued operations | – | – | (18) | (18) |
| | 196 | 196 | 151 | 151 |
| Exceptional items | (33) | | (7) | |
| Amortisation of intangible assets | 20 | | 6 | |
| Adjusted earnings | 183 | | 150 | |
| Comprising: | | | | |
| – continuing operations | 183 | | 148 | |
| – discontinued operations | – | | 2 | |
| | 183 | | 150 | |
| | Basic 2008 m | Diluted 2008 m | Basic 2007 m | Diluted 2007 m |
| Weighted average number of ordinary shares | 457.6 | 459.5 | 430.0 | 433.7 |
| | Basic 2008 Pence | Diluted 2008 Pence | Basic 2007 Pence | Diluted 2007 Pence |
| Earnings per ordinary share | | | | |
| – continuing operations | 42.9 | 42.7 | 39.3 | 39.0 |
| – discontinued operations | – | – | (4.2) | (4.2) |
| | 42.9 | 42.7 | 35.1 | 34.8 |
| Exceptional items | (7.2) | | (1.6) | |
| Amortisation of intangible assets | 4.2 | | 1.5 | |
| Adjusted earnings per ordinary share | 39.9 | | 35.0 | |
| Comprising: | | | | |
| – continuing operations | 39.9 | | 34.4 | |
| – discontinued operations | – | | 0.6 | |
| | 39.9 | | 35.0 | |

The calculation of basic earnings is based on profit for the period attributable to equity shareholders. The calculation of the weighted average number of ordinary shares was affected by the issue of 43,320,411 ordinary shares on 20 May 2008, and has been adjusted for the conversion of share options for the calculation of diluted earnings per ordinary share. 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 in 2007, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

12 Dividends on ordinary shares

| | Per share 2008 pence | Amount 2008 £m | Per share 2007 pence | Amount 2007 £m |
|---|----------------------------|----------------------|----------------------------|----------------------|
| Proposed dividends for the year: | | | | |
| Interim – current year | 5.1 | 24 | 4.6 | 20 |
| Final – current year | 7.7 | 37 | 6.9 | 30 |
| | 12.8 | 61 | 11.5 | 50 |
| Recognised dividends for the year: | | | | |
| Final – prior year | | 30 | | 22 |
| Interim – current year | | 24 | | 20 |
| | | 54 | | 42 |

An interim dividend of 5.1p (2007: 4.6p) per ordinary share was paid on 10 December 2008. Subject to approval at the Annual General Meeting on 14 May 2009, the final 2008 dividend will be paid on 6 July 2009 to holders of ordinary shares on the register on 24 April 2009 by direct credit or, where no mandate has been given, by cheque posted on 3 July 2009 payable on 6 July 2009. These shares will be quoted ex-dividend on 22 April 2009.

Notes to the accounts

13 Intangible assets – goodwill

| | Cost £m | Accumulated impairment losses £m | Carrying amount £m |
|-----------------------------------|------------|---|--------------------------|
| At 1 January 2007 | 464 | (37) | 427 |
| Exchange and other adjustments | 3 | 1 | 4 |
| Businesses acquired | 263 | – | 263 |
| At 31 December 2007 | 730 | (36) | 694 |
| Exchange and other adjustments | 150 | (13) | 137 |
| Businesses acquired (see Note 30) | 144 | – | 144 |
| At 31 December 2008 | 1,024 | (49) | 975 |

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

| | Europe 2008 £m | North America 2008 £m | Total 2008 £m | Europe 2007 £m | North America 2007 £m | Total 2007 £m |
|---|----------------------|--------------------------------|---------------------|----------------------|--------------------------------|---------------------|
| Building, building management and services | 155 | 322 | 477 | 132 | 198 | 330 |
| Civil and specialist engineering and services | 243 | – | 243 | 213 | – | 213 |
| Rail engineering and services | 194 | 10 | 204 | 143 | 8 | 151 |
| Investments | 5 | 46 | 51 | – | – | – |
| Group | 597 | 378 | 975 | 488 | 206 | 694 |

The recoverable amount of goodwill is based on value in use. Cash flow forecasts have been based on the expected workload of each cash generating unit (CGU) giving consideration to the current level of confirmed orders and anticipated orders. Cash flow forecasts for the next three years are based on the Group's 2009 budget and medium-term plan. Thereafter the key inputs in assessing the CGU are its revenue growth rate and discount rate. This growth rate has been applied to cash flows after three years into perpetuity and reflects published GDP growth rates for the economies that each CGU operates in. The cash flows assume a residual value based on a multiple of earnings before interest and tax.

The cash flows have been discounted using a pre-tax discount rate in the range of 10.6%–12.2% (2007: 12.4%–14.9%). The discount rates are revised annually applying updated market inputs to the standard capital asset pricing model.

| | 2008 | | | 2007 | | |
|---------------------------------------|------|------------------|--------------------|------|------------------|--------------------|
| | UK | North America | Mainland Europe | UK | North America | Mainland Europe |
| Inflation rate | 2.2% | 2.3% | 1.9% | 2.2% | 2.3% | 1.9% |
| GDP growth rate | 1.1% | 1.9% | 1.0% | 2.4% | 2.5% | 2.1% |
| Nominal long-term growth rate applied | 3.3% | 4.2% | 2.9% | 4.6% | 4.8% | 4.0% |

Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the revenue growth rate and the discount rate.

Given the Group's sensitivity analysis, a reasonable change in a single assumption will not cause impairment in any of the Group's CGUs. However, a significant adverse change in our key assumptions could result in an impairment in our Balfour Beatty Communities CGU as its fair value currently exceeds its carrying value only by approximately 20%. The carrying value of the goodwill of Balfour Beatty Communities is £46m.

14 Intangible assets – other

| | Customer contracts £m | Customer relationships £m | Brand names £m | Total £m |
|---------------------------------|-----------------------------|---------------------------------|-------------------|-------------|
| Cost | | | | |
| At 1 January 2007 | 3 | 4 | 3 | 10 |
| Businesses acquired | 28 | 26 | 5 | 59 |
| At 31 December 2007 | 31 | 30 | 8 | 69 |
| Exchange adjustments | 52 | 7 | 1 | 60 |
| Businesses acquired (Note 30) | 127 | 7 | 3 | 137 |
| At 31 December 2008 | 210 | 44 | 12 | 266 |
| Accumulated amortisation | | | | |
| At 1 January 2007 | (1) | – | – | (1) |
| Charge for the year | (6) | (2) | (1) | (9) |
| At 31 December 2007 | (7) | (2) | (1) | (10) |
| Exchange adjustments | (5) | (1) | – | (6) |
| Charge for the year | (20) | (4) | (3) | (27) |
| At 31 December 2008 | (32) | (7) | (4) | (43) |
| Carrying amount | | | | |
| At 31 December 2008 | 178 | 37 | 8 | 223 |
| At 31 December 2007 | 24 | 28 | 7 | 59 |

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to eight years for customer relationships and up to five years for brand name, except for intangible assets in respect of military housing contracts, which are amortised on a basis matching the returns earned over the life of the underlying contracts, which have a duration of up to 50 years.

Notes to the accounts

15 Property, plant and equipment

15.1 Movements

| | Land and buildings £m | Plant and equipment £m | Assets in course of construction £m | Group Total £m | Company Plant and equipment £m |
|---------------------------------|-----------------------------|------------------------------|---|----------------------|---|
| Cost or valuation | | | | | |
| At 1 January 2007 | 46 | 378 | — | 424 | 1 |
| Exchange adjustments | — | 2 | — | 2 | — |
| Additions | 9 | 70 | 1 | 80 | 1 |
| Disposals | (1) | (26) | — | (27) | — |
| Businesses acquired | 4 | 3 | — | 7 | — |
| Transfers | 1 | (1) | — | — | — |
| At 31 December 2007 | 59 | 426 | 1 | 486 | 2 |
| Exchange adjustments | 6 | 44 | — | 50 | — |
| Additions | 11 | 82 | — | 93 | 1 |
| Disposals | (5) | (48) | — | (53) | — |
| Businesses acquired | 28 | 21 | — | 49 | — |
| Transfers | — | 1 | (1) | — | — |
| At 31 December 2008 | 99 | 526 | — | 625 | 3 |
| Accumulated depreciation | | | | | |
| At 1 January 2007 | 12 | 229 | — | 241 | 1 |
| Exchange adjustments | — | 1 | — | 1 | — |
| Charge for the year | 3 | 47 | — | 50 | 1 |
| Disposals | — | (21) | — | (21) | — |
| At 31 December 2007 | 15 | 256 | — | 271 | 2 |
| Exchange adjustments | 2 | 31 | — | 33 | — |
| Charge for the year | 3 | 62 | — | 65 | — |
| Disposals | — | (40) | — | (40) | — |
| At 31 December 2008 | 20 | 309 | — | 329 | 2 |
| Carrying amount | | | | | |
| At 31 December 2008 | 79 | 217 | — | 296 | 1 |
| At 31 December 2007 | 44 | 170 | 1 | 215 | — |

The carrying amount of the Group's property, plant and equipment held under finance leases was £6m (2007: £1m). The Company has no land and buildings and no property, plant and equipment held under finance leases.

15.2 Analysis of carrying amount of land and buildings

| | Group 2008 £m | Group 2007 £m |
|--|---------------------|---------------------|
| Freehold | 65 | 33 |
| Long leasehold – over 50 years unexpired | 2 | 1 |
| Short leasehold | 12 | 10 |
| | 79 | 44 |

16 Investments in joint ventures and associates**16.1 Movements**

| | Net assets £m | Loans £m | Provisions £m | Total £m |
|--|------------------|-------------|------------------|-------------|
| At 1 January 2007 | 373 | 110 | (25) | 458 |
| Income recognised – continuing operations | 71 | – | – | 71 |
| – discontinued operations | 3 | – | – | 3 |
| Impairment of investment | – | – | (90) | (90) |
| Actuarial gains on retirement benefit obligations | 3 | – | – | 3 |
| Fair value revaluation of PPP cash flow hedges | (2) | – | – | (2) |
| Fair value revaluation of PPP financial assets | (26) | – | – | (26) |
| Tax on items taken directly to equity | 7 | – | – | 7 |
| Dividends | (83) | – | – | (83) |
| Additions | 1 | – | – | 1 |
| Loans granted | – | 49 | – | 49 |
| Business acquired | 3 | 14 | – | 17 |
| Business sold | (27) | – | – | (27) |
| At 31 December 2007 | 323 | 173 | (115) | 381 |
| Income recognised – continuing operations | 72 | – | – | 72 |
| Actuarial losses on retirement benefit obligations | (14) | – | – | (14) |
| Fair value revaluation of other cash flow hedges | (3) | – | – | (3) |
| Fair value revaluation of PPP cash flow hedges | (73) | – | – | (73) |
| Fair value revaluation of PPP financial assets | 100 | – | – | 100 |
| Exchange differences | 27 | – | – | 27 |
| Tax on items taken directly to equity | (4) | – | – | (4) |
| Dividends | (53) | – | – | (53) |
| Additions | 11 | – | – | 11 |
| Loans repaid | – | (2) | – | (2) |
| Business acquired | 27 | – | – | 27 |
| At 31 December 2008 | 413 | 171 | (115) | 469 |

Our accounts

Principal subsidiaries, joint ventures and associates are shown in Note 37(b). The original cost of the Group's investments in joint ventures and associates was £165m (2007: £127m). The Group's share of borrowings of joint ventures and associates is shown in 16.2 below. The amount of these which was supported by the Group and the Company was £13m (2007: £nil), relating to the Group's share of guaranteed borrowings. The borrowings of Barking Power Ltd, Regional & City Airports (Exeter) Ltd and the PPP joint venture and associate companies are repayable over periods extending up to 2040. As disclosed in Note 32, the Company has committed to provide its share of further equity funding of joint ventures and associates in PPP projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until the relevant construction has been completed. As is customary in such projects, dividend payments and other distributions are restricted until certain banking covenants are met.

Notes to the accounts

16 Investments in joint ventures and associates continued

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

| | Building, building management and services 2008 £m | Civil and specialist engineering and services 2008 £m | Rail engineering and services 2008 £m | Investments | | | Total 2008 £m | Total 2008 £m |
|---|---|--|---|-------------------|------------------------------|------------------------------------|---------------------|---------------------|
| | | | | PPP 2008 £m | Infrastructure 2008 £m | Military housing* 2008 £m | | |
| Revenue | 137 | 656 | 39 | 293 | 100 | — | 393 | 1,225 |
| Operating profit before exceptional items | 5 | 20 | 3 | 7 | 26 | 2 | 35 | 63 |
| Investment income | — | 1 | — | 125 | — | — | 125 | 126 |
| Finance costs | — | — | — | (87) | (3) | — | (90) | (90) |
| Profit before taxation and exceptional items | 5 | 21 | 3 | 45 | 23 | 2 | 70 | 99 |
| Taxation | (1) | (2) | (1) | (14) | (6) | — | (20) | (24) |
| Exceptional items | — | — | — | (1) | (2) | — | (3) | (3) |
| Profit after taxation – continuing operations | 4 | 19 | 2 | 30 | 15 | 2 | 47 | 72 |
| Non-current assets | | | | | | | | |
| Intangible assets – goodwill | — | 29 | 3 | — | 24 | — | 24 | 56 |
| — other | — | — | — | 2 | — | — | 2 | 2 |
| Property, plant and equipment | 1 | 31 | 4 | — | 109 | — | 109 | 145 |
| PPP financial assets | — | — | — | 1,663 | — | — | 1,663 | 1,663 |
| Military housing projects | — | — | — | — | — | 48 | 48 | 48 |
| Other non-current assets | 1 | — | — | 72 | 1 | — | 73 | 74 |
| Current assets | | | | | | | | |
| Cash and cash equivalents | 4 | 152 | 5 | 113 | 16 | — | 129 | 290 |
| Other current assets | 20 | 381 | 17 | 145 | 21 | — | 166 | 584 |
| Total assets | 26 | 593 | 29 | 1,995 | 171 | 48 | 2,214 | 2,862 |
| Current liabilities | | | | | | | | |
| Borrowings | — | (22) | — | (41) | (7) | — | (48) | (70) |
| Other current liabilities | (18) | (345) | (18) | (88) | (19) | — | (107) | (488) |
| Non-current liabilities | | | | | | | | |
| Borrowings | (2) | (3) | — | (1,440) | (29) | — | (1,469) | (1,474) |
| Other non-current liabilities | — | (154) | (2) | (173) | (32) | — | (205) | (361) |
| Total liabilities | (20) | (524) | (20) | (1,742) | (87) | — | (1,829) | (2,393) |
| Net assets | 6 | 69 | 9 | 253 | 84 | 48 | 385 | 469 |

* The Group's investment in military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return for the underlying projects.

Capital expenditure authorised and contracted which has not been provided for in the accounts of the joint ventures and associates amounted to £7m (2007: £2m).

The military housing joint ventures and associates have total non-recourse net borrowings of £1,114m. Note 37(f) details the Group's military housing projects.

