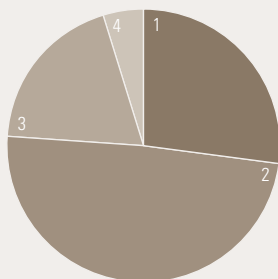


## Directors' valuation of PPP concessions

### Our portfolio

Total equity committed by sector

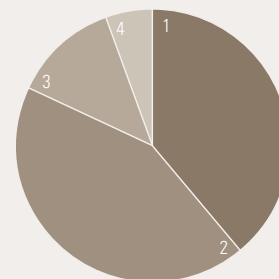
	2007	2006
1 Connect: 8 projects	£68m	£63m
2 Consort: 9 projects	£123m	£113m
3 Transform: 7 projects	£48m	£50m
4 Other: 3 projects	£12m	£8m
	£251m	£234m



### Our portfolio

Cash invested by December 2007

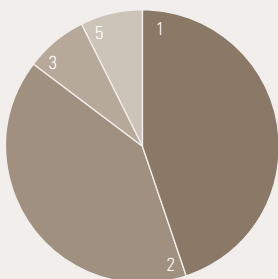
	2007	2006
1 Connect: 8 projects	£56m	£56m
2 Consort: 9 projects	£62m	£62m
3 Transform: 7 projects	£18m	£10m
4 Other: 3 projects	£8m	£7m
	£144m	£135m



### Portfolio valuation: December 2007

Value by sector

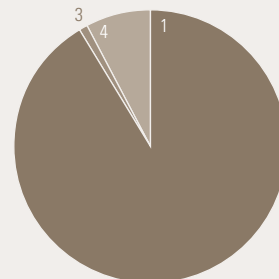
	2007	2006
1 Connect	£134m	£113m
2 Consort	£121m	£138m
3 Transform	£22m	£13m
4 Metronet	–	£59m
5 Other	£22m	£18m
	£299m	£341m



### Portfolio valuation: December 2007

Value by phase

	2007	2006
1 Operations	£273m	£264m
2 Metronet	–	£59m
3 Preferred bidder	£3m	£6m
4 Construction	£23m	£12m
	£299m	£341m



### Directors' valuation – movement in value 2006/2007 (£m)

2006	Equity invested	Distributions	Unwind of discount	Rebased	New projects at preferred bidder	Preferred bidder projects achieving financial close	Operational performance gains	Metronet	2007	Growth
341	40	(77)	20	324	3	5	58	(91)	299	(7.7%)

### Alternative valuation – movement in value 2006/2007 (£m)

2006	Equity invested	Distributions	Unwind of discount	Rebased	New projects at preferred bidder	Preferred bidder projects achieving financial close	Operational performance gains	Metronet	2007	Growth
506	40	(81)	22	487	17	21	32	(91)	466	(4.3%)

### Introduction

Balfour Beatty's PPP concession portfolio has grown in recent years to become a very significant part of the Group's business and a major driver of shareholder value. At 31 December 2007, Balfour Beatty had total committed equity and subordinated debt of £251m across 27 continuing projects, four of which were at preferred bidder stage. At that date, £144m had already been invested and £107m is due over the next six years. The book value of PPP investments at 31 December 2007 was £209m (2006: £314m).

Valuations of PPP equity often rely on the use of multiples to produce a proxy cash flow valuation. This produces somewhat crude benchmarks as such an approach takes no account of the time value of money, expected rate of return of the asset, the performance of the asset or the potential for capital restructuring.

In order to provide a more reliable indicator of value, Balfour Beatty has decided to publish its own valuation benchmark for the Group's PPP investments, based largely on discounting expected future cash flows but without taking into account potential refinancing gains. The valuations do not include Balfour Beatty's non-PPP infrastructure investments in Barking Power and Exeter International Airport.

### Distributions

Value from the portfolio was realised during 2007 through a series of distributions from the concessions, of which the most significant was £47m from the refinancing of Consort Healthcare's Edinburgh Royal Infirmary.

### Operational performance gains

Operational performance gains arise principally from reduced financing costs resulting from refinancing in the year and operational improvements identified in the year leading to a revision of future cost estimates.

### Metronet

Metronet was included at its book value of £59m in the 2006 Directors' valuation. In 2007, the remaining committed equity of £32m was invested, there was £1m of negative reserve movements and the remaining balance of £90m was written off. Metronet has been removed from the committed equity and invested cash amounts as it is now a discontinued operation.

