Balfour Beatty plc
Annual report and accounts 2002

The creation and care of essential assets

Creation.Hospitals.Highways.Pip
.Railways.Schools.Power Systems.
s.Building Controls.Accommodation
Care.Monitoring.Maintaining.Eq
Servicing.Designing.Constructing.S
trengthening.Refurbishing.

Balfour Beatty

Financial highlights of the year	2002	2001 as restated
Turnover	**£3,441m**	£3,071m
Operating profits*	**£149m**	£136m
Pre-tax profits*	**£118m**	£102m
Earnings per share*	**16.1p**	14.1p
Dividends per ordinary share	**5.4p**	5.0p
Exceptional items	**(£9m)**	£13m
Net cash	**£67m**	£63m

Highlights of the year

- Pre-tax profits* up 16%. Earnings per share* up 14%
- Strong cash position and excellent operating cash flow
- Total ordinary dividend increased by 8% to 5.4p
- Record order book of £5.1bn, much of it in long-term contracts
- Acquisitions in rail, utility services and security systems extend core competences
- Preferred bidder status achieved on three more privately financed projects
- Strong growth in profits in Rail Engineering and Services

*Before amortisation of goodwill £21m (2001: £12m) and exceptional items

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

Chairman's statement

As shareholders know, I will be retiring in May and this is therefore my last report. It has been a great privilege to have been Chairman for the last seven years and I have been very fortunate to have worked together with such a fine team of people. I will naturally be sad to leave, but will do so heartened not only by the state of the Company but by the confidence that it will be in the excellent hands of my successor, Sir David John.

2002 was a year of further progress. Turnover increased to £3,441m and the order book at year-end was a record £5.1bn. This latter figure excludes any share of the workload we can expect from Metronet's involvement with London Underground.

Before exceptional items and goodwill amortisation, operating profit improved by 10% to £149m and profits before tax, were in line with market expectations at £118m. Earnings per share on the same basis increased to 16.1p per share. A final dividend of 3.05p per ordinary share is proposed, which would give a total distribution for the year of 5.4p (2001: 5.0p) per ordinary share.

Looking back over the past few years, it is encouraging both to note that 2002 is the sixth consecutive year in which Balfour Beatty has shown a strong increase in profits with a matching generation of cash and to compare this year's results with the operating profits of the business as it was in 1996 which were the rather modest total of £10m.

It required great management effort in that period to put the Company into its present shape. The cable businesses were sold; our name became simply Balfour Beatty; and the business was transformed from being a traditional cyclical construction company with a large exposure to major projects, many of them abroad, and to hard-bid general contracting in the UK. Today, through a process of radical reorganisation supported by selected acquisitions, it is a far more broadly and soundly based infrastructure engineering, construction and services company, and that is where we see our continuing destiny.

Three areas of business that we have developed strongly during that time have been Rail Services and PFI/PPP concessions. In the first of these, we are now one of the world's leading rail engineering companies, with the potential that gives for the future in many countries. Apart from the UK, important markets today include Germany, Italy, Spain, Malaysia and the US.

In the UK, we welcome the creation of Network Rail but it is essential that sufficient funding is available to ensure that the UK network achieves the improvements that are required.

Services have become a substantial and growing part of our business. We provide maintenance and general support to a very wide range of customers ranging from highway authorities, utility companies and the Royal Mail to leading banks, retailers, schools and hospitals.

PFI/PPP is very important to us. As contractors, we benefit through earnings from the construction work itself; the return from ongoing maintenance and servicing of the projects; and the long-term return on our initial capital investment. The benefit to the public sector is quite simple. Complex projects are delivered on time and within initially set costs. Overruns and delays are to our account, and designs are cost effective. The recent National Audit Office report comments favourably on the outcome of this procurement system. We believe that these benefits outweigh the fact that private sector financing costs are obviously higher than those for government funding.

Nonetheless, PFI/PPP is subject to external criticism. Some of it is simply self-serving or driven by out of date ideology, and much of it is ill-informed and simply inaccurate. For our part, the delivery of major projects of public benefit, like Edinburgh Royal Infirmary, is a source of great pride and satisfaction.

We have made some important acquisitions during the year, although we were disappointed in failing to make the acquisition of J.A. Jones Inc in the US. These acquisitions are covered elsewhere in our Chief Executive's report, as is the detail of our various operating businesses.

The Board

During the year, Ian Tyler, previously our Finance Director, was appointed to the new post of Chief Operating Officer. This reflects the increasing size and scope of the business. Anthony Rabin, previously responsible for much of our success in the PFI/PPP market, took his place as Finance Director.

Alistair Wivell joined the Board with responsibility for Building, Building Management and Services in place of Paul Lester who left, with our thanks and good wishes, to take up a senior position in the defence industry.

Sir David Wright, formerly head of British Trade International and also with a distinguished career in the foreign service, and Richard Delbridge, former finance director in turn of HSBC Holdings plc and National Westminster Bank PLC, both joined the Board as non-executive Directors.

Christopher Reeves, who has served for many years as a Director and as Chairman of the Audit Committee is sadly retiring in May. As a former chief executive of Morgan Grenfell and chairman of Merrill Lynch International, he has given us the best of financial advice, and we owe much to him. Richard Delbridge will succeed him as Chairman of the Audit Committee, and his qualifications speak for themselves.

Sir David John will, as you know, succeed me as Chairman. I need not add that he is a far more than adequate replacement for me.

I believe that, at a time when the role of non-executive directors is under particularly keen scrutiny, we have an exceptionally strong Board with non-executives of great experience and of very independent character.

Viscount Weir Chairman

We have a large and growing order book secured for 2003 and beyond.

People

Our people are our strength, from those out on the sites, through the engineers, the administrators, and all the other functions, up to the executive Directors at the top. They are a good, honest and hard working team and such success as the Company has had is entirely due to them. They are rightly proud of what they do. I hope that our shareholders also feel they, too, can share some of the satisfaction our people have when they see some of the fine jobs they do, and will join with me in thanks and appreciation for their efforts.

Public issues

Recently the Higgs Report on the role of directors and Sir Robert Smith's Report on audit committees have been published. Once it has become clearer as to the extent to which their recommendations are to be adopted, we will then re-examine our own practices in that light. Unfortunately, implementation in full of Higgs may well produce as many unintended consequences as it contains good intentions.

As last year we are again producing a separate report on Safety, Environment and Social issues.

Outlook

Generally, economic conditions are very difficult for most economies and companies and there are more uncertainties than for many years. We are fortunate, however, in that so much of our business is in the infrastructure field and largely financed by governments, which understandably and logically maintain such expenditure in periods of low economic growth. We have a large and growing order book secured for 2003 and beyond. Our PFI/PPP portfolio will produce increasing returns. Our position in the major building market and rail contracting is strong. Prospects in civil and specialist engineering are good, as they are in our services businesses.

I can only therefore anticipate another year of progress in 2003, and indeed encouraging prospects beyond that.

Mike Welton Chief Executive

Performance
In 2002, pre-tax, pre-exceptional profits before the amortisation of goodwill rose by 16% to £118m (2001: £102m) on turnover up 12% at £3.441bn (2001: £3.071bn). Earnings per share before amortisation of goodwill and exceptional items rose by 14% to 16.1p (2001: 14.1p). A final dividend of 3.05p is proposed, making a total dividend for the year of 5.4p (2001: 5.0p) per ordinary share.

£21m was charged to the profit and loss account in respect of goodwill amortisation arising from our acquisitions over the last three years (2001: £12m). As was announced in September 2002, £9m of exceptional costs were incurred as a result of the potential acquisition of J.A. Jones Inc in the US (2001: £13m profit on sale of operations). As a result, profit before interest but after goodwill amortisation and exceptional items was £119m (2001: £137m).

Cash flow was strong and, despite spending £68m on acquisitions, year-end net cash rose by £4m to £67m.

The Group's effective tax rate increased from 26% to 30% of profit before amortisation of goodwill and exceptional items as results in the US prevented advantage being taken of significant outstanding US tax losses.

The year in summary
We were successful in achieving significant growth in our pre-tax profits and earnings in 2002, before the amortisation of goodwill and exceptional items. Once again our operating cash flow was strong, fully underpinning operating profits, and working capital improved despite double-digit growth in our sales.

Our year-end order book at £5.1bn increased by 19% during the course of the year.

We were successful in achieving significant growth in our pre-tax profits and earnings in 2002.

Summary
Double-digit pre-tax profits* and earnings* growth

Record order book of £5.1bn with LUL PPP to come

Strong operating cash performance

Business mix further improved

*Before amortisation of goodwill and exceptional items

While general economic conditions have been mixed, our principal markets in large-scale public infrastructure creation and care have remained strong and Balfour Beatty has had a very successful year in securing its future workload. Long-term contracts were won for road maintenance, gas and water utility services and facilities management in the UK; major road construction schemes also in the UK; rail, road and other large-scale infrastructure work in the US; rail electrification work in Italy; and large-scale transportation projects in Hong Kong. Preferred bidder status was achieved for three new PPP projects with a combined value of some £330m.

Since the year-end we have secured additional road maintenance work of up to £175m in value for the Highways Agency. The Metronet concessions for the London Underground PPP will reach financial close shortly.

Acquisitions in utilities contracting, electrical contracting, US rail maintenance and security systems together with investment in more, high-quality PFI concessions will further strengthen the business in our established areas of core expertise. Once again, acquisitions have been funded out of operating cash flow.

The year was not without its difficulties. We continued to incur substantial unplanned costs in some civil engineering contracts on the East Coast of the US. The Eastern division of our US civil engineering business has not bid further work in 2002 and will not do so until these contracts are successfully completed and appropriate recoveries secured. In the latter part of the year, TXU Europe, whose subsidiaries are, respectively, a shareholder and customer of Barking Power Station, entered administration. This has brought 28% of Barking Power Station's output out of long-term contract and on to the open market at significantly lower prices. Barking Power Limited has lodged an appropriate claim against TXU Europe's administrators and is confident of recovering a very substantial proportion of the monies due under the contract.

Developing our strategy

A predominant and growing proportion of our revenues derive from large-scale public infrastructure creation and care and private sector facility upgrade and maintenance. The range and depth of our expertise in key markets, augmented further by fill-in acquisitions, offers customers the advantage of using our capabilities in appropriate combination. In each of our markets, this capability increasingly differentiates Balfour Beatty and appeals to the customer base.

We have continued to make good progress in developing the strategy for each of our four principal business areas.

In Building, all of our operating companies are amongst the leaders in their individual market segments. Additionally, we now have established critical mass and mix to compete very effectively in the important and growing market for major public buildings requiring multi-disciplinary engineering, construction and whole-life management expertise.

In Engineering, our broadened range of UK expertise in infrastructure design, construction, upgrade and maintenance puts us in a very good position to benefit from increasing infrastructure expenditure and to provide large-scale, vertically-integrated solutions. In the US we will continue to increase our specific regional focus on areas where we have a strong market presence. In the medium term, the Engineering segment offers good opportunities for performance improvement.

In Rail, we have created a coherent organisation and clear market focus for a substantially larger business in a series of national growth markets. Once again, our multi-disciplinary capabilities offer integrated solutions to our large customers. We are very well placed for increasing spend on rail in the UK, Europe, the US and Asia.

In Investments, we continue to concentrate our efforts in those areas in which we have formidable competitive strengths and where we can be most selective – transport, healthcare and education. The application of this policy has given us a quality portfolio and a high level of confidence in the returns which it will deliver over a long period. The Metronet concessions will effectively double our committed equity investment in this area to approximately £135m.

The full investigation of the opportunity to acquire J.A. Jones Inc in the US demonstrated the Group's ambition to develop a domestic US business, similar to our successful UK model. Long-term expenditure patterns and procurement trends indicate a substantial opportunity for long-term growth through such a policy.

In December, we announced the appointment of a senior US manager to take responsibility for our US businesses, which now yield approximately $1bn of annual sales.

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 account prudently and conservatively. We will continue to develop the depth and breadth of our expertise in areas where we have existing knowledge and competitive strength. We will take contracts and make investments only when the long-term interests of our shareholders are demonstrably served.

Segmental performance*

In Building, Building Management and Services, profits improved by 5% to £46m (2001: £44m). The increase was largely attributable to improving returns from the increasing proportion of work in the large-scale complex building and building services markets.

In Civil and Specialist Engineering and Services, profits fell to £17m (2001: £22m). Improving performances in the UK civil and specialist engineering businesses, including road maintenance, combined with new profits arising from the acquisition of Kentons in the utility services sector were more than offset by further unplanned costs on US East Coast civil engineering projects. No account has yet been taken of future recoveries on these contracts.

In Rail Engineering and Services, profits improved by more than 50% to £37m (2001: £24m). This excellent result reflected significantly increased profits from Balfour Beatty Rail Power Systems, our European electrification and power supply business, particularly in Italy, and profit progress in all our UK businesses. In Infrastructure Services, underlying profit improvements were augmented by settlements resulting from the resolution of outstanding issues on a number of long-term contracts.

In Investments and Developments, profits increased by 9% to £49m (2001: £45m). Profits from Barking Power Station were lower due to planned maintenance outages and the impact of the problems at TXU Europe. Income from PFI/PPP concessions, however, rose in line with plans. In accordance with UITF 34, bid costs after appointment as preferred bidder have been capitalised.

Acquisitions

In March 2002, we paid £28m for Kentons, the Yorkshire-based utility services contractor. The company, which provides a complete asset maintenance and replacement service for the gas, water and wastewater sectors, has annual sales of approximately £75m. At the beginning of 2003, the process of integrating Kentons and John Kennedy, a similar company acquired by Balfour Beatty in 2001, was initiated. The combined company now trades as Balfour Beatty Utilities and Balfour Beatty has become a market leader in utility asset management.

In March, we purchased Knox Kershaw a US market leader in providing specialist rail maintenance services to class one railroads in the US, for approximately $6m.

In September, a 49% share in Romec, the company responsible for the maintenance and management of the Royal Mail's nationwide estate of over 3,000 buildings, was acquired for £9.6m. This acquisition brought with it a facilities services and maintenance contract worth over £600m to Balfour Beatty over seven years.

In October, in separate transactions, we acquired Walgrave, a UK distribution cable service provider, which has become part of Balfour Beatty Power Networks, and Security International, a US electronic access control systems business, which is now part of Andover Controls. £8m consideration has been paid as a result of these acquisitions.

In each case, these acquisitions have extended our existing core capabilities into new geographic and/or customer market environments and are performing to expectation.

J.A. Jones Inc

During the summer, we undertook substantive discussions and extensive due diligence with regard to the potential acquisition of J.A. Jones Inc, a leading US engineering, construction and services group. The Board believed that the acquisition of Jones would have created significant strategic and financial benefits to the Group. In order to maintain an appropriate capital structure, a rights issue would have been necessary to finance the acquisition. However, in the light of the prevailing stock market conditions, a rights issue became inappropriate and the acquisition was not pursued further.

Safety and the environment

As last year, we will report under separate cover and in full on our safety, environmental and other aspects of our corporate social performance. We have continued to make good progress in safety management and performance in the UK and the US, but have performed less well elsewhere, which is the subject of urgent management attention.

During the year, we conducted an extensive environmental benchmarking exercise across our UK operations. This revealed further good progress over the last 12 months and reflected increasing strategic and operational focus on the management of environmental issues.

*Before amortisation of goodwill (see Note 1)

The Chairman

On 4 February 2003, Lord Weir announced his intention to retire as Chairman of Balfour Beatty at the Annual General Meeting on 15 May 2003.

Lord Weir joined the Board of the Company (then BICC) in 1977 and became its Chairman in 1996. As Chairman he led the Group with great skill through a very difficult period in the late 1990s and oversaw its transformation from a worldwide cable manufacturing and construction business into the current construction, engineering and services group.

The Group, the staff and particularly myself are deeply indebted to Lord Weir for his patient guidance and leadership through a very complex period. Throughout his time at the Company, he has exhibited a fierce and unfailing pride in its qualities and achievements and we thank him and wish him a long and happy retirement.

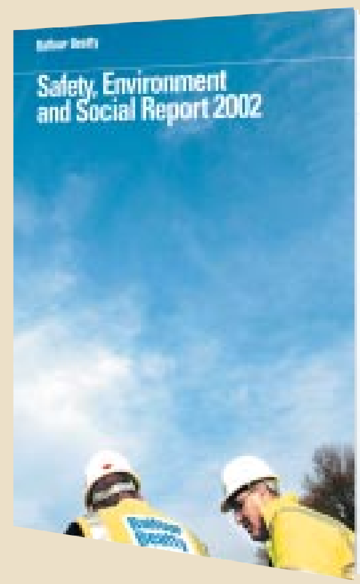
Outlook

In UK infrastructure, spending plans for transport, education, health, water and gas markets are ambitious and we believe that these markets will continue to offer us good opportunities. PFI, prime contracting and design and construct, all Balfour Beatty strengths, remain the UK Government's preferred procurement methods. The trend in the UK to outsourcing of building and infrastructure management and maintenance will also continue to the benefit of our services companies.

In the US, federal and state spending on road transportation projects seems likely to remain strong and other publicly funded markets should continue to offer substantial opportunity.

With the majority of the Group's work being financed by public sector organisations, much of it in major capital or long-term service contracts, Balfour Beatty is not as exposed to the commercial sector as others in its peer group. Business opportunities from private sector clients in most of our areas of relevant activity remain satisfactory.

With growing income from PFI/PPP investments, established leadership in rail infrastructure contracting, significant scope for performance improvement in civil engineering and a strong position in the UK major building market, we believe that we are able to anticipate further progress in 2003.



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.

A predominant and growing proportion of our revenues derive from large-scale public infrastructure creation and care, and private sector asset upgrade and maintenance.

The range and depth of our expertise in key markets, offers customers a unique range of skills.

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.

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.

Rail Engineering and Services

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

Investments and Developments

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

The Executive Line Management Team

Mike Welton Chief Executive

Ian Tyler Chief Operating Officer

Jim Cohen Group Managing Director, Rail Engineering and Services and Investments and Developments

Malcolm Eckersall Group Managing Director, Civil and Specialist Engineering and Services

Alistair Wivell Group Managing Director, Building, Building Management and Services

Turnover by destination

Companies

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

Specialist areas

- Design
- Construction
- Construction and Programme Management
- Electrical Engineering
- Mechanical Engineering
- Building and Facilities Management
- Building Management Controls
- Security Systems

Companies

- Balfour Beatty Civil Engineering
- Balfour Beatty Construction Inc
- Balfour Beatty International
- Balfour Beatty Management
- Balfour Beatty Power Networks
- Lounsdale Electric
- Balfour Beatty Utilities
- RCS
- Stent Foundations
- National Engineering and Contracting
- 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

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

Companies

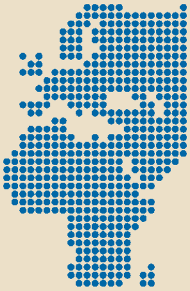
- Balfour Beatty Capital Projects
  - Aberdeen Environmental Services (45%)
  - Connect (roads) (67.8%)
  - Consort (healthcare) (50% Durham: 42.5% ERI)
  - Health Management (UCLH) (33%)
  - Metronet (rail) (20%)
  - Seeboard Powerlink (10%) PADCO (25%) (electricity)
  - Transform Schools (50%)
  - 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

US
£587m

South America
£6m



UK
£2,441m

Europe
£232m

Africa, Middle East, Near East
£56m

Asia Pacific
£119m

01

Building, Building Management and Services

2002 performance

Profits* in the Building, Building Management and Services sector improved by 5% to £46m in 2002. All the constituent operating companies performed satisfactorily.

In the UK, Balfour Beatty's strong, multidisciplinary capability, ranging from design and construction management through to whole-life asset management and maintenance, is particularly well suited to serving the growing public sector, major project market. This market is fuelled by UK Government spending in PFI, prime contracting and other procurement initiatives which match the Group's capabilities and provides opportunities for all the Group operating companies in this sector.

Performance in flat, UK, commercial markets was satisfactory. In the US, profits in both Heery and Andover Controls were maintained despite some market weakness.

Highlights

Acquisition of 49% of Romec

£220m Edinburgh Royal Infirmary handed over to time and budget

US security systems business acquired

Results

£1,123m
Turnover (2001: £1,074m)

£46m
Profit* (2001: £44m)

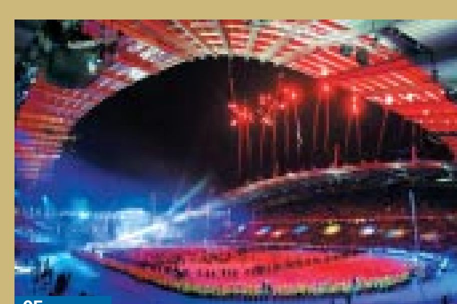
03

*Before goodwill amortisation


02

Seven year management and maintenance contract secured for Royal Mail


04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01 **Hereford County Hospital**
Haden Young is undertaking a £23m contract for mechanical and electrical services for the new 340 bed acute NHS hospital.

02 **The Cabinet Office**
Balfour Beatty Construction has completed the complex upgrade and refurbishment of the Cabinet Office buildings in Whitehall to time and budget.

03 **Royal Mail**
Haden Building Management has acquired 49% of Romec, the company responsible for maintaining the entire Royal Mail stock of over 3,000 buildings.

04 **Dare County**
Heery International provided design and construction management services for Dare County Justice Facility in North Carolina.

05 **Commonwealth Stadium, Manchester**
Haden Young installed all electrical and mechanical services for the Commonwealth Stadium in Manchester and for the associated Aquatic Centre complex.

Review of operations

Heery, the US-based architectural, engineering and programme management business, performed satisfactorily despite a weakening of commercial markets. This was achieved through both increased cost-efficiencies and successful growth of public sector business, particularly educational, medical, correctional care and justice facilities in the US.

Amongst notable project wins were a five-year contract for Atlanta Hartsfield Airport, work for the US Government General Services Agency and a major programme for Seattle public schools. In the UK, Heery was appointed project manager for a major building programme for the National Blood Service.

In Balfour Beatty Construction, profits improved in a competitive market where innovation, integrated design and build solutions and value for money are increasingly important criteria. The company is increasingly involved from the very inception of projects where it can best add value and in long-term relationships with key customers. These include the UK Government where, for example, the highly complex upgrade and refurbishment of the Cabinet Office buildings in Whitehall was concluded to time and budget; PFI customers in education and healthcare; the Metropolitan Police; major developers, most notably Hammersons; and retailers such as B&Q for whom we have completed a series of technically demanding fast-track projects.

In the major new build sector, the company was central to the on-time and to-budget completion of the £220m Edinburgh Royal Infirmary and made good progress on a number of other projects including University College London Hospital, Waterloo Place in Edinburgh for Castlemore, and on the new school build programme in Stoke-on-Trent.

In Balfour Kilpatrick, the electrical engineering and mechanical services contractor, performance was in line with 2001. Once again a substantial proportion of the company's work derived from PFI projects, including the Stoke Schools project and other major project work including Heron Quays in Canary Wharf and design for Terminal 5 at Heathrow Airport. Retrofit and upgrading work for trading floors, including for Goldman Sachs and Nomura, and substantial smaller-scale, local repeat business with relationship customers also continued to be a significant feature of the company's work.

Haden Young, the Group's building services company had an excellent year. The company is one of the UK's top three building service contractors and was Mechanical and Electrical Contractor of the Year in 2001 and 2002. It specialises in high-value work on major projects. During 2002 these included PFI projects for Edinburgh Royal Infirmary, Kings College Hospital, London and Hereford Hospital. It also carried out the M&E work for the Commonwealth Games Stadium in Manchester.

Major mechanical and electrical works for BAE Systems at Chester, UCLH Hospital in London and the Meteorological Office in Exeter progressed well. Major new contracts were secured for, amongst others, the Royal Bank of Scotland in Manchester.

Andover Controls, a US leader in computer-based security and building management systems, maintained its profit performance in 2002. The performance of Integral Technologies, the specialist security systems business acquired in 2001, was satisfactory. During the year Andover acquired Security International, a US access control systems provider which, in combination with Integral Technologies, has formed a new security systems division.

Recent notable installations include campus-wide systems at Boston University, the Georgia Institute of Technology and the University of New Hampshire, further work from long-term customer Merck & Co and a number of installations in the healthcare sector.

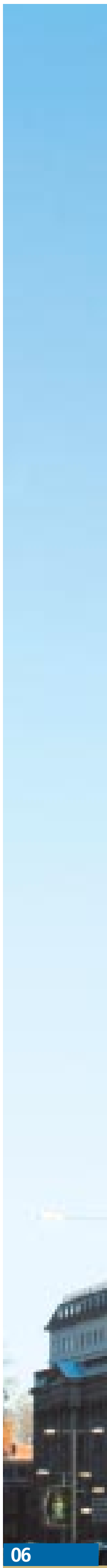
In Haden Building Management, the building and facilities management company, growth was maintained as opportunities in the market for outsourced services continued to develop. Additional sales volumes have been accompanied by the completion of the company's transformation from a branch-based organisation to a structure fully appropriate for the selection of key customers and management of major accounts.

In September, Balfour Beatty acquired 49% of Romec, the company responsible for the maintenance and management of the entire Royal Mail stock of some 3,000 buildings. As a result, Haden is now responsible for 49% of a seven-year contract, likely to be worth approximately £1.3bn, to provide the full range of facilities management and business support services. This contract has commenced satisfactorily.

The company has ongoing responsibility for long-term service provision for PFI concessions, the Department for Work and Pensions, and commercial customers such as BT, Royal Bank of Scotland, AWE, Land Securities, Merrill Lynch, Shell, Sainsbury's and the Heathrow Express.

Outlook

With low levels of underlying economic and market growth anticipated in the UK and the US, progress in 2003 is likely to be modest. We believe that our positioning as an integrated supplier and our market leading positions in each of our individual disciplines should continue to help secure attractive projects arising from PFI, prime contracting and the private sector.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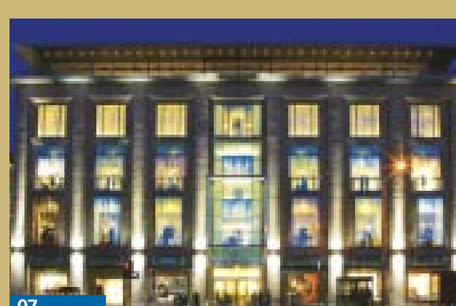
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08


09

06 **University College London Hospital**
Balfour Beatty Construction is the main contractor for the new £225m, 669 bed hospital due for phase 1 completion in 2005.

07 **St Andrews Square, Edinburgh**
Balfour Beatty Construction has completed this £32m retail centre and bus station, including a five-level Harvey Nichols store.

08 **Manchester Airport**
Andover Controls has designed and installed a new building management control system for the airport, integrating numerous other systems around the site.

09 **Heron Quays**
Balfour Kilpatrick is designing and installing all the electrical services at the new 37-storey Lehman Brothers building at Heron Quays in London's Docklands.

01

Civil and Specialist Engineering and Services

2002 Performance

Profits* in Civil and Specialist Engineering and Services fell by £5m to £17m in 2002. Profit improvement in the UK operating companies and a first time contribution from Kentons, acquired in March 2002, were more than offset by further write-downs in some civil engineering projects on the East Coast of the US.

Highlights

Major UK road construction and maintenance contracts secured

Balfour Beatty Utilities created from integration of John Kennedy and Kentons

$1.3bn State Highway 130 joint venture contract secured in Texas

Results

£1,347m
Turnover (2001: £1,150m)

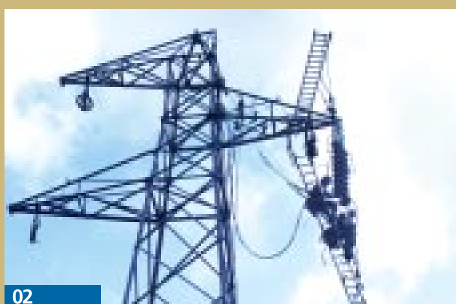
£17m
Profit* (2001: £22m)

*Before goodwill amortisation.

04

01 **Jebel Ali Port, Dubai**
Dutco Balfour Beatty is carrying out quay construction and related improvements for the expansion of the container area.

02 **Norweb Power Lines**
Balfour Beatty Power Networks is constructing 29 kilometres of 132 kV power lines in Lancashire, including the manufacture and installation of towers.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03

£300m Nam Cheong Station in Hong Kong nearing completion

03 **A120, Stansted**
Balfour Beatty Civil Engineering is constructing 24 kilometres of carriageway and 32 structures on the new road to connect Stansted Airport and the M11 in a £75m contract.

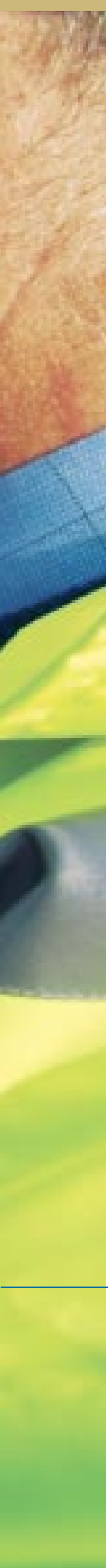
04 **Nam Cheong Station, Hong Kong**
Balfour Beatty Civil Engineering is nearing the completion of the £300m Nam Cheong Station for the Kowloon-Canton Railway Corporation.

05 **North Yorkshire Roads**
RCS is responsible for the maintenance of almost 8,000 kilometres of roads for North Yorkshire County Council under a £160m, six-year contract.

06 **San-Mateo, San Francisco**
Balfour Beatty Construction Inc has successfully completed the construction of the causeway and the widening of the $113m San-Mateo Bridge in California.

07 **The Forth Bridge**
Balfour Beatty Civil Engineering has begun the seven-year contract for the refurbishment of the famous bridge to include painting, repairs and walkway replacement.

08 **Yorkshire Water**
Kentons and Kennedy's, now being integrated as Balfour Beatty Utilities, are responsible for the upgrade and rehabilitation of Yorkshire Water's clean water network under two Area contracts.



Review of operations

During the year, the UK Major Projects organisation was combined with Balfour Beatty Construction's regional Civil Engineering business to form Balfour Beatty Civil Engineering. Profits from this organisation improved significantly on the previous year.

Good progress was made on a number of projects, including civil works for the Channel Tunnel Rail Link, complex tunnelling works in Switzerland, major road schemes in Essex, Buckinghamshire and the West Midlands and the £300m Nam Cheong Station in Hong Kong. During the year, notable contract wins included the maintenance and upgrade of the Forth Bridge, a £106m railway station complex at Loc Ma Chow on the Hong Kong/China border, the expansion of the East Hall at Hong Kong Airport and a long-term construction and maintenance alliance with Durham County Council.

The Group secured the first two Early Contractor Involvement projects from the Highways Agency for the A303 at Stonehenge and the A3 at Hindhead. Together, these two projects are valued at approximately £270m.

The Group's permanent International businesses in Indonesia, the Philippines and the Middle East continued to produce steady profits with particularly good results from the newly-merged operations in Dubai. In Indonesia, good progress was made on a £50m overhead power line project, while in the Philippines the market remains depressed. In Turkey, our joint venture with the KOC Group continues to be active in both its domestic and selected export markets.

In the US, Balfour Beatty Construction Inc's regional businesses in California and Texas continued to perform well. Results, however, were affected by further cost escalation on some East Coast civil engineering contracts on which further write-downs were made. The projects involve complex engineering and logistics challenges. Future recoveries on these projects have not yet been taken to account. Until these projects are successfully completed, the Eastern Division business will bid no more work.

Notable project wins in joint venture included the $1.3bn SH130 toll road, the Greenbush Commuter Line project in Boston and a waste water tunnel at Narragansett, Rhode Island. The San Mateo Bridge in California has been successfully completed and is in full operation.

In Balfour Beatty Power Networks, profits recovered following the depressive impact of the foot-and-mouth epidemic in 2001. The UK was declared free of the disease in the early part of 2002. All UK projects reverted to normal operation during the year and progress across the board was good. In October, the Group acquired Walgrave Contracting Services, a UK distribution cable service provider, in order to broaden its geographic resource in the growing utility services market.

In October 2001, Balfour Beatty acquired John Kennedy Holdings, the gas and water utility services group. In March 2002, a company providing a similar range of services, Kentons, was acquired for a total consideration of £28m. In November, it was announced that these businesses were to be integrated to form a new company, Balfour Beatty Utilities, to provide a complete asset management facility to customers in the gas, clean water and waste water sectors.

The specialist UK engineering businesses again performed well overall. Stent, a market leader in complex foundations work, had a very good year and has been selected for two of the largest piling jobs in the UK – for King's Cross Station and the new Wembley Stadium. Balvac, the repair specialist, Testal, the testing contractor, and Rail First, which provides civil engineering solutions to the rail sector, also performed satisfactorily.

Profits in RCS, the Group's road management and maintenance specialist, improved on significantly increased volumes. In January 2002, long-term contracts were secured for Hampshire and North Yorkshire road maintenance with a combined potential value of some £470m. Early in 2003 we secured a MAC (Managing Agent Contractor) contract for Highways Agency Area 4 with a potential value of £175m. The RCS order book, is now well in excess of £500m.

Profits from the Group's interest in Devonport Management Limited, which is responsible for the management and development of the Royal Dockyard and its other associated naval facilities, remained stable at a satisfactory level.

During 2002, a new business, Balfour Beatty Management, was formed to provide project and programme management and other professional services to the UK infrastructure market.

Outlook

In the UK, there is a strong commitment to increased capital expenditure on, and upgrading and maintenance of, the transport and general utilities infrastructure. We also expect that the US transportation market will remain strong. We anticipate good progress in 2003 as performance improves in the US and our very substantial existing project workload in the UK, Hong Kong and elsewhere is progressed satisfactorily.

Rail Engineering and Services

2002 Performance

Profits* in Rail Engineering and Services were up by more than 50% at £37m in 2002. This reflected a better underlying performance in UK maintenance, augmented by the settlement of some outstanding issues from previous years. Returns from the majority of other operations also improved with Balfour Beatty Rail Power Systems benefiting in particular from a full-year's profits from the Italy-based business acquired at the end of 2001.

Substantial progress was made in bringing the operations in the rail sector, in which our interests have grown substantially in the last two years, into a coherent organisation with a common approach and common values. Acquisitions in the US and Germany further strengthened our strategic position and a number of major new contracts were secured.

Highlights

Profits advance by more than 50%

Acquisitions in Germany and the US strengthen business mix

Major new contracts secured in UK, US and Italy

Results

£838m
Turnover (2001: £698m)

£37m
Profit* (2001: £24m)

04

01 **Bay Area Rapid Transit, San Francisco**
Metroplex has undertaken the entire trackwork contract for the new airport extension to the BART system in San Francisco.

02 **Leeds Station**
Balfour Beatty Rail Projects has completed the £165m contract to upgrade the infrastructure at Leeds Station, including new track and new overhead line structures.

*Before goodwill amortisation.

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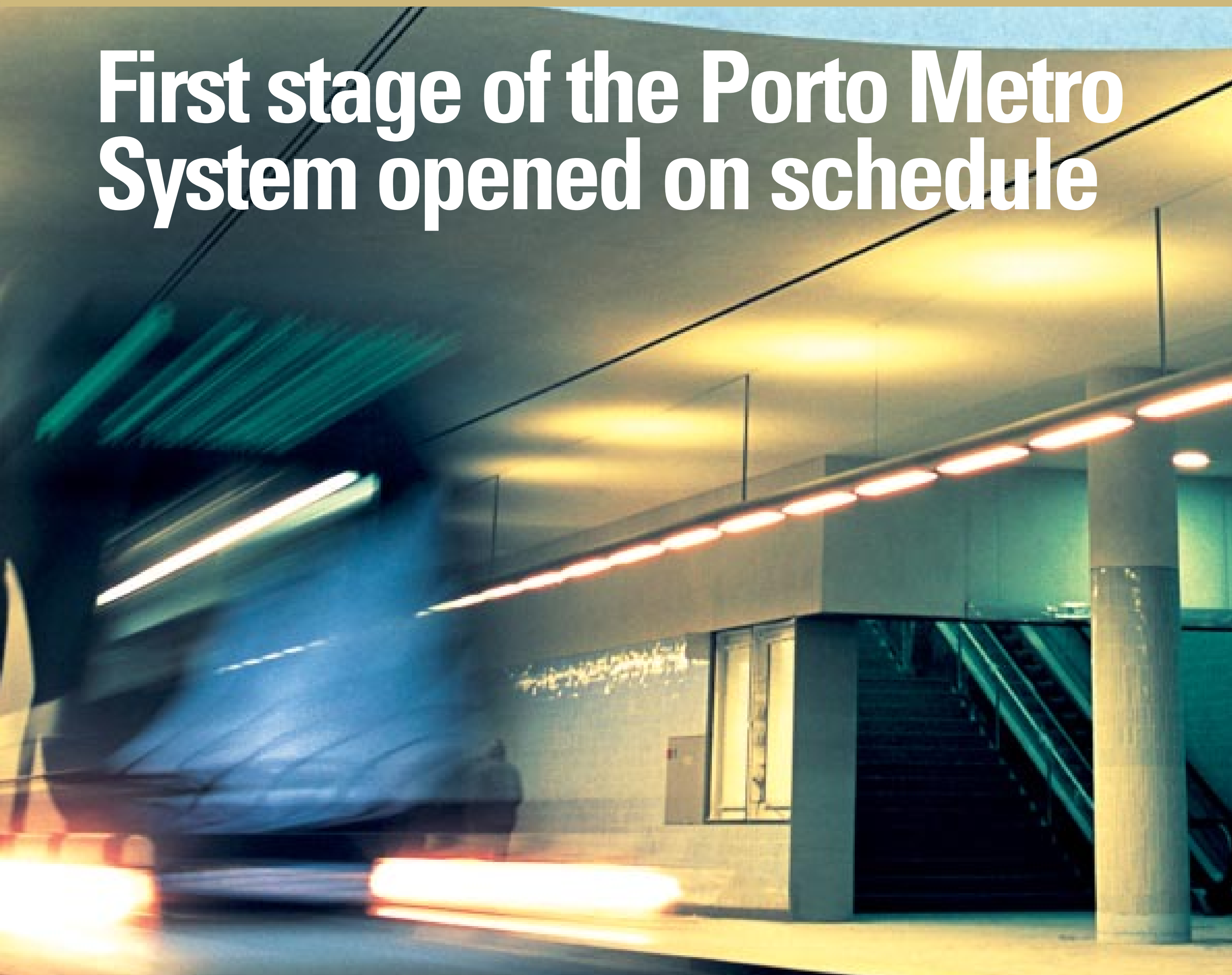
First stage of the Porto Metro System opened on schedule



03 **Kirow Crane**
Balfour Beatty Rail Plant owns and operates the 30 tonne Kirow Crane, the largest and most versatile heavy lifting equipment available on the UK network.

04 **Metro do Porto**
Balfour Beatty Rail Power Systems recently completed the first stage of the £140m turnkey project for the new Metropolitan subway system for the city of Porto.

Review of operations

In Infrastructure Services, the first full year of operation of the IMC 2000 maintenance contracts produced improved profits and increased activity levels. A number of issues outstanding from previous years were settled and contributed to the year's profits.

We are working very closely with Network Rail on their proposed new arrangements for the management and execution of asset maintenance across the network. We anticipate that we will be in a position to introduce new arrangements, on a pilot basis, in the Anglia region during 2003. We believe that the new concepts will benefit the network and will further improve the operational and financial stability of our maintenance business – a process already advanced by the introduction of the IMC 2000 contracts in 2001.

The increased certainty brought about by the creation of Network Rail is a welcome development and its remit to achieve value for money is well understood. We believe that this can be achieved without prejudicing acceptable returns.

Work in the renewals business continued at the levels achieved in late 2001 following the disruptive effects of the National Recovery Programme in the early part of that year.

In the Projects business, 2002 was a year of good profit growth. Work continued on the electrification of the West Coast Main Line and the associated upgrade works. The full mobilisation of the latest comprehensive infrastructure upgrade project between Watford and Bletchley was achieved in the year. The new rail link to Terminal 5 at Heathrow Airport was awarded to Balfour Beatty and some early design work was undertaken in our role as preferred bidder for major parts of Thameslink 2000, although this project continues to be subject to delays.

Rail Power Systems, the German-based electrification and power supply business, also performed well with the performance of its Italian subsidiary, acquired at the end of 2001, a particular feature. In August we secured in joint venture the €300m Milan-Turin electrification contract to add to a substantial existing workload. Further major segments of the Italian national electrification programme will come to the market in due course. The first stage of the turnkey contract for the new Metro system in Porto was completed to time and budget, and we successfully completed the Harbin-Dalian project in China.

In Asia, work on the Rawang-Ipoh electrification project in Malaysia is still in its early stages.

In Track Systems, profits improved further as demand continued to grow for switches, crossings and other track system components from both the UK and export markets. The manufacturing facility at Sandiacre was expanded and upgraded during the year and work commenced on new products required for installation on the London Underground system.

In Balfour Beatty Plant, profits improved as utilisation levels further increased and new equipment became fully operational. The contract to manage the national fleet of Stoneblowers on behalf of Network Rail was renewed for a further year.

In the Technologies division, which researches and develops new systems and techniques, largely related to safety, there were two significant developments. It secured a contract to introduce a pilot system for remote condition monitoring on the West Coast Main Line. Slabtrack, the Group's revolutionary embedded track system, went on practical test in Spain.

In Balfour Beatty Rail Inc in the US, profits in Marta Track Constructors and Metroplex Corporation were lower than last year, largely due to the timing of settlements on major projects in Texas and California. In January 2002, the Group was awarded the $200m+ Greenbush Line Rail Corridor contract by the Massachusetts Bay Transit Authority. This design and build contract utilises the Group's signalling and civil engineering skills as well as having a very substantial trackwork element. Balfour Beatty Rail Inc was also awarded the trackwork contract for the new rail system at the site of the New York World Trade Center.

In March, Knox Kershaw, a market leader in specialist rail maintenance services to the Class 1 railroads was acquired. This followed the award to Balfour Beatty of the first ever outsourced heavy freight maintenance contract for the Alameda Rail Corridor rail link in Los Angeles.

In Balfour Beatty Rail Systems Inc, progress continued on the $50m SEPTA project in Pittsburgh.

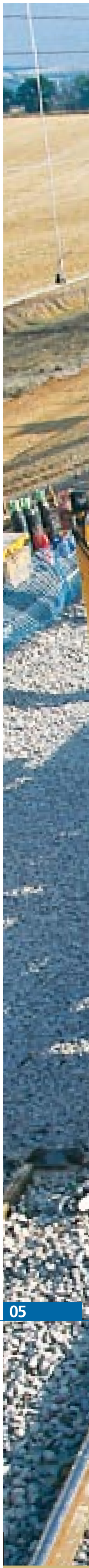
Safety

The Group continued to work on improving operational and occupational safety performance. A major industry safety award was won in the US and, in the UK, the Group fully supported the introduction, in December, of a new network-wide safe working system.

Outlook

The world's rail markets remain generally buoyant although individual national network expenditure is prone to fluctuation. One-off settlements in UK maintenance will not recur.

2003 should see substantial work underway on upgrading trackwork and other infrastructure for the London Underground.



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05 **Ledburn Junction, West Coast Main Line**
Balfour Beatty Rail Projects and other Group operating companies are working on a complex infrastructure upgrade at the site of the Great Train Robbery.

06 **Switches and Crossings Manufacture**
In 2002, a second gantry milling machine was installed at Balfour Beatty Track Systems to meet growing demand from UK and export markets.

07 **Infrastructure Maintenance**
Balfour Beatty Rail Infrastructure Services is responsible for the maintenance of the Kent, Wessex and Anglia Zones under the IMC target cost contracts introduced in 2001.

Investments and Developments

2002 Performance

Profits* improved by 9% to £49m in 2002. Continued growth in concession income from both improving performance in already operational concessions and concessions entering their operational phase, more than offset lower profits from Barking Power.

Preferred bidder status was achieved for three new concessions.

Highlights

- Existing concessions continue to perform well
- New Edinburgh Royal Infirmary handed over to time and budget
- Metronet concessions near financial close

Results

£133m
Turnover (2001: £135m)

£49m
Profit* (2001: £45m)

*Before goodwill amortisation.


03


04

£220m Edinburgh Royal Infirmary handed over on time and to budget

01 **London Underground Public Private Partnership**
Balfour Beatty is a 20% shareholder in Metronet, which will shortly take responsibility for the BCV and SSL concessions on the London Underground.

02 **Edinburgh Royal Infirmary**
Haden Building Management is responsible for the delivery of all non-clinical hospital services, including catering, in a 25-year facilities management contract.

03 **London Underground Power System**
Lounsdale Electric in joint venture is responsible for the maintenance, operation and development of London Underground's high-voltage power distribution system.

04 **Edinburgh Royal Infirmary**
Consort Healthcare is responsible for the concession to operate the new 869 bed Edinburgh Royal Infirmary and the associated Medical School.

Review of operations

Balfour Beatty Capital Projects

In highways, the performance of Balfour Beatty's three existing road concessions in Derbyshire, Yorkshire and the West Country continued to improve overall, with traffic income exceeding expectations. The funding arrangements for Connect Roads, responsible for two of the concessions, were reorganised during the year.

In December, through Connect Roads, Balfour Beatty was appointed preferred bidder for the £130m M77 and Glasgow Southern Orbital DBFO contract by the Scottish Executive and East Renfrewshire and South Lanarkshire Councils.

A Balfour Beatty consortium was also appointed by the City of Sunderland Council as preferred bidder for its £100m Street Lighting and Highway Signs PFI maintenance contract.

In the healthcare sector, significant progress was achieved. There was a first full-year's operating income from North Durham Hospital. The first phase of the new £220m Edinburgh Royal Infirmary operated successfully following handover to the Trust and mobilisation in the early part of the year. In December, the remaining facilities were also completed and accepted by the Trust in preparation for full patient intake, to time and to budget. Good progress was made on the construction of the new £225m hospital for University College London and the operation of the existing hospital was effectively maintained. We continue to work towards converting preferred bidder status for Blackburn Hospital to contract.

A number of large new schemes are now in the process of coming to the market. Balfour Beatty is down to one of two bidding for the £400m new university hospital in Birmingham. It has prequalified for the £140m St Helens project, the £200m Pinderfield project and the £130m Chelmsford Hospital and plans to bid several other new large hospital schemes.

In education, the Transform Schools project had a second successful year of financial and operational progress. A number of new schools were delivered and have been very well received by the local authority, the teaching staff and the pupils. Work continues on the new build, upgrade and maintenance programmes.

In October, Transform Schools was appointed preferred bidder for the Metropolitan Borough of Rotherham project, likely to be worth £90m. The concession involves the construction of at least six new schools, the substantial upgrade and refurbishment work of a further nine and the maintenance of the schools over a 28-year period. We are bidding for major schemes in Crawley where we are on a short-list of two. Further large schools projects in England and Scotland will come to the market in 2003.

In the process sector, all four of the Aberdeen Waste Water plants were handed over in the first quarter and subsequent revenues have been satisfactory .

The waste-to-energy plant in Dundee has continued to experience operating difficulties and financial performance continues to be disappointing. A new management team is in place and plans to enhance the plant's operating performance are in preparation.

The Seeboard Powerlink concession, which has operational responsibility for the London Underground high voltage power system, had a good year. The new emergency supply plan was completed, together with the first phase of the power quality upgrade and, as scheduled, Lots Road power station ceased generation in October.

Barking Power Limited

Barking Power Station underwent significant maintenance activity in the first half of the year and profits were lower than in 2002 as a result of its decreased availability. Late in the year, TXU Europe, whose subsidiaries are, respectively, a shareholder and a customer of Barking Power Station, went into administration. As a result, some 28% of the plant's output, previously under long-term contract at fixed prices has now to be sold on the general electricity market. Barking Power Ltd has lodged an appropriate claim against TXU Europe's administrators and is confident of recovering a very substantial proportion of the monies due under the contract.

Profitability going forward will reflect the plant's new circumstances.

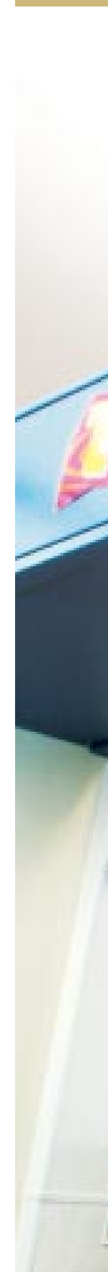
London Underground Public Private Partnership

It is now anticipated that Metronet's Bakerloo, Central and Victoria Line and Sub-Surface Line concessions for the LUL PPP, in which Balfour Beatty has a 20% interest, will reach financial close in Spring 2003. In addition to revenues generated through the operation of the concessions, Metronet projects will bring £1.2bn of downstream contracting work to the Group over the next 7½ years.

Outlook

We expect to make further profit progress in 2003, with increasing income from PFI/PPP concessions more than offsetting somewhat lower profits from Barking Power.

Our focus on markets where we have strong competitive advantage – namely large healthcare, education, road and rail – will continue and a number of large projects whose requirements closely match Balfour Beatty's capabilities are expected to come forward in 2003.

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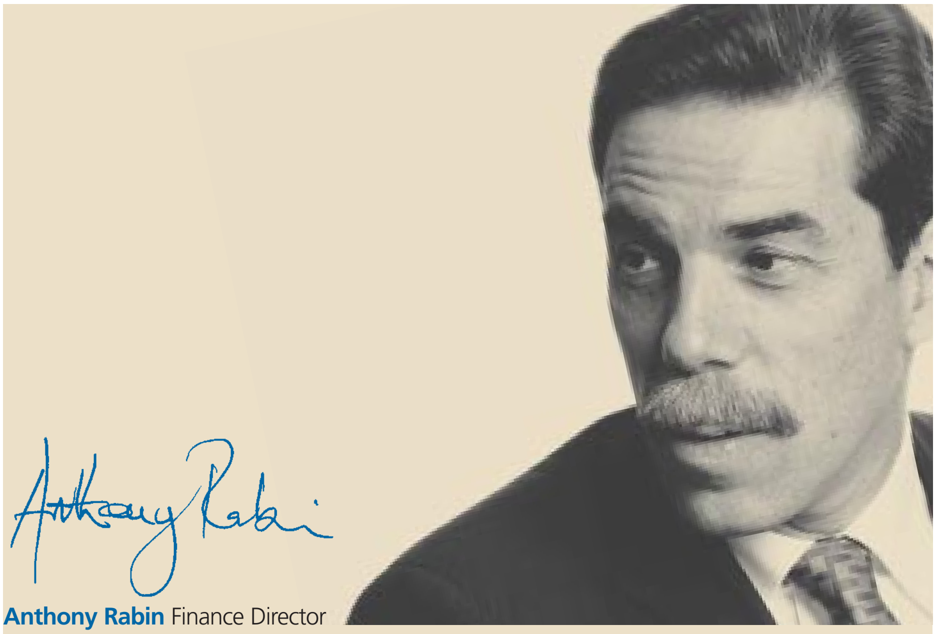
05 **Stoke Schools**
Haden Building Management maintains and manages energy usage in the Stoke school stock with the objective of a 20% efficiency improvement over the first five years.

06 **DBFO Road Portfolio**
Balfour Beatty has three concessions in current operation – the A1/M1, the A50 and the A30/A35 – and is preferred bidder for the M77 motorway in Scotland.

07 **Stoke Schools**
Transform Schools is responsible for the concession for the new construction, upgrade and maintenance for the entire stock of 122 schools within Stoke-on-Trent for 25 years.



Anthony Rabin Finance Director

Strong cash flow from the Group's operations provided further capacity for acquisitions

Operations

Results in 2002 reflect further progress in the Group objectives of earnings growth and increasing financial strength.

Turnover increased by 12%, of which 8% was attributable to acquisitions made in 2001 and 2002.

Operating profit before goodwill amortisation and exceptional items increased by 10%. Profits in our rail businesses benefited from our UK maintenance business achieving a number of settlements in relation to prior years' contracts and the acquisition of ABB Dacom at the end of 2001. The UK building and support services businesses continued to grow modestly, as did our PFI portfolio of investments where two completed hospital contracts started to generate service revenues during the year. The civil and specialist engineering sector benefited from the recovery of our Power Networks business and the acquisition of Kenton, the water and gas pipeline contractor acquired in March 2002. However, substantial unplanned costs continued to be incurred in civil engineering projects on the East Coast of the US, more than offsetting profit advances elsewhere in this segment.

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, acquisitions in the year and deferred consideration accounted for £68m net cash outflow. These included Kenton (£25m), Walgrave (£7m) and a 49% interest in Romec (£10m). Goodwill arising in 2002 from acquisitions amounts to £47m.

Operating profits were after charging £21m in respect of goodwill amortisation arising from acquisitions. This charge was adversely affected by £5m impairments in relation to the Balfour Beatty Rail Systems Inc

2001	£3,071m
2002	**£3,441m**

Turnover
+12%

2001	£102m
2002	**£118m**

Pre-tax profits*
+16%

2001	14.1p
2002	**16.1p**

Earnings per share*
+14%

2001	£63m
2002	**£67m**

Net cash
+£4m

*Before amortisation of goodwill £21m (2001: £12m) and exceptional items £9m charge (2001: £13m credit).

and Garanti Balfour Beatty businesses. £4m of this charge arises from the inability to recover US$6.7m of the adjustment to the consideration due for the Balfour Beatty Rail Systems Inc business from the vendor as a result of its insolvency and a dispute with the administrator in relation to the Group's right to offset contract receivables.

Taxation

The Group's effective tax rate in 2002 was 30% (2001: 26%) of profit before goodwill amortisation and exceptional items. Although this charge benefited from adjustments in respect of prior years and the use of brought forward tax losses in Germany, trading losses suffered in the US during 2002 prevented us from utilising any of the US brought forward tax losses. We expect a lower effective tax rate in 2003 as our US businesses return to profit although proposed legislative changes in Germany, if implemented, would limit the rate at which we can utilise our German tax losses.

Pre-tax profits and earnings

As a result of these factors, pre-tax profits* increased by 16% and earnings per share* by 14%.

Cash and interest

The continued strong cash flow from the Group's operations provided further capacity for acquisitions to grow the Group's core activities while retaining a significant level of net cash which, at the end of 2002 stood at £67m (2001: £63m).

The Group's cash position varies significantly throughout the year and the average position has tended to be somewhat lower than the year end position. Group net interest payable of nil included £4m (2001: £3m) of interest receivable from subordinated loans to our PFI concession investments.

Pensions

Pension charges to the P&L account of £19m (2001: £12m) have been made, including £9m for the Balfour Beatty Pension Fund and £4m 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, which at time of valuation showed funding surpluses of 9% and 4% respectively.

In the light of events in the equity markets in 2002, the actuaries have updated these valuations to review the ongoing funding levels of these schemes. Both funds remain in surplus, but at significantly reduced levels. As a result, the Group will be reviewing the level of its contributions to these schemes in 2003. The Group introduced a new defined contribution section to its pension scheme for UK employees joining the Group after 1 January 2003.

The way in which pension arrangements are reflected in the Group's earnings and net assets will change radically when the requirements of FRS 17 "Retirement Benefits" are fully implemented. Note 22 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 two principal funds is due entirely to the different discount rates applied in the two valuation methods.

Treasury

The Group's policy remains to carry no significant net debt. The borrowings of the PFI and PPP concessions, shown in Note 10, are non-recourse to the Group.

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 independent 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 between 2005 and 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 11% of total borrowings (2001: 14%).

Currency risk

The Group hedges a proportion of its 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 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 14.

Accounting standards

This year, the Group has adopted FRS 19 "Deferred Tax" which has not resulted in any significant change to the reported results.

The Urgent Issues Task Force (UITF) Abstract 34 "Pre-contract costs", which requires all bid costs to be expensed as incurred until it is virtually certain that a contract will be awarded, has been adopted. The effect of this change on the 2001 and 2002 results is set out in paragraph 1 of the Principal accounting policies on page 43.

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.

Board of Directors

01 **Viscount Weir** Chairman†
Age 69. A Director since 1977 and Chairman since 1996. A director of St. James' Place Capital and Canadian Pacific Railway Company and chairman of CP Ships Ltd. Formerly chairman of the Weir Group, and a director of the Bank of England and British Steel. He is an Honorary Fellow of the Royal Academy of Engineering. Chairman of the Compensation and Appointments Committee.

02 **Michael Welton** Chief Executive
Age 56. A chartered civil engineer and Member 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.

03 **Ian Tyler** Chief Operating Officer
Age 42. A chartered accountant. Appointed Chief Operating Officer in August 2002. Previously Finance Director and a Director since 1999. Joined Balfour Beatty in 1996 from the Hanson Group where he was Financial Comptroller of Hanson and Finance Director of ARC Ltd, one of its principal subsidiaries.

04 **Anthony Rabin** Finance Director
Age 47. A chartered accountant and barrister. Appointed a Director in July 2002. Previously Managing Director of Balfour Beatty Capital Projects responsible for the development and management of its privately financed concession operation. Previously a partner at Coopers and Lybrand and senior assistant director at Morgan Grenfell.

05 **Jim Cohen** Managing Director, Rail Engineering and Services, Investments and Developments
Age 61. An economist. A Director since 2000 having joined the Group in 1993. Previously, held senior management positions with GTE and GEC and prior to that was a senior civil servant at the Department of Energy. In July 2001, he was appointed a trustee of The CIRAS Charitable Trust, which is responsible for the Confidential Incident Reporting and Analysis System for all UK railway participant companies.

06 **Malcolm Eckersall** Managing Director, Civil and Specialist Engineering and Services
Age 57. A chartered civil engineer and a Fellow of both the Institution of Civil Engineers and the Institution of Highways and Transportation. Joined the Group in early 2000 and appointed a Director later the same year. Previously an executive director of AMEC plc.

07 **Alistair Wivell** CBE Managing Director, Building Management and Services.
Age 57. A civil engineer and a Fellow of the Chartered Institute of Building. Appointed a Director in July 2002. Previously managing director of Balfour Beatty Construction Ltd, the Group's regional UK building and civil engineering business. Joined the Group in 1966.

08 **Peter Zinkin** Planning and Development Director
Age 49. 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.

09 **Sir David John** KCMG †
Age 64. A Director since 2000. He is chairman of Premier Oil Group, the BSI Group, a non-executive director of The St Paul Companies Inc and immediate past chairman of The BOC Group. Formerly a director of Inchcape plc, he is a member of the CBI President's Committee and of the CBI International Advisory Board. He is a director and trustee of Asia House and a governor of the School of Oriental and African Studies. Chairman of the Business Practices Committee.

10 **Richard Delbridge** †
Age 60. Appointed a Director in October 2002. A chartered accountant. Previously Group Chief Financial Officer of National Westminster Bank PLC and Group Finance Director of HSBC Holdings plc. A non-executive director of Egg plc, Tate and Lyle PLC, Cazenove Group plc and Gallaher Group plc and treasurer of the Open University.

11 **Christopher Reeves** †
Age 67. A Director since 1982. He is a senior adviser to Merrill Lynch Holdings Limited, chairman of Marine and General Life Assurance Society, a director of Allianz Cornhill Insurance and a number of other companies. Chairman of the Audit Committee.

12 **Udo Stark** †
Age 55. A Director since 1995. He is chairman of the Shareholder Committee of Messer Griesheim GmbH and Bartec GmbH. He is senior adviser to, and formerly Chief Executive Officer of, AGIV, the international engineering group. He was previously chief financial officer of ENKA and chief executive of AKZO-ENKA. He is senior adviser to Charterhouse Development Capital and a member of the Advisory Board of Barmenia Insurance Group.

13 **Robert Walvis** †
Age 56. A Director since 2001. Previously with the Shell Group, most recently as chairman of the Corporate Centre of the Royal Dutch Shell Group of Companies. He is a non-executive director of Johnson Matthey plc and a member of council of the Royal Institute of International Affairs.

14 **Sir David Wright** GCMG, LVO †
Age 58. Appointed a Director in January 2003. Vice chairman of Barclays Capital. Retired as group chief executive of British Trade International in 2002. Previously British Ambassador to Japan for three years. Chairman and Managing Trustee of the Daiwa Anglo-Japanese Foundation.

† Non-executive Director and member of the Audit Committee, the Business Practices Committee and the Compensation and Appointments Committee.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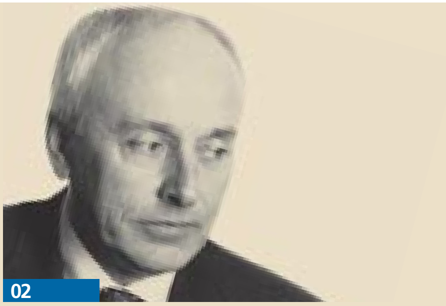
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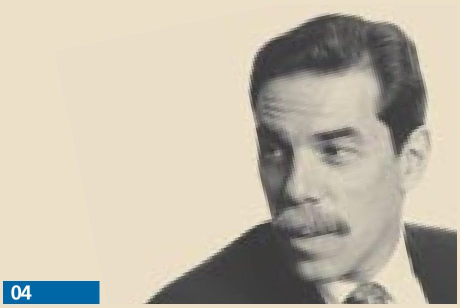
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Activities

The Chairman's statement and Chief Executive's review on pages 02 to 07, the Operating review on pages 10 to 25, and the Financial review on pages 26 and 27 report on the principal activities of the Group, its operations during 2002 and future developments in its businesses.

Dividends

The Directors recommend a final dividend on ordinary shares of 3.05p (net) per share, making, with the interim dividend of 2.35p, a total dividend for 2002 of 5.4p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2002.

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 executive management. 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.

Directors

Details of the Directors of the Company are given on pages 28 and 29. All the Directors shown served throughout the year, with the exception of Anthony Rabin and Alastair Wivell, who were each appointed as executive Directors on 9 July 2002, and Richard Delbridge and Sir David Wright, who were each appointed a non-executive Director on 24 October 2002 and 1 January 2003 respectively. During the year, Michael Miles retired as a non-executive Director following the Annual General Meeting on 16 May 2002, and Paul Lester resigned his position as executive Director on 28 June 2002 following his appointment as Chief Executive of VT Group plc. Ian Tyler was appointed to the new post of Chief Operating Officer on 14 August 2002.

Selection of non-executive Directors

Our non-executive Directors have, for some years, been chosen on the basis of their individual background and experience for the contribution they can make both generally and in specific areas relevant to our business. Thus, Christopher Reeves, and now Richard Delbridge, bring to us City and financial experience at the highest level: Sir David John brings the experience of leading large international companies: Udo Stark contributes the background knowledge of business in Germany, where we have important interests: Sir David Wright, as a former head of British Trade International, has extensive knowledge of overseas markets and particularly the Far East: and Rob Walvis brings the benefit of wide experience drawn from a career in senior positions at Shell.

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.

Retirement, election and re-election of Directors

The Chairman, Viscount Weir, is retiring at the Annual General Meeting on 15 May 2003, and will be succeeded as Chairman by Sir David John, who was appointed as a non-executive Director on 13 July 2000. Christopher Reeves is also retiring as a non-executive Director at the Annual General Meeting.

In accordance with the Articles of Association, each of Anthony Rabin, Alastair Wivell, Richard Delbridge and Sir David Wright hold office until the Annual General Meeting, at which each are eligible for, and accordingly offer themselves for, election. Mr Rabin and Mr Wivell are both executive Directors. Details of their service contracts appear in the remuneration report on page 33.

The Directors who retire by rotation at the Annual General Meeting are Malcolm Eckersall, Ian Tyler and Peter Zinkin who, being eligible, offer themselves for re-election. Details of their respective service contracts appear in the remuneration report. Mr Tyler was elected in 2000, Mr Zinkin was last re-elected in 2000 and Mr Eckersall was elected in 2001.

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 are set out in Note 21(b) on page 56 and under the long-term incentive scheme (the Performance Share Plan 2001), and in respect of options over such share capital, in the tables in the remuneration report beginning on page 35.

Share capital and major shareholders

Details of the share capital of the Company as at 31 December 2002 are set out in Note 17 beginning on page 53. During the year to 31 December 2002 no ordinary shares were repurchased for cancellation and 5,000,000 preference shares (representing 3.0% of the preference share capital) were repurchased for cancellation for a total consideration of £6,835,000 at an average price of 136.7p. 568,658 ordinary shares were issued following the exercise of options held under the Company's Savings-Related Share Option Scheme and 386,256 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 4 March 2003, 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:

Fidelity International Limited	31.3m shares	7.53%
Aviva plc	29.1m shares	7.00%
Morley Fund Management Limited (included in the interest of Aviva plc above)	29.1m shares	6.99%
Standard Life Investments Limited	20.8m shares	5.02%
HBOS plc	17.2m shares	4.15%
Royal & Sun Alliance Insurance Group plc	16.8m shares	4.05%
Prudential plc	15.4m shares	3.72%

Corporate governance

Overview

The Board continues to endorse and apply the principles of good corporate governance reflected in the Combined Code appended to the Listing Rules of the Financial Services Authority. The Company has complied with all the Code provisions set out in Section 1 of the Combined Code throughout the financial year ended 31 December 2002 save, as in the previous year, the Company has not complied with provision A.2.1 of the Code to identify a separate senior independent Director for disclosure in the Annual Report. The Directors remain firmly of the view that this is unnecessary on account of having a non-executive Chairman, a separate Chief Executive and an experienced and independent Chairman of the Audit Committee.

The Board and its Committees

The Board comprises seven executive and seven non-executive Directors, including the Chairman. The Board generally meets once a month to consider matters specifically reserved for its attention and decision. The Board has established procedures which are designed to ensure that Directors are appropriately briefed on issues to be discussed at meetings. Board papers are circulated sufficiently in advance of meetings to allow time to consider the adequacy of the information provided for decision making. Certain of the responsibilities of the Board are delegated to Board Committees, each of which has specific written terms of reference.

The main committees are:

– The Audit Committee

The membership of this committee, which is chaired by Mr Reeves, is comprised of all the non-executive Directors. Meetings are attended by external auditors, the Head of Internal Audit and the Finance Director, at the invitation of the committee chairman.

The committee holds at least three meetings a year, two of which are held prior to the Board's approval of the interim and final financial results respectively and a third is held, customarily, in May after the AGM. The Audit Committee provides, among other things, an important forum for regular and formal communication between the Group's external and internal auditors.

- The terms of reference of the Audit Committee give it the power to consult external auditors without executive Directors being present, to obtain independent advice, to avail itself of appropriate training, and to seek information from any employee. Its primary task, as required by its terms of reference, is to review the accounts of the Company before they go to the Board for approval, including the accounting policies applied, judgements and adjustments made and any conflicts of interest. The committee has also the specific responsibility to consider the selection, appointment and dismissal of the external auditors, as well as to assess the relative scope of their work, the extent of their non audit services, their level of remuneration and their independence.
- The committee is also charged with reviewing the Company's compliance with the Turnbull Guidance on Internal Controls, the policies employed in the Company for identifying and managing business risk, the effectiveness of any corrective action by management and the reports from the internal audit function on the effectiveness of the risk management systems in the Group. This aspect is dealt with at greater length under "Risk management" below.

– The Business Practices Committee

The membership of this committee, which is chaired by Sir David John, is identical to that of the Audit Committee. It meets at least three times a year, generally following meetings of the Audit Committee. Its terms of reference enable it to discuss all aspects of the Group's business practice, including in particular, health, safety, ethical and environmental matters. Its meetings are attended, through invitation, by the director of Safety, Health and the Environment.

– The Compensation and Appointments Committee

The membership of this committee, which is chaired by Viscount Weir, is also identical to that of the Audit Committee. The role of this committee is described at greater length in the remuneration report beginning on page 32.

– The Group Tender Committee

This committee, which in practice comprises executive Directors only, considers major tenders before their submission. Where an opportunity to tender for a project is either of unusual size or exposure, it is also considered by the Board as a whole.

– The Chief Executive's Committee

This committee, which comprises executive Directors, considers proposed capital expenditure, investments and divestments up to fixed limits, above which the matter is referred to the Board.

Standing committees of the Board are also established to consider such matters as banking issues and the administration of share options. The membership of these committees, all of which have their own written terms of reference, in practice comprises executive Directors with a specific minimum quorum.

Risk management

The Board takes ultimate responsibility for the Group's systems of internal risk management and control and reviews their effectiveness on an annual basis (Code para D.2.1). The Board considers that the Group's systems and controls are appropriately designed to ensure that the Group's exposure to significant risk is properly managed, but recognises that any system of internal control can only reduce and not eliminate the risk of loss.

The Audit Committee, the workings of which have been described, is responsible for ensuring the effective working and regular review of the Group's internal systems and controls.

The basis of the Group's system of internal control is the risk management framework. This framework accords with the Turnbull Guidance on Internal Controls and was in place throughout the year and up to the date of signing the Annual Report. The framework 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. The registers are required to be updated on a regular basis, and the reporting procedures laid down ensure a continuing flow of risk information to the Audit Committee and the Board.

The Group's systems of internal control are operated in a number of different ways:

- by the Internal Audit team, which carries out programmed reviews and tests of critical business processes and controls and conducts spot checks in areas of perceived high business risk. The Head of Group Audit maintains a direct reporting line to the chairman of the Audit Committee;
- by the individual tender and project review procedures, which commence at operating Company level and progress to Board Committee level if value or perceived exposure reaches certain amounts;
- by the monthly financial reporting against budgets and the review of results and forecasts;
- by the regular monitoring, review and reporting of health, safety and environmental matters;
- by the review and authorisation of proposed investment, divestment and capital expenditure through the Chief Executive's Committee and the Board;
- by specific policies set out in the Group Finance manual, covering banking and treasury matters including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency exposures;
- by regular risk reviews by executive Directors and line management of particular areas of business or particular projects, which are used to update both management's understanding of the risk environment in which the Group operates and the methods used to mitigate and control the risks identified; and
- by management ensuring the free and regular flow of information internally and the formulation and review of properly documented policies and procedures in relation to new or changing risk areas.

Remuneration report

Compensation and Appointments Committee

The Compensation and Appointments Committee of the Board ("CAC") is responsible for determining the remuneration policy and conditions of service for the executive Directors. It is also responsible for making recommendations to the Board for the appointment of executive Directors.

The CAC comprises all the non-executive Directors, whose names can be found on page 28, and is chaired by Viscount Weir. Mike Welton, the Chief Executive, is invited to join its meetings whenever appropriate, and Peter Johnson, the director of personnel, attends as secretary.

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

During 2002, advice and assistance has been provided by the Monks Partnership ("Monks"), New Bridge Street Consultants ("NBSC") and Mr Johnson. Mr Welton attended part of one meeting, by invitation, in connection with the appointment of additional executive Directors and has also, separately, made recommendations in connection with executive Directors' salaries, other than his own.

Monks and NBSC were each appointed by the CAC 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 the level of executive Director, and carried out a comparative salary survey of key positions for one of the Group's operating businesses. NBSC has provided the Company with remuneration data in connection with a US-based senior executive position.

Directors' remuneration

General policy

The policy of the CAC 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 are also seen as an important part of each Director's total remuneration and are used to drive and reward performance. The CAC aims to achieve an approximately even balance between basic salaries and performance related incentive arrangements and has sought to reflect this policy in the current remuneration packages. Executive Directors are invited to participate in the same pension schemes as other executives.

Basic salaries

In setting the basic salaries of executive Directors, the CAC obtains data and independent advice from Monks and NBSC on the remuneration levels in FTSE 250 companies taking into account the broad business sectors in which the Company operates, its market capitalisation and its annual turnover. The CAC 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 2002 which averaged 8.2%. The CAC intends to adopt a similar approach in July 2003 and for the foreseeable future.

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 2002 was 50% of 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 2002, each executive Director earned a bonus of 31.5% of salary. Precise figures are shown in the table on page 34. These bonuses are payable in cash, after deduction of tax, and are non pensionable. For 2003 a similar bonus structure will operate with the maximum potential bonus again being 50% of salary.
For subsequent years, the CAC 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 CAC, conditional awards were made in 2001 and again in 2002. 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 first table on page 35. These shares will be transferred to the executive Director and vest only if, and to the extent that, an earnings per share growth target is met over a three year performance period.

For the 2002 award, the extent to which this target is achieved over the three year period ending 31 December 2004 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.

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 CAC believes that the present management team contributes directly to achieving EPS growth and is positively motivated by the Plan. It is, therefore, the intention of the CAC to retain EPS growth as the performance measure for awards under the Plan for 2003.

The Plan was approved at the 2001 Annual General Meeting for a period of five years and, unless circumstances change significantly, the CAC intends to make further conditional awards under the Plan in 2003 and also anticipates doing so in 2004 and 2005. It would then be the intention to submit proposals for future long-term incentive arrangements to shareholders for approval at the 2006 Annual General Meeting.

The CAC believes in setting challenging performance targets and, as a result, in both 2001 and 2002 the maximum award under the Plan was linked to an EPS growth target of 100%. The CAC remains committed to establishing demanding targets for 2003 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 CAC 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.

No performance period under the Plan has yet been completed. Once a period is completed, the internal calculation of EPS growth will be independently verified before the CAC recommends to the Trustee of the Plan to make any transfers of shares.

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 and the relevant performance conditions appear in the second table beginning on page 35. It is now the CAC'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 2003.

The CAC determines whether or not the performance conditions are satisfied in accordance with the Rules of the Scheme. This determination is made following independent verification of the internal calculations.

Savings-related options
Performance conditions are not applied to savings-related share options since the schemes are open to all employees based in the UK, including executive Directors.

Scheme rule amendments
No amendments to the Rules of the Executive Share Option Scheme 2001, the Savings-Related Share Option Scheme 2001, or the Performance Share Plan 2001, have been made and none are currently proposed. All of these 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. Two executive Directors, namely Mr Welton and Mr Zinkin, who have been Directors since 1996 and 1991 respectively (and employees for much longer than that) have service contracts which provide for notice periods from the Company of 24 months. The CAC has considered this matter in some detail and notes the views of many shareholders regarding the inappropriateness of 24 month notice periods. The CAC is also mindful that Mr Welton and Mr Zinkin are long serving employees – Mr Welton joined in 1978 and Mr Zinkin in 1981, that their existing contracts of employment were freely entered into some years ago, and that their contribution to the Company has been, and continues to be, substantial. The CAC does not believe that it would be appropriate, or in shareholders' interests, to make a compensatory payment to reduce these notice periods, nor would it expect the two Directors voluntarily to reduce their existing notice periods without some form of compensation. For these reasons, no alteration to these notice periods is proposed. However, if an opportunity arises in the future to bring these notice periods into line with those of other executive Directors, the CAC would review the situation with the Directors concerned.

None of the service contracts of executive Directors includes 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 CAC'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 CAC 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
P J Lester*	14 February 2000	12
A L P Rabin**	28 August 2002	12
I P Tyler	5 October 1999	12
M W Welton	12 September 1996	24
A J Wivell**	23 July 2002	12
P J L Zinkin	12 September 1996	24

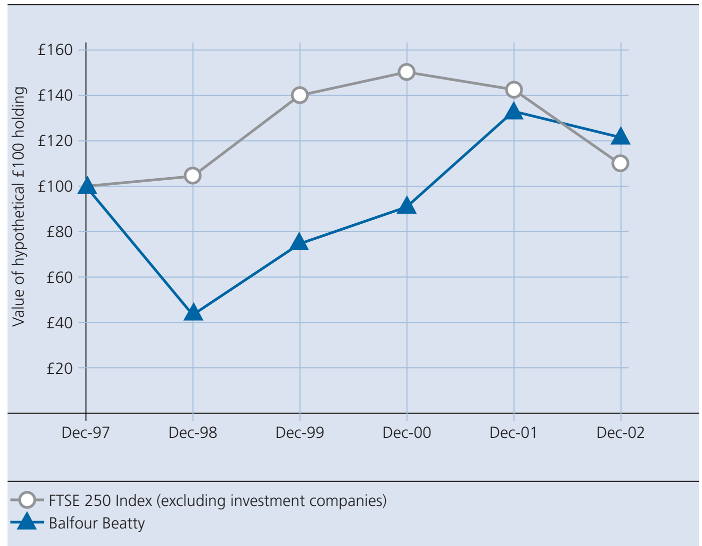
*Resigned 28 June 2002.
**Appointed 9 July 2002.

Remuneration report continued

Non-executive Directors
Non-executive Directors are appointed by the full Board which also determines the terms on which their services are provided. Non-executive Directors are appointed for a term of three years at a time unless required earlier to submit for re-election under the rotational provisions of the Articles of Association of the Company. They do not have service contracts, are not eligible to join any 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 fees of the non-executive Directors are reviewed from time to time, the last review having been undertaken by the Board in June 2002. The Board considered comparative data supplied by Monks, and the fact that the last increase took place on 1 January 2000, and agreed that non-executive Directors' fees should be increased from £25,000 to £30,000 per annum, with effect from 1 July 2002. The Chairman, who is non-executive, did not receive any increase in his fee in 2002 and has not received an increase since his fee was originally agreed on his becoming Chairman in 1996. No additional fees are currently payable to non-executive Directors for chairing Board committees but, since September 2001, Mr Stark has also received a €30,000 per annum fee from Balfour Beatty Rail GmbH for his chairmanship of the supervisory board of that company, which is based in Munich.

Performance graph
The graph opposite 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 2002. 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 CAC has elected to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment companies). This is a broad index, and the Company is a constituent member of it. The CAC has concluded that it would have been less meaningful to use a narrower index such as the Construction & Building Materials Index for comparison purposes. Although this index includes direct competitors, it also includes house builders, aggregate and other building material suppliers, but does not include companies in the support services sector in which the Company is active. The CAC therefore concluded that this index did not provide a better comparator group than the broader FTSE 250 Index.

The detailed information about the Directors' remuneration, set out below and on pages 35 to 37, has been reported on by the Company's independent auditors, Deloitte & Touche.

Directors' remuneration earned in 2002

Name	Basic salary £	Fees £	Benefits in kind £	Annual bonus £	Total 2002 remuneration £	Total 2001 remuneration £
J L Cohen	260,000	–	19,352	85,050	364,402	350,732
R Delbridge	–	5,692	–	–	5,692	–
M K Eckersall	260,000	–	19,450	85,050	364,500	346,993
Sir David John	–	27,500	–	–	27,500	25,000
P J Lester	125,000	–	9,269	–	134,269	345,483
H M P Miles	–	9,315	–	–	9,315	25,000
A L P Rabin	125,370	–	18,952	81,900	226,222	–
C R Reeves	–	27,500	–	–	27,500	25,000
U G Stark	–	46,368	–	–	46,368	31,211
I P Tyler	276,630	–	20,358	97,650	394,638	346,361
R J W Walvis	–	27,500	–	–	27,500	6,575
Viscount Weir	–	150,000	23,439	–	173,439	168,908
M W Welton	400,000	–	23,372	130,725	554,097	518,922
A J Wivell	125,370	–	26,541	81,900	233,811	–
P J L Zinkin	282,500	–	20,805	91,350	394,655	381,580
Total	1,854,870	293,875	181,538	653,625	2,983,908	2,571,765

Notes:
(i) Basic salary was that paid in respect of the period of the year during which individuals were Directors. Mr Rabin and Mr Wivell were appointed to the Board on 9 July 2002. Mr Delbridge was appointed to the Board on 24 October 2002. Mr Lester resigned as a Director on 28 June 2002 and was not paid compensation on leaving the Company. Mr Miles retired as a non-executive Director on 16 May 2002.
(ii) Fees payable to Viscount Weir were not increased during 2002. Mr Stark's fees include E30,000 per annum from Balfour Beatty Rail GmbH for his chairmanship of the supervisory board of that company, which is based in Munich.
(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 Company also provided Mr Zinkin with a travel allowance and Mr Wivell with limited relocation assistance to facilitate his move from Edinburgh to London as a result of his appointment as a Director. The benefit in kind shown for Viscount Weir comprises travel expenses and an accommodation allowance in respect of the time he spends in London on Company business. Part of the benefit in kind paid to Mr Rabin was in connection with the Company's requirement at short notice for him to rearrange his family's vacation so as to be in the UK for the announcement of the Group's half yearly results following his appointment as Finance Director.
(iv) Other than as stated in Note (iii), no Director receives any expense allowance.

Directors' long-term incentives: the Performance Share Plan 2001

	Date granted	At 1 January 2002*	Awarded during the year	Lapsed during the year	At 31 December 2002	Exercisable
		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
M K Eckersall	7 June 2001	115,384	–	–	115,384	June 2004
	17 April 2002	–	105,226	–	105,226	April 2005
P J Lester	7 June 2001	115,384	–	115,384	–	
	17 April 2002	–	105,226	105,226	–	
A L P Rabin	7 June 2001	80,267	–	–	80,267	June 2004
	17 April 2002	71,553	–	–	71,553	April 2005
I P Tyler	7 June 2001	115,384	–	–	115,384	June 2004
	17 April 2002	–	105,226	–	105,226	April 2005
M W Welton	7 June 2001	167,424	–	–	167,424	June 2004
	17 April 2002	–	154,499	–	154,499	April 2005
A J Wivell	7 June 2001	71,867	–	–	71,867	June 2004
	17 April 2002	65,307	–	–	65,307	April 2005
P J L Zinkin	7 June 2001	124,423	–	–	124,423	June 2004
	17 April 2002	–	110,404	–	110,404	April 2005

*or date of appointment if later.

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 and April 2002, the performance periods are the three years ending 31 December 2003 and 31 December 2004 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) Mr Lester's awards lapsed on his resignation on 28 June 2002.
(iv) The awards to Mr Rabin and Mr Wivell were made prior to their appointment as Directors.
(v) As at 31 December 2002, no awards made under the Plan have vested.
(vi) The average middle market price of ordinary shares in the Company for the three dealing dates before the date of the 2001 award under the Plan, which was used for calculating the number of awards granted, was 199.333p, and for the 2002 award was 237.583p. The closing market price of ordinary shares on the date of the awards was 202.5p and 251p respectively.

Directors' share options

Director	Date granted	At 1 January 2002*	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2002	Exercise price	Exercisable from	to
		Number of options							
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
P J Lester									
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	2,575	–	–	2,575	–	76.0p	August 2005	January 2006
	19 July 2001	1,585	–	–	1,585	–	154.0p	October 2004	March 2005
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

Remuneration report continued

Directors' share options continued

		Number of options						Exercisable	
Director	Date granted	At 1 January 2002*	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2002	Exercise price	from	to
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	6 October 1999	340	–	340	–	–	91.0p	December 2002	May 2003
	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
M W Welton									
Executive Share Options	14 April 1992	31,772	–	–	31,772	–	305.0p	April 1995	April 2002
	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	8 May 1996	2,575	–	–	2,575	–	267.9p	August 2001	January 2002
	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
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	14 April 1992	76,254	–	–	76,254	–	305.0p	April 1995	April 2002
	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	8 May 1996	2,575	–	–	2,575	–	267.9p	August 2001	January 2002
	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

*or date of appointment if later.

Notes:

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

(ii) Executive options granted before 1996 did not contain performance conditions.

(iii) Since the beginning of 1996, all executive options have been granted to executive Directors subject to the achievement of performance conditions, based on a predetermined growth in earnings per share before exceptional items ("Eps").
– For the grant made in April 1996, Eps for the last year of the three year performance period must have grown from the average Eps for the previous three year period by a total of at least 7½% plus the increase in the Retail Price Index ("RPI") over the performance period. The performance condition allowed for retesting if not achieved in any three year period and has been satisfied by reference to the three year performance period ended 31 December 2001.
– For the grants made in November 1999 and April 2000, Eps for the last year of the minimum three year performance period must have grown from their respective fixed base Eps by a total of at least 2½% and 3% per annum respectively plus the increase in RPI over the relevant period. The performance condition allowed for retesting from the fixed base. The performance conditions for these grants have been satisfied by reference to the three year performance periods ended 31 December 2001 and 31 December 2002 respectively.

(iv) The closing market price of the Company's ordinary shares on 31 December 2002 was 144.5p. During the year the highest and lowest closing market prices were 281p and 126.25p.

(v) Mr Lester's executive share options and savings-related share options lapsed unexercised on his resignation on 28 June 2002.

(vi) Executive share options granted to Mr Welton and Mr Zinkin in April 1992, exercisable at 305p, lapsed unexercised in April 2002, savings-related share options granted to Mr Welton and Mr Zinkin in May 1996, exercisable at 267.9p, lapsed unexercised in January 2002 and an option granted to Mr Welton under the savings-related share option scheme in May 1997, exercisable at 208p, lapsed unexercised in January 2003.

(vii) On 22 April 2002, prior to his appointment as a Director, Mr Rabin exercised an executive share option over 15,000 shares granted on 1 May 1997 at an exercise price of 231p. The market price on 22 April 2002 was 266p and the gain on exercise was £5,250.

(viii) On 6 December 2002, Mr Tyler exercised an option over 340 ordinary shares held under the savings-related share option scheme 1991 at an exercise price of 91p. The closing market price on 6 December 2002 was 148.25p and, as a result, a gain of £195 was realised. Mr Tyler has retained these shares.

Directors' pensions

Executive Directors participate in the Balfour Beatty Pension Fund and the Balfour Beatty Senior Executive Pension Fund, the same pension schemes as other executives. The schemes provide for a pension at a normal retirement age of 62 and each Director pays an annual contribution equal to 5% of pensionable salary. The target pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is 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 Mr Cohen, Mr Eckersall, Mr Lester, Mr Rabin and Mr Tyler are 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 second table below.

The table below sets out the accrued deferred pension which would be paid annually from the schemes at retirement based on each executive Director's service to 31 December 2002 as well as the additional pension benefit secured in respect of service during the year.

Name of Director	Age at 31 December 2002 years	Pensionable service at 31 December 2002 (Note ii) years	Accrued deferred pension at 31 December 2001* £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 2002 £pa	Transfer value corresponding to increase in excess of inflation at 31 December 2002 less Director's contributions (Note i) £
J L Cohen	60	9	24,911	822	2,917	28,650	49,512
M K Eckersall	57	3	6,102	201	3,075	9,378	41,359
P J Lester	53	5	13,735	225	2,231	16,191	20,940
A L P Rabin	47	–	–	–	1,428	1,428	9,161
I P Tyler	42	6	13,361	441	2,268	16,070	9,520
M W Welton	56	32	184,815	5,221	17,461	207,497	215,510
A J Wivell	57	29	86,492	2,854	29,597	118,943	417,877
P J L Zinkin	49	21	101,737	2,891	8,179	112,807	56,393

*or date of appointment if later.

Notes:
(i) The transfer value of the increase in accrued deferred pension is the present value of the increase in excess of inflation in the deferred pension and associated benefits during the period calculated on the MFR basis in accordance with Actuarial Guidance Note GN11, less Director's contributions.
(ii) Mr Welton's pensionable service includes eight years of transferred-in service from previous employment.

The table below sets out the transfer value at 31 December 2002 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 schemes had the Directors left service on the dates shown, and reflect the age of the Director, his period of membership of the schemes and his pensionable salary.

Name of Director	Age at 31 December 2002 years	Pensionable service at 31 December 2002 years	Transfer value at 31 December 2001* £	Contributions made by Director during the year £	Increase in transfer value during the year less Director's contributions (Note ii) £	Transfer value at 31 December 2002 (Note i) £
J L Cohen	60	9	432,158	4,896	33,261	470,315
M K Eckersall	57	3	87,427	4,896	31,860	124,183
P J Lester	53	5	171,349	2,424	(4,239)	169,534
A L P Rabin	47	–	–	2,448	7,889	10,337
I P Tyler	42	6	104,664	4,896	(15,723)	93,837
M W Welton	56	32	2,578,660	19,837	24,502	2,622,999
A J Wivell	57	29	1,237,578	5,339	439,667	1,682,584
P J L Zinkin	49	21	1,088,721	13,969	(199,167)	903,523

*or date of appointment if later.

Notes:
(i) The transfer value is the present value of the accrued deferred pension and associated benefits at 31 December 2002, calculated on the MFR basis in accordance with Actuarial Guidance Note GN11. On the MFR basis, transfer values for members below the age of 50 are assumed to be backed entirely by equities. Over the age range 50 to 60 the asset backing is assumed to move progressively from equities to bonds.
(ii) The figure is the difference between the transfer value of the accrued benefits at the start and end of the period, less the Director's contributions during the period. During the year ended 31 December 2002, falling equity prices have led to a reduction in transfer values, where these are assumed to be backed by equities. As a result, the transfer value at 31 December 2002 may be lower than the transfer value at 31 December 2001, even though the accrued deferred pension has increased.

The salaries of Mr Cohen, Mr Eckersall, Mr Lester, Mr Rabin and Mr 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 2002, the Company's contribution to Mr Cohen's plan was £29,048, to Mr Eckersall's £34,876, to Mr Lester's £19,273, to Mr Rabin's £19,568 and to Mr Tyler's £31,788. Benefits under these FURBS are additional to those set out in the tables above. The contribution to Mr Lester's FURBS ceased on his resignation from the Company.

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 second year we are publishing a separate Safety, Environment and Social Report. Shareholders may obtain a copy of this by following the procedure on page 07. 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 and Safety, the Environment, Ethics and Human Rights remain unchanged. Both the terms of these policies, and our practice in these areas, are within the terms of reference of the Business Practices Committee of the Board. Our progress in the areas of Health, Safety and the Environment is described in the Safety, Environment and Social Report. Meetings in connection with our human rights policy and practice have been held during the year with a number of non-governmental organisations.

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
- To ensure that all applicants and employees receive equal treatment regardless of origin, gender, disability, sexual orientation or marital status.

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. During 2002, the Trust Board and Company continued to communicate with Pension Fund members through publications called "News about your Pension" and "In Touch". The most notable development in 2002 was the establishment of a new defined contribution section of the Balfour Beatty Pension Fund for new employees from 1 January 2003.

Donations

In 2002 the Group contributed approximately £0.04m to charities, mostly in the UK. The Company is currently 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

There are no post balance sheet events.

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.

Balfour Beatty undertakes a range of development initiatives throughout its businesses which are supported by links with selected universities, including the Universities of Leeds, Strathclyde and UMIST.

Details of the Group's 2002 research and development expenditure are given in Note 2b on page 45.

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 2002 the year end creditors days of the Company were 9 (2001: 29).

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' report on page 39, 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 the affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year. The Directors consider that, in preparing the financial statements on pages 40 to 62, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all accounting standards which they consider to be applicable 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

Deloitte & Touche, who were appointed by the Board from 1 August 2002 following the resignation of Arthur Andersen, have indicated their willingness to continue as auditors.

Annual General Meeting

Viscount Weir, who chairs the Compensation and Appointments Committee, Mr C R Reeves, who chairs the Audit Committee and Sir David John, who chairs the Business Practices 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
4 March 2003

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 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the principal accounting policies and the related notes 1 to 27. 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 2002 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
Chartered Accountants and Registered Auditors
London
4 March 2003

Group profit and loss account

For the year ended 31 December 2002

	Notes	Before exceptional items 2002 £m	Exceptional items (Note 3) 2002 £m	Total 2002 £m	Before exceptional items 2001 as restated £m	Exceptional items (Note 3) 2001 £m	Total 2001 as restated £m
Turnover including share of joint ventures and associates	1	3,441	–	3,441	3,071	–	3,071
Share of turnover of joint ventures		(191)	–	(191)	(130)	–	(130)
Share of turnover of associates		(150)	–	(150)	(207)	–	(207)
Group turnover		3,100	–	3,100	2,734	–	2,734
Continuing operations		3,032	–	3,032	2,731	–	2,731
Acquisitions		68	–	68	–	–	–
Discontinued operations		–	–	–	3	–	3
Cost of sales	2	(2,816)	–	(2,816)	(2,480)	–	(2,480)
Gross profit		284	–	284	254	–	254
Net operating expenses	2	(217)	(9)	(226)	(193)	–	(193)
Group operating profit		67	(9)	58	61	–	61
Share of operating profit of joint ventures	2	42	–	42	40	–	40
Share of operating profit of associates	2	19	–	19	23	–	23
Operating profit including share of joint ventures and associates		128	(9)	119	124	–	124
Operating profit before goodwill amortisation		149	(9)	140	136	–	136
Goodwill amortisation		(21)	–	(21)	(12)	–	(12)
Continuing operations		125	(9)	116	123	–	123
Acquisitions		3	–	3	–	–	–
Discontinued operations		–	–	–	1	–	1
Net profit on sale of operations		–	–	–	–	13	13
Profit before interest	2	128	(9)	119	124	13	137
Net interest payable and similar charges:							
Group	4			–			(1)
Share of joint ventures' interest	4			(24)			(25)
Share of associates' interest	4			(7)			(8)
Profit on ordinary activities before taxation				88			103
Tax on profit on ordinary activities	5			(35)			(27)
Profit for the financial year				53			76
Dividends:							
Preference	6			(16)			(16)
Ordinary	6			(22)			(21)
Transfer to reserves				15			39
Adjusted earnings per ordinary share	7			16.1p			14.1p
Goodwill amortisation				(4.9)p			(2.9)p
Exceptional items after attributable taxation	3			(2.2)p			3.0p
Basic earnings per ordinary share	7			9.0p			14.2p
Diluted earnings per ordinary share	7			8.9p			14.0p
Dividends per ordinary share	6			5.4p			5.0p

Balance sheets

At 31 December 2002

	Notes	Group 2002 £m	Group 2001 as restated £m	Company 2002 £m	Company 2001 £m
Fixed assets					
Intangible assets – goodwill	8	**266**	250	**–**	–
Tangible assets	9	**140**	138	**3**	3
Investments	10	**30**	26	**865**	889
Investments in joint ventures:					
Share of gross assets		**662**	560	**–**	–
Share of gross liabilities		**(584)**	(502)	**–**	–
	10	**78**	58	**–**	–
Investments in associates	10	**35**	28	**–**	–
		549	500	**868**	892
Current assets					
Stocks	11	**98**	86	**2**	2
Debtors – due within one year	12	**703**	663	**46**	37
– due after one year	12	**72**	79	**17**	22
Cash and deposits	13	**175**	177	**–**	5
		1,048	1,005	**65**	66
Creditors: amounts falling due within one year					
Borrowings	13	**(29)**	(20)	**(55)**	(72)
Other creditors	15	**(1,129)**	(1,073)	**(64)**	(54)
Net current liabilities		**(110)**	(88)	**(54)**	(60)
Total assets less current liabilities		**439**	412	**814**	832
Creditors: amounts falling due after more than one year					
Borrowings	13	**(79)**	(94)	**(74)**	(86)
Other creditors	15	**(57)**	(34)	**(25)**	–
Provisions for liabilities and charges	16	**(110)**	(99)	**(13)**	(19)
		193	185	**702**	727
Capital and reserves					
Called-up share capital	17	**209**	209	**209**	209
Share premium account	18	**326**	325	**326**	325
Revaluation reserves	18	**27**	21	**–**	–
Other reserves	18	**4**	4	**46**	50
Profit and loss account	18	**(373)**	(374)	**121**	143
Shareholders' funds		**193**	185	**702**	727
Equity interests		**32**	19	**541**	561
Non-equity interests		**161**	166	**161**	166
		193	185	**702**	727

On behalf of the Board

Viscount Weir Director
A L P Rabin Director
4 March 2003

Group cash flow statement

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	26(a)	**142**	117
Dividends from joint ventures and associates		**20**	14
Returns on investments and servicing of finance			
Interest received		**8**	10
Interest paid		**(12)**	(6)
Preference dividends paid		**(16)**	(16)
Net cash outflow from returns on investments and servicing of finance		**(20)**	(12)
UK corporation tax paid		**(12)**	(7)
Foreign tax paid		**(5)**	(2)
Taxation		**(17)**	(9)
Capital expenditure and financial investment			
Capital expenditure		**(46)**	(44)
Disposal of tangible fixed assets		**4**	7
Investment in joint ventures and associates		**14**	6
Other investments		**(7)**	(24)
Net cash outflow from capital expenditure and financial investment		**(35)**	(55)
Acquisitions and disposals			
Acquisitions of businesses	26(d)	**(65)**	(89)
Disposals of businesses	26(e)	**(2)**	25
Net cash outflow from acquisitions and disposals		**(67)**	(64)
Ordinary dividends paid		**(21)**	(19)
Cash inflow/(outflow) before use of liquid resources and financing		**2**	(28)
Management of liquid resources			
Decrease in term deposits	26(b)	**7**	12
Net cash inflow from management of liquid resources		**7**	12
Financing			
Ordinary shares issued		**1**	–
Buy-back of ordinary and preference shares		**(7)**	(5)
Repayment of minority interests		**–**	(1)
New loans		**5**	84
Repayment of loans		**(5)**	(65)
Capital element of finance lease payments		**(3)**	(2)
Net cash (outflow)/inflow from financing		**(9)**	11
Increase/(decrease) in cash in the period	26(c)	**–**	(5)

Group statement of total recognised gains and losses

For the year ended 31 December 2002

	2002 £m	2001 as restated £m
Profit for the financial year:		
Group	**33**	57
Share of joint ventures	**12**	10
Share of associates	**8**	9
Exchange adjustments	**(1)**	(3)
Total recognised gains and losses for the year	**52**	73
Prior year adjustment	**(3)**	
Total gains and losses recognised since the last annual report	**49**	

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:

1 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. The Group has adopted FRS 19 "Deferred Tax". This has had no impact on 2002 or 2001. Comparative figures have been restated to comply with UITF Abstract 34 "Pre-contract costs" (UITF 34). The Group previously charged pre-contract costs against operating profit when incurred and recognised pre-contract cost recoveries in operating profit when received. In accordance with UITF 34, pre-contract costs continue to be 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. This restatement reduced operating profits in 2001 by £1m. Shareholders' funds at 31 December 2001 were reduced by £3m net of tax of £1m. The effect on 2002 results is to increase operating profit by £7m and to increase profit after taxation by £5m.

2 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 on 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.

3 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.

4 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.

5 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.

6 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.

7 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.

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

9 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, or the life of the lease if less than 40 years, and 4% to 33% for plant and equipment.

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 profit before interest as they arise.

10 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 written off. 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 written off.

11 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.

12 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.

13 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.

Notes to the accounts

1 Segment analysis

a) Performance by activity

	Turnover 2002 £m	Turnover 2001 £m	Operating profit before exceptional items 2002 £m	Operating profit before exceptional items 2001 as restated £m	Capital employed 2002 £m	Capital employed 2001 as restated £m
Total Group, including share of joint ventures and associates						
Building, building management and services	**1,123**	1,074	**46**	44	**(89)**	(93)
Civil and specialist engineering and services	**1,347**	1,150	**17**	22	**(41)**	(52)
Rail engineering and services	**838**	698	**37**	24	**(18)**	6
Investments and developments	**133**	135	**49**	45	**53**	52
	3,441	3,057	**149**	135	**(95)**	(87)
Discontinued operations	**–**	14	**–**	1	**–**	–
	3,441	3,071	**149**	136	**(95)**	(87)
Goodwill amortisation			**(21)**	(12)		
Operating profit			**128**	124		
Net interest payable			**(31)**	(34)		
Profit before tax and exceptional items			**97**	90		
Net cash					**67**	63
Goodwill (including share of joint ventures and associates)					**280**	255
Tax and dividends					**(59)**	(46)
					193	185
Share of joint ventures and associates						
Building, building management and services	**49**	19	**2**	1	**2**	1
Civil and specialist engineering and services	**157**	171	**4**	2	**25**	26
Rail engineering and services	**2**	1	**–**	–	**–**	–
Investments and developments	**133**	135	**57**	60	**72**	54
	341	326	**63**	63	**99**	81
Discontinued operations	**–**	11	**–**	2	**–**	–
	341	337	**63**	65	**99**	81
Goodwill amortisation/goodwill			**(2)**	(2)	**14**	5
			61	63	**113**	86

The Group's interest in Dubai Cable Company (Pte) Ltd sold in July 2001 and Emform Ltd sold in November 2001 have been classified as discontinued. Goodwill amortisation includes £5m (2001: £2m) impairment charge in respect of Balfour Beatty Rail Systems Inc £4m and Garanti Balfour Beatty £1m. Goodwill amortisation arises in Building, building management and services £1.8m (2001: £1.5m), Civil and specialist engineering and services £5.8m (2001: £3.3m) and Rail engineering and services £12.9m (2001: £7.4m). Goodwill arises in Building, building management and services £35m (2001: £28m), Civil and specialist engineering and services £88m (2001: £66m), Rail engineering and services £156m (2001: £160m) and Investments and developments £1m (2001: £1m).

Details of acquisitions made in the year are disclosed in Note 19.

b) Performance by geographic origin

	Turnover 2002 £m	Turnover 2001 £m	Operating profit before goodwill amortisation and exceptional items 2002 £m	Operating profit before goodwill amortisation and exceptional items 2001 as restated £m	Capital employed 2002 £m	Capital employed 2001 as restated £m
Total Group, including share of joint ventures and associates						
Europe	**2,780**	2,415	**158**	120	**(152)**	(126)
North America	**593**	577	**(11)**	14	**50**	36
Other	**68**	79	**2**	2	**7**	3
	3,441	3,071	**149**	136	**(95)**	(87)

Goodwill amortisation arises in Europe £11.0m (2001: £7.7m), North America £9.3m (2001: £4.2m) and Other £0.2m (2001: £0.3m). Goodwill arises in Europe £191m (2001: £156m), North America £85m (2001: £97m) and Other £4m (2001: £2m).

	Turnover 2002 £m	Turnover 2001 £m	Operating profit before goodwill amortisation and exceptional items 2002 £m	Operating profit before goodwill amortisation and exceptional items 2001 as restated £m	Capital employed 2002 £m	Capital employed 2001 as restated £m
Share of joint ventures and associates						
Europe	**285**	303	**64**	66	**91**	71
Other	**56**	34	**(1)**	(1)	**8**	10
	341	337	**63**	65	**99**	81

Goodwill amortisation on joint ventures and associates arises in Europe £1.6m (2001: £2.2m) and Other £0.1m (2001: £0.1m) and related goodwill arises in Europe £10m (2001: £3m) and Other £4m (2001: £2m).

1 Segment analysis continued

c) Turnover by destination

	2002 £m	2001 £m
Total Group, including share of joint ventures and associates		
United Kingdom	**2,441**	2,144
Rest of Europe	**232**	164
North America	**587**	571
Other	**181**	192
	3,441	3,071

2 Profit before interest and exceptional items

a) Turnover, cost of sales and net operating expenses

	Continuing operations 2002 £m	Acquisitions 2002 £m	Total 2002 £m	Continuing operations 2001 as restated £m	Discontinued operations 2001 £m	Total 2001 as restated £m
Turnover including share of joint ventures and associates	**3,350**	**91**	**3,441**	3,057	14	3,071
Less: share of turnover of joint ventures	**(168)**	**(23)**	**(191)**	(130)	–	(130)
Less: share of turnover of associates	**(150)**	**–**	**(150)**	(196)	(11)	(207)
Group turnover	**3,032**	**68**	**3,100**	2,731	3	2,734
Cost of sales	**(2,757)**	**(59)**	**(2,816)**	(2,477)	(3)	(2,480)
Gross profit	**275**	**9**	**284**	254	–	254
Administrative expenses (including goodwill amortisation)	**(197)**	**(6)**	**(203)**	(179)	(1)	(180)
Distribution expenses	**(14)**	**–**	**(14)**	(13)	–	(13)
Group operating profit before exceptional items	**64**	**3**	**67**	62	(1)	61
Share of operating profit of joint ventures	**42**	**–**	**42**	40	–	40
Share of operating profit of associates	**19**	**–**	**19**	21	2	23
Operating profit before exceptional items	**125**	**3**	**128**	123	1	124

Operating profit before goodwill amortisation on acquisitions in 2002 was £4m.

b) Profit before interest is stated after charging:

	2002 £m	2001 £m
Depreciation	**40**	35
Goodwill amortisation	**21**	12
Hire charges for plant and equipment	**60**	52
Other operating lease rentals	**39**	38
Research and development expenditure	**12**	13
Auditors' remuneration, which for Balfour Beatty plc was £0.3m (2001: £0.3m)	**1**	1

c) Analysis of fees paid to auditors:

	2002 £m	2001 £m
Services as auditors	**1.4**	1.2
Further assurance services		
– due diligence	**1.8**	0.5
– other assurance services	**2.6**	0.2
Tax advisory services	**0.2**	0.2
Other non-audit services		
– information technology	**0.2**	–
	6.2	2.1

All audit and non-audit fees in 2001 were paid to Arthur Andersen the prior year auditors. 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.

3 Exceptional items

Exceptional items charged against operating profit comprise costs arising from the aborted acquisition of J. A. Jones Inc.

In 2001, a net profit on sale of operations of £15m arose on the disposal of the Group's remaining interests in the cable businesses, including the Dubai Cable Company (Pte) Ltd, and related costs. Additionally, a £2m loss was recorded on the sale of the trade and assets of Emform Ltd.

Exceptional items had no effect on the Group's tax charge in 2002 or 2001.

4 Net interest payable and similar charges

	2002 £m	2001 £m
Bank loans and overdrafts	**3**	3
Finance leases	**1**	1
Other loans	**9**	3
	13	7
Interest receivable and similar income	**(13)**	(6)
Group net interest payable	**–**	1
Share of joint ventures' net interest payable	**24**	25
Share of associates' net interest payable	**7**	8
	31	34

5 Tax on profit on ordinary activities

a) Taxation charge

	2002 £m	2001 £m
UK current tax		
Corporation tax on profits of the period at 30% (2001: 30%)	**31**	14
Double tax relief	**(2)**	(1)
Adjustments in respect of previous periods	**(3)**	1
	26	14
Share of joint ventures' taxation	**6**	4
Share of associates' taxation	**4**	6
	36	24
Foreign current tax		
Foreign tax on profits of the period	**5**	1
Adjustments in respect of previous periods	**1**	2
	6	3
Share of joint ventures' taxation	**–**	1
	6	4
Total current tax	**42**	28
Deferred taxation		
UK	**(3)**	2
Foreign	**(1)**	–
Adjustments in respect of previous periods	**(3)**	(3)
Total deferred tax	**(7)**	(1)
Taxation charge	**35**	27

b) Factors that may affect future tax charges

The Group has benefited from overseas tax losses in 2002. These losses have resulted in reduced tax payments in recent years and the Group expects to continue to benefit in 2003. 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 £14m.

5 Taxation continued

c) Taxation reconciliation

	2002 £m	2001 as restated £m
Profit on ordinary activities before tax	**88**	103
Profit on ordinary activities before tax at standard UK corporation tax rate of 30% (2001: 30%)	**26**	31
Effects of:		
Expenses not deductible for tax purposes including goodwill amortisation	**10**	6
Timing differences		
– capital allowances for period in excess of depreciation	**(1)**	(1)
– other short-term timing differences	**5**	(1)
Utilisation of overseas tax losses	**(3)**	(6)
Losses not available for offset	**6**	3
Disposal of investments and other assets not taxable	**–**	(5)
Release of provisions against investments	**–**	(1)
Higher/(lower) tax rates on overseas earnings	**1**	(1)
Adjustments in respect of prior years	**(2)**	3
Current tax charge	**42**	28

6 Dividends

	Per share 2002 pence	Amount 2002 £m	Per share 2001 pence	Amount 2001 £m
On preference shares				
Paid	**4.8375**	**8**	4.8375	8
Payable	**4.8375**	**8**	4.8375	8
	9.6750	**16**	9.6750	16
On ordinary shares				
Interim payable	**2.35**	**10**	2.20	9
Final proposed	**3.05**	**12**	2.80	12
	5.40	**22**	5.00	21

7 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 414.1m (2001: 414.2m).

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 5m (2001: 5m). As in 2001, 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.

8 Intangible assets – goodwill

	Gross £m	Amortisation £m	Net £m
At 1 January 2002	**263**	**(13)**	**250**
Exchange adjustments	**(2)**	**1**	**(1)**
Businesses acquired (see Note 19)	**38**	**–**	**38**
Businesses sold	**(3)**	**1**	**(2)**
Amortisation	**–**	**(19)**	**(19)**
At 31 December 2002	**296**	**(30)**	**266**

The above analysis excludes goodwill arising on joint ventures and associates of £14m (2001: £5m). Goodwill amortisation includes £4m impairment charge.

9 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 2002	**35**	**325**	**–**	**360**	**3**	**2**	**5**
Exchange adjustments	**–**	**(13)**	**–**	**(13)**	**–**	**–**	**–**
Additions	**1**	**41**	**4**	**46**	**–**	**–**	**–**
Disposals	**(1)**	**(19)**	**–**	**(20)**	**–**	**–**	**–**
Businesses acquired	**–**	**9**	**–**	**9**	**–**	**–**	**–**
Businesses sold	**(1)**	**(11)**	**–**	**(12)**	**–**	**–**	**–**
At 31 December 2002	**34**	**332**	**4**	**370**	**3**	**2**	**5**
Depreciation:							
At 1 January 2002	**11**	**211**	**–**	**222**	**1**	**1**	**2**
Exchange adjustments	**–**	**(10)**	**–**	**(10)**	**–**	**–**	**–**
Charge for the year	**1**	**39**	**–**	**40**	**–**	**–**	**–**
Disposals	**–**	**(17)**	**–**	**(17)**	**–**	**–**	**–**
Businesses acquired	**–**	**5**	**–**	**5**	**–**	**–**	**–**
Businesses sold	**–**	**(10)**	**–**	**(10)**	**–**	**–**	**–**
At 31 December 2002	**12**	**218**	**–**	**230**	**1**	**1**	**2**
Net book value at 31 December 2002	**22**	**114**	**4**	**140**	**2**	**1**	**3**
Net book value at 31 December 2001	24	114	–	138	2	1	3

The net book value of fixed assets held under finance leases was £5m (2001: £7m) for the Group with related depreciation provided in the year of £2m (2001: £2m). The Company has no fixed assets held under finance leases.

b) Analysis of net book value of land and buildings

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Freehold	**16**	18	**2**	2
Long leasehold – over 50 years unexpired	**4**	4	**–**	–
Short leasehold	**2**	2	**–**	–
	22	24	**2**	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 2002 £m	At valuation 2001 £m	Original cost 2002 £m	Original cost 2001 £m
Gross	**4**	4	**2**	2
Depreciation	**(1)**	(1)	**(1)**	(1)
Net	**3**	3	**1**	1

The Company has no revalued assets.

10 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 2002	24	21	29	74	1,115	8	1	1,124
Profit and loss account	(4)	10	–	6	–	–	–	–
Additions	–	–	7	7	–	–	2	2
Businesses acquired	4	–	–	4	–	–	–	–
Disposals and transfers	–	–	(1)	(1)	(56)	–	–	(56)
At 31 December 2002	24	31	35	90	1,059	8	3	1,070
Goodwill:								
At 1 January 2002	5	–	–	5	–	–	–	–
Amortisation	(2)	–	–	(2)	–	–	–	–
Businesses acquired	11	–	–	11	–	–	–	–
At 31 December 2002	14	–	–	14	–	–	–	–
Loans due from investments:								
At 1 January 2002	37	32	–	69	496	36	–	532
Exchange adjustments	–	(1)	–	(1)	–	–	–	–
Movements	4	–	–	4	–	(2)	–	(2)
At 31 December 2002	41	31	–	72	496	34	–	530
Provisions:								
At 1 January 2002	(1)	(25)	(3)	(29)	(200)	(2)	(1)	(203)
Profit and loss account	–	(2)	(2)	(4)	–	–	(2)	(2)
Disposals and transfers	–	–	–	–	35	–	–	35
At 31 December 2002	(1)	(27)	(5)	(33)	(165)	(2)	(3)	(170)
Loans due to investments:								
At 1 January 2002	(7)	–	–	(7)	(557)	(7)	–	(564)
Movements	7	–	–	7	(8)	7	–	(1)
At 31 December 2002	–	–	–	–	(565)	–	–	(565)
Net book value at 31 December 2002	78	35	30	143	825	40	–	865
Net book value at 31 December 2001	58	28	26	112	854	35	–	889

Principal subsidiaries, joint ventures and associates are shown in Note 27. The original cost of the Group's investments in joint ventures and associates was £41m (2001: £27m). 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 (2001: nil). The borrowings of Barking Power Ltd and the PFI/PPP joint venture and associate companies are repayable over periods extending up to 2035. As disclosed in Note 23, 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 £29m (2001: £24m) 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 Share Ownership Trust, to satisfy awards under the Balfour Beatty Performance Share Plan. In 2002, 1.0m (2001: 0.4m) shares were purchased at a cost of £1.7m (2001: £0.7m). The market value of the 1.4m (2001: 0.4m) shares held by the Trust at 31 December 2002 was £2.0m (2001: £0.7m). 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. No shares were transferred in 2002 or 2001. The trustees have waived the rights to dividends on shares held by the Trust.

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

	PFI/PPP investments								Comprising	
	Yorkshire Link Ltd 2002 £m	Connect Roads Ltd 2002 £m	Other PFI/PPP investments 2002 £m	Total PFI/PPP investments 2002 £m	Barking Power Ltd 2002 £m	Devonport Royal Dockyard Ltd 2002 £m	Other 2002 £m	Total 2002 £m	Joint ventures 2002 £m	Associates 2002 £m
Turnover	23	25	32	80	51	93	117	341	191	150
Operating profit	16	18	6	40	15	5	1	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)	(2)	(1)	(10)	(6)	(4)
Profit after taxation	2	5	4	11	7	3	(1)	20	12	8
Fixed assets	129	114	71	314	120	40	22	496	296	200
Current assets	40	19	261	320	31	20	59	430	366	64
	169	133	332	634	151	60	81	926	662	264
Creditors – due within one year	(7)	(11)	(29)	(47)	(17)	(29)	(54)	(147)	(93)	(54)
Creditors – due after more than one year	(149)	(105)	(272)	(526)	(123)	(14)	(3)	(666)	(491)	(175)
	(156)	(116)	(301)	(573)	(140)	(43)	(57)	(813)	(584)	(229)
Net assets	13	17	31	61	11	17	24	113	78	35
Net (debt)/cash included above	(138)	(85)	(217)	(440)	(81)	(6)	7	(520)	(410)	(110)

10 Investments continued

	PFI/PPP investments								Comprising	
	Yorkshire Link Ltd 2001 £m	Connect Roads Ltd 2001 £m	Other PFI/PPP investments 2001 £m	Total PFI/PPP investments 2001 £m	Barking Power Ltd 2001 £m	Devonport Royal Dockyard Ltd 2001 £m	Other 2001 £m	Total 2001 £m	Joint ventures 2001 £m	Associates 2001 £m
Turnover	23	26	20	69	57	131	80	337	130	207
Operating profit	18	17	1	36	19	5	3	63	40	23
Interest	(15)	(10)	–	(25)	(7)	–	(1)	(33)	(25)	(8)
Profit before taxation	3	7	1	11	12	5	2	30	15	15
Taxation	(1)	(2)	(1)	(4)	(4)	(1)	(2)	(11)	(5)	(6)
Profit after taxation	2	5	–	7	8	4	–	19	10	9
Fixed assets	134	117	63	314	124	25	11	474	292	182
Current assets	22	17	213	252	28	32	39	351	268	83
	156	134	276	566	152	57	50	825	560	265
Creditors – due within one year	(6)	(9)	(19)	(34)	(15)	(40)	(31)	(120)	(55)	(65)
Creditors – due after more than one year	(143)	(104)	(235)	(482)	(132)	(4)	(1)	(619)	(447)	(172)
	(149)	(113)	(254)	(516)	(147)	(44)	(32)	(739)	(502)	(237)
Net assets	7	21	22	50	5	13	18	86	58	28
Net (debt)/cash included above	(123)	(87)	(189)	(399)	(90)	(8)	(1)	(498)	(377)	(121)

Joint ventures and associates are identified in note 27.

11 Stocks

	Group 2002 £m	Group 2001 £m	**Company 2002 £m**	Company 2001 £m
Contract work in progress	**84**	114	**–**	–
Progress applications	**(16)**	(63)	**–**	–
Net contract balances	**68**	51	**–**	–
Development land and work in progress	**2**	2	**2**	2
Manufacturing work in progress	**3**	4	**–**	–
Raw materials and consumables	**20**	21	**–**	–
Finished goods and goods for resale	**5**	8	**–**	–
	98	86	**2**	2

12 Debtors

	Group 2002 £m	Group 2001 as restated £m	**Company 2002 £m**	Company 2001 £m
Amounts falling due within one year:				
Trade and other debtors	**426**	430	**8**	7
Due from subsidiary undertakings	**–**	–	**32**	16
Due from joint ventures and associates	**3**	6	**1**	5
Due from joint arrangements	**9**	5	**–**	–
Recoverable on contracts	**153**	114	**–**	–
Contract retentions	**55**	57	**–**	–
Prepayments and accrued income	**39**	35	**1**	6
Deferred taxation (see Note 16)	**17**	10	**4**	3
Due on acquisitions	**1**	6	**–**	–
	703	663	**46**	37
Amounts falling due after more than one year:				
Trade and other debtors	**13**	17	**11**	15
Contract retentions	**36**	29	**–**	–
Pension prepayments	**23**	33	**6**	7
	72	79	**17**	22
	775	742	**63**	59

13 Borrowings

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Unsecured borrowings:				
Euro fixed rate loans 6.5% (2003)	**5**	9	**5**	9
Floating rate term borrowings (2003)	**5**	1	**5**	–
US dollar fixed rate term loan 8.06% (2008)	**74**	82	**74**	82
Bank overdrafts	**16**	12	**45**	67
Other short-term loans	**1**	–	**–**	–
	101	104	**129**	158
Finance leases	**7**	10	**–**	–
	108	114	**129**	158
Cash and deposits	**(156)**	(151)	**–**	–
Term deposits	**(19)**	(26)	**–**	(5)
Net (cash)/borrowings	**(67)**	(63)	**129**	153

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

Borrowings are repayable in the following periods:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts falling due after more than one year:				
Over five years – other than by instalments	**74**	82	**74**	82
Two to five years	**2**	5	**–**	–
One to two years	**3**	7	**–**	4
Amounts falling due within one year	**29**	20	**55**	72
	108	114	**129**	158
Borrowings comprise:				
Bank borrowings	**27**	22	**55**	76
Other borrowings	**74**	82	**74**	82
Finance leases	**7**	10	**–**	–
	108	114	**129**	158

Unutilised committed borrowing facilities expiring beyond 12 months amount to £210m (2001: £210m).
Group borrowings repayable by instalments, any part of which is repayable after five years, are nil (2001: nil).
Cash, deposits and term deposits include the Group's share of amounts held by contracting joint arrangements of £104m (2001: £114m).

14 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 27. As permitted by FRS 13, short-term debtors and creditors have been omitted from all disclosures other than the currency profile.

a) Interest rate risk profile

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

				Fixed rate		Interest free	
	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**	**17.0**	**–**	**–**
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**
	204	**175**	**29**	**6.3**	**4.0**	**49**	**2.4**

14 Financial instruments continued

The interest rate risk profile for the financial liabilities and assets of the Group at 31 December 2001 was:

				Fixed rate		Interest free	
	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 as restated £m	Weighted average period until maturity as restated years
Liabilities							
Currency							
Sterling	5	3	2	7.0	0.3	6	4.8
US dollar	95	90	5	9.1	2.0	27	1.8
Other	14	5	9	6.5	0.9	1	1.5
Total borrowings and long-term creditors	114	98	16	7.3	1.1	34	2.2
Sterling cumulative convertible redeemable preference shares	166	–	166	10.75	18.0	–	–
Assets							
Currency							
Sterling	138	114	24	7.3	5.4	33	3.1
US dollar	44	44	–	–	–	6	1.8
Other	19	19	–	–	–	7	1.6
	201	177	24	7.3	5.4	46	2.7

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. Floating rate assets include monies deposited on money markets for periods varying from overnight to three months. The figures shown in the tables above take into account the impact of various cross currency interest rate swaps.

b) Currency exposures

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 2002 £m	**Euro 2002 £m**	**Other 2002 £m**	**Total 2002 £m**	US dollar 2001 £m	Euro 2001 £m	Other 2001 £m	Total 2001 £m
Functional currency of operation								
Sterling	**–**	**(2)**	**–**	**(2)**	–	(2)	1	(1)
Other	**–**	**–**	**1**	**1**	2	(1)	–	1
	–	**(2)**	**1**	**(1)**	2	(3)	1	–

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

c) Liquidity risk profile

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

	Preference shares 2002 £m	**Borrowings 2002 £m**	**Long-term creditors 2002 £m**	Preference shares 2001 £m	Borrowings 2001 £m	Long-term creditors 2001 as restated £m
In one year or less, or on demand	**–**	**29**	**–**	–	20	–
In more than one year but not more than two years	**–**	**3**	**21**	–	7	25
In more than two years but not more than five years	**–**	**2**	**8**	–	5	7
In more than five years	**161**	**74**	**28**	166	82	2
	161	**108**	**57**	166	114	34

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

	2002 £m	2001 £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

14 Financial instruments continued

d) Fair value of financial assets and liabilities
The table below compares by category the book value and fair value of the Group's financial assets and liabilities at 31 December:

	Book value 2002 £m	**Fair value 2002 £m**	Book value 2001 as restated £m	Fair value 2001 as restated £m
Primary financial instruments				
Short-term borrowings and current portion of long-term borrowings	**(29)**	**(29)**	(20)	(20)
Long-term borrowings	**(79)**	**(78)**	(94)	(94)
Cash and deposits	**175**	**175**	177	177
Other financial liabilities	**(57)**	**(45)**	(34)	(31)
Other financial assets	**78**	**74**	70	64
Sterling cumulative convertible redeemable preference shares	**(161)**	**(219)**	(166)	(217)
Derivative financial instruments				
Forward foreign currency contracts	**3**	**3**	3	2
Interest rate swaps	**–**	**(2)**	–	–

Market values have been used to determine the fair value of the Sterling cumulative convertible redeemable preference shares and forward foreign currency contracts. 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 hedging are not recognised until the maturity of the underlying transaction in the profit and loss account, or an adjustment is made to the carrying amount in the balance sheet. Unrecognised gains and losses at 31 December were:

	Gains 2002 £m	**Losses 2002 £m**	**Net 2002 £m**	Gains 2001 £m	Losses 2001 £m	Net 2001 £m
Unrecognised gains and losses on hedges at 1 January	**1**	**(2)**	**(1)**	1	(1)	–
Gains and losses arising in previous years recognised in the year	**1**	**(2)**	**(1)**	1	(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	**1**	**(1)**	**–**	1	(2)	(1)
Unrecognised gains and losses on hedges at 31 December	**1**	**(1)**	**–**	1	(2)	(1)
Of which:						
Gains and losses expected to be recognised in the next year	**1**	**(1)**	**–**	1	(2)	(1)
Gains and losses expected to be recognised thereafter	**–**	**–**	**–**	–	–	–

15 Other creditors

	Group 2002 £m	Group 2001 as restated £m	**Company 2002 £m**	Company 2001 £m
Amounts falling due within one year:				
Trade and other creditors	**388**	380	**11**	4
Advance progress applications	**203**	219	**–**	–
Due to subsidiary undertakings	**–**	–	**1**	1
Corporate taxation	**46**	27	**9**	8
VAT, payroll taxes and social security	**57**	49	**7**	6
Dividends on ordinary shares	**22**	21	**22**	21
Dividends on preference shares	**8**	8	**8**	8
Accruals and deferred income	**399**	343	**6**	6
Due on acquisitions	**6**	26	**–**	–
	1,129	1,073	**64**	54
Amounts falling due after more than one year:				
Trade and other creditors	**30**	30	**–**	–
Due to joint ventures and associates	**25**	–	**25**	–
Due on acquisitions	**2**	4	**–**	–
	57	34	**25**	–

16 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 2002	–	39	27	33	99
Exchange adjustments	–	–	–	(1)	(1)
Profit and loss account	(7)	5	20	2	20
Utilised	–	(4)	(4)	(6)	(14)
Businesses acquired	–	(2)	–	1	(1)
Transfer to debtors	7	–	–	–	7
At 31 December 2002	–	38	43	29	110

Retirement and other employee provisions comprise obligations to current and former employees including overseas pension and other post-retirement benefits. Contract provisions include warranty, fault and rectification provisions. Other provisions principally comprise environmental, lease 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 2002 £m	Foreign 2002 £m	UK 2001 as restated £m	Foreign 2001 £m
Excess of depreciation over taxation allowances	(6)	–	(6)	–
Other, including short-term timing differences	(10)	(1)	(5)	1
	(16)	(1)	(11)	1
	(17)		(10)	

b) Company

	Deferred taxation £m	Other provisions £m	Total £m
At 1 January 2002	–	19	19
Profit and loss account	(1)	(2)	(3)
Utilised	–	(4)	(4)
Transfer to debtors	1	–	1
At 31 December 2002	–	13	13

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

17 Share capital

	Authorised 2002 £m	Authorised 2001 £m	Issued and fully paid 2002 £m	Issued and fully paid 2001 £m
Ordinary shares of 50p each – authorised 696m (2001: 696m) issued 415m (2001: 415m)	348	348	207	207
Cumulative convertible redeemable preference shares of 1p each				
– authorised 177m (2001: 177m) issued 161m (2001: 166m)	2	2	2	2
	350	350	209	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 30.

17 Share capital continued

At 31 December share options outstanding were as follows:

Year of issue	Subscription prices	Normally exercisable in periods to	Number of ordinary shares 2002	Number of ordinary shares 2001
Savings-related				
1996	267.9p	January 2002	–	967,710
1997	208.0p	January 2003	**822,394**	943,056
1998	120.0p	January 2004	**1,033,567**	1,222,925
1999	91.0p	May 2005	**1,286,095**	1,845,823
2000	76.0p	January 2006	**2,395,553**	2,616,561
2001	154.0p	March 2007	**1,801,304**	1,957,159
2002	184.0p	December 2007	**1,950,548**	–
Executive				
1992	305.0p	April 2002	–	1,105,641
1992	246.4p	October 2002	–	122,723
1993	352.0p	April 2003	**397,819**	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**	398,000
1998	181.0p	May 2008	**268,500**	416,500
1998	78.0p	September 2008	–	160,256
1999	110.0p	November 2009	**1,892,000**	2,007,000
2000	79.0p	April 2010	**2,725,000**	2,830,000
2001	200.0p	June 2011	**1,380,000**	1,395,000
2002	238.0p	April 2012	**1,581,000**	–

On 17 April 2002, options were granted over 1,591,000 ordinary shares under the Balfour Beatty executive share option scheme, at 238p per share, and these are normally exercisable in the period from April 2005 to April 2012. On 8 May 2002, options were granted over 1,995,831 ordinary shares under the Balfour Beatty savings-related share option scheme, at 184p per share, and these are normally exercisable in the periods from July 2005 to December 2005 and from July 2007 to December 2007 depending upon the length of savings contract chosen by the participant.

18 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 2002 – as previously reported	**325**	**2**	**19**	**4**	**(371)**
Prior year adjustment	–	–	–	–	**(3)**
At 1 January 2002 – as restated	**325**	**2**	**19**	**4**	**(374)**
Retained profit for the year	–	–	**6**	–	**9**
Exchange adjustments	–	–	–	–	**(1)**
Ordinary shares issued	**1**	–	–	–	–
Buy-back of preference shares	–	–	–	–	**(7)**
At 31 December 2002	**326**	**2**	**25**	**4**	**(373)**

At 31 December 2002, cumulative goodwill, net of merger relief of £39m (2001: £39m), eliminated against the profit and loss account amounted to £79m (2001: £79m), net of negative goodwill of £8m (2001: £8m).

The prior year adjustment is explained in Principal Accounting Policies on page 43.

b) Company

	Share premium account £m	Other £m	Profit and loss account £m
At 1 January 2002	**325**	**50**	**143**
Retained loss for the year	–	–	**(19)**
Ordinary shares issued	**1**	–	–
Buy-back of preference shares	–	–	**(7)**
Transfers	–	**(4)**	**4**
At 31 December 2002	**326**	**46**	**121**

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 £19m (2001: £19m).

18 Reserves continued

c) Reconciliation of movements in shareholders' funds

	2002 £m	2001 as restated £m
Profit for the financial year	**53**	76
Dividends	**(38)**	(37)
	15	39
Other recognised gains and losses (net)	**(1)**	(3)
Ordinary shares issued	**1**	–
Buy-back of ordinary and preference shares	**(7)**	(5)
	8	31
Opening shareholders' funds – as previously reported	**188**	156
Prior year adjustment	**(3)**	(2)
Closing shareholders' funds	**193**	185

19 Acquisitions

a) On 5 March 2002 the Group acquired the specialist rail plant and services business of Knox Kershaw Inc in the USA, for an initial consideration of US$5m. A maximum further US$1.15m is payable on an earn out basis, of which US$0.4m has been provided in these accounts. The fair value of the net assets acquired, consideration paid and payable and provisional goodwill arising were:

	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
Fixed assets	–	3	3
Stocks	1	–	1
Creditors and provisions	–	(1)	(1)
	1	2	3
Consideration and costs – cash			4
Goodwill			1

Fair value adjustments principally relate to adjustments to reflect the fair value of fixed assets. The business recorded an operating profit, before goodwill amortisation, of £0.6m in the period from 5 March 2002 to 31 December 2002 which is included in the Rail engineering and services segment.

b) On 18 March 2002 the Group acquired Kenton Utility Service Management Ltd, a UK utility services contractor, for a total consideration of £28m, including acquired debt and deferred consideration. The fair value of the net assets acquired, consideration paid and payable and provisional goodwill arising were:

	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
Fixed assets	2	–	2
Stocks	1	–	1
Debtors	10	–	10
Creditors and provisions	(11)	–	(11)
Net debt	(6)	–	(6)
	(4)	–	(4)
Consideration and costs – cash			20
Consideration and costs – deferred			2
			22
Goodwill			26

No fair value adjustments have been made in 2002. The business recorded an operating profit, before goodwill amortisation, of £4.3m in the period from 18 March 2002 to 31 December 2002 which is included in the Civil and specialist engineering and services segment. The business acquired recorded an operating profit before goodwill amortisation (based on its accounting policies prior to acquisition) for the period 1 May 2001 to 17 March 2002 and for its previous financial year 1 May 2000 to 30 April 2001 of £3.6m and £3.0m respectively. Profit after tax for these periods was £1.4m and £0.7m respectively.

c) On 31 March 2002 the Group's interests in BK Gulf LLC and Dutco Balfour Beatty LLC were reorganised. The Group exchanged a 51% interest in each of the companies at net asset value for a 49% interest of equal net asset value in Dutco Construction Co LLC. Net asset value of the interests exchanged equalled fair value and consequently no gain or loss arose on this transaction.

d) On 30 September 2002 the Group acquired a 49% interest in Romec Ltd, a UK provider of facilities management and maintenance services for a total consideration of £9.6m including costs. The Group's share of the book value of net assets acquired was £1.1m. No fair value adjustments have been made in 2002. Provisional goodwill arising was £8.5m. The Group has recorded its share of operating profit, before goodwill amortisation, at nil for the period from 30 September 2002 to 31 December 2002 which is included in the Building, building management and services segment.

e) On 10 October 2002 the Group acquired Walgrave Group Ltd, a UK distribution cable service provider, for a total consideration of £5.6m, of which £5.5m was paid on completion. The fair value of the net assets acquired, consideration paid and provisional goodwill arising were:

	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
Fixed assets	1	–	1
Stocks	1	–	1
Debtors	4	–	4
Creditors and provisions	(3)	–	(3)
Net debt	(1)	–	(1)
	2	–	2
Consideration and costs – cash			6
Goodwill			4

No fair value adjustments have been made in 2002. The business recorded an operating profit, before goodwill amortisation, of £0.2m in the period from 10 October 2002 to 31 December 2002 which is included in the Civil and specialist engineering and services segment.

f) On 14 August 2002 the Group acquired IVV Ingenieurgesellschaft fur Verkehrsplanung und Verkehrssicherung Gmbh, a rail signalling design and planning business in Germany for a total consideration of Euros 1.2m, all of which was paid on completion. On 30 September 2002 the Group acquired Security International LLC, a US electronic access control systems business for a total consideration of US$4.2m of which US$3.0m was paid on completion and US$1.2m is payable in May 2003. On 21 November 2002 the Group acquired Andover Controls Sp. z.o.o., Andover Controls' independent marketing organisation in Poland, for an initial consideration of US$0.2m with a further US$0.2m deferred consideration payable in 2003 and US$0.3m payable on an earnout basis.

19 Acquisitions continued

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

	Book value of assets acquired £m	Accounting policy adjustments £m	Fair value of assets acquired £m
Stocks	5	–	5
Debtors	1	–	1
Creditors and provisions	(5)	(1)	(6)
	1	(1)	–
Consideration and costs – cash			3
Consideration and costs – deferred			1
			4
Goodwill			4

Accounting policy adjustments relate to harmonisation of accounting policies for the recognition of profit on long-term contracts. The businesses acquired recorded a total operating loss, before goodwill amortisation, of £0.5m in the periods from acquisition to 31 December 2002.

g) In October 2002 the Group received Euros 2m in respect of the rail electrification project business of ABB acquired on 31 December 2001 to reflect the net asset value of the business at completion. In addition, £19m deferred consideration was paid in 2002 in respect of acquisitions completed in 2000 and 2001.

Goodwill arising on businesses acquired in 2000 and 2001 has been increased by £3m (net). This reflects amendments to the provisional fair value of the consideration for Balfour Beatty Rail Systems Inc and to the provisional fair value of the net assets of John Kennedy Holdings Ltd, resulting in increases in goodwill of £4m and £1m respectively. This is offset by reductions in the consideration payable in respect of Marta Metroplex (£1m) and National Engineering and Contracting Company (£1m).

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

20 Employees

	2002 £m	2001 £m
Group employee costs during the year amounted to:		
Wages and salaries	749	660
Social security costs	66	57
Other pension costs (see Note 22)	19	12
	834	729

	2002	2001
The average number of Group employees was as follows:		
Building, building management and services	10,180	9,932
Civil and specialist engineering and services	10,060	9,759
Rail engineering and services	6,937	6,276
Investments and developments	83	68
	27,260	26,035
Discontinued operations	–	63
	27,260	26,098

At 31 December 2002, the total number of Group employees was 27,210 (2001: 26,542).

21 Directors' emoluments and interests

a) Directors' emoluments

	2002 £m	2001 £m
The remuneration of Directors of Balfour Beatty plc was:		
Non-executive Directors' fees and benefits	0.317	0.282
Executive Directors' emoluments		
– salary and benefits	2.013	1.701
– performance related bonus	0.654	0.589
Gain on exercise of share options	–	0.002
Money purchase pension contributions	0.134	0.145
	3.118	2.719

In 2002, the highest paid Director's emoluments were £554,097 (2001: £518,922) and at 31 December 2002 his accrued pension benefit was £207,497 per annum (2001: £184,815 per annum).

b) Directors' interests

The interests (other than in the form of share options and participation in the Performance Share Plan 2001) 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.

	At 1 January 2002 Ordinary shares*	At 1 January 2002 Preference shares*	At 31 December 2002 Ordinary shares	At 31 December 2002 Preference shares
J L Cohen	2,697	–	21,697	–
R Delbridge	15,000	–	15,000	–
M K Eckersall	–	–	10,000	–
A L P Rabin	–	–	7,500	–
C R Reeves	14,913	833	14,913	833
I P Tyler	1,000	–	3,340	–
R J W Walvis	–	–	10,000	–
Viscount Weir	1,653	–	1,653	–
M W Welton	10,000	–	32,500	–
A J Wivell	228	–	10,228	–
P J L Zinkin	5,331	325	5,331	325

*or date of appointment if later.

'Preference shares' means the cumulative convertible redeemable preference shares in Balfour Beatty plc (see Note 17).

All interests at the dates shown are beneficial and there were no changes between 31 December 2002 and 4 March 2003.

Share options granted to Directors in 2002 are disclosed in the remuneration report in the second table beginning on page 35. During the year, Mr Tyler exercised an option over 340 ordinary shares that was held under the savings-related share option scheme. Prior to his appointment as a Director, Mr Rabin exercised an option over 15,000 ordinary shares that was held under the executive share option scheme. No other share options were exercised by Directors in 2002.

Further details of Directors' emoluments, pension benefits and interests are set out in the remuneration report on pages 32 to 37.

22 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.

The total cost to the Group was £19m (2001: £12m), of which £4m (2001: £3m) related to overseas schemes.

At the date of the latest formal actuarial funding valuations of the principal defined benefit schemes, the market value of the assets of those schemes amounted to £1,744m. The actuarial value of those assets exceeded the benefits which had accrued to members after allowing for expected future increases in earnings.

The latest formal actuarial funding valuation of the Balfour Beatty Pension Fund was carried out by independent actuaries at 31 March 2001 using the projected unit method and disclosed an excess of assets over past service liabilities of 9%. The principal actuarial assumptions of the Balfour Beatty Pension Fund are for investment returns to exceed inflation by 4% per annum for active and deferred members and by 2.6% per annum for pensioners, widows and dependents. The excess of cumulative amounts paid to this scheme over pension costs charged in the accounts of £6m (2001: £12m) is included in debtors.

Certain Group employees are members of the Balfour Beatty Shared Cost Section of the Railways Pension Scheme. The last formal actuarial funding valuation of this defined benefit scheme was carried out by independent actuaries as at 31 December 2001 using the projected unit method and disclosed a surplus of assets over past service liabilities of 4%. The main assumptions used were that the rate of investment return net of inflation would be 3.7% per annum and that dividend growth on UK equities would be 3.0% per annum more than the rate of inflation. A prepayment of £22m (2001: £26m) is included in debtors.

The Group's actuaries have reviewed the funding valuations of the Balfour Beatty Pension Fund and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme at 31 December 2002. The results of these reviews confirm that the funds remain in surplus, although at significantly reduced levels.

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

The latest actuarial funding valuations of the Group's principal defined benefit schemes, the Balfour Beatty Pension Fund and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme, have been updated by the actuaries to 31 December 2002 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 2002		At 31 December 2001	
	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Inflation assumption	**2.20**	**2.20**	2.50	2.50
Rate of increase in salaries	**3.70**	**3.70**	4.00	4.00
Rate of increase in pensions in payment	**2.20**	**2.20**	2.50	2.50
Discount rate	**5.60**	**5.60**	5.75	5.60

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

	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	**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)**

	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	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)

22 Pensions continued

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

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Other funded schemes £m
At 1 January 2002	**32**	**25**	**(3)**
Current service cost	**(30)**	**(7)**	**(1)**
Contributions	**4**	**–**	**1**
Other finance income	**11**	**4**	**–**
Actuarial gain/(loss)	**(99)**	**(42)**	**(2)**
At 31 December 2002	**(82)**	**(20)**	**(5)**

The actuarial gain/(loss) comprises:

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)%**

The Railways Pension Scheme is a shared cost scheme. The pension assets above take account of this by assuming that the employer will obtain future economic benefit from only a proportion of the surplus in the Balfour Beatty section of the scheme. This proportion has been based on the distribution of the surplus which has already been agreed together with the relevant provisions of the Pension Trust and rules of the scheme regarding future surplus distribution.

Contributions paid in 2002 for the principal schemes were £4m (2001: £3m) for the Balfour Beatty Pension Fund, and nil (2001: nil) for the Railways Pension Scheme.

In addition, the Group has unfunded post-retirement benefit obligations in Europe and North America amounting to £16m (2001: £16m), the majority of which arrangements are closed to new entrants.

If the Group had accounted for pensions in 2002 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 total recognised gains and losses:

		2002 £m
Profit and loss account		
Charge to operating profit	current service cost	**(38)**
Credited to net interest payable and similar charges	expected return on pension scheme assets	**100**
	interest on pension scheme liabilities	**(85)**
Charged to profit on ordinary activities before taxation		**(23)**
Statement of total recognised gains and losses	actuarial gain/(loss)	**(143)**

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

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

	2002 £m	2001 as restated £m
Net assets per financial statements	**193**	185
SSAP 24 pension prepayments/provisions	**(1)**	(8)
FRS 17 pension assets/(liabilities):		
Group schemes – funded	**(75)**	37
Group schemes – unfunded	**(16)**	(16)
Share of joint ventures' and associates' schemes	**(13)**	12
Net assets as adjusted	**88**	210
Net assets excluding net pension assets	**192**	177
Net pension (liabilities)/assets	**(104)**	33
	88	210

23 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £13m (2001: £9m) in the Group and nil (2001: nil) in the Company.

The Company has committed to provide its share of further equity funding of joint ventures and associates in PFI/PPP projects amounting to £16m (2001: £24m), of which £12m (2001: £16m) is projected to be drawn down.

Annual operating lease commitments comprise:

	Land and buildings 2002 £m	**Other 2002 £m**	Land and buildings 2001 £m	Other 2001 £m
Group				
Leases terminating:				
Within one year	**3**	**8**	3	4
Between one and five years	**8**	**13**	8	16
In five years or more	**10**	**2**	11	1
	21	**23**	22	21
Company – leases terminating in five years or more	**4**	**–**	6	–

24 Contingent liabilities

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

	Group 2002 £m	Group 2001 £m	**Company 2002 £m**	Company 2001 £m
Guarantees of subsidiary undertakings and other support	**–**	–	**6**	13

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 16, 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.

25 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 £2.2m in 2002 (2001: £2.2m).

The Group provided services to, and received management fees from, certain joint ventures, associates and joint arrangements amounting to £83m (2001: £110m). 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 12 and 15.

26 Notes to the cash flow statement

a) Net cash inflow from operating activities comprises:

	2002 £m	2001 as restated £m
Group operating profit before exceptional items	**67**	61
Depreciation	**40**	35
Goodwill amortisation	**19**	10
Profit on disposal of fixed assets	**(1)**	(1)
Provision against own shares held	**1**	1
Exceptional items – cash expenditure	**(9)**	(4)
Working capital decrease:		
Stocks	**(14)**	4
Debtors	**(36)**	(27)
Other creditors and provisions	**75**	38
	25	15
Net cash inflow from operating activities	**142**	117

b) Analysis of movement in net cash

	Cash and deposits and overdrafts £m	Term deposits £m	Borrowings (including finance leases) £m	Total 2002 £m	Total 2001 £m
At 1 January 2002	**139**	**26**	**(102)**	**63**	104
Cash flow	**–**	**(7)**	**3**	**(4)**	(34)
Acquisitions of businesses – debt at date of acquisition	**–**	**–**	**(1)**	**(1)**	(4)
Exchange adjustments	**1**	**–**	**8**	**9**	(3)
At 31 December 2002	**140**	**19**	**(92)**	**67**	63

c) Reconciliation of cash flow to movement in net cash

	2002 £m	2001 £m
Increase/(decrease) in cash in the period	**–**	(5)
Cash outflow/(inflow) from decrease/increase in borrowings	**3**	(17)
Cash inflow from decrease in term deposits	**(7)**	(12)
Change in net cash resulting from cash flows	**(4)**	(34)
Acquisitions of businesses – debt at date of acquisition	**(1)**	(4)
Exchange adjustments	**9**	(3)
Movement in net cash	**4**	(41)

26 Notes to the cash flow statement continued

d) Acquisitions of businesses

	2002 £m	2001 £m
Net assets acquired:		
Intangible assets – goodwill	**38**	94
Tangible fixed assets	**4**	11
Investments	**15**	3
Stocks	**2**	11
Debtors	**15**	70
Creditors and provisions	**(20)**	(95)
Borrowings (including finance leases)	**(1)**	(4)
	53	90
Due on acquisitions	**17**	(1)
	70	89
Satisfied by:		
Cash consideration	**60**	76
Cash, deposits and overdrafts acquired	**5**	13
Cash outflow	**65**	89
Interest in subsidiary disposed	**5**	–
	70	89

Companies acquired during the year generated £5m from operating activities and utilised £2m in respect of capital expenditure and financial investment.

e) Disposals of businesses

	2002 £m	2001 £m
Net assets disposed of:		
Intangible assets – goodwill	**2**	–
Tangible fixed assets	**2**	–
Investments	**–**	7
Stocks	**5**	1
Debtors	**9**	1
Creditors and provisions	**(15)**	3
	3	12
Profit on sale, before goodwill	**–**	13
	3	25
Satisfied by:		
Cash consideration	**–**	25
Cash, deposits and overdrafts sold	**(2)**	–
Cash (outflow)/inflow	**(2)**	25
Interest in joint venture acquired	**5**	–
	3	25

Disposals in 2002 comprised the reorganisation of the Group's interests in BK Gulf LLC and Dutco Balfour Beatty LLC as described in Note 19(c).

Disposals in 2001 comprised the Group's remaining interests in the cable businesses, including the Dubai Cable Company (Pte) Ltd, and related costs, and the trade and assets of Emform Ltd.

27 Principal subsidiaries, joint ventures and associates

	Country of incorporation or registration	Group equity holding %	Total issued share capital (Note ii) £m
Building, civil and rail engineering			
Andover Controls Corporation	USA		
Balfour Beatty Abu Dhabi LLC	Abu Dhabi	49.0	–
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 Kilpatrick Ltd	Scotland		
Balfour Kilpatrick International Ltd	Scotland		
Balvac Whitley Moran Ltd			
BK Gulf LLC	Dubai	49.0	0.1†
Cruickshanks Ltd*	Scotland		
Devonport Management Ltd*		24.5	–
Dutco Balfour Beatty LLC	Dubai	49.0	0.1†
Dutco Construction Co LLC	Dubai	49.0	3.6†
First Philippine Balfour Beatty Inc	Philippines	40.0	3.2†
Garanti Balfour Beatty Insaat Sanayi ve Ticaret AS	Turkey	49.2	1.1†
Haden Building Management Ltd			
Haden Building Services Ltd			
Haden Young Ltd			
Heery International Ltd			
Heery International Inc	USA		
Integral Technologies Inc	USA		
John Kennedy (Holdings) Ltd			
Kenton Utility Service Management Ltd			
Kerjaya Balfour Beatty Cementation Sdn Bhd	Malaysia	35.0	–
Lounsdale Electric Ltd	Scotland		
Marta Track Constructors Inc	USA		
Metroplex Corporation	USA		
Monteray Ltd		24.5	–†
National Engineering and Contracting Company	USA		
Painter Brothers Ltd			
PT Balfour Beatty Sakti Indonesia	Indonesia	49.0	0.2†
Raynesway Construction Services Ltd			
Raynesway Construction Southern Ltd			

	Country of incorporation or registration	Group equity holding %	Total issued share capital (Note ii) £m
Building, civil and rail engineering continued			
Romec Ltd		49.0	–†
Stent Foundations Ltd			
Walgrave Group Ltd			
Zubair Kilpatrick LLC	Oman	49.0	0.5†
Investments and developments			
Aberdeen Environmental Services (Holdings) Ltd	Scotland	45.0	0.1†
Balfour Beatty Capital Projects Ltd			
Balfour Beatty Property Investments Ltd*			
Balfour Beatty Property Ltd*			
Connect Roads Ltd* (Note v)		67.8	1.6†
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	1.4†
Power Asset Development Company Ltd		25.0	–
Seeboard Powerlink Ltd		10.0	1.0
Thames Power Ltd* (Note vi)		50.0	–
Transform Schools (Stoke) Holdings Ltd		50.0	–†
Yorkshire Link (Holdings) Ltd*		50.0	3.0†
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			

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 shareholder agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operational policies of that company, the Directors are of the opinion that there is a severe long-term restriction in its control and as required by FRS 9 "Joint Ventures and Associates" the Group accounts for the company as a joint venture.
(vi) Thames Power Ltd owns 51% of the equity capital in Barking Power Ltd.

Group five-year summary

	2002 £m	2001 as restated £m	2000 as restated £m	1999 as restated £m	1998 as restated £m
Profits					
Turnover (including share of joint ventures and associates)	**3,441**	3,071	2,603	2,904	3,975
Operating profit – before goodwill and exceptional items	**149**	136	110	93	104
Goodwill amortisation	**(21)**	(12)	(3)	–	–
Exceptional items	**(9)**	13	11	(434)	(184)
Profit/(loss) before interest	**119**	137	118	(341)	(80)
Net interest payable	**(31)**	(34)	(28)	(39)	(38)
Profit/(loss) before tax	**88**	103	90	(380)	(118)
Capital employed					
Shareholders' funds	**193**	185	154	83	198
Minority interests	**–**	–	1	1	9
Net (cash)/borrowings and minority redeemable capital	**(67)**	(63)	(104)	(84)	129
	126	122	51	–	336
Statistics					
Adjusted earnings per ordinary share*	**16.1p**	14.1p	10.2p	5.6p	5.9p
Basic earnings/(loss) per ordinary share	**9.0p**	14.2p	12.1p	(93.3)p	(37.5)p
Diluted earnings/(loss) per ordinary share	**8.9p**	14.0p	12.1p	(93.3)p	(37.5)p
Dividends per ordinary share	**5.4p**	5.0p	4.5p	4.0p	6.0p
Operating profit before goodwill amortisation and exceptional items: turnover	**4.3%**	4.4%	4.2%	3.2%	2.6%
Gearing – net borrowings and minority redeemable capital/shareholders' and minority shareholders' funds	**nil**	nil	nil	nil	62%

*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. Prior year comparatives have been restated to comply with UITF Abstract 34 "Pre-contract costs".

Continuing operations and acquisitions five-year summary

	2002 £m	2001 as restated £m	2000 as restated £m	1999 as restated £m	1998 as restated £m
Profits					
Turnover (including share of joint ventures and associates)	**3,441**	3,057	2,542	2,293	2,275
Operating profit – before goodwill and exceptional items	**149**	135	106	99	79
Goodwill amortisation	**(21)**	(12)	(3)	–	–
Exceptional items	**(9)**	–	–	(5)	–
Profit before interest	**119**	123	103	94	79

Note: Exceptional items charged against operating profit in 2002 comprised aborted acquisition costs and in 1999 comprised the reorganisation of head offices £3m and bid defence costs £2m.

Financial calendar

	2003
30 April	Ex-dividend date for final 2002 ordinary dividend
2 May	Final 2002 ordinary dividend record date
15 May	Annual General Meeting
28 May	Ex-dividend date for July 2003 preference dividend
30 May	July 2003 preference dividend record date
9 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
1 July*	Final 2002 ordinary dividend payable
13 August*	Announcement of 2003 half-year results
	2004
1 January	Preference dividend payable
2 January*	Interim 2003 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 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
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 2002 will be paid on 1 July 2003. 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 9 June 2003 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
12 Tokenhouse Yard
London EC2R 7AN
Telephone: 020 7606 1768

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 Sevices 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 email to info@balfourbeatty.com.

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The photograph on page 18 is courtesy of António Chaves.
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Balfour Beatty plc
130 Wilton Road
London SW1V 1LQ
Telephone: 44 (0) 20 7216 6800
Facsimile: 44 (0) 20 7216 6950
www.balfourbeatty.com

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