Balfour Beatty plc
Annual report and accounts 2003

Balfour Beatty. The creation and care of essential assets.

2003

Performance highlights

Pre-tax profits:* up by 10% to £130m

Earnings per share:* up by 28% to 20.6p

Net cash: up from £67m to £124m

Order book: up by 14% to £5.8bn

Dividends: up by 11% to 6.0p

*before amortisation of goodwill £17m (2002: £21m) and exceptional items £5m credit (2002: £9m charge) which reconciles with profit before tax, but after goodwill amortisation and exceptional items, of £118m (2002: £88m).

Contents

Balfour Beatty is a world-class engineering, construction and services group, well positioned in infrastructure markets which offer significant long-term growth potential...

A Healthy Balance.

As a leader in Public Private Partnership hospitals, the LIFT programme and PROCURE 21, Balfour Beatty is playing a central role in modernising healthcare provision in the UK.

Running the most advanced teaching hospital in Europe

Haden Building Management, the Group's building and facilities management specialist, is responsible for full non-clinical service provision under the 25-year PPP concession for the new Edinburgh Royal Infirmary and Medical School.

Building a new hospital for London

The construction of the new £220m, 669-bed University College London Teaching Hospital is on budget and on schedule for a first-phase opening in 2005.

Supporting the new health programme

The Local Improvement Finance Trust (LIFT) programme will radically improve local healthcare provision and patient care. Balfour Beatty is active on the East London scheme and is preferred bidder for over £100m further LIFT contracts.

Developing Houston's school stock

Heery is a US leader in managing school design and construction programmes. In July 2003, it signed its third major contract with the Houston Independent Schools District, which includes five new schools, the expansion of seven more and major renovation works at a further 16.

Working in partnership for West Yorkshire

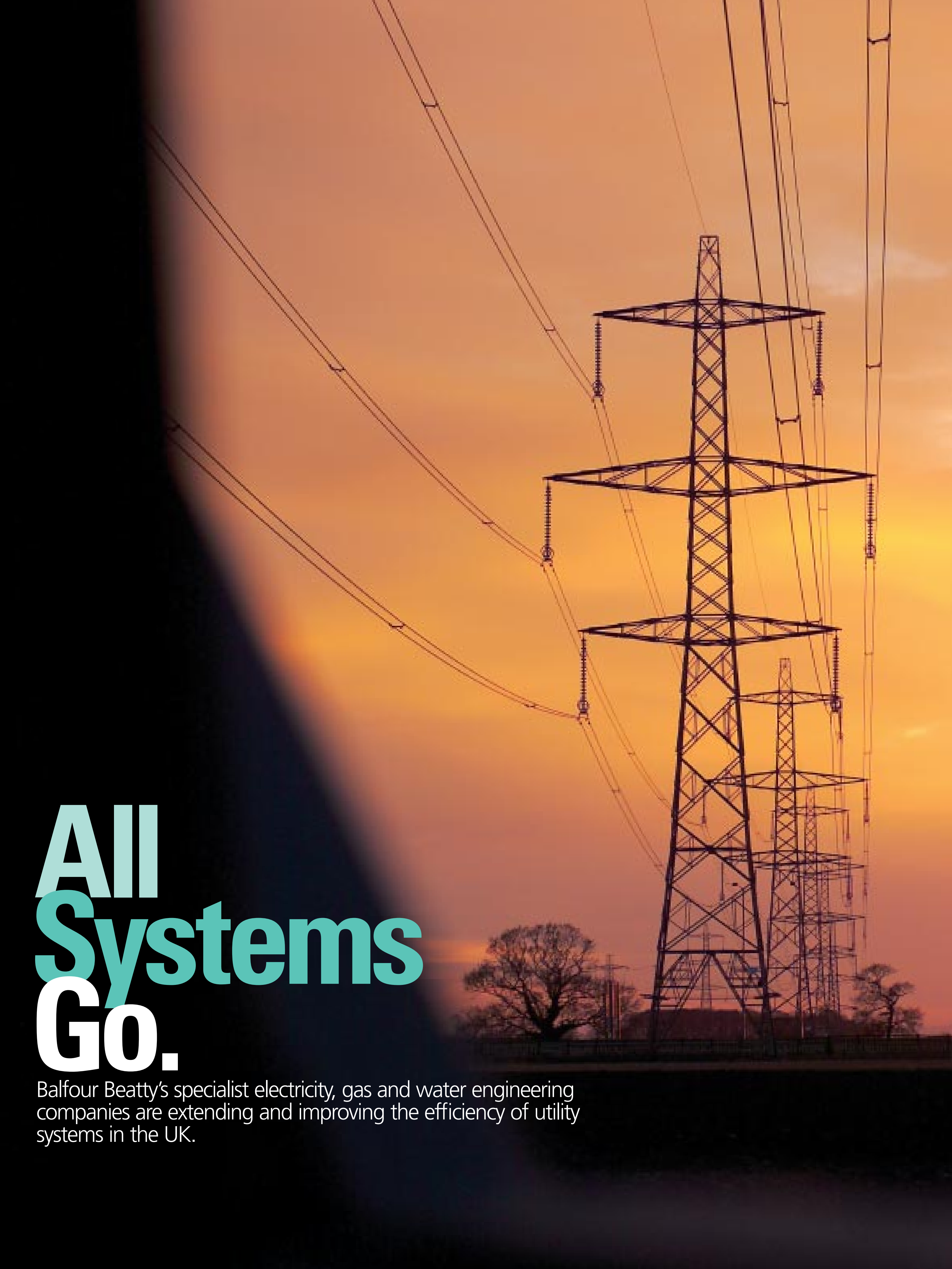
Through its ongoing partnership with Babcock and Brown, Balfour Beatty is building four new secondary schools and a new primary school in Calderdale, West Yorkshire.

Transforming Stoke's educational facilities

Through its PPP vehicle, Transform Schools, Balfour Beatty is modernising and maintaining the entire school stock within the six towns of Stoke-on-Trent. Eight new schools have already been delivered, with over 60 already successfully upgraded.

In both the UK and the US Balfour Beatty's design, management, construction and service skills are playing a critical role in improving educational facilities.

Top of the Class.



All Systems Go.

Balfour Beatty's specialist electricity, gas and water engineering companies are extending and improving the efficiency of utility systems in the UK.

Strengthening the National Grid

Balfour Beatty worked closely with National Grid to survey, design and construct a new 400 kV transmission line through the Vale of York. The £56 million project was delivered and fully energised on time and on budget at the end of October 2003.

Supporting Transco's infrastructure development

Balfour Beatty designs, installs, tests and commissions gas mains including the use of advanced no-dig technology, in support of Transco's new build, upgrade and maintenance programme.

Managing water distribution and disposal

Balfour Beatty repairs and maintains over 31,000 kilometres of the UK's clean water mains, 21,000 kilometres of its sewer system and supports consumer services to over 4m homes and businesses.

Balfour Beatty is the world's largest rail fixed infrastructure contractor and a specialist in constructing and maintaining airports and airport facilities.

Planes, Trains...

Restoring New York's rail network

Balfour Beatty completed the challenging high-profile project for new track installation and rail electrification as part of the new infrastructure at the World Trade Centre site in New York in the summer of 2003.

Bringing Italy's cities closer together

Balfour Beatty completed the design and construction work for the high-speed electrification of the system for the Rome-Naples rail line and is now well advanced with a similar project for the 125 kilometre Milan to Turin line.

Extending the world's busiest international airport

Balfour Beatty companies are responsible for the construction and fit-out of the new railway station, trackwork, traction power and mechanical and electrical works for the new rail link at Heathrow's Terminal 5. In addition we are widening the adjacent motorway and constructing a new spur road.

Keeping the UK's arteries open

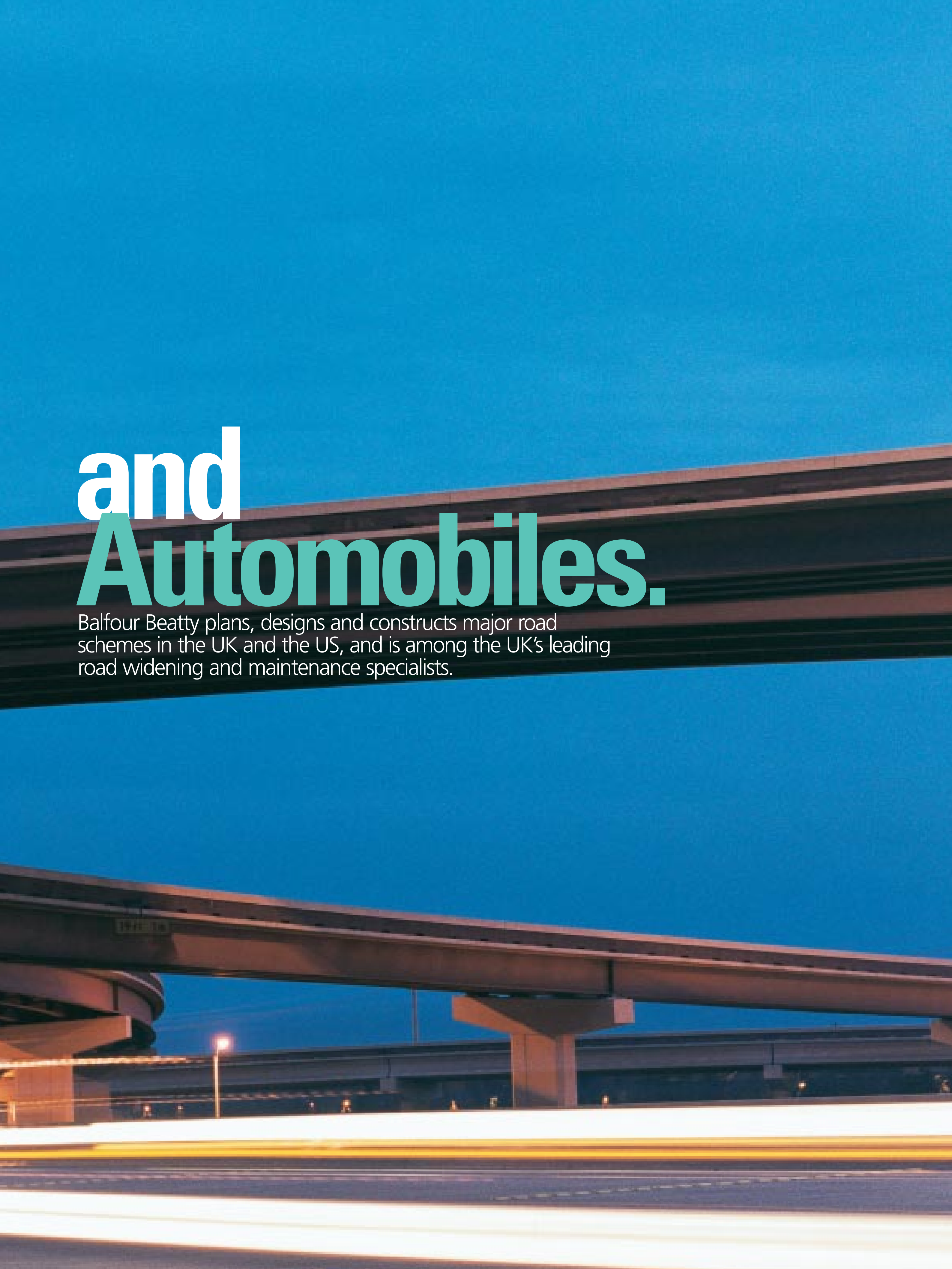
RCS, the Group's road management and maintenance arm, is responsible for trunk road and motorway maintenance across a large portion of southern England, including winter maintenance, incident management, street lighting schemes, bridge works and barrier and sign maintenance and repair.

Protecting a world famous landmark

Balfour Beatty is working with the Highways Agency and a wide range of special interest groups to plan, design and construct a new road system which will take traffic and its impacts away from the Stonehenge monument.

Opening up the Lone Star State

Balfour Beatty is currently ahead of schedule in building the $87m state highway interchange in Dallas, Texas, due to open in November 2006. Also in its early stages for the Texas Department of Transportation is the Group's joint venture $1.4bn, 90-mile SH130 toll road.



and Automobiles.

Balfour Beatty plans, designs and constructs major road schemes in the UK and the US, and is among the UK's leading road widening and maintenance specialists.

Working together to keep the mail on the move

Through Romec, Balfour Beatty is providing a full range of management and maintenance services from the installation and maintenance of sophisticated security systems to office cleaning for all of the Royal Mail's 3,000 plus buildings.

Helping communities to improve their quality of life

Through Mansell, its recent acquisition, Balfour Beatty works with a range of the UK's registered social landlords and local authorities to deliver national and regional development and regeneration programmes using a number of locally-based specialist delivery teams.

Delivering a world-class underground system for London

Balfour Beatty and its four co-owners of Metronet are responsible in partnership with London Underground for upgrading, replacing and maintaining two-thirds of London Underground's critical infrastructure.

All For One.

Balfour Beatty is committed to the concept of working in partnership with its customers and other supply chain parties, making it a natural choice for long-term relationship contracts.

Balfour Beatty serves the international markets for rail, road and utility systems, buildings and complex structures.

Group structure

Building, Building Management and Services

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

Companies
- Andover Controls
- Balfour Beatty Construction
- Balfour Kilpatrick
- Haden Building Management
- Haden Young
- Heery International
- Mansell

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

See pages 22-23

Civil and Specialist Engineering and Services

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

Companies
- Balfour Beatty Civil Engineering
- Balfour Beatty Construction Inc
- Balfour Beatty International
- Balfour Beatty Management
- Balfour Beatty Power Networks
- Balfour Beatty Utilities
- Lounsdale Electric
- RCS
- Stent Foundations
- Devonport Management Ltd (24.5%)

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

See pages 24-25

Rail Engineering and Services

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

Companies
- Balfour Beatty Rail
- – Infrastructure Services
- – Projects
- – Power Systems
- – Track Systems
- – Plant
- – Technologies
- Balfour Beatty Rail Inc
- – Balfour Beatty Rail Maintenance Inc
- – Balfour Beatty Rail Systems Inc
- – Marta Track Constructors Inc
- – Metroplex Corporation

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

See pages 26-27

Investments and Developments

Balfour Beatty promotes and invests in privately funded infrastructure projects and developments in selected sectors.

Companies
- Balfour Beatty Capital Projects
- – Aberdeen Environmental Services (45%)
- – Connect (roads)
- – Consort (healthcare) (50% Durham, Blackburn: 42.5% ERI)
- – Health Management (UCLH) (33%)
- – Metronet (rail) (20%)
- – Seeboard Powerlink (10%) PADCO (25%) (electricity)
- – SBB Street Lighting
- – Transform Schools (50%)
- – Yorkshire Link (roads) (50%)
- Balfour Beatty Property
- Barking Power Ltd (25.5%)

Specialist areas
- Roads
- Rail
- Accommodation – Healthcare, Education
- Water
- Integrated Transport
- Power Systems
- Property

See pages 28-29

Our aim is to create long-term shareholder value by providing engineering, construction and service skills to customers for whom infrastructure quality, efficiency and reliability are critical. We seek to operate safely and sustainably.

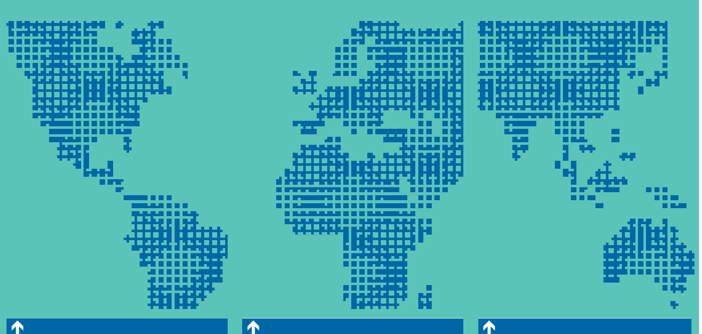
Highlights of the year

- Pre-tax profits* up 10%. Earnings per share* up 28%
- Strong cash position and excellent operating cash flow
- Total ordinary dividends increased by 11%
- Order book of £5.8bn, much of it in long-term contracts
- Two London Underground PPP concessions reach financial close
- Four further PPP concessions converted to contract
- Acquisition of Mansell, a leading UK construction and construction services company

Financial summary

	2003	2002
Turnover	£3,678m	£3,441m
Operating profits*	£161m	£149m
Profit before interest	£149m	£119m
Pre-tax profits*	£130m	£118m
Earnings per share*	20.6p	16.1p
Dividends per ordinary share	6.0p	5.4p
Exceptional items	£5m	(£9m)
Net cash	£124m	£67m

Turnover by destination



US
£476m

South America
£3m

UK
£2,749m

Europe
£268m

Africa, Middle East, Near East
£68m

Asia Pacific
£114m

*before amortisation of goodwill £17m (2002: £21m) and exceptional items £5m credit (2002: £9m charge) which reconciles with profit before tax, but after goodwill amortisation and exceptional items, of £118m (2002: £88m).

Chairman's statement
Sir David John

With our profound fund of experience, world-class skills, disciplined people and professional processes, Balfour Beatty can continue to grow reliably and responsibly.

The Company
In this, my first annual statement to shareholders as your Chairman, I am pleased to be able to report a further year of sound progress both in performance and in developing the platform for the Group's continuing long-term success.

This is the fourth consecutive year in which Balfour Beatty has achieved strong growth in both profits and earnings before goodwill amortisation and exceptional items. I am pleased to be able to confirm to shareholders that this growth has been achieved in parallel with significant enhancement of long-term shareholder value.

Once again, the strength of our cash position clearly underpins the quality of our profits. We are widely acknowledged as a world-class engineering, construction and services group, well-positioned in infrastructure markets which offer significant growth potential. Our many strong partnerships with public and private sector customers generate secure long-term income. Our cash position gives us considerable flexibility to add new capacity and expertise to the business mix and to make appropriate investments.

In our growing portfolio of PPP investments and our order book of £5.8bn, we already have the core elements for successful future growth.

I intend to ensure that the sound principles which have given us this position are maintained under my Chairmanship. You will continue to see a thorough evaluation of which contracts we bid for and which acquisitions and investments we pursue, sound engineering judgements, close attention to cash management and prudence in accounting.

We will continue to make decisions which, in all cases, are aimed at improving long-term shareholder value and, most important of all, maintaining the integrity and professionalism in all that we do.

The Board
The Balfour Beatty Board has seen significant change in recent years and, despite having joined the Board as recently as August 2000, I am the longest serving non-executive Director. Viscount Weir, Chairman of the Board since 1996 and a non-executive Director since 1977, retired at the AGM in May. We are delighted that he has accepted our invitation to become Honorary Life President of the Company.

Viscount Weir was at the centre of this Company's major transformation in the late 1990s which saw our worldwide cables business divested and the successful establishment of Balfour Beatty as an independent public company. The Company owes him a great debt for his strong leadership during this challenging period. I also offer sincere thanks to Christopher Reeves who retired from the Board at the AGM after 21 years as a non-executive Director and to Udo Stark, a non-executive Director since 1995. Malcolm Eckersall retired from the Board and from the Company as an executive Director during the year.

I was pleased to welcome Christoph von Rohr, chairman of the German Institute for Market Economy and Competition, Chalmers Carr, senior counsel to Standard Chartered Bank, and Gordon Sage, deputy chairman of ERM Holdings Ltd, the environmental services company, to the Board as non-executive Directors during the year.

The particular areas of expertise of each of the non-executive Directors is discussed in the Directors' report.

Corporate governance

During 2003, a thorough review of Balfour Beatty's responsibilities under the Higgs recommendations and the Combined Code was undertaken and detailed reference to our systems and procedures is laid out in the Directors' report. With the appointment of Robert Walvis as senior independent non-executive Director, and the creation of separate Nomination and Remuneration Committees under different chairmen, I believe we are fully compliant with recognised regulation.

Balfour Beatty people

The main asset of this Company is a strong cadre of talented, highly-motivated people who are expert and experienced in delivering our customers' requirements. I believe that our management systems and our remuneration policies and practices offer the right mix of disciplines and incentives to ensure the many excellent people in the organisation give of their best on a consistent basis.

I am sure shareholders will wish to join me in thanking our people for all their efforts and achievements in 2003.

We currently have a major management succession and development review under way to ensure we maintain and improve the flow of talented people into and through the organisation. We are also one of the industry's principal recruiters of graduates both from engineering and other disciplines. Much attention is given to these important tasks.

Our social responsibilities

The Company takes the full range of its responsibilities to society very seriously. Our close attention to the safety of our employees saw another year of progress in reducing our accident frequency rate. We now have a full range of measures in place to assess the environmental impact of our activities and to help us manage this aspect of our business more effectively. We are beginning to broaden our long-term customer relationships beyond their commercial dimension on a more consistent basis and to increase the frequency and depth of our dialogue with the full range of our stakeholders.

As chairman of our Business Practices Committee, I take a direct personal interest in these matters which will be fully reported in our third Safety, Environment and Social Report in May.

The way ahead

Our business is intimately linked to the provision of large-scale, infrastructure, principally for public sector customers, both in the UK and overseas. These are environments which inevitably bring challenges and difficulties, as well as great opportunity. I believe that Balfour Beatty, with our profound fund of experience, world-class skills, disciplined people and professional processes, can continue to grow reliably and responsibly in 2004 and future years.

Sir David John Chairman

Chief Executive's review
Mike Welton

2003 was another year of achievement in pursuit of our key objective of sustainable growth.

Performance/results
In 2003, pre-tax, pre-exceptional profits before the amortisation of goodwill rose by 10% to £130m (2002: £118m) on turnover up 7% at £3.678bn (2002: £3.441bn). These results were achieved after an increase of £9m in pension charges, which impacted the building, engineering and rail sector results. Earnings per share before amortisation of goodwill and exceptional items rose by 28% to 20.6p (2002: 16.1p), in part reflecting a reduced tax charge arising from the release of Advance Corporation Tax credits. A final dividend of 3.4p is proposed, making a total dividend for the year of 6.0p (2002: 5.4p) per ordinary share.

£17m was charged to the profit and loss account in respect of goodwill amortisation arising from acquisitions (2002: £21m).

There were a number of exceptional items. Provision was made for anticipated costs arising from the termination of three Network Rail maintenance contracts, losses on the disposal of the Group's investment in Garanti Balfour Beatty in Turkey and for certain residual liabilities in respect of BICC's US cables business sold in 1999. However, exceptional profits from the sale of an operating facility together with compensation payments for loss of the use of this facility, led to a net exceptional profit for the year of £5m (2002: £9m exceptional loss).

Profit before tax, but after goodwill amortisation and exceptional items, was £118m (2002: £88m).

Operating cash flow was, once again, strong and, after payments in respect of the acquisition of Mansell, year-end net cash rose to £124m (2002: £67m).

The year in summary
2003 was another year of achievement in pursuit of our key objective of sustainable growth. Profit and earnings growth was satisfactory. Once again, our operating cash flow was strong, fully underpinning profits, reflecting our maintained focus on working capital at a time of increasing sales volumes.

Operational highlights
- Metronet Public Private Partnerships with London Underground reach financial close
- Work starts on four other new PPP concessions
- Mansell, the leading UK construction and construction services company, acquired for £43m
- Preferred bidder for £521m Birmingham Hospital

Turnover
£3.68bn

Balfour Beatty's sales are expected to exceed £4bn for the first time in 2004.

Earnings per share
20.6p

Earnings per share before exceptional items and goodwill amortisation have approximately doubled over the last three years.

In the 12 months to the end of 2003, our order book grew by 14% to £5.8bn. The principal contributory factor was the conversion of six Public Private Partnership (PPP) concessions from preferred bidder to financial and contractual close. By far the largest of these were the two London Underground PPPs for the Sub-Surface Lines and the Bakerloo, Central and Victoria lines. With our 20% interest in the Metronet concession companies came some £1.2bn of track replacement, civil engineering and station refurbishment orders, spread over the next seven years. A further £0.4bn of orders were received through the PPP contracts for the M77 motorway in Scotland, Rotherham Schools, Blackburn Hospital and the Sunderland Street Lighting project.

We also secured good long-term contracts for road construction, widening and maintenance in the UK and railway electrification work around Europe, and were appointed as preferred bidder for both new rail renewals and power upgrade projects by Network Rail. The Group is carrying out over £180m of project work in respect of Heathrow's Terminal 5.

Shortly after the turn of the year, our PPP healthcare vehicle, Consort, was appointed preferred bidder for the £521m Birmingham Hospital project, which is scheduled to reach financial close in March 2005.

In contrast, rail maintenance work under contracts for Network Rail's Kent and Anglia regions, previously due to run to March 2006, will now terminate in 2004. Our contract for Wessex reverted to Network Rail towards the end of 2003. The decision to terminate these contracts early as part of a comprehensive change in Network Rail policy was both surprising and disappointing, not least because we had worked hard as Network Rail's development partner in pioneering new contract forms. We are, however, co-operating fully with Network Rail in the safe and efficient handover of these contracts.

The year was not without its difficulties. Both our East Coast civil engineering business in the US and our UK utilities business had significant challenges to face. However, both businesses finished the year with their performance on an improving trend.

In July, manslaughter charges and charges under the Health and Safety At Work Act were brought against former employees of Balfour Beatty Rail Infrastructure Services and that company itself in respect of the tragic rail accident at Hatfield in October 2000. We see no justification for manslaughter charges to be brought against our maintenance business or its former employees. The company will firmly defend itself against these allegations and provide the fullest support to its ex-employees in respect of the charges against them.

The year ended positively when we completed the acquisition of Mansell, a leading UK construction and construction services company, for a total consideration of £43m. Mansell, with annual sales of over £500m, is a profitable, well-managed company with excellent market positions in social housing, refurbishment, fit-out and other construction disciplines. Its business mix in terms of geography, sector and project size is highly complementary to our existing UK building business, Balfour Beatty Construction.

Mansell was founded in 1908, the year prior to the foundation of Balfour Beatty. Its successful early growth has been accelerated by acquisition, including, in 1997, Hall & Tawse, another company with a history of successful growth stretching back to the early part of the 20th century. We look forward to the continuing expansion of Mansell from its existing firm foundations.