16 Investments in joint ventures and associates continued

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

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

Our accounts

16.3 PPP investments

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

| | Net investment 2008 £m | Reserves 2008 £m | Total 2008 £m | Net investment 2007 £m | Reserves 2007 £m | Total 2007 £m |
|-------------------|------------------------------|------------------------|---------------------|------------------------------|------------------------|---------------------|
| Roads | 43 | 94 | 137 | 43 | 68 | 111 |
| Hospitals | 60 | 21 | 81 | 60 | 6 | 66 |
| Schools | 25 | (7) | 18 | 18 | 7 | 25 |
| Other concessions | 3 | 14 | 17 | 2 | 8 | 10 |
| | 131 | 122 | 253 | 123 | 89 | 212 |
| Military housing | 47 | 1 | 48 | – | – | – |
| | 178 | 123 | 301 | 123 | 89 | 212 |

Notes to the accounts

16 Investments in joint ventures and associates continued

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

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

| | PPP 2008 £m | Infrastructure 2008 £m | Military housing 2008 £m | Other 2008 £m | Total 2008 £m | PPP 2007 £m | Infrastructure 2007 £m | Other 2007 £m | Total 2007 £m |
|--|-------------------|------------------------------|-----------------------------------|---------------------|---------------------|-------------------|------------------------------|---------------------|---------------------|
| Cash flows from investing activities | | | | | | | | | |
| Dividends from joint ventures and associates | 17 | 13 | 2 | 21 | 53 | 58 | 13 | 12 | 83 |
| Investment in and loans made to joint ventures and associates | (7) | — | (8) | 5 | (10) | (38) | — | (12) | (50) |
| Acquisitions of joint ventures and associates | — | — | (27) | — | (27) | — | — | — | — |
| Total cash flows from investing activities of joint ventures and associates | (7) | — | (35) | 5 | (37) | (38) | — | (12) | (50) |
| — Equity | — | — | (35) | (3) | (38) | — | — | (1) | (1) |
| — Subordinated debt | (7) | — | — | — | (7) | (40) | — | — | (40) |
| — Subordinated debt repaid | — | — | — | — | — | 2 | — | — | 2 |
| — Other loans | — | — | — | 8 | 8 | — | — | (11) | (11) |
| Cash flows from financing activities | | | | | | | | | |
| Subordinated debt interest received | 12 | — | — | — | 12 | 8 | — | — | 8 |
| Net cash flow from/(to) joint ventures and associates | 22 | 13 | (33) | 26 | 28 | 28 | 13 | — | 41 |

16.5 Share of joint ventures' and associates' reserves

| | Accumulated profit/(loss) £m | Hedging reserve £m | PPP financial assets £m | Currency translation reserve £m | Total £m |
|---|------------------------------------|--------------------------|-------------------------------|--|-------------|
| Balance at 1 January 2007 | 200 | (30) | 76 | (3) | 243 |
| Income recognised – continuing operations | 71 | — | — | — | 71 |
| — discontinued operations | 3 | — | — | — | 3 |
| Actuarial gains on retirement benefit obligations | 3 | — | — | — | 3 |
| Fair value revaluation of PPP cash flow hedges | — | (2) | — | — | (2) |
| Fair value revaluation of PPP financial assets | — | — | (26) | — | (26) |
| Reclassified and reported in net profit | — | 7 | (3) | — | 4 |
| Tax on items taken directly to equity | — | — | 7 | — | 7 |
| Dividends paid | (83) | — | — | — | (83) |
| Transfers | (42) | — | — | — | (42) |
| Balance at 31 December 2007 | 152 | (25) | 54 | (3) | 178 |
| Income recognised – continuing operations | 72 | — | — | — | 72 |
| Actuarial loss on retirement benefit obligations | (14) | — | — | — | (14) |
| Fair value revaluation of other cash flow hedges | — | (3) | — | — | (3) |
| Fair value revaluation of PPP cash flow hedges | — | (73) | — | — | (73) |
| Fair value revaluation of PPP financial assets | — | — | 100 | — | 100 |
| Tax on items taken directly to equity | 3 | 21 | (28) | — | (4) |
| Dividends paid | (53) | — | — | — | (53) |
| Exchange adjustments | — | — | — | 27 | 27 |
| Balance at 31 December 2008 | 160 | (80) | 126 | 24 | 230 |

17 Investments**17.1 Group**

Group investments comprise £55m (2007: £57m) held to maturity bonds held by Delphian Insurance Company Ltd, the Group's captive insurance company. These investments comprise fixed rate bonds or treasury stock with an average interest rate of 5.15% (2007: 5.41%) and weighted average life of 3.57 years (2007: 3.96 years). The fair value of the bonds is £54m (2007: £57m), determined by using the market price of the bonds at the balance sheet date. The maximum exposure to credit risk at 31 December 2008 is the carrying amount.

17.2 Company

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Investment in subsidiaries | 1,882 | 1,618 |
| Investment in joint ventures and associates | 14 | 14 |
| Provisions | (158) | (186) |
| | 1,738 | 1,446 |

18 PPP financial assets

| | Schools £m | Street lighting £m | Total £m |
|-----------------------------|---------------|--------------------------|-------------|
| Balance at 1 January 2007 | — | 22 | 22 |
| Cash expenditure | 26 | 15 | 41 |
| Cash received | — | (3) | (3) |
| Interest | — | 2 | 2 |
| Balance at 31 December 2007 | 26 | 36 | 62 |
| Cash expenditure | 72 | 19 | 91 |
| Cash received | — | (11) | (11) |
| Interest | 4 | 3 | 7 |
| Fair value movement | — | 2 | 2 |
| Balance at 31 December 2008 | 102 | 49 | 151 |

Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets. The maximum exposure to credit risk at the balance sheet date is the fair value of the PPP financial assets. PPP financial assets are denominated in sterling. There were no disposals or impairment provisions in 2008 or 2007.

19 Inventories

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Unbilled work in progress | 54 | 27 |
| Development and housing land and work in progress | 22 | 6 |
| Manufacturing work in progress | 9 | 12 |
| Raw materials and consumables | 33 | 22 |
| Finished goods and goods for resale | 7 | 5 |
| | 125 | 72 |

20 Construction contracts

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Contracts in progress at balance sheet date: | | |
| Due from customers for contract work | 383 | 338 |
| Due to customers for contract work | (540) | (415) |
| | (157) | (77) |

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress that had not reached practical completion at the balance sheet date was £13,061m (2007: £10,929m).

Notes to the accounts

21 Financial instruments

Accounting policies

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

Capital risk management

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

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and buy-back of existing shares and issuing new borrowings or repaying existing borrowings. The Group's and Company's policy is to carry no significant net debt, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

The Group's and Company's overall capital risk management strategy remains unchanged from 2007.

21.1 Group

Categories of financial instruments

| Group | Loans and receivables at amortised cost including cash and cash equivalents 2008 £m | Financial liabilities at amortised cost 2008 £m | Available for sale 2008 £m | Held to maturity financial assets 2008 £m | Derivatives Note (i) 2008 £m | Loans and receivables at amortised cost including cash and cash equivalents 2007 £m | Financial liabilities at amortised cost 2007 £m | Available for sale 2007 £m | Held to maturity financial assets 2007 £m | Derivatives Note (i) 2007 £m |
|---|---|---|----------------------------|---|------------------------------|---|---|----------------------------|---|------------------------------|
| Financial assets | | | | | | | | | | |
| Bonds – fixed rate bonds and Treasury stock | – | – | – | 55 | – | – | – | – | 57 | – |
| PPP financial assets | – | – | 151 | – | – | – | – | 62 | – | – |
| Cash and cash equivalents | 463 | – | – | – | – | 394 | – | – | – | – |
| Trade and other receivables | 1,186 | – | – | – | – | 922 | – | – | – | – |
| Derivatives | – | – | – | – | 5 | – | – | – | – | 4 |
| Total | 1,649 | – | 151 | 55 | 5 | 1,316 | – | 62 | 57 | 4 |
| Financial liabilities | | | | | | | | | | |
| Liability component of preference shares | – | (87) | – | – | – | – | (87) | – | – | – |
| Trade and other payables | – | (2,107) | – | – | – | – | (1,646) | – | – | – |
| Unsecured borrowings | – | (12) | – | – | – | – | (16) | – | – | – |
| Secured borrowings | – | (9) | – | – | – | – | (1) | – | – | – |
| PPP non-recourse term loans | – | (145) | – | – | – | – | (64) | – | – | – |
| Derivatives | – | – | – | – | (106) | – | – | – | – | (12) |
| Total | – | (2,360) | – | – | (106) | – | (1,814) | – | – | (12) |
| Net | 1,649 | (2,360) | 151 | 55 | (101) | 1,316 | (1,814) | 62 | 57 | (8) |

Note:

(i) Derivatives

| | Financial assets | | | Financial liabilities | | | Financial assets | | | Financial liabilities | | |
|--|------------------|---------------------|---------------|-----------------------|---------------------|---------------|------------------|---------------------|---------------|-----------------------|---------------------|---------------|
| | Current 2008 £m | Non-current 2008 £m | Total 2008 £m | Current 2008 £m | Non-current 2008 £m | Total 2008 £m | Current 2007 £m | Non-current 2007 £m | Total 2007 £m | Current 2007 £m | Non-current 2007 £m | Total 2007 £m |
| At fair value through profit and loss – forward contracts in respect of currency transactions – held for trading | 2 | – | 2 | (5) | – | (5) | – | – | – | – | – | – |
| Designated as net investment hedging instruments – forward contracts | – | – | – | (61) | – | (61) | 1 | 2 | 3 | (6) | – | (6) |
| Designated as cash flow hedges – forward contracts | – | 3 | 3 | – | (1) | (1) | – | – | – | – | – | – |
| Designated as cash flow hedges – interest rate swaps | – | – | – | – | (39) | (39) | – | 1 | 1 | – | (6) | (6) |
| | 2 | 3 | 5 | (66) | (40) | (106) | 1 | 3 | 4 | (6) | (6) | (12) |

21 Financial instruments continued**Non-derivative financial liabilities gross maturity**

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

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

| | PPP non-recourse project finance 2008 £m | Other borrowings 2008 £m | Other financial liabilities 2008 £m | Total non-derivative financial liabilities 2008 £m | Total discount 2008 £m | Carrying value 2008 £m |
|----------------------------------|---|-----------------------------------|---|---|---------------------------------|---------------------------------|
| Due on demand or within one year | (4) | (12) | (1,996) | (2,012) | 15 | (1,997) |
| Due within one to two years | (18) | (1) | (52) | (71) | 20 | (51) |
| Due within two to five years | (39) | (8) | (46) | (93) | 58 | (35) |
| Due after more than five years | (320) | — | (263) | (583) | 306 | (277) |
| | (381) | (21) | (2,357) | (2,759) | 399 | (2,360) |
| Discount | 236 | — | 163 | 399 | | |
| Carrying value | (145) | (21) | (2,194) | (2,360) | | |

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

Derivative financial liabilities gross maturity

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

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

| | Payable 2008 £m | Receivable 2008 £m | Net payable 2008 £m | Payable 2007 £m | Receivable 2007 £m | Net payable 2007 £m |
|----------------------------------|-----------------------|--------------------------|---------------------------|-----------------------|--------------------------|---------------------------|
| Due on demand or within one year | (288) | 221 | (67) | (175) | 173 | (2) |
| Due within one to two years | (12) | 5 | (7) | (17) | 17 | — |
| Due within two to five years | (20) | 2 | (18) | (2) | — | (2) |
| Due after more than five years | (29) | — | (29) | (3) | 1 | (2) |
| Total | (349) | 228 | (121) | (197) | 191 | (6) |

Notes to the accounts

21 Financial instruments continued

Financial risk factors

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

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

(a) Market risk

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

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

There has been no material change to the Group's exposure to market risks and with the exception of the change in the net investment hedging policy outlined below there has been no change in how the Group manages those risks from 2007.

(i) Foreign currency risk management

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

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Group Treasury, on behalf of operating companies, enters into forward contracts to cover 100% of foreign exchange risk above pre-set materiality levels determined by the Finance Director whenever a current or future foreign currency exposure is identified. Hedge accounting is applied to these transactions above a predetermined materiality level.

Details of forward foreign exchange contracts outstanding at the balance sheet date in respect of foreign currency transactional exposures are set out on page 54.

As at 31 December 2008, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £74m (2007: £13m). The period during which the cash flows are expected to occur is up to two years. This will affect the income statement throughout the same periods.

In the current year the Group has designated forward exchange contracts against highly probable capital expenditure and inventory sales which are expected to occur in up to four years with a notional principal amount of £24m (2007: £nil) as cash flow hedges. Fair value movements of £2m (2007: £nil) have been taken to hedging reserves within equity in relation to these contracts in the current year and these amounts represent the cumulative amount of gains deferred in the hedging reserves relating to cash flow hedges.

The Group's investments in foreign operations are exposed to foreign currency translation risk which has been managed by matching significant net assets denominated in currencies other than sterling principally using forward foreign exchange contracts.

The hedging policy is reviewed periodically. Management have amended the policy to reduce the level of net assets hedged taking account of the potential cash effect of the hedging programme against the potential effect of movements in currencies on the Group's net assets. At 31 December 2008 approximately 45% of the US dollar denominated net assets were hedged while in 2007 approximately 90% of US dollar, Euro and Hong Kong dollar net assets were hedged.

The effect of a 35% (2007: 5%) strengthening/weakening in US dollar exchange rates against sterling would be an £87m (2007: £11m) reduction/increase in the fair value of the financial instruments used to hedge the Group's net assets in US dollars. As derivative financial instruments are no longer held for Euro and Hong Kong dollar denominated assets, only 2007 comparative figures are provided in respect of Euro and Hong Kong dollar movements. In 2007, the effect of a 5% strengthening/weakening in Hong Kong dollar exchange rates against sterling would have been a £2m reduction/increase in the fair value of the financial instruments used to hedge the Group's net assets in Hong Kong dollars. In 2007, the effect of a 3% strengthening/weakening in Euro exchange rates against sterling would have been a £1m reduction/increase in the fair value of the financial instruments used to hedge the Group's net assets in Euros. These movements would be taken directly to equity and would partially offset opposing gains/losses in the net assets denominated in foreign currencies.

The percentage change applied to US dollars in 2008 has been based on the greater of the average movement in the previous five reporting periods or the actual movement in the last 12 months. For 2007 the percentage change for each currency was based on the average movement in the previous five reporting periods.

The notional principal amounts of forward foreign exchange contracts designated as hedges of net investments in foreign operations at 31 December 2008 was £188m (2007: £314m). The gains and losses in equity on hedges of net investments in foreign operations will be released to the income statement on the disposal of the underlying net investment.

21 Financial instruments continued

Financial risk factors continued

(ii) Interest rate risk management

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

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

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

During 2008 and 2007, the Group's PPP borrowings at variable rate were denominated in sterling.

The notional principal amounts of the outstanding PPP subsidiaries' interest rate swaps outstanding at 31 December 2008 were £142m (2007: £68m) with maturities that match the maturity of the underlying borrowings ranging from one year to 26 years. At 31 December 2008, the fixed interest rates range from 4.6% to 5.1% (2007: 4.6% to 5.1%) and the principal floating rates are LIBOR.

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £14m (2007: £10m) increase/decrease in amounts taken directly by the Group to equity. This is attributable to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its PPP subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and non-PPP borrowings. A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £2m (2007: £1m) increase/decrease in the Group's net investment income.

(iii) Price risk management

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

(b) Credit risk

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

For cash and cash equivalents and derivative financial instruments the Group has a policy of depositing funds only with independently rated counterparties with a minimum long-term credit rating of A. At 31 December 2008 £2m did not meet this criterion due to the unprecedented decline during 2008 in credit ratings generally and operational and relationship difficulties in transferring certain balances. No losses are anticipated from non-performance of these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly. At 31 December 2008 £30m did not meet this policy due to operational reasons.

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

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

(c) Liquidity risk

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

Fair value estimation

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

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

Notes to the accounts

21 Financial instruments continued

21.2 Company

Categories of financial instruments

| Company | Loans and receivables at amortised cost including cash and cash equivalents 2008 £m | Financial liabilities at amortised cost 2008 £m | Available for sale 2008 £m | Held to maturity financial assets 2008 £m | Derivatives Note (i) 2008 £m | Loans and receivables at amortised cost including cash and cash equivalents 2007 £m | Financial liabilities at amortised cost 2007 £m | Available for sale 2007 £m | Held to maturity financial assets 2007 £m | Derivatives Note (i) 2007 £m |
|--|---|---|----------------------------|---|------------------------------|---|---|----------------------------|---|------------------------------|
| Financial assets | | | | | | | | | | |
| Cash and cash equivalents | 50 | — | — | — | — | 80 | — | — | — | — |
| Trade and other receivables | 617 | — | — | — | — | 641 | — | — | — | — |
| Derivatives | — | — | — | — | 71 | — | — | — | — | 9 |
| Total | 667 | — | — | — | 71 | 721 | — | — | — | 9 |
| Financial liabilities | | | | | | | | | | |
| Liability component of preference shares | — | (87) | — | — | — | — | (87) | — | — | — |
| Trade and other payables | — | (1,471) | — | — | — | — | (1,277) | — | — | — |
| Unsecured borrowings | — | (51) | — | — | — | — | (95) | — | — | — |
| Derivatives | — | — | — | — | (71) | — | — | — | — | (9) |
| Total | — | (1,609) | — | — | (71) | — | (1,459) | — | — | (9) |
| Net | 667 | (1,609) | — | — | — | 721 | (1,459) | — | — | — |

Note:

(i) Derivatives.

| | Financial assets | | | Financial liabilities | | | Financial assets | | | Financial liabilities | | |
|--|------------------|---------------------|---------------|-----------------------|---------------------|---------------|------------------|---------------------|---------------|-----------------------|---------------------|---------------|
| | Current 2008 £m | Non-current 2008 £m | Total 2008 £m | Current 2008 £m | Non-current 2008 £m | Total 2008 £m | Current 2007 £m | Non-current 2007 £m | Total 2007 £m | Current 2007 £m | Non-current 2007 £m | Total 2007 £m |
| At fair value through profit and loss – forward contracts in respect of currency transactions – held for trading | 7 | 3 | 10 | (7) | (3) | (10) | — | — | — | — | — | — |
| At fair value through profit and loss – forward contracts relating to net investment hedging – held for trading | 61 | — | 61 | (61) | — | (61) | 7 | 2 | 9 | (7) | (2) | (9) |
| | 68 | 3 | 71 | (68) | (3) | (71) | 7 | 2 | 9 | (7) | (2) | (9) |

The Company is responsible for executing all of the Group's external derivative instrument contracts, except for those in relation to PPP concessions. The Company's external contracts are perfectly matched with derivative contracts issued by the Company to the Group's operating companies.

