

Notes to the accounts

1 Principal accounting policies

1.1 Basis of accounting

The annual financial statements have been prepared 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 relevant to its operations and effective for accounting periods beginning on 1 January 2006. IFRS 7 Financial Instruments: Disclosures, IFRS 8 Operating Segments and IFRIC 12 Service Concession Arrangements were in issue at the date of authorisation of the financial statements but not yet effective. IFRS 7 and IFRS 8 affect only disclosures and therefore have no material impact on the financial statements of the Group. The impact of IFRIC 12, which defines the accounting for the Group's PFI/PPP concessions, is currently under review.

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.

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 associates and joint ventures 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 (see 1.17 below).

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill and intangible assets 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 or associates in excess of the Group's interest in those joint ventures and associates are not recognised.

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 fair value of consideration 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 fair value of consideration 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 joint venture 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 prevailing at the balance sheet date.

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

Results of overseas subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year and their 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 together with exchange differences on borrowings and other currency instruments designated as hedges of such investments are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in the income statement in the period in which the relevant entity is disposed of.

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 goods are delivered and title has passed.
- 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 is set out in the Operating review on pages 22 to 37. Segment results represent the contribution directly attributable for the different segments 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 PFI/PPP investments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable.

1 Principal accounting policies continued

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 prudently forecast at completion. Full provision is made for all known or expected losses on individual contracts immediately once such losses are foreseen. Variations in contract work, claims and incentive payments are included to the extent that 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 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 associates and joint venture entities, 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 would be 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 inter alia 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, litigation settlements, asset impairments and pension fund 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.

1.12 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 at that date. 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 three to five years.

1.13 Property, plant and equipment

Property, plant and equipment are 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 elected to use the revalued amount as deemed cost.

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

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.

a) 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.

b) 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 levels for which there are separately identifiable cash flows. Impairment losses for goodwill are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

Notes to the accounts (continued)

1 Principal accounting policies continued

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.

Investments are classified as either available-for-sale or held to maturity. Available-for-sale investments are measured at each reporting date 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 cost 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.

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 the Financial review on pages 38 to 40.

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) PFI/PPP concessions

Assets constructed by PFI/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 pension schemes the majority of which are of the defined benefit type and are funded. Contributions are determined in accordance with independent actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligation are determined at the balance sheet date using the projected unit credit method by independent actuaries. 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 Principal accounting policies continued

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.

1.26 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 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 the expenses 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.

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 above, 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 and maintenance liabilities.

b) Metronet

The Group owns 20% stakes in Metronet Rail BCV Holdings Ltd and Metronet Rail SSL Holdings Ltd ("Metronet") and a 25% stake in Trans4m Ltd ("Trans4m"). Trans4m works exclusively as a sub-contractor for Metronet. Metronet is engaged in modernising two-thirds of the London Underground, under a 30 year project agreement with London Underground Ltd (LUL). In drawing up the Group's accounts to record the level of profitability for the year, and in reviewing the carrying value of investments, assumptions have been made over the current and future performance of both Trans4m and Metronet over the initial 7½ year period and over the life of the 30 year project. These assumptions include estimates of the impact of cost escalation, scope changes, delivery against service metrics, funding and recoveries.

Most construction contracts, and investments in joint ventures and associates, have at least some of the same estimation characteristics noted above. However, in the case of Metronet and Trans4m, the number of estimates involved, the length of the construction contracts and the scale of the projects mean that these estimates are more complex.

c) 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 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 2006 was £427m after an impairment loss of £16m was recognised in 2006. Details of the impairment loss calculation are provided in Note 12.

d) Available-for-sale financial assets

Assets constructed by the Group's PFI/PPP subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" and at 31 December 2006 had a value of £1,563m. 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 11%, are used which reflect the prevailing risk-free interest rates and the different risk profiles of the various concessions. A £2m loss was taken to equity in 2006 as a result of movements in the fair value of these financial assets.

e) PFI/PPP derivative financial instruments

The Group's PFI/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 2006, a cumulative fair value loss of £56m had arisen on these financial instruments and a gain of £32m was taken to equity in 2006.

f) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 25 and have been valued in accordance with IAS 19 "Employee Benefits". At 31 December 2006, the defined benefit obligation recognised on the Group's balance sheet was £288m (2005: £280m). The benefit obligation is calculated using a number of assumptions including future salary increases, increases in pension benefits, mortality rates, inflation rates and the future investment returns from scheme assets. The present value of the benefit obligation is calculated by discounting the benefit obligation using market rates on relevant AA corporate bonds at the balance sheet date. The schemes' assets are valued at market rates at the balance sheet date. 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 2006 the Group recognised a net actuarial gain of £36m in equity (2005: £14m loss), including its share of the actuarial gains and losses arising in joint ventures and associates.

g) 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 upon 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 24.2 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 2006 in respect of these matters. These judgements may change in the future and are reviewed at each balance sheet date.

Notes to the accounts (continued)

2 Revenue

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Revenue from contracting activities – construction	3,871	3,247	–	–
– services	523	506	–	–
Revenue from manufacturing activities	93	82	–	–
Proceeds on sale of development land	–	2	–	2
Dividends from subsidiaries	–	–	80	57
Dividends from joint ventures and associates	–	–	13	6
	4,487	3,837	93	65

3 Segment analysis

3.1 Total Group

	Building, building management and services 2006 £m	Civil and specialist engineering and services 2006 £m	Rail engineering and services 2006 £m	Investments and developments 2006 £m	Corporate costs, assets and liabilities 2006 £m	Total 2006 £m
Performance by activity:						
Results						
Group revenue	2,030	1,677	766	14	–	4,487
Group operating profit	42	47	35	(19)	(24)	81
Share of results of joint ventures and associates	1	8	3	51	–	63
Profit from operations before exceptional items and amortisation	43	55	38	32	(24)	144
Exceptional items	–	(21)	2	–	–	(19)
Amortisation of intangible assets	–	(1)	–	–	–	(1)
Profit from operations	43	33	40	32	(24)	124
Investment income						26
Finance costs						(25)
Profit before taxation						125
Assets and liabilities						
Intangibles assets – goodwill	78	213	136	–	–	427
– other	1	8	–	–	–	9
Investments in joint ventures and associates	4	68	2	384	–	458
Other assets	395	506	298	44	441	1,684
Total assets	478	795	436	428	441	2,578
Total liabilities	(825)	(678)	(405)	(79)	(204)	(2,191)
	(347)	117	31	349	237	387
Other information						
Capital expenditure	6	36	14	1	–	57
Depreciation	4	23	15	1	–	43
Impairment of goodwill	–	16	–	–	–	16

	Europe 2006 £m	North America 2006 £m	Other* 2006 £m	Total 2006 £m
Performance by geographic origin:				
Group revenue	3,893	572	22	4,487
Profit from operations before exceptional items and amortisation	141	(12)	15	144
Exceptional items	(1)	(18)	–	(19)
Amortisation of intangible assets	(1)	–	–	(1)
Profit from operations	139	(30)	15	124
Segment assets (net)	64	14	52	130
Liability component of preference shares				(90)
Net cash				284
Tax and dividends				63
Net assets				387
Capital expenditure	52	5	–	57

3 Segment analysis continued

3.1 Total Group continued

	Building, building management and services 2005 £m	Civil and specialist engineering and services 2005 £m	Rail engineering and services 2005 £m	Investments and developments 2005 £m	Corporate costs, assets and liabilities 2005 £m	Total 2005 £m
Performance by activity:						
Results						
Group revenue	1,674	1,366	763	34	–	3,837
Group operating profit	32	39	32	(10)	(21)	72
Share of results of joint ventures and associates	3	10	–	30	–	43
Profit from operations before exceptional items	35	49	32	20	(21)	115
Exceptional items	(8)	–	(12)	36	–	16
Profit from operations	27	49	20	56	(21)	131
Investment income						56
Finance costs						(46)
Profit before taxation						141
Assets and liabilities						
Goodwill	66	85	133	–	–	284
Investments in joint ventures and associates	4	67	–	304	–	375
Other assets	388	376	318	54	445	1,581
Total assets	458	528	451	358	445	2,240
Total liabilities	(671)	(519)	(443)	(70)	(245)	(1,948)
	(213)	9	8	288	200	292
Other information						
Capital expenditure	3	27	27	–	–	57
Depreciation	4	18	17	–	2	41
Impairment of goodwill	–	–	4	–	–	4

	Europe 2005 £m	North America 2005 £m	Other* 2005 £m	Total 2005 £m	
Performance by geographic origin:					
Group revenue		3,332	483	22	3,837
Profit from operations before exceptional items		134	(20)	1	115
Exceptional items		28	(12)	–	16
Profit from operations		162	(32)	1	131
Segment assets (net)		(24)	24	52	52
Liability component of preference shares					(98)
Net cash					301
Tax and dividends					37
Net assets					292
Capital expenditure		45	11	1	57

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

Notes to the accounts (continued)

3 Segment analysis continued

3.2 Investments and developments

The Investments and developments segment includes the Group's PFI/PPP activities (Balfour Beatty Capital) details of which are set out below.

	Group 2006 £m	Share of joint ventures and associates 2006 £m	Total 2006 £m	Group 2005 £m	Share of joint ventures and associates 2005 £m	Total 2005 £m
Revenue						
PFI/PPP						
– joint ventures and associates (Note 15.2)	–	458	458	–	368	368
– subsidiaries (Note 3.3)	14	–	14	32	–	32
Balfour Beatty Capital	14	458	472	32	368	400
Barking Power Ltd (Note 15.2)	–	83	83	–	63	63
Property development and other	–	–	–	2	–	2
	14	541	555	34	431	465

	Group 2006 £m	Share of joint ventures and associates 2006 £m	Total 2006 £m	Group 2005 £m	Share of joint ventures and associates 2005 £m	Total 2005 £m
Profit from operations – before exceptional items and amortisation of intangible assets*						
PFI/PPP						
– joint ventures and associates (Note 15.2)	–	36	36	–	22	22
– bidding costs and overheads	(18)	–	(18)	(10)	–	(10)
Balfour Beatty Capital	(18)	36	18	(10)	22	12
Barking Power Ltd (Note 15.2)	–	15	15	–	8	8
Property development and other	(1)	–	(1)	–	–	–
	(19)	51	32	(10)	30	20

*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).

	Group 2006 £m	Share of joint ventures and associates 2006 £m	Total 2006 £m	Group 2005 £m	Share of joint ventures and associates 2005 £m	Total 2005 £m
Net assets						
PFI/PPP						
– joint ventures and associates (Notes 15.2 and 15.3)	–	314	314	–	249	249
– subsidiaries (Note 3.3)	21	–	21	14	–	14
– bidding costs and overheads	(20)	–	(20)	(4)	–	(4)
– loans from joint ventures and associates	(25)	–	(25)	(25)	–	(25)
Balfour Beatty Capital	(24)	314	290	(15)	249	234
Barking Power Ltd (Note 15.2)	–	70	70	–	55	55
Property development and other	(11)	–	(11)	(1)	–	(1)
	(35)	384	349	(16)	304	288

3 Segment analysis continued

3.3 PFI/PPP subsidiaries

As at 31 December 2006, the Group had a 100% interest in two PFI/PPP concessions through its shareholdings in Connect Roads Sunderland Holdings Ltd and Connect Roads South Tyneside Holdings Ltd. The Group also had a 100% interest in three PFI/PPP concessions through its shareholdings in Connect Roads Ltd and Connect M77/GSO Holdings Ltd until 20 December 2005, when the Group disposed of a 15% interest in those concessions and they became joint ventures. The performance of the wholly-owned PFI/PPP concessions (until ceasing to be subsidiaries as appropriate) and their balance sheets are summarised below.

