Balfour Beatty

Balfour Beatty plc Annual report and accounts 2001

The creation and care of essential assets

	2001	2000
Turnover	£3,071m	£2,603m
Operating profits*	£137m	£114m
Pre-tax profits*	£103m	£86m
Earnings per share*	14.4p	10.9p
Dividends per ordinary share	5.0p	4.5p
Exceptional items	£13m	£11m
Net cash	£63m	£104m

*Before amortisation of goodwill and exceptional items

Balfour Beatty's aim is to create shareholder value by providing engineering, construction and service skills to customers for whom infrastructure quality, efficiency and reliability are critical. We serve the international markets for rail, road and utility systems, buildings and complex structures.

Highlights of the year

- Pre-tax profits* up 20%. Earnings per share* up 32%
- Strong cash position and excellent operating cash flow
- Total ordinary dividend increased by 11% to 5.0p
- Record order book of over £4bn, much of it in long-term contracts
- Acquisitions in rail, utility services and US construction extend core competences
- Preferred bidder status achieved on three more privately financed projects
- Strong recovery in Rail Engineering and Services' profits
- Disposal of final cables interests

*Before amortisation of goodwill and exceptional items

Chairman's statement

"Once again, we start the year with a record order book, a sound financial position, a clear sense of direction and excellent morale."

In 2001, our overall results showed a significant and satisfactory improvement over the previous year. This reflected, at the operating profit level, a strong recovery in Rail and further growth from Building and Investments, offset to a degree by a small decline in Engineering.

Turnover increased to £3,071m (2000: £2,603m).

Profits before tax and exceptional items and prior to the amortisation of goodwill improved to £103m (2000: £86m). Earnings per share, before exceptional items and goodwill amortisation were 14.4p per share (2000: 10.9p per share).

Against this background, the Board recommends an increased final dividend of 2.8p per ordinary share (2000: 2.5p) which, taken with the interim dividend already announced, would give a total distribution for the year of 5.0p (2000: 4.5p) per ordinary share.

An additional net exceptional profit of £13m arose mainly from the sale of our last remaining cable interests, including our shareholding in the Dubai Cable Company (Ducab).

Our order book now stands at the record level of £4.3bn (2000: £3.3bn). The year-end net cash position of £63m (2000: £104m) is after net expenditure of £93m on acquisitions offset by the receipt of £25m on the disposal of Ducab.

Viscount Weir Chairman

Weir

During the year a number of significant acquisitions were made. We added BB Rail Systems Inc. in the USA and the Italian-based rail electrification business of ABB to our rail activities: we widened the base of our support services business by the purchase of utility contractor, John Kennedy: and the acquisition of National Engineering and Contracting in Ohio strengthened our civils operations in the USA. These transactions are discussed in more detail in the Chief Executive's review.

As regards our four main business areas, I would briefly summarise as follows. Building produced a solid overall result yet again, and underscored our confidence that good and consistent results can be produced from construction, while building management and services continued to make good progress. Engineering is, essentially, a stable long-term business, although because of the preponderance of large projects in its business mix it will, inevitably, show some volatility in results from year to year. In Rail we achieved an improvement over 2000 in UK rail maintenance and BB Rail Power Systems and Marta Metroplex made a full year's contribution. In Investments concession income improved and we added further to our portfolio.

Shareholders should also know that we continue to insist on a prudent and conservative view in respect of profit recognition and other accounting matters.

Share buy-back

During the year we made a modest further purchase of convertible preference shares at 133.5p bringing the total we have bought in to 10.8m. Our overall purchase of these shares has brought us savings of £0.5m pa after tax. We have however held off from making further purchases of ordinary shares, as our share price in recent times has been considerably higher than when we first made purchases. I trust shareholders will support the view we have taken on this matter, as being in their best long-term interests.

Corporate responsibility

We continue to make progress in this area. During the year our performance in the areas of Safety, the Environment, Risk Management, Human Rights and Business Ethics has been overseen by our Business Practices Committee in much the same way as our Audit Committee monitors financial performance and internal control. We have also recently appointed a director of Safety and the Environment who has wide outside experience in the rail and nuclear industries and will greatly help our efforts in these areas.

Shareholders will have noted our withdrawal from the Ilisu Dam project in Turkey. We could not see acceptable plans and proposals being brought forward within any reasonable time scale to meet the obvious environmental and social issues which the project raised. I believe that we acted responsibly throughout.

The Board

During the year Robert Walvis joined the Board as a non-executive Director. He has had a long and distinguished career at Shell, and his wide international experience is a most valuable asset to us.

Michael Miles has decided not to seek re-election at the next AGM. I would like to thank him sincerely for his most stimulating and constructive contribution over the past five years.

People

It is, as ever, difficult to find new words to express my thanks and appreciation to all the people in Balfour Beatty for everything they have done in the last year. For my part I can only say it is a privilege to be Chairman of the Company that is theirs and yours, and I know shareholders will share those sentiments fully. They carry out difficult tasks, some of them working in very demanding circumstances, and any success we may have as a company is their doing.

Prospects

Once again, we start the year with a record order book, a sound financial position, a clear sense of direction and excellent morale. We have strengthened the business further through carefully targeted acquisitions.

I believe that our improving combination of first-class engineering, construction and service skills applied to our core markets gives us a strong basis on which to continue to grow shareholder value, this year and in the future.

Chief Executive's review

Strong profits and earnings growth continues
Further improvement in size and mix of order book
Further investment in key growth sectors of rail, private finance and support services
Acquisitions perform to plan

Overview

I am pleased to be able to begin my review of 2001 by once again reporting good progress against Balfour Beatty's key objectives. We have achieved a substantial uplift in our earnings, underpinned by strong operating cash flow and further reductions in working capital. Both our current sales and our record forward order book of £4.3bn contain an increasing proportion of long-term contracts with more predictable margins struck with relationship customers.