Segmental performance*

In Building, Building Management and Services, profits were down by 2% at £45m (2002: £46m). Performance was steady in UK building construction and building services and in US construction and programme management. Profits from facilities management improved, but were offset by the impact of a slow first half for the building management and security controls markets in the US.

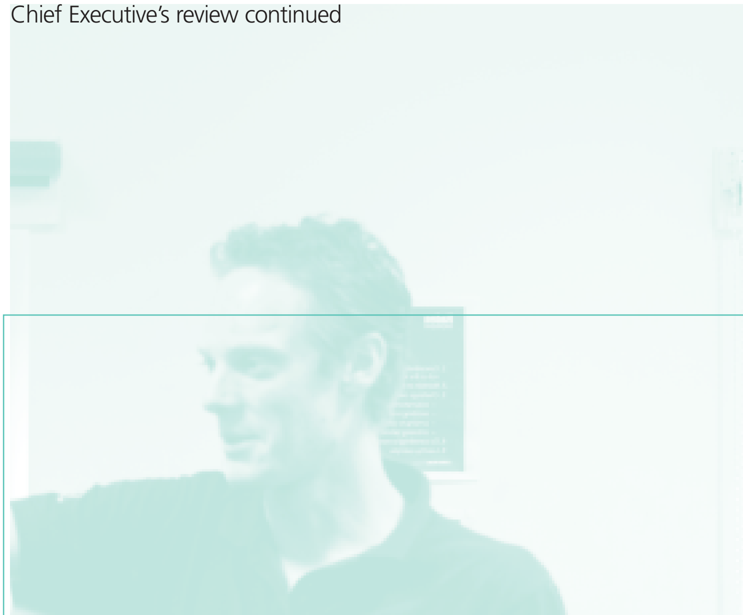
All the UK businesses responded successfully to the increasing market demand for bigger, more complex projects and forward order books rose significantly as a result.

MANSELL

The Mansell acquisition

The acquisition offers Balfour Beatty entry into important growth markets and delivers a wide range of long-term blue-chip customer relationships.

*Before amortisation of goodwill and exceptional items (see Notes 2a and 4).



In Civil and Specialist Engineering and Services, profits improved by 24% to £21m (2002: £17m). Performance in UK major projects, regional civil engineering, power engineering, road maintenance and in Devonport Management was good. Progress was also made in reducing the losses in US civil engineering, although some claim settlements previously anticipated in 2003 were delayed. In Balfour Beatty Utilities, the cost of integrating Kentons and John Kennedy and some contract issues adversely affected performance in that sector but, as in the US, the year ended on an improving trend.

In Rail Engineering and Services, profits increased by 11% to £41m (2002: £37m). This reflected a particularly strong second half year with continuing good performance from the Group's German-based rail power systems business, particularly in Italy. There were also good performances in UK maintenance, track renewals and systems, plant and major projects, and some successful settlements on UK projects.

Preferred bidder status was secured on both major UK track renewals work and the Southern Region power upgrade project, while the sector order book increased substantially as a result of the award of the £500m contract for the new trackwork for Metronet under the London Underground PPPs. A small acquisition was made in Germany in early 2004 to enhance the Group's capacity to serve Deutsche Bahn.

Profits in Investments and Developments improved by 10% to £54m (2002: £49m). Continued growth in existing concession income was augmented by a first contribution in line with budget from the Group's investment, through Metronet, in the London Underground PPPs. This more than offset the anticipated fall in profits at Barking Power where, following, the entry into administration of TXU Europe, some 28% of the station's output is now sold on the spot market.

Developing our strategy

In 2003, we carried out a major Board level strategic review. Most of our business is undertaken in the UK. Our customers are, principally, in the public and utility sectors. The great majority of our UK businesses are amongst their sector market leaders and our footprint across the supply chain from design to whole-life operation and management shows few significant gaps.

We have the capacity to service increased demand for integrated skills and services in each of our four business segments. We also are responding to a PPP concession market which continues to grow and to generate the complex large-scale contracting work at which we excel. We are well placed to respond to increasing demands for outsourced services. We have created Balfour Beatty Management to service the strategic and project management requirements of our major infrastructure customers. These factors offer good scope for medium-term organic growth.

Looking to the longer term, in the US we have some of the building blocks already in place to create a presence of the same scale and constituency as our UK business. A new US senior management team, recruited over the last 12 months, is charged with identifying, developing and executing opportunities to move our US business in that direction.

Our rail skills, anchored by our strong domestic positions in the UK, Germany and Italy, are transportable internationally. Our strong presence, usually on a single discipline basis in a large number of national rail markets such as Spain, Sweden, Austria, Greece, Malaysia and China, offers scope for broadening our rail footprint in a number of territories.

Continued selective investment in PPP concessions both in the UK and elsewhere offers another source of long-term growth.

Strategy

During 2003 a major Board level strategic review was undertaken and a clear way forward determined for the Group.

Overall, we expect to see further growth in 2004 and to make progress accordingly.

Our strongly positive cash position and the cash generative capacity of our existing business mix gives us the flexibility and confidence to pursue selected bolt-on opportunities. The successful integration of new businesses into the Group and the availability of key management talent to achieve this are key priorities.

In any event, our focus remains firmly on a small number of simple but critical management priorities. We aim to sustain earnings growth. We will manage our working capital closely. We will maintain strong financial controls and account prudently. We will keep our businesses focused on areas where we have existing expertise and can sustain competitive advantage. We will take contracts and make investments only where the best interests of our shareholders are demonstrably served.

Safety and the environment

Balfour Beatty's determination to continuously improve the safety of its people resulted in a 17% fall in accident frequency rate (AFR) in 2003. Over the last 10 years, the Group's AFR has improved significantly despite a 160% increase in numbers of employees and subcontracted staff and the acquisition and integration of over 20 new businesses during the period. In the unfortunate event of a fatality or other serious incident, a very detailed Board level review is undertaken and improvements to processes and practices are made in the light of the findings, as appropriate.

2003 marked the second year of the detailed measurement, in the UK, of our principal environmental impacts and a first set of data returns from outside the UK. A fourth year of detailed benchmarking of operating company policies and practices revealed further across-the-board improvements in the engagement of our UK operating companies in environmental management and the embeddedness of their systems. Our overseas operations were benchmarked for the first time in 2003.

Outlook

A very significant proportion of anticipated current year UK work has already been secured and longer-term order books are also healthy despite the disappointing developments in UK rail maintenance.

During 2004, pension charges will increase further. Barking Power should see the first recoveries, from the administrator, of monies owed as a result of the demise of TXU Europe.

In the Building sector, the addition of Mansell should see progress made during the year. In Engineering, UK markets should continue to develop positively and, with improving performance in the US and from UK utilities, we are confident that this sector, too, should provide forward momentum in 2004.

Our Rail business performed particularly strongly in the second half of 2003. It is an acknowledged world leader with excellent positions in a number of national markets. UK volumes are likely to be reduced in 2004, reflecting the changes in UK maintenance, and sector performance is likely to be broadly in line with 2003.

In Investments, a full year of Metronet and continuing improvements in existing concession performance should ensure progress.

Overall, we expect to see further growth in 2004 and to make progress accordingly.

Mike Welton Chief Executive

Metronet

£1.2bn

At financial close, in April 2003, the Metronet London Underground PPPs brought £1.2bn of construction contracts to the Group.

PPP investment

£180m

The Group has £180m of committed equity investment in 16 UK PPP schemes.

Corporate responsibility and the environment

Balfour Beatty's Safety, Environment and Social Report will be published in May. It will be available by application to the Company and online at www.balfourbeatty.com.

Corporate responsibility is a fundamental part of modern business management. We continue to make progress in safety and environmental management and in fulfilling our wider responsibilities as a corporate citizen.

Building, Building Management and Services

2003 performance

Profits* in the Building, Building Management and Services sector were down by 2% at £45m. Performance was steady in UK building construction and building services and in US construction and programme management. Profits from facilities management improved, but were offset by the impact of a slow first half for the building management and security controls markets in the US.

All the UK businesses responded successfully to the increasing market demand for bigger, more complex projects and forward order books rose significantly as a result. At the end of the year, the £43m acquisition of Mansell added a substantial and high-quality presence in the refurbishment, fit-out and social housing markets.

*Before £2.8m goodwill amortisation.

Review of operations

Heery, the US-based architectural, engineering and programme management business, again performed well in a flat market. The progressive shift of its business towards the public sector, particularly in the education, health and justice sectors continued as did a clear focus on cost-efficiencies.

Amongst many notable contract wins were those for the City of St Lawrence High School in Massachusetts, a new baseball complex in North Carolina and a 130,000 sq. ft. expansion of Atlanta's Shepherd Centre.

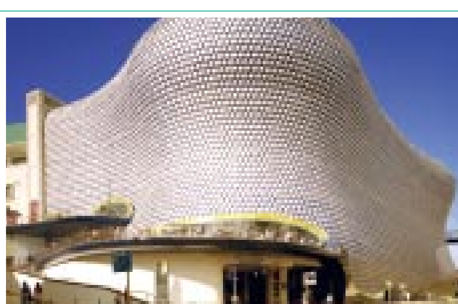
Balfour Beatty Construction (BBCL) again performed well despite some PPP preferred bidder positions suffering delay in reaching financial close. The trend towards larger, more complex projects has improved future workload visibility. At the year end, the BBCL order book stood at over £630m with over £150m more, at preferred bidder stage, including five Local Improvement Finance Trust projects (LIFT).

Major successes during the year were contract wins for the London Underground station refurbishment for Metronet, the new rail station at Heathrow Terminal 5, Blackburn Hospital, Rotherham Schools, Calderdale Schools and the new medical research institute at the Edinburgh Royal Infirmary. Good progress was made on other major projects, including Waverleygate in Edinburgh, accommodation projects for the MoD and University College London Hospital.

Mansell joined the Group at the end of the year. As one of the UK's leading construction and construction services companies, its business mix in terms of geography, sector and project size is highly complementary to Balfour Beatty Construction.

Project summary

Selfridges, Birmingham
Haden Young completed core electrical and mechanical and fit-out services at the new Selfridges store in Birmingham.



HMS Nelson
Balfour Beatty Construction has made good progress on Ministry of Defence accommodation projects, including HMS Nelson.

Palace of Westminster
Balfour Kilpatrick completed complex new electrical works at the Palace of Westminster during the year.

Denver Art Museum
Andover Controls provided the high-security and environmental control systems to protect the exhibits at the Denver Art Museum.

Highlights

Acquisition of Mansell for £43m

Work on Blackburn Hospital and Rotherham and Calderdale Schools PPPs commences

Preferred bidder for £521m Birmingham Hospital PPP

Major projects secured for stations on London Underground and at Heathrow Terminal 5

Financial summary

£1,196m
Turnover (2002: £1,123m)

£45m
Profit* (2002: £46m)

*Before £2.8m goodwill amortisation

In Balfour Kilpatrick, the electrical engineering and mechanical services contractor, both sales and profits improved with substantial work under the PPP programme, particularly in education projects carried out at Stoke, Rotherham and Calderdale. The company continued to develop its regional multi-services capability. The £26m Lehman Brothers project at Canary Wharf in London and complex services works at the Palace of Westminster were successfully completed.

Good progress was made on the PPP project to provide the power supply to the London Underground network, work for Scottish Power on the Edinburgh Ring Upgrade and on Network Rail's Southern Power Upgrade. Amongst new projects was a major wind farm development in the North of Scotland.

Profits in Haden Young, the Group's building services company, were slightly down on last year's exceptional level, largely as a result of significantly increased bid costs for major PPP work. A very strong forward order book was increased by £30m in respect of work on Blackburn Hospital and other major contracts for Dudley and Great Ormond Street Hospitals and the BBC's new White City development.

For the third year running, Haden Young was Mechanical and Electrical Contractor of the Year. It completed major works for the Meteorological Office in Exeter, King's College Hospital in London and the new Selfridges store in Birmingham as well as making good progress on University College London Hospital and other projects.

Andover Controls, a US leader in computer-based security and building management systems, suffered slow market conditions in the first half of the year but made some recovery in an improving market in the second half of the year.

The company's flow of new product introductions continued with new system and terminal controllers, software modules, sensors, integration products and systems. Major projects included a retrofit programme for the Denver Art Museum and a fully networked, integrated digital CCTV system for the Gate, a major leisure facility in Newcastle. New projects included a first major installation in Mexico and a large-scale OEM contract for Goodmans in the US.

In Haden Building Management, the building and facilities management company, profits increased with a full first year's contribution from the company's 49% share of Romec, the facilities manager for the Royal Mail's entire building stock.

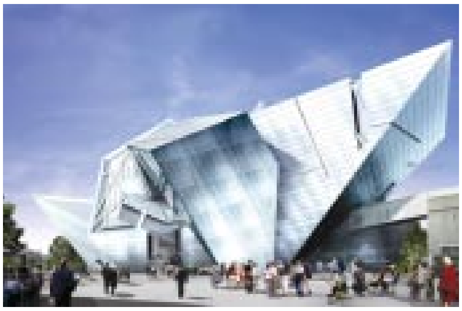
Romec met its sales and profits targets and good progress was made in planned efficiency improvements. A major programme to reorganise service delivery and increase productivity is now under way, with a full range of appropriate performance measures now in place. Romec also increased its work for other substantial customers.

Performance on other major facilities management contracts such as those for BT, the Department for Work and Pensions, PPP hospitals as well as the Stoke Schools concession also went well. The order book is strong with a major new contract for the BBC secured in early 2004.

Outlook

Opportunities to bid major schemes, particularly through the PPP programme and the market for outsourced services continue to develop.

With a substantial proportion of its overall order book already secured and the addition of Mansell, we anticipate growth in the Building, Building Management and Services sector in 2004.



Civil and Specialist Engineering and Services

2003 performance

Profits* in Civil and Specialist Engineering and Services improved by 24% to £21m in 2003. Performance in UK major projects, regional civil engineering, power engineering, road maintenance and in Devonport Management was good. Progress was also made in reducing the losses in US civil engineering, although some claim settlements previously anticipated in 2003 were delayed. In utilities, the cost of integrating Kentons and John Kennedy and some contract issues adversely affected performance in that sector but, as in the US, the year ended on an improving trend.

*Before £5.5m goodwill amortisation and £2m exceptional charge.

Review of operations

Balfour Beatty Civil Engineering, which is responsible for civil engineering work in the UK and Hong Kong, performed well. Regional markets in the UK were buoyant and good progress was made on key major projects. Planning work for two contracts under the Highways Agency Early Contractor Involvement programme – the A303 at Stonehenge and the A3 at Hindhead – is now well under way.

More conventional road projects are coming to the market only slowly. Work started on the £132m M77 design, build, finance and operate road concession and on the £148m widening project between junctions 12 and 15 on the M25.

Other major project work secured during the year in the UK included the construction management work for Metronet's London Underground PPP concessions. Civil works for the West Coast Main Line electrification project and the A120 in Essex progressed well as did the Steg-Raron rail tunnel in Switzerland with all tunnel drives completed and concrete lining started.

The M6 Tollway north of Birmingham and the Aston Clinton Bypass were successfully completed and handed over.

In the regional civil engineering business, work generally proceeded well, including on the Forth Rail Bridge maintenance contract, the Durham County Council strategic alliance and Northumbrian Water framework. Raynesway Construction Services in Scotland had a notably good year winning the framework contract for maintenance at BAA's Scottish airports.

It was also a very good year in Hong Kong. The £300m Nam Cheong Station and the East Hall extension work at Chek Lap Kok airport were completed to time and budget. Work on the £106m Lok Ma Chau terminus and custom hall is also progressing well. Specialist engineering projects were won for the Eagles Nest tunnel and for the refurbishment of power lines for China Light and Power.

The Group's small International businesses in Indonesia, Dubai, the Philippines and Turkey had a mixed year. The civil engineering business in Dubai performed well, as did the Group's new £28m project at Muara Tawar in Indonesia where the Lot 3 power line

Project summary

Dubai Marina
Balfour Beatty is building two concrete bridges for a major leisure and residential development in Dubai.

Hong Kong Airport
Balfour Beatty completed the East Hall extension at Chek Lap Kok airport three months ahead of schedules.

Highlights

- Major road construction, widening and maintenance contracts secured
- Good progress on contracts in the UK, US and Hong Kong
- Integration of utilities business completed
- Balfour Beatty Management launched

Financial summary

£1,393m
Turnover (2002: £1,347m)

£21m
Profit* (2002: £17m)

*Before £5.5m goodwill amortisation and £2m exceptional charge

project was completed successfully. However, the markets in Turkey and the Philippines were very weak. Balfour Beatty's interests in Turkey and the Philippines were sold in early 2004.

In the US, the Group's civil engineering arm, Balfour Beatty Construction Inc, also had a mixed year. The Texas highways business performed well with the £1.3bn SH130 toll road proceeding well and new orders secured. The business in California has been held back by the Californian budget deficit with few projects now coming to market.

National Engineering and Contracting, acquired in 2001, has been reorganised and integrated into a new Central Division to cover major infrastructure works in Pennsylvania, Ohio and West Virginia where market prospects are good. Some unanticipated further costs were incurred on bridge projects on the East Coast. However, two are now complete with a third project over 90% complete. Significant unanticipated costs, which have already been accounted for have been incurred on these projects. Applications for the recovery of these costs are now with the owners but no significant recoveries were achieved or recognised in 2003. Performance in Balfour Beatty Construction Inc should show significant improvement in 2004.

Balfour Beatty Power Networks, the Group's power, transmission and distribution company, performed well and completed the integration of Walgrave, the distribution cable service provider. The £56m Vale of York power line project was completed and commissioned to time and budget and work on the Group's £100m Sunderland Street Lighting PFI project commenced.

The merger of John Kennedy and Kentons, to form Balfour Beatty Utilities, has now been successfully completed to create an integrated gas and water contracting services company with a first-class customer base and a strong market presence.

In 2003, however, one-off costs associated with the integration programme were incurred, while Transco released work with significantly lower margins than anticipated. A number of new contracts were secured, most notably a £44m repair, maintenance and installation contract for Yorkshire Water, taking the order book for that client to approximately £140m.

We anticipate a more stable market in 2004. Regulatory reviews in 2005 offer substantial opportunities to develop the business as major contracts come to tender during 2004.

In road management and maintenance, RCS had a very good year, improving its profits and winning the Highways Agency Area 4 contract at a value which could grow to £175m over seven years. The North Yorkshire and Hampshire contracts won in 2002 are both proceeding well, with additional work having been secured in Yorkshire during the year. Progress in Areas 2 and 3 for the Highways Agency is also satisfactory. RCS should continue its successful development in 2004.

In Stent, the Group's piling and foundations business, performance was good, with major projects completed at King's Cross, the new Wembley Stadium and ongoing works for the rail upgrade on the West Coast Main Line. Balvac, the concrete repair specialist, and Testal, the testing contractor, also performed well.

Profits improved at Devonport Management, which added responsibility for the management of the entire naval dockyard to its existing remit for the naval refurbishment and refit programme. The major capital works to develop the yard are now completed. The refit of HMS Vanguard is now well under way and a programme of refitting T-class boats is also progressing well.

Balfour Beatty Management, a professional services company offering project and programme management for major infrastructure schemes was formed in late 2002. In 2003, the company developed its structure and personnel and began work on the station development project at King's Cross.

Outlook

Order books in the UK Civil and Specialist Engineering and Services businesses are healthy and market prospects are generally improving. Recovery is anticipated in the utilities business, as is a significantly better performance in the US. We expect to make good progress in this sector in 2004.

Wembley Stadium
Stent successfully completed the complex ground engineering and foundation works at the new Wembley National Stadium in September.

Sikorsky Bridge
Balfour Beatty is reconstructing the 1,800 ft steel girder bridge on route 15 over the Housatonic River for the Connecticut Department of Transportation.

Rail Engineering and Services

2003 performance

Profits* in Rail Engineering and Services increased by 11% to £41m in 2003. This reflected a particularly strong second half year with continuing good performance from the Group's German-based rail power systems business, particularly in Italy. There were also good performances in UK maintenance, track renewals and systems, plant and major projects, and some successful settlements on UK projects.

Preferred bidder status was secured on both major UK track renewals work and the Southern Region power upgrade project, while the sector order book increased substantially with the £500m new trackwork contract for Metronet's London Underground PPP concessions. A small acquisition was made in Germany in early 2004 to enhance the Group's capacity to serve Deutsche Bahn.

*Before £9.0m goodwill amortisation and £15m exceptional credits.

Review of operations

In Infrastructure Services, performance was significantly better than in 2002. 2003 saw high volumes of maintenance work in the Wessex, Kent and Anglia regions and a strong UK track renewals market.

In the first half of the year, the New Maintenance Programme (NMP) contract, which had been jointly developed with Network Rail, was piloted and successfully introduced in the Anglia region. In March 2003, Network Rail announced its intention to take maintenance work under the Wessex contract, one of three contracts to be so selected, in-house. This was successfully achieved at the end of November with Balfour Beatty's full co-operation.

However, in October, Network Rail announced its intention to take all its currently outsourced maintenance business in-house during the course of 2004. This disappointing and surprising decision was made with the stated intention of improving efficiency and reducing costs. Balfour Beatty is co-operating fully with Network Rail on the transfer, while safeguarding its shareholders' interests in the handover and commercial settlement process now under way. It is in the interests of all parties to complete the complex tasks required as quickly as possible.

In June, Network Rail announced preferred bidders for its new five-year track renewals contracts. Balfour Beatty was preferred for plain line renewals in Anglia and Southern Region and switches and crossings renewals in London North-Eastern, Southern Region, Anglia and Scotland. These contracts are likely to be worth some £90m per year and represent a significant extension of Balfour Beatty's responsibilities under the previous contract regime. The terms of the new contracts are still in negotiation.

Project summary

Dublin City
Balfour Beatty Rail Power Systems was awarded two contracts for the capacity extension of the Dublin City Rail Network.

West Coast Mainline
Work continued on the electrification upgrade and renewal work on the UK's West Coast Mainline.

Highlights

- Appointed preferred bidder for up to £450m of UK track renewals
- £500m order for trackwork under London Underground PPPs secured
- Electrification orders awarded from network owners around Europe to the value of €150m

Financial summary

£873m
Turnover (2002: £838m)

£41m
Profit* (2002: £37m)

*Before £9.0m goodwill amortisation and £15m exceptional credits

As a result of the changes in maintenance, the infrastructure services business will be reorganised to recognise its more restricted role from 2004.

In the Projects business, 2003 saw continuous performance improvement and increased volumes. Good progress was made on the West Coast Main Line upgrade project and on the railway link to the new Heathrow Terminal 5. In April, the £500m order for new trackwork on the Sub Surface Lines and the Bakerloo, Central and Victoria Lines was placed as Metronet's two London Underground PPP concessions reached financial close. Early work on this project is now under way as it is for Network Rail's Southern Zone power upgrade project.

Towards the end of the year, a £40m trackwork contract for the Santiago Metro in Chile was secured.

Rail Power Systems, the German-based electrification and power supply business, again performed well. Demand in the domestic German market improved during the year and margins and market share were maintained. Our Italian business also performed well with good progress on a number of major electrification projects in the country's high speed rail programme. New business was secured in Italy as well as an extension to the Porto Metro in Portugal. Extensions to the Turin-Novara and Bologna-Florence contracts are anticipated. In China, a follow-up order to the Harbin-Dalian project as well as the electrification of the light rail system in Tianjin were awarded and more work is anticipated in 2004.

In Track Systems, the switches and crossings manufacturer, UK demand strengthened and performance improved. Exports also grew, particularly to the US. Significant workload is now arising from Metronet.

In Plant, profits improved, with high volumes and new equipment continuing to be introduced. Despite the changes in maintenance, we anticipate continuing to be a major supplier of plant to Network Rail.

In the Technologies division, which researches and develops new systems and techniques, the delivery of remote condition monitoring and other technical services to Network Rail continued to expand. A test section of Slabtrack, Balfour Beatty's revolutionary embedded track system, has now been installed at Crewe on the West Coast Main Line, with encouraging results.

Performance in Balfour Beatty Rail Inc in the US reflected lower volumes and the deferral of final settlements on some completed trackwork projects. The specialist rail maintainer acquired in 2002, performed well and a new industrial rail business has been formed with an encouraging early workload.

Work is under way on the $200m Greenbush Line Rail Corridor project in Boston after some significant delays in the Massachusetts Bay Transit Authority planning process. The high-profile trackwork contract for the new rail system at the site of the New York World Trade Center was successfully completed.

Outlook

The last three years have been characterised by rapid growth in some major rail markets which is now slowing in the light of economic conditions and, in some cases, structural change. The UK maintenance business will transfer to Network Rail during the year, creating a different profile for the business in the UK for 2005. However, the work for Metronet under the London Underground PPPs will increase in line with expectations. In 2004 the business should again perform well.

US rail maintenance
Balfour Beatty Rail Inc. is a major supplier of maintenance services to America's class 1 railways.

Rawang/Ipoh Malaysia
Work is progressing on the electrification of the Rawang to Ipoh section of the main north-south rail line in Malaysia.

Investments and Developments

2003 performance

Profits in Investments and Developments improved by 10% to £54m. Continued growth in existing concession income was augmented by a first contribution in line with budget from the Group's investment in Metronet's London Underground PPP concessions. This more than offset the anticipated fall in profits at Barking Power where, following the entry into administration of TXU Europe, some 28% of the station's output is now sold on the spot market.

During the year, six concessions were converted from preferred bidder status to contract and bidding activity remained extensive.

Review of operations

In April, Metronet, a consortium in which Balfour Beatty has a 20% interest, signed contracts for two of the three London Underground PPP projects, covering over two-thirds of the network. Metronet will be responsible over the next 30 years for the maintenance, modernisation, upgrade and, where appropriate, replacement of track, signalling, stations and rolling stock for the Sub-Surface Lines and the Bakerloo, Central and Victoria lines. This has produced some £1.2bn of civil engineering, building and rail engineering contracts for Balfour Beatty operating companies over the next seven years. A major programme to refurbish and upgrade stations began in early 2004. Balfour Beatty's eventual equity investment in the concession companies will be £70m. Metronet's operational and financial performance in 2003 was in line with expectations.