	2006 £m	2005 £m
Income statement		
Group revenue	14	32
Profit from operations	–	–
Investment income	1	36
Finance costs	(1)	(19)
Profit before taxation	–	17
Taxation	–	(5)
Profit for the year	–	12
Cash flow		
Profit from operations	–	–
Decrease in working capital	1	–
Income taxes paid	–	(3)
Net cash inflow/(outflow) from operating activities	1	(3)
Net cash outflow from investing activities	(7)	(20)
Net cash (outflow)/inflow from financing activities	(1)	29
Net cash (outflow)/inflow	(7)	6
Net borrowings at beginning of year	(14)	(244)
Net borrowings at date of disposal	–	224
Net borrowings at end of year	(21)	(14)
Balance sheet		
PFI/PPP financial assets (Note 17)	22	14
Other net current assets	(1)	–
Non-recourse term loans	(21)	(14)
Net assets	–	–

4 Profit from operations

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

	2006 £m	2005 £m
Research and development costs	4	4
Depreciation of property, plant and equipment	43	41
Impairment of goodwill	16	4
Amortisation of other intangible assets	1	–
Impairment of trade receivables	3	1
Profit on disposal of property, plant and equipment	(1)	(2)
Cost of manufacturing inventory recognised as an expense	58	48
Auditors' remuneration	3	3
Hire charges for plant and equipment	80	77
Other operating lease rentals	43	42

4.2 Analysis of auditors' remuneration:

	2006 £m	2005 £m
Services as auditors	0.6	0.5
Other services – auditing of accounts of subsidiaries	1.6	1.5
Group audit fee	2.2	2.0
Other services – independent review of interim report	0.2	0.1
– tax services – compliance	0.1	0.1
– advisory	0.1	0.2
– other services – acquisition due diligence	0.1	0.6
– IFRS transition	–	0.4
	2.7	3.4

5 Employee costs

5.1 Group employee costs during the year amounted to:

	2006 £m	2005 £m
Wages and salaries	923	835
Social security costs	95	84
Other pension costs (Note 25.1)	52	49
Share-based payments (Note 30.1)	4	3
	1,074	971

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

	2006 Number	2005 Number
Building, building management and services	11,457	10,913
Civil and specialist engineering and services	11,624	10,455
Rail engineering and services	5,512	5,992
Investments and developments	167	136
Corporate	102	96
	28,862	27,592

At 31 December 2006, the total number of Group employees was 30,467 (2005: 27,351).

5.3 The average number of employees of Balfour Beatty plc was 87 (2005: 80). Total employee costs of Balfour Beatty plc were £14m (2005: £12m).

Notes to the accounts (continued)

6 Investment income

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
PFI/PPP non-recourse – interest on financial assets	1	36	–	–
PFI/PPP subordinated debt interest receivable	8	5	3	3
Interest receivable from subsidiaries	–	–	11	10
Other interest receivable and similar income	17	15	7	8
	26	56	21	21

7 Finance costs

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
PFI/PPP non-recourse – other interest payable	1	19	–	–
Interest payable to subsidiaries	–	–	29	21
Other interest payable – bank loans and overdrafts	3	1	3	3
– other loans	2	4	1	4
Preference shares – finance cost	12	13	12	13
	18	37	45	41
Exceptional items – premium on buy-back of preference shares	7	3	7	3
– net premium on repayment of US Dollar term loan	–	6	–	6
	25	46	52	50

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 2006 on 1 July 2006 to holders of these shares on the register on 26 May 2006. 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 2006 on 1 January 2007 to holders of these shares on the register on 24 November 2006.

8 Exceptional items

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
8.1 Credited to/(charged against) profit from operations				
Group operating profit				
– litigation settlements and fines	2	(8)	–	–
– National Engineering and Contracting Company – impairment of goodwill	(16)	–	–	–
– reorganisation costs	(2)	–	–	–
	(18)	–	–	–
– Birse Group integration costs	(3)	–	–	–
– profit on sale of interest in Connect Roads	–	6	–	7
– impairment of investment in Romec Ltd	–	(8)	–	–
– impairment of goodwill in Balfour Beatty Rail Inc	–	(4)	–	–
	(19)	(14)	–	7
Share of results of joint ventures and associates				
– TXU distributions to Barking Power Ltd	–	30	–	–
	(19)	16	–	7
8.2 Charged to finance costs				
– premium on buy-back of preference shares	(7)	(3)	(7)	(3)
– net premium on repayment of US Dollar term loan	–	(6)	–	(6)
(Charged against)/credited to profit before taxation	(26)	7	(7)	(2)
8.3 Taxation thereon	1	(3)	–	2
(Charged against)/credited to profit for the year	(25)	4	(7)	–

8.1 The exceptional item credited to Group operating profit in 2006 arose from the reduction in the fine (less associated costs) imposed on Balfour Beatty Rail Infrastructure Services Ltd in respect of the Hatfield derailment in October 2000. As a result of unsatisfactory performance in the central division of Balfour Beatty Construction Inc, the goodwill arising on the acquisition of National Engineering and Contracting Company has been written off and charged against Group operating profit, together with costs of reorganisation of the division. Costs incurred in the reorganisation and integration of Birse Group acquired in 2006 have been charged against Group operating profit.

8 Exceptional items continued

The exceptional items charged against Group operating profit in 2005 arose from litigation and settlement costs of £8m which include a payment to the US Government by Balfour Beatty Construction Inc, for its share of a settlement payment to resolve allegations arising from investigations into a joint venture contract awarded in 1995 and completed in 2000 and the costs awarded against Balfour Beatty Rail Infrastructure Services Ltd for admitted breaches of the Health and Safety at Work Act following the Hatfield derailment in October 2000, provision for the associated fine having been made in prior years; a profit of £6m on the disposal of a 15% interest in Connect Roads Ltd and Connect M77/GSO Holdings Ltd; an impairment charge of £8m in respect of the Group's investment in Romec Ltd; and a goodwill impairment charge of £4m in respect of Balfour Beatty Rail Inc.

The exceptional item credited to profit from operations in share of results of joint ventures and associates in 2005 arises in Barking Power Ltd in which the Group holds a 25.5% interest. The £30m gain represents the Group's share, after charging taxation of £12m, of the first three distributions received by Barking Power Ltd from the administrator of TXU Europe following the damages agreement reached in December 2004 of £179m.

8.2 The exceptional items charged against finance costs are the premium of £7m (2005: £3m) arising on the repurchase for cancellation of 12.0m (2005: 6.8m) preference shares at a cost of £19m (2005: £11m), and, in 2005, the net premium of £6m arising from the repayment of the US Dollar term loan.

8.3 The exceptional items in 2006 have given rise to a net tax credit of £1m (2005: £3m net charge).

9 Taxation

9.1 Taxation charge

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
UK current tax				
– corporation tax for the year at 30% (2005: 30%)	19	34	(5)	(6)
– double tax relief	(4)	(6)	–	–
– adjustments in respect of previous periods	–	(9)	–	(6)
	15	19	(5)	(12)
Foreign current tax				
– foreign tax on profits for the year	7	5	–	–
– adjustments in respect of previous periods	–	1	–	–
	7	6	–	–
Total current tax	22	25	(5)	(12)
Deferred tax				
– UK	11	3	3	–
– foreign tax	1	2	–	–
– adjustments in respect of previous periods	–	5	–	1
Total deferred tax	12	10	3	1
Total tax charge/(credit)	34	35	(2)	(11)

The Group tax charge above does not include any amounts for joint ventures and associates, whose results are disclosed in the income statement net of tax (see Note 15.2).

In addition to the Group tax charge above are amounts charged directly to equity for current tax of £8m (2005: £4m credit) and deferred tax of £7m (2005: £10m credit), which with a charge in respect of joint ventures and associates of £11m (2005: £5m) totals £26m (2005: £9m credit).

In addition to the Company tax charge above are amounts credited directly to equity for current tax of £nil (2005: £1m) and deferred tax of £1m (2005: £1m).

The weighted average applicable tax rate is 32% (2005: 35%) based on profit before taxation, exceptional items and amortisation of intangible assets, excluding the results of joint ventures and associates.

9.2 Taxation reconciliation

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Profit before taxation	125	141	57	32
Less: Share of results of joint ventures and associates	(63)	(73)	–	–
Group profit before taxation	62	68		
Tax on Group/Company profit before taxation at standard UK corporation tax rate of 30% (2005: 30%)	19	20	17	10
Effects of:				
Expenses not deductible for tax purposes including impairment of goodwill	5	6	2	–
Dividend income not taxable	–	–	(27)	(19)
Preference shares finance costs and premium on buy-back not deductible	6	5	6	5
Movement in deferred tax not recognised	–	(3)	–	–
Losses not available for offset	2	9	–	–
Higher/(lower) tax rates on foreign earnings	2	3	–	–
Disposal of investments and other assets not taxable	–	(2)	–	(2)
Adjustments in respect of other periods	–	(3)	–	(5)
Total tax charge/(credit)	34	35	(2)	(11)

Notes to the accounts (continued)

10 Earnings per ordinary share

	Basic 2006 £m	Diluted 2006 £m	Basic 2005 £m	Diluted 2005 £m
Earnings	91	91	106	106
Exceptional items	25		(4)	
Amortisation of intangible assets	1		—	
Adjusted earnings	117		102	

	Basic 2006 m	Diluted 2006 m	Basic 2005 m	Diluted 2005 m
Weighted average number of ordinary shares	427.1	431.0	424.2	428.7

	Basic 2006 Pence	Diluted 2006 Pence	Basic 2005 Pence	Diluted 2005 Pence
Earnings per ordinary share	21.2	21.0	24.9	24.7
Exceptional items	5.9		(0.8)	
Amortisation of intangible assets	0.2		—	
Adjusted earnings per ordinary share	27.3		24.1	

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

11 Dividends on ordinary shares

	Per share 2006 Pence	Amount 2006 £m	Per share 2005 Pence	Amount 2005 £m
Proposed dividends for the year:				
Interim – current year	3.9	17	3.5	15
Final – current year	5.2	22	4.6	20
	9.1	39	8.1	35
Recognised dividends for the year:				
Final – prior year		20		16
Interim – current year		17		15
		37		31

An interim dividend of 3.9p (2005: 3.5p) per ordinary share was paid on 13 December 2006. Subject to approval at the Annual General Meeting on 10 May 2007, the final 2006 dividend will be paid on 2 July 2007 to holders of ordinary shares on the register on 27 April 2007 by direct credit or, where no mandate has been given, by cheque posted on 28 June 2007 payable on 2 July 2007. These shares will be quoted ex-dividend on 25 April 2007.

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2005	292	(18)	274
Exchange adjustments	2	(2)	–
Businesses acquired	14	–	14
Impairment losses for the year	–	(4)	(4)
At 31 December 2005	308	(24)	284
Exchange adjustments	(11)	3	(8)
Businesses acquired (see Note 29)	167	–	167
Impairment losses for the year	–	(16)	(16)
At 31 December 2006	464	(37)	427

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

	Europe 2006 £m	North America 2006 £m	Total 2006 £m	Europe 2005 £m	North America 2005 £m	Total 2005 £m
Building, building management and services	58	20	78	58	8	66
Civil and specialist engineering and services	213	–	213	68	17	85
Rail engineering and services	128	8	136	123	10	133
	399	28	427	249	35	284

The recoverable amount of goodwill has been based on value in use. Forecast cash flows are based on approved budgets for the next three years. The key assumptions, which have been based on past experience, are revenue growth and forecast operating margin. Subsequent cash flows have been increased in line with projected GDP for each territory. The cash flows have been discounted using a pre-tax discount rate of 14.7% (2005: 12.9%) based on the Group's weighted average cost of capital. The cash flows assume a residual value based on a multiple of earnings before interest and tax.

As a result of unsatisfactory performance in the central division of Balfour Beatty Construction Inc, the goodwill of £16m arising on the acquisition of National Engineering and Contracting Company has been written off in 2006 and charged against Group operating profit. Residual goodwill carried by the business was £nil. During 2005 Balfour Beatty Rail Inc continued to suffer losses on a major contract which was acquired in 2001 as part of the Group's acquisition of ABC NACO. Cash outflows were expected to occur on the contract until its completion in 2007 and as a result, a further goodwill impairment charge of £4m was charged against Group operating profit. Residual goodwill carried by the business was £10m.