Our determination to focus on what we do best has found further expression in acquisitions which offer geographical and sectoral expansion but rely on our established core competences.

We have funded these acquisitions by the proceeds of divestment and operating cash flow improvements. The majority of our acquisitions over the last two years have been negotiated rather than the subject of price competition.

We aim to strengthen our position in markets in which continuing growth can be expected. Our expansion in the UK utility services market through the acquisition of John Kennedy Holdings; our entry into the Italian, Greek and Portuguese railway electrification markets through the purchase of the business previously owned by ABB; into the US rail signalling market; and the extension of our US civil engineering business through buying National Engineering and Contracting in Cleveland, Ohio, all serve this end.

We have sustained internal pressure on making our business processes more efficient and have made further progress in supply chain management, risk management, e-commerce and knowledge management.

Mike Welton Chief Executive

Performance
Our financial performance for the year was satisfactory. Overall, before goodwill amortisation and exceptional items, operating profits rose 20% to £137m, pre-tax profits 20% to £103m and earnings per share 32% to 14.4p. Profits in the Building, Building Management and Services sector advanced at a rate more sustainable in the long term following the benefits of restructuring which have contributed to the rapid progress of the last two years. It was disappointing that profits fell in Civil and Specialist Engineering and Services, but in Rail Engineering and Services the strong, predicted recovery was delivered and income from Investments and Developments progressed well.

During the last two years, we have made eight acquisitions and these have contributed some £377m of sales to the Group in 2001. It is pleasing to be able to report that these sales delivered operating profits, before goodwill amortisation, of £23m at a margin of over 6%, which is in line with our forecasts at the time of acquisition.

Cash
In 2001, Balfour Beatty's operating cash and net cash inflow improved further. Acquisitions were made at a net cost of £93m. We ended the year with net cash of £63m (2000: £104m). The £25m proceeds from the Ducab disposal were offset by the conversion of a £24m cash balance held in our captive insurance company to other forms of investment.

Disposals, acquisitions and investments
The sale of our interest in Ducab to its other existing shareholders, together with some other small transactions, realised an exceptional net profit of £13m.

Rail In February, we acquired the Rail Systems Division of ABC NACO in the USA for an initial consideration of $21m. This business, which we have renamed Balfour Beatty Rail Systems Inc, provides signalling, control and communication services to US rail utilities. The acquisition has broadened the range of rail development opportunities available to the Group in that market.

In late December, we acquired the rail electrification project business of ABB for an initial sum of €42m. This further strengthened Balfour Beatty's leading worldwide position in rail electrification and power systems by adding a major presence in the Italian, Greek and Portuguese markets to the existing strong position created by the acquisition in 2000 of the electrification and power supply business previously owned by Adtranz.

Following these acquisitions, our annual worldwide rail sales are expected to be approaching £800m in 2002. The worldwide market for rail engineering and services is growing under the influence of rapid traffic growth, the development of mass transit systems, rail industry restructuring and increased investment from the private sector.

US civil engineering In August, we bought National Engineering and Contracting, a US regional civil and specialist engineering contracting company, for an initial sum of $17m and the assumption of debt. Based in Ohio, this business adds to the overall strength and geographic market coverage of the Group's existing US civil and specialist engineering business.

Balfour Beatty is now one of the leading contractors in the US transport sector and has recently secured a number of major new projects in this market, in which growth is underpinned by the federal TEA funding programme.

Utility services In October, we acquired John Kennedy Holdings, a major UK gas and water utility services business, for £37m. This provides the Group with a strong position in a growing market and augments the support service business portfolio which forms an increasing component of the Group's activities.

Following gas and water utility privatisation, the outsourcing of asset management, renewals and other services has continued to grow. Safety considerations are also driving investment plans for asset renewal, particularly in the gas sector.

Public Private Partnerships In May, Metronet, the grouping in which Balfour Beatty has a 20% stake, was appointed preferred bidder, under the Public Private Partnership for the London Underground, for the Bakerloo, Central and Victoria Line concession. In September, Metronet was also named preferred bidder for the Sub-Surface Line concession. These very substantial bids, when successfully converted to contracts, will significantly increase the amount we will have committed to privately financed projects. It will also produce long-term downstream workflow for the rail and engineering businesses.

We continue to develop proposals for work in several sectors of the private finance market.

Sector performance
Profits rose by 13% to £44m in the Building, Building Management and Services sector.

The highest growth rates were achieved in building management and maintenance and in security management systems as we continued to grow our businesses in these expanding markets. Performance in Andover

Controls was affected by the immediate impact of the events of 11 September, but has subsequently recovered.

A key feature of the year was the successful on-time, on-budget delivery of large-scale, multidisciplinary projects under the Public Private Partnership regime, most particularly North Durham Hospital. The first phase of Edinburgh Royal Infirmary also came on stream in January 2002. In these two instances, the majority of our operating companies collaborated around the core leadership of Balfour Beatty Construction.

Despite some tightening in our UK and US markets, order intake in all our businesses has remained strong. This reflects the success of our policies in alliancing, our strong involvement in public sector and PPP markets and the increasing impact of business process improvements.

In Civil and Specialist Engineering and Services, profits of £22m were 8% down on 2000. This arose partly from the impact of foot-and-mouth disease on our Power Networks business in the UK, to which reference was made at the interim results.

Results in our major civil engineering projects businesses were similar to 2000 overall. Balfour Beatty Major Projects improved its profits, as settlements on conservatively accounted, completed projects were finalised and current performance improved. Results were, however, significantly impacted in Balfour Beatty Construction Inc as, in line with our normal accounting approach, certain projects were written down without taking account of any potential future settlements.

UK markets were generally unexciting, pending the impact of the anticipated upturn in infrastructure investment. A number of new projects were secured in the USA.