21 Financial instruments continued**Non-derivative financial liabilities gross maturity**

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

| | Borrowings 2008 £m | Other financial liabilities 2008 £m | Total non-derivative financial liabilities 2008 £m | Total discount 2008 £m | Carrying value 2008 £m |
|----------------------------------|--------------------------|---|---|------------------------------|------------------------------|
| Due on demand or within one year | (51) | (1,472) | (1,523) | 27 | (1,496) |
| Due within one to two years | — | (11) | (11) | 11 | — |
| Due within two to five years | — | (32) | (32) | 32 | — |
| Due after more than five years | — | (208) | (208) | 95 | (113) |
| | (51) | (1,723) | (1,774) | 165 | (1,609) |
| Discount | — | 165 | 165 | | |
| Carrying value | (51) | (1,558) | (1,609) | | |

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

Derivative financial liabilities gross maturity

The maturity profile of the Company's derivative financial liabilities, which comprise foreign exchange contracts, at 31 December was as follows:

| | Payable 2008 £m | Receivable 2008 £m | Payable 2007 £m | Receivable 2007 £m |
|----------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| Due on demand or within one year | (312) | 245 | (201) | 194 |
| Due within one to two years | (28) | 26 | (190) | 184 |
| Due within two to five years | — | — | — | — |
| Due after more than five years | — | — | — | — |
| Total | (340) | 271 | (391) | 378 |

Notes to the accounts

21 Financial Instruments continued

Financial risk factors

(a) Market risk

(i) Foreign currency risk management

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

(ii) Interest rate risk management

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £4m (2007: £2m) decrease/increase in the Company's investment income. This is mainly attributable to the Company's exposure to interest rates on its cash and cash equivalents and term deposits and amounts due to and from its subsidiaries. There would be no effect on amounts taken directly by the Company to equity.

(b) Credit risk

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

22 Trade and other receivables

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|---|---------------------|---------------------|-----------------------|-----------------------|
| Current | | | | |
| Trade receivables | 815 | 672 | 6 | 7 |
| Less: Provision for impairment of trade receivables | (17) | (11) | — | — |
| | 798 | 661 | 6 | 7 |
| Due from subsidiaries | — | — | 580 | 602 |
| Due from joint ventures and associates | 20 | 38 | — | — |
| Due from jointly controlled operations | 5 | 6 | — | — |
| Contract retentions | 224 | 127 | — | — |
| Accrued income | 55 | 13 | — | — |
| Prepayments | 81 | 36 | 1 | 1 |
| Due on acquisitions | 10 | — | — | — |
| | 1,193 | 881 | 587 | 610 |
| Non-current | | | | |
| Trade and other receivables | 19 | 16 | — | — |
| Due from joint ventures and associates | — | — | 31 | 32 |
| Contract retentions | 55 | 52 | — | — |
| Due on acquisitions | — | 9 | — | — |
| | 74 | 77 | 31 | 32 |
| | 1,267 | 958 | 618 | 642 |
| Comprising: | | | | |
| Loans and receivables at amortised cost | 1,186 | 922 | 617 | 641 |
| Prepayments | 81 | 36 | 1 | 1 |
| | 1,267 | 958 | 618 | 642 |

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

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. The fair value of non-current trade and other receivables amounts to £69m (2007: £71m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the balance sheet date.

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

22 Trade and other receivables continued

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

| | Group 2008 £m | Group 2007 £m |
|--|---------------------|---------------------|
| Balance at 1 January | (11) | (13) |
| Credited/(charged) to the income statement | | |
| – additional provisions | (6) | – |
| – unused amounts reversed | 1 | 1 |
| Acquisitions of businesses | (2) | – |
| Used during the year | 1 | 1 |
| Balance at 31 December | (17) | (11) |

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

| | Group 2008 £m | Group 2007 £m |
|-------------------------|---------------------|---------------------|
| Up to three months | 2 | – |
| Three to six months | 1 | 1 |
| Six to nine months | 1 | 1 |
| Nine to twelve months | 2 | 3 |
| More than twelve months | 11 | 6 |
| | 17 | 11 |

At 31 December 2008, trade receivables of £127m (2007: £91m) were past due but not impaired. These relate to a number of individual customers for whom there is no reason to believe that their debt is not recoverable. The ageing analysis of these trade receivables is as follows:

| | Group 2008 £m | Group 2007 £m |
|-------------------------|---------------------|---------------------|
| Up to three months | 84 | 60 |
| Three to six months | 21 | 12 |
| Six to nine months | 12 | 3 |
| Nine to twelve months | 7 | 6 |
| More than twelve months | 3 | 10 |
| | 127 | 91 |

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

Notes to the accounts

23 Trade and other payables

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|--|---------------------|---------------------|-----------------------|-----------------------|
| Current | | | | |
| Trade and other payables | 1,112 | 803 | 6 | 4 |
| Accruals | 899 | 717 | 14 | 11 |
| Deferred income | 20 | 58 | 1 | 1 |
| Advance payments on contracts | 47 | 7 | — | — |
| VAT, payroll taxes and social security | 72 | 87 | 13 | 15 |
| Due to subsidiaries | — | — | 1,421 | 1,230 |
| Due to joint ventures and associates | 6 | 27 | — | — |
| Due to jointly controlled operations | 3 | 7 | — | — |
| Dividends on preference shares | 5 | 6 | 5 | 6 |
| Due on acquisitions | 4 | 6 | — | 1 |
| | 2,168 | 1,718 | 1,460 | 1,268 |
| Non-current | | | | |
| Trade and other payables | 70 | 83 | — | — |
| Due on acquisitions | 25 | 20 | — | — |
| Accruals | 21 | 5 | — | — |
| Deferred income | 11 | 2 | — | — |
| Due to joint ventures and associates | 25 | 25 | 25 | 25 |
| | 152 | 135 | 25 | 25 |
| | 2,320 | 1,853 | 1,485 | 1,293 |
| Comprising: | | | | |
| At amortised cost | 2,107 | 1,646 | 1,471 | 1,277 |
| Accruals not at amortised cost | 110 | 60 | — | — |
| Deferred income | 31 | 60 | 1 | 1 |
| VAT, payroll taxes and social security | 72 | 87 | 13 | 15 |
| | 2,320 | 1,853 | 1,485 | 1,293 |

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

| | Trade and other payables 2008 £m | Due on acquisition 2008 £m | Due to joint ventures and associates 2008 £m | Accruals 2008 £m | Deferred income 2008 £m | Total 2008 £m | Trade and other payables 2007 £m | Due on acquisition 2007 £m | Due to joint ventures and associates 2007 £m | Accruals 2007 £m | Deferred income 2007 £m | Total 2007 £m |
|-----------------------------------|--|-------------------------------------|---|------------------------|----------------------------------|---------------------|--|-------------------------------------|---|------------------------|----------------------------------|---------------------|
| Due within one to two years | 34 | 6 | — | 13 | 4 | 57 | 40 | 3 | — | 3 | — | 46 |
| Due within two to five years | 8 | 7 | — | 8 | 5 | 28 | 19 | 6 | — | 2 | 1 | 28 |
| Due after more than five years | 28 | 12 | 25 | — | 2 | 67 | 24 | 11 | 25 | — | 1 | 61 |
| | 70 | 25 | 25 | 21 | 11 | 152 | 83 | 20 | 25 | 5 | 2 | 135 |
| Fair values | 57 | 25 | 13 | 20 | 10 | 125 | 77 | 19 | 13 | 4 | 2 | 115 |

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

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

24 Cash and cash equivalents and borrowings**24.1 Group**

| | Current 2008 £m | Non-current 2008 £m | Total 2008 £m | Current 2007 £m | Non-current 2007 £m | Total 2007 £m |
|--|-----------------------|---------------------------|---------------------|-----------------------|---------------------------|---------------------|
| Unsecured borrowings at amortised cost: | | | | | | |
| – bank overdrafts | (10) | – | (10) | (15) | – | (15) |
| – other short-term loans | (1) | (1) | (2) | (1) | – | (1) |
| Secured borrowings at amortised cost: | | | | | | |
| – finance leases | (1) | (8) | (9) | – | (1) | (1) |
| | (12) | (9) | (21) | (16) | (1) | (17) |
| Cash and deposits at amortised cost | 379 | – | 379 | 293 | – | 293 |
| Term deposits at amortised cost | 82 | – | 82 | 98 | – | 98 |
| Non-PPP cash and cash equivalents | 461 | – | 461 | 391 | – | 391 |
| | 449 | (9) | 440 | 375 | (1) | 374 |
| PPP non-recourse term loans at amortised cost: | | | | | | |
| – sterling floating rate term loan (2008–2027) | – | (27) | (27) | (3) | (19) | (22) |
| – sterling floating rate term loan (2011–2030) | – | (13) | (13) | – | (9) | (9) |
| – sterling floating rate term loan (2012–2031) | – | (6) | (6) | – | (2) | (2) |
| – sterling floating rate term loan (2010–2034) | – | (99) | (99) | – | (31) | (31) |
| | – | (145) | (145) | (3) | (61) | (64) |
| PPP cash and cash equivalents | 2 | – | 2 | 3 | – | 3 |
| | 2 | (145) | (143) | – | (61) | (61) |
| Net cash/(borrowings) | 451 | (154) | 297 | 375 | (62) | 313 |

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

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

Cash, deposits and term deposits include the Group's share of amounts held by contracting joint arrangements of £164m (2007: £122m).

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

| | PPP non-recourse project finance 2008 £m | Other borrowings 2008 £m | Total 2008 £m | PPP non-recourse project finance 2007 £m | Other borrowings 2007 £m | Total 2007 £m |
|--|---|-----------------------------------|---------------------|---|-----------------------------------|---------------------|
| Expiring in one year or less | 1 | – | 1 | 5 | – | 5 |
| Expiring in more than one year but not more than two years | – | 70 | 70 | – | – | – |
| Expiring in more than two years | 121 | 334 | 455 | 198 | 395 | 593 |
| | 122 | 404 | 526 | 203 | 395 | 598 |

Notes to the accounts

24 Cash and cash equivalents and borrowings continued

Group borrowings carrying value maturity

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

| | PPP non-recourse project finance 2008 £m | Other borrowings 2008 £m | Total 2008 £m | PPP non-recourse project finance 2007 £m | Other borrowings 2007 £m | Total 2007 £m |
|----------------------------------|---|-----------------------------------|---------------------|---|-----------------------------------|---------------------|
| Due on demand or within one year | — | (12) | (12) | (3) | (16) | (19) |
| Due within one to two years | (17) | (1) | (18) | — | (1) | (1) |
| Due within two to five years | (14) | (8) | (22) | (22) | — | (22) |
| Due after more than five years | (114) | — | (114) | (39) | — | (39) |
| | (145) | (21) | (166) | (64) | (17) | (81) |

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

| | Book value 2008 £m | Fair value 2008 £m | Book value 2007 £m | Fair value 2007 £m |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Unsecured borrowings at amortised cost: | | | | |
| – bank overdrafts | (9) | (9) | (15) | (15) |
| – other short-term loans | (2) | (2) | (1) | (1) |
| Secured borrowings at amortised cost: | | | | |
| – finance leases | (10) | (10) | (1) | (1) |
| – other | — | — | — | — |
| | (21) | (21) | (17) | (17) |
| PPP non-recourse term loan at amortised cost: | | | | |
| – sterling floating rate term loan (2008–2027) | (27) | (27) | (22) | (22) |
| – sterling floating rate term loan (2011–2030) | (13) | (13) | (9) | (9) |
| – sterling floating rate term loan (2012–2031) | (6) | (6) | (2) | (2) |
| – sterling floating rate term loan (2010–2034) | (99) | (99) | (31) | (31) |
| | (145) | (145) | (64) | (64) |
| Borrowings | (166) | (166) | (81) | (81) |

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

24.2 Company

| | Current 2008 £m | Non-current 2008 £m | Total 2008 £m | Current 2007 £m | Non-current 2007 £m | Total 2007 £m |
|---|-----------------------|---------------------------|---------------------|-----------------------|---------------------------|---------------------|
| Unsecured borrowings at amortised cost: | | | | | | |
| – bank overdrafts | (51) | — | (51) | (95) | — | (95) |
| | (51) | — | (51) | (95) | — | (95) |
| Term deposit | 50 | — | 50 | 80 | — | 80 |
| Net borrowings | (1) | — | (1) | (15) | — | (15) |

The unsecured borrowings and term deposits are sterling denominated and variable rate instruments. The bank overdrafts are repayable on demand and the term deposits matured on 2 January 2009.

25 Deferred taxation

25.1 Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. The net deferred tax position at 31 December was:

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|--------------------------|---------------------|---------------------|-----------------------|-----------------------|
| Deferred tax assets | 132 | 125 | – | 1 |
| Deferred tax liabilities | (10) | (7) | (1) | – |
| | 122 | 118 | (1) | 1 |

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

| | Group £m | Company £m |
|------------------------------|-------------|---------------|
| At 1 January 2007 | 97 | – |
| Credited to income statement | 39 | 1 |
| Charged to equity | (3) | – |
| Businesses acquired | (4) | – |
| Transfer to current tax | (11) | – |
| At 31 December 2007 | 118 | 1 |
| Charged to income statement | (40) | (1) |
| Credited/(charged) to equity | 23 | (1) |
| Businesses acquired | 4 | – |
| Exchange adjustments | 17 | – |
| At 31 December 2008 | 122 | (1) |

25.2 Group

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

| | Accelerated tax depreciation £m | Retirement benefit obligations £m | Unrelieved trading losses £m | Share-based payments £m | Provisions £m | Fair value adjustments £m | Total £m |
|---|---------------------------------------|--|------------------------------------|-------------------------------|------------------|---------------------------------|-------------|
| Deferred tax assets | | | | | | | |
| At 1 January 2007 | 2 | 79 | 1 | 8 | 15 | 14 | 119 |
| Credited/(charged) to income statement | (1) | (5) | 47 | 1 | (1) | (1) | 40 |
| (Charged)/credited to equity | – | (1) | – | (2) | (1) | 1 | (3) |
| Businesses acquired | – | – | – | – | – | (4) | (4) |
| Transfer to current taxation | – | – | – | – | 2 | (13) | (11) |
| Transfer to deferred taxation liabilities | – | – | – | – | – | 3 | 3 |
| At 31 December 2007 | 1 | 73 | 48 | 7 | 15 | – | 144 |
| (Charged)/credited to income statement | – | (23) | (21) | 1 | (2) | – | (45) |
| Credited/(charged) to equity | – | 17 | – | (4) | – | – | 13 |
| Businesses acquired | (1) | – | – | – | – | – | (1) |
| Exchange adjustments | – | – | 19 | – | – | – | 19 |
| Transferred from deferred tax liabilities | – | – | – | – | – | 19 | 19 |
| At 31 December 2008 | – | 67 | 46 | 4 | 13 | 19 | 149 |

Notes to the accounts

25 Deferred taxation continued

| | Revaluation of properties £m | Goodwill £m | Undistributed earnings of joint ventures and associates £m | Preference shares £m | Fair value adjustments £m | Total £m |
|--|------------------------------------|----------------|--|----------------------------|---------------------------------|-------------|
| Deferred tax liabilities | | | | | | |
| At 1 January 2007 | (1) | (7) | (6) | (8) | — | (22) |
| (Charged)/credited to the income statement | — | — | (2) | 1 | — | (1) |
| Transfer from deferred tax assets | — | — | — | — | (3) | (3) |
| At 31 December 2007 | (1) | (7) | (8) | (7) | (3) | (26) |
| (Charged)/credited to the income statement | — | — | (2) | — | 8 | 6 |
| Businesses acquired | — | — | — | — | 5 | 5 |
| Credited to equity | — | — | — | — | 9 | 9 |
| Exchange adjustments | — | (2) | — | — | — | (2) |
| Transferred to deferred tax assets | — | — | — | — | (19) | (19) |
| At 31 December 2008 | (1) | (9) | (10) | (7) | — | (27) |

Total net deferred tax asset

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At the balance sheet date, the Group had unused tax losses that arose over a number of years of approximately £180m (2007: £250m) which are available for offset against future profits. £19m (2007: £14m) will expire 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2019. The remaining losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed reserves of subsidiaries for which deferred tax liabilities have not been recognised was £350m (2007: £220m) and for joint ventures and associates was £nil (2007: £13m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

25.3 Company

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

| | Deferred tax liability | | | Deferred tax assets | | Net deferred tax assets/ liability £m |
|--|----------------------------|-------------------------------|--|---------------------|-------------|--|
| | Preference shares £m | Share-based payments £m | Retirement benefit obligations £m | Provisions £m | Total £m | |
| At 1 January 2007 | (8) | 4 | 3 | 1 | 8 | — |
| Credited/(charged) to income statement | — | 1 | (1) | 1 | 1 | 1 |
| (Charged)/credited to equity | 1 | (1) | — | — | (1) | — |
| At 31 December 2007 | (7) | 4 | 2 | 2 | 8 | 1 |
| Charged to income statement | — | (1) | — | — | (1) | (1) |
| Charged to equity | — | (1) | — | — | (1) | (1) |
| At 31 December 2008 | (7) | 2 | 2 | 2 | 6 | (1) |

26 Retirement benefit obligations

a) Group

The Group, through trustees, operates a number of defined benefit and defined contribution pension schemes. Defined benefit schemes provide benefits based on employees' pensionable service and their pensionable salary. Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

The majority of the Group's defined benefit schemes are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

The Group's main scheme is the Balfour Beatty Pension Fund ("BBPF"), which includes defined benefit and defined contribution sections. The defined benefit section is closed to new members with the exception of certain employees transferring under TUPE. During the current year the Group implemented measures to limit the increase in pensionable pay of certain groups of in-service defined benefit members, giving rise to a reduction in past service liabilities of £60m, which has been classified as an exceptional item in the income statement.