13 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Total £m
Cost				
At 1 January 2006	–	–	–	–
Businesses acquired	3	4	3	10
At 31 December 2006	3	4	3	10
Accumulated amortisation				
At 1 January 2006	–	–	–	–
Charge for the year	(1)	–	–	(1)
At 31 December 2006	(1)	–	–	(1)
Carrying amount				
At 31 December 2006	2	4	3	9
At 31 December 2005	–	–	–	–

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are three years for customer contracts and five years for customer relationships and brand names.

Notes to the accounts (continued)

14 Property, plant and equipment

14.1 Movements

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Group Total £m	Company Plant and equipment £m
Cost					
At 1 January 2005	42	335	5	382	2
Exchange adjustments	–	9	–	9	–
Additions	3	51	3	57	–
Disposals	(3)	(52)	–	(55)	–
Businesses acquired	3	3	–	6	–
Transfers	–	5	(5)	–	–
At 31 December 2005	45	351	3	399	2
Exchange adjustments	–	(11)	–	(11)	–
Additions	2	55	–	57	–
Disposals	(2)	(32)	–	(34)	(1)
Businesses acquired	1	12	–	13	–
Transfers	–	3	(3)	–	–
At 31 December 2006	46	378	–	424	1
Accumulated depreciation					
At 1 January 2005	11	222	–	233	1
Exchange adjustments	–	7	–	7	–
Charge for the year	2	39	–	41	1
Disposals	(3)	(46)	–	(49)	–
At 31 December 2005	10	222	–	232	2
Exchange adjustments	–	(8)	–	(8)	–
Charge for the year	2	41	–	43	–
Disposals	–	(26)	–	(26)	(1)
At 31 December 2006	12	229	–	241	1
Carrying amount					
At 31 December 2006	34	149	–	183	–
At 31 December 2005	35	129	3	167	–

The carrying amount of the Group's property, plant and equipment held under finance leases was £1m (2005: £1m). The Company has no land and buildings and no property, plant and equipment held under finance leases.

14.2 Analysis of carrying amount of land and buildings

	Group 2006 £m	Group 2005 £m
Freehold	26	27
Long leasehold – over 50 years unexpired	2	2
Short leasehold	6	6
	34	35

15 Investments in joint ventures and associates

15.1 Movements

	Net assets £m	Loans £m	Provisions £m	Total £m
At 1 January 2005	165	63	(25)	203
Income recognised	73	—	—	73
Impairment of investment	(8)	—	—	(8)
Actuarial gains on retirement benefit obligations	7	—	—	7
Fair value revaluation of PFI/PPP cash flow hedges	(20)	—	—	(20)
Fair value revaluation of PFI/PPP financial assets	29	—	—	29
Exchange adjustments	5	—	—	5
Tax on items taken directly to equity	(6)	—	—	(6)
Dividends	(12)	—	—	(12)
Additions	11	—	—	11
Loans granted/repaid	—	1	—	1
Businesses acquired	25	6	—	31
Transfers	40	21	—	61
At 31 December 2005	309	91	(25)	375
Income recognised	63	—	—	63
Actuarial gains on retirement benefit obligations	10	—	—	10
Fair value revaluation of PFI/PPP cash flow hedges	32	—	—	32
Fair value revaluation of PFI/PPP financial assets	(2)	—	—	(2)
Exchange adjustments	(7)	—	—	(7)
Tax on items taken directly to equity	(11)	—	—	(11)
Dividends	(24)	—	—	(24)
Additions	3	—	—	3
Loans granted/repaid	—	19	—	19
At 31 December 2006	373	110	(25)	458

Principal joint ventures and associates are shown in Note 36(b). The original cost of the Group's investments in joint ventures and associates was £124m (2005: £121m). The Group's share of borrowings of joint ventures and associates is shown in 15.2 below. The amount of these which was supported by the Group and the Company was £nil (2005: £nil). The borrowings of Barking Power Ltd and the PFI/PPP joint venture and associate companies are repayable over periods extending up to 2040. As disclosed in Note 31, the Company has committed to provide its share of further equity funding of joint ventures and associates in PFI/PPP projects. Further, in respect of a number of these investments the Company has committed not to dispose of its equity interest until the relevant construction has been accepted. As is customary in such projects, dividend payments and other distributions are restricted until certain banking covenants are met.

Notes to the accounts (continued)

15 Investments in joint ventures and associates continued

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

	Building, building management and services 2006 £m	Civil and specialist engineering and services 2006 £m	Rail engineering and services 2006 £m	Investments and developments			Total 2006 £m
				PFI/PPP 2006 £m	Barking Power 2006 £m	Total 2006 £m	
Revenue	115	705	4	458	83	541	1,365
Operating profit before exceptional items	2	10	3	15	23	38	53
Investment income	–	3	–	122	2	124	127
Finance costs	–	(1)	–	(84)	(4)	(88)	(89)
Profit before taxation and exceptional items	2	12	3	53	21	74	91
Taxation	(1)	(4)	–	(17)	(6)	(23)	(28)
Profit after taxation	1	8	3	36	15	51	63
Non-current assets							
Intangible assets – goodwill	–	22	2	–	–	–	24
– other	–	–	–	2	–	2	2
Property, plant and equipment	2	61	–	29	105	134	197
PFI/PPP financial assets	–	–	–	1,541	–	1,541	1,541
Other non-current assets	–	10	–	121	–	121	131
Current assets							
Cash and cash equivalents	–	109	6	144	52	196	311
Other current assets	18	199	1	150	13	163	381
Total assets	20	401	9	1,987	170	2,157	2,587
Current liabilities							
Borrowings	(2)	(16)	–	(42)	(14)	(56)	(74)
Other current liabilities	(14)	(287)	(7)	(159)	(13)	(172)	(480)
Non-current liabilities							
Borrowings	–	–	–	(1,362)	(47)	(1,409)	(1,409)
Other non-current liabilities	–	(30)	–	(110)	(26)	(136)	(166)
Total liabilities	(16)	(333)	(7)	(1,673)	(100)	(1,773)	(2,129)
Net assets	4	68	2	314	70	384	458

15 Investments in joint ventures and associates continued

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

	Building, building management and services 2005 £m	Civil and specialist engineering and services 2005 £m	Rail engineering and services 2005 £m	Investments and developments			Total 2005 £m
				PFI/PPP 2005 £m	Barking Power 2005 £m	Total 2005 £m	
Revenue	113	554	3	368	63	431	1,101
Operating profit before exceptional items	4	16	—	15	15	30	50
Investment income	—	1	—	69	—	69	70
Finance costs	—	(1)	—	(52)	(3)	(55)	(56)
Profit before taxation and exceptional items	4	16	—	32	12	44	64
Taxation	(1)	(6)	—	(10)	(4)	(14)	(21)
Exceptional items	—	—	—	—	30	30	30
Profit after taxation	3	10	—	22	38	60	73
Non-current assets							
Intangible assets – goodwill	—	25	2	—	—	—	27
– other	—	—	—	2	—	2	2
Property, plant and equipment	1	66	1	29	109	138	206
PFI/PPP financial assets	—	—	—	1,255	—	1,255	1,255
Other non-current assets	—	15	—	46	—	46	61
Current assets							
Cash and cash equivalents	—	76	6	200	40	240	322
Other current assets	18	165	—	112	22	134	317
Total assets	19	347	9	1,644	171	1,815	2,190
Current liabilities							
Borrowings	(3)	(17)	—	(64)	(12)	(76)	(96)
Other current liabilities	(12)	(220)	(9)	(170)	(16)	(186)	(427)
Non-current liabilities							
Borrowings	—	(4)	—	(1,050)	(60)	(1,110)	(1,114)
Other non-current liabilities	—	(39)	—	(111)	(28)	(139)	(178)
Total liabilities	(15)	(280)	(9)	(1,395)	(116)	(1,511)	(1,815)
Net assets	4	67	—	249	55	304	375

15.3 PFI/PPP investments

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

	Net investment 2006 £m	Reserves 2006 £m	Total 2006 £m	Net investment 2005 £m	Reserves 2005 £m	Total 2005 £m
Metronet	38	21	59	27	6	33
Roads	44	62	106	44	60	104
Hospitals	61	59	120	58	46	104
Schools	10	7	17	—	3	3
Other concessions	3	9	12	5	—	5
	156	158	314	134	115	249

Notes to the accounts (continued)

15 Investments in joint ventures and associates continued

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

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

	PFI/PPP 2006 £m	Other 2006 £m	Total 2006 £m	PFI/PPP 2005 £m	Other 2005 £m	Total 2005 £m
Cash flows from investing activities						
Dividends from joint ventures and associates	15	9	24	3	9	12
Investment in and loans made to joint ventures and associates:						
– Equity	(3)	–	(3)	(11)	–	(11)
– Subordinated debt	(21)	–	(21)	(4)	–	(4)
– Subordinated debt repaid	2	–	2	3	–	3
	(22)	–	(22)	(12)	–	(12)
Cash flows from financing activities						
Subordinated debt interest received	8	–	8	6	–	6
Net cash flow from/(to) joint ventures and associates	1	9	10	(3)	9	6

15.5 Share of joint ventures' and associates' reserves

	Accumulated profit/(loss) £m	Hedging reserves £m	PFI/PPP financial assets £m	Currency translation reserves £m	Total £m
Balance at 1 January 2005	73	(35)	49	(1)	86
Income recognised	73	–	–	–	73
Actuarial gains on retirement benefit obligations	7	–	–	–	7
Fair value revaluation of PFI/PPP cash flow hedges	–	(20)	–	–	(20)
Fair value revaluation of PFI/PPP financial assets	–	–	29	–	29
Exchange adjustments	–	–	–	5	5
Tax on items taken directly to equity	(2)	5	(9)	–	(6)
Dividends paid	(12)	–	–	–	(12)
Transfers	14	(2)	8	–	20
Balance at 31 December 2005	153	(52)	77	4	182
Income recognised	63	–	–	–	63
Actuarial gains on retirement benefit obligations	10	–	–	–	10
Fair value revaluation of PFI/PPP cash flow hedges	–	32	–	–	32
Fair value revaluation of PFI/PPP financial assets	–	–	(2)	–	(2)
Exchange adjustments	–	–	–	(7)	(7)
Tax on items taken directly to equity	(2)	(10)	1	–	(11)
Dividends paid	(24)	–	–	–	(24)
Balance at 31 December 2006	200	(30)	76	(3)	243

The Group has not recognised losses of joint ventures and associates during the year of £nil (2005: £nil) and cumulatively of £nil (2005: £1m).

16 Investments

16.1 Group

Investments of the Group comprise £46m (2005: £38m) 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 6.44% and weighted average life of 4.99 years. Market value is determined by using the market price of the bonds at the relevant valuation date and is not significantly different to the book value. The maximum exposure to credit risk at 31 December 2006 is the carrying amount.

16.2 Company

	2006 £m	2005 £m
Investment in subsidiaries	1,035	1,000
Investment in joint ventures and associates	16	16
Provisions	(147)	(146)
	904	870

17 PFI/PPP subsidiaries' financial assets

	Roads £m	Street lighting £m	Total £m
Balance at 1 January 2005	333	7	340
Cash expenditure	14	7	21
Cash received	(38)	(3)	(41)
Interest	35	1	36
Fair value adjustment	(21)	2	(19)
Businesses sold	(323)	–	(323)
Balance at 31 December 2005	–	14	14
Cash expenditure	–	12	12
Cash received	–	(5)	(5)
Interest	–	1	1
Balance at 31 December 2006	–	22	22

18 Inventories

	2006 £m	2005 £m
Unbilled work in progress	37	24
Development and housing land and work in progress	6	14
Manufacturing work in progress	9	3
Raw materials and consumables	20	17
Finished goods and goods for resale	3	3
	75	61

19 Construction contracts

Contracts in progress at balance sheet date:

	2006 £m	2005 £m
Due from customers for contract work	252	217
Due to customers for contract work	(265)	(274)
	(13)	(57)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £14,050m (2005: £13,368m).