In Rail Engineering and Services, profits recovered strongly from £6m in 2000 to £24m in 2001, though in the first quarter of 2001, we continued to lose money in maintenance as the five-year contracts let in 1996 drew to a close. The new-form IMC maintenance contracts, which began in April 2001, are already profitable and their operation is developing well. The businesses which were acquired in the USA in trackwork and in continental Europe in electrification performed up to expectations and delivered their first full year's profit contribution. Our order book for rail has been substantially improved by new project wins and the acquisition of the rail electrification project business from ABB.

The administration regime in Railtrack has had no short-term impact on our business. Early clarification of Railtrack's future would offer greater certainty in respect of the industry's long-term development.

In Investments and Developments, profits rose by 12% to £46m as underlying concession income continued to grow and new concessions produced income for the first time. Barking Power's profits moved forward strongly after 2000's planned maintenance outages. Bidding costs were around the level of previous years as we continued to pursue roads, hospitals, schools and other schemes, most significantly the Public Private Partnership for the London Underground.

Business process improvements

The construction sector continues to offer great scope for the creation of competitive advantage through the effective management of costs and the introduction of improved business processes. The programmes which we have initiated in this regard progressed further during the year.

Supplier numbers were further reduced and the proportion of our goods and services procured through preferred supplier and subcontractor relationships grew. We have now completed the first full year of operation of our enhanced risk management system, which covers commercial, safety, environmental and reputational risk issues. We have selected a partner for the development of e-commerce and a growing number of our projects now use their market-leading system.

We have also designed and are in the process of introducing a knowledge management system to better utilise the vast reservoir of expertise which exists amongst our staff and within our businesses, worldwide.

Our skills in combination

In both the public and private sectors, the development of our skills, deployed in combination, offer increasingly attractive options for our customers. In every major market, customers increasingly seek to realise the benefits in outsourcing the management and execution of non-core activities. Further, they see and experience real advantages in the integrated services provision which smooths the complex interfaces between the various aspects of construction and between construction and support services.

Government policy is now to procure primarily using three methods – PFI/PPP, prime contracting, and design and build. We are very well placed in these disciplines, being able to respond to this challenge from within our own range of skills and resources. We have already demonstrated this successful combination of linked skills and disciplines in our existing portfolio of PFI projects.

We anticipate continued growth of the same approach from our larger private customers in the building, civil engineering and rail markets.

Safety and the Environment
Early this year, Balfour Beatty appointed Sally Brearley as director of Safety and the Environment. Our performance in safety is already well ahead of sector norms and we are now developing key performance indicators for our environmental impacts. These and other relevant items will be covered in more detail under separate cover in our Environmental and Social Report. We aim to achieve continuous improvement and, where possible, step changes in performance in future years, particularly in respect of safety.

Outlook
In UK infrastructure, spending plans are ambitious and we believe that the market will strengthen. Rail expenditure is on an upward trend in many of the national markets in which we have established positions. Building markets have tightened in the UK and USA, although currently our order intake remains strong. The growth in outsourcing in the building, road, rail and utility markets seems set to continue.

We have succeeded in creating profit growth momentum in Building, Building Management and Services. Our business mix in this sector is undoubtedly unique. If we stick to our disciplines, I believe that we are well placed to exploit the increasing demand for efficient construction, outsourcing and service integration. We aim for continuing steady growth in this sector.

In Civil and Specialist Engineering and Services, we have an essentially stable long-term business. Inevitably, given the average project size and duration, profits come in less predictable patterns than in other sectors, but we believe that in 2002 we should make progress.

Rail Engineering and Services is a growth industry and we have established Balfour Beatty as a leading player to participate in this growth.

The portfolio of PFI/ PPP concessions which we have built in Investments and Developments will generate stable and growing profits and cash flows over a long period, even were we to never win another concession. We are, however, building further on the existing base. We believe that PFI/PPP has been, and will continue to be, a successful way to procure public infrastructure.

I believe that we will be able to make further overall progress in 2002.

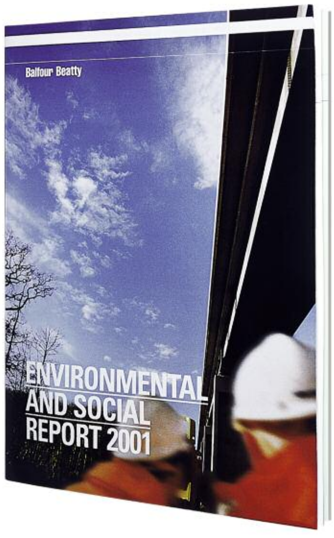
Corporate responsibility and the Environment

This year sees the publication of our first Environmental and Social report.
We have, for many years, been publicly and explicitly committed to ensuring that the Operating Companies that make up the Group pay close attention to environmental, ethical, social and health and safety issues.

Through publicly reporting the way we manage corporate social responsibility and our resulting performance in environmental and other social issues, we are offering the levels of transparency and accountability that our shareholders properly require and our other stakeholders can reasonably expect.

Corporate social responsibility is an important, indeed fundamental, part of modern business management. We have made significant progress in creating a developed system for the task, but we still have a long way to go and much to do.

Environmental and Social report 2001
You can view the above report or request a printed copy via our Group website on www.balfourbeatty.com.