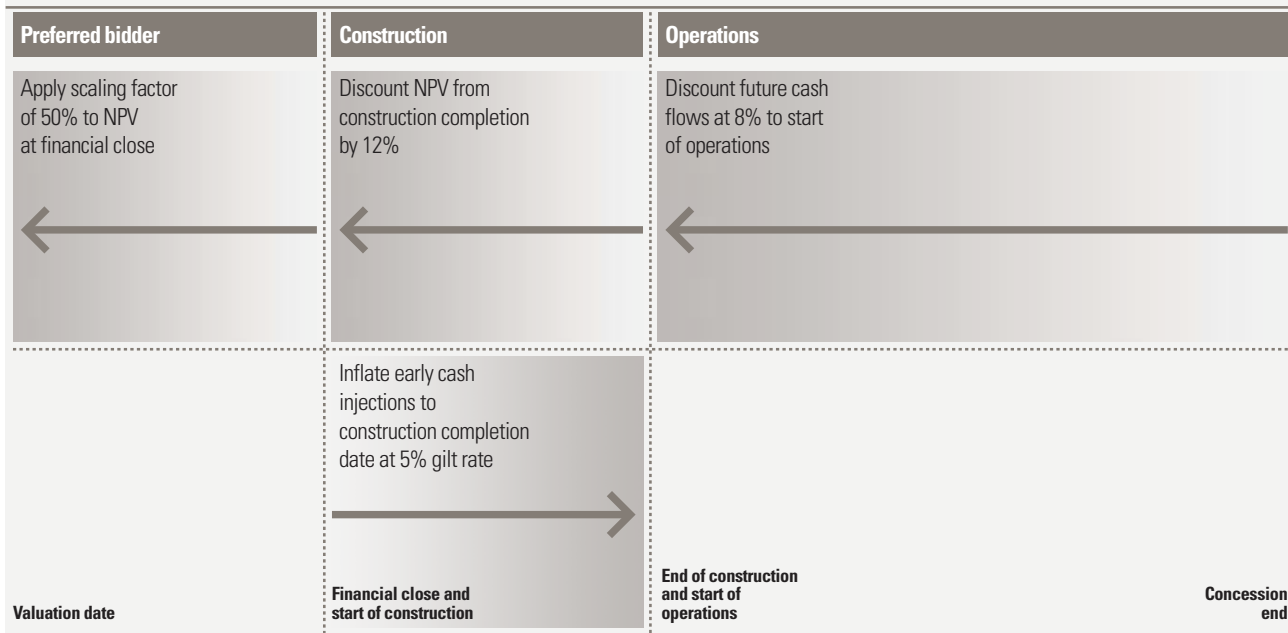
### DCF methodology

The DCF methodology discounts forecast cash flows at differing discount rates depending on the project phase, and therefore the risk associated with the cash flows.

- Any investment cash flows occurring during the construction period are rolled forward at a risk-free rate (5%) to the final injection of equity at construction completion.
- Cash flows, anticipated to occur during the operations period, are discounted back to the beginning of the operations phase at 8%.

- A net present value is calculated at the end of the construction period by deducting the investment cash flows that occur at this time from the value of the discounted cash flows at the beginning of operations.
- The net present value at the end of the construction period is then discounted back to financial close at 12%.
- Any projects at preferred bidder have a scaling factor of 50% applied to the NPV at financial close.

A diagrammatic illustration of the process is shown below.



### Directors' valuation

At 31 December 2007, the Directors' valuation of Balfour Beatty's portfolio stood at £299m, at a weighted average, post-tax nominal discount rate of 8.1% (2006: £341m at 8.1%). The movement in value arises through shareholder cash inflows and outflows and through underlying growth in the portfolio arising from the unwinding of the discount from year to year. A 1% change in the discount rate impacts value by approximately £35m.

### Alternative valuation

In response to the increased importance of infrastructure investment, Balfour Beatty is also providing an alternative valuation. This method uses DCF to value the portfolio but applies a single discount rate of 6% to the cash flows excluding shareholder tax. This methodology has been used for all the concessions, both at financial close and preferred bidder. Using this methodology, the valuation of Balfour Beatty's portfolio as at 31 December 2007 stood at £466m (2006: £506m). The 2006 comparator valuation includes Metronet (£59m) and Powerlink (£7m) at book values. A 1% change in the discount rate impacts value by approximately £65m.

### The Directors' valuation methodology

The valuation does not set out to estimate the realisable value of the investments in the portfolio, but rather, through the application of a consistent methodology, illustrates movements in underlying values between periods and highlights the impact of intervening transactions. The valuation covers 23 concessions that have reached financial close and four at preferred bidder stage. One of two methods has been used to establish the value of individual concessions.

### DCF

The principal method used to value the portfolio is discounted cash flow (DCF). This is applied to the future forecast cash flows to which Balfour Beatty as a shareholder and a holder of subordinated debt is entitled in order to create a net present value (NPV). DCF has been used on all the investments in 2007. For projects which have reached financial close, forecast future cash flows are extracted from detailed financial models, updated in line with operational experience and lenders' requirements. For projects at preferred bidder stage, the current financial model has been used.

### Book value

In 2006 the Metronet (£59m) and Powerlink (£7m) concessions were included at the current carrying value in the accounts (book value). Metronet has now been written off and discussions with London Underground on Powerlink have concluded such that the cash flows now have a sufficient degree of certainty for the concession to be valued using DCF. Accordingly no concessions have been included in the 2007 valuation at book value. Moving from a book value to a DCF valuation of Powerlink increased its Directors' valuation in 2007 from £7m to £10m.

### Assurance

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