Notes to the accounts (continued)

20 Derivative financial instruments

20.1 Group

	Assets 2006 £m	Liabilities 2006 £m	Assets 2005 £m	Liabilities 2005 £m
Current				
Forward foreign exchange contracts – net investment in foreign operations hedges	3	(1)	–	(4)
	3	(1)	–	(4)
Non-current				
Interest-rate swaps – PFI/PPP cash flow hedges	–	–	2	(2)
Forward foreign exchange contracts – net investment in foreign operations hedges	2	–	–	–
	2	–	2	(2)
	5	(1)	2	(6)

Interest-rate swaps:

The notional principal amounts of the outstanding PFI/PPP interest-rate swaps outstanding at 31 December 2006 were £22m (2005: £14m). At 31 December 2006, the fixed interest rates range from 4.565% to 5.055% (2005: 4.565% to 5.055%) and principal floating rates are LIBOR. All other interest-rate swaps, other than in respect of PFI/PPP concessions, were terminated during 2005.

Forward foreign exchange contracts:

The notional principal amounts of forward foreign exchange contracts designated as hedges of net investments in foreign operations at 31 December 2006 was £147m (2005: £151m). 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.

The credit risk on derivative financial instruments is considered to be limited because the counterparties are banks with high credit ratings assigned by international credit agencies.

20.2 Company

	Assets 2006 £m	Liabilities 2006 £m	Assets 2005 £m	Liabilities 2005 £m
Current				
Forward foreign exchange contracts – net investment in foreign operations hedges	3	(3)	4	(4)
	3	(3)	4	(4)
Non-current				
Forward foreign exchange contracts – net investment in foreign operations hedges	2	(2)	–	–
	2	(2)	–	–
	5	(5)	4	(4)

21 Trade and other receivables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Current				
Trade receivables	491	507	6	15
Less: Provision for impairment of trade receivables	(13)	(9)	–	–
	478	498	6	15
Due from subsidiaries	–	–	409	371
Due from joint ventures and associates	35	16	–	–
Due from jointly controlled operations	6	6	–	–
Contract retentions	72	67	–	–
Prepayments and accrued income	35	24	1	1
Advance corporation tax recoverable	–	8	–	8
	626	619	416	395
Non-current				
Trade and other receivables	12	7	–	2
Due from joint ventures and associates	–	–	32	33
Contract retentions	29	28	–	–
Due on acquisitions	9	–	–	–
	50	35	32	35
	676	654	448	430

The Group's credit risk is primarily attributable to its trade receivables. 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.

21 Trade and other receivables continued

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. The fair value of non-current and other trade and other receivables amounts to £50m (2005: £32m) and has been determined 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 entered into as soon as a foreign currency trade receivable is identified.

22 Trade and other payables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Current				
Trade and other payables	525	398	4	4
Accruals and deferred income	653	536	9	8
Advance payments on contracts	9	11	—	—
VAT, payroll taxes and social security	77	64	13	10
Due to subsidiaries	—	—	722	645
Due to joint ventures and associates	12	—	—	—
Due to jointly controlled operations	3	2	—	—
Dividends on ordinary shares	—	15	—	15
Dividends on preference shares	6	6	6	6
Due on acquisitions	4	6	3	5
	1,289	1,038	757	693
Non-current				
Trade and other payables	47	36	—	—
Accruals and deferred income	5	5	—	—
Due to joint ventures and associates	25	25	25	25
	77	66	25	25
	1,366	1,104	782	718

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

	Trade and other payables 2006 £m	Due to joint ventures and associates 2006 £m	Accruals and deferred income 2006 £m	Total 2006 £m	Trade and other payables 2005 £m	Due to joint ventures and associates 2005 £m	Accruals and deferred income 2005 £m	Total 2005 £m
Due within one to two years	17	—	4	21	12	—	5	17
Due within two to five years	10	—	1	11	9	—	—	9
Due after more than five years	20	25	—	45	15	25	—	40
	47	25	5	77	36	25	5	66
Fair values	44	14	4	62	34	14	5	53

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 and other payable is identified. Non-current amounts due to joint ventures and associates are denominated in sterling, and non-current accruals and deferred income are denominated in US dollars.

Notes to the accounts (continued)

23 Cash and cash equivalents and borrowings

23.1 Group

	Current 2006 £m	Non-current 2006 £m	Total 2006 £m	Current 2005 £m	Non-current 2005 £m	Total 2005 £m
Unsecured borrowings						
– bank overdrafts	(15)	–	(15)	(29)	–	(29)
– other short-term loans	(1)	–	(1)	–	–	–
Secured borrowings						
– finance leases	–	(1)	(1)	(1)	–	(1)
– other	(1)	–	(1)	–	–	–
	(17)	(1)	(18)	(30)	–	(30)
Cash and deposits	142	–	142	146	–	146
Term deposits	181	–	181	199	–	199
	306	(1)	305	315	–	315
PFI/PPP non-recourse term loans						
– sterling floating rate term loan (2008–2027)	–	(17)	(17)	–	(13)	(13)
– sterling floating rate term loan (2011–2030)	–	(4)	(4)	–	(1)	(1)
	–	(21)	(21)	–	(14)	(14)
Net cash/(borrowings)	306	(22)	284	315	(14)	301

The PFI/PPP project finance sterling debt obligations arise under non-recourse facilities in the concession companies Connect Roads Sunderland Ltd and Connect Roads South Tyneside 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 and Connect Roads South Tyneside Holdings Ltd.

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

Cash, deposits and term deposits include the Group's share of amounts held by contracting joint arrangements of £94m (2005: £110m).

The interest rate risk profile of the Group's net cash at 31 December 2006 was:

	Fixed rate £m	Floating rate £m	Total £m	Fixed rate	
				Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency					
Cash					
Sterling – excluding PFI/PPP non-recourse project finance	–	247	247	–	–
US Dollar	–	48	48	–	–
Other	–	28	28	–	–
	–	323	323	–	–
Borrowings					
Sterling – excluding PFI/PPP non-recourse project finance	2	16	18	6.0	1.3
Sterling – PFI/PPP non-recourse project finance	21	–	21	5.0	12.4
	23	16	39	5.0	11.5
Net (borrowings)/cash	(23)	307	284		

23 Cash and cash equivalents and borrowings continued

23.1 Group continued

The interest rate risk profile of the Group's net cash at 31 December 2005 was:

	Fixed rate £m	Floating rate £m	Total £m	Weighted average interest rate %	Fixed rate Weighted average period for which rate is fixed Years
Currency					
Cash					
Sterling – excluding PFI/PPP non-recourse project finance	–	258	258	–	–
US Dollar	–	46	46	–	–
Other	–	41	41	–	–
	–	345	345	–	–
Borrowings					
Sterling – excluding PFI/PPP non-recourse project finance	1	29	30	5.0	0.7
Sterling – PFI/PPP non-recourse project finance	14	–	14	5.0	11.7
	15	29	44	5.0	10.9
Net (borrowings)/cash	(15)	316	301		

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

	PFI/PPP non-recourse project finance 2006 £m	Other 2006 £m	Total 2006 £m	PFI/PPP non-recourse project finance 2005 £m	Other 2005 £m	Total 2005 £m
Due on demand or within one year	–	17	17	–	30	30
Due within one to two years	3	1	4	–	–	–
Due within two to five years	3	–	3	3	–	3
Due after more than five years	15	–	15	11	–	11
	21	18	39	14	30	44

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

	PFI/PPP non-recourse project finance 2006 £m	Other 2006 £m	Total 2006 £m	PFI/PPP non-recourse project finance 2005 £m	Other 2005 £m	Total 2005 £m
Expiring in one year or less	–	–	–	–	–	–
Expiring in more than one year but not more than two years	–	–	–	–	–	–
Expiring in more than two years	33	396	429	42	484	526
	33	396	429	42	484	526

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

	Book value 2006 £m	Fair value 2006 £m	Book value 2005 £m	Fair value 2005 £m
Unsecured borrowings				
– bank overdrafts	15	15	29	29
– other short-term loans	1	1	–	–
Secured borrowings				
– finance leases	1	1	1	1
– other	1	1	–	–
	18	18	30	30
PFI/PPP non-recourse term loans				
– sterling floating rate term loan (2008–2027)	17	17	13	13
– sterling floating rate term loan (2011–2030)	4	4	1	1
	21	21	14	14
Borrowings	39	39	44	44

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.

Notes to the accounts (continued)

23 Cash and cash equivalents and borrowings continued

23.2 Company

	Current 2006 £m	Non-current 2006 £m	Total 2006 £m	Current 2005 £m	Non-current 2005 £m	Total 2005 £m
Unsecured borrowings						
– bank overdrafts	(13)	–	(13)	(12)	–	(12)
	(13)	–	(13)	(12)	–	(12)
Term deposits	167	–	167	142	–	142
Net cash	154	–	154	130	–	130

The unsecured borrowings and term deposits are sterling denominated and variable rate instruments. No interest rate risk is attributable to these. The bank overdrafts are repayable on demand and the term deposits have a range of maturities but are no longer than one month.

24 Deferred taxation

24.1 Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities. The net deferred tax position at 31 December was:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Deferred tax assets	102	83	–	1
Deferred tax liabilities	(5)	(3)	–	–
	97	80	–	1

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

	Group £m	Company £m
At 1 January 2005	62	1
Charged to income statement	(10)	(1)
Credited to equity	10	1
Businesses sold	18	–
At 31 December 2005	80	1
Charged to income statement		(12)
(Charged)/credited to equity		(7)
Businesses acquired		36
At 31 December 2006		97

24.2 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	Total £m
Deferred tax assets						
At 1 January 2005	3	70	2	6	12	93
(Charged)/credited to income statement	(3)	2	–	1	(4)	(4)
Credited to equity	–	4	–	–	–	4
Businesses sold	3	–	(2)	–	8	9
At 31 December 2005	3	76	–	7	16	102
(Charged)/credited to income statement	(2)	–	–	1	(10)	(11)
Charged to equity	–	(8)	–	–	–	(8)
Businesses acquired	1	11	1	–	23	36
At 31 December 2006	2	79	1	8	29	119

24 Deferred taxation continued

24.2 Group continued

	Revaluation of properties £m	Goodwill £m	Fair value adjustments £m	Undistributed earnings of joint ventures and associates £m	Preference shares £m	Total £m
Deferred tax liabilities						
At 1 January 2005	(1)	(2)	(13)	(5)	(10)	(31)
Charged to income statement	–	(4)	(1)	(1)	–	(6)
Credited to equity	–	–	5	–	1	6
Businesses sold	–	–	9	–	–	9
At 31 December 2005	(1)	(6)	–	(6)	(9)	(22)
Charged to income statement	–	(1)	–	–	–	(1)
Credited to equity	–	–	–	–	1	1
At 31 December 2006	(1)	(7)	–	(6)	(8)	(22)

Total net deferred tax asset

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At the balance sheet date, the Group has unused tax losses that arose over a number of years of approximately £250m (2005: £260m) which are available for offset against future profits. No deferred tax has been recognised owing to the unpredictability of future profit streams. Of this total, £140m (2005: £160m) 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 is £130m (2005: £130m) and for joint ventures and associates is £11m (2005: £nil). 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.

24.3 Company

The following represents the major deferred tax assets and liabilities recognised by the Company and the movement thereon during the year:

	Deferred tax liability				Deferred tax assets		Net deferred tax asset £m
	Preference shares £m	Fair value adjustments £m	Share-based payments £m	Retirement benefit obligations £m	Provisions £m	Total £m	
At 1 January 2005	(10)	1	6	2	2	11	1
Charged to income statement	–	(1)	1	–	(1)	(1)	(1)
Credited to equity	1	–	–	–	–	–	1
At 31 December 2005	(9)	–	7	2	1	10	1
(Charged)/credited to income statement	–	–	(3)	1	–	(2)	(2)
Credited to equity	1	–	–	–	–	–	1
At 31 December 2006	(8)	–	4	3	1	8	–

Notes to the accounts (continued)

25 Retirement benefit obligations

a) Group

The Group, through trustees, operates a number of pension schemes, the majority of which are of the defined benefit type and are funded. Contributions are determined in accordance with independent actuarial advice. Details of the IAS 19 valuations are set out in 25.1 below. Details of the last actuarial valuations and reviews and the assumptions used by the actuaries are set out in 25.2 below.