Building, Building Management and Services

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

Companies

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

Specialist areas

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

Civil and Specialist Engineering and Services

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

Companies

- Balfour Beatty Construction – Civil Engineering
- Balfour Beatty Construction Inc
- Balfour Beatty International
- Balfour Beatty Major Projects
- Balfour Beatty Power Networks
- Specialist Holdings Division
- John Kennedy Holdings
- National Engineering and Contracting
- Devonport Management Ltd (24.5% owned)

Specialist areas

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

Rail Engineering and Services

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

Companies

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

Specialist areas

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

A unique mix of skills to serve our chosen growth markets

Investments and Developments

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

Companies

- Balfour Beatty Capital Projects
- – Aberdeen Environmental Services, 45%
- – Connect (roads), 67.8%
- – Consort (healthcare), 50%
- – Dundee Energy Recycling, 20%
- – Health Management (UCLH), 33%
- – Metronet (rail), 20%
- – SPL, 10% & PADCO, 25% (electricity)
- – Transform Schools, 50%
- – Yorkshire Link (roads), 50%
- Balfour Beatty Property
- Barking Power Ltd (25.5% owned)

Specialist areas

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

Turnover by destination

Asia Pacific £99m

Australasia £1m

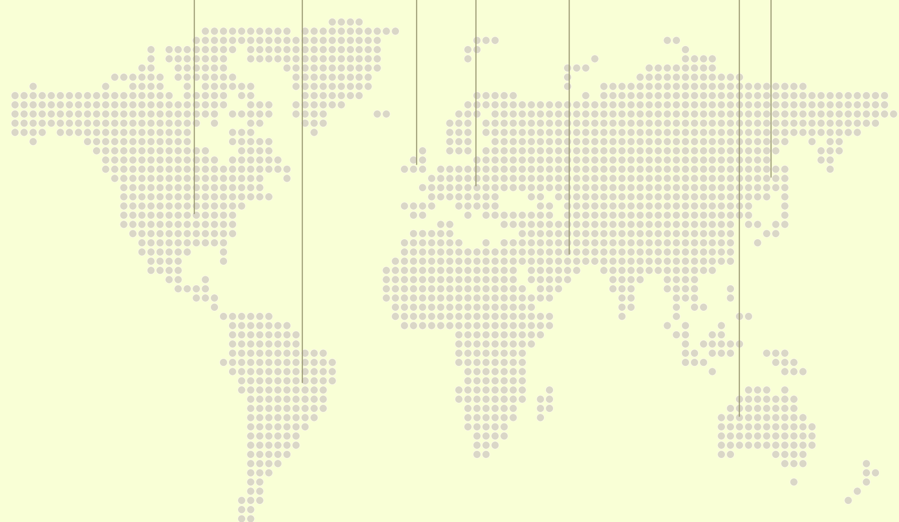
Africa, Middle East, Near East £79m

Europe £164m

UK £2,144m

South America £13m

USA £571m



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

Key points

Further profit progress in all operating companies

Significant growth in building management and maintenance

Successful delivery of large-scale, multi-disciplinary privately financed work

Business process improvement programmes continue to increase competitiveness

Financial summary

£1,074m

Turnover (2000: £1,013m)

£44m

Profit (2000: £39m)

Building, Building Management and Services

2001 performance

Profits in the Building, Building Management and Services sector improved by 13% to £44m in 2001. This represents a more sustainable level of ongoing growth following the 50% profit growth achieved in 1999 and 2000 which reflected the benefits of restructuring.

Building markets in both the USA and the UK were impacted by the downturn in the telecommunications sector and the UK market generally tightened towards the year end. Order intake in all our companies has, however, remained strong. The benefits of long-term customer relationships built up in recent years, our substantial involvement in the public sector and PFI projects and improvements in business process efficiency are increasingly evident.

Review of operations

Heery, the US-based architectural, engineering and programme management business, had another excellent year with profits improving to new record levels. In the USA, the business was successfully expanded on to the West and North West Coasts. The US business now has a fee order book of in excess of $100m. In Europe, profits improved and the business expanded, particularly in the UK.

In Balfour Beatty Construction's building business, profits improved despite some private sector market tightening. Margins remain well in advance of industry norms. The business has built a number of long-term customer relationships, for example with MEPC and Optima, and has a substantial proportion of its work in major, privately financed projects, including hospitals in Edinburgh, Glasgow, Durham and London, in the grouped schools scheme in Stoke and elsewhere in the public sector. Its concentration on key customer relationship work and a small number of preferred suppliers and preferred subcontractors further strengthens its offer to the market and the predictability of margin delivery.

In Balfour Kilpatrick, the electrical engineering and mechanical services contractor, there was good profit progress, with a substantial proportion of work arising in privately financed projects and for long-term customers such as Pfizer and Marks & Spencer. A number of substantial new orders were received, including for major office developments in the City of London for Goldman Sachs and Heron Quay in London Docklands.

Haden Young provided all electrical and mechanical services for Kings College Hospital in London, one of many PFI projects in which the company is actively involved.

Heery International has had a continuous working relationship with Glaxo SmithKline in the USA since 1989 and recently designed the expansion of the Sanders Center in Seattle.

Integral Technologies continues to grow with the fast-developing US digital security systems market.

Balfour Beatty Construction recently completed phase one of the BAe Systems development in Edinburgh and has now been awarded phase two.

Results in Haden Young, the Group's building services company, also improved as its established strategy of concentrating on the larger and more complex jobs where its skills are most clearly differentiated continued to bear fruit. Two large hospital jobs for third party concession companies at Kings College, London and in Hereford progressed well, as did its work at the Edinburgh Royal Infirmary. Order intake is excellent with major new projects won for BAe Systems, the UK Sports Institute and BBC White City amongst others.

Andover Controls once again increased its profits despite a short-term setback in product sales in the USA in the last quarter. The resulting shortfalls in that sector were more than compensated for by increased sales of engineered systems and from Integral Technologies. The strategy of growing Andover's business outside the USA has progressed well in 2001, with an increasing involvement in Balfour Beatty's PFI contracts and the further development of long-term customer relationships in the UK.

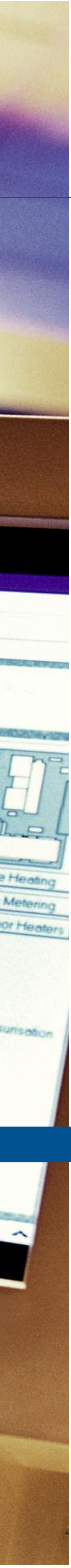
Integral Technologies, the digital security system company acquired to become part of Andover Controls in 2000, performed very well in a strong US security market.