Certain Group employees are members of the Balfour Beatty Shared Cost section of the Railways Pension Scheme ("Railways Pension Scheme"), which is closed to new members with the exception of certain employees transferring under TUPE. The economic interest of the Group in this shared cost scheme is approximately 60% of the scheme's assets and liabilities, based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing. Mansell plc operates two defined benefit schemes, which are both closed to new members, the Mansell plc Pension Scheme and the Hall & Tawse Retirement Benefit Plan ("Mansell schemes"). Other schemes comprise funded and unfunded post-retirement benefit obligations in Europe and North America, the majority of which arrangements are closed to new entrants. Where schemes are closed to new members, existing members continue to accrue benefits for future service. On 5 April 2007 the Birse Group Retirement Benefit Scheme ("Birse scheme") merged with the BBPF.

The membership of the principal schemes is as follows:

| | Balfour Beatty Pension Fund 2008 | Railways Pension Scheme 2008 | Mansell schemes 2008 | Balfour Beatty Pension Fund 2007 | Railways Pension Scheme 2007 | Mansell schemes 2007 |
|---|--|---------------------------------------|----------------------------|--|---------------------------------------|----------------------------|
| Number of members: | | | | | | |
| Defined benefit | | | | | | |
| – active members | 5,338 | 425 | 453 | 6,306 | 490 | 494 |
| – deferred pensioners | 13,363 | 1,594 | 1,513 | 13,248 | 1,625 | 1,536 |
| – pensioners, widower(s) and dependants | 17,063 | 1,256 | 1,298 | 16,852 | 1,193 | 1,291 |
| Defined contribution | 6,870 | – | – | 4,984 | – | – |
| Total | 42,634 | 3,275 | 3,264 | 41,390 | 3,308 | 3,321 |

IAS 19 governs the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the rate of return on high quality corporate bonds. Pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net interest income arising from the expected return on plan assets and the interest on scheme obligations is credited to investment income or finance charges as appropriate. Actuarial gains and losses are reported in full in the statement of recognised income and expense. The IAS 19 accounting valuation is set out in 26.1 below.

A different calculation is used for the regular valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme liabilities. The principal difference between the two methods is that under the funding basis the liabilities are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on high-quality corporate bonds as required by IAS 19 for the accounting basis. Details of the previous formal funding basis valuations are set out in 26.2 below.

26.1 IAS 19 accounting valuation

The principal actuarial assumptions for the IAS19 accounting valuations of the Group's principal schemes are as follows:

| | Balfour Beatty Pension Fund 2008 % | Railways Pension Scheme 2008 % | Mansell schemes 2008 % | Balfour Beatty Pension Fund 2007 % | Railways Pension Scheme 2007 % | Mansell schemes 2007 % |
|---|---|--|---------------------------------|---|--|---------------------------------|
| Discount rate on obligations | 6.45 | 6.45 | 6.45 | 5.85 | 5.85 | 5.85 |
| Expected return on plan assets | 6.27 | 7.45 | 6.40 | 6.53 | 7.45 | 6.83 |
| Inflation rate | 2.80 | 2.80 | 2.80 | 3.35 | 3.35 | 3.35 |
| Future increases in pensionable salary: | | | | | | |
| – certain members of the Balfour Beatty Pension Fund | 2.80 | – | – | 4.85 | 4.85 | 4.85 |
| – other members | 4.30 | 4.30 | 4.30 | 4.85 | 4.85 | 4.85 |
| Rate of increase in pensions in payment (or such other rate as is guaranteed) | 2.80 | 2.80 | 2.80 | 3.35 | 3.35 | 3.35 |

Notes to the accounts

26 Retirement benefit obligations continued

The mortality tables adopted for the 2008 and 2007 IAS 19 valuations are the 1992 series calendar year 2007 tables, with future improvements applicable to each member's year of birth under the medium cohort effect from 2007.

| | 2008 Average life expectancy at 65 years of age | 2007 Average life expectancy at 65 years of age |
|---|---|---|
| Members in receipt of pension | | |
| – Male | 20.3 years | 20.2 years |
| – Female | 23.4 years | 23.3 years |
| Members not yet in receipt of pension (current age 50) | | |
| – Male | 21.3 years | 21.2 years |
| – Female | 24.3 years | 24.2 years |

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (42,634 members at 31 December 2008) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. As a result of these reviews the Group is able to adopt with a measure of confidence consistent mortality assumptions across its various defined benefit schemes. In 2007 the reviews suggested continuing improvements in life expectancy and therefore the mortality assumptions were strengthened compared with the previous formal funding valuations and the 31 December 2006 valuation reviews.

The amounts recognised in the balance sheet are as follows:

| | Balfour Beatty Pension Fund 2008 £m | Railways Pension Scheme 2008 £m | Mansell schemes 2008 £m | Other schemes 2008 £m | Total 2008 £m | Balfour Beatty Pension Fund 2007 £m | Railways Pension Scheme 2007 £m | Mansell schemes 2007 £m | Other schemes 2007 £m | Total 2007 £m |
|---------------------------------------|--|---|----------------------------------|--------------------------------|---------------------|--|---|----------------------------------|--------------------------------|---------------------|
| Present value of funded obligations | (1,733) | (138) | (188) | (14) | (2,073) | (2,036) | (164) | (207) | (12) | (2,419) |
| Fair value of plan assets | 1,540 | 120 | 170 | 11 | 1,841 | 1,796 | 160 | 191 | 11 | 2,158 |
| Deficit | (193) | (18) | (18) | (3) | (232) | (240) | (4) | (16) | (1) | (261) |
| Present value of unfunded obligations | – | – | – | (29) | (29) | – | – | – | (25) | (25) |
| Liability in the balance sheet | (193) | (18) | (18) | (32) | (261) | (240) | (4) | (16) | (26) | (286) |

The amounts recognised in the income statement are as follows:

| | Balfour Beatty Pension Fund 2008 £m | Railways Pension Scheme 2008 £m | Mansell schemes 2008 £m | Other schemes 2008 £m | Total 2008 £m | Balfour Beatty Pension Fund 2007 £m | Railways Pension Scheme 2007 £m | Mansell schemes 2007 £m | Other schemes 2007 £m | Total 2007 £m |
|--|--|---|----------------------------------|--------------------------------|---------------------|--|---|----------------------------------|--------------------------------|---------------------|
| Current service cost | (38) | (3) | (3) | (1) | (45) | (47) | (3) | (3) | (1) | (54) |
| Defined contribution charge | (16) | – | – | (12) | (28) | (10) | – | – | (7) | (17) |
| Included in employee costs (Note 5) | (54) | (3) | (3) | (13) | (73) | (57) | (3) | (3) | (8) | (71) |
| Expected return on plan assets | 117 | 11 | 13 | – | 141 | 110 | 10 | 12 | 1 | 133 |
| Interest cost | (113) | (9) | (12) | (2) | (136) | (99) | (8) | (11) | (2) | (120) |
| Net investment income (Note 6) | 4 | 2 | 1 | (2) | 5 | 11 | 2 | 1 | (1) | 13 |
| Exceptional reduction in pension past service liabilities (Note 8) | 60 | – | – | – | 60 | – | – | – | – | – |
| Total credited/ (charged) to income statement | 10 | (1) | (2) | (15) | (8) | (46) | (1) | (2) | (9) | (58) |

26 Retirement benefit obligations continued

The amounts recognised in the Statement of recognised income and expense are as follows:

| | Balfour Beatty Pension Fund 2008 £m | Railways Pension Scheme 2008 £m | Mansell schemes 2008 £m | Other schemes 2008 £m | Total 2008 £m | Balfour Beatty Pension Fund 2007 £m | Railways Pension Scheme 2007 £m | Mansell schemes 2007 £m | Other schemes 2007 £m | Total 2007 £m |
|---|--|---|----------------------------------|--------------------------------|---------------------|--|---|----------------------------------|--------------------------------|---------------------|
| Actuarial gains on pension scheme obligations | 314 | 30 | 26 | – | 370 | 5 | 1 | 11 | 3 | 20 |
| Actuarial losses on pension scheme assets | (350) | (47) | (35) | – | (432) | (20) | – | (1) | – | (21) |
| Total actuarial gains/(losses) recognised in the Statement of recognised income and expense (Note 29.1) | (36) | (17) | (9) | – | (62) | (15) | 1 | 10 | 3 | (1) |
| Cumulative gains/(losses) recognised in reserves | (76) | (7) | 14 | 1 | (68) | (40) | 10 | 23 | 1 | (6) |

BBPF defined contribution employer contributions paid and charged to the income statement have been separately identified on page 68 and the defined contribution section assets and liabilities amounting to £52m (2007: £42m) have been excluded from the tables on pages 68 to 71. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

The actual return on plan assets was a loss of £291m (2007: gain of £112m).

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

| | Balfour Beatty Pension Fund 2008 £m | Railways Pension Scheme 2008 £m | Mansell schemes 2008 £m | Other schemes 2008 £m | Total 2008 £m | Balfour Beatty Pension Fund 2007 £m | Railways Pension Scheme 2007 £m | Mansell schemes 2007 £m | Birse scheme 2007 £m | Other schemes 2007 £m | Total 2007 £m |
|-------------------------------|--|---|----------------------------------|--------------------------------|---------------------|--|---|----------------------------------|-------------------------------|--------------------------------|---------------------|
| At 1 January | (2,036) | (164) | (207) | (37) | (2,444) | (1,876) | (158) | (210) | (94) | (37) | (2,375) |
| Exchange adjustments | – | – | – | (6) | (6) | – | – | – | – | (1) | (1) |
| Transfer | – | – | – | – | – | (94) | – | – | 94 | – | – |
| Service cost | (38) | (3) | (3) | (1) | (45) | (47) | (3) | (3) | – | (1) | (54) |
| Exceptional past service gain | 60 | – | – | – | 60 | – | – | – | – | – | – |
| Interest cost | (113) | (9) | (12) | (2) | (136) | (99) | (8) | (11) | – | (2) | (120) |
| Actuarial gains | 314 | 30 | 26 | – | 370 | 5 | 1 | 11 | – | 3 | 20 |
| Contributions from members | (11) | – | (1) | – | (12) | (11) | – | (1) | – | – | (12) |
| Benefits paid | 91 | 8 | 9 | 4 | 112 | 86 | 4 | 7 | – | 3 | 100 |
| Businesses acquired | – | – | – | (1) | (1) | – | – | – | – | (2) | (2) |
| At 31 December | (1,733) | (138) | (188) | (43) | (2,102) | (2,036) | (164) | (207) | – | (37) | (2,444) |

Our accounts

Notes to the accounts

26 Retirement benefit obligations continued

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

| | Balfour Beatty Pension Fund 2008 £m | Railways Pension Scheme 2008 £m | Mansell schemes 2008 £m | Other schemes 2008 £m | Total 2008 £m | Balfour Beatty Pension Fund 2007 £m | Railways Pension Scheme 2007 £m | Mansell schemes 2007 £m | Birse scheme 2007 £m | Other schemes 2007 £m | Total 2007 £m |
|---|-------------------------------------|---------------------------------|-------------------------|-----------------------|---------------|-------------------------------------|---------------------------------|-------------------------|----------------------|-----------------------|---------------|
| At 1 January | 1,796 | 160 | 191 | 11 | 2,158 | 1,688 | 150 | 177 | 62 | 10 | 2,087 |
| Exchange adjustments | — | — | — | 1 | 1 | — | — | — | — | — | — |
| Transfer | — | — | — | — | — | 62 | — | — | (62) | — | — |
| Expected return on plan assets | 117 | 11 | 13 | — | 141 | 110 | 10 | 12 | — | 1 | 133 |
| Actuarial losses | (350) | (47) | (35) | — | (432) | (20) | — | (1) | — | — | (21) |
| Contributions from employer – regular funding | 28 | 2 | 2 | — | 32 | 30 | 2 | 2 | — | — | 34 |
| Contributions from employer – deficit funding | 29 | 2 | 7 | — | 38 | 1 | 2 | 7 | — | — | 10 |
| Contributions from members | 11 | — | 1 | — | 12 | 11 | — | 1 | — | — | 12 |
| Benefits paid | (91) | (8) | (9) | (1) | (109) | (86) | (4) | (7) | — | (1) | (98) |
| Businesses acquired | — | — | — | — | — | — | — | — | — | 1 | 1 |
| At 31 December | 1,540 | 120 | 170 | 11 | 1,841 | 1,796 | 160 | 191 | — | 11 | 2,158 |

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

| | Balfour Beatty Pension Fund | | Railways Pension Scheme | | Mansell schemes | | Other schemes | |
|-----------------------------|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|
| | Expected rate of return 2008 % | Value 2008 £m | Expected rate of return 2008 % | Value 2008 £m | Expected rate of return 2008 % | Value 2008 £m | Expected rate of return 2008 % | Value 2008 £m |
| Equities | 8.35 | 445 | 8.35 | 78 | 8.35 | 84 | — | — |
| Bonds | | | | | | | | |
| – index linked gilts | 3.80 | 351 | — | — | 3.80 | 15 | — | — |
| – fixed rate gilts | 4.00 | 110 | — | — | 3.80 | 34 | — | — |
| – corporate and other bonds | 6.70 | 542 | 5.70 | 30 | 5.70 | 32 | 4.17 | 11 |
| Funds of hedge funds | 6.30 | 70 | — | — | — | — | — | — |
| Property | — | — | 6.10 | 12 | — | — | — | — |
| Cash and other net assets | 3.60 | 22 | — | — | 3.60 | 5 | — | — |
| Rate of return/total | 6.27 | 1,540 | 7.45 | 120 | 6.40 | 170 | 4.17 | 11 |

| | Balfour Beatty Pension Fund | | Railways Pension Scheme | | Mansell schemes | | Other schemes | |
|-----------------------------------|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|
| | Expected rate of return 2007 % | Value 2007 £m | Expected rate of return 2007 % | Value 2007 £m | Expected rate of return 2007 % | Value 2007 £m | Expected rate of return 2007 % | Value 2007 £m |
| Equities | 8.25 | 694 | 8.25 | 104 | 8.25 | 107 | — | — |
| Bonds | | | | | | | | |
| – indexed linked gilts | 4.40 | 333 | — | — | 4.50 | 16 | — | — |
| – fixed rate gilts | 4.60 | 96 | — | — | 4.50 | 35 | — | — |
| – corporate and other bonds | 6.15 | 649 | 5.85 | 40 | 5.85 | 32 | 4.89 | 11 |
| Property | 6.40 | 3 | 6.40 | 15 | — | — | — | — |
| Cash and other net current assets | 4.40 | 21 | 4.35 | 1 | 4.35 | 1 | — | — |
| Rate of return/total | 6.53 | 1,796 | 7.45 | 160 | 6.83 | 191 | 4.89 | 11 |

26 Retirement benefit obligations continued

The expected rates of return on scheme assets were determined as the average of the expected returns on the assets held by the scheme on 31 December.