25.1 IAS 19 valuations

The latest actuarial funding valuations of the Group's principal defined benefit schemes have been updated by the actuaries to 31 December 2006 on the basis prescribed by IAS 19. In particular, scheme liabilities have been discounted using the rate of return on a high quality corporate bond rather than the expected rate of return on the assets in the scheme used in the funding valuations.

Other than the mortality assumptions set out in 25.2, the principal actuarial assumptions used were as follows:

	Balfour Beatty Pension Fund 2006 %	Railways Pension Scheme 2006 %	Mansell schemes 2006 %	Birse scheme 2006 %	Balfour Beatty Pension Fund 2005 %	Railways Pension Scheme 2005 %	Mansell schemes 2005 %
Inflation rate	3.10	3.10	3.10	3.10	2.80	2.80	2.80
Discount rate	5.15	5.15	5.15	5.15	4.75	4.75	4.75
Future salary increases	4.60	4.60	4.60	4.60	4.30	4.30	4.30
Future pension increases	3.10	3.10	3.10	3.10	2.80	2.80	2.80
Expected return on plan assets	6.35	7.30	6.79	7.36	5.98	7.00	6.60

The amounts recognised in the balance sheet are determined as follows:

	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m	Balfour Beatty Pension Fund 2005 £m	Railways Pension Scheme 2005 £m	Mansell schemes 2005 £m	Other schemes 2005 £m	Total 2005 £m
Present value of funded obligations	(1,876)	(158)	(210)	(94)	(11)	(2,349)	(1,806)	(159)	(212)	(14)	(2,191)
Fair value of plan assets	1,688	150	177	62	10	2,087	1,629	136	160	12	1,937
Deficit	(188)	(8)	(33)	(32)	(1)	(262)	(177)	(23)	(52)	(2)	(254)
Present value of unfunded obligations	–	–	–	–	(26)	(26)	–	–	–	(26)	(26)
Liability in the balance sheet	(188)	(8)	(33)	(32)	(27)	(288)	(177)	(23)	(52)	(28)	(280)

Other schemes comprise funded and unfunded post-retirement defined benefit obligations in Europe and North America, the majority of which arrangements are closed to new entrants.

The amounts recognised in the income statement are as follows:

	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m	Balfour Beatty Pension Fund 2005 £m	Railways Pension Scheme 2005 £m	Mansell schemes 2005 £m	Other schemes 2005 £m	Total 2005 £m
Current service cost	(44)	(3)	(3)	(1)	(1)	(52)	(37)	(3)	(3)	(1)	(44)
Interest cost	(84)	(6)	(10)	(2)	(2)	(104)	(85)	(6)	(10)	(2)	(103)
Expected return on plan assets	96	8	10	2	1	117	89	8	9	1	107
Defined contribution charge	(7)	–	–	–	(6)	(13)	(4)	–	–	(5)	(9)
Total included in employee costs (Note 5)	(39)	(1)	(3)	(1)	(8)	(52)	(37)	(1)	(4)	(7)	(49)

The Balfour Beatty Pension Fund includes a defined contribution section. Employer contributions paid and charged in the income statement have been separately identified in the above table and the defined contribution section assets and liabilities amounting to £25m (2005: £13m) have been excluded from the tables below.

Pension expense, net of expected return on plan assets, is charged to contracts or overheads based on the function of scheme members and is included in cost of sales, net operating expenses and amounts due to or from customers. Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual return on plan assets was £138m (2005: £245m).

25 Retirement benefit obligations continued

25.1 IAS 19 valuations continued

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

	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m	Balfour Beatty Pension Fund 2005 £m	Railways Pension Scheme 2005 £m	Mansell schemes 2005 £m	Other schemes 2005 £m	Total 2005 £m
At 1 January	(1,806)	(159)	(212)	–	(40)	(2,217)	(1,633)	(125)	(190)	(36)	(1,984)
Exchange adjustments	–	–	–	–	3	3	–	–	–	–	–
Service cost	(44)	(3)	(3)	(1)	(1)	(52)	(37)	(3)	(3)	(1)	(44)
Interest cost	(84)	(6)	(10)	(2)	(2)	(104)	(85)	(6)	(10)	(2)	(103)
Actuarial gains and losses	(10)	5	11	(1)	–	5	(117)	(25)	(13)	(4)	(159)
Contributions from members	(10)	–	(2)	(1)	–	(13)	(10)	–	(2)	–	(12)
Benefits paid	78	5	6	1	3	93	76	–	6	3	85
Businesses acquired	–	–	–	(90)	–	(90)	–	–	–	–	–
At 31 December	(1,876)	(158)	(210)	(94)	(37)	(2,375)	(1,806)	(159)	(212)	(40)	(2,217)

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

	Balfour Beatty Pension Fund 2006 £m	Railways Pension Scheme 2006 £m	Mansell schemes 2006 £m	Birse scheme 2006 £m	Other schemes 2006 £m	Total 2006 £m	Balfour Beatty Pension Fund 2005 £m	Railways Pension Scheme 2005 £m	Mansell schemes 2005 £m	Other schemes 2005 £m	Total 2005 £m
At 1 January	1,629	136	160	–	12	1,937	1,474	111	133	12	1,730
Exchange adjustments	–	–	–	–	(1)	(1)	–	–	–	–	–
Expected return on plan assets	96	8	10	2	1	117	89	8	9	1	107
Actuarial gains and losses	7	9	2	4	(1)	21	107	16	15	–	138
Contributions from employer	24	2	9	1	–	36	25	1	7	–	33
Contributions from members	10	–	2	1	–	13	10	–	2	–	12
Benefits paid	(78)	(5)	(6)	(1)	(1)	(91)	(76)	–	(6)	(1)	(83)
Businesses acquired	–	–	–	55	–	55	–	–	–	–	–
At 31 December	1,688	150	177	62	10	2,087	1,629	136	160	12	1,937

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

	Balfour Beatty Pension Fund		Railways Pension Scheme		Mansell schemes		Birse scheme		Other schemes	
	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m	Expected rate of return 2006 %	Value 2006 £m
Equities	8.15	717	8.15	100	8.15	106	8.15	45	–	–
Bonds	5.05	946	5.15	35	4.80	69	5.15	10	4.55	10
Property	–	–	6.35	15	–	–	6.35	3	–	–
Cash and other net current assets	4.10	25	4.10	–	4.10	2	4.10	4	–	–
Rate of return/total	6.35	1,688	7.30	150	6.79	177	7.36	62	4.55	10

	Balfour Beatty Pension Fund		Railways Pension Scheme		Mansell schemes		Other schemes	
	Expected rate of return 2005 %	Value 2005 £m	Expected rate of return 2005 %	Value 2005 £m	Expected rate of return 2005 %	Value 2005 £m	Expected rate of return 2005 %	Value 2005 £m
Equities	8.1	670	8.1	91	8.1	95	–	–
Bonds	4.5	960	4.1	33	4.4	63	5.3	12
Property	–	–	6.1	12	–	–	–	–
Cash and other net current assets	3.8	(1)	–	–	3.8	2	–	–
Rate of return/total	5.98	1,629	7.0	136	6.6	160	5.3	12

Notes to the accounts (continued)

25 Retirement benefit obligations continued

25.1 IAS 19 valuations continued

The expected rate of return on scheme assets assumption was 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 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 overall rate has been set to reflect the yields available on the gilts and corporate bond holdings held at 31 December.
- cash and other net current assets: this class is mostly made up of cash holdings and the rate adopted reflects current short-term returns on such deposits.

The estimated amounts of contributions expected to be paid to the defined benefit schemes during 2007 is £41m. Contributions paid in 2006 for the principal schemes were £24m (2005: £25m) for the Balfour Beatty Pension Fund, £2m (2005: £1m) for the Railways Pension Scheme, £9m (2005: £7m) for the Mansell schemes and £1m for the Birse scheme.

The Railways Pension Scheme is a shared cost scheme. Accordingly the deficit shown above assumes that the Group will obtain economic benefit from, or be required to finance, only a proportion of the surplus or deficit in the Balfour Beatty section of the scheme. This proportion has been based on the apportionment of the surplus which has already been agreed together with the relevant provisions of the Trust Deed and Rules and Trustee guidelines regarding future surplus apportionments and deficit financing.

Year end historic information for the Group's post-retirement benefit plans is:

	2006 £m	2005 £m	2004 £m
Defined benefit obligation at end of year	(2,375)	(2,217)	(1,984)
Fair value of assets at end of year	2,087	1,937	1,730
Funded status at end of year	(288)	(280)	(254)
Experience adjustment for liabilities	(52)	24	(59)
Experience adjustment for assets	21	138	52

25.2 Funding valuations

The last formal valuation of the Balfour Beatty Pension Fund (BBPF) was carried out by the actuary at 31 March 2004 using the projected unit method and disclosed an excess of assets over past service liabilities of 1.7%. Due to the size of the membership of the BBPF (38,062 members at 31 December 2006) the scheme's actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and is able to make statistically credible 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 for its IAS 19 valuations across its various defined benefit schemes.

The mortality tables adopted for these valuations and that of the BBPF's 2004 formal valuation are the 1992 series CMI tables as shown below:

	Mortality table (1992) series	With average life expectancy at 65 years of age
Members in receipt of a pension		
– Male	PMA92c04	+18.4 years
– Female	PFA92c04	+21.3 years
Members not yet in receipt of a pension		
– Male	PMA92c22	+20.0 years
– Female	PFA92c22	+22.9 years

Certain Group employees are members of the Balfour Beatty Shared Cost section of the Railways Pension Scheme ("Railways Pension Scheme"). The last formal valuation of this defined benefit scheme was carried out by independent actuaries at 31 December 2004 using the projected unit method and disclosed that the market value of the scheme's assets represented 92.4% of the benefits of which, being a shared cost scheme, the economic cost to the Group is circa 60% as represented in the scheme's assets and liabilities shown below. This proportion has been based on the apportionment of the surplus which has already been agreed together with the relevant provisions of the Trust Deed and Rules and Trustee guidelines regarding future surplus apportionments.

Mansell plc operates two funded defined benefit schemes, the Mansell plc Pension Scheme and the Hall & Tawse Retirement Benefit Plan ("Mansell schemes"). The most recent actuarial valuation of the Mansell plc Pension Scheme, which was closed to new members from 31 December 2001, was carried out by independent actuaries at 31 July 2005 using the projected unit method. The valuation showed that the market value of the scheme's assets represented 78.0% of the benefits that had accrued to members on an ongoing funding basis. The most recent actuarial valuation of the Hall & Tawse Retirement Benefit Plan, which was closed to new members from 1 July 1998, was carried out by independent actuaries at 31 March 2005 using the projected unit method. The valuation showed that the market value of the scheme's assets represented 79.0% of the benefits that had accrued to members on an ongoing funding basis.

The most recent actuarial valuation of the Birse Group Retirement Benefit Scheme ("Birse scheme") was carried out by independent actuaries at 5 April 2004 using the projected unit method. The valuation showed that the market value of the scheme's assets represented 65.5% of the benefits that had accrued to members on an ongoing funding basis.

25 Retirement benefit obligations continued

25.2 Funding valuations continued

The Group's actuaries have reviewed the funding valuations of the Balfour Beatty Pension Fund, the Railways Pension Scheme, the Mansell schemes and the Birse scheme at 31 December 2006. The results of these reviews along with the assumptions used by the actuaries are set out below together with comparatives at 31 December 2005.