In Haden Building Management, profits rose significantly as the business expanded in response to increasing demand for outsourced service provision and management. At the same time, the company has continued to move up the value chain with its portfolio now containing a significant number of multi-service contracts and an increasing proportion in total asset management. In particular; it has taken responsibility for the long-term facilities management and maintenance of the Group's PFI projects in North Durham and Stoke; has continued to develop its work for BT, in joint venture; has extended its contract with the benefits agency by two years; and has won major new contracts for Royal Bank of Scotland, KPMG and AWRE at Aldermaston.

Outlook

Although there are few current signs of weakness, we continue to take a cautious view of likely market conditions in both the UK and USA during 2002. However, the internal dynamics of our business, driven by a range of process improvement programmes; the increasing opportunities deriving from private finance and outsourcing; and our stable long-term customer relationships should ensure another year of progress.

Building strong supply chain partnerships



Jaguar Cars (far left)
Andover Controls has been working in partnership with Jaguar for over 10 years on multiple sites to review and improve the energy efficiency of the organisation. It has also worked on all Ford UK sites under a separate partnership agreement.

Inland Revenue (top)
Haden Building Management has been the facilities manager and services provider for the Inland Revenue in Salford, Manchester, since 1997. This 15-year contract is one of a growing range of relationship arrangements for the company.

Marks & Spencer (centre)
Balfour Kilpatrick provides mechanical and electrical services for Marks & Spencer throughout the UK in an ongoing relationship which began four decades ago and has involved over 4,000 contracts to date.

Optima (bottom)
Balfour Beatty Construction has a continuing partnership relationship with Optima, one of the UK's leading housing associations. The recent completion of the Clydesdale and Cleveland Towers in Birmingham has been followed by further negotiated refurbishment contracts.

The $51m Ohio Turnpike Bridge – National Engineering and Contracting is the leading road and bridge builder in Ohio and West Virginia.

Balfour Beatty Power Networks completed the Scotland/Northern Ireland interconnector project in 2001, the latest in a series of projects for Scottish Power in a relationship which began 30 years ago.

In January 2002 RCS won the £160m contract to maintain all the roads in North Yorkshire for a minimum of six years.

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

Key points

- Profits affected by foot-and-mouth and US value adjustments
- Significant growth in road maintenance with major new contracts won
- UK Major Projects profits improve
- Good market prospects in the UK and the USA from major investment plans

Financial summary

£1,150m

Turnover (2000: £986m)

£22m

Profit (2000: £24m)

Civil and Specialist Engineering and Services

The £180m Nam Cheong Station, the largest project on the new West Rail System in Hong Kong, progressed well in 2001.

Work began on the $67m 500 kV Tasikmalaya-Depok double circle transmission line in 2001, the latest in a series of major power projects in Indonesia.

Balfour Beatty has carried out 17 water and sewage projects for Northumbrian Water since the early 1980s.

2001 performance

Profits in Civil and Specialist Engineering and Services, at £22m, were down by £2m on 2000. Results from the majority of the businesses improved. However, the impact of foot-and-mouth disease and the write-down in value of certain projects being carried out by Balfour Beatty Construction Inc depressed profits. These factors more than offset a first profit contribution from John Kennedy, the utilities maintenance contractor and from National Engineering and Contracting.

Review of operations

We have maintained a UK-based Major Projects capability throughout a period of weakness in UK infrastructure markets, while several of our competitors have significantly downsized or withdrawn from the market. Results began to improve in 2001 with satisfactory settlements on a number of completed projects. Projects in hand, including the Birmingham Northern Relief Road, Nam Cheong Station in Hong Kong and the Channel Tunnel Rail Link Contract 440, are progressing well.

A second large tunnelling contract on the AlpTransit project in Switzerland and a major road, the A120 in Essex, were secured. Current UK bidding activity is extensive. The market in Hong Kong, where we strengthened our presence during the year, is also promising.

The Group's permanent International businesses in Indonesia, the Philippines and the Middle East performed in line with expectations. Our joint venture in Turkey was adversely impacted by local economic conditions. New projects were secured despite these markets remaining largely depressed.

In the USA, Balfour Beatty Construction Inc expanded its operations through the acquisition of National Engineering and Contracting, the leading road and bridge builder in Ohio and West Virginia. The business on the West Coast grew, with new contracts secured, particularly for transport development work. Bridge widening and seismic retrofit contracts progressed well. In Texas, the order book was extended to over $180m through the award of a number of new road contracts. The outcome of a joint venture bid for a $1.2bn toll road in Texas is imminent.

In the East, the $160m Narragansett Bay waste water tunnel in Providence, Rhode Island, secured late in the year builds on successful tunnelling experience in Los Angeles.

Balfour Beatty Power Networks' results were significantly affected by the problems of site access created by the UK's foot-and-mouth epidemic. First-class customer relationships enabled the profit impact to be minimised whilst important business development tasks, such as multi-skill training for the workforce, were accelerated. The UK was declared foot-and-mouth free in January 2002.

Balfour Beatty Construction's regional civil engineering business performed well, despite a continuing weakness in the Scottish market where public spending on infrastructure is currently depressed. Good progress was made on the existing workload, including the Group's PFI for waste water treatment in North-East Scotland and partnership contracts with Northumberland Water and others.

The specialist engineering businesses, which make up Specialist Holdings Division, performed well. In foundations, strengthening and testing, results were good. RCS, the Group's road management and maintenance specialists, had a good year, culminating in the award of contracts to a potential value of £470m for North Yorkshire and Hampshire County Councils. This work is additional to the existing long-term contracts for the Highways Agency Areas 2 and 3 and for Bedfordshire, Surrey and Worcestershire County Councils.