The rates of return for each class were determined as follows:

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

The estimated amounts of contributions expected to be paid to the principal defined benefit schemes during 2009 are as follows:

| | Balfour Beatty Pension Fund 2009 £m | Railways Pension Scheme 2009 £m | Mansell schemes 2009 £m | Other schemes 2009 £m | Total 2009 £m |
|-----------------|--|--|----------------------------------|--------------------------------|---------------------|
| Regular funding | 29 | 2 | 2 | — | 33 |
| Deficit funding | 17 | 2 | 7 | — | 26 |
| Total | 46 | 4 | 9 | — | 59 |

The sensitivity of the Group's pension obligations and of the prospective 2009 charge to the Group's income statement to different actuarial assumptions is as follows:

| | Percentage points/years | % | Increase/ (decrease) in obligations £m | Increase/ (decrease) in service cost £m | Increase/ (decrease) in finance cost £m | Increase/ (decrease) in investment return £m | Increase/ (decrease) in total pension cost £m |
|------------------------------------|----------------------------|-------|---|---|---|--|--|
| Increase in discount rate | 0.5% | (7.7) | (158) | (4) | (1) | — | (5) |
| Increase in inflation rate | 0.5% | 6.5 | 134 | 4 | 8 | — | 12 |
| Increase in salary above inflation | 0.5% | 0.5 | 9 | 1 | — | — | 1 |
| Increase in return on assets | 0.5% | — | — | — | — | (9) | (9) |
| Increase in life expectancy | one year | 3.2 | 66 | 1 | 4 | — | 5 |

The sensitivities relating to the discount rate, inflation rate and expected return on assets in respect of the pension cost elements in the income statement are shown for information only. The amounts that will be included in the 2009 income statement are derived from the market conditions at 1 January 2009 and subsequent changes in market conditions will have no effect on the 2009 income statement and will be reflected as actuarial adjustments in the statement of recognised income and expense.

Year end historic information for the Group's post-retirement benefit schemes is as follows:

| | 2008 £m | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|------------|------------|------------|------------|------------|
| Defined benefit obligation at end of year | (2,102) | (2,444) | (2,375) | (2,217) | (1,984) |
| Fair value of assets at end of year | 1,841 | 2,158 | 2,087 | 1,937 | 1,730 |
| Funded status at end of year | (261) | (286) | (288) | (280) | (254) |
| Experience adjustment for liabilities | (17) | (56) | (52) | 24 | (59) |
| Experience adjustment for assets | (432) | (21) | 21 | 138 | 52 |

Notes to the accounts

26 Retirement benefit obligations continued

26.2 Funding valuations

The last formal funding valuations are as detailed below. The Hall & Tawse and Mansell actuaries are undertaking formal valuations as at 31 March 2008 and 31 July 2008 respectively. The Railways Pension Scheme actuary is undertaking a formal valuation as at 31 December 2007.

| | Balfour Beatty Pension Fund £m | Railways Pension Scheme £m | Hall & Tawse Plan £m | Mansell schemes Mansell plc scheme £m | Birse scheme £m |
|-------------------------------------|--|-------------------------------------|----------------------------|--|--------------------|
| Last formal funding valuation | 31/03/2007 | 31/12/2004 | 31/3/2005 | 31/7/2005 | 5/4/2004 |
| Scheme surplus/(deficit) | | | | | |
| Market value of assets | 1,693 | 120 | 90 | 51 | 38 |
| Present value of scheme liabilities | (1,770) | (130) | (113) | (65) | (58) |
| Deficit in defined benefit scheme | (77) | (10) | (23) | (14) | (20) |
| Funding level | 95.6% | 92.4% | 79.0% | 78.0% | 65.5% |

b) Company

Certain employees of the Company are members of the BBPF. Assets, liabilities, income and expenditure relating to this fund are allocated to Group companies participating in the scheme in proportion to pensionable payroll for the year. The Company's share of the net IAS 19 deficit was £7m (2007: £9m).

27 Provisions

| | Employee provisions £m | Contract provisions £m | Other provisions £m | Group Total £m | Company Other provisions £m |
|----------------------------------|------------------------------|------------------------------|------------------------|----------------------|-----------------------------------|
| At 1 January 2008 | 25 | 46 | 57 | 128 | 10 |
| Exchange adjustments | 1 | 4 | 7 | 12 | — |
| Charged to the income statement: | | | | | |
| — additional provisions | 6 | 23 | 35 | 64 | 3 |
| — unused amounts reversed | (2) | (8) | (8) | (18) | — |
| Utilised during the year | (1) | (5) | (22) | (28) | (2) |
| Businesses acquired | 5 | 2 | 1 | 8 | — |
| At 31 December 2008 | 34 | 62 | 70 | 166 | 11 |

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

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

28 Share capital**28.1 Ordinary shares of 50p each**

| | Authorised | | Issued | |
|---------------------|------------|-----|---------|-----|
| | Million | £m | Million | £m |
| At 1 January 2007 | 696 | 348 | 430 | 215 |
| Shares issued | — | — | 3 | 1 |
| At 31 December 2007 | 696 | 348 | 433 | 216 |
| Shares issued | — | — | 45 | 23 |
| At 31 December 2008 | 696 | 348 | 478 | 239 |

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

Ordinary shares issued during the year credited as fully paid:

| | Ordinary shares 2008 Number | Consideration 2008 £m | Ordinary shares 2007 Number | Consideration 2007 £m |
|---|-----------------------------|-----------------------|-----------------------------|-----------------------|
| Share placing (Note 29.2) | 43,320,411 | 182 | — | — |
| Savings-related share options exercised | 1,286,053 | 3 | 1,286,018 | 2 |
| Executive share options exercised | 334,927 | 1 | 1,271,342 | 3 |
| | 44,941,391 | 186 | 2,557,360 | 5 |

At 31 December, share options outstanding were as follows:

| Year of issue | Exercise price Pence | Normally exercisable in periods to | Ordinary shares 2008 Number | Ordinary shares 2007 Number |
|------------------------|----------------------|------------------------------------|-----------------------------|-----------------------------|
| Savings-related | | | | |
| 2002 | 184 | December 2007 | — | 36,118 |
| 2003 | 133 | December 2008 | 37,862 | 619,086 |
| 2004 | 210 | December 2009 | 686,458 | 789,665 |
| 2005 | 250 | December 2010 | 787,276 | 1,579,288 |
| 2006 | 305 | December 2011 | 1,615,135 | 1,788,816 |
| 2007 | 389 | December 2012 | 2,167,989 | 2,431,556 |
| 2008 | 362 | December 2013 | 2,412,703 | — |
| | | | 7,707,423 | 7,244,529 |
| Executive | | | | |
| 1998 | 181 | May 2008 | — | 35,000 |
| 1999 | 110 | November 2009 | 75,818 | 87,818 |
| 2000 | 79 | April 2010 | 186,772 | 196,772 |
| 2001 | 200 | June 2011 | 172,425 | 225,725 |
| 2002 | 238 | April 2012 | 306,000 | 366,000 |
| 2003 | 173 | April 2013 | 452,066 | 519,566 |
| 2004 | 261 | April 2014 | 767,672 | 924,934 |
| | | | 1,960,753 | 2,355,815 |

On 7 May 2008, options were granted over 2,499,744 ordinary shares under the Balfour Beatty savings-related share option scheme, at 362p per share, and these are normally exercisable in the periods from July 2011 to December 2011 and from July 2013 to December 2013 depending upon the length of savings contract chosen by the participant.

Notes to the accounts

28 Share capital continued

28.2 Cumulative convertible redeemable preference shares of 1p each

| | Authorised | | Issued | |
|---------------------|------------|----|---------|----|
| | Million | £m | Million | £m |
| At 1 January 2007 | 177 | 2 | 117 | — |
| Shares repurchased | — | — | (5) | — |
| At 31 December 2007 | 177 | 2 | 112 | — |
| Shares repurchased | — | — | — | — |
| At 31 December 2008 | 177 | 2 | 112 | — |

All issued preference shares are fully paid. During the year, 300,017 preference shares (2007: 4,957,163) were repurchased for cancellation by the Company for a total consideration of £407,337 (2007: £7,500,535) at an average price of 135.8p (2007: 151.3p).

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. Any preference shares still outstanding are redeemable on 1 July 2020 at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2008 (2007: £112m).

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

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

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

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

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Redemption value of shares in issue at 1 January | 112 | 117 |
| Equity component | (16) | (16) |
| Deferred tax and interest element | (9) | (11) |
| Liability component at 1 January at amortised cost | 87 | 90 |
| Repurchase of preference shares | — | (3) |
| Liability component at 31 December at amortised cost | 87 | 87 |

The fair value of the liability component of the preference shares at 31 December 2008 amounted to £192m (2007: £142m). The fair value is calculated by discounting the future cash flows at interest rates reflecting the yield curve at the balance sheet date.

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

29 Movements in equity**29.1 Group**

| | Called-up share capital £m | Share premium account £m | Equity component of preference shares £m | Special reserve £m | Share of joint ventures' and associates' reserves £m | Hedging reserves £m | PPP financial assets £m | Currency translation reserve £m | Other reserves £m | Retained profits/ (accumulated losses) £m | Minority interest £m | Total £m |
|---|-------------------------------------|-----------------------------------|--|--------------------------|--|---------------------------|----------------------------------|--|----------------------|---|----------------------------|-------------|
| At 1 January 2007 | 215 | 43 | 16 | 169 | 243 | — | — | (6) | 11 | (304) | — | 387 |
| Net profit for the year | — | — | — | — | 74 | — | — | — | — | 77 | — | 151 |
| Actuarial gains/(losses) on retirement benefit obligations | — | — | — | — | 3 | — | — | — | — | (1) | — | 2 |
| PPP cash flow hedges | — | — | — | — | (2) | (5) | — | — | — | — | — | (7) |
| — fair value revaluations | — | — | — | — | 7 | — | — | — | — | — | — | 7 |
| — reclassified and reported in net profit | — | — | — | — | (26) | — | — | — | — | — | — | (26) |
| PPP financial assets | — | — | — | — | (3) | — | — | — | — | — | — | (3) |
| — fair value revaluations | — | — | — | — | — | — | — | (4) | — | — | — | (4) |
| — reclassified and reported in net profit | — | — | — | — | — | — | — | 7 | — | — | — | 7 |
| Changes in fair value of net investment hedges | — | — | — | — | 7 | 1 | — | 1 | — | (5) | — | 5 |
| Currency translation differences | — | — | 1 | — | 60 | (4) | — | 4 | — | 71 | — | 132 |
| Tax on items taken directly to equity | — | — | — | — | — | — | — | — | — | (42) | — | (42) |
| Total recognised income for the year | — | — | — | — | (83) | — | — | — | — | 83 | — | — |
| Ordinary dividends | 1 | 4 | — | — | — | — | — | — | — | — | — | 5 |
| Joint ventures' and associates' dividends | — | 5 | (1) | — | — | — | — | — | — | (5) | — | (1) |
| Issue of ordinary shares | — | — | — | — | — | — | — | — | 4 | (2) | — | 2 |
| Repurchase of preference shares | — | — | — | (5) | (42) | — | — | — | — | 47 | — | — |
| Movements relating to share-based payments | — | — | — | — | — | — | — | — | — | — | — | — |
| Transfers | 216 | 52 | 16 | 164 | 178 | (4) | — | (2) | 15 | (152) | — | 483 |
| At 31 December 2007 | — | — | — | — | 72 | — | — | — | — | 124 | — | 196 |
| Net profit for the year | — | — | — | — | (14) | — | — | — | — | (62) | — | (76) |
| Actuarial losses on retirement benefit obligations | — | — | — | — | (3) | 2 | — | — | — | — | — | (1) |
| Other cash flow hedges | — | — | — | — | (73) | (34) | — | — | — | — | — | (107) |
| — fair value revaluations | — | — | — | — | 100 | — | 2 | — | — | — | — | 102 |
| PPP cash flow hedges | — | — | — | — | — | — | — | (105) | — | — | — | (105) |
| — fair value revaluations | — | — | — | — | 27 | — | — | 189 | — | — | 1 | 217 |
| PPP financial assets | — | — | — | — | (4) | 10 | (1) | 3 | — | 17 | — | 25 |
| Changes in fair value of net investment hedges | — | — | — | — | 105 | (22) | 1 | 87 | — | 79 | 1 | 251 |
| Currency translation differences | — | — | — | — | — | — | — | — | — | (54) | — | (54) |
| Tax on items taken directly to equity | — | — | — | — | (53) | — | — | — | — | 53 | — | — |
| Total recognised income for the year | 23 | 2 | — | — | — | — | — | — | 161 | — | — | 186 |
| Ordinary dividends | — | — | — | — | — | — | — | — | — | — | — | — |
| Joint ventures' and associates' dividends | — | — | — | — | — | — | — | — | — | — | — | — |
| Issue of ordinary shares | — | — | — | — | — | — | — | — | 4 | (8) | — | (4) |
| Repurchase of preference shares | — | — | — | — | — | — | — | — | — | — | 3 | 3 |
| Movements relating to share-based payments | — | — | — | (25) | — | — | — | — | (161) | 186 | — | — |
| Minority Interests | 239 | 54 | 16 | 139 | 230 | (26) | 1 | 85 | 19 | 104 | 4 | 865 |
| Transfers | — | — | — | — | — | — | — | — | — | — | — | — |
| At 31 December 2008 | — | — | — | — | — | — | — | — | — | — | — | — |

Our accounts

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

Notes to the accounts

29 Movements in equity continued

29.2 Company

| | Called-up share capital £m | Share premium account £m | Equity component of preference shares £m | Special reserve £m | Other reserves £m | Retained profits/ (accumulated losses) £m | Total £m |
|--|-------------------------------------|-----------------------------------|--|--------------------------|-------------------------|---|-------------|
| At 1 January 2007 | 215 | 43 | 16 | 169 | 46 | 126 | 615 |
| Net profit for the year | — | — | — | — | — | 106 | 106 |
| Actuarial losses on retirement benefit obligations | — | — | — | — | — | (1) | (1) |
| Ordinary dividends | — | — | — | — | — | (42) | (42) |
| Issue of ordinary shares | 1 | 4 | — | — | — | — | 5 |
| Repurchase of preference shares | — | 5 | (1) | — | — | (5) | (1) |
| Movements relating to share-based payments | — | — | — | — | 2 | (3) | (1) |
| Tax on items taken directly to equity | — | — | 1 | — | — | (1) | — |
| Transfers | — | — | — | (5) | — | 5 | — |
| At 31 December 2007 | 216 | 52 | 16 | 164 | 48 | 185 | 681 |
| Net loss for the year | — | — | — | — | — | (28) | (28) |
| Actuarial losses on retirement benefit obligations | — | — | — | — | — | (1) | (1) |
| Ordinary dividends | — | — | — | — | — | (54) | (54) |
| Issue of ordinary shares | 23 | 2 | — | — | 161 | — | 186 |
| Movements relating to share-based payments | — | — | — | — | 16 | (11) | 5 |
| Tax on items taken directly to equity | — | — | — | — | — | (1) | (1) |
| Transfers | — | — | — | (25) | (161) | 186 | — |
| At 31 December 2008 | 239 | 54 | 16 | 139 | 64 | 276 | 788 |

The retained profits of Balfour Beatty plc are wholly distributable.

By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £25m occurred in 2008 (2007: £5m).

On 20 May 2008, 43,320,411 ordinary shares were issued and placed with institutions at a price of 430p per share, raising £182m after issue costs of £4m. The placing qualified for merger relief under Section 131 of the Companies Act 1985 so that the premium arising was not required to be credited to the Company's share premium account.

29.3 The retained profits in the Group and the retained profit of the Company are stated net of investments in Balfour Beatty plc ordinary shares of 50p each acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Balfour Beatty performance share plan and the Balfour Beatty deferred bonus plan. In 2008, 3.0m (2007: 0.9m) shares were purchased at a cost of £12.8m (2007: £4.2m). The market value of the 3.7m (2007: 1.8m) shares held by the Trust at 31 December 2008 was £12.2m (2007: £8.9m). Following confirmation of the performance criteria at the end of the performance period in the case of the performance share plan, and at the end of the vesting period in the case of the deferred bonus plan, the appropriate number of shares will be unconditionally transferred to participants. In 2008, 1.1m shares were transferred to participants in relation to the April 2005 awards under the performance share plan (2007: 0.7m shares for the April 2004 awards). The trustees have waived the rights to dividends on shares held by the Trust. Other reserves in the Group and the Company include £7.6m relating to unvested Performance Share Plan awards (2007: £5.7m), £5.8m relating to unvested share options (2007: £5.2m), and £3.0m relating to unvested deferred bonus plan awards (2007: £1.3m).

30 Acquisitions

The Group has made the following acquisitions during the year:

| Acquisition Date | Subsidiary | Percentage acquired | Cash consideration | Deferred consideration | Costs | Fair values of net assets/ (net liabilities) acquired | Goodwill arising on acquisition |
|-----------------------|--|---------------------|--------------------|------------------------|-------------|---|---------------------------------|
| 30.1 18 March 2008 | Dean & Dyball Ltd | 100% | £44m | £1m | £1m | £(1)m | £47m |
| 30.2 30 April 2008 | Balfour Beatty Communities LLC | 100% | £176m \$350m | – | £4m \$7m | £146m | £34m |
| 30.3 5 May 2008 | Regional & City Airports (Blackpool) Ltd | 95% | – | £1m | £2m | £(3)m | £6m |
| 30.4 4 June 2008 | Douglas E Barnhart Inc | 100% | £61m \$121m | – | £2m \$4m | £25m | £38m |
| 30.5 26 June 2008 | Leonard Wood Family Communities LLC (i) | (ii) | £2m \$3m | – | – | £2m | – |
| 30.6 31 July 2008 | Schreck-Mieves GmbH (i) | 100% | £25m €32m | – | – | £15m | £10m |
| 30.7 21 August 2008 | Branlow Limited (i) | 100% | £7m | £1m | – | £1m | £7m |
| 30.8 7 November 2008 | Colledge Trundle & Hall Limited (i) | 100% | £3m | – | – | £1m | £2m |
| 30.9 23 December 2008 | Lackland Family Housing LLC (i) | (ii) | £3m \$5m | – | – | £3m | – |
| | | | £321m | £3m | £9m | £189m | £144m |

(i) As at 31 December 2008 the fair values of acquired assets, liabilities and goodwill for these businesses have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.