In the Highways sector, Connect, already responsible for the A50 and the A30/A35 concessions reached financial close in May on the £132m M77/Glasgow Southern Orbital project. This involves the upgrade of 15 km of existing dual carriageway to motorway standard and constructing 9 km of new dual carriageway. Construction work is already well advanced.

In August, Balfour Beatty reached financial close on the £100m contract with The City of Sunderland Council to update and maintain its street lights and highway signs. In the first five years of the 25-year contract, Balfour Beatty will replace 35,000 of the existing items of apparatus.

In December, Balfour Beatty reached agreement with Atkins to purchase its 32.2% share of Connect Roads for £13m. This transaction was completed in January 2004.

Project summary

Birmingham Hospital
Consort Healthcare is the preferred bidder for the new £521m Birmingham PPP hospital project.

The M77
Construction work is well advanced on the M77 Glasgow Southern Orbital Route design, build, finance and operate project.

Sunderland Street Lighting
As part of the £100m Sunderland Street Lighting project, Balfour Beatty is responsible for lighting the Penshaw Monument.

Metronet
A programme to refurbish and upgrade London Underground's stations began in early 2004.

Highlights

- Good performance from existing concessions
- Metronet's London Underground PPP contracts reach financial close
- Financial close reached on four other concessions
- Barking Power makes progress towards settlement of claims

Financial summary

£216m
Turnover (2002: £133m)

£54m
Profit (2002: £49m)

In the Healthcare sector, the new £220m Edinburgh Royal Infirmary became fully operational in April. Performance on Durham and the first phase of the Edinburgh Royal Infirmary was satisfactory. Both hospitals are run through Consort Healthcare.

During 2003, further good progress was made in the construction of the new £225m University College London Hospital which is due to open in 2005.

In July, Consort signed a 38-year concession contract with East Lancashire Hospitals NHS Trust for the design, construction, finance, maintenance and lifecycle replacement of a new £125m acute hospital in Blackburn, Lancashire.

In early 2004, Consort was appointed preferred bidder for the £521m Birmingham Acute and Adult Psychiatric Hospitals. This 35-year concession is expected to reach financial close in March 2005 and the hospital is scheduled for final completion in 2010. Balfour Beatty is one of two contenders for both the Pinderfield and St Helens Hospital projects.

In Education, operations and construction activities continued successfully at Transform Schools' Stoke project, where more than half of the entire schools estate has now been handed over.

In June, Transform reached financial close for the £100m Rotherham Schools contract to construct 10 new schools together with the upgrade and refurbishment of a further five. The contract also includes maintenance and facilities management over the 30-year concession. The group is bidding for major education projects in Birmingham, North Lanarkshire and Bassetlaw in Nottinghamshire.

In the Process sector, the Aberdeen Waste Water Project performed well.

Following a business and financial review of the waste-to-energy plant in Dundee to address certain operating problems, measures to restructure the company were agreed with its lenders. Balfour Beatty's interest in this project is likely to be relinquished early in 2004.

The Seeboard Powerlink concession, which has operational responsibilities for London Underground's high voltage power system, performed well and completed the final stage of the power quality upgrade works. Significant additional works under this contract are currently under discussion.

Balfour Beatty Capital Projects is exploring opportunities to extend its activities outside the UK. It is bidding a light rail scheme in Canada and examining a number of other opportunities.

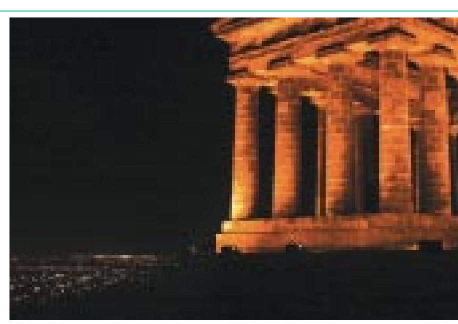
Barking Power Ltd

The 1000 MW power plant at Barking in East London, in which Balfour Beatty has a 25.5% share, had a good year operationally, with high levels of availability. Profits were, however, impacted by the entry into administration of TXU Europe, one of the business' principal customers. As a result, some 28% of the station's output, previously on long-term contract, is now sold at lower prices on the spot market. Prices on the spot market, however, improved during the year.

A substantial claim has been made in respect of TXU Europe's liabilities and significant recovery of the monies owed is anticipated, but not yet recognised.

Outlook

With existing concessions continuing to perform well, further progress can be anticipated in 2004. The volume of major projects coming to the market shows no sign of slackening and we expect to find further attractive bidding opportunities. We will continue to focus on major schemes in health, education, accommodation and road and rail transportation which have the potential to generate appropriate rates of return as well as substantial volumes of long-term contracting work for Balfour Beatty operating companies.



Financial review
Anthony Rabin

Strong cash flow from operations provided further capacity to grow the Group's core activities.

Operations
Results in 2003 reflect further progress in the Group objectives of earnings growth and increasing financial strength.

Turnover increased by 7% and operating profit* increased from £149m to £161m (8%). This was achieved after an increase of £9m in pension charges, which impacted the building, engineering and rail sector results. Profits in our rail businesses included strong performances in our UK businesses and in our electrification and power supply business, particularly in Italy. The UK building and support services businesses continued to perform well, as did our PFI/PPP portfolio of investments, which benefited from a first time contribution from Metronet. The civil and specialist engineering sector produced another strong performance in the UK, but substantial unplanned costs continued to be incurred in civil engineering projects on the East coast of the US.

Looking forward, we believe that prospects for growth of our contracting and services businesses are excellent and that margins can be sustained. A more detailed analysis of these businesses is contained in the Operating review. We anticipate continued positive contributions to growth from our acquisitions and our PFI/PPP investment portfolio continues to offer a growing long-term stable contribution to earnings.

Acquisitions and goodwill
In total, consideration for acquisitions in the year and deferred consideration accounted for £21m net cash outflow. These included Mansell (net £17m outflow, after taking into account £15m cash balances acquired) and deferred payments on prior year acquisitions (£4m). Goodwill arising from acquisitions in 2003 amounts to £54m.

Operating profits were after charging £17m in respect of goodwill amortisation arising from acquisitions.

Exceptional items
The net exceptional credit of £5m includes £7m provision for anticipated costs arising from the cancellation of Network Rail maintenance contracts, £8m for residual liabilities in respect of BICC's US cables business which was sold in 1999 and £2m provision for loss on disposal of the Group's interest in Garanti Balfour Beatty, offset by £10m compensation for loss of use of an operating facility and £12m profit on the sale of this facility. These exceptional items have given rise in aggregate to a £0.5m tax credit.

Taxation
The Group's effective tax rate in 2003 was 23% (2002: 30%) of profit before goodwill amortisation and exceptional items. This charge benefited from the offset of previously written off Advance Corporation Tax (ACT) against both the current year's tax liability and that for prior years. The Group also benefited from the use of brought forward tax losses in Germany. We expect a higher effective tax rate in 2004 than 2003 as legislative changes in Germany will limit the rate at which we can utilise those German tax losses and, in addition, the offset of ACT is expected to be less than in 2003.

Pre-tax profits and earnings
As a result of these factors, pre-tax profits* amounted to £130m, an increase of 10%, and earnings per share* were 20.6p, an increase of 28% on 2002.

Cash
The Group has again shown a strong cash flow from operations, with another major contribution from working capital management.

	2003 £m	2002 £m
Group operating profit	68	67
add back: goodwill amortisation	15	19
Group operating profit*	83	86
Depreciation	43	40
Exceptional items – cash receipts/(expenditure)	5	(9)
Other items	(2)	–
Working capital decrease	41	25
Net cash inflow from operations	170	142

This continued strong cash flow provided further capacity to grow the Group's core activities through the acquisition of Mansell, while retaining a significant level of net cash which, at the end of 2003 stood at £124m (2002: £67m).

Pensions
Pension charges to the profit and loss account of £28m (2002: £19m) have been made, including £18m for the Balfour Beatty Pension Fund and £5m for the Balfour Beatty section of the Railways Pension Scheme. These charges include the benefit of amortising actuarial surpluses over the average remaining service lives of scheme members in accordance with SSAP 24. These surpluses derive from formal actuarial valuations of the two schemes at 31 March 2001 and 31 December 2001 respectively, as updated by the actuaries at 31 December 2002 and 31 December 2003 to review ongoing funding levels. Formal actuarial valuations of these schemes will be made in 2004. We have increased contributions to the Balfour Beatty Pension Fund to £16m for the year ended 31 December 2003. Note 23a details the funding position of the schemes and the cost of providing pensions in accordance with SSAP 24.

The way in which pension arrangements are reflected in the Group's earnings and net assets will change radically when the substantive requirements of FRS 17 "Retirement Benefits" are implemented under International Accounting Standards. Note 23b details the funding position and the cost of providing pensions in accordance with FRS 17 principles. The difference between the deficits reported in accordance with FRS 17 and the surpluses calculated on an ongoing actuarial funding basis of the principal funds is due entirely to the different discount rates applied in the two valuation methods.

*Before amortisation of goodwill £17m (2002: £21m) and exceptional items £5m credit (2002: £9m charge).

2002	£3,441m
2003	**£3,678m**
Turnover +7%	

2002	£118m
2003	**£130m**
Pre-tax profits* +10%	

2002	16.1p
2003	**20.6p**
Earnings per share* +28%	

2002	£67m
2003	**£124m**
Net cash +£57m	

Public Private Partnerships (PPP) and the Private Finance Initiative (PFI)

PFI projects transfer from the public sector to the private sector the risk associated with delivering capital works projects and services. PFI does this typically by asking the private sector to raise capital to finance the creation of an asset, to take the financial and technical risk associated with its construction and, thereafter, on its subsequent operation and maintenance. In return, the public sector agrees to pay for this mixture of capital asset and service provision over an extended period, typically between 25 and 30 years.

Balfour Beatty forms project companies to deliver PFI/PPP projects, usually in joint venture. A project company will fund construction through a mixture of equity/subordinated loans from its shareholders and long-term debt raised from the banking or privately placed bond markets, typically in a 10:90 ratio.

The Group's interest in each company therefore takes the form of shares in the project company as well as loans to the project company which are subordinated to the project company's external borrowings. During 2003, the Group invested £10m in equity/shareholder loans in its PFI/PPP project companies, including new concessions for Rotherham schools, the M77 motorway in Scotland, Blackburn hospital and Sunderland street lighting as well as two London Underground PPP projects (Metronet) and received £3m loan repayments. At 31 December 2003, the Group had invested £59m in equity/subordinated loans to all its current projects and had committed to provide a further £100m over the period 2004 to 2009.

As the income stream from PFI/PPP projects is received from government or public sector entities (such as the Highways Agency or an NHS Trust), the high credit rating of this income stream is used by the project companies to raise external borrowings. The recourse available to these lenders, in the event that the debt is not serviced by the project company, is only to the assets and contracts of the project company and to any undrawn amounts of equity/subordinated loans committed by the shareholders. At 31 December 2003, the Group's share of non-recourse net debt within PFI/PPP project companies amounted to £598m, comprising £595m in relation to the joint ventures and associates disclosed in Note 11 and £3m on the Group balance sheet in relation to a wholly owned project company.

Treasury

The Group's policy remains to carry no significant net debt, other than the non-recourse borrowings of project companies.

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

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

Finance and liquidity risk

Balfour Beatty finances itself using fixed rate and floating rate debt with instruments with a range of maturities. The Group has a series of bilateral facilities which total £210m maturing in 2006 and has in issue US$120m of fixed rate loan notes maturing in 2008. The purpose of the facilities is to provide liquidity from a group of core relationship banks and other institutions to support Balfour Beatty in its current and future activities.

Interest rate risk

The US$ fixed rate loan notes were swapped into floating rate obligations to match the floating rate nature of the cash held by the Group. The impact of interest rate risk management has been to reduce fixed rate borrowings to 5% of total borrowings (2002: 11%).

Currency risk

The Group's businesses hedge their known foreign currency transactional exposures by taking out forward foreign exchange contracts.

Balfour Beatty also faces currency exposures on the translation into sterling of the profits and net assets of overseas subsidiaries and associates, primarily in the US and Europe, and on its overseas trading transactions.

Balfour Beatty does not hedge these profit translation exposures as these are an accounting rather than cash exposure. However, the effect of volatile short-term currency movements on profits is reduced because the Group accounts for currency profits using average exchange rates.

Balfour Beatty's balance sheet translation exposure is managed by matching approximately 90% of significant net assets denominated in currencies other than sterling by way of currency borrowings and forward foreign exchange contracts. Details of the position and fair values at the year end are shown in Note 15.

International Accounting Standards

Under EU regulations, the Group will be required to prepare its accounts for the financial year ending 31 December 2005 under International Financial Reporting Standards ("IFRS"). To facilitate this, the Group has formed a project team which, with the help of Deloitte & Touche LLP, has identified the key issues affecting the Group and the systems changes that are needed to carry out the transition to IFRS by 1 January 2005. The work of the project team is ongoing, with particular focus on the new standards being issued in 2004 and in training staff across the Group on the implementation issues.

Going concern

The Directors, having made appropriate enquiries, consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the accounts.

Anthony Rabin Finance Director

Board of Directors

Key to photographs:

Sir David John (left)	Ian Tyler (left)	Robert Walvis (left)	Sir David Wright (left)
Michael Welton (right)	Alistair Wivell (centre)	Chalmers Carr (centre)	Christoph von Rohr (right)
	Jim Cohen (right)	Richard Delbridge (right)	
Anthony Rabin (left)			Gordon Sage (bottom right)
Peter Zinkin (right)			

Sir David John KCMG Chairman
Age 65. Appointed a Director in 2000 and became Chairman in 2003. He is chairman of Premier Oil Group and The BSI Group and immediate past chairman of The BOC Group. Formerly a director of Inchcape plc, he is a member of the CBI International Advisory Board. He is also a director and trustee of Asia House, which promotes understanding and closer communication between the UK and Asian countries, and a governor of the School of Oriental and African Studies. He is chairman of Balfour Beatty's Business Practices Committee and Nomination Committee.

Michael Welton Chief Executive
Age 57. A chartered civil engineer and Fellow of the Institution of Civil Engineers. A Director since January 1996 and Group Chief Executive since 1999. He has been with the Group in a range of increasingly senior positions since 1978.

Ian Tyler Chief Operating Officer
Age 43. A chartered accountant. Became Chief Operating Officer in 2002. A Director since 1999, he was previously Finance Director. He joined Balfour Beatty in 1996 from the Hanson Group where he was finance director of ARC Ltd, one of the principal subsidiaries of the Hanson Group, having previously been Hanson's Group financial comptroller.

Anthony Rabin Finance Director
Age 48. A chartered accountant and a barrister. A Director since 2002, he was previously managing director of Balfour Beatty Capital Projects, which is responsible for the development and management of the Group's privately financed concession operations. Prior to joining Balfour Beatty, he was a partner at Coopers and Lybrand and before that, a senior assistant director at Morgan Grenfell.

Jim Cohen Managing Director
Age 62. An economist. A Director since 2000 having joined the Group in 1993. Previously, he held senior management positions with GTE and GEC and prior to that, was a senior civil servant at the Department of Energy.

Alistair Wivell CBE Managing Director
Age 58. A civil engineer and a Fellow of the Chartered Institute of Building. A Director since 2002, he joined Balfour Beatty in 1966, and was previously managing director of Balfour Beatty Construction Limited. He received a CBE for services to the construction industry in 1998.

Peter Zinkin Planning and Development Director
Age 50. Joined the Group in 1981 and became Planning and Development Director in 1991 after a series of senior positions in the finance function. Previously, he worked at the London Business School and UMIST.

Audit Committee	Nomination Committee	Remuneration Committee	Business Practices Committee
Richard Delbridge	Sir David John	Robert Walvis	Sir David John
Chalmers Carr	Gordon Sage	Chalmers Carr	Chalmers Carr
Christoph von Rohr	Robert Walvis	Richard Delbridge	Christoph von Rohr
Gordon Sage	Michael Welton	Sir David John	Gordon Sage
Sir David Wright	Sir David Wright	Christoph von Rohr	Robert Walvis
			Sir David Wright

Sir David Wright GCMG, LVO Non-executive Director
Age 59. Appointed Director in January 2003. A graduate of Peterhouse, Cambridge. He is currently vice chairman of Barclays Capital, having retired as group chief executive of British Trade International in 2002, and was previously Ambassador to Japan for three and a half years. He is vice-president of the China-Britain Business Council, a member of the International Advisory Board of All Nippon Airways, and a Governor of the Royal Shakespeare Company.

Christoph von Rohr Non-executive Director
Age 65. Appointed a non-executive Director in June 2003. He is a partner of the international law firm TaylorWessing and a board member of several corporations. He is also chairman of the German Institute for Market Economy and Competition. Previously he was chairman of the Industrial Investment Council and also chief executive officer of the German manufacturing group, Klöckner-Werke AG.

Robert Walvis Non-executive Director
Age 57. Appointed Director in 2001. Previously with the Shell Group, latterly as chairman of the Corporate Centre of the Royal Dutch Shell Group of Companies. He is a non-executive director of Johnson Matthey plc. He is chairman of Balfour Beatty's Remuneration Committee and is the senior independent Director.

Chalmers Carr Non-executive Director
Age 66. Appointed a Director in September 2003. He is a solicitor who is senior counsel to Standard Chartered Bank, having previously been general counsel to Coutts and Company and, before that, general manager and group legal adviser to HSBC Holdings plc. His career experience also includes senior legal and other management positions in the Central Electricity Generating Board, Bridon plc, GKN plc, Elliott Automation and Rolls-Royce Ltd.

Richard Delbridge Non-executive Director
Age 61. Appointed a Director in 2002. A chartered accountant, he was formerly group finance director of HSBC Holdings plc and then a director and group chief financial officer of National Westminster Bank plc until 2000. He is currently a non-executive director of Tate and Lyle PLC, Cazenove Group plc and Gallaher Group Plc, and treasurer of The Open University. He is chairman of Balfour Beatty's Audit Committee.

Gordon Sage Non-executive Director
Age 57. Appointed a Director in September 2003. A chemical engineer, he is deputy chairman of ERM Holdings Ltd, the environmental services consultancy, and a non-executive director of Merrill Lynch World Mining Trust plc. Between 1970 and 2001, he held a series of increasingly senior positions in Rio Tinto plc, latterly as executive director responsible for its industrial minerals and diamonds businesses.

Directors' report

Activities
The Chairman's statement and Chief Executive's review on pages 16 to 21 and the Operating review on pages 22 to 29 and the Financial review on pages 30 and 31 report on the principal activities of the Group, its operations during 2003 and future developments in its businesses.

Dividends
The Directors recommend a final dividend on ordinary shares of 3.4p (net) per share, making, with the interim dividend of 2.6p, a total dividend for 2003 of 6.0p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2003.

Directors' interests
No Director had any material interest in any contract of significance with the Group during the period under review. The interests of Directors in the share capital of the Company and its subsidiary undertakings under the long-term incentive scheme (the Performance Share Plan 2001), and in respect of options over such share capital, are set out in the tables in the Remuneration report beginning on page 37.

Share capital and major shareholders
Details of the share capital of the Company as at 31 December 2003 are set out in Note 18 on page 62. During the year to 31 December 2003 no ordinary shares were repurchased for cancellation and 11,628,652 preference shares (representing 7.2% of the preference share capital) were repurchased for cancellation for a total consideration of £15,922,253 at an average price of 136.9p. 1,794,738 ordinary shares were issued following the exercise of options held under the Company's Savings-Related Share Option Scheme and 3,145,499 ordinary shares were issued following the exercise of options held under the Company's Executive Share Option Scheme. No other shares were issued during the year.

As at 9 March 2004, the Company had been notified in accordance with Sections 198 to 208 of the Companies Act 1985 of the following interests in its ordinary share capital:

Aviva plc	25.0m shares	5.94%
Morley Fund Management Ltd (included in the interest of Aviva plc above)	25.0m shares	5.94%
FMR Corp	21.0m shares	5.01%
Standard Life Investments Ltd	20.7m shares	4.92%
Royal & Sun Alliance Insurance Group plc	16.8m shares	3.99%
HBOS plc	16.6m shares	3.95%
Prudential plc	15.4m shares	3.67%
Legal & General Group plc	12.7m shares	3.02%

Corporate governance and the Combined Code

This is our first Annual Report since the publication of the Higgs Review and the new Combined Code. As a consequence, this part of the report is longer than in previous years and has a slightly different format.

Overview
The Board continues to endorse and apply the principles of good corporate governance reflected in the Combined Code, as appended to the Listing Rules of the UK Listing Authority. During the year, the Company complied with the Combined Code save that, until December 2003, the Company had not identified a separate senior independent Director.

Our governance in the light of the principles and supporting principles and provisions of the Combined Code is described in the following paragraphs. At the date of this report, and unless otherwise explained in the text, the Company is fully compliant with the provisions of the new Combined Code.

Honorary President
On his retirement from the Board, in May 2003, Viscount Weir was appointed Honorary Life President of the Company in recognition of his long and distinguished service as a non-executive Director and latterly Chairman of the Company.

The Board
The Board currently comprises 13 Directors, of whom seven, including the Chairman, are non-executive. It operates both formally, through Board and Board Committee meetings, and informally through regular contact between Directors as required. Decisions on a list of specific matters, including strategy, approval of financial statements, risk management and treasury policy, major capital expenditure, acquisitions and disposals are reserved to the Board or Board Committees. Matters falling outside the list are delegated to management.

Board papers are generally sent out at least three days in advance of each Board meeting. These always include a written report from each of the Chief Executive, Chief Operating Officer, Finance Director, director of Health, Safety and the Environment and Group Managing Directors of Balfour Beatty plc and the Chief Executive Officer of Balfour Beatty Inc. At Board meetings, oral reports are made on issues arising from the written reports, and both those and other matters of immediate interest or concern are discussed by the Board. Apart from the Board meetings that approve the interim and final results respectively, and the Board meeting prior to the Annual General Meeting ("AGM"), a separate presentation on a topic of interest or concern such as the operations and prospects of an existing business, or planning the use of information technology, is normally made to the Board. Each meeting lasts on average three to four hours.

Meetings of the Board are normally held in London, but meetings are on occasions held in other parts of the UK and in Europe to enable Directors to visit the Group's businesses at the same time.

The Board met on 12 occasions in the course of 2003. A table showing attendance at these meetings and at meetings of the Audit Committee, the Compensation and Appointments Committee (now replaced by the Nomination Committee and the Remuneration Committee, as described on pages 35 and 37 respectively) and the Business Practices Committee, is set out on page 36.

The Chairman of the Board is Sir David John, and the Chief Executive is Michael Welton. The senior independent Director, appointed in 2003, is Robert Walvis. The Chairman of the Audit Committee is Richard Delbridge, of the Nomination Committee, Sir David John, and of the Remuneration Committee, Robert Walvis. Sir David John also chairs the Business Practices Committee.

Chairman
Sir David John became Chairman on the retirement of Viscount Weir on 15 May 2003. Sir David joined the Board in August 2000. Normally, Sir David spends two days per week on the business of the Company. He has other significant commitments as non-executive chairman of The BSI Group and of Premier Oil plc. The Board considers that his other commitments are not of such a nature as to hinder his activities as Chairman of the Company and of the Nomination and Business Practices Committees.

Directors
Details of the Directors, including the Chairman, are given on pages 32 and 33. All the Directors shown served throughout the year with the exception of Christoph von Rohr, who was appointed a non-executive Director on 10 June 2003, and Chalmers Carr and Gordon Sage, who were appointed non-executive Directors on 1 September 2003. Viscount Weir and Christopher Reeves resigned as non-executive Directors on 15 May 2003 following the AGM and Udo Stark resigned as a non-executive Director on 10 June 2003. Malcolm Eckersall retired from his position as an executive Director on 31 October 2003.

The Board considers that all the non-executive Directors are independent.

Rotation of Directors, election and re-election
The Articles of Association of the Company provide that at each AGM one third, or the nearest number to one third, of the Directors who are subject to retirement by rotation shall retire from office and shall be eligible for re-election. This year, 10 Directors are subject to such retirement and three Directors are, therefore, retiring by rotation. They are Sir David John, Robert Walvis and Michael Welton. Each is seeking re-election.

The Articles further provide that newly appointed Directors hold office until the first following AGM, at which each are eligible for, and accordingly offer themselves for election. The Directors offering themselves for election under these provisions are Christoph von Rohr, Chalmers Carr and Gordon Sage. All are non-executive Directors.

Board Committees
The main Board Committees, the membership of which is either wholly or substantially comprised of non-executive Directors, are the Audit Committee, the Nomination Committee, the Remuneration Committee and the Business Practices Committee.

– The Audit Committee

The membership of this Committee currently comprises Richard Delbridge (chairman since 15 May 2003 on the retirement of Christopher Reeves), Chalmers Carr, Christoph von Rohr, Gordon Sage and Sir David Wright, all of whom are independent non-executive Directors. Christopher Pearson, the Company Secretary, is the secretary of the Committee.

Sir David John and Robert Walvis (until October 2003), Viscount Weir and Christopher Reeves (until May 2003) and Udo Stark (until June 2003) were all members of the Committee during 2003. Christoph von Rohr joined the Committee in June 2003 and Chalmers Carr and Gordon Sage joined the Committee in September 2003. All of the members have extensive experience of management in large international organisations. Richard Delbridge is a chartered accountant and a former group finance director of a FTSE 100 company.

New terms of reference for the Committee, based on the report by Sir Robert Smith in January 2003 and the requirements of the new Combined Code on Corporate Governance, were approved by the Board in October 2003, and are available on the Company's website, at www.balfourbeatty.com. The main responsibilities of the Audit Committee are to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance; to review the Group's internal financial controls established to identify, assess, manage and monitor financial risks and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by the internal and external auditors; to monitor and review the effectiveness of the internal audit function; to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor; to assess the independence, objectivity and effectiveness of the external auditor and to develop and implement policy on the engagement of the external auditor to supply non-audit services; and to review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting.