Devonport Management Limited, in which Balfour Beatty has a minority shareholding, increased its profits. The major refuelling base development was substantially completed.

In October 2001, Balfour Beatty acquired John Kennedy Holdings, the gas and water utility service group, based in Manchester. Kennedy has an order book of £200m and operates for Transco and a number of regional water utilities on long-term maintenance and rehabilitation contracts.

Outlook

There are ambitious plans for infrastructure investment in the UK for road transport, gas, water and electricity utilities. We anticipate that our UK operating environment will improve significantly in the medium term. Further growth in our businesses in the USA and Hong Kong can also be anticipated.

Highways Agency Maintenance (top)
The control of all key road maintenance activities for the Highways Agency Area 3 contract is driven from the Network Control Centre in Winchester, Hampshire. From this facility, all emergency response requirements are logged and allocated on a 24-hours per day basis.

Utility Services (centre)
John Kennedy Holdings has a number of long-term partnership contracts for pipeline maintenance and upgrades with Transco and a number of regional water companies.

The Channel Tunnel Rail Link (bottom)
Balfour Beatty Major Projects is constructing the easternmost section of the Channel Tunnel Rail Link from Ashford to Folkestone. This project has drawn together the wealth of Balfour Beatty's multi-disciplinary resources and has won awards for its environmental and local community relations management.

North Texas Turnpike Authority (right)
Balfour Beatty Construction Inc has carried out eight of the 12 contracts let by the North Texas Turnpike Authority for the new Dallas area outer ring road system. In total, the business has carried out $500m of road and interchange building in Texas since 1994 and has a current order book of over $180m in the state.

Supplying world-class infrastructure care

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

Key points

- Strong profit recovery after year of transition in 2000
- New UK maintenance contracts profitable and bedding down well
- Major profit contributions from acquired businesses in the USA and continental Europe
- Market growth continues

Financial summary

£698m

Turnover (2000: £439m)

£24m

Profit (2000: £6m)

Rail Engineering and Services

In January 2002, Marta Metroplex was awarded the long-term maintenance contract for the Alameda Rail Corridor in Los Angeles.

Balfour Beatty Infrastructure Services is responsible for maintaining the infrastructure for Railtrack's Wessex, Kent and Anglia regions.

With the acquisition of ABB's rail electrification project business, Balfour Beatty has become a principal contractor in a contract worth €190m for the new Porto Metro system in Portugal.

Balfour Beatty Plant Services supplies a wide range of specialist on-track equipment, both within Balfour Beatty and to third parties.

2001 performance

Profits in Rail recovered strongly to £24m in 2001, following the unsatisfactory results and transitional activities of 2000. The businesses acquired recently in the USA and Europe contributed to plan. Profits from the UK project and speciality businesses improved further, while the UK maintenance businesses returned to modest profitability following the close out of the loss-making RT1a contracts in April. Business with Railtrack, our largest customer, continued as usual despite the administration regime which continues to create industry uncertainty.

Review of operations

During 2001, the UK maintenance and renewals businesses were combined and now operate as Infrastructure Services. Balfour Beatty now has three zone contracts under the new contract forms. In the first quarter of the year, losses on the old contracts continued. The new contracts are profitable. Further evolution in the relationship between Railtrack and its contractors in this area can be anticipated.

Work in the renewals business in the early part of the year was disrupted by the National Recovery Programme but has now returned to its more customary basis.

In the Projects business, results improved as work on the Euston-Willesden portion of the West Coast Main Line and on the Leeds Station approaches infrastructure was substantially completed. The extension of the Singapore Metro to Changi Airport was also finalised.

Major project works continue on the West Coast Main Line, both on the electrification programme and on the latest tranche of general infrastructure development work. During the year, the project work acquired with the Adtranz business in 2000 was consolidated into this business.

The Rail Power Systems business made its first full-year's contribution in 2001. The business performed to plan, despite the current depressed market conditions in Germany where substantial financial allocations are taking time to reach defined project form.

During the year, good progress was made on major existing projects, including substantial completion of the Harbin-Dalian line in China and a major project in Bulgaria. New projects were secured in China and Brazil and the Rawang-Ipoh project in Malaysia was fully mobilised.

At the end of the year, Balfour Beatty acquired the electrification and power supply project business of ABB, which has leading market positions in Italy, Portugal and Greece.

In Balfour Beatty Track Systems, which manufactures switches, crossings and other complex rail components, profits grew on a substantially increased workload. A number of new product lines were launched and some significant export successes were achieved. The manufacturing facility was further upgraded with new technology and equipment.

Balfour Beatty Plant Services improved its profits significantly as maintenance activities expanded and the proportion of its resources hired to third parties increased. Investment in new equipment continued.

Balfour Beatty is working closely with Railtrack on further improving safety standards. Much of the work of Balfour Beatty Technologies, which researches and develops new systems and techniques, is safety driven.

In the USA, profits from Marta Metroplex were up significantly, as work on its major projects in San Francisco, Los Angeles, Texas and New Jersey progressed well. Early in 2002, the Company won the long-term maintenance contract for the Alameda Corridor in Los Angeles, the first heavy rail freight maintenance contract let to an independent contractor in the USA. Subsequently, as part of a joint venture also including Balfour Beatty Construction Inc, it has secured the contract for the new $265m Greenbush commuter line in Boston.

Balfour Beatty Rail Systems Inc's work on the $50m SEPTA project in Pittsburgh continued and it, too, is part of the Greenbush project.

Outlook

The capital investment plans for the rail network provide healthy long-term prospects for the UK rail market. Expenditure on maintenance is also likely to grow. Successful conclusion of concession contracts for the London Underground PPP would generate substantial additional work in the rail sector in the coming year. Outside the UK, we are now a major player in a number of markets where growth can be anticipated.