(ii) Leonard Wood Family Communities LLC and Lackland Family Housing LLC are PPP military accommodation businesses in which the Group acquired a joint venture interest where the Group share of the results is limited to a pre-agreed preferred return on funds invested subject to the performance of the LLC.

30.1 Dean & Dyball Ltd is a leading UK regional civil engineering and building business. The goodwill arising is attributable to the acquisition strengthening the Group's UK regional civil engineering and building businesses.

30.2 Balfour Beatty Communities LLC (formerly GMH Military Housing) was the military PPP accommodation business of GMH Communities Trust, a US real estate investment trust. The goodwill arising is attributable to the acquisition extending the Group's position in the UK PPP and facilities management markets to the USA.

30.3 Regional & City Airports (Blackpool) Ltd owns and operates Blackpool International Airport. The goodwill arising is attributable to the acquisition strengthening the Group's non-PPP infrastructure investment portfolio.

30.4 Douglas E Barnhart Inc is a US programme and construction management business. The goodwill arising is attributable to the acquisition complementing the Group's US project and programme management business.

30.5 Leonard Wood Family Communities LLC is a PPP military accommodation business located in Pulaski, USA.

30.6 Schreck-Mieves GmbH is a German railway engineering and construction company. The provisional goodwill arising is attributable to the acquisition strengthening the Group's European railway engineering business.

30.7 Branlow Ltd is a UK based ground engineering company. The provisional goodwill arising is attributable to the acquisition extending the scope of the Group's ground engineering business into the micropiling market.

30.8 Colledge Trundle & Hall Ltd is a UK system integrator in the intelligent building control sector. The provisional goodwill arising is attributable to the acquisition extending the Group's capabilities within the UK facilities management market.

30.9 Lackland Family Housing LLC is a PPP military accommodation business located in San Antonio, USA.

Notes to the accounts

30 Acquisitions continued

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

| | Balfour Beatty Communities (formerly GMH Military Housing) | | | 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 of assets acquired £m |
| Net assets acquired: | | | | | | | | |
| Intangible assets – other | – | 115 | 115 | – | 22 | 22 | – | 137 |
| Investments in joint ventures and associates | 36 | (9) | 27 | – | – | – | 36 | (9) |
| Property, plant and equipment | – | – | – | 45 | 4 | 49 | 45 | 4 |
| Working capital | 9 | (1) | 8 | 7 | (34) | (27) | 16 | (35) |
| Provisions | – | – | – | (8) | – | (8) | (8) | – |
| Deferred taxation | (1) | – | (1) | – | 5 | 5 | (1) | 5 |
| Cash and cash equivalents | – | – | – | 32 | – | 32 | 32 | – |
| Borrowings | – | – | – | (29) | – | (29) | (29) | – |
| Retirement benefit obligations | – | – | – | (1) | – | (1) | (1) | – |
| Minority interests | (3) | – | (3) | – | – | – | (3) | – |
| | 41 | 105 | 146 | 46 | (3) | 43 | 87 | 102 |
| Goodwill | | | 34 | | | 110 | | 144 |
| | | | 180 | | | 153 | | 333 |
| Satisfied by: | | | | | | | | |
| Cash consideration | | | 176 | | | 145 | | 321 |
| Costs incurred | | | 4 | | | 5 | | 9 |
| | | | 180 | | | 150 | | 330 |
| Deferred consideration and costs | | | – | | | 3 | | 3 |
| | | | 180 | | | 153 | | 333 |

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

During 2008, £4m of deferred consideration was paid in respect of acquisitions completed in earlier years.

The acquired businesses earned revenues of £502m and profits from continuing operations of £2m (after charging exceptional items of £5m and amortisation of intangible assets of £12m) in the period since acquisition.

The following summary presents the Group as if all of the businesses acquired had been acquired on 1 January 2008. The amounts include the results of the acquired businesses, depreciation and amortisation of the acquired fixed assets and intangible assets recognised on acquisition. The amounts do not include any possible synergies from the acquisition. The results of acquired companies for the period before acquisition have not been adjusted to reflect Balfour Beatty accounting policies nor to reflect the fair value adjustments made on acquisition. The information is provided for illustrative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results from operations of the combined companies.

| | £m |
|--|-------|
| Group revenue | 8,491 |
| Profit for the year from continuing operations | 199 |

31 Share-based payments

31.1 The Company operates four equity-settled share-based payment arrangements, namely the savings-related share option scheme, the executive share option scheme, the performance share plan and the deferred bonus plan. The Group recognised total expenses related to equity-settled share-based payment transactions since 7 November 2002 of £8.8m in 2008 (2007: £7.1m).

31.2 Savings-related share options:

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

| | SAYE options 2008 Number | Weighted average exercise price 2008 Pence | SAYE options 2007 Number | Weighted average exercise price 2007 Pence |
|----------------------------|-----------------------------------|---|-----------------------------------|---|
| Outstanding at 1 January | 7,208,411 | 296.1 | 5,954,117 | 244.2 |
| Granted during the year | 2,499,744 | 362.0 | 2,500,148 | 389.0 |
| Forfeited during the year | (694,636) | 322.1 | (557,931) | 267.6 |
| Exercised during the year | (1,275,485) | 199.0 | (666,656) | 209.5 |
| Expired during the year | (30,611) | 210.0 | (21,267) | 133.0 |
| Outstanding at 31 December | 7,707,423 | 331.6 | 7,208,411 | 296.1 |
| Exercisable at 31 December | 37,862 | 133.0 | 44,417 | 210.0 |

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 401.2p (2007: 450.0p). Those SAYE options outstanding at 31 December 2008 had a weighted average remaining contractual life of 2.7 years (2007: 2.8 years).

The principal assumptions used by the consultants in the stochastic model for the SAYE options granted in 2008, including expected volatility determined from the historic weekly share price movements over the three year period immediately preceding the invitation date, were:

| Invitation date | Exercise price Pence | Closing share price before invitation date Pence | Expected dividend yield % | Expected volatility of shares % | Expected term of options Years | Risk-free interest rate % | Calculated fair value of an option Pence |
|--|----------------------------|---|------------------------------------|--|---|---------------------------------|---|
| 10 April 2008 – three years savings contract | 362.0 | 442.25 | 2.60 | 24.4 | 3.25 | 4.01 | 113.7 |
| 10 April 2008 – five years savings contract | 362.0 | 442.25 | 2.60 | 24.4 | 5.25 | 4.10 | 128.3 |

31.3 Executive share options:

The Company has not granted any executive share options in 2008, but has continued to operate a scheme under which employees were last granted options in 2004 to purchase ordinary shares in the Company, which are exercisable between three and 10 years after the date of grant. Performance conditions have been met for all executive options granted since 7 November 2002, as earnings per share before goodwill amortisation and exceptional items ("eps") for the last year of the minimum three year performance period have grown from their respective fixed base eps by a total of at least 3% per annum plus the increase in RPI over the relevant period. Details of executive share options outstanding at the end of the year are shown in Note 28.1. The information in relation to executive options granted since 7 November 2002 was:

| | Executive options 2008 Number | Weighted average exercise price 2008 Pence | Executive options 2007 Number | Weighted average exercise price 2007 Pence |
|----------------------------|--|---|--|---|
| Outstanding at 1 January | 1,444,500 | 229.4 | 2,398,342 | 236.1 |
| Granted during the year | – | – | – | – |
| Forfeited during the year | (45,135) | 251.3 | (10,000) | 261.0 |
| Exercised during the year | (179,627) | 230.4 | (943,842) | 246.2 |
| Expired during the year | – | – | – | – |
| Outstanding at 31 December | 1,219,738 | 228.4 | 1,444,500 | 229.4 |
| Exercisable at 31 December | 1,219,738 | 228.4 | 1,444,500 | 229.4 |

The weighted average share price at the date of exercise for those executive options exercised during the year was 425.3p (2007: 473.6p). Those executive options outstanding at 31 December 2008 had a weighted average remaining contractual life of 4.9 years (2007: 5.9 years).

Notes to the accounts

31 Share-based payments continued

31.4 Performance share plan awards:

The Company operates a performance share plan under which executive Directors and key senior employees are granted conditional awards of ordinary shares in the Company, which are exercisable on the third anniversary of the date of award. These awards will only vest to the extent that performance targets are met over a three year performance period. On 15 April 2008 a maximum of 2,042,490 conditional shares were awarded which are normally exercisable in April 2011.

50% of the 2008 award is based on an eps growth target: the maximum award of shares is made only where the Company's eps increases by at least RPI +45% in the relevant performance period; 25% of this element of the award is made where the Company's eps increases by RPI +15% over the period; if growth in eps is between RPI +15% and RPI +45%, the number of shares will be awarded pro-rata to the growth in eps; and no shares from this element of the award can be awarded if growth in eps is less than RPI +15% over the period.

The other 50% of that 2008 award is based on total shareholder return (TSR) performance measured against a group of UK listed companies operating in comparable markets to the Company: the maximum award of shares is made only where the Company's TSR is in the upper quartile; 25% of this element of the award is made where the Company's TSR is at the median; if the Company's TSR is between the median and the upper quartile, the number of shares will be awarded pro-rata; and no shares can be awarded if the Company's TSR is below median.

The information in relation to performance share awards was:

| | Conditional awards 2008 Number | Conditional awards 2007 Number |
|----------------------------|-----------------------------------|-----------------------------------|
| Outstanding at 1 January | 4,631,630 | 4,577,234 |
| Granted during the year | 2,042,490 | 1,465,383 |
| Forfeited during the year | (68,412) | (170,445) |
| Exercised during the year | (1,132,427) | (668,023) |
| Expired during the year | (250,113) | (572,519) |
| Outstanding at 31 December | 5,223,168 | 4,631,630 |
| Exercisable at 31 December | — | — |

The weighted average share price at the date of exercise for those performance share awards exercised during the year was 448.0p (2007: 474.2p). Those performance share awards outstanding at 31 December 2008 had a weighted average remaining contractual life of 1.7 years (2007: 1.6 years).

The awards are satisfied by the transfer of shares for no consideration. For the 50% of the 2008 award which is subject to a performance test based on eps, the fair value of the award is the closing share price before the award date (444.25p). For the 50% of that 2008 award which is subject to a market condition based on TSR, the consultants have used a stochastic model, including expected volatility determined from the historic weekly share price movements over the three year period preceding the award date, with the following assumptions used:

| Award date | Closing share price before award date Pence | Expected volatility of shares % | Expected term of awards Years | Risk-free interest rate % | Calculated fair value of an award Pence |
|---------------|--|------------------------------------|----------------------------------|------------------------------|--|
| 15 April 2008 | 444.25 | 24.3 | 3.0 | 3.95 | 266.6 |

31.5 Deferred bonus plan awards:

The Company operates a deferred bonus plan under which one-third of the annual bonus of executive Directors and key senior employees is deferred in the form of ordinary shares in the Company, which will normally be released after three years, providing the individual is still in the Group's employment at that time. On 31 March 2008 a maximum of 528,856 conditional shares were awarded which will normally be released on 31 March 2011. On 1 July 2008 a further 21,499 conditional shares were awarded in lieu of entitlements to the final 2007 dividend and on 10 December 2008 a further 18,973 conditional shares were awarded in lieu of entitlements to the interim 2008 dividend. The information in relation to deferred bonus plan awards was:

| | Conditional awards 2008 Number | Conditional awards 2007 Number |
|-----------------------------|-----------------------------------|-----------------------------------|
| Outstanding at 1 January | 737,998 | 358,126 |
| Granted during the year | 528,856 | 403,002 |
| Awards in lieu of dividends | 40,472 | 15,439 |
| Forfeited during the year | (11,112) | (20,905) |
| Exercised during the year | — | (17,664) |
| Expired during the year | — | — |
| Outstanding at 31 December | 1,296,214 | 737,998 |
| Exercisable at 31 December | — | — |

The weighted average share price at the date of exercise for those deferred bonus plan awards exercised during the year was n/a (2007: 468.1p).

Those deferred bonus plan awards outstanding at 31 December 2008 had a weighted average remaining contractual life of 1.4 years (2007: 1.8 years).

As the awards are satisfied by the transfer of shares for no consideration, the fair values of the awards are the closing share price before award date, which was 464.25p, 425.0p and 330.25p for the awards made on 31 March 2008, 1 July 2008 and 10 December 2008 respectively.

32 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £34m (2007: £7m) in the Group and £nil (2007: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt of joint ventures and associates in PPP projects amounting to £70m (2007: £66m), £19m (2007: £22m) in respect of PPP subsidiaries and £27m (2007: £nil) in respect of Balfour Beatty Communities military housing concessions. The future cash flow profile of the Group's share of further equity funding and subordinated debt is shown in Note 37(g).

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

Future operating lease expenditure commitments comprise:

| | Land and buildings 2008 £m | Other 2008 £m | Land and buildings 2007 £m | Other 2007 £m |
|--------------------------------|-------------------------------------|---------------------|-------------------------------------|---------------------|
| Group | | | | |
| Due within one year | 35 | 21 | 26 | 23 |
| Due between one and five years | 82 | 33 | 77 | 32 |
| Due after more than five years | 41 | — | 37 | — |
| | 158 | 54 | 140 | 55 |
| Company | | | | |
| Due within one year | 3 | — | 3 | — |
| Due between one and five years | 13 | — | 14 | — |
| Due after more than five years | 4 | — | 7 | — |
| | 20 | — | 24 | — |

Future operating lease income commitments comprise:

| | Land and buildings 2008 £m | Other 2008 £m | Land and buildings 2007 £m | Other 2007 £m |
|--------------------------------|-------------------------------------|---------------------|-------------------------------------|---------------------|
| Group | | | | |
| Due within one year | 2 | — | 3 | 1 |
| Due between one and five years | 10 | — | 6 | 2 |
| Due after more than five years | 2 | — | — | — |
| | 14 | — | 9 | 3 |
| Company | | | | |
| Due within one year | 2 | — | 3 | — |
| Due between one and five years | 9 | — | 4 | — |
| Due after more than five years | 2 | — | 1 | — |
| | 13 | — | 8 | — |

Notes to the accounts

33 Contingent liabilities

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

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

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

34 Related party transactions

Joint ventures and associates:

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £693m (2007: £1,020m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due to or from joint ventures and associates at 31 December are disclosed within trade and other receivables and trade and other payables in Notes 22 and 23 respectively.

Pension schemes:

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £4.5m in 2008 (2007: £3.5m).

Key personnel:

The remuneration of key personnel of Balfour Beatty plc was:

| | 2008 £m | 2007 £m |
|--------------------------|------------|------------|
| Short-term benefits | 7.137 | 4.951 |
| Post employment benefits | 0.771 | 0.560 |
| Share-based payments | 3.031 | 2.406 |
| | 10.939 | 7.917 |

Key personnel comprise the Board and seven Group managing directors (2007: five) who are directly responsible for the Group's operating companies, engineering and safety. The remuneration included above is that paid in respect of the period of the year during which the individuals were Directors and Group Managing Directors. Further details of Directors' emoluments, pension benefits and interests are set out in the Remuneration report on pages 18 to 25.

35 Post balance sheet events

On 23 February 2009 the Group acquired Dooley Construction Limited Partnership, a leading North Carolina USA firm in the interiors construction market, for a cash consideration of \$40m. As this company has been acquired recently and prepares its local accounts under US GAAP, at the date of authorisation of these accounts it is impracticable to determine the fair value of the net assets and goodwill acquired.