	At the last formal actuarial funding valuation					At 31 December 2006 valuation review				At 31 December 2005 valuation review		
	Balfour Beatty Pension Fund 31/3/2004 %	Railways Pension Scheme 31/12/2004 %	Mansell schemes		Birse scheme 5/4/2004 %	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %	Birse scheme %	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %
Principal actuarial valuation assumptions:												
Inflation assumption	2.7	2.8	2.9	2.8	3.0	3.1	3.1	3.1	3.1	2.8	2.8	2.8
Rate of increase in salaries	4.2	4.3	4.4	4.3	4.5	4.6	4.6	4.6	4.6	4.3	4.3	4.3
Rate of increase in pensions in payment (or such other fixed rate as is guaranteed)	2.7	2.8	2.9	3.0	2.8	3.1	3.1	3.1	3.1	2.8	2.8	2.8
Return on existing investments:												
– active and deferred members												
– pre-retirement	8.1	6.8	6.6	6.4	6.5	7.75	7.75	7.75	7.75	7.7	7.7	7.7
– post-retirement	5.6	6.8	5.0	4.7	5.25	5.4	5.4	5.4	5.4	5.0	5.0	5.0
– pensioners, widows and dependants	5.1	4.8	5.0	4.7	5.25	4.9	4.9	4.9	4.9	4.5	4.5	4.5
Number of members:												
Defined benefit												
Active members	8,465	590	225	414	816	5,178	532	559	685	5,660	627	604
Deferred pensioners	11,540	1,776	1,001	610	1,061	12,113	1,651	1,558	1,306	12,104	1,624	1,607
Pensioners, widows and dependants	16,989	1,018	980	181	54	16,652	1,139	1,244	95	17,293	1,091	1,186
Defined contribution	1,196	–	–	–	–	4,119	–	–	–	2,776	–	–
Total	38,190	3,384	2,206	1,205	1,931	38,062	3,322	3,361	2,086	37,833	3,342	3,397
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Scheme surplus/(deficit):												
Market value of assets	1,396	120	90	51	38	1,689	150	177	63	1,630	136	160
Present value of scheme liabilities	(1,372)	(130)	(113)	(65)	(58)	(1,671)	(140)	(171)	(64)	(1,583)	(137)	(169)
Surplus/(deficit) in scheme	24	(10)	(23)	(14)	(20)	18	10	6	(1)	47	(1)	(9)
Funding level	101.7%	92.4%	79.0%	78.0%	65.5%	101.0%	107.1%	103.3%	98.1%	103.0%	99.0%	94.7%

b) Company

Certain employees of the Company are members of the Balfour Beatty Pension Fund. 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 £8m (2005: £8m).

Notes to the accounts (continued)

26 Provisions

				Group	Company
	Employee provisions £m	Contract provisions £m	Other provisions £m	Group total £m	Other provisions £m
At 1 January 2006	23	34	52	109	9
Exchange adjustments	–	–	(1)	(1)	–
Charged/(credited) to the income statement					
– additional provisions	3	23	9	35	–
– unused amounts reversed	–	(13)	(10)	(23)	–
Used during the year	(4)	(6)	(14)	(24)	–
Businesses acquired	2	8	3	13	–
At 31 December 2006	24	46	39	109	9

Employee provisions comprise obligations to employees other than retirement or post-retirement 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.

27 Share capital

27.1 Ordinary shares of 50p each

	Authorised		Issued	
	Million	£m	Million	£m
At 1 January 2005	696	348	424	212
Shares issued	–	–	3	2
At 31 December 2005	696	348	427	214
Shares issued	–	–	3	1
At 31 December 2006	696	348	430	215

All issued ordinary shares are fully paid.

Ordinary shares issued during the year credited as fully paid:

	Ordinary shares 2006 Number	Cash consideration 2006 £m	Ordinary shares 2005 Number	Cash consideration 2005 £m
Savings-related share options exercised	1,375,582	2	1,814,611	2
Executive share options exercised	1,999,231	4	1,442,708	4
	3,374,813	6	3,257,319	6

27 Share capital continued

27.1 Ordinary shares of 50p each continued

At 31 December, share options outstanding were as follows:

Year of issue	Exercise price Pence	Normally exercisable in periods to	Ordinary shares 2006 Number	Ordinary shares 2005 Number
Savings-related				
2000	76.0	January 2006	–	51,582
2001	154.0	March 2007	71,311	762,994
2002	184.0	December 2007	638,886	687,961
2003	133.0	December 2008	695,251	1,431,154
2004	210.0	December 2009	1,535,671	1,700,912
2005	250.0	December 2010	1,760,100	1,914,410
2006	305.0	December 2011	1,963,095	–
			6,664,314	6,549,013
Executive				
1996	344.2	April 2006	–	459,181
1997	231.0	May 2007	130,000	219,000
1998	181.0	May 2008	69,000	120,000
1999	110.0	November 2009	135,618	192,318
2000	79.0	April 2010	206,772	256,772
2001	200.0	June 2011	292,425	445,825
2002	238.0	April 2012	453,000	762,395
2003	146.0	January 2013	–	100,000
2003	173.0	April 2013	682,866	1,622,000
2004	261.0	April 2014	1,659,506	1,700,506
2004	268.0	September 2014	55,970	55,970
			3,685,157	5,933,967

On 3 May 2006, options were granted over 2,001,414 ordinary shares under the Balfour Beatty savings-related share option scheme, at 305p per share, and these are normally exercisable in the periods from July 2009 to December 2009 and from July 2011 to December 2011 depending upon the length of savings contract chosen by the participant.

Notes to the accounts (continued)

27 Share capital continued

27.2 Cumulative convertible redeemable preference shares of 1p each

	Authorised		Issued	
	Million	£m	Million	£m
At 1 January 2005	177	2	136	–
Shares repurchased	–	–	(7)	–
At 31 December 2005	177	2	129	–
Shares repurchased	–	–	(12)	–
At 31 December 2006	177	2	117	–

All issued preference shares are fully paid. During the year, 12,012,640 preference shares (2005: 6,837,500) were repurchased for cancellation by the Company for a total consideration of £18,836,111 (2005: £10,722,218) at an average price of 156.8p (2005: 156.8p).

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 £117m at 31 December 2006 (2005: £129m).

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 the 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:

	2006 £m	2005 £m
Redemption value of shares in issue at 1 January	129	136
Equity component	(18)	(19)
Deferred tax and interest element	(13)	(14)
Liability component at 1 January	98	103
Buy-back of preference shares	(8)	(5)
Liability component at 31 December	90	98

The fair value of the liability component of the preference shares at 31 December 2006 amounted to £90m (2005: £98m). The fair value is calculated using the cash flows discounted at a rate based on the borrowings rate of 13.5%. Interest expense on the shares is calculated using the effective interest method.

28 Movements in equity

28.1 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	Other reserves					Total £m
						Hedging reserves £m	PFI/PPP financial assets £m	Currency translation reserves £m	Other £m	Accumulated losses £m	
At 1 January 2005	212	15	19	181	86	(6)	26	—	9	(315)	227
Net profit for the year	—	—	—	—	73	—	—	—	—	33	106
Actuarial gains/(losses) on retirement benefit obligations	—	—	—	—	7	—	—	—	—	(21)	(14)
PFI/PPP cash flow hedges:											
– net fair value (losses)/gains	—	—	—	—	(20)	3	—	—	—	—	(17)
– reclassified and reported in net profit	—	—	—	—	—	1	—	—	—	—	1
PFI/PPP financial assets:											
– fair value revaluation	—	—	—	—	29	—	(19)	—	—	—	10
– reclassified and reported in net profit	—	—	—	—	—	—	(4)	—	—	—	(4)
Changes in fair value of net investment hedges	—	—	—	—	—	—	—	(6)	—	—	(6)
Currency translation differences	—	—	—	—	5	—	—	3	—	—	8
Tax on items taken directly to equity	—	—	1	—	(6)	—	5	1	—	8	9
Total recognised income for the year	—	—	1	—	88	4	(18)	(2)	—	20	93
Ordinary dividends	—	—	—	—	—	—	—	—	—	(31)	(31)
Joint ventures' and associates' dividends	—	—	—	—	(12)	—	—	—	—	12	—
Issue of ordinary shares	2	4	—	—	—	—	—	—	—	—	6
Buy-back of preference shares	—	7	(2)	—	—	—	—	—	—	(8)	(3)
Movements relating to share-based payments	—	—	—	—	—	—	—	—	(2)	2	—
Transfers	—	—	—	(6)	20	2	(8)	—	—	(8)	—
At 31 December 2005	214	26	18	175	182	—	—	(2)	7	(328)	292
Net profit for the year	—	—	—	—	63	—	—	—	—	28	91
Actuarial gains on retirement benefit obligations	—	—	—	—	10	—	—	—	—	26	36
PFI/PPP cash flow hedges:											
– net fair value gains	—	—	—	—	32	—	—	—	—	—	32
PFI/PPP financial assets:											
– fair value revaluation	—	—	—	—	(2)	—	—	—	—	—	(2)
Changes in fair value of net investment hedges	—	—	—	—	—	—	—	14	—	—	14
Currency translation differences	—	—	—	—	(7)	—	—	(10)	—	—	(17)
Tax on items taken directly to equity	—	—	1	—	(11)	—	—	(8)	—	(8)	(26)
Total recognised income for the year	—	—	1	—	85	—	—	(4)	—	46	128
Ordinary dividends	—	—	—	—	—	—	—	—	—	(37)	(37)
Joint ventures' and associates' dividends	—	—	—	—	(24)	—	—	—	—	24	—
Issue of ordinary shares	1	5	—	—	—	—	—	—	—	—	6
Buy-back of preference shares	—	12	(3)	—	—	—	—	—	—	(12)	(3)
Movements relating to share-based payments	—	—	—	—	—	—	—	—	2	(1)	1
Transfers	—	—	—	(6)	—	—	—	—	2	4	—
At 31 December 2006	215	43	16	169	243	—	—	(6)	11	(304)	387

Notes to the accounts (continued)

28 Movements in equity continued

28.2 Company

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Other reserves £m	Accumulated profits £m	Total £m
At 1 January 2005	212	15	19	181	50	101	578
Net profit for the year	–	–	–	–	–	43	43
Actuarial losses on retirement benefit obligations	–	–	–	–	–	(1)	(1)
Ordinary dividends	–	–	–	–	–	(31)	(31)
Issue of ordinary shares	2	4	–	–	–	–	6
Buy-back of preference shares	–	7	(2)	–	–	(8)	(3)
Movements relating to share-based payments	–	–	–	–	(1)	1	–
Tax on items taken directly to equity	–	–	1	–	–	–	1
Transfers	–	–	–	(6)	–	6	–
At 31 December 2005	214	26	18	175	49	111	593
Net profit for the year	–	–	–	–	–	59	59
Actuarial gain on retirement benefit obligations	–	–	–	–	–	1	1
Ordinary dividends	–	–	–	–	–	(37)	(37)
Issue of ordinary shares	1	5	–	–	–	–	6
Buy-back of preference shares	–	12	(3)	–	–	(12)	(3)
Movements relating to share-based payments	–	–	–	–	(3)	(2)	(5)
Tax on items taken directly to equity	–	–	1	–	–	–	1
Transfers	–	–	–	(6)	–	6	–
At 31 December 2006	215	43	16	169	46	126	615

The accumulated 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 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 £6m occurred in 2006 (2005: £6m).

28.3 The accumulated losses in the Group and the accumulated 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 2006, 1.1m (2005: 1.1m) shares were purchased at a cost of £3.9m (2005: £3.5m). The market value of the 1.6m (2005: 1.5m) shares held by the Trust at 31 December 2006 was £7.1m (2005: £5.4m). 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 2006, 1.0m shares were transferred to participants in relation to the April 2003 awards under the performance share plan (2005: 0.8m shares for the April 2002 awards). The trustees have waived the rights to dividends on shares held by the Trust. Other reserves in the Group include £3.2m relating to unvested performance share plan awards (2005: £2.8m), £4.8m relating to unvested share options (2005: £3.9m), and £0.3m (2005: £nil) relating to unvested deferred bonus plan awards.

29 Acquisitions

On 30 March 2006, the Group acquired 100% of the issued share capital of Edgar Allen Ltd, the UK rail track products manufacturer, for an initial consideration of £21.0m, before adjustment to reflect the value of the net assets acquired estimated at £7.3m, and costs of £0.7m. The provisional fair value of net assets acquired was £7.5m and goodwill arising was £6.9m, pending finalisation of the post-acquisition review of the fair value of the net assets. The goodwill recognised is attributable to the acquisition strengthening the Group's position in the design, manufacture and supply of track products.