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

In May 2003 it was decided to increase the number of meetings each year from three to four, and four meetings were held in 2003. At the invitation of the Committee, partners from the external auditor, the Head of Internal Audit, the Finance Director and the Chairman regularly attend each meeting. In addition, any independent non-executive Director who is not a member has an open invitation to attend meetings.

The Committee met prior to the Board meetings at which the interim financial statements and the annual report and accounts were approved. The Committee reviewed significant accounting policies, financial reporting issues and judgements and, in conducting this review, considered reports from the external auditor, financial management and internal audit.

At each of its meetings, the Committee reviewed and considered reports from the Head of Internal Audit on the status of the Group's risk management processes, findings from the internal audit reviews of internal controls and reports on the status of the correction of any weaknesses in internal controls identified by the internal or external auditors. The Committee also reviewed the external auditor's Group management letters on accounting procedures and the systems of internal financial control.

During 2003 the Committee reviewed the effectiveness of the external audit process, the audit strategy and plans and the qualifications, expertise and resources of the external auditor. It also reviewed and approved the proposed audit fee and terms of engagement for the 2003 audit and recommended to the Board that it propose to shareholders that Deloitte & Touche LLP continue as the Company's external auditor.

The Committee reviewed the independence procedures of Deloitte & Touche LLP at its meeting in August 2003 and received a letter at the March 2004 meeting from them confirming that in their opinion they remained independent. In June 2003 the Board approved a policy, proposed by the Committee, on non-audit work that may be carried out by the external auditor. The policy is designed to ensure that the independence of the external auditor will not be compromised by any non-audit work they carry out for the Group by specifying (a) services from which they are excluded; (b) services for which they can be engaged without referral to the Committee; and (c) other services for which a case-by-case decision by the Committee is required. An analysis of non-audit fees incurred in 2003 is set out in Note 3c on page 52.

The Committee reviewed and approved the remit, organisation, plans and resources of the Group's internal audit function and received reports from the Head of Internal Audit at each of its meetings. The Committee has carried out a review of the effectiveness of the internal audit function and met the head of the function without the presence of management.

– The Nomination Committee

The Committee was established by the Board in November 2003 to take over certain functions of the Compensation and Appointments Committee (the "CAC"). The terms of reference for the Committee are available on the Company's website.

The Committee is chaired by Sir David John. Its other members are Gordon Sage, Robert Walvis, Michael Welton and Sir David Wright. The secretary of the Committee is Peter Johnson, director of personnel.

Including its activity as the CAC until November 2003, the Committee met on 11 occasions in 2003. It considered, in particular, the appointments of the three non-executive Directors appointed during the year.

Non-executive Directors are chosen on the basis of their individual background and experience and for the contribution they can make both generally and in specific areas relevant to the business of the Company. Thus, the Chairman, Sir David John, brings the experience of leading large international companies; Richard Delbridge comes with City and financial experience at the highest level; Robert Walvis brings the benefit of wide experience drawn from a career in senior positions at Shell; and Sir David Wright, as a former head of UK Trade and Investment, comes with his extensive knowledge of overseas markets, particularly the Far East.

Candidates are identified by a combination of using both outside consultants and the wide range of personal contacts at senior level which the Board members have between them. An independent outlook is an essential qualification for selection.

Following the resignation of Udo Stark in June 2003, it was agreed by the Nomination Committee to approach Christoph von Rohr, who was already known to the Committee as a result of his membership of the supervisory board of the Company's major German subsidiary, Balfour Beatty Rail GmbH. He is a well respected and experienced businessman and was a logical and obvious candidate to replace Udo Stark, bearing in mind the Group's increased involvement in other European markets, particularly Germany.

The appointments of Chalmers Carr and Gordon Sage were made following a search carried out by Egon Zehnder in which a number of candidates were considered against an agreed specification. Chalmers Carr has knowledge and experience in international banking and corporate law, and Gordon Sage, with his background in Rio Tinto, has valuable experience in large and complex capital projects. Following interview, the Committee duly recommended to the Board that they each be offered appointment as a non-executive Director.

– The Remuneration Committee

Information about the working and membership of this Committee is contained in the Remuneration report beginning on page 37.

– Business Practices Committee

The Business Practices Committee was established in January 2001. It is chaired by Sir David John, and has as its other members Chalmers Carr, Christoph von Rohr, Gordon Sage, Robert Walvis and Sir David Wright. The Secretary is Christopher Pearson, the Company Secretary. It meets three or four times a year and its current terms of reference cover matters of business conduct, ethics, reputation, health, safety and the environment and other matters of corporate social responsibility. It is also charged with reviewing the effectiveness of the whistle blowing procedures established in the Group. In placing this responsibility with the Business Practices Committee, the Company has not complied with the new Combined Code, which requires the Audit Committee to carry out this function. The reason for adopting a different approach in this respect is that the Board believes that, based on experience, the great majority of whistle blowing complaints are likely to arise out of non-financial matters. Arrangements whereby concerns may be raised about possible financial impropriety will, as already stated, continue to be the concern of the Audit Committee.

The Committee met on three occasions during 2003. Among matters considered by the Committee in 2003 were the implications of the Group's Drug and Alcohol policy, corporate social responsibility generally and issues surrounding the reporting of accident frequency rates and safety "near misses".

Details of the number of meetings of, and attendances at, the Board and the Audit, Nomination, Remuneration and Business Practices Committees during the year are set out in the table below. Meetings of the Nomination and Remuneration Committees include meetings of the CAC. The CAC was chaired by Viscount Weir until 15 May 2003 and thereafter by Sir David John until its dissolution. The relevant total number of meetings held in 2003 in each case is included in brackets after the name of the Board or Committee.

Name of Director	Board (12)	Audit (4)	Nomination (11)	Remuneration (10)	Business Practices (3)
C Carr[4]	4	1	3	3	
J L Cohen	11				
R Delbridge[8]	11	4	9	9	3
M K Eckersall[5]	9				
Sir David John[6]	11	3	10	9	3
A L P Rabin	12				
C R Reeves[1]	4	1	2	2	1
Dr H C von Rohr[3]	7	2	5	5	1
G H Sage[4]	4	1	4	3	
U G Stark[2]	5	1	4	4	
I P Tyler	11				
R J W Walvis[6]	12	3	10	10	2
Viscount Weir[1]	5	1	3	3	1
M W Welton[7]	12		1		
A J Wivell	12				
Sir David Wright	12	2	9	8	2
P J L Zinkin	11				

[1] retired 15 May 2003
[2] retired 10 June 2003
[3] appointed 10 June 2003
[4] appointed 1 September 2003
[5] retired 31 October 2003
[6] resigned from Audit Committee on 7 October 2003
[7] appointed to Nomination Committee on 11 November 2003
[8] resigned from Business Practices Committee on 11 November 2003.

Board Committee and Director performance evaluation
At the time of writing this report, no evaluation exercise has been conducted and we will report on this in 2005. A number of alternative methods are being researched.

Dialogue with shareholders
The Company has a long-established programme of regular communication with institutional investors and brokers. Presentations are made to brokers' analysts, the press and institutional investors at the time of the announcement of final and half-year results and there are regular meetings with analysts and investors throughout the year, which are organised through the Company's brokers, so that the investment community can be kept informed of longer term strategic matters and can communicate their views to the Board. We expect to continue this programme, within the constraints of relevant legislation and practice. The Group's website is at www.balfourbeatty.com and is a regular channel of communication with shareholders and others.

Regular reports are made by executive Directors to the Board on meetings and other contact with major shareholders or their representatives. The Chairman himself on occasion attends meetings with shareholders. The non-executive Directors believe that by having direct and ready access to the Chairman at all times, through the senior independent Director and by reports given at Board meetings, they are kept fully aware of the views of at least the larger shareholders and the wider investment community. It is open to them or any of them to attend or arrange meetings with investors if they wish to do so.

A number of meetings on the subject of corporate governance will be held later in 2004 with institutional shareholders. These will be attended by the Chairman and the senior independent Director. The Board believes that these meetings will provide a good opportunity to enhance the understanding held by non-executive Directors of the views of the Company's shareholders.

Risk management
The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Board has conducted an assessment of the effectiveness of the risk management processes and internal controls during 2003 and in 2004 up to the date of this report. The review was based on reports to the Board and the Audit Committee on the following:

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

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

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

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

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

Remuneration report

Remuneration Committee

The Remuneration Committee of the Board ("RemCo") was established in November 2003 to take over certain functions from the former Compensation and Appointments Committee ("CAC"). References in this report to the RemCo mean the CAC in respect of any time before November 2003. The RemCo is primarily responsible for determining the remuneration policy and conditions of service for the executive Directors and the Chairman of the Company. It also reviews and monitors the remuneration policy for senior management immediately below Board level. The other functions of the CAC, such as making recommendations to the Board for the appointment of executive Directors, have been taken over by the Nomination Committee, which was also established in November 2003. The terms of reference of the RemCo can be found on the Company's website.

Currently the RemCo is chaired by Robert Walvis and also comprises Chalmers Carr, Richard Delbridge, Sir David John and Christoph von Rohr, all of whom are independent non-executive Directors. Michael Welton, the Chief Executive, is invited to join its meetings whenever appropriate, and Peter Johnson, the director of personnel, attends as secretary. Advice and assistance has been provided to the RemCo by the Monks Partnership ("Monks"), New Bridge Street Consultants LLP ("NBSC") and Peter Johnson.

No member of the RemCo has any personal financial interest, other than as a shareholder, in the matters to be decided by the RemCo, nor potential conflicts of interest arising from cross-directorships, and no member of the RemCo has any day-to-day involvement in the executive management of the Group. No Director has any involvement in discussions relating to his own remuneration.

Monks and NBSC were each appointed by the RemCo to provide independent advice and assistance to it. Monks has also provided data and advice to the Company regarding the remuneration of senior management below Board level.

Executive Directors' remuneration

General policy

The policy of the RemCo is to pay competitive basic salaries to facilitate the recruitment and retention of high calibre management so as to ensure that the Company performs to its potential and increases shareholder value.

Annual bonuses and long-term incentive schemes continue to be seen as an important part of each Director's total remuneration and are used to drive and reward performance. The RemCo aims to ensure that performance related elements form an important part of the total remuneration package and that these are designed to align the Directors' interests with those of shareholders and to give the Directors challenging incentives to perform at the highest level. The RemCo has sought to reflect this policy in the current remuneration packages.

Executive Directors are invited to participate in the Balfour Beatty Pension Fund.

Basic salaries

In setting the basic salaries of executive Directors, the RemCo obtains data and independent advice from Monks and NBSC on the remuneration levels in companies which it considers to be comparable by taking into account the broad business sectors in which the Company operates, its market capitalisation and its annual turnover.

The RemCo used this market data, together with its own judgement of the performance of the Group's businesses and the contribution made by individual Directors, in determining basic salary increases implemented on 1 July 2003. The RemCo intends to adopt a similar approach in July 2004 and for the foreseeable future. The basic salary increases implemented on 1 July 2003 averaged 7.1%.

Annual incentive plan

Each executive Director participates in an annual incentive plan, under which predetermined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2003 was 50% of basic salary and the performance indicator chosen was profit before tax, exceptional items and goodwill amortisation. Based on the performance of the Company for the year ended 31 December 2003, each executive Director earned a bonus of 26.7% of basic salary. Precise figures are shown in the first table on page 39. These bonuses are payable in cash, after deduction of tax, and are non pensionable. For 2004 a similar bonus structure will operate with the maximum potential bonus again being 50% of basic salary. For subsequent years, the RemCo will continue to review the competitiveness and structure of the annual incentive plan.

Long-term incentive scheme

In 2001 the Company obtained shareholder approval for a Performance Share Plan ("Plan"), a long-term incentive scheme which is entirely performance related. Following agreement by the RemCo, conditional awards were again made in 2003. Under the Plan, executive Directors and key senior managers may receive ordinary shares in the Company up to a maximum number equivalent in market value to their basic salaries at the date of award. Details of awards to executive Directors are shown in the table on page 40. These shares will only vest to the extent that an earnings per share growth target is met over a three year performance period. The growth in earnings per share is determined following independent verification of the calculations made internally.

For the 2003 award, the extent to which this target is achieved over the three year period ending 31 December 2005 will determine the number of shares (if any) to which a Director will be entitled. The maximum award of shares is made only where the Company's earnings per share before exceptional items and goodwill amortisation ("EPS") increases by at least 100% in this period. If EPS growth is 30% over the period, the Directors will be entitled to 30% of the maximum number of shares. If EPS growth is between 30% and 100%, the number of shares awarded will be pro rata to actual growth. No shares can be awarded if EPS growth is less than 30%, and there is no provision for retesting of the performance condition.

EPS growth was chosen as the performance measure because it was, and remains, a key objective, since continuing growth in the Company's EPS should logically be reflected in growth in the share price and dividends and, therefore, increased returns to shareholders. The importance of EPS growth is well understood by the Directors and those other senior managers who participate in the Plan. The RemCo believes that the present management team contributes directly to achieving EPS growth and is positively motivated by the Plan. It is, therefore, currently the intention of the RemCo to retain EPS growth as the performance measure for awards under the Plan for 2004.

The RemCo believes in setting challenging performance targets and, as a result, in 2001, 2002 and 2003 the maximum award under the Plan was linked to an EPS growth target of 100%. The RemCo remains committed to establishing demanding targets for 2004 and for future years but recognises, however, that if such performance targets are to have a proper incentive effect they also need to be realistic and achievable. The RemCo therefore intends to take account of such factors as growth already achieved and future business prospects so as to ensure a sensible balance in determining the upper target at which the maximum award is made and the minimum level below which no award is made.

The performance period for the first conditional awards made in June 2001 was completed on 31 December 2003. The growth in EPS for the period 1 January 2001 to 31 December 2003 exceeded 100% and as a result, 100% of each participant's conditional award will vest on 7 June 2004.

The Plan was approved at the 2001 Annual General Meeting for a period of five years and, unless circumstances change significantly, the RemCo intends to make further conditional awards under the Plan in 2004 and also anticipates doing so in 2005. It is intended to submit proposals for future long-term incentive arrangements to shareholders for approval no later than the 2006 Annual General Meeting.

Executive share options

Prior to the establishment of the Performance Share Plan, grants of options over ordinary shares were made to executive Directors, some of which remain valid and unexercised. Details of these appear in the table beginning on page 41. It is now the RemCo's policy that, save in exceptional circumstances, for example to attract an outstanding individual, further awards of options will not be made to executive Directors who, in the same year, participate in the Plan. No executive options have therefore been granted to executive Directors since April 2000 and it is not intended that any executive options will be granted to executive Directors in 2004.

Remuneration report continued

Savings-related share option scheme
The Company continues to operate an Inland Revenue approved savings-related share option scheme ("SAYE") under which employees are granted an option to purchase shares in the Company in either three or five years time, dependant 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. The exercise price for the SAYE options granted in 2003 was at a 20% discount to market value at the date of invitation. This scheme is open to all employees based in the UK, including executive Directors, and performance conditions are not applied to the exercise of SAYE options.

Scheme rule amendments
As a result of the passing of the Finance Act 2003, certain minor amendments to the Executive Share Option Scheme 2001 have been introduced following approval by the Inland Revenue. No amendments to the Rules of the Savings-Related Share Option Scheme 2001 or the Performance Share Plan 2001 have been made. No further amendments to any of these schemes are currently proposed. All of these three schemes received shareholder approval at the 2001 Annual General Meeting.

Notice periods
Since 1999, it has been the Company's policy and practice to include in executive Directors' contracts a 12 month rolling notice period from the Company and six months' notice on the part of the Director. This policy will continue in the future.

All executive Directors have service contracts which provide for notice periods from the Company of 12 months. Michael Welton and Peter Zinkin have both voluntarily offered to reduce their notice periods from 24 months to 12 months without any compensation being paid to them. Their service contracts have therefore been amended, with effect from 1 January 2004, to reflect this change.

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

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

Name of Director	Date of contract	Notice period from Company (months)
J L Cohen	11 February 2000	12
M K Eckersall*	23 February 2001	12
A L P Rabin	28 August 2002	12
I P Tyler	5 October 1999	12
M W Welton	12 September 1996	12
A J Wivell	23 July 2002	12
P J L Zinkin	10 December 1991	12

*Left the Company on 31 October 2003

Non-executive Directors
Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. The Chairman's terms of service fall within the remit of the RemCo and the Board determines the terms on which the services of other non-executive Directors are provided. All non-executive Directors are elected for a term of three years unless required earlier to submit for re-election under the rotational provisions of the Articles of Association of the Company. They are not eligible to join the Balfour Beatty Pension Fund and cannot participate in any of the Company's share option, annual incentive or long-term incentive schemes. None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause.

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

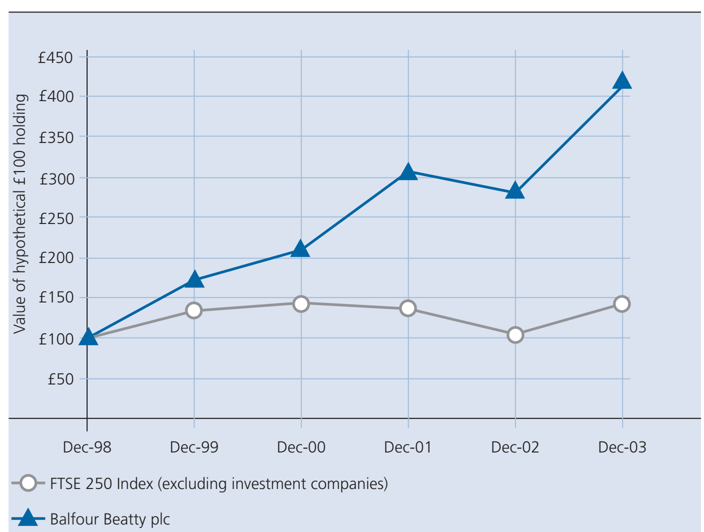
Name of Director	Date of appointment or last election	Unexpired period at 31 December 2003 (months)
C Carr	1 September 2003	32
R Delbridge	15 May 2003	29
Sir David John	2 May 2001	4
G H Sage	1 September 2003	32
Dr H C von Rohr	10 June 2003	30
R J W Walvis	16 May 2002	17
Sir David Wright	15 May 2003	29

The fees of the non-executive Directors are reviewed from time to time, the last review having been undertaken by the Board in June 2002 when a fee of £30,000 per annum was agreed, with effect from 1 July 2002. The RemCo approved fees of £165,000 per annum for Sir David John on his appointment as non-executive Chairman of the Company on 15 May 2003. The Board approved an additional fee of £6,000 per annum from 16 May 2003 for Richard Delbridge for his chairmanship of the Audit Committee, and, from 1 February 2004, an additional fee of £6,000 per annum for Robert Walvis for his chairmanship of the RemCo. No additional fees are currently payable to non-executive Directors for chairing any other Board Committees. Christoph von Rohr receives a €30,000 per annum fee for his membership of the supervisory board of Balfour Beatty Rail GmbH and his chairmanship of this board since Udo Stark's retirement. Until his retirement in June 2003, Udo Stark also received a €30,000 per annum fee for his chairmanship of the same board.

Performance graph
The graph below shows Balfour Beatty's Total Shareholder Return ("TSR") performance compared to the FTSE 250 Index (excluding investment companies) TSR over the five financial years ended 31 December 2003.

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

The RemCo has elected to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment companies) principally because this is a broad index of which the Company is a constituent member.



The detailed information about the Directors' remuneration, set out on pages 39 to 43, has been reported on by the Company's independent auditors, Deloitte & Touche LLP.

Directors' remuneration earned in 2003

Name of Director	Basic salary £	Fees £	Benefits in kind £	Annual bonus £	Compensation for loss of office (Note v) £	Total remuneration 2003 £	Total remuneration 2002 £
C Carr	–	10,000	–	–	–	10,000	–
J L Cohen	277,500	–	19,490	76,095	–	373,085	364,402
R Delbridge	–	33,750	–	–	–	33,750	5,692
M K Eckersall	230,000	–	17,909	63,413	303,787	615,109	364,500
Sir David John	–	114,375	–	–	–	114,375	27,500
A L P Rabin	270,000	–	16,768	74,760	–	361,528	226,222
C R Reeves	–	11,250	–	–	–	11,250	27,500
G H Sage	–	10,000	–	–	–	10,000	–
U G Stark	–	22,728	–	–	–	22,728	46,368
I P Tyler	320,000	–	22,445	88,110	–	430,555	394,638
Dr H C von Rohr	–	28,410	–	–	–	28,410	–
R J W Walvis	–	30,000	–	–	–	30,000	27,500
Viscount Weir	–	56,250	7,333	–	–	63,583	173,439
M W Welton	435,000	–	25,624	121,485	–	582,109	554,097
A J Wivell	270,000	–	16,686	74,760	–	361,446	233,811
Sir David Wright	–	30,000	–	–	–	30,000	–
P J L Zinkin	300,000	–	16,632	82,770	–	399,402	394,655
Former Directors	–	–	–	–	–	–	143,584
Total	2,102,500	346,763	142,887	581,393	303,787	3,477,330	2,983,908

Notes:

(i) Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors. Christoph von Rohr was appointed to the Board on 10 June 2003 and Chalmers Carr and Gordon Sage on 1 September 2003. Viscount Weir and Christopher Reeves resigned as Directors on 15 May 2003 and Udo Stark on 10 June 2003 with no compensation paid on their leaving the Company. Malcolm Eckersall left the Company on 31 October 2003 (see Note v).

(ii) Christoph von Rohr receives a €30,000 per annum fee for his membership of the supervisory board of Balfour Beatty Rail GmbH and his chairmanship of this board since Udo Stark's retirement. Until his retirement in June 2003, Udo Stark also received a fee of €30,000 per annum for his chairmanship of the same board.

(iii) Benefits in kind are calculated in terms of UK taxable values. For the executive Directors they comprise: a fully expensed car, a fuel card, and private medical insurance for the Director and his immediate family. The benefit in kind shown for Viscount Weir comprised travel expenses and an accommodation allowance in respect of the time he spent in London on Company business.

(iv) Other than as stated in Note (iii), no Director receives any expense allowance.

(v) Under the terms on which he left the Company, Malcolm Eckersall was paid £300,000 as compensation for loss of office. The Company will continue to provide Malcolm Eckersall with a fully expensed car, a fuel card, and private medical insurance until the earlier of 31 October 2004 or the date on which he commences alternative employment. These benefits could have a P11D value of £22,724 in total if Malcolm Eckersall does not obtain alternative employment before 31 October 2004. Of this amount £3,787 is shown above, representing the period 1 November 2003 to 31 December 2003. A further £40,000 will be payable 28 days after 30 September 2004, which will be reduced by any employment, consultancy or equivalent income or remuneration or benefits received by Malcolm Eckersall, or promised to him, in relation to the period 1 August 2004 to 30 September 2004. Malcolm Eckersall's annual bonus for 2003 has been pro rated with respect to the period of his employment.

Directors' interests

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

	Number of ordinary shares	
Name of Director	At 1 January 2003	At 31 December 2003
J L Cohen	21,697	24,195
R Delbridge	15,000	15,000
Sir David John	–	5,000
A L P Rabin	7,500	22,272
I P Tyler	3,340	62,623
R J W Walvis	10,000	10,000
M W Welton	32,500	137,880
A J Wivell	10,228	20,228
P J L Zinkin	5,331	26,380

Notes:

(i) Peter Zinkin was also interested at 1 January 2003 and 31 December 2003 in 325 cumulative convertible redeemable preference shares of 1p each of Balfour Beatty plc.

(ii) As participants in the Performance Share Plan, which satisfies awards using shares held by the Balfour Beatty Employee Share Ownership Trust, all of the executive Directors are deemed to be interested in the entire shareholding of the Trust, which at 31 December 2003 amounted to 1.822m ordinary shares.

(iii) All interests at the dates shown are beneficial and there were no changes between 31 December 2003 and 9 March 2004.

Remuneration report continued

Directors' long-term incentives: the Performance Share Plan

Name of Director	Date granted	At 1 January 2003	Awarded during the year	Lapsed during the year	Vested during the year	At 31 December 2003	Exercisable from
		Maximum number of shares subject to award					
J L Cohen	7 June 2001	115,384	–	–	–	115,384	June 2004
	17 April 2002	105,226	–	–	–	105,226	April 2005
	16 April 2003	–	156,376	–	–	156,376	April 2006
M K Eckersall	7 June 2001	115,384	–	37,384	78,000	–	November 2003
	17 April 2002	105,226	–	105,226	–	–	
	16 April 2003	–	156,376	156,376	–	–	
A L P Rabin	7 June 2001	80,267	–	–	–	80,267	June 2004
	17 April 2002	71,553	–	–	–	71,553	April 2005
	16 April 2003	–	150,584	–	–	150,584	April 2006
I P Tyler	7 June 2001	115,384	–	–	–	115,384	June 2004
	17 April 2002	105,226	–	–	–	105,226	April 2005
	16 April 2003	–	179,543	–	–	179,543	April 2006
M W Welton	7 June 2001	167,424	–	–	–	167,424	June 2004
	17 April 2002	154,499	–	–	–	154,499	April 2005
	16 April 2003	–	240,356	–	–	240,356	April 2006
A J Wivell	7 June 2001	71,867	–	–	–	71,867	June 2004
	17 April 2002	65,307	–	–	–	65,307	April 2005
	16 April 2003	–	150,584	–	–	150,584	April 2006
P J L Zinkin	7 June 2001	124,423	–	–	–	124,423	June 2004
	17 April 2002	110,404	–	–	–	110,404	April 2005
	16 April 2003	–	167,960	–	–	167,960	April 2006

Notes:

(i) All awards are granted for nil consideration and are in respect of 50p ordinary shares of Balfour Beatty plc.