36 Notes to the cash flow statement

| | Group 2008 £m | Group 2007 # £m | Company 2008 £m | Company 2007 # £m |
|---|---------------------|-----------------------|-----------------------|-------------------------|
| 36.1 Cash generated from operations comprises: | | | | |
| Profit from operations – continuing | 251 | 136 | 15 | 124 |
| Exceptional reduction in pension past service liabilities | (60) | – | (2) | – |
| Trading loss from discontinued operations | – | (1) | – | – |
| Share of results of joint ventures and associates | (72) | (71) | – | – |
| Dividends received | – | – | (28) | (55) |
| Depreciation of property, plant and equipment | 65 | 50 | – | 1 |
| Amortisation of other intangible assets | 27 | 9 | – | – |
| Pension deficit payments | (38) | (10) | (1) | – |
| Movements relating to share-based payments | 9 | 7 | 5 | 4 |
| Profit on disposal of property, plant and equipment | (4) | (3) | – | – |
| Other non cash items | 5 | – | – | – |
| Profit on disposal of investment | – | – | – | (82) |
| Operating cash flows before movements in working capital | 183 | 117 | (11) | (8) |
| Decrease in working capital | 114 | 160 | 2 | 5 |
| Cash generated from/(used in) operations | 297 | 277 | (9) | (3) |

Re-presented (Note 1.28 and Note 6).

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|---|---------------------|---------------------|-----------------------|-----------------------|
| 36.2 Cash and cash equivalents comprise: | | | | |
| Cash and deposits | 379 | 293 | – | – |
| Term deposits | 82 | 98 | 50 | 80 |
| PPP cash balances | 2 | 3 | – | – |
| Bank overdrafts | (10) | (15) | (51) | (95) |
| | 453 | 379 | (1) | (15) |

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

| | Group 2008 £m | Group 2007 £m | Company 2008 £m | Company 2007 £m |
|--|---------------------|---------------------|-----------------------|-----------------------|
| 36.3 Analysis of movement in net cash: | | | | |
| Opening net cash | 313 | 284 | (15) | 154 |
| Net increase/(decrease) in cash and cash equivalents | 2 | 63 | 14 | (169) |
| Acquisitions – borrowings at date of acquisition | (29) | (36) | – | – |
| Businesses sold – borrowings at date of disposal | – | 35 | – | – |
| Proceeds from new loans | (81) | (42) | – | – |
| Repayment of loans | 18 | 1 | – | – |
| Repayment of finance leases | 2 | – | – | – |
| Exchange adjustments | 72 | 8 | – | – |
| Closing net cash | 297 | 313 | (1) | (15) |

36.4 Borrowings

During the year to 31 December 2008 the significant movements in borrowings were an increase of £81m in non-recourse borrowings funding the development of financial assets in PPP subsidiaries, the inclusion of £29m of borrowings in acquired companies and repayment of £18m of loans.

Notes to the accounts

36 Notes to the cash flow statement continued

36.5 Acquisitions of businesses:

| | Group 2008 £m | Group 2007 £m |
|--|---------------------|---------------------|
| Net assets acquired: | | |
| Intangible assets – goodwill | 144 | 263 |
| Intangible assets – other | 137 | 59 |
| Property, plant and equipment | 49 | 7 |
| Joint ventures and associates | 27 | – |
| Assets held for sale | – | 24 |
| Working capital | (19) | (113) |
| Retirement benefit obligations | (1) | (1) |
| Provisions | (8) | (19) |
| Current tax asset | – | 2 |
| Deferred tax assets | 4 | (4) |
| Borrowings | (29) | – |
| Minority interests | (3) | – |
| | 301 | 218 |
| Due on acquisitions | (3) | (20) |
| | 298 | 198 |
| Satisfied by: | | |
| Cash consideration including costs (Note 30) | 330 | 333 |
| Cash, deposits and overdrafts acquired | (32) | (135) |
| Cash outflow – current year acquisitions (Note 30) | 298 | 198 |

36.6 Disposals of businesses:

| | Group 2008 £m | Group 2007 £m |
|--|---------------------|---------------------|
| Net assets disposed of: | | |
| Investments in joint ventures and associates | – | 10 |
| Assets held for sale | – | 25 |
| | – | 35 |
| Profit on sale | – | 57 |
| | – | 92 |
| Satisfied by: | | |
| Cash consideration | – | 96 |
| Cash, deposit and overdrafts sold | – | (4) |
| | – | 92 |

37 Principal subsidiaries, joint ventures and associates

| | Country of incorporation or registration | Country of incorporation or registration | |
|---|--|--|----------------------------|
| (a) Principal subsidiaries | | | |
| Building, civil and rail engineering | | | |
| Balfour Beatty Civil Engineering Ltd | | | |
| Balfour Beatty Construction Group Inc | USA | | |
| Balfour Beatty Construction LLC | USA | | |
| Balfour Beatty Construction Northern Ltd | | | |
| Balfour Beatty Construction Scottish & Southern Ltd | Scotland | | |
| Balfour Beatty Group Ltd | | | |
| Balfour Beatty Infrastructure Inc | USA | | |
| Balfour Beatty Infrastructure Services Ltd | | | |
| Balfour Beatty Management Ltd | | | |
| Balfour Beatty Rail AB | Sweden | | |
| Balfour Beatty Rail GmbH | Germany | | |
| Balfour Beatty Rail Inc | USA | | |
| Balfour Beatty Rail Infrastructure Services Ltd | | | |
| Balfour Beatty Rail Plant Ltd | | | |
| Balfour Beatty Rail Projects Ltd | | | |
| Balfour Beatty Rail Signal GmbH | Germany | | |
| Balfour Beatty Rail SpA | Italy | | |
| Balfour Beatty Rail Technologies Ltd | | | |
| Balfour Beatty Rail Track Systems Ltd | | | |
| Balfour Beatty Refurbishment Ltd | | | |
| Balfour Beatty Utility Solutions Ltd | | | |
| Balfour Beatty WorkPlace Ltd | | | |
| Balfour Kilpatrick Ltd | Scotland | | |
| Baivac Ltd | | | |
| Barnhart Inc | USA | | |
| Birse Civils Ltd | | | |
| Birse Construction Ltd | | | |
| Birse Group plc* | | | |
| Charter Builders Ltd | USA | | |
| Covion Holdings Ltd | | | |
| Cowlin Group Ltd | | | |
| Cruickshanks Ltd* | Scotland | | |
| Dean & Dyball Ltd | | | |
| Edgar Allen Ltd | Scotland | | |
| Haden Building Services Ltd | | | |
| Haden Young Ltd | | | |
| Heery International Inc | USA | | |
| Heery International Ltd | | | |
| Lounsedale Electric Ltd | Scotland | | |
| Mansell Build Ltd | | | |
| Mansell Construction Services Ltd | | | |
| Mansell plc | | | |
| National Engineering and Contracting Company | USA | | |
| Painter Brothers Ltd | | | |
| Raynesway Construction Ltd | | | |
| Schreck-Mieves GmbH | Germany | | |
| Stent Foundations Ltd | | | |
| Investments | | | |
| PPP | | | |
| Balfour Beatty Capital Ltd | | | |
| Balfour Beatty Capital Group Inc | | USA | |
| Balfour Beatty Communities LLC | | USA | |
| Balfour Beatty Infrastructure Investments Ltd* | | | |
| Connect Roads Derby Holdings Ltd | | | |
| Connect Roads South Tyneside Holdings Ltd | | | |
| Connect Roads Sunderland Holdings Ltd | | | |
| Transform Schools (Knowsley) Holdings Ltd | | | |
| Infrastructure | | | |
| Regional & City Airports (Blackpool) Ltd (Note iii) | | | |
| Other | | | |
| Balfour Beatty Inc | | USA | |
| Balfour Beatty Investment Holdings Ltd* | | | |
| Balfour Beatty Netherlands BV | | Netherlands | |
| Balfour Beatty Property Ltd* | | | |
| BICC Finance BV | | Netherlands | |
| BICC Overseas Investments Ltd | | | |
| Delphian Insurance Company Ltd* | | Isle of Man | |
| Guinea Investments Ltd | | | |
| | | Country of incorporation or registration | Ownership interest % |
| (b) Principal joint ventures and associates | | | |
| Building, civil and rail engineering | | | |
| Balfour Beatty Abu Dhabi LLC | | Abu Dhabi | 49.0 |
| BK Gulf LLC | | Dubai | 49.0 |
| Dutco Balfour Beatty LLC | | Dubai | 49.0 |
| Dutco Construction Co LLC | | Dubai | 49.0 |
| Gammon China Ltd | | Hong Kong | 50.0 |
| Kerjaya Balfour Beatty Cementation Sdn Bhd | | Malaysia | 35.0 |
| Monteray Ltd | | | 24.5 |
| PT Balfour Beatty Sakti Indonesia | | Indonesia | 49.0 |
| Romec Ltd | | | 49.0 |
| Signalling Solutions Ltd | | | 50.0 |
| Trans4m Ltd | | | 25.0 |
| Investments | | | |
| PPP | | | |
| Aberdeen Environmental Services (Holdings) Ltd | Scotland | | 45.0 |
| Connect M1-A1 Holdings Ltd* | | | 50.0 |
| Connect M77/GSO Holdings Ltd (Note vi) | | | 85.0 |
| Connect Roads Ltd* (Note vi) | | | 85.0 |
| Consort Healthcare (Birmingham) Holdings Ltd | | | 40.0 |
| Consort Healthcare (Blackburn) Holdings Ltd | | | 51.0 |
| Consort Healthcare (Durham) Holdings Ltd* | | | 50.0 |
| Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd* (Note vi) | Scotland | | 73.9 |

Notes to the accounts

37 Principal subsidiaries, joint ventures and associates continued

| | Country of incorporation or registration | Ownership interest % |
|--|--|----------------------------|
| (b) Principal joint ventures and associates continued | | |
| Investments | | |
| PPP | | |
| Consort Healthcare (Mid Yorkshire) Holdings Ltd | | 50.0 |
| Consort Healthcare (Salford) Holdings Ltd | | 50.0 |
| Consort Healthcare (Tameside) Holdings Ltd | | 50.0 |
| EDF Energy Powerlink Ltd (Note vii) | | 10.0 |
| Gammon Investments Pte Ltd | Singapore | 50.0 |
| Health Management (UCLH) Holdings Ltd | | 33.3 |
| Power Asset Development Company Ltd | | 25.0 |
| Transform Islington Ltd (Note vi) | | 80.0 |
| Transform Schools (Bassetlaw) Holdings Ltd | | 50.0 |
| Transform Schools (Birmingham) Holdings Ltd | | 50.0 |
| Transform Schools (North Lanarkshire) Holdings Ltd | | 50.0 |
| Transform Schools (Rotherham) Holdings Ltd | | 50.0 |
| Transform Schools (Stoke) Holdings Ltd | | 50.0 |
| Infrastructure | | |
| Regional & City Airports (Exeter) Holdings Ltd (Note vi) | | 60.0 |
| Thames Power Ltd* (Note v) | | 50.0 |
| Military housing | | |
| Carlisle/Picatinny | USA | (viii) |
| Fort Bliss/White Sands Missile Range | USA | (viii) |
| Fort Carson | USA | (viii) |
| Fort Eustis/Fort Story | USA | (viii) |
| Fort Gordon | USA | (viii) |
| Fort Hamilton | USA | (viii) |
| Fort Jackson | USA | (viii) |
| Fort Leonard Wood | USA | (viii) |
| Fort Stewart/Hunter Airfield | USA | (viii) |
| Walter Reed Army Medical Center/Fort Detrick | USA | (viii) |
| West Point | USA | (viii) |
| Navy Northeast | USA | (viii) |
| Navy Southeast | USA | (viii) |
| Air Education and Training Command (AETC) Group 1 | USA | (viii) |
| Air Mobility Command (AMC) West | USA | (viii) |
| Lackland Air Force Base | USA | (viii) |
| Vandenberg Air Force Base | USA | (viii) |

(c) Principal jointly controlled operations

The Group carries out a number of its larger construction contracts in joint arrangement with other contractors so as to share resources and risk.

The principal construction projects in progress are given below:

| | Country of incorporation or registration | Ownership interest % |
|---|--|----------------------------|
| East London line | | 50.0 |
| M1 Widening Junctions 6A-10 | | 50.0 |
| South-East England Roads | | 60.0 |
| South-West England Roads | | 73.0 |
| University College London Hospital | | 50.0 |
| Westminster Transerv | | 80.0 |
| High speed line Bologna:Firenze | Italy | 26.0 |
| High speed line Milano:Bologna | Italy | 26.0 |
| M74 motorway | Scotland | 25.0 |
| Scotland Transerv | Scotland | 70.0 |
| Gothard Base Tunnel | Switzerland | 25.0 |
| Greenbush Railroad Rehabilitation Project | USA | 50.0 |
| I-5/I-15 Highway Projects | USA | 30.0 |
| New Campus East at Fort Belvoir | USA | 50.0 |
| SH130 Highway | USA | 35.0 |
| Walter Reed Army Medical Center | USA | 40.0 |

Notes:

- (i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.
- (ii) * indicates held directly by Balfour Beatty plc, except Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd 42.5% held directly by Balfour Beatty plc.
- (iii) The Group has an economic interest of 95% in Regional & City Airports (Blackpool) Ltd.
- (iv) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales. The principal operations of each company are conducted in its country of incorporation.
- (v) Thames Power Ltd owns 51% of the equity capital in Barking Power Ltd.
- (vi) Due to the Connect Roads Ltd, Connect M77/GSO Holdings Ltd, Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd, Regional & City Airports (Exeter) Holdings Ltd and Transform Islington Ltd shareholder agreements between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of those companies, the Directors are of the opinion that, as at the balance sheet date, the Group did not control those companies and they have been accounted for as joint ventures.
- (vii) The Group exercises significant influence through its participation in the management of EDF Energy Powerlink and therefore accounts for its interest as an associate.
- (viii) The share of the results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

37 Principal subsidiaries, joint ventures and associates continued**(d) PPP concessions****Roads**

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

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

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

| Concession company | Project | Total debt and equity funding | Shareholding | Financial close | Duration years | Construction completion | Equity and subordinated debt | |
|----------------------------------|---|-------------------------------|--------------|-----------------|----------------|-------------------------|------------------------------|---------------------------------|
| | | | | | | | Invested to 31 December 2008 | Committed post 31 December 2008 |
| Connect M1-A1 Ltd | M1-A1 30km road | £290m | 50% | March 1996 | 30 | 1999 | £14m | — |
| Connect A50 Ltd | A50 57km road | £42m | 85% | May 1996 | 30 | 1998 | £6m | — |
| Connect A30/A35 Ltd | A30/A35 102km road | £127m | 85% | July 1996 | 30 | 2000 | £21m | — |
| Connect M77/GSO plc | M77/GSO 25km road | £167m | 85% | May 2003 | 32 | 2005 | £15m | — |
| Connect Roads Sunderland Ltd | Street lighting apparatus in Sunderland | £27m | 100% | August 2003 | 25 | 2008 | £3m | — |
| Connect Roads South Tyneside Ltd | Street lighting apparatus in South Tyneside | £28m | 100% | December 2005 | 25 | 2010 | — | £2m |
| Connect Roads Derby Ltd | Street lighting apparatus in Derby | £36m | 100% | April 2007 | 25 | 2012 | — | £2m |
| | | | | | | | £59m | £4m |

Notes to the accounts

37 Principal subsidiaries, joint ventures and associates continued

(d) PPP concessions continued

Hospitals

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

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

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

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

[illegible]

37 Principal subsidiaries, joint ventures and associates continued

(d) PPP concessions continued

Schools

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

Project descriptions: The projects comprise 98 schools in the city of Stoke-on-Trent, 15 schools in Rotherham, 21 schools in North Lanarkshire and six new schools, two post-16 learning centres and two leisure centres in Bassetlaw, Nottinghamshire, 12 schools in Birmingham, seven learning centres in Knowsley and a first phase of three schools in Islington. Construction in Bassetlaw, North Lanarkshire and Knowsley is all new build. On Stoke, construction comprises £16m of new build and £63m of refurbishment, on Rotherham, £78m of new build and £21m of refurbishment, on Birmingham £69m of new build and £5m of refurbishment and on Islington's first phase £65m of new build and £10m of refurbishment.