On 31 March 2006, the Group acquired 100% of the issued share capital of Charter Builders Ltd, the US construction management company, for a consideration of £17.3m and costs of £0.8m. The provisional fair value of net assets acquired was £3.8m and goodwill arising was £14.3m, pending finalisation of the post-acquisition review of the fair value of the net assets. The goodwill recognised is attributable to the acquisition complementing the Group's US project and programme management business, with a particular strength in the education sector.

On 21 July 2006, the Group acquired 100% of the issued share capital of Birse Group plc, the UK regional civil engineering company, for a consideration of £32.1m and costs of £2.2m. The provisional fair value of net liabilities acquired was £110.9m (including intangible assets recognised of £9.2m) and provisional goodwill arising was £145.2m, pending finalisation of the post-acquisition review of the fair value of the net liabilities. The goodwill recognised is attributable to the acquisition strengthening the Group's regional presence in the UK civil engineering sector.

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

	Birse Group plc			Others			Total		
	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
Net assets acquired:									
Intangible assets – other	–	9	9	–	1	1	–	10	10
Property, plant and equipment	11	–	11	2	–	2	13	–	13
Working capital	(11)	(87)	(98)	(6)	–	(6)	(17)	(87)	(104)
Retirement benefit obligations	2	(37)	(35)	–	–	–	2	(37)	(35)
Provisions	(1)	(7)	(8)	–	(5)	(5)	(1)	(12)	(13)
Current tax liabilities	–	–	–	(1)	–	(1)	(1)	–	(1)
Deferred taxation	3	33	36	–	–	–	3	33	36
Cash and cash equivalents	(24)	–	(24)	20	–	20	(4)	–	(4)
Borrowings	(2)	–	(2)	–	–	–	(2)	–	(2)
	(22)	(89)	(111)	15	(4)	11	(7)	(93)	(100)
Goodwill			145			22			167
			34			33			67
Satisfied by:									
Cash consideration			32			38			70
Costs incurred			2			2			4
			34			40			74
Deferred consideration			–			(7)			(7)
			34			33			67

In 2006, £2m deferred consideration was paid in respect of acquisitions completed in earlier years.

Birse Group plc earned revenues of £154m and a loss from continuing operations of £3m (after charging exceptional items of £3m and amortisation of intangible assets of £1m) in the period since acquisition. Other acquired businesses earned revenues of £97m and profits from continuing operations of £4m in the periods since acquisition.

The following summary presents the Group as if all of the businesses acquired during the year ended 31 December 2006 had been acquired on 1 January 2006. The amounts include the results of the acquired companies, 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 the 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 comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

	£m
Group revenue	4,749
Profit from continuing operations for the year	91
Loss from discontinued operations for the year	(18)
Profit for the year attributable to equity shareholders	73

Loss from discontinued operations for the year arose in the accounts of Birse Group plc in relation to those divisions of its building business that were closed prior to acquisition by Balfour Beatty plc.

Notes to the accounts (continued)

30 Share-based payments

30.1 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 £4.4m in 2006 (2005: £3.3m).

30.2 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 are shown in Note 27.1. The information in relation to SAYE options granted since 7 November 2002 was:

	SAYE options 2006 Number	Weighted average exercise price 2006 Pence	SAYE options 2005 Number	Weighted average exercise price 2005 Pence
Outstanding at 1 January	5,046,476	203.3	3,504,625	175.0
Granted during the year	2,001,414	305.0	1,983,110	250.0
Forfeited during the year	(420,401)	215.5	(413,624)	189.9
Exercised during the year	(673,372)	137.0	(27,635)	157.4
Expired during the year	—	—	—	—
Outstanding at 31 December	5,954,117	244.2	5,046,476	203.3
Exercisable at 31 December	24,418	133.0	—	—

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 354.1p (2005: 330.4p). Those SAYE options outstanding at 31 December 2006 had a weighted average remaining contractual life of 2.9 years (2005: 3.1 years).

The principal assumptions used by the consultants in the stochastic model for the SAYE options granted in 2006, 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
6 April 2006	305.0	386.75	2.09	23.1	3.25	4.45	112.2
6 April 2006	305.0	386.75	2.09	23.1	5.25	4.45	125.7

30 Share-based payments continued

30.3 Executive share options:

The Company has not granted any executive share options in 2006, but has previously operated the scheme under which employees are granted an option to purchase ordinary shares in the Company, which is exercisable between three and 10 years after the date of grant provided that any performance condition has been met. For the executive options granted since 7 November 2002, earnings per share before goodwill amortisation and exceptional items ("eps") for the last year of the minimum three year performance period must 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. The performance condition allows for re-testing from the fixed base eps after a four or five year performance period. The information in relation to executive options granted since 7 November 2002 was:

	Executive options 2006 Number	Weighted average exercise price 2006 Pence	Executive options 2005 Number	Weighted average exercise price 2005 Pence
Outstanding at 1 January	3,478,476	216.8	3,753,470	216.7
Granted during the year	—	—	—	—
Forfeited during the year	(53,000)	227.8	(263,500)	214.1
Exercised during the year	(1,027,134)	171.1	(11,494)	261.0
Expired during the year	—	—	—	—
Outstanding at 31 December	2,398,342	236.1	3,478,476	216.8
Exercisable at 31 December	682,866	173.0	—	—

The weighted average share price at the date of exercise for those executive options exercised during the year was 386.5p (2005: 315.9p). Those executive options outstanding at 31 December 2006 had a weighted average remaining contractual life of 7.0 years (2005: 7.8 years).

30.4 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 within three months of 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 13 June 2006 a maximum of 1,879,339 conditional shares were awarded which are normally exercisable in the period between June 2009 and September 2009. 50% of the 2006 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 2006 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 granted since 7 November 2002 was:

	Conditional awards 2006 Number	Conditional awards 2005 Number
Outstanding at 1 January	4,809,251	3,766,120
Granted during the year	1,879,339	1,708,394
Forfeited during the year	(129,572)	(665,263)
Exercised during the year	(972,450)	—
Expired during the year	(1,009,334)	—
Outstanding at 31 December	4,577,234	4,809,251
Exercisable at 31 December	—	—

The weighted average share price at the date of exercise for those performance share awards exercised during the year was 365.0p (2005: n/a). Those performance share awards outstanding at 31 December 2006 had a weighted average remaining contractual life of 1.7 years (2005: 1.4 years).

The awards are satisfied by the transfer of shares for no consideration. For the 50% of the 2006 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 (307.75p). For the 50% of that 2006 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
6 April 2006	307.75	23.7	3.0	4.66	103.1

Notes to the accounts (continued)

30 Share-based payments continued

30.5 Deferred bonus plan awards:

The Company introduced a deferred bonus plan in 2005 under which one-third of the annual bonus of executive Directors and key senior employees will be deferred in the form of ordinary shares in the Company, which will be released after three years, providing the individual is still in the Group's employment at that time. On 31 March 2006 a maximum of 352,831 conditional shares were awarded which will normally be released on 31 March 2009. On 3 July 2006 a further 4,650 conditional shares were awarded in lieu of entitlements to the final 2005 dividend and on 13 December 2006 a further 3,146 conditional shares were awarded in lieu of entitlements to the interim 2006 dividend. The information in relation to deferred bonus plan awards granted since 7 November 2002 was:

	Conditional awards 2006 Number	Conditional awards 2005 Number
Outstanding at 1 January	–	–
Awards granted during the year	352,831	–
Awards granted in lieu of dividends	7,796	–
Forfeited during the year	(2,501)	–
Exercised during the year	–	–
Expired during the year	–	–
Outstanding at 31 December	358,126	–
Exercisable at 31 December	–	–

Those deferred bonus plan awards outstanding at 31 December 2006 had a weighted average remaining contractual life of 2.75 years (2005: n/a).

As the awards are satisfied by the transfer of shares for no consideration, the fair values of those awards are the closing share price before award date, which was 375.0p, 343.5p and 432.25p for the awards made on 31 March 2006, 3 July 2006 and 13 December 2006 respectively.

31 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £6m (2005: £5m) in the Group and at nil (2005: nil) in the Company.

The Company has committed to provide its share of further equity funding and subordinated debt of joint ventures and associates in PFI/PPP projects amounting to £75m (2005: £75m) and £5m (2005: £5m) in respect of PFI/PPP subsidiaries.

Details of acquisitions which were in progress at the year end and completed prior to the signing of the accounts are shown in Note 34.

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 under Note 4.1.

Future operating lease expense commitments comprise:

	Land and buildings 2006 £m	Other 2006 £m	Land and buildings 2005 £m	Other 2005 £m
Group				
Due within one year	23	25	23	24
Due between one and five years	67	43	63	43
Due after more than five years	45	–	44	–
	135	68	130	67
Company				
Due within one year	3	–	3	–
Due between one and five years	14	–	13	–
Due after more than five years	10	–	14	–
	27	–	30	–

Future operating lease income commitments comprise:

	Land and buildings 2006 £m	Plant 2006 £m	Land and buildings 2005 £m	Plant 2005 £m
Group				
Due within one year	4	2	3	3
Due between one and five years	2	1	5	1
	6	3	8	4
Company				
Due within one year	3	–	3	–
Due between one and five years	4	–	6	–
Due after more than five years	–	–	1	–
	7	–	10	–

32 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 arrangements, 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 a payment under the guarantee.

Each shareholder of Trans4m Ltd has committed, under the shareholders agreement relevant to Trans4m Ltd, to ensure that Trans4m Ltd continues to be funded in order that it can meet its contractual obligations to Metronet Rail BCV Ltd and Metronet Rail SSL Ltd. The obligations of Balfour Beatty Group Ltd, which owns the Group's investment in Trans4m Ltd, are guaranteed by Balfour Beatty plc.

The Company has given limited indemnities up to a maximum of £11m to Halliburton Company and Brown & Root Ltd in respect of the performance of Devonport Management Ltd on certain construction contracts and a further limited guarantee in respect of operational contracts undertaken for the Ministry of Defence.

32 Contingent liabilities continued

Prior to 1999, the Group owned large cable manufacturing businesses, predominantly in Europe and North America. These businesses have subsequently been sold through a number of sale and purchase agreements. In common with many such agreements, the Group gave certain indemnities in respect of environmental and other matters which extend until 2007. The Group maintains provisions against all identified issues based on current available information and carries some insurance cover against further liabilities that may arise.

As stated in Note 26, provision has been made for the Directors' best estimate of the known legal claims 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.

33 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 £733m (2005: £431m). 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 21 and 22 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 £3.1m in 2006 (2005: £3.0m).

Key personnel:

The remuneration of key personnel of Balfour Beatty plc was:

	2006 £m	2005 £m
Short-term benefits	4.324	3.771
Post employment benefits	0.640	1.553
Termination benefits	0.453	–
Share-based payments	1.111	0.678
	6.528	6.002

Key personnel comprise the Board and five Group managing directors (2005: three) who are directly responsible for the Group's operating companies. 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 54 to 60.

34 Post balance sheet events

On 5 January 2007, the Group acquired Exeter and Devon Airport Ltd for a cash consideration of £60m.

On 1 February 2007, the Group agreed to acquire Centex Construction, a leading US building company, from Centex Corporation for a cash consideration of approximately US\$362m.

35 Notes to the cash flow statement

35.1 Cash generated from operations comprises:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Profit from operations	124	131	88	61
Share of results of joint ventures and associates	(63)	(73)	–	–
Dividends received	–	–	(93)	(63)
Depreciation of property, plant and equipment	43	41	–	–
Amortisation of other intangible assets	1	–	–	–
Impairment charges	16	12	–	–
Movements relating to share-based payments	4	3	(2)	3
Profit on disposal of property, plant and equipment	(1)	(2)	–	–
Profit on disposal of businesses	–	(6)	–	–
Profit on disposal of investment	–	–	–	(7)
Operating cash flows before movements in working capital	124	106	(7)	(6)
Decrease in working capital	93	61	17	3
Cash generated from operations	217	167	10	(3)

35.2 Cash and cash equivalents comprise:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash and deposits	142	146	–	–
Term deposits	181	199	167	142
Bank overdrafts	(15)	(29)	(13)	(12)
	308	316	154	130

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.