(ii) For the awards in June 2001, April 2002 and April 2003, the performance periods are the three years ending 31 December 2003, 31 December 2004 and 31 December 2005 respectively. The maximum number of shares shown in the table above will be transferred to the Directors only if, and to the extent that, earnings per share before exceptional items and goodwill amortisation ("EPS") grows by 100% over the performance period. If EPS growth is 30%, the Directors will be entitled to 30% of the maximum number of shares. If EPS growth is between 30% and 100%, the number of shares awarded will be pro rata. No shares can be awarded if EPS growth is less than 30%, and there is no provision for retesting.

(iii) The performance period for the awards made in June 2001 was completed on 31 December 2003. The growth in EPS for this period exceeded 100% and as a result, 100% of each participant's conditional award will vest on 7 June 2004.

(iv) The awards made to Malcolm Eckersall in 2002 and 2003 lapsed on his leaving the Company on 31 October 2003. In respect of the award made to him on 7 June 2001, upon the recommendation of the RemCo, the Trustees of the Plan exercised their discretion and allowed 78,000 shares to vest, having regard to the underlying financial performance of the Company since the beginning of the performance period which commenced on 1 January 2001. This award was exercised on 19 November 2003, when the closing market price of the shares was 200.25p.

(v) The average middle market price of ordinary shares in the Company for the three dealing days before the date of the 2001 award under the Plan, which was used for calculating the number of awards granted, was 199.333p, for the 2002 award was 237.583p and for the 2003 award was 172.66p. The closing market price of ordinary shares on the date of the awards was 202.5p, 251p and 170.5p respectively.

Directors' share options

Name of Director	Date granted	Number of options: At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003	Exercise price	Exercisable from	to
J L Cohen									
Executive Share Options	13 April 1995	15,340	–	–	–	15,340	311.9p	April 1998	April 2005
	9 November 1999	80,000	–	–	–	80,000	110.0p	November 2002	November 2009
	13 April 2000	100,000	–	–	–	100,000	79.0p	April 2003	April 2010
Savings-Related Options	24 May 2000	2,498	–	2,498	–	–	76.0p	August 2003	January 2004
	19 July 2001	1,610	–	–	–	1,610	154.0p	October 2004	March 2005
	8 May 2002	743	–	–	–	743	184.0p	July 2005	December 2005
M K Eckersall									
Executive Share Options	13 April 2000	100,000	–	–	–	100,000	79.0p	April 2003	April 2010
Savings-Related Options	19 July 2001	3,462	–	–	3,462	–	154.0p	October 2006	March 2007
A L P Rabin									
Executive Share Options	17 April 1996	10,227	–	–	–	10,227	344.2p	April 1999	April 2006
	9 November 1999	50,000	–	50,000	–	–	110.0p	November 2002	November 2009
	13 April 2000	70,000	–	70,000	–	–	79.0p	April 2003	April 2010
Savings-Related Options	22 May 1998	4,772	–	4,772	–	–	120.0p	August 2003	January 2004
	6 October 1999	2,967	–	–	–	2,967	91.0p	December 2004	May 2005
	24 May 2000	3,286	–	–	–	3,286	76.0p	August 2005	January 2006
	19 July 2001	1,227	–	–	–	1,227	154.0p	October 2006	March 2007
	8 May 2002	575	–	–	–	575	184.0p	July 2007	December 2007
	7 May 2003	–	444	–	–	444	133.0p	July 2008	December 2008
I P Tyler									
Executive Share Options	9 November 1999	80.000	–	80,000	–	–	110.0p	November 2002	November 2009
	13 April 2000	100,000	–	100,000	–	–	79.0p	April 2003	April 2010
Savings-Related Options	24 May 2000	3,671	–	3,671	–	–	76.0p	August 2003	January 2004
	19 July 2001	1,358	–	–	–	1,358	154.0p	October 2004	March 2005
	8 May 2002	640	–	–	–	640	184.0p	July 2005	December 2005
	7 May 2003	–	511	–	–	511	133.0p	July 2006	December 2006
M W Welton									
Executive Share Options	27 April 1994	15,340	–	–	–	15,340	438.1p	April 1997	April 2004
	13 April 1995	15,340	–	–	–	15,340	311.9p	April 1998	April 2005
	9 November 1999	150,000	–	150,000	–	–	110.0p	November 2002	November 2009
	13 April 2000	150,000	–	150,000	–	–	79.0p	April 2003	April 2010
Savings-Related Options	23 May 1997	2,156	–	–	2,156	–	208.0p	August 2002	January 2003
	24 May 2000	1,274	–	1,274	–	–	76.0p	August 2003	January 2004
	19 July 2001	780	–	–	–	780	154.0p	October 2004	March 2005
	8 May 2002	702	–	–	–	702	184.0p	July 2005	December 2005
	7 May 2003	–	653	–	–	653	133.0p	July 2006	December 2006
A J Wivell									
Executive Share Options	13 April 1995	15,340	–	–	–	15,340	311.9p	April 1998	April 2005
	9 November 1999	50,000	–	50,000	–	–	110.0p	November 2002	November 2009
	13 April 2000	70,000	–	70,000	–	–	79.0p	April 2003	April 2010
P J L Zinkin									
Executive Share Options	9 November 1999	80,000	–	80,000	–	–	110.0p	November 2002	November 2009
	13 April 2000	100,000	–	100,000	–	–	79.0p	April 2003	April 2010
Savings-Related Options	22 May 1998	1,380	–	1,380	–	–	120.0p	August 2003	January 2004
	6 October 1999	1,260	–	–	–	1,260	91.0p	December 2004	May 2005
	24 May 2000	2,842	–	–	–	2,842	76.0p	August 2005	January 2006
	19 July 2001	2,454	–	–	–	2,454	154.0p	October 2006	March 2007
	8 May 2002	1,151	–	–	–	1,151	184.0p	July 2007	December 2007
	7 May 2003	–	839	–	–	839	133.0p	July 2008	December 2008

Notes:
(i) All options are granted for nil consideration on grant and are in respect of 50p ordinary shares of Balfour Beatty plc.
(ii) All outstanding executive share options held by Directors have satisfied performance conditions that were required to be met before exercise and are, therefore, exercisable at the discretion of the option holder.
(iii) The closing market price of the Company's ordinary shares on 31 December 2003 was 218.5p. During the year the highest and lowest closing market prices were 222p and 136.5p.
(iv) Malcolm Eckersall's savings-related share options lapsed on his leaving the Company on 31 October 2003.
(v) Savings-related share options granted to Michael Welton in May 1997, exercisable at 208p, lapsed unexercised in January 2003.
(vi) Details of options exercised and the value realisable on exercise are shown in the table overleaf.

Remuneration report continued

Name of Director	Date granted	Date exercised	Number of options exercised	Exercise price	Closing market price on date exercised	Value realisable on exercise*
J L Cohen						
Savings-Related Options	24 May 2000	30 October 2003	2,498	76.0p	200.0p	£3,098
A L P Rabin						
Executive Share Options	9 November 1999	20 May 2003	50,000	110.0p	190.75p	£40,375
	13 April 2000	20 May 2003	70,000	79.0p	190.75p	£78,225
Savings-Related Options	22 May 1998	28 August 2003	4,772	120.0p	210.0p	£4,295
I P Tyler						
Executive Share Options	9 November 1999	20 May 2003	80,000	110.0p	190.75p	£64,600
	13 April 2000	20 May 2003	100,000	79.0p	190.75p	£111,750
Savings-Related Options	24 May 2000	28 August 2003	3,671	76.0p	210.0p	£4,919
M W Welton						
Executive Share Options	9 November 1999	20 May 2003	150,000	110.0p	190.75p	£121,125
	13 April 2000	20 May 2003	150,000	79.0p	190.75p	£167,625
Savings-Related Options	24 May 2000	18 September 2003	1,274	76.0p	219.0p	£1,822
A J Wivell						
Executive Share Options	9 November 1999	29 May 2003	50,000	110.0p	197.75p	£43,875
	13 April 2000	29 May 2003	70,000	79.0p	197.75p	£83,125
P J L Zinkin						
Executive Share Options	9 November 1999	12 June 2003	80,000	110.0p	199.5p	£71,600
	13 April 2000	20 May 2003	100,000	79.0p	190.75p	£111,750
Savings-Related Options	22 May 1998	21 August 2003	1,380	120.0p	205.75p	£1,183

*The value realisable from shares acquired on exercise is the difference between the closing market price on the date exercised and the exercise price of the options, although the shares may have been retained, in which case they are included in the table on page 39, headed "Directors' interests".

Directors' pensions

Executive Directors participate in the Balfour Beatty Pension Fund. The scheme provides for a pension at a normal retirement age of 62 and each Director pays an annual contribution equal to 5% of pensionable salary. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to Inland Revenue limits. Directors have the option to pay additional voluntary contributions, but neither the contributions nor the resulting benefits are included in the tables below. The salaries of Jim Cohen, Malcolm Eckersall, Anthony Rabin and Ian Tyler were subject to the Inland Revenue earnings cap for pension purposes and details of the Company's contributions to additional arrangements for them are noted underneath the table on page 43.

The table below sets out the accrued deferred pension which would be paid annually from the scheme at retirement based on each executive Director's service to 31 December 2003 as well as the additional pension benefit secured in respect of service during the year.

Name of Director	Age at 31 December 2003 years	Pensionable service at 31 December 2003 (Note i) years	Accrued deferred pension at 31 December 2002 £pa	Increase in accrued deferred pension during the year: Inflation £pa	Increase in accrued deferred pension during the year: Increase in excess of inflation £pa	Accrued deferred pension at 31 December 2003* £pa	Transfer value corresponding to increase in excess of inflation at 31 December 2003 less Director's contributions (Note ii) £
J L Cohen	**61**	**10**	28,650	487	3,249	**32,386**	**57,241**
M K Eckersall (Note iii)	**58**	**4**	9,378	–	(3,054)	**6,324**	**(46,631)**
A L P Rabin	**48**	**1**	1,428	24	3,020	**4,472**	**24,067**
I P Tyler	**43**	**7**	16,070	273	2,461	**18,804**	**13,430**
M W Welton	**57**	**33**	207,497	3,527	32,914	**243,938**	**488,910**
A J Wivell	**58**	**30**	118,943	2,022	41,311	**162,276**	**686,276**
P J L Zinkin	**50**	**22**	112,807	1,918	16,856	**131,581**	**164,357**

*or date of leaving if earlier.

Notes:

(i) Michael Welton's pensionable service includes eight years of transferred-in service from previous employment.

(ii) The transfer value of the increase in accrued deferred pension is the present value of the increase in excess of inflation in the deferred pension and associated benefits during the period, less the Director's contributions, calculated using the Fund specific transfer basis in force at 31 December 2003 and on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

(iii) Malcolm Eckersall left the Company on 31 October 2003. The reduction in deferred pension shown reflects Malcolm Eckersall's retained benefits being taken fully into account. After leaving the Company, Malcolm Eckersall decided to take an immediate pension which amounted to £5,521 per annum.

The table below sets out the transfer value at 31 December 2003 of each executive Director's accrued deferred pension at that date as well as the movement in that transfer value over the period. The transfer values represent the cash equivalent values that would have been payable from the scheme had the Directors left service on the dates shown, and reflect the age of the Director, his period of membership of the scheme and his pensionable salary.

Name of Director	Age at 31 December 2003 years	Pensionable service at 31 December 2003 years	Transfer value at 31 December 2002 (Note i) £	Transfer value at 31 December 2002 (Note ii) £	Contributions made by Director during the year £	Increase in transfer value during the year less Director's contributions (Note iii) £	Transfer value at 31 December 2003 (Note iv) £
J L Cohen	**61**	**10**	470,315	507,940	4,928	57,705	**570,573**
M K Eckersall	**58**	**4**	124,183	137,843	4,103	(28,783)	**113,163**
A L P Rabin	**48**	**1**	10,337	11,474	4,928	25,682	**42,084**
I P Tyler	**43**	**7**	93,837	102,282	4,928	30,195	**137,405**
M W Welton	**57**	**33**	2,622,999	2,963,989	21,602	755,792	**3,741,383**
A J Wivell	**58**	**30**	1,682,584	1,867,668	13,352	850,842	**2,731,862**
P J L Zinkin	**50**	**22**	903,523	1,020,981	14,852	351,613	**1,387,446**

Notes:

(i) The transfer value is the present value of the accrued deferred pension and associated benefits calculated on the MFR basis in accordance with Actuarial Guidance Note GN11.

(ii) During 2003, the Trustee of the Balfour Beatty Pension Fund reviewed its transfer basis in common with many other pension schemes and as a result adopted a Fund specific basis towards the end of 2003. In the majority of cases this revised transfer basis would result in a higher transfer value than that calculated under the MFR basis. The transfer values shown represent the transfer value of the accrued deferred pension and associated benefits as at 31 December 2002, but calculated using this Fund specific transfer basis.

(iii) The figure is the difference between the transfer value of the accrued benefits at the start and end of the period, less the Director's contributions during the period. The transfer value at the start of the period used is that calculated on the revised transfer basis, referred to in Note (ii) above, in order to eliminate distortion caused by the change in calculation basis.

(iv) The transfer value is the present value of the accrued deferred pension and associated benefits at 31 December 2003, calculated using the transfer basis then in force and on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. Malcolm Eckersall left the Company on 31 October 2003 and decided to take an immediate pension of £5,521 per annum, so the figure quoted in the above table is the actuarial value of his immediate pension.

The salaries of Jim Cohen, Malcolm Eckersall, Anthony Rabin and Ian Tyler were subject to the Inland Revenue earnings cap for pension purposes, and the Company has contributed to a Funded Unapproved Retirement Benefit Scheme ("FURBS") for each of them. In 2003, the Company's contribution to Jim Cohen's plan was £30,764, to Malcolm Eckersall's £30,449, to Anthony Rabin's £41,541 and to Ian Tyler's £36,051. Benefits under these FURBS are additional to those set out in the tables above. The contribution to Malcolm Eckersall's FURBS ceased on his leaving the Company on 31 October 2003.

No past Director of the Company has received or become entitled to receive retirement benefits in excess of his entitlements on the date on which those benefits first became payable, or 31 March 1997 if later.

Corporate Social Responsibility

Safety, Environment and Social Report
For the third year we are publishing a separate Safety, Environment and Social Report. Shareholders may obtain a copy of this by following the procedure on page 21. A copy will be available to all shareholders attending the Annual General Meeting and to preference shareholders attending the separate class meeting.

Group policies
Our published policies on Health & Safety, the Environment, Ethics and Human Rights have been updated since last year but remain essentially unchanged. Our progress in the areas of Health & Safety and the Environment is described in the Safety, Environment and Social Report. During the year our human rights policy and practices in our overseas businesses have been independently reviewed.

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

These are:

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

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

The Pension Liaison Committee continues to provide a forum for employee member representatives to discuss pension matters with management and fund advisers.

Donations
In 2003 the Group contributed approximately £0.03m to charities. It has also provided material assistance in kind to the charitable organisation Engineers Against Poverty, which carries out small engineering projects in developing countries. The Company is now in the final stages of formulating a revised charities policy under which it will direct its support to a small number of selected charities, which will be reviewed annually. The new policy is likely to cause an increase in charitable donations by the Group.

In addition the Group has enabled UK employees to donate through the Give-as-you-Earn scheme to various charities of their choice.

Taxation status
The Company is not a close company for taxation purposes.

Post balance sheet events
Details of post balance sheet events are set out in Note 26 on page 69.

Research and development
The Group continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology and asset management systems.

We continue to undertake a range of development initiatives throughout our businesses which are supported by links with selected universities.

Details of the Group's 2003 research and development expenditure are given in Note 3b on page 52.

Payment of creditors
In the UK, the Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions; to seek to ensure that suppliers are aware of the terms of payment; and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. At 31 December 2003 the year end creditors' days of the Company were 27 (2002: 9).

Statement of Directors' responsibilities
The following statement, which should be read in conjunction with the Independent auditors' report on page 45, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. The Directors consider that, in preparing the financial statements on pages 46 to 71, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Auditors
On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989. Deloitte & Touche LLP have indicated their willingness to continue as auditors.

Annual General Meeting
Sir David John, who chairs the Nomination and Business Practices Committees, Richard Delbridge, who chairs the Audit Committee and Robert Walvis, who chairs the Remuneration Committee, will be available at the Annual General Meeting to answer any questions arising from the work of these Committees. The Board regards the Annual General Meeting as an important occasion on which to communicate with shareholders, and research into subjects of likely interest to shareholders is undertaken so that questions can be answered during the meeting for the benefit of all shareholders present. Shareholders may also put questions in advance of the Annual General Meeting by writing to the Company Secretary.

The business to be put to the Annual General Meeting is set out in the separate circular to shareholders.

Directors' report and Remuneration report
signed by Order of the Board

C R O'N Pearson
Company Secretary
9 March 2004

Independent auditors’ report

To the members of Balfour Beatty plc

We have audited the financial statements of Balfour Beatty plc for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors’ remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

As described in the statement of Directors’ responsibilities, the Company’s Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors’ remuneration report. Our responsibility is to audit the financial statements and the part of the Directors’ remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors’ remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors’ report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors’ remuneration and transactions with the Company and other members of the Group is not disclosed.

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

We read the Directors’ report and the other information contained in the Annual Report including the unaudited part of the Directors’ remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors’ remuneration report which is described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors’ remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
9 March 2004

Group profit and loss account

For the year ended 31 December 2003

	Notes	Before exceptional items 2003 £m	Exceptional items (Note 4) 2003 £m	Total 2003 £m	Before exceptional items 2002 £m	Exceptional items (Note 4) 2002 £m	Total 2002 £m
Turnover including share of joint ventures and associates	2	**3,678**	**–**	**3,678**	3,441	–	3,441
Share of turnover of joint ventures		**(297)**	**–**	**(297)**	(191)	–	(191)
Share of turnover of associates		**(220)**	**–**	**(220)**	(150)	–	(150)
Group turnover		**3,161**	**–**	**3,161**	3,100	–	3,100
Continuing operations		**3,158**	**–**	**3,158**	3,100	–	3,100
Acquisitions	20	**3**	**–**	**3**	–	–	–
Cost of sales	3	**(2,850)**	**3**	**(2,847)**	(2,816)	–	(2,816)
Gross profit		**311**	**3**	**314**	284	–	284
Net operating expenses	3	**(243)**	**–**	**(243)**	(217)	(9)	(226)
Group operating profit		**68**	**3**	**71**	67	(9)	58
Share of operating profit of joint ventures	3	**47**	**–**	**47**	42	–	42
Share of operating profit of associates	3	**29**	**–**	**29**	19	–	19
Operating profit including share of joint ventures and associates		**144**	**3**	**147**	128	(9)	119
Operating profit before goodwill amortisation		**161**	**3**	**164**	149	(9)	140
Goodwill amortisation		**(17)**	**–**	**(17)**	(21)	–	(21)
Continuing operations		**144**	**3**	**147**	128	(9)	119
Acquisitions	20	**–**	**–**	**–**	–	–	–
Provision for loss on sale of operations			**(10)**	**(10)**		–	–
Profit on sale of fixed assets			**12**	**12**		–	–
Profit on ordinary activities before interest	3	**144**	**5**	**149**	128	(9)	119
Net interest payable and similar charges:							
Group	5	**(1)**	**–**	**(1)**	–	–	–
Share of joint ventures' interest	5	**(18)**	**–**	**(18)**	(24)	–	(24)
Share of associates' interest	5	**(12)**	**–**	**(12)**	(7)	–	(7)
Profit on ordinary activities before taxation		**113**	**5**	**118**	97	(9)	88
Profit on ordinary activities before goodwill amortisation and taxation		**130**	**5**	**135**	118	(9)	109
Goodwill amortisation		**(17)**	**–**	**(17)**	(21)	–	(21)
Tax on profit on ordinary activities	6	**(30)**	**1**	**(29)**	(35)	–	(35)
Profit for the financial year		**83**	**6**	**89**	62	(9)	53
Dividends:							
Preference	7			**(15)**			(16)
Ordinary	7			**(25)**			(22)
Transfer to reserves				**49**			15
Adjusted earnings per ordinary share	8			**20.6p**			16.1p
Goodwill amortisation				**(4.1)p**			(4.9)p
Exceptional items after attributable taxation	4			**1.4p**			(2.2)p
Basic earnings per ordinary share	8			**17.9p**			9.0p
Diluted earnings per ordinary share	8			**17.7p**			8.9p
Dividends per ordinary share	7			**6.0p**			5.4p

Balance sheets

At 31 December 2003

	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets – goodwill	9	**306**	266	**–**	–
Tangible assets	10	**158**	140	**1**	3
Investments	11	**36**	30	**775**	865
Investments in joint ventures:					
Share of gross assets		**866**	662	**–**	–
Share of gross liabilities		**(777)**	(584)	**–**	–
	11	**89**	78	**–**	–
Investments in associates	11	**47**	35	**–**	–
		636	549	**776**	868
Current assets					
Stocks	12	**109**	98	**1**	2
Debtors – due within one year	13	**759**	703	**56**	46
– due after one year	13	**60**	72	**14**	17
Cash and deposits	14	**202**	175	**37**	–
		1,130	1,048	**108**	65
Creditors: amounts falling due within one year					
Borrowings	14	**(7)**	(29)	**(14)**	(55)
Other creditors	16	**(1,196)**	(1,129)	**(62)**	(64)
Net current (liabilities)/assets		**(73)**	(110)	**32**	(54)
Total assets less current liabilities		**563**	439	**808**	814
Creditors: amounts falling due after more than one year					
Borrowings	14	**(71)**	(79)	**(66)**	(74)
Other creditors	16	**(95)**	(57)	**(35)**	(25)
Provisions for liabilities and charges	17	**(167)**	(110)	**(11)**	(13)
		230	193	**696**	702
Capital and reserves					
Called-up share capital	18	**212**	209	**212**	209
Share premium account	19	**328**	326	**328**	326
Revaluation reserves	19	**48**	27	**–**	–
Other reserves	19	**4**	4	**46**	46
Profit and loss account	19	**(362)**	(373)	**110**	121
Shareholders' funds		**230**	193	**696**	702
Equity interests		**80**	32	**546**	541
Non-equity interests		**150**	161	**150**	161
		230	193	**696**	702

On behalf of the Board

Sir David John Director
A L P Rabin Director
9 March 2004

Group cash flow statement

For the year ended 31 December 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	28(a)	**170**	142
Dividends from joint ventures and associates		**11**	20
Returns on investments and servicing of finance			
Interest received		**9**	8
Interest paid		**(10)**	(12)
Preference dividends paid		**(15)**	(16)
Net cash outflow from returns on investments and servicing of finance		**(16)**	(20)
UK corporation tax paid		**(19)**	(12)
Foreign tax paid		**(6)**	(5)
Taxation		**(25)**	(17)
Capital expenditure and financial investment			
Capital expenditure		**(51)**	(46)
Disposal of tangible fixed assets		**24**	4
Investment in joint ventures and associates		**(6)**	14
Other investments		**(7)**	(7)
Net cash outflow from capital expenditure and financial investment		**(40)**	(35)
Acquisitions and disposals			
Acquisitions of businesses	28(d)	**(21)**	(65)
Disposals of businesses	28(e)	**–**	(2)
Net cash outflow from acquisitions and disposals		**(21)**	(67)
Ordinary dividends paid		**(22)**	(21)
Cash inflow before use of liquid resources and financing		**57**	2
Management of liquid resources			
(Increase)/decrease in term deposits	28(b)	**(32)**	7
Net cash (outflow)/inflow from management of liquid resources		**(32)**	7
Financing			
Ordinary shares issued		**5**	1
Buy-back of preference shares		**(16)**	(7)
New loans		**3**	5
Repayment of loans		**(11)**	(5)
Capital element of finance lease payments		**(3)**	(3)
Net cash outflow from financing		**(22)**	(9)
Increase in cash in the period	28(c)	**3**	–

Group statement of total recognised gains and losses

For the year ended 31 December 2003

	2003 £m	2002 £m
Profit for the financial year:		
Group		
Group operating profit	**71**	58
Provision for loss on sale of operations	**(10)**	–
Profit on sale of fixed assets	**12**	–
Net interest payable and similar charges	**(1)**	–
Tax	**(14)**	(25)
	58	33
Share of joint ventures (see Note 11b)	**19**	12
Share of associates (see Note 11b)	**12**	8
Exchange adjustments	**(1)**	(1)
Total recognised gains and losses for the year	**88**	52

Notes to the accounts

1 Principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified for the revaluation of certain land and buildings, and comply with all applicable accounting standards and the Companies Act 1985.

b) Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiary undertakings, together with the Group's share of the results of joint ventures and associates drawn up to 31 December each year. The results of subsidiaries, joint ventures and associates acquired or sold in the year are consolidated from the respective date of acquisition or to the respective date of disposal. In accordance with FRS 10 "Goodwill and Intangible Assets", with effect from 1 January 1998, goodwill, being the excess of the fair value of consideration over the fair value of net assets acquired, arising on the acquisition of subsidiaries, joint ventures and associates is capitalised and amortised through the profit and loss account over the Directors' estimate of its economic useful life of up to 20 years. Goodwill arising before 1 January 1998 has been eliminated against reserves and is included in the profit and loss account at the time of the disposal of the business to which it relates.

The Group's share of the net assets of contracting joint arrangements is included under each relevant heading within the balance sheet.

c) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date or, if appropriate, at the forward contract rate.

The results of overseas subsidiaries, joint ventures and associates are translated at average rates of exchange for the year and their assets and liabilities are translated at year end rates. Exchange differences on opening net assets less offsetting foreign currency loans and other hedging instruments to the extent that they hedge the Group's investments are reported in the statement of total recognised gains and losses. All other exchange differences are dealt with in the profit and loss account.

d) Financial derivatives

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies. Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Forward contracts used to hedge foreign currency investments are revalued to year end rates and any exchange differences are taken to reserves. The difference between the spot and forward rates on such contracts is recognised on an accruals basis as part of net interest payable. Gains and losses on financial instruments used to hedge foreign currency transactions are recognised on maturity of the underlying transaction in the profit and loss account or as adjustments to carrying amounts in the balance sheet. Gains and losses on financial instruments which are terminated because the underlying exposure ceases to exist are taken immediately to the profit and loss account.

e) Finance costs

Finance costs of debt are charged in the profit and loss account over the term of the instrument at a constant rate on the carrying amount. Finance costs that are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets commencing at the start of construction and ceasing when the asset is complete and ready for use.

f) Turnover

Turnover represents amounts invoiced to outside customers, net of trade discounts, value added and similar sales-based taxes, except in respect of contracting activities where turnover represents the value of work carried out during the year including amounts not invoiced. Turnover is recognised on property developments when they are subject to substantially unconditional contracts for sale.

g) Profit recognition on contracting activities

Profit on individual contracts is taken only when their outcome can be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Full provision is made for all known or expected losses on individual contracts, taking a prudent view of future claims income, immediately such losses are foreseen. 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.

h) PFI/PPP concessions

Assets constructed by PFI/PPP concession companies are classified as fixed assets or as long-term finance assets of the concession company depending on the allocation of risks between the concession company and the public sector authority.

Where the concession company takes the greater share of the risks associated with the asset the asset is capitalised and depreciated over the life of the concession. Revenue is recognised as turnover as it is earned.

Where the public sector authority takes the greater share of the risks associated with the asset the asset is classified as a long-term finance asset. Revenues received are apportioned between capital repayments, relating to the provision of the asset, and operating revenue. The finance income element of the capital repayment is recognised as interest receivable using a rate of return specific to the asset. The operating revenue relating to the provision of services is recognised as turnover as it is earned.

i) Research and development

Research and development expenditure is written off in the year in which it is incurred.

j) Tangible fixed assets

Except for land and assets in the course of construction, the cost or valuation of tangible fixed assets is 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.

Assets held under finance leases are treated as tangible fixed assets; depreciation is provided accordingly, and the deemed capital element of future rentals is included within borrowings. Deemed interest, calculated on a reducing balance basis, is charged as interest payable over the period of the lease. The rental costs arising from operating leases are charged against operating profit as they arise.

k) Investments

Joint ventures and associates are included in the consolidated balance sheet at the Group's share of net tangible asset values, plus loans due from such undertakings and attributable goodwill arising since 1 January 1998, less amounts amortised and provided for. The excess of attributable net assets of joint ventures and associates over their cost is included in the Group's revaluation reserve. Other Group investments and the Company's investments are stated at cost plus loans, less amounts provided for.

l) Stocks

Stocks and unbilled contract work in progress are valued at the lower of cost and net realisable value. Cost, where appropriate, includes a proportion of manufacturing overheads. Applications for progress payments are deducted from cost, with any excess included in other creditors as advance progress applications.

m) Taxation

The tax charge is composed of current tax and deferred tax. Current tax is based on the profit for the year at the current rate.

Deferred taxation is provided using the liability method. Timing differences arising from provisions, post retirement benefits and capital allowances are fully recognised. Deferred tax assets are recognised to the extent it is believed they will be recovered against future taxable profits. Deferred tax assets and liabilities are not discounted.

Provision is not made for taxation which would be payable if the retained profits of overseas subsidiary undertakings, joint ventures and associates were remitted to the UK, or which would arise on any excess of the sale proceeds over the cost of land and buildings if they were to be sold at their revalued amounts.

n) Pensions

Contributions to defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of providing pensions over employees' working lives with the Group. Variations in pension costs are allocated over the remaining service lives of employees as an adjustment to the regular pension cost. Differences between contributions paid and amounts charged in the profit and loss account are included as a prepayment or liability in the balance sheet. Contributions to defined contribution pension schemes are charged to the profit and loss account as they fall due.

2 Segment analysis

a) Total Group, including share of joint ventures and associates

	Turnover 2003 £m	Turnover 2002 £m	Operating profit before exceptional items 2003 £m	Operating profit before exceptional items 2002 £m	Capital employed 2003 £m	Capital employed 2002 £m
Performance by activity						
Building, building management and services	**1,196**	1,123	**45**	46	**(133)**	(89)
Civil and specialist engineering and services	**1,393**	1,347	**21**	17	**(44)**	(41)
Rail engineering and services	**873**	838	**41**	37	**(51)**	(18)
Investments and developments	**216**	133	**54**	49	**56**	53
	3,678	3,441	**161**	149	**(172)**	(95)
Goodwill amortisation			**(17)**	(21)		
Operating profit			**144**	128		
Net interest payable			**(31)**	(31)		
Profit before tax and exceptional items			**113**	97		
Net cash					**124**	67
Goodwill (including share of joint ventures and associates)					**318**	280
Tax and dividends					**(40)**	(59)
					230	193
Performance by geographic origin						
Europe	**3,127**	2,780	**170**	158	**(222)**	(152)
North America	**483**	593	**(12)**	(11)	**41**	50
Other	**68**	68	**3**	2	**9**	7
	3,678	3,441	**161**	149	**(172)**	(95)

Goodwill amortisation arises in Building, building management and services £2.8m (2002: £1.8m), Civil and specialist engineering and services £5.5m (2002: £5.8m) and Rail engineering and services £9.0m (2002: £12.9m). In 2003, goodwill amortisation includes £0.5m impairment charge in respect of Garanti Balfour Beatty. In 2002, goodwill amortisation included £5m impairment charge in respect of Balfour Beatty Rail Systems Inc £4m and Garanti Balfour Beatty £1m. Goodwill arises in Building, building management and services £85m (2002: £35m), Civil and specialist engineering and services £80m (2002: £88m), Rail engineering and services £152m (2002: £156m) and Investments and developments £1m (2002: £1m).

Goodwill amortisation arises in Europe £12.3m (2002: £11.0m), North America £4.7m (2002: £9.3m) and Other £0.3m (2002: £0.2m). Goodwill arises in Europe £242m (2002: £191m), North America £72m (2002: £85m) and Other £4m (2002: £4m).

b) Share of joint ventures and associates

	Turnover 2003 £m	Turnover 2002 £m	Operating profit before exceptional items 2003 £m	Operating profit before exceptional items 2002 £m	Capital employed 2003 £m	Capital employed 2002 £m
Performance by activity						
Building, building management and services	**122**	49	**6**	2	**3**	2
Civil and specialist engineering and services	**177**	157	**12**	4	**29**	25
Rail engineering and services	**2**	2	**–**	–	**–**	–
Investments and developments	**216**	133	**60**	57	**92**	72
	517	341	**78**	63	**124**	99
Goodwill amortisation			**(2)**	(2)		
Operating profit			**76**	61		
Net interest payable			**(30)**	(31)		
Profit before tax and exceptional items			**46**	30		
Goodwill					**12**	14
					136	113
Performance by geographic origin						
Europe	**450**	285	**75**	64	**115**	91
Other	**67**	56	**3**	(1)	**9**	8
	517	341	**78**	63	**124**	99

Goodwill amortisation arises in Building, building management and services £1.2m (2002: £0.3m), Civil and specialist engineering and services £0.9m (2002: £1.3m) and Rail engineering and services £0.1m (2002: £0.1m). Goodwill arises in Building, building management and services £7m (2002: £8m), Civil and specialist engineering and services £2m (2002: £3m), Rail engineering and services £2m (2002: £2m) and Investments and developments £1m (2002: £1m).

Goodwill amortisation arises in Europe £1.9m (2002: £1.6m) and Other £0.3m (2002: £0.1m). Goodwill arises in Europe £8m (2002: £10m) and Other £4m (2002: £4m).

2 Segment analysis continued

c) Investments and developments performance

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

	Group turnover 2003 £m	Share of joint ventures' and associates' turnover 2003 £m	Total turnover 2003 £m	Group operating profit 2003 £m	Share of joint ventures' and associates' operating profit 2003 £m	Total operating profit 2003 £m	Group capital employed 2003 £m	Share of joint ventures' and associates' capital employed 2003 £m	Total capital employed 2003 £m
PFI/PPP joint ventures and associates (see Note 11b)	–	174	174	–	54	54	–	81	81
PFI/PPP bidding costs and overheads	–	–	–	(5)	–	(5)	(15)	–	(15)
Loans from PFI/PPP joint ventures and associates	–	–	–	–	–	–	(25)	–	(25)
Balfour Beatty Capital Projects	–	174	174	(5)	54	49	(40)	81	41
Barking Power Ltd	–	42	42	–	6	6	–	11	11
Property development and other	–	–	–	(1)	–	(1)	4	–	4
	–	216	216	(6)	60	54	(36)	92	56

	Group turnover 2002 £m	Share of joint ventures' and associates' turnover 2002 £m	Total turnover 2002 £m	Group operating profit 2002 £m	Share of joint ventures' and associates' operating profit 2002 £m	Total operating profit 2002 £m	Group capital employed 2002 £m	Share of joint ventures' and associates' capital employed 2002 £m	Total capital employed 2002 £m
PFI/PPP joint ventures and associates (see Note 11b)	–	80	80	–	40	40	–	61	61
PFI/PPP bidding costs and overheads	–	–	–	(6)	–	(6)	1	–	1
Loans from PFI/PPP joint ventures and associates	–	–	–	–	–	–	(25)	–	(25)
Balfour Beatty Capital Projects	–	80	80	(6)	40	34	(24)	61	37
Barking Power Ltd	–	51	51	–	15	15	–	11	11
Property development and other	–	2	2	(2)	2	–	5	–	5
	–	133	133	(8)	57	49	(19)	72	53

d) Turnover by destination

	2003 £m	2002 £m
Total Group, including share of joint ventures and associates		
United Kingdom	2,749	2,441
Rest of Europe	268	232
North America	476	587
Other	185	181
	3,678	3,441

3 Profit before interest and exceptional items

a) Turnover, cost of sales and net operating expenses

	Continuing operations 2003 £m	Acquisitions 2003 £m	Total 2003 £m	Total 2002 £m
Turnover including share of joint ventures and associates	**3,675**	**3**	**3,678**	3,441
Less: share of turnover of joint ventures	**(297)**	**–**	**(297)**	(191)
Less: share of turnover of associates	**(220)**	**–**	**(220)**	(150)
Group turnover	**3,158**	**3**	**3,161**	3,100
Cost of sales	**(2,847)**	**(3)**	**(2,850)**	(2,816)
Gross profit	**311**	**–**	**311**	284
Administrative expenses (including goodwill amortisation)	**(227)**	**–**	**(227)**	(203)
Distribution expenses	**(16)**	**–**	**(16)**	(14)
Group operating profit before exceptional items	**68**	**–**	**68**	67
Share of operating profit of joint ventures	**47**	**–**	**47**	42
Share of operating profit of associates	**29**	**–**	**29**	19
Operating profit before exceptional items	**144**	**–**	**144**	128

Operating profit before goodwill amortisation of Mansell plc, acquired in 2003, was £0.1m.

b) Profit on ordinary activities before interest is stated after charging:

	2003 £m	2002 £m
Depreciation	**43**	40
Goodwill amortisation – including share of joint ventures and associates £2m (2002: £2m)	**17**	21
Hire charges for plant and equipment	**59**	60
Other operating lease rentals	**43**	39
Research and development expenditure	**10**	12
Auditors' remuneration, which for Balfour Beatty plc was £0.4m (2002: £0.3m)	**2**	1

c) Analysis of fees paid to auditors

	2003 £m	2002 £m
Services as auditors	**1.9**	1.4
Further assurance services		
– due diligence	**0.3**	1.8
– other assurance services	**0.3**	2.6
Tax advisory services	**0.3**	0.2
Other non-audit services		
– information technology	**–**	0.2
	2.8	6.2

All audit and non-audit fees in 2003 were paid to Deloitte & Touche LLP. In 2002 £1.3m of further assurance, £0.1m of tax advisory and £0.2m of other non-audit service fees were paid to Arthur Andersen with the remainder paid to Deloitte & Touche. In 2002, £3.5m of further assurance services, included in exceptional items, were incurred in respect of the aborted acquisition of J. A. Jones Inc and were paid to Deloitte & Touche.

4 Exceptional items

	2003 £m	2002 £m
a) Credited to/(charged against) operating profit:		
Compensation for loss of use of operating facility	**10**	–
Cancellation of Network Rail maintenance contracts	**(7)**	–
Aborted acquisition costs	**–**	(9)
	3	(9)
b) Provision for loss on sale of operations:		
Losses arising from the disposal of the discontinued Cables businesses	**(8)**	–
Provision for loss on disposal of Garanti Balfour Beatty	**(2)**	–
	(10)	–
c) Profit on sale of fixed assets:		
Profit on sale of operating facility	**12**	–
	5	(9)

a) Exceptional items charged against Group operating profit in 2003 comprise compensation received in respect of business disruption, following the compulsory purchase of an operating facility, offset by costs arising from the cancellation of three Network Rail maintenance contracts. These exceptional items relate to the Rail engineering and services segment and arise in Europe.
Exceptional items charged against Group operating profit in 2002 arose from the aborted acquisition of J. A. Jones Inc.

b) The provision for loss on sale of operations comprises provision for environmental and employee retirement costs relating to the discontinued Cables businesses in North America sold in 1999 and provision for losses on the disposal in 2004 of the Group's 49.2% interest in Garanti Balfour Beatty in Turkey in the Civil and specialist engineering segment in Europe.

c) The profit on sale of fixed assets arises on the compulsory purchase of an operating facility. This profit relates to the Rail engineering and services segment and arises in Europe.

d) Exceptional items have reduced the Group's tax charge by £0.5m (2002: nil).

5 Net interest payable and similar charges

	2003 £m	2002 £m
Bank loans and overdrafts	**2**	3
Finance leases	**1**	1
Other loans	**9**	9
	12	13
PFI/PPP subordinated debt interest receivable	**(2)**	(4)
Other interest receivable and similar income	**(9)**	(9)
Group net interest payable	**1**	–
Share of joint ventures' net interest payable	**18**	24
Share of associates' net interest payable	**12**	7
	31	31

6 Tax on profit on ordinary activities

a) Taxation charge

	2003 £m	2002 £m
UK current tax		
Corporation tax for the period at 30% (2002: 30%)	**31**	31
Double tax relief	**(2)**	(2)
Adjustments in respect of previous periods	**(4)**	(3)
	25	26
UK advance corporation tax		
Written back against current year UK tax	**(8)**	–
Adjustments in respect of previous periods	**(5)**	–
	(13)	–
Foreign current tax		
Foreign tax on profits of the period	**5**	5
Adjustments in respect of previous periods	**2**	1
	7	6
Total current tax	**19**	32
Deferred tax		
UK (see Note 17)	**(5)**	(3)
Foreign	**–**	(1)
Adjustments in respect of previous periods	**–**	(3)
Total deferred tax	**(5)**	(7)
Joint ventures and associates		
Share of UK joint ventures' tax	**10**	6
Share of UK associates' tax	**5**	4
Total joint ventures' and associates' tax	**15**	10
Taxation charge	**29**	35

b) Factors that may affect future tax charges

The Group has benefited from overseas tax losses in 2003. These losses have resulted in reduced tax payments in recent years and the Group expects to continue to benefit in 2004. The unrecognised deferred tax asset in respect of losses that arose over a number of years in the USA and Germany is estimated to be £100m.

The Group has unrecognised surplus advance corporation tax. Recovery of this surplus, which is subject to certain restrictions, may result in a reduction of the tax charge in the foreseeable future of approximately £17m.

c) Taxation reconciliation

	2003 £m	2002 £m
Profit on ordinary activities before tax	**118**	88
Less: share of joint ventures' and associates' profit before tax	**(46)**	(30)
Group profit on ordinary activities before tax	**72**	58
Profit on ordinary activities before tax at standard UK corporation tax rate of 30% (2002: 30%)	**22**	17
Effects of:		
Expenses not deductible for tax purposes including goodwill amortisation	**4**	10
Timing differences		
– capital allowances for period in excess of depreciation	**–**	(1)
– other short-term timing differences	**5**	5
Utilisation of overseas tax losses	**(1)**	(3)
Losses not available for offset	**7**	4
Higher tax rates on overseas earnings	**3**	2
Disposal of investments and other assets not taxable	**(6)**	–
Advance corporation tax written back	**(8)**	–
Adjustments in respect of previous periods	**(7)**	(2)
Current tax charge	**19**	32

7 Dividends

	Per share 2003 pence	Amount 2003 £m	Per share 2002 pence	Amount 2002 £m
On preference shares				
Paid	**4.8375**	**7**	4.8375	8
Payable	**4.8375**	**8**	4.8375	8
	9.6750	**15**	9.6750	16
On ordinary shares				
Interim payable	**2.60**	**11**	2.35	10
Final proposed	**3.40**	**14**	3.05	12
	6.00	**25**	5.40	22

8 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit for the financial year, after charging preference dividends, divided by the weighted average number of ordinary shares in issue during the year of 416.3m (2002: 414.1m).

The calculation of diluted earnings per ordinary share is based on the profit for the financial year, after charging preference dividends, divided by the weighted average number of ordinary shares in issue adjusted for the potential conversion of share options by 3m (2002: 5m). As in 2002, 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 the year.

Adjusted earnings per ordinary share before goodwill amortisation and exceptional items have been disclosed to give a clearer understanding of the Group's underlying trading performance.

9 Intangible assets – goodwill

	Gross £m	Amortisation £m	Net £m
At 1 January 2003	**296**	**(30)**	**266**
Exchange adjustments	**(1)**	**1**	**–**
Businesses acquired (see Note 20)	**54**	**–**	**54**
Other adjustments	**1**	**–**	**1**
Amortisation	**–**	**(15)**	**(15)**
At 31 December 2003	**350**	**(44)**	**306**
Goodwill arising on joint ventures and associates (see Note 11a)			**12**
Total goodwill			**318**

10 Tangible fixed assets

a) Movements

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Group Total £m	Land and buildings £m	Plant and equipment £m	Company Total £m
Cost or valuation:							
At 1 January 2003	**34**	**332**	**4**	**370**	**3**	**2**	**5**
Exchange adjustments	**–**	**(12)**	**–**	**(12)**	**–**	**–**	**–**
Additions	**2**	**45**	**2**	**49**	**–**	**–**	**–**
Disposals	**(6)**	**(33)**	**–**	**(39)**	**(3)**	**–**	**(3)**
Businesses acquired	**16**	**8**	**–**	**24**	**–**	**–**	**–**
Transfers	**–**	**3**	**(3)**	**–**	**–**	**–**	**–**
At 31 December 2003	**46**	**343**	**3**	**392**	**–**	**2**	**2**
Depreciation:							
At 1 January 2003	**12**	**218**	**–**	**230**	**1**	**1**	**2**
Exchange adjustments	**–**	**(9)**	**–**	**(9)**	**–**	**–**	**–**
Charge for the year	**1**	**42**	**–**	**43**	**–**	**–**	**–**
Disposals	**(2)**	**(28)**	**–**	**(30)**	**(1)**	**–**	**(1)**
At 31 December 2003	**11**	**223**	**–**	**234**	**–**	**1**	**1**
Net book value at 31 December 2003	**35**	**120**	**3**	**158**	**–**	**1**	**1**
Net book value at 31 December 2002	22	114	4	140	2	1	3

The net book value of fixed assets held under finance leases was £2m (2002: £5m) for the Group with related depreciation provided in the year of £1m (2002: £2m). The Company has no fixed assets held under finance leases.

b) Analysis of net book value of land and buildings

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Freehold	**29**	16	**–**	2
Long leasehold – over 50 years unexpired	**3**	4	**–**	–
Short leasehold	**3**	2	**–**	–
	35	22	**–**	2

c) Valuations

On implementing the requirements of FRS 15 "Tangible Fixed Assets" the Group has not adopted a policy of revaluation. Certain land and buildings were revalued in 1991 and, in accordance with the transitional provisions of FRS 15, the carrying amount of these assets has been retained and has not been updated. In the Group, assets included at valuation, their original cost and depreciation based on cost are as follows:

	At valuation 2003 £m	At valuation 2002 £m	Original cost 2003 £m	Original cost 2002 £m
Gross	**4**	4	**2**	2
Depreciation	**(1)**	(1)	**(1)**	(1)
Net	**3**	3	**1**	1

The Company has no revalued assets.

11 Investments

a) Movements

	Joint ventures £m	Associates £m	Other £m	Group Total £m	Subsidiaries £m	Joint ventures and associates £m	Other £m	Company Total £m
Cost or valuation:								
At 1 January 2003	**24**	**31**	**35**	**90**	**1,059**	**8**	**3**	**1,070**
Exchange adjustments	**(1)**	**(1)**	**–**	**(2)**	**–**	**–**	**–**	**–**
Profit and loss account	**15**	**7**	**–**	**22**	**–**	**–**	**–**	**–**
Additions	**1**	**7**	**7**	**15**	**44**	**–**	**1**	**45**
Provision for loss on disposal	**(1)**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
At 31 December 2003	**38**	**44**	**42**	**124**	**1,103**	**8**	**4**	**1,115**
Goodwill:								
At 1 January 2003	**14**	**–**	**–**	**14**	**–**	**–**	**–**	**–**
Amortisation	**(2)**	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**
Businesses acquired	**1**	**–**	**–**	**1**	**–**	**–**	**–**	**–**
Provision for loss on disposal	**(1)**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
At 31 December 2003	**12**	**–**	**–**	**12**	**–**	**–**	**–**	**–**
Loans due from investments:								
At 1 January 2003	**41**	**31**	**–**	**72**	**496**	**34**	**–**	**530**
Movements	**(1)**	**(1)**	**–**	**(2)**	**(63)**	**(2)**	**–**	**(65)**
At 31 December 2003	**40**	**30**	**–**	**70**	**433**	**32**	**–**	**465**
Provisions:								
At 1 January 2003	**(1)**	**(27)**	**(5)**	**(33)**	**(165)**	**(2)**	**(3)**	**(170)**
Profit and loss account	**–**	**–**	**(1)**	**(1)**	**–**	**–**	**(1)**	**(1)**
Disposals	**–**	**–**	**–**	**–**	**(1)**	**–**	**–**	**(1)**
At 31 December 2003	**(1)**	**(27)**	**(6)**	**(34)**	**(166)**	**(2)**	**(4)**	**(172)**
Loans due to investments:								
At 1 January 2003	**–**	**–**	**–**	**–**	**(565)**	**–**	**–**	**(565)**
Movements	**–**	**–**	**–**	**–**	**(68)**	**–**	**–**	**(68)**
At 31 December 2003	**–**	**–**	**–**	**–**	**(633)**	**–**	**–**	**(633)**
Net book value at 31 December 2003	**89**	**47**	**36**	**172**	**737**	**38**	**–**	**775**
Net book value at 31 December 2002	78	35	30	143	825	40	–	865

Principal subsidiaries, joint ventures and associates are shown in Note 29. The original cost of the Group's investments in joint ventures and associates was £49m (2002: £41m). The Group's share of borrowings of joint ventures and associates is shown in (b) below. The amount of these which was supported by the Group and the Company was nil (2002: 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 24, 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.

Other investments in the Group include £36m (2002: £29m) of bonds held by Delphian Insurance Company Ltd, the Group's captive insurance company, the market value of which is not significantly different to the book value. In addition, other investments in the Group and the Company include 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. In 2003, 0.5m (2002: 1.0m) shares were purchased at a cost of £1.0m (2002: £1.7m). The market value of the 1.8m (2002: 1.4m) shares held by the Trust at 31 December 2003 was £4.0m (2002: £2.0m). The cost of the awards under the scheme is charged to the profit and loss account over the performance period. Following confirmation of the performance criteria the appropriate number of shares will be unconditionally transferred to participants. In 2003, 78,000 shares were transferred to participants (2002: nil). The trustees have waived the rights to dividends on shares held by the Trust.

11 Investments continued

b) Share of results and net assets of joint ventures and associates

	Yorkshire Link Ltd 2003 £m	Connect Roads Ltd 2003 £m	Metronet* 2003 £m	Other PFI/PPP investments 2003 £m	Total PFI/PPP investments 2003 £m	Barking Power Ltd 2003 £m	Other 2003 £m	Total 2003 £m	Comprising: Joint ventures 2003 £m	Comprising: Associates 2003 £m
Turnover	23	24	75	52	174	42	301	517	297	220
Operating profit	16	17	12	9	54	6	16	76	47	29
Interest	(13)	(10)	(6)	4	(25)	(5)	–	(30)	(18)	(12)
Profit before taxation	3	7	6	13	29	1	16	46	29	17
Taxation	(1)	(2)	(2)	(5)	(10)	(1)	(4)	(15)	(10)	(5)
Profit after taxation	2	5	4	8	19	–	12	31	19	12
Dividends	(2)	(2)	–	(2)	(6)	–	(5)	(11)	(6)	(5)
Retained profits	–	3	4	6	13	–	7	20	13	7
Fixed assets	124	109	94	121	448	116	61	625	328	297
Long-term finance assets	–	–	–	170	170	–	–	170	170	–
Assets in the course of construction	–	–	–	114	114	–	–	114	114	–
Cash and deposits	11	13	249	47	320	14	11	345	71	274
Other	29	8	17	91	145	13	74	232	183	49
Current assets	40	21	266	422	749	27	85	861	538	323
	164	130	360	543	1,197	143	146	1,486	866	620
Borrowings	–	–	–	(2)	(2)	(10)	(3)	(15)	(6)	(9)
Other creditors	(8)	(11)	(46)	(42)	(107)	(12)	(84)	(203)	(109)	(94)
Creditors – due within one year	(8)	(11)	(46)	(44)	(109)	(22)	(87)	(218)	(115)	(103)
Borrowings	(143)	(88)	(250)	(432)	(913)	(82)	(10)	(1,005)	(626)	(379)
Other creditors	–	(14)	(53)	(27)	(94)	(28)	(5)	(127)	(36)	(91)
Creditors – due after more than one year	(143)	(102)	(303)	(459)	(1,007)	(110)	(15)	(1,132)	(662)	(470)
	(151)	(113)	(349)	(503)	(1,116)	(132)	(102)	(1,350)	(777)	(573)
Net assets	13	17	11	40	81	11	44	136	89	47

	Yorkshire Link Ltd 2002 £m	Connect Roads Ltd 2002 £m	Metronet* 2002 £m	Other PFI/PPP investments 2002 £m	Total PFI/PPP investments 2002 £m	Barking Power Ltd 2002 £m	Other 2002 £m	Total 2002 £m	Comprising: Joint ventures 2002 £m	Comprising: Associates 2002 £m
Turnover	23	25	–	32	80	51	210	341	191	150
Operating profit	16	18	–	6	40	15	6	61	42	19
Interest	(13)	(11)	–	–	(24)	(6)	(1)	(31)	(24)	(7)
Profit before taxation	3	7	–	6	16	9	5	30	18	12
Taxation	(1)	(2)	–	(2)	(5)	(2)	(3)	(10)	(6)	(4)
Profit after taxation	2	5	–	4	11	7	2	20	12	8
Dividends	(3)	(10)	–	–	(13)	–	(3)	(16)	(16)	–
Retained profits	(1)	(5)	–	4	(2)	7	(1)	4	(4)	8
Fixed assets	129	114	–	71	314	120	62	496	296	200
Long-term finance assets	–	–	–	172	172	–	–	172	172	–
Assets in the course of construction	–	–	–	64	64	–	–	64	64	–
Cash and deposits	11	11	–	16	38	20	14	72	39	33
Other	29	8	–	9	46	11	65	122	91	31
Current assets	40	19	–	261	320	31	79	430	366	64
	169	133	–	332	634	151	141	926	662	264
Borrowings	–	–	–	–	–	(9)	(2)	(11)	(2)	(9)
Other creditors	(7)	(11)	–	(29)	(47)	(8)	(81)	(136)	(91)	(45)
Creditors – due within one year	(7)	(11)	–	(29)	(47)	(17)	(83)	(147)	(93)	(54)
Borrowings	(149)	(96)	–	(233)	(478)	(92)	(11)	(581)	(447)	(134)
Other creditors	–	(9)	–	(39)	(48)	(31)	(6)	(85)	(44)	(41)
Creditors – due after more than one year	(149)	(105)	–	(272)	(526)	(123)	(17)	(666)	(491)	(175)
	(156)	(116)	–	(301)	(573)	(140)	(100)	(813)	(584)	(229)
Net assets	13	17	–	31	61	11	41	113	78	35

* Metronet comprises Metronet Rail BCV Holdings Ltd and Metronet Rail SSL Holdings Ltd.

11 Investments continued

c) PFI/PPP investments

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

	Equity and loans 2003 £m	Retained profits 2003 £m	Total 2003 £m	Equity and loans 2002 £m	Retained profits 2002 £m	Total 2002 £m
Yorkshire Link Ltd	11	2	13	12	1	13
Connect Roads Ltd	10	7	17	13	4	17
Metronet	7	4	11	–	–	–
Others	31	9	40	27	4	31
	59	22	81	52	9	61

Additionally, in August 2003 the Group formed SBB Street Lighting (Holdings) Ltd, a wholly owned subsidiary, in connection with the PFI street lighting maintenance contract for The City of Sunderland Council and subscribed £28,000 in equity capital. In 2003 the company recorded sales of £0.1m and operating profit of nil. At 31 December 2003 SBB Street Lighting (Holdings) Ltd had drawn down £3m under its non-recourse borrowing facility (see Note 14).

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

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

	PFI/PPP 2003 £m	Other 2003 £m	Total 2003 £m	PFI/PPP 2002 £m	Other 2002 £m	Total 2002 £m
Dividends from joint ventures and associates	6	5	11	13	7	20
Returns on investments and servicing of finance						
Subordinated debt interest received	2	–	2	1	–	1
Capital expenditure and financial investment						
Investment in joint ventures and associates:						
Equity	(7)	(1)	(8)	–	–	–
Subordinated debt	(3)	–	(3)	(7)	–	(7)
Subordinated debt repaid	3	–	3	2	–	2
Upstream loans	–	–	–	18	–	18
Loans repaid	–	2	2	–	1	1
	(7)	1	(6)	13	1	14
Net cash flow from joint ventures and associates	1	6	7	27	8	35

12 Stocks

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Contract work in progress	174	148	–	–
Progress applications	(96)	(80)	–	–
Net contract balances	78	68	–	–
Development land and work in progress	5	2	1	2
Manufacturing work in progress	2	3	–	–
Raw materials and consumables	19	20	–	–
Finished goods and goods for resale	5	5	–	–
	109	98	1	2

13 Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Trade and other debtors	**411**	426	**8**	8
Due from subsidiary undertakings	**–**	–	**39**	32
Due from joint ventures and associates	**8**	3	**1**	1
Due from joint arrangements	**9**	9	**–**	–
Recoverable on contracts	**168**	153	**–**	–
Contract retentions	**86**	55	**–**	–
Pension prepayments	**4**	5	**2**	–
Other prepayments and accrued income	**37**	34	**1**	1
Deferred taxation (see Note 17)	**36**	17	**5**	4
Due on acquisitions	**–**	1	**–**	–
	759	703	**56**	46
Amounts falling due after more than one year:				
Trade and other debtors	**17**	13	**12**	11
Contract retentions	**25**	36	**–**	–
Pension prepayments	**18**	23	**2**	6
	60	72	**14**	17
	819	775	**70**	63

14 Borrowings

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Unsecured borrowings:				
Euro fixed rate loans 6.5% (2003)	**–**	5	**–**	5
Floating rate term borrowings (2003)	**–**	5	**–**	5
US dollar fixed rate term loan 8.06% (2008)	**66**	74	**66**	74
PFI project finance term loan 5.05% (2027)	**3**	–	**–**	–
Bank overdrafts	**4**	16	**14**	45
Other short-term loans	**1**	1	**–**	–
	74	101	**80**	129
Finance leases	**4**	7	**–**	–
	78	108	**80**	129
Cash and deposits	**(147)**	(156)	**–**	–
Term deposits	**(55)**	(19)	**(37)**	–
Net (cash)/borrowings	**(124)**	(67)	**43**	129

Term deposits represent cash on deposit for periods in excess of 24 hours.

Borrowings are repayable in the following periods:

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due after more than one year:				
Over five years	**3**	74	**–**	74
Two to five years	**66**	2	**66**	–
One to two years	**2**	3	**–**	–
Amounts falling due within one year	**7**	29	**14**	55
	78	108	**80**	129
Borrowings comprise:				
Bank borrowings	**8**	27	**14**	55
Other borrowings	**66**	74	**66**	74
Finance leases	**4**	7	**–**	–
	78	108	**80**	129

In line with the policy set out in the Financial review on page 31 the US dollar fixed rate loan and the PFI project finance term loan have been swapped into floating rate debt by the use of interest rate swaps.

Unutilised committed borrowing facilities (excluding PFI project finance non-recourse facilities) expiring beyond 12 months amount to £210m (2002: £210m). Group borrowings repayable by instalments, any part of which is repayable after five years, are £3m (2002: nil).

Cash, deposits and term deposits include the Group's share of amounts held by contracting joint arrangements of £88m (2002: £104m).

The PFI project finance term loan arises under a non-recourse facility in SBB Street Lighting (Holdings) Ltd. Drawings under the facility are projected to peak at £27m in 2008.

15 Financial instruments

A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments can be found in the Financial review on page 31. As permitted by FRS 13, short-term debtors and creditors have been omitted from all disclosures other than the currency exposure profile shown in (c) below.

a) Interest rate risk profile

The interest rate risk profile for the financial liabilities and assets of the Group at 31 December 2003 was:

				Fixed rate		Interest free	
	Fixed rate and floating rate total £m	**Floating rate £m**	**Fixed rate £m**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed years**	**Long-term creditors/ debtors £m**	**Weighted average period until maturity years**
Liabilities							
Currency							
Sterling	**8**	**7**	**1**	**6.0**	**0.8**	**61**	**7.8**
US dollar	**70**	**67**	**3**	**9.1**	**1.0**	**29**	**1.5**
Other	**–**	**–**	**–**	**–**	**–**	**5**	**1.6**
Total borrowings and long-term creditors	**78**	**74**	**4**	**8.7**	**1.0**	**95**	**5.5**
Sterling cumulative convertible redeemable preference shares	**150**	**–**	**150**	**10.75**	**16.5**	**–**	**–**
Assets							
Currency							
Sterling	**183**	**147**	**36**	**6.6**	**5.6**	**33**	**2.9**
US dollar	**28**	**28**	**–**	**–**	**–**	**7**	**1.9**
Other	**27**	**27**	**–**	**–**	**–**	**2**	**2.6**
Cash and deposits, fixed asset investments and long-term monetary debtors	**238**	**202**	**36**	**6.6**	**5.6**	**42**	**2.7**

The interest rate risk profile for the financial liabilities and assets of the Group at 31 December 2002 was:

				Fixed rate		Interest free	
	Fixed rate and floating rate total £m	Floating rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years	Long-term creditors/ debtors £m	Weighted average period until maturity years
Liabilities							
Currency							
Sterling	19	17	2	7.0	0.8	33	8.9
US dollar	84	79	5	9.1	1.5	20	1.8
Other	5	–	5	6.5	0.4	4	3.0
Total borrowings and long-term creditors	108	96	12	8.3	0.9	57	5.7
Sterling cumulative convertible redeemable preference shares	161	–	161	10.75	17.5	–	–
Assets							
Currency							
Sterling	125	96	29	6.3	4.0	33	2.5
US dollar	41	41	–	–	–	9	2.1
Other	38	38	–	–	–	7	7.4
Cash and deposits, fixed asset investments and long-term monetary debtors	204	175	29	6.3	4.0	49	2.4

Floating rate liabilities include bank borrowings bearing interest rates fixed in advance for periods ranging from overnight to six months by reference to the relevant currency's inter-bank rate and fixed rate borrowings with other financial institutions that have been swapped into floating rate borrowings by means of interest rate swaps to match the maturity of the underlying borrowings. Floating rate assets include monies deposited on money markets for periods varying from overnight to three months.

15 Financial instruments continued

b) Liquidity risk profile

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

	Preference shares 2003 £m	Borrowings 2003 £m	Long-term creditors 2003 £m	Preference shares 2002 £m	Borrowings 2002 £m	Long-term creditors 2002 £m
In one year or less, or on demand	–	7	–	–	29	–
In more than one year but not more than two years	–	2	42	–	3	21
In more than two years but not more than five years	–	66	13	–	2	8
In more than five years	150	3	40	161	74	28
	150	78	95	161	108	57

The Group's undrawn committed borrowing facilities (excluding PFI project finance non-recourse facilities) in respect of which all conditions precedent were satisfied at 31 December were:

	2003 £m	2002 £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	210	210
	210	210

c) Currency exposures profile

The Group's currency exposures, representing those monetary assets and monetary liabilities that are not denominated in the functional currency of the operating unit involved that give rise to exchange gains and losses recognised in the profit and loss account, at 31 December were:

	Net foreign currency monetary assets/(liabilities)				Net foreign currency monetary assets/(liabilities)			
	US dollar 2003 £m	Euro 2003 £m	Other 2003 £m	Total 2003 £m	US dollar 2002 £m	Euro 2002 £m	Other 2002 £m	Total 2002 £m
Functional currency of operation								
Sterling	–	(1)	–	(1)	–	(2)	–	(2)
Other	–	–	–	–	–	–	1	1
	–	(1)	–	(1)	–	(2)	1	(1)

The figures shown in the above table take into account the effect of forward contracts and other derivatives used to hedge the operating units' foreign exchange transaction exposure.

d) Fair value of financial assets and liabilities

The table below compares by category the book value and fair value of the Group's primary and derivative financial instruments at 31 December:

	Book value 2003 £m	Fair value 2003 £m	Book value 2002 £m	Fair value 2002 £m
Primary financial instruments				
Short-term borrowings and current portion of long-term borrowings	(7)	(7)	(29)	(29)
Long-term borrowings	(71)	(71)	(79)	(78)
Cash and deposits	202	202	175	175
Other financial liabilities	(95)	(78)	(57)	(45)
Other financial assets	78	76	78	74
Sterling cumulative convertible redeemable preference shares	(150)	(224)	(161)	(219)
Derivative financial instruments				
Forward foreign currency contracts	4	4	3	3
Interest rate swaps	–	(1)	–	(2)

Market values have been used to determine the fair value of the Sterling cumulative convertible redeemable preference shares, interest rate swaps and certain other financial assets. The fair values of all other items have been determined by using yield curves and exchange rates prevailing at the balance sheet date and discounting expected future cash flows at interest rates prevailing at the balance sheet date.

e) Hedges

Gains and losses on instruments used for transaction hedging are not recognised in the profit and loss account until the maturity of the underlying transaction, or an adjustment is made to the carrying amount in the balance sheet. Unrecognised gains and losses at 31 December were:

	Gains 2003 £m	Losses 2003 £m	Net 2003 £m	Gains 2002 £m	Losses 2002 £m	Net 2002 £m
Unrecognised gains and losses on hedges at 1 January	1	(1)	–	1	(2)	(1)
Gains and losses arising in previous years recognised in the year	1	(1)	–	1	(2)	(1)
Gains and losses arising in previous years not recognised in the year	–	–	–	–	–	–
Gains and losses arising in the year not recognised in the year	2	(3)	(1)	1	(1)	–
Unrecognised gains and losses on hedges at 31 December	2	(3)	(1)	1	(1)	–
Of which:						
Gains and losses expected to be recognised in the next year	1	(1)	–	1	(1)	–
Gains and losses expected to be recognised thereafter	1	(2)	(1)	–	–	–

16 Other creditors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Trade and other creditors	424	388	4	11
Advance progress applications	234	203	–	–
Due to subsidiary undertakings	–	–	2	1
Due to joint arrangements	5	–	–	–
Corporate taxation	43	46	6	9
VAT, payroll taxes and social security	66	57	7	7
Dividends on ordinary shares	25	22	25	22
Dividends on preference shares	8	8	8	8
Accruals and deferred income	389	399	9	6
Due on acquisitions	2	6	1	–
	1,196	1,129	62	64
Amounts falling due after more than one year:				
Trade and other creditors	60	30	–	–
Due to joint ventures and associates	25	25	25	25
Due on acquisitions	10	2	10	–
	95	57	35	25

17 Provisions for liabilities and charges

a) Group

	Deferred taxation £m	Retirement and other employee provisions £m	Contract provisions £m	Other provisions £m	Total £m
At 1 January 2003	–	38	43	29	110
Exchange adjustments	–	1	–	–	1
Profit and loss account – before exceptional items	(3)	–	14	7	18
– exceptional items	(2)	6	–	9	13
Utilised	–	(7)	(8)	(2)	(17)
Businesses acquired (see Note 20)	(14)	38	–	2	26
Transfers	19	–	(9)	6	16
At 31 December 2003	–	76	40	51	167

Retirement and other employee provisions comprise obligations to current and former employees including pension obligations of Mansell plc, overseas pension and other post-retirement benefits. Contract provisions include warranty, fault and rectification provisions. Other provisions principally comprise environmental, lease, legal claims and costs and other onerous commitments. The majority of provisions, other than retirement and other employee provisions, are expected to be utilised within five years. Provision is made for the Directors' best estimate of known legal claims and legal actions in progress.

The provision for UK deferred taxation is based on a corporation tax rate of 30%. The recognised amount of deferred taxation, included in debtors, comprises:

	UK 2003 £m	Foreign 2003 £m	UK 2002 £m	Foreign 2002 £m
Excess of depreciation over taxation allowances	(7)	–	(6)	–
Other, including short-term timing differences	(29)	–	(10)	(1)
	(36)	–	(16)	(1)
	(36)		(17)	

b) Company

	Deferred taxation £m	Other provisions £m	Total £m
At 1 January 2003	–	13	13
Profit and loss account	(1)	(2)	(3)
Transfer to debtors	1	–	1
At 31 December 2003	–	11	11

Other provisions principally comprise lease and other onerous commitments, the majority of which are expected to be utilised within five years.

18 Share capital

	Authorised 2003 £m	Authorised 2002 £m	Issued and fully paid 2003 £m	Issued and fully paid 2002 £m
Ordinary shares of 50p each – authorised 696m (2002: 696m) issued 420m (2002: 415m)	**348**	348	**210**	207
Cumulative convertible redeemable preference shares of 1p each				
– authorised 177m (2002: 177m) issued 150m (2002: 161m)	**2**	2	**2**	2
	350	350	**212**	209

The preference shares are convertible at the option of the holder into new Balfour Beatty plc ordinary shares at an effective conversion price of 475p per ordinary share, subject to adjustment in certain circumstances. They are redeemable on 1 July 2020 at £1 each and carry no voting rights except in certain limited circumstances. Holders are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half yearly. On a liquidation of Balfour Beatty plc, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of preference dividend, in priority to any payment on any other class of shares.

Details of share capital issued and repurchased by the Company during the year are set out in the Directors' report on page 34.

At 31 December share options outstanding were as follows:

Year of issue	Subscription prices	Normally exercisable in periods to	Number of ordinary shares 2003	Number of ordinary shares 2002
Savings-related				
1997	208.0p	January 2003	**–**	822,394
1998	120.0p	January 2004	**151,970**	1,033,567
1999	91.0p	May 2005	**1,018,557**	1,286,095
2000	76.0p	January 2006	**1,445,458**	2,395,553
2001	154.0p	March 2007	**1,640,330**	1,801,304
2002	184.0p	December 2007	**1,722,455**	1,950,548
2003	133.0p	December 2008	**1,927,211**	–
Executive				
1993	352.0p	April 2003	**–**	397,819
1994	438.1p	April 2004	**718,936**	718,936
1995	311.9p	April 2005	**1,165,850**	1,165,850
1996	288.5p	February 2006	**153,404**	153,404
1996	344.2p	April 2006	**459,181**	459,181
1997	231.0p	May 2007	**350,000**	350,000
1998	181.0p	May 2008	**245,500**	268,500
1999	110.0p	November 2009	**765,818**	1,892,000
2000	79.0p	April 2010	**728,683**	2,725,000
2001	200.0p	June 2011	**1,375,000**	1,380,000
2002	238.0p	April 2012	**1,496,000**	1,581,000
2003	146.0p	January 2013	**100,000**	–
2003	173.0p	April 2013	**1,795,000**	–

On 3 January 2003, options were granted over 100,000 ordinary shares under the Balfour Beatty executive share option scheme, at 146p per share, and these are normally exercisable in the period from January 2006 to January 2013. On 16 April 2003, options were granted over 1,800,000 ordinary shares under the Balfour Beatty executive share option scheme at 173p per share, and these are normally exercisable in the period from April 2006 to April 2013. On 7 May 2003, options were granted over 1,992,161 ordinary shares under the Balfour Beatty savings-related share option scheme, at 133p per share, and these are normally exercisable in the periods from July 2006 to December 2006 and from July 2008 to December 2008 depending upon the length of savings contract chosen by the participant.

19 Reserves

a) Group

		Revaluations			
	Share premium account £m	Tangible fixed assets £m	Investments in joint ventures and associates £m	Other £m	Profit and loss account £m
At 1 January 2003	326	2	25	4	(373)
Retained profit for the year	–	–	22	–	27
Exchange adjustments	–	–	(1)	–	–
Ordinary shares issued	2	–	–	–	–
Buy-back of preference shares	–	–	–	–	(16)
At 31 December 2003	328	2	46	4	(362)

At 31 December 2003, cumulative goodwill, net of merger relief of £39m (2002: £39m), eliminated against the profit and loss account amounted to £79m (2002: £79m), net of negative goodwill of £8m (2002: £8m).

b) Company

	Share premium account £m	Other £m	Profit and loss account £m
At 1 January 2003	326	46	121
Retained profit for the year	–	–	5
Ordinary shares issued	2	–	–
Buy-back of preference shares	–	–	(16)
At 31 December 2003	328	46	110

The profit and loss account of Balfour Beatty plc is wholly distributable.

Under Section 230(3) of the Companies Act 1985, no profit and loss account is presented for Balfour Beatty plc. The profit for the financial year dealt with in the accounts of the parent company was £45m (2002: £19m).

c) Reconciliation of movements in shareholders' funds

	2003 £m	2002 £m
Profit for the financial year	89	53
Dividends	(40)	(38)
	49	15
Other recognised gains and losses (net)	(1)	(1)
Ordinary shares issued	5	1
Buy-back of preference shares	(16)	(7)
	37	8
Opening shareholders' funds	193	185
Closing shareholders' funds	230	193

20 Acquisitions

a) On 18 December 2003 the Group acquired Mansell plc, a UK construction and construction services company, for an initial consideration of £32.5m which was paid on completion, deferred consideration of £10.2m and costs of £1.1m. The provisional fair value of the net assets acquired, consideration paid and payable and provisional goodwill arising were:

	Book value of assets acquired £m	Accounting policy adjustments £m	Fair value adjustments £m	Fair value of assets acquired £m
Fixed assets	24	–	–	24
Stocks	4	–	–	4
Debtors	107	(6)	–	101
Creditors and provisions	(132)	–	(40)	(172)
Taxation – current	(2)	–	–	(2)
– deferred	–	2	12	14
Cash and deposits	15	–	–	15
Term deposits	5	–	–	5
	21	(4)	(28)	(11)
Consideration and costs – cash				32
Consideration and costs – deferred				11
				43
Goodwill				54

Accounting policy adjustments relate to the harmonisation of accounting policies for the recognition of profit on long-term contracts. Fair value adjustments have been made to reflect the fair value of pension obligations and other onerous commitments. Accounting policy and fair value adjustments will be finalised in 2004.

The results of Mansell plc and its subsidiaries in the period 1 January 2003 to 18 December 2003 (based on its accounting policies prior to acquisition) were:

	Total £m
Turnover	529
Trading profit	9
Exceptional items	(4)
Operating profit	5
Net interest payable and similar charges	1
Profit on ordinary activities before taxation	6
Taxation	(3)
Profit for the period	3

There were no other recognised gains and losses in the above period. In the financial year ended 31 December 2002 the consolidated profit after taxation of Mansell plc (based on its accounting policies prior to acquisition) was £0.5m loss, after charging exceptional items of £8.0m. The business recorded sales of £3m and an operating profit, before goodwill amortisation, of £0.1m in the period from 18 December 2003 to 31 December 2003.

b) In 2003, £4m deferred consideration was paid in respect of acquisitions completed in 2001 and 2002.

Goodwill arising on businesses acquired in 2002 has been increased by £1m (net). This reflects amendments to the provisional fair value of the net assets of Walgrave Group Ltd and Romec Ltd, resulting in increases in goodwill of £0.9m and £0.5m respectively. This has been offset by a reduction in the consideration payable in respect of the rail plant and services business of Knox Kershaw Inc. of £0.1m.

The Group has used acquisition accounting to account for these transactions.

21 Employees

	2003 £m	2002 £m
Group employee costs during the year amounted to:		
Wages and salaries	802	749
Social security costs	79	66
Other pension costs (see Note 23)	28	19
	909	834

	2003	2002
The average number of Group employees was as follows:		
Building, building management and services	9,977	10,180
Civil and specialist engineering and services	10,214	10,060
Rail engineering and services	7,532	6,937
Investments and developments	105	83
	27,828	27,260

At 31 December 2003, the total number of Group employees was 28,848 (2002: 27,210).

22 Directors' emoluments

	2003 £m	2002 £m
The remuneration of Directors of Balfour Beatty plc was:		
Non-executive Directors' fees and benefits	0.354	0.317
Executive Directors' emoluments		
– salary and benefits	2.238	2.013
– performance related bonus	0.581	0.654
– compensation for loss of office	0.304	–
Gain on exercise of share options	0.909	–
Money purchase pension contributions	0.139	0.134
	4.525	3.118

Further details of Directors' emoluments, pension benefits and interests are set out in the Remuneration report on pages 37 to 43.

23 Pensions

a) 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 last actuarial valuations and reviews and the assumptions used by the actuaries are set out below. The Group continues to account for the cost of pensions in accordance with the requirements of SSAP 24 "Accounting for Pension Costs".

The last formal valuation of the Balfour Beatty Pension Fund was carried out by the actuaries at 31 March 2001 using the projected unit method and disclosed an excess of assets over past service liabilities of 9%. In 2002 a new defined contribution section of this fund was established for new UK employees joining the Group after 1 January 2003 and the assets and liabilities of this section are included within reported results of the Balfour Beatty Pension Fund. The excess of cumulative amounts paid to this scheme over pension costs charged in the accounts of £4m (2002: £6m) is included within debtors.

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 2001 using the projected unit method and disclosed a surplus of assets over past service liabilities of 4% of which, being a shared cost scheme, the Group obtains an economic benefit of circa 60%. 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. A prepayment of £18m (2002: £22m) is included within debtors.

Mansell plc, acquired on 18 December 2003, operates two funded defined benefit schemes, the Mansell plc Pension Scheme and the Hall & Tawse Retirement Benefit Plan ("Mansell schemes"), and two funded defined contribution 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 2002 using the projected unit method. The valuation showed that the market value of the scheme's assets represented 65% 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 2002 using the projected unit method. The valuation showed that the market value of the scheme's assets represented 97% of the benefits that had accrued to members on an ongoing funding basis. A provision, being the excess of pension cost over the amounts funded on an SSAP 24 basis of £38m has been provided for as a fair value adjustment and is included in provisions for liabilities and charges.

The Group's actuaries have reviewed the funding valuations of the Balfour Beatty Pension Fund, the Railways Pension Scheme and the Mansell schemes at 31 December 2003. The results of these reviews along with the assumptions used by the actuaries are set out below together with comparatives at 31 December 2002.

	At the last formal actuarial funding valuation				**At 31 December 2003 valuation review**			At 31 December 2002 valuation review	
			Mansell schemes						
	Balfour Beatty Pension Fund 31/3/2001 %	Railways Pension Scheme 31/12/2001 %	H&T Plan 31/3/2002 %	Mansell plc Scheme 31/7/2002 %	**Balfour Beatty Pension Fund %**	**Railways Pension Scheme %**	**Mansell schemes %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Principal actuarial valuation assumptions:									
Inflation assumption	2.5	2.5	2.5	2.5	**2.7**	**2.7**	**2.7**	2.5	2.5
Rate of increase in salaries	4.0	4.0	4.0	4.0	**4.2**	**4.2**	**4.2**	4.0	4.0
Rate of increase in pensions in payment									
(or such other fixed rate as is guaranteed)	2.5	2.5	2.5	2.5	**2.7**	**2.7**	**2.7**	2.5	2.5
Return on existing investments:									
– actives and deferred members	6.5	5.6	6.0	6.2	**7.1**	**7.1**	**7.1**	7.5	7.5
– pensioners, widows and dependants	5.1	5.6	6.0	5.2	**5.0**	**5.0**	**5.0**	4.9	4.9
Number of members:									
Active members	7,273	2,329	310	716	**8,461**	**1,565**	**787**	8,147	2,208
Deferred pensioners	10,768	1,647	1,103	435	**11,137**	**1,665**	**1,596**	10,381	1,668
Pensioners, widows and dependants	17,076	695	922	117	**16,378**	**873**	**1,098**	16,346	789
Total	35,117	4,671	2,335	1,268	**35,976**	**4,103**	**3,481**	34,874	4,665
	£m	£m	£m	£m	**£m**	**£m**	**£m**	£m	£m
Scheme surplus/(deficit)									
Present value of scheme liabilities	(1,300)	(283)	(90)	(43)	**(1,331)**	**(222)**	**(156)**	(1,222)	(229)
Market value of assets	1,422	295	87	28	**1,385**	**238**	**118**	1,268	234
Surplus/(deficit) in scheme	122	12	(3)	(15)	**54**	**16**	**(38)**	46	5
Funding level	109.4%	104.2%	96.7%	65.4%	**104.0%**	**107.2%**	**75.6%**	103.8%	102.2%
					£m	**£m**	**£m**	£m	£m
Amounts included within Debtors (Note 13) and Provisions (Note 17) arising under SSAP24 and FRS 7:									
Pension prepayments					**4**	**18**	**–**	6	22
Provisions					**–**	**–**	**(38)**	–	–

	Contributions paid		**Amounts charged to P&L**	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Group contributions paid and amounts charged to profit and loss account:				
Balfour Beatty Pension Fund	**16**	4	**18**	9
Railways Pension Scheme	**1**	–	**5**	4
Other defined benefit schemes	**2**	1	**2**	2
Other defined contribution schemes	**3**	4	**3**	4
	22	9	**28**	19

The Group's other defined contribution schemes cover mainly overseas employees, principally in North America.

23 Pensions continued

b) The Group continues to account for pensions in accordance with the requirements of SSAP 24 "Accounting for Pension Costs". The following supplementary analysis is given in accordance with the requirements of FRS 17 "Retirement Benefits".

The latest actuarial funding valuations of the Group's principal defined benefit schemes, the Balfour Beatty Pension Fund, the Railways Pension Scheme and the Mansell schemes, have been updated by the actuaries to 31 December 2003 on the basis prescribed by FRS 17. 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.

The principal assumptions used by the actuaries were:

	At 31 December 2003			At 31 December 2002		At 31 December 2001	
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	**Mansell schemes %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Inflation assumption	**2.70**	**2.70**	**2.70**	2.20	2.20	2.50	2.50
Rate of increase in salaries	**4.20**	**4.20**	**4.20**	3.70	3.70	4.00	4.00
Rate of increase in pensions in payment (or other such other fixed rate as is guaranteed)	**2.70**	**2.70**	**2.70**	2.20	2.20	2.50	2.50
Discount rate	**5.40**	**5.40**	**5.40**	5.60	5.60	5.75	5.60

The fair value of the assets held by the schemes, the expected rate of return on those assets and the present value of the scheme liabilities were:

	Balfour Beatty Pension Fund		**Railways Pension Scheme**		**Mansell schemes**		**Other funded schemes**	
	Long-term expected rate of return at 31 December 2003 %	**Value at 31 December 2003 £m**	**Long-term expected rate of return at 31 December 2003 %**	**Value at 31 December 2003 £m**	**Long-term expected rate of return at 31 December 2003 %**	**Value at 31 December 2003 £m**	**Long-term expected rate of return at 31 December 2003 %**	**Value at 31 December 2003 £m**
Equities	***8.50***	**548**	***8.50***	**197**	***8.50***	**79**	**–**	**–**
Gilts	***4.78***	**505**	**–**	**–**	**–**	**–**	**–**	**–**
Other bonds	***4.91***	**309**	***5.00***	**23**	***5.00***	**38**	***5.20***	**12**
Property	***8.50***	**3**	***7.00***	**18**	**–**	**–**	**–**	**–**
Cash and other net current assets	***3.70***	**20**	**–**	**–**	***3.70***	**1**	**–**	**–**
Total market value of assets/*rate of return*	***6.27***	**1,385**	***8.10***	**238**	***7.34***	**118**	***5.20***	**12**
Present value of scheme liabilities		**(1,523)**		**(264)**		**(178)**		**(12)**
Surplus/(deficit) in scheme		**(138)**		**(26)**		**(60)**		**–**
Related deferred tax asset		**41**		**8**		**18**		**–**
Net pension assets/(liabilities)		**(97)**		**(18)**		**(42)**		**–**

	Balfour Beatty Pension Fund		Railways Pension Scheme		Other funded schemes	
	Long-term expected rate of return at 31 December 2002 %	Value at 31 December 2002 £m	Long-term expected rate of return at 31 December 2002 %	Value at 31 December 2002 £m	Long-term expected rate of return at 31 December 2002 %	Value at 31 December 2002 £m
Equities	*8.30*	482	*8.30*	204	*8.00*	4
Gilts	*4.39*	492	–	–	–	–
Other bonds	*4.63*	256	*4.90*	12	*5.31*	12
Property	*8.30*	14	*8.50*	18	–	–
Cash and other net current assets	*3.70*	24	–	–	–	1
Total market value of assets/*rate of return*	*5.96*	1,268	*8.10*	234	*5.57*	17
Present value of scheme liabilities		(1,350)		(254)		(22)
Surplus/(deficit) in scheme		(82)		(20)		(5)
Related deferred tax asset		25		6		1
Net pension assets/(liabilities)		(57)		(14)		(4)

23 Pensions continued

	Balfour Beatty Pension Fund		Railways Pension Scheme		Other funded schemes	
	Long-term expected rate of return at 31 December 2001 %	Value at 31 December 2001 £m	Long-term expected rate of return at 31 December 2001 %	Value at 31 December 2001 £m	Long-term expected rate of return at 31 December 2001 %	Value at 31 December 2001 £m
Equities	*8.00*	528	*8.00*	263	*8.00*	5
Gilts	*5.00*	418	–	–	–	–
Other bonds	*5.54*	374	*5.25*	15	*6.05*	13
Property	*8.00*	39	*7.00*	17	–	–
Cash and other net current assets	*4.75*	13	–	–	–	–
Total market value of assets/*rate of return*	*6.39*	1,372	*7.80*	295	*6.47*	18
Present value of scheme liabilities		(1,340)		(270)		(21)
Surplus/(deficit) in scheme		32		25		(3)
Related deferred tax liability		(10)		(7)		–
Net pension assets/(liabilities)		22		18		(3)

The analysis of the movement in the surplus/(deficit) in the schemes is as follows:

		Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Mansell schemes £m	Other funded schemes £m
At 1 January 2003		**(82)**	**(20)**	**–**	**(5)**
Current service cost		**(32)**	**(7)**	**–**	**–**
Settlement gain		**–**	**5**	**–**	**–**
Contributions		**16**	**1**	**–**	**2**
Other finance income		**1**	**3**	**–**	**–**
Actuarial gains/(losses)		**(38)**	**(8)**	**–**	**–**
Transfers		**(3)**	**–**	**–**	**3**
Acquisitions of businesses		**–**	**–**	**(60)**	**–**
At 31 December 2003		**(138)**	**(26)**	**(60)**	**–**
The actuarial gain/(loss) in 2003 comprises:					
Actual return less expected return on pension scheme assets	amount	**£84m**	**£14m**	**–**	**–**
	percentage of scheme assets	**6.1%**	**6.1%**	**–**	**–**
Experience gains and losses arising on scheme liabilities	amount	**£17m**	**£(1)m**	**–**	**–**
	percentage of scheme liabilities	**1.1%**	**(0.4)%**	**–**	**–**
Changes in assumptions underlying the present value of scheme liabilities	amount	**£(139)m**	**£(21)m**	**–**	**–**
	percentage of scheme liabilities	**(9.1)%**	**(8.3)%**	**–**	**–**
Total actuarial gain/(loss)	amount	**£(38)m**	**£(8)m**	**–**	**–**
	percentage of scheme liabilities	**(2.5)%**	**(3.0)%**	**–**	**–**
In 2002 the actuarial gain/(loss) comprised:					
Actual return less expected return on pension scheme assets	amount	£(139)m	£(40)m	–	£(2)m
	percentage of scheme assets	(10.9)%	(17.3)%	–	(8.8)%
Experience gains and losses arising on scheme liabilities	amount	£17m	£(9)m	–	–
	percentage of scheme liabilities	1.3%	(3.4)%	–	–
Changes in assumptions underlying the present value of scheme liabilities	amount	£23m	£7m	–	–
	percentage of scheme liabilities	1.7%	2.9%	–	–
Total actuarial gain/(loss)	amount	£(99)m	£(42)m	–	£(2)m
	percentage of scheme liabilities	(7.3)%	(16.5)%	–	(11.7)%

23 Pensions continued

The Railways Pension Scheme is a shared cost scheme. Accordingly the surplus/(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/(deficit) 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.

Contributions paid in 2003 for the principal schemes were £16m (2002: £4m) for the Balfour Beatty Pension Fund and £1m (2002: nil) for the Railways Pension Scheme.

In addition the Group has unfunded post retirement benefit obligations in Europe and North America amounting to £17m (2002: £16m), the majority of which arrangements are closed to new entrants.

If the Group had accounted for pensions in accordance with the requirements of FRS 17 the following amounts, excluding the effect of the share of joint ventures' and associates' schemes, would have been recognised in the profit and loss account and statement of recognised gains and losses:

		2003 £m	2002 £m
Profit and loss account			
Charge to operating profit	current service cost	(39)	(38)
Exceptional item	settlement gain	5	–
Credit to net interest payable and similar charges	expected return on pension scheme assets	84	100
	interest on pension scheme liabilities	(82)	(85)
Charge to profit on ordinary activities before taxation		(32)	(23)
Statement of total recognised gains and losses	actuarial gain/(loss)	(47)	(143)

Pension costs charged to profit and loss account in respect of defined contribution schemes were £3m (2002: £4m).

If the Group had accounted for pensions in accordance with the requirements of FRS 17 net assets would have been restated as follows:

	2003 £m	2002 £m
Net assets per financial statements	230	193
SSAP 24 pension provisions/(prepayments)	30	(1)
FRS 17 pension assets/(liabilities)		
Group schemes – funded	(157)	(75)
Group schemes – unfunded	(17)	(16)
Share of joint ventures' and associates' schemes	(28)	(13)
Net assets as adjusted	58	88
Net assets excluding pension assets	260	192
Net pension (liabilities)/assets	(202)	(104)
	58	88

24 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £11m (2002: £13m) in the Group and nil (2002: 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 £100m (2002: £16m), of which £98m (2002: £12m) is projected to be drawn down.

Annual operating lease commitments comprise:

	Land and buildings 2003 £m	Other 2003 £m	Land and buildings 2002 £m	Other 2002 £m
Group				
Leases terminating:				
Within one year	4	5	3	8
Between one and five years	10	19	8	13
In five years or more	10	1	10	2
	24	25	21	23
Company – leases terminating in five years or more	5	–	4	–

25 Contingent liabilities and assets

a) Contingent liabilities:

Contingent liabilities, which are not expected to give rise to any material loss, include:

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Guarantees of subsidiary undertakings and other support	–	–	3	6

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. 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. The Company has guaranteed the property lease commitments of a former subsidiary undertaking currently amounting to £2m per annum terminating in 2005.

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 17, provision is made for the Directors' best estimate of 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.

b) Contingent assets:

In 2002, TXU Europe, whose subsidiaries are respectively a shareholder and customer of Barking Power Ltd, entered administration. As a result the long-term electricity supply contract with a TXU Europe subsidiary was terminated, triggering an entitlement to a termination payment. Barking Power Ltd has lodged a substantial claim with the administrators and remains confident of significant recovery of the monies owed.

26 Post balance sheet events

On 1 January 2004 the Group acquired the business and assets of the railway division of ABB Gegabaudetechnik AG based in Germany for a consideration of €4.1m.

On 16 January 2004 and 23 January 2004 the Group acquired from Atkins its 32.2% shareholdings in Connect Roads Ltd and Connect M77/GSO Holdings Ltd respectively for a total consideration of £13.3m cash.

On 16 January 2004 the Group sold its 49.2% holding in Garanti Balfour Beatty Insaat Sanayi ve Ticaret AS for a consideration of US$1.

On 6 February 2004 the Group executed binding terms to sell to its partner its 40.0% holding in First Philippine Balfour Beatty Inc. for a consideration of US$3.5m.

27 Related party transactions

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £3.3m in 2003 (2002: £2.2m).

The Group provided services to, and received management fees from, certain joint ventures, associates and joint arrangements amounting to £246m (2002: £83m). 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 joint arrangements which were recharged at cost with no mark-up. Amounts due from and to joint ventures and associates are set out in Notes 13 and 16.

28 Notes to the cash flow statement

a) Net cash inflow from operating activities comprises:

	2003 £m	2002 £m
Group operating profit before exceptional items	68	67
Depreciation	43	40
Goodwill amortisation	15	19
Profit on sale of fixed assets	(3)	(1)
Provision against own shares held	1	1
Exceptional items – cash receipts/(expenditure)	5	(9)
Working capital decrease:		
Stocks	(6)	(14)
Debtors	70	(36)
Other creditors and provisions	(23)	75
	41	25
Net cash inflow from operating activities	170	142

28 Notes to the cash flow statement continued

b) Analysis of movement in net cash

	Cash and deposits and overdrafts £m	Term deposits £m	Borrowings (including finance leases) £m	Total 2003 £m	Total 2002 £m
At 1 January 2003	**140**	**19**	**(92)**	**67**	63
Cash flow	**3**	**32**	**11**	**46**	(4)
Acquisitions of businesses – term deposits/(debt) at date of acquisition	**–**	**5**	**–**	**5**	(1)
Exchange adjustments	**–**	**(1)**	**7**	**6**	9
At 31 December 2003	**143**	**55**	**(74)**	**124**	67

c) Reconciliation of cash flow to movement in net cash

	2003 £m	2002 £m
Increase in cash in the period	**3**	–
Cash outflow from decrease in borrowings	**11**	3
Cash outflow/(inflow) from increase/(decrease) in term deposits	**32**	(7)
Change in net cash resulting from cash flows	**46**	(4)
Acquisitions of businesses – term deposits/(debt) at date of acquisition	**5**	(1)
Exchange adjustments	**6**	9
Movement in net cash	**57**	4

d) Acquisitions of businesses

	2003 £m	2002 £m
Net assets acquired:		
Intangible assets – goodwill	**54**	38
Tangible fixed assets	**24**	4
Investments	**–**	15
Stocks	**4**	2
Debtors (including deferred tax)	**115**	15
Creditors and provisions (including current tax)	**(174)**	(20)
Term deposits	**5**	–
Borrowings (including finance leases)	**–**	(1)
	28	53
Due on acquisitions	**(7)**	17
	21	70
Satisfied by:		
Cash consideration	**36**	60
Cash, deposits and overdrafts acquired	**(15)**	5
Cash outflow	**21**	65
Interest in subsidiary disposed	**–**	5
	21	70

Companies acquired during the year comprised Mansell plc (see Note 20). Mansell plc generated a net cash inflow from operating activities of £13m from 18 December 2003 to 31 December 2003.

e) Disposals of businesses

	2003 £m	2002 £m
Net assets disposed of:		
Intangible assets – goodwill	**–**	2
Tangible fixed assets	**–**	2
Stocks	**–**	5
Debtors	**–**	9
Creditors and provisions	**–**	(15)
	–	3
Profit on sale, before goodwill	**–**	–
	–	3
Satisfied by:		
Cash consideration	**–**	–
Cash, deposits and overdrafts sold	**–**	(2)
Cash outflow	**–**	(2)
Interest in joint venture acquired	**–**	5
	–	3

Disposals in 2002 comprised the reorganisation of the Group's interests in BK Gulf LLC and Dutco Balfour Beatty LLC.

29 Principal subsidiaries, joint ventures and associates

	Country of incorporation or registration
a) Principal subsidiaries	
Building, civil and rail engineering	
Andover Controls Corporation	USA
Balfour Beatty Civil Engineering Ltd	
Balfour Beatty Construction Inc	USA
Balfour Beatty Construction Ltd	Scotland
Balfour Beatty Construction (Scotland) Ltd	Scotland
Balfour Beatty Group Ltd	
Balfour Beatty Power Networks Ltd	
Balfour Beatty Rail GmbH	Germany
Balfour Beatty Rail Infrastructure Services Ltd	
Balfour Beatty Rail Ltd	
Balfour Beatty Rail Projects Ltd	
Balfour Beatty Rail SpA	Italy
Balfour Beatty Rail Systems Inc	USA
Balfour Beatty Rail Track Systems Ltd	
Balfour Beatty Refurbishment Ltd	
Balfour Beatty Utilities Ltd	
Balfour Kilpatrick Ltd	Scotland
Balfour Kilpatrick International Ltd	Scotland
Balvac Ltd	
Cruickshanks Ltd*	Scotland
Haden Building Management Ltd	
Haden Building Services Ltd	
Haden Young Ltd	
Heery International Ltd	
Heery International Inc	USA
Lounsdale Electric Ltd	Scotland
Mansell plc*	
Marta Track Constructors Inc	USA
Metroplex Corporation	USA
National Engineering and Contracting Company	USA
Painter Brothers Ltd	
Raynesway Construction Services Ltd	
Raynesway Construction Southern Ltd	
Security International Inc	USA
Stent Foundations Ltd	
Walgrave Group Ltd	
Investments and developments	
PFI/PPP:	
Balfour Beatty Capital Projects Ltd	
SBB Street Lighting (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	Group equity holding %	Total issued share capital (Note ii) £m
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	0.1†
Devonport Management Ltd*		24.5	–
Dutco Balfour Beatty LLC	Dubai	49.0	0.1†
Dutco Construction Co LLC	Dubai	49.0	3.2†
First Philippine Balfour Beatty Inc	Philippines	40.0	2.8†
Garanti Balfour Beatty Insaat Sanayi ve Ticaret AS	Turkey	49.2	2.6†
Kerjaya Balfour Beatty Cementation Sdn Bhd	Malaysia	35.0	–
Monteray Ltd		24.5	–†
PT Balfour Beatty Sakti Indonesia	Indonesia	49.0	0.4†
Romec Ltd		49.0	–†
Trans4m Ltd		25.0	–†
Zubair Kilpatrick LLC	Oman	49.0	0.4†
Investments and developments			
PFI/PPP:			
Aberdeen Environmental Services (Holdings) Ltd	Scotland	45.0	0.1†
Connect M77/GSO Holdings Ltd (Note v)		67.8	0.1†
Connect Roads Ltd* (Note v)		67.8	1.6†
Consort Healthcare (Blackburn) Holdings Ltd		50.0	0.1†
Consort Healthcare (Durham) Holdings Ltd*		50.0	0.2†
Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd*	Scotland	42.5	0.1†
Health Management (UCLH) Holdings Ltd		33.3	2.1†
Metronet Rail BCV Holdings Ltd		20.0	18.2
Metronet Rail SSL Holdings Ltd		20.0	16.2
Power Asset Development Company Ltd		25.0	–
Seeboard Powerlink Ltd		10.0	1.0
Transform Schools (Rotherham) Holdings Ltd		50.0	–†
Transform Schools (Stoke) Holdings Ltd		50.0	–†
Yorkshire Link (Holdings) Ltd*		50.0	3.0†
Other			
Thames Power Ltd* (Note vi)		50.0	–

c) Principal joint arrangements

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:

	Group interest %	Location
Bibliotheca Alexandrina	45.0	Egypt
Birmingham Northern Relief Road	25.0	Birmingham, UK
Cuyahoga Valley Bridge	50.0	Ohio, USA
Edinburgh Royal Infirmary and University	85.0	Edinburgh, UK
Greenbush Light Rail	50.0	Boston, USA
La Mesa Light Rail	40.0	San Diego, USA
Nan Cheong Station	50.0	Hong Kong
SH 130 Highway	35.0	Texas, USA
Steg/Raron	25.0	Switzerland
University College London Hospitals	50.0	London, UK

Notes:

(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or the assets of the Group are not shown.

(ii) Total issued share capital is shown for joint ventures (†) and associates.

(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) *indicates held directly by Balfour Beatty plc.

(v) Due to the Connect Roads Ltd and Connect M77/GSO Holdings Ltd shareholder agreements between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operational policies of those companies, the Directors are of the opinion that, as at the balance sheet date, there was a severe long-term restriction in their control and as required by FRS 9 "Joint Ventures and Associates" the Group accounted for the companies as joint ventures.

(vi) Thames Power Ltd owns 51% of the equity capital in Barking Power Ltd.

Group five-year summary

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Profits					
Turnover (including share of joint ventures and associates)	**3,678**	3,441	3,071	2,603	2,904
Operating profit – before goodwill amortisation and exceptional items	**161**	149	136	110	93
Goodwill amortisation	**(17)**	(21)	(12)	(3)	–
Exceptional items	**5**	(9)	13	11	(434)
Profit/(loss) on ordinary activities before interest	**149**	119	137	118	(341)
Net interest payable	**(31)**	(31)	(34)	(28)	(39)
Profit/(loss) before tax	**118**	88	103	90	(380)
Capital employed					
Shareholders' funds	**230**	193	185	154	83
Minority interests	**–**	–	–	1	1
Net cash	**(124)**	(67)	(63)	(104)	(84)
	106	126	122	51	–
Statistics					
Adjusted earnings per ordinary share*	**20.6p**	16.1p	14.1p	10.2p	5.6p
Basic earnings/(loss) per ordinary share	**17.9p**	9.0p	14.2p	12.1p	(93.3)p
Diluted earnings/(loss) per ordinary share	**17.7p**	8.9p	14.0p	12.1p	(93.3)p
Dividends per ordinary share	**6.0p**	5.4p	5.0p	4.5p	4.0p
Operating profit before goodwill amortisation and exceptional items: turnover	**4.4%**	4.3%	4.4%	4.2%	3.2%

*Adjusted earnings per ordinary share before goodwill amortisation and exceptional items have been disclosed to give a clearer understanding of the Group's underlying trading performance.

Continuing operations and acquisitions five-year summary

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Profits					
Turnover (including share of joint ventures and associates)	**3,678**	3,441	3,057	2,542	2,293
Operating profit – before goodwill amortisation and exceptional items	**161**	149	135	106	99
Goodwill amortisation	**(17)**	(21)	(12)	(3)	–
Exceptional items	**13**	(9)	–	–	(5)
Profit on ordinary activities before interest	**157**	119	123	103	94

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Main photography by George Brooks

Shareholder information

Financial calendar

	2004
28 April	Ex-dividend date for final 2003 ordinary dividend
30 April	Final 2003 ordinary dividend record date
13 May	Annual General Meeting
26 May	Ex-dividend date for July 2004 preference dividend
28 May	July 2004 preference dividend record date
10 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
1 July*	Final 2003 ordinary dividend payable
11 August*	Announcement of 2004 half-year results
	2005
1 January	Preference dividend payable
3 January*	Interim 2004 ordinary dividend payable

*Provisional dates

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

The Balfour Beatty plc Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone 0870 702 0122
or by e-mail to: web.queries@computershare.co.uk

They can help you to:

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

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

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

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

Subject to shareholder approval, the final dividend for 2003 will be paid on 1 July 2004. If you have already elected to join the DRIP, then you need take no further action. If you wish to join the DRIP, then you should complete a mandate form and return it to the Registrars by no later than 10 June 2004 in order to participate in the DRIP for this dividend. If you do not have a DRIP mandate form, please contact the Registrars.

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

Recent legislation has now made it possible for Balfour Beatty – in conjunction with Computershare Investor Services – to offer shareholders the opportunity to receive communications such as notices of shareholder meetings and the annual report and accounts electronically, rather than by post. Balfour Beatty encourages the use of electronic communications as not only does it save the Company printing and postage costs, but it is also a more convenient and timely way of communicating with shareholders, and reduces demand on natural resources.

In order to receive shareholder communications electronically, you should register your details via the shareholder information section of the Balfour Beatty website.

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

If you would like more details, please write to:

The Mailing Preference Service
FREEPOST 22
London W1E 7EZ

Gifting shares to your family or to charity
To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. If you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to charity through ShareGift, the charity share donation scheme administered by The Orr Mackintosh Foundation. The relevant share transfer form may be obtained from the Registrars; further information about the scheme is available from the ShareGift Internet site www.ShareGift.org.

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

The Balfour Beatty Share Dealing Service
Cazenove & Co. Ltd
20 Moorgate
London EC2R 6DA
Telephone: 020 7155 5155

Alternatively, Hoare Govett Limited also offers a low-cost share dealing service. Further details can be obtained from:

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

Both Cazenove & Co. Ltd and Hoare Govett Limited are authorised and regulated by the Financial Services Authority.

Share price
The Balfour Beatty share price can be found in the appropriate sections of national newspapers under the classification "Construction and Building Materials" and is also available on Ceefax and Teletext and a number of personal finance websites on the Internet. Historic share prices are available from the library at Hoare Govett. Telephone: 020 7678 1718.

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

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

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

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

PROSHARE
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2003 WINNER

Balfour Beatty

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