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

| Concession company | Project | Total debt and equity funding | Shareholding | Financial close | Duration years | Construction completion | Equity and subordinated debt | |
|---|--|-------------------------------|--------------|-----------------|----------------|-------------------------|------------------------------|---------------------------------|
| | | | | | | | Invested to 31 December 2008 | Committed post 31 December 2008 |
| Transform Schools (Stoke) Ltd | Grouped schools project in Stoke-on-Trent | £84m | 50% | October 2000 | 25 | 2005 | £5m | — |
| Transform Schools (Rotherham) Ltd | Grouped schools project in Rotherham | £113m | 50% | June 2003 | 31 | 2006 | £5m | — |
| Transform Schools (North Lanarkshire) Ltd | Grouped schools project in North Lanarkshire | £140m | 50% | June 2005 | 32 | 2008 | £9m | — |
| Transform Schools (Bassetlaw) Ltd | Grouped schools project in Bassetlaw, Notts | £127m | 50% | July 2005 | 27 | 2007 | £7m | — |
| Transform Schools (Birmingham) Ltd | Grouped schools project in Birmingham | £89m | 50% | March 2006 | 33 | 2009 | — | £4m |
| Transform Schools (Knowsley) Ltd | BSF project in Knowsley | £163m | 100% | December 2007 | 27 | 2010 | — | £15m |
| Transform Islington Ltd | BSF project in Islington | £47m | 80% | July 2008 | 26 | 2010 | — | £4m |
| | | | | | | | £26m | £23m |

Notes to the accounts

37 Principal subsidiaries, joint ventures and associates continued

(d) PPP concessions continued

Other concessions

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

Project descriptions: Aberdeen Environmental Services Ltd (AES) has a contract to design, build and finance wastewater treatment facilities in North-East Scotland and operate them for the remainder of a 30-year period. The construction was principally new build. The Powerlink project comprises two companies: EDF Energy Powerlink Ltd (EDFEPL), which operates the London Underground high voltage power system under a 30-year contract and is responsible for procuring various new power assets, and Power Asset Development Company Ltd (PADCO), which constructed the new build power assets and is leasing them to EDFEPL. Gammon Capital (West) Pte Ltd has a contract to design, build and finance the New Institute of Technical Education ("ITE") College West in Singapore and provide long-term facilities management services for the remainder of the 27-year project. Pevensy Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency which requires PCDL to maintain sea defences consisting of a shingle bank that extends 9 km between Eastbourne and Bexhill-on-Sea in East Sussex.

Contractual arrangements: For AES the principal agreement is the project agreement with Scottish Water under which AES receives inflation indexed payments on the basis of flows and loads of influent to the treatment works less any performance related deductions. AES subcontracted construction to a construction joint venture in which Balfour Beatty Civil Engineering Ltd had a 50% interest and subcontracted operations and maintenance to a subsidiary of one of the other shareholders. For the Powerlink project the principal project agreement is the power services contract between EDFEPL and London Underground Ltd that provides for an inflation indexed availability payment subject to any performance deductions. EDFEPL operates and maintains the power network using its own staff and is leasing the new power assets from PADCO, which subcontracted construction to a construction joint venture in which a Balfour Beatty group company, Balfour Kilpatrick Ltd, had a 40% interest. There are no provisions to reprice contracts and all assets transfer to the client at the end of the concession. For the Singapore project, the principal agreement is the project agreement with the ITE of Singapore that provides for an inflation indexed availability based payment subject to any performance deductions. Construction is subcontracted to Gammon Pte Ltd, a fully-owned subsidiary of Gammon China Ltd in which the Group has a 50% interest. The facilities management services under the ITE agreement are provided by a third party. PCDL's principal contract is the flood defence services agreement with the Environment Agency that provides for an inflation indexed payment subject to any performance related deductions.

| Concession company | Project | Total debt and equity funding | Shareholding | Financial close | Duration years | Construction completion | Equity and subordinated debt | |
|--|---|-------------------------------|--------------|-----------------|----------------|-------------------------|------------------------------|---------------------------------|
| | | | | | | | Invested to 31 December 2008 | Committed post 31 December 2008 |
| Aberdeen Environmental Services Ltd | Wastewater treatment in North East Scotland | £92m | 45% | May 2000 | 30 | 2002 | £4m | — |
| EDF Energy Powerlink Ltd/Power Asset Development Company Ltd | London Underground power system | £184m | 10%/25% | August 1998 | 30 | 2006 | £4m | — |
| Gammon Capital (West) Pte Ltd | Technical education college | £100m | 50% | August 2008 | 27 | 2010 | — | £8m |
| Pevensy Coastal Defence Ltd | Flood defences | £3m | 25% | July 2000 | 25 | n/a | £1m | — |
| | | | | | | | £9m | £8m |
| Total for all PPP concessions listed above | | | | | | | £156m | £89m |

(e) Non-PPP infrastructure investments

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

Project descriptions: Balfour Beatty is a 50% shareholder in Thames Power Ltd, which owns 51% of the equity in Barking Power Ltd, the company which built, equipped, owns and operates Barking Power Station, a combined cycle 1,000MW capacity gas-fired facility in East London. In January 2007 Regional & City Airports (Exeter) Holdings Ltd purchased Exeter and Devon Airport Ltd, which owns and operates Exeter International Airport. In May 2008 Regional & City Airports (Blackpool) Holdings Ltd purchased Blackpool Airport Ltd, which owns and operates Blackpool International Airport.

| Company | Project | Total debt and equity funding | Shareholding | Financial close | Equity and subordinated debt | |
|------------------------------|--|-------------------------------|--------------|-----------------|------------------------------|---------------------------------|
| | | | | | Invested to 31 December 2008 | Committed post 31 December 2008 |
| Barking Power Ltd | Gas fired power station in East London | £661m | 25.5% | March 1992 | £24m | — |
| Exeter and Devon Airport Ltd | Exeter International Airport | £60m | 60% | January 2007 | £18m | — |
| Blackpool Airport Ltd | Blackpool International Airport | £14m | 95% | May 2008 | £14m | — |
| | | | | | £56m | — |

37 Principal subsidiaries, joint ventures and associates continued**(f) Military housing**

Summary: Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 44 military bases that provide speciality housing to US military personnel and their families.

Project descriptions: The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), covering 16 Army bases; four projects with the United States Department of the Air Force (Air Force), covering nine Air Force bases and two projects with the United States Department of the Navy (Navy), covering 19 Navy bases. In addition, during the first quarter of 2008, Balfour Beatty Communities, through its subsidiaries, completed the closing on the award of its first unaccompanied personnel housing (UPH) project at Fort Stewart, located in Hinesville, Georgia. These projects in operation cover 44 domestic bases located in 20 states and Washington, DC and Balfour Beatty Communities expects them to contain over 33,000 end-state housing units once full development, construction and renovation have been completed. The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. For each project, Balfour Beatty Communities creates a special purpose entity to serve as the owner of the project, which is typically either a limited liability company or general partnership. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); and, whereas the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC.

Contractual arrangements: In connection with each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, potentially could extend for up to an additional 25 years. The 50 year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units through various predetermined project phases. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the US Government.

Preferred returns: The projects will typically receive, to the extent that adequate funds are available, an annual, minimum preferred rate of return. On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project. During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return. The unpaid amounts generally will accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, they are at the end of the initial development period distributed to pay accrued preferred returns to Balfour Beatty Communities and the US Government in accordance with the terms of the project agreements.

Split of remaining operating cash flows: Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is split between Balfour Beatty Communities and the US Government, and the reinvestment account held by the project for the benefit of the US Government. On most of the existing projects, the total amount that each party is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these annual caps have ranged between approximately 11% to 17% (depending on the particular project). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capital return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for ongoing construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military branch.

Return of equity: Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, as applicable, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the Army, Navy or Air Force, as applicable.

Notes to the accounts

37 Principal subsidiaries, joint ventures and associates continued

(f) Military housing continued

| Military privatisation project | Project | Total project funding £m | Financial close | Duration years | Construction completion | Equity and subordinated debt | |
|--|--|-----------------------------|------------------------|----------------|-------------------------|------------------------------------|---------------------------------------|
| | | | | | | Invested to 31 December 2008 | Committed post 31 December 2008 |
| Carlisle/Picatinny | Two army bases located in Carlisle, PA and Dover, NJ | £55m | Jul-06 | 50 | 2011 | — | £2m |
| Fort Bliss/White Sands Missile Range | Two army bases located in El Paso, TX and Las Cruces, NM | £292m | Jul-05 | 50 | 2011 | — | £5m |
| Fort Carson | Army base located in Colorado Springs, CO | £161m | Nov-03 | 49 | 2004 | £3m | — |
| Fort Carson expansion | Army base located in Colorado Springs, CO | £89m | Nov-06 | 46 | 2009 | — | — |
| Fort Eustis/Fort Story | Two army bases located in Newport News, VA and Virginia Beach, VA | £116m | Mar-05 | 50 | 2011 | — | £3m |
| Fort Gordon | Army base located in Augusta, GA | £77m | May-06 | 50 | 2012 | — | £3m |
| Fort Hamilton | Army base located in Brooklyn, NY | £37m | Jun-04 | 50 | 2008 | £2m | — |
| Fort Jackson | Army base located in Columbia, SC | £115m | Oct-08 | 50 | 2013 | — | £2m |
| Fort Leonard Wood | Army base located in Pulaski, MO | £138m | Acquired June 2008 | 47 | 2014 | — | £3m |
| Fort Stewart/Hunter Airfield | Two army airfield bases located in Hinesville, GA and Savannah, GA | £246m | Nov-03 | 50 | 2011 | — | £6m |
| Fort Stewart UPH | Army airfield base located in Hinesville, GA | £22m | Jan-08 | 50 | 2010 | — | £1m |
| Walter Reed Army Medical Center/Fort Detrick | Two army bases located in Washington, DC and Frederick, MD | £61m | Jul-04 | 50 | 2008 | £4m | — |
| West Point | Army base located in Orange County, NY | £142m | Aug-08 | 50 | 2016 | — | £2m |
| Navy Northeast Region | Eight navy bases located in Brunswick, ME; Kittery, ME; Newport RI; Groton, CT; Saratoga Springs, NY; Long Island, NY; Colts Neck, NJ; Lakehurst, NJ | £342m | Nov-04 | 50 | 2010 | £6m | — |
| Navy Southeast Region | Eleven Navy bases located in Charleston, SC; Kingsbay, GA; Jacksonville, FL; Mayport, FL; Panama City, FL; Whiting Field, FL; Pensacola, FL; Key West, FL; Gulfport, MS; Meridan, MS; Fort Worth, TX | £471m | Nov-07 | 50 | 2013 | £5m | — |
| AETC Group 1 | Four Air Force bases located in Altus, OK; Wichita Falls, TX; Panama City, FL; Phoenix, AZ | £204m | Feb-07 | 50 | 2012 | £5m | — |
| AMC West | Three Air Force bases located in Spokane, WA; Fairfield, CA; Oklahoma City, OK | £281m | Jul-08 | 50 | 2015 | £10m | — |
| Lackland | Air Force base located in San Antonio, TX | £98m | Acquired December 2008 | 50 | 2013 | £3m | — |
| Vandenberg | Air Force base in Lompoc, CA | £114m | Nov-07 | 50 | 2012 | £5m | — |
| | | | | | | £43m | £27m |

37 Principal subsidiaries, joint ventures and associates continued**(g) Total committed equity and debt funding**

The future cash flow profile of committed equity and debt funding for the concession companies listed above is:

| Concessions | 2009 £m | 2010 £m | 2011 £m | 2012 onwards £m | Total £m |
|------------------|------------|------------|------------|--------------------|-------------|
| Roads | – | – | 2 | 2 | 4 |
| Hospitals | 25 | 29 | – | – | 54 |
| Schools | 4 | 19 | – | – | 23 |
| Other | – | 8 | – | – | 8 |
| Military housing | 1 | 11 | 8 | 7 | 27 |
| Total | 30 | 67 | 10 | 9 | 116 |

Group five-year summary

| IFRS | 2008 £m | 2007 £m | 2006 £m | 2005 £m | 2004 pro forma £m |
|---|----------------|------------|------------|------------|-------------------------|
| Income | | | | | |
| Revenue (including share of joint ventures and associates) | 9,486 | 7,488 | 5,506 | 4,590 | 3,942 |
| Share of revenue of joint ventures and associates | (1,225) | (1,022) | (1,019) | (753) | (452) |
| Group revenue | 8,261 | 6,466 | 4,487 | 3,837 | 3,490 |
| Profit from continuing operations before exceptional items and amortisation of intangible assets | 230 | 178 | 115 | 94 | 76 |
| Net investment income before exceptional items | 19 | 23 | 21 | 23 | 19 |
| Profit before taxation, exceptional items and amortisation of intangible assets | 249 | 201 | 136 | 117 | 95 |
| Exceptional items | 48 | (35) | (26) | 7 | (1) |
| Amortisation of intangible assets | (27) | (9) | (1) | – | – |
| Profit from continuing operations before taxation | 270 | 157 | 109 | 124 | 94 |
| Taxation on profit from continuing operations | (74) | 12 | (34) | (35) | (28) |
| (Loss)/profit from discontinued operations after taxation | – | (18) | 16 | 17 | 180 |
| Profit for the year attributable to equity shareholders | 196 | 151 | 91 | 106 | 246 |
| Capital employed | | | | | |
| Equity shareholders' funds | 861 | 483 | 387 | 292 | 227 |
| Liability component of preference shares | 87 | 87 | 90 | 98 | 103 |
| Net cash | (297) | (313) | (284) | (301) | (67) |
| | 651 | 257 | 193 | 89 | 263 |
| Statistics | | | | | |
| Adjusted earnings per ordinary share* | 39.9p | 35.0p | 27.3p | 24.1p | 22.1p |
| Basic earnings per ordinary share | 42.9p | 35.1p | 21.2p | 24.9p | 58.7p |
| Diluted earnings per ordinary share | 42.7p | 34.8p | 21.0p | 24.7p | 58.1p |
| Proposed dividends per ordinary share | 12.8p | 11.5p | 9.1p | 8.1p | 6.6p |
| Profit from continuing operations before exceptional items and amortisation as a percentage of revenue (including share of joint ventures and associates) | 2.4% | 2.4% | 2.1% | 2.0% | 1.9% |

Notes:

Figures for the five years ended 31 December 2008 shown above were prepared under International Financial Reporting Standards (IFRS) with pro forma figures shown for the year ended 31 December 2004 which include the impact of IAS 32 and IAS 39 as if the Group had adopted them for that year.

The comparative figures for the years 2004 to 2007 have been re-presented from previously published accounts for the re-classification of the net amount of the expected return on pension assets and pension liability interest costs out of net operating expenses to investment income.

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

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

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

Shareholder information

Financial calendar

| | 2009 |
|--------------|--|
| 22 April | Ex-dividend date for final 2008 ordinary dividend |
| 24 April | Final 2008 ordinary dividend record date |
| 14 May | Annual General Meeting |
| 27 May | Ex-dividend date for July 2009 preference dividend |
| 29 May | July 2009 preference dividend record date |
| 10 June | Final date for receipt of DRIP mandate forms (see below) |
| 1 July | Preference dividend payable |
| 6 July* | Final 2008 ordinary dividend payable |
| 12 August* | Announcement of 2009 half-year results |
| 10 December* | Interim 2009 ordinary dividend payable |

* Provisional dates.

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should be directed to the Company's Registrars and clearly state the shareholder's registered address and, if available, the full shareholder reference number. Please write to: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone: 0871 664 0300 from the UK (calls cost 10p per minute plus network extras) and +44 20 8639 3399 from outside the UK (Monday – Friday 9.00 am – 5.30 pm, UK time). Alternatively, you can email them at: ssd@capitaregistrars.com

They can help you to:

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

Dividends and dividend reinvestment plan

If you wish dividends to be paid directly into your bank or building society account, through the Bankers Automated Clearing System (BACS), you should contact the Registrars for a dividend mandate form.

Balfour Beatty has a dividend reinvestment plan (DRIP) which allows ordinary shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, can be accessed at www.balfourbeatty-shares.com

Shareholder information on the internet and electronic communications

The Balfour Beatty website at www.balfourbeatty.com offers shareholders and prospective investors a range of information about the Company, its people and businesses and its policies on corporate governance and corporate responsibility.

It should be regarded as your first point of reference for information on any of these matters.

In conjunction with Capita Registrars, you can create a Share Portal account, through which you are able to access the full range of online shareholder services, including the ability to:

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

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: shareportal@capita.co.uk

Balfour Beatty actively supports Climate Care, a not-for-profit organisation that funds global sustainable energy and forest restoration projects that reduce greenhouse gases. Climate Care's projects also help to improve people's standard of living and to protect wildlife habitats.

For more information on Climate Care, visit www.climatecare.org.

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

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 £13m has been given to more than 1,500 charities. The relevant share transfer form may be accessed at www.balfourbeatty-shares.com. For more information on ShareGift, visit www.ShareGift.org

Share dealing services

Capita iRG Trustees Limited provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, shareholders should contact Capita, Telephone: 0871 664 0454 – lines are open Monday to Friday 8.00 am to 4.30 pm, UK time (calls cost 10p per minute plus network extras). Alternatively, log on to www.capitadeal.com

The Company has also established an execution-only postal share dealing service through JPMorgan Cazenove Limited for private investors who wish to buy or sell Balfour Beatty plc's shares. Further details can be obtained from The Balfour Beatty Share Dealing Service, JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA, Telephone: 020 7155 5155.

An execution-only share dealing service for the purchase and sale of Balfour Beatty shares is also available from NatWest Stockbrokers. For details, please contact: NatWest Stockbrokers, Waterhouse Square, 138-142 Holborn, London EC1N 2TH, Telephone: 0808 208 4433.

Capita iRG Trustees Limited, JPMorgan Cazenove Limited and NatWest Stockbrokers are each 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 a number of personal finance websites on the Internet and from television text services.

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 plc
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Registered in England Number 395826

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