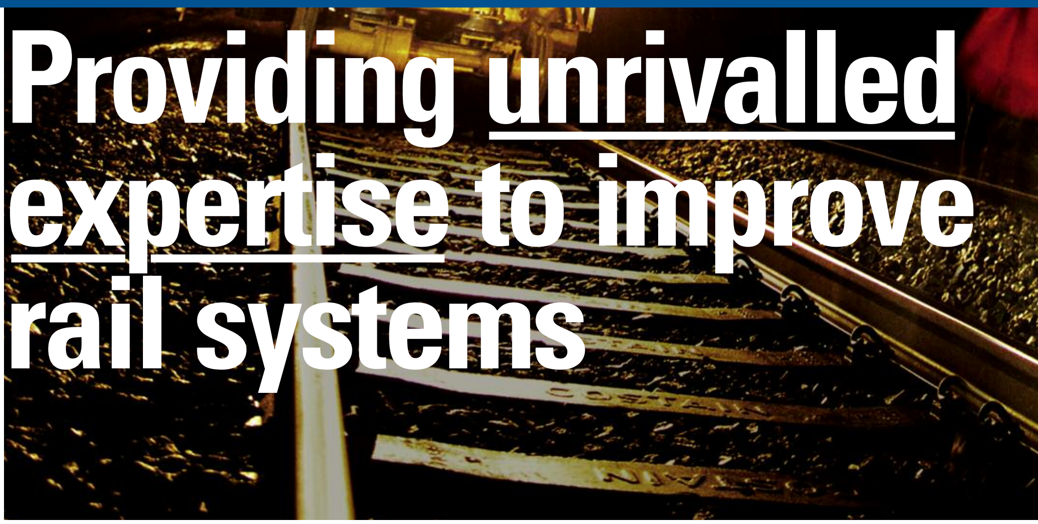
West Coast Main Line (right)
Balfour Beatty is responsible, in joint venture, for the entire electrification programme to upgrade the West Coast Main Line. Balfour Beatty is also a key player in upgrading the general West Coast Main Line infrastructure, including a major current project for the Watford to Bletchley sector.

Dallas Light Rail (far right top)
Marta Metroplex is responsible for the trackwork for the North Central and North-East Corridors of the Dallas light rail system in a contract worth $23m. This is one of five major trackwork contracts currently in hand in the USA.

Track Systems (far right centre)
Over the last six years, £4m has been invested in Balfour Beatty Track Systems' manufacturing facility at Sandiacre in Nottinghamshire. It is the UK's largest designer and manufacturer of switches, crossings and other track system components.

Deutsche Bahn (far right bottom)
Since German rail electrification specifications allowed for 250 km/hour technology in 1984, Balfour Beatty Rail Power Systems has been a lead supplier to Deutsche Bahn. It is currently working on seven major projects in Germany and is a market leader in many national European markets.

Providing unrivalled expertise to improve rail systems

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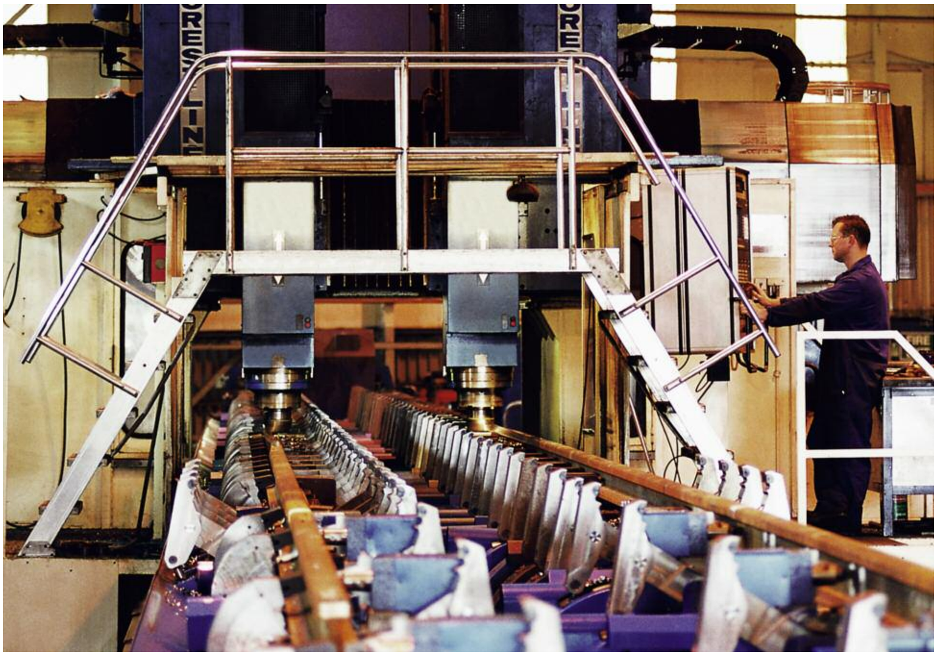


Investments and Developments

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

Key points

Underlying concession income grows

Preferred bidder status achieved for Blackburn Hospital and two London Underground concessions

Active bidding programme continues

Barking Power profits improve

Financial summary

£135m

Turnover (2000: £99m)

£46m

Profit (2000: £41m)

All building services and control systems for the new Edinburgh Royal Infirmary have been designed and supplied by Balfour Beatty companies.

In 2001, Seeboard Powerlink achieved the practical completion of the emergency supply plan for the London Underground power system.

The Stoke Schools scheme completed its first full financial and operational year in 2001.

The £70m North Durham Hospital at Dryburn achieved full clinical operation on-time and on-budget in August 2001.

The new facilities for the treatment of waste water under an environmental clean-up programme for the North-East of Scotland were completed during the year.

2001 performance

Profits in Investments and Developments improved by 12% to £46m in 2001. These results reflected increasing returns from operational concessions and first time income from concessions coming on stream during the year. Profits from Barking Power also increased.

Bidding costs were around the level of previous years, with the most significant elements arising from developing Metronet, our joint venture bid for the London Underground Public Private Partnership.

Review of operations

Roads Balfour Beatty's three road concessions all performed in line with expectations and concession income rose. Balfour Beatty is bidding for two further substantial new projects, one in the north of England and one in Scotland through the Scottish Executive. The emerging market for PFI highways maintenance projects is being investigated. The Group achieved its first prequalification during the year. We are also pursuing selected projects in the PFI street lighting market.

Through Erinroute, our joint venture for privately financed roads in Ireland, we are bidding two major schemes and have prequalified for a third.

In the course of 2001, the funding arrangements for the A1/M1 Link concession were substantially revised.

In healthcare, the first phase of North Durham Hospital opened for patients to budget and on schedule with the hospital being in full clinical operation by August. With the on-time achievement of phase one practical completion and the TUPE transfer of staff for Edinburgh Royal Infirmary, the first phase of the hospital opened successfully in the first quarter of 2002. Construction work towards the scheduled opening date of 2005 for the University College London Hospital proceeded satisfactorily, as did service delivery in the existing premises.

Balfour Beatty is preferred bidder, in joint venture, for the £86m Blackburn Hospital in Lancashire. Financial close for this concession is expected in the second quarter of 2002. We are shortlisted for the new Newcastle and Oxford hospitals. We anticipate that this will continue to be a strong market.

In education, the Stoke Schools scheme completed its first full financial and operational year, which involved significant demolition and construction work in addition to both reactive and predictive maintenance. Financial performance was in line with expectations. The Group is shortlisted for a new scheme in Rotherham.

Process Project works for the Aberdeen Waste Water concession were completed during the year. They are now in the process of final commissioning.

The waste-to-energy plant (DERL) in Dundee continued to experience operating difficulties and delays and its financial performance was disappointing. Resolution of the issues is being sought with the co-operation of the contractors, the lenders and the City Council.

The Seeboard Powerlink concession, which has full operational responsibility for the power system for the London Underground, had a very satisfactory year. The practical completion of the emergency supply plan was achieved. Work to effect the transfer of the London Underground's electrical load entirely to the National Grid is progressing well.

Barking Power had a successful year as a result of high availability and a buoyant electricity market, with profits recovering from 2000 levels. During 2000 planned maintenance outages restricted the station's capacity.

Outlook

We expect concession profits and cash flows to continue to grow in 2002, including first time income from Edinburgh Royal Infirmary.

A significant amount of bidding and prequalification activity is under way, including for roads, hospitals and new accommodation and transport-related opportunities.

The impact on the business of successfully bringing the London Underground bids to financial close would be considerable with a likely doubling over time of the Group's investment in PFI and the generation of very substantial new work flows for the Group's rail and engineering businesses.

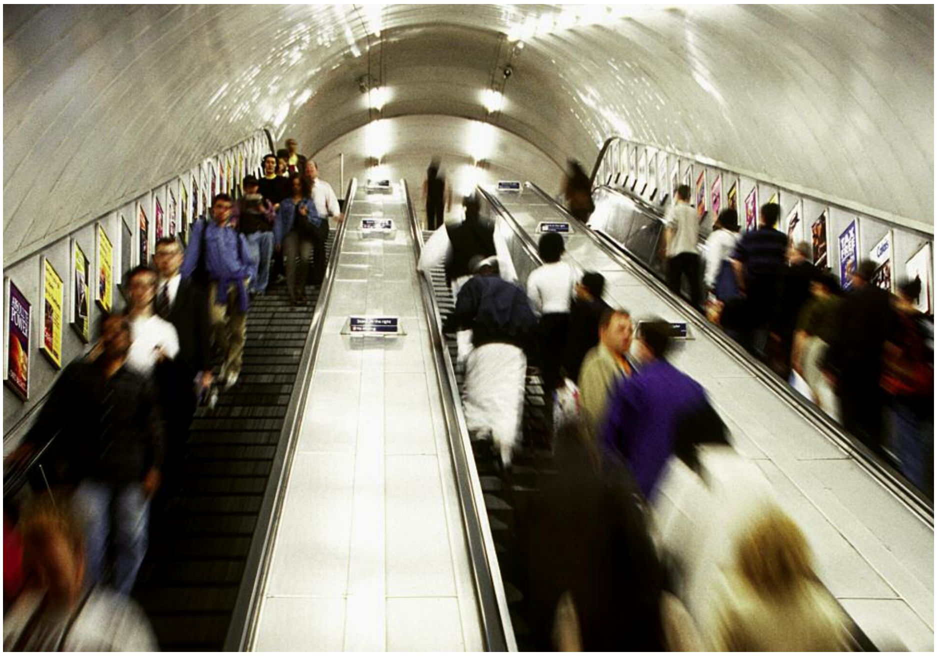
Benefiting from increased public private partnerships

Edinburgh Royal Infirmary (left)
In January 2002, the 184-bed first phase of the new £220m Edinburgh Royal Infirmary opened to patients on schedule. The 864-bed hospital is due to become fully operational in January 2003.

M1/A1 Link (top)
The Yorkshire Link is the largest of Balfour Beatty's three road concessions. This 30 km motorway provides a key connection between the M1 and M62 motorways to the south of Leeds and the A1 trunk road south of Wetherby.

London Underground (centre)
Work by Seeboard Powerlink to effect the transfer of the London Underground's electrical load entirely to the National Grid is progressing well. When contracts for the London Underground PPP reach financial close, Metronet, in which Balfour Beatty has a 20% interest, will be responsible for 75% of the Tube network's infrastructure.

Barking Power Station (bottom)
Following planned maintenance in 2000, the 1,000MW combined cycle gas-fired Barking Power Station, in which Balfour Beatty has a 25.5% interest, performed to plan in both operational and financial terms in 2001.



Financial review

Operations

Results in 2001 reflect further progress in the Group objectives of