35.3 Analysis of movement in net cash:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Opening net cash	301	67	130	193
Net (decrease)/increase in cash and cash equivalents	(2)	(93)	24	(129)
Acquisitions – borrowings at date of acquisition	(2)	(1)	–	–
Businesses sold – borrowings at date of disposal	–	253	–	–
New loans	(35)	(6)	(27)	–
Repayment of loans	27	80	27	66
Finance lease principal repayments	1	2	–	–
Exchange adjustments	(6)	(1)	–	–
Closing net cash	284	301	154	130

Notes to the accounts (continued)

35 Notes to the cash flow statement continued

35.4 Acquisitions of businesses:

	Group 2006 £m	Group 2005 £m
Net assets acquired:		
Intangible assets – goodwill	167	14
– other	10	–
Property, plant and equipment	13	6
Investments in joint ventures and associates	–	31
Working capital	(104)	4
Retirement benefit obligations	(35)	–
Provisions	(13)	–
Current tax liability	(1)	–
Deferred tax assets	36	–
Term loans	(2)	(1)
	71	54
Due on acquisitions	9	2
	80	56
Satisfied by:		
Cash consideration	76	56
Cash, deposits and overdrafts acquired	4	–
Cash outflow	80	56

35.5 Disposals of businesses:

	Group 2006 £m	Group 2005 £m
Net assets disposed of:		
PFI/PPP financial assets	–	323
Working capital	–	(8)
Current tax liabilities	–	(1)
Deferred tax liabilities	–	(18)
PFI/PPP non-recourse term loans	–	(253)
	–	43
Profit on sale	–	6
Fair value movements	–	(3)
	–	46
Satisfied by:		
Cash consideration	–	14
Cash, deposits and overdrafts sold	–	(29)
	–	(15)
Interest in joint venture retained	–	61
	–	46

35.6 Non-cash transactions:

On 29 December 2006, the Group exercised its pre-emption rights under the Connect M1-A1 Holdings Ltd shareholders' agreement and purchased for £44m, and immediately sold at the same value, its co-shareholder's 50% interest in Connect M1-A1 Holdings Ltd. Funding for the transaction was provided by the ultimate purchaser.

36 Principal subsidiaries, joint ventures and associates

	Group 2006 £m	Group 2005 £m	Country of incorporation or registration
<i>a) Principal subsidiaries</i>			
Building, civil and rail engineering			
Balfour Beatty Civil Engineering Ltd		14	
Balfour Beatty Construction Inc		–	USA
Balfour Beatty Construction Northern Ltd		6	
Balfour Beatty Construction Scottish and Southern Ltd		31	Scotland
Balfour Beatty Group Ltd		4	
Balfour Beatty Infrastructure Services Ltd		–	
Balfour Beatty Management Ltd		–	
Balfour Beatty Power Networks (Distribution Services) Ltd		–	
Balfour Beatty Power Networks Ltd		–	
Balfour Beatty Rail AB		(1)	Sweden
Balfour Beatty Rail GmbH		54	Germany
Balfour Beatty Rail Infrastructure Services Ltd		2	
Balfour Beatty Rail Ltd		56	
Balfour Beatty Rail Projects Ltd		–	
Balfour Beatty Rail Services Inc		56	USA
Balfour Beatty Rail Signal GmbH		–	Germany
Balfour Beatty Rail SpA		–	Italy
Balfour Beatty Rail Track Systems Ltd		–	
Balfour Beatty Refurbishment Ltd		–	
Balfour Beatty Utilities Ltd		–	
Balfour Kilpatrick Ltd		–	Scotland
Balvac Ltd		–	
Birse Build Ltd		323	
Birse Civils Ltd		(8)	
Birse Construction Ltd		(1)	
Birse Group plc*		(18)	
Charter Builders Ltd		–	USA
Cruickshanks Ltd*		43	Scotland
Edgar Allen Ltd		6	
Haden Building Management Ltd		(3)	
Haden Building Services Ltd		46	
Haden Young Ltd		–	
Heery International Inc		14	USA
Heery International Ltd		(29)	
Lonsdale Electric Ltd		(15)	Scotland
Mansell Construction Services Ltd		61	
Mansell plc		46	
Marta Track Constructors Inc		–	USA
Metroplex Corporation		–	USA
National Engineering and Contracting Company		–	USA
Painter Brothers Ltd		–	
Pennine Projects Ltd		–	
Raynesway Construction Ltd		–	
Stent Foundations Ltd		–	

36 Principal subsidiaries, joint ventures and associates continued

	Country of incorporation or registration	Ownership interest %
a) Principal subsidiaries continued		
Investments and developments		
PFI/PPP:		
Balfour Beatty Capital Ltd		
Balfour Beatty Infrastructure Investments Ltd*		
Connect Roads South Tyneside Holdings Ltd		
Connect Roads Sunderland Holdings Ltd		
Property:		
Balfour Beatty Property Ltd*		
Others:		
Balfour Beatty Inc	USA	
Balfour Beatty Investment Holdings Ltd*		
BICC Finance BV	Holland	
BICC Overseas Investments Ltd		
Bruton Investments Ltd		
Delphian Insurance Company Ltd*	Isle of Man	
Fielden & Ashworth Ltd		
Guinea Investments Ltd		
Mayfair Place 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
Devonport Management Ltd*		24.5
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
Trans4m Ltd		25.0
Investments and developments		
PFI/PPP:		
Aberdeen Environmental Services (Holdings) Ltd	Scotland	45.0
Connect M1-A1 Holdings Ltd*		50.0
Connect M77/GSO Holdings Ltd (Note v)		85.0
Connect Roads Ltd* (Note v)		85.0
Consort Healthcare (Birmingham) Holdings Ltd		40.0
Consort Healthcare (Blackburn) Holdings Ltd		50.0
Consort Healthcare (Durham) Holdings Ltd*		50.0
Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd* (Note v)	Scotland	73.9
EDF Energy Powerlink Ltd (Note vi)		10.0
Health Management (UCLH) Holdings Ltd		33.3
Metronet Rail BCV Holdings Ltd		20.0
Metronet Rail SSL Holdings Ltd		20.0
Power Asset Development Company Ltd		25.0
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
Other:		
Thames Power Ltd* (Note iv)		50.0
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:		
East London Line		50.0
Greenbush Railroad Rehabilitation Project	USA	50.0
I-5/I-15 Highway Projects	USA	30.0
La Mesa Light Rail	USA	40.0
M1 Widening Job 6a-10		50.0
Scotland Transerv	Scotland	70.0
SH130 Highway	USA	35.0
South West England Roads		73.0
South East England Roads		60.0
University College London Hospital		50.0
Westminster Transerv		80.0
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) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England. The principal operations of each company are conducted in its country of incorporation.		
(iv) Thames Power Ltd owns 51% of the equity capital in Barking Power Ltd.		
(v) Due to the Connect Roads Ltd, Connect M77/GSO Holdings Ltd and Consort Healthcare (Edinburgh Royal Infirmary) Holdings 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 the Group did not control those companies and they have been accounted for as joint ventures.		
(vi) The Group exercises significant influence through its participation in the management of EDF Energy Powerlink Ltd and therefore accounts for its interest as an associate.		

Notes to the accounts (continued)

36 Principal subsidiaries, joint ventures and associates continued

d) PFI/PPP concessions

Metronet

Summary: Balfour Beatty is a promoter, developer and 20% investor in Metronet Rail BCV Ltd and Metronet Rail SSL Ltd, which are modernising two-thirds of the London Underground.

Project description: Metronet is upgrading, replacing and maintaining infrastructure and procuring the associated financing on the Bakerloo, Central, Victoria and Waterloo & City lines (Metronet Rail BCV Ltd) and the Metropolitan, District, Circle, Hammersmith and City and East London lines (Metronet Rail SSL Ltd).

Contractual arrangements: For each concession the principal contract is a 30 year project agreement with London Underground Ltd (LUL) with a review interval every 7½ years under which the concession company will maintain and upgrade the rolling stock, civil engineering infrastructure and stations on the underground lines for an inflation indexed periodic fee subject to performance related deductions and incentives. Operation of the trains and stations, ticketing and collection of fares remain the responsibility of LUL. The majority of the track renewal work has been subcontracted to Balfour Beatty Rail Projects Ltd. The majority of the civil engineering work and the refurbishment and modernisation of the stations has been subcontracted to Trans4m, a company owned 25% by Balfour Beatty. Replacement of the rolling stock has been subcontracted to another shareholder. All assets transfer to the client LUL 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 2006	Committed post 31 December 2006
Metronet Rail BCV Ltd	London Underground modernisation	£1,783m	20%	April 2003	30	2033	£20m	£15m
Metronet Rail SSL Ltd	London Underground modernisation	£2,108m	20%	April 2003	30	2033	£18m	£17m
		£3,891m					£38m	£32m

Roads

Summary: Balfour Beatty is a promoter, developer and investor in roads projects under Balfour Beatty's Connect Roads 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, the M77 from Fenwick to Malletsheugh 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 and South Tyneside. 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 on 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 Power Networks Ltd. There are no provisions to reprice the contracts and all assets transfer to the client at the end of the concession.

Concession	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2006	Committed post 31 December 2006
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
		£681m					£56m	£5m

36 Principal subsidiaries, joint ventures and associates continued

Hospitals

Summary: Balfour Beatty is a promoter, developer and investor in five hospitals, four of which are under Balfour Beatty's Consort Healthcare brand, comprising the building or refurbishment of hospitals 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 and Queen Elizabeth Hospital Birmingham. Construction is principally 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 and Queen Elizabeth Hospital Birmingham), 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 and Queen Elizabeth Hospital Birmingham, facilities management has been subcontracted to a Balfour Beatty subsidiary, Haden Building Management 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.

Concession company	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2006	Committed post 31 December 2006
Consort Healthcare (Durham) Ltd	District general hospital	£90m	50%	March 1998	30	2001	£7m	–
Consort Healthcare (Edinburgh Royal Infirmary) Ltd	Teaching hospital and medical school	£220m	73.9%	August 1998	30	2003	£40m	–
Consort Healthcare (Blackburn) Ltd	District general hospital	£116m	50%	July 2003	38	2006	£6m	–
Health Management (UCLH) Ltd	University College London teaching hospital	£282m	33.3%	July 2000	40	2008	£9m	–
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	£553m	40%	June 2006	40	2011	–	£23m
		£1,261m					£62m	£23m

Schools

Summary: Balfour Beatty is a promoter, developer and investor in five grouped 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 and 12 schools in Birmingham. Construction in Bassetlaw and North Lanarkshire 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 and on Birmingham, £69m of new build and £5m 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, Haden Building Management 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 2006	Committed post 31 December 2006
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	–	£8m
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
		£553m					£10m	£19m

Notes to the accounts (continued)

36 Principal subsidiaries, joint ventures and associates continued

Other concessions

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

Project descriptions: Aberdeen Environmental Services Limited (AES) has a contract to design, build and finance wastewater treatment facilities in North Eastern Scotland and operate them for the remainder of a 30 year period. The construction is 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 is constructing the new build power assets and leasing them to EDFEPL.

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 LUL 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 has subcontracted construction to a construction joint venture in which a Balfour Beatty subsidiary, Balfour Kilpatrick Ltd, has a 40% interest. There are no provisions to reprice 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 2006	Committed post 31 December 2006
Aberdeen Environmental Services Ltd	Wastewater treatment in North East Scotland	£92m	45%	May 2000	30	2002	£3m	–
EDF Energy Powerlink Ltd/Power Asset Development Company Ltd	London Underground power system	£184m	10%/25%	August 1998	30	2006	£4m	£1m
		£276m					£7m	£1m
							£173m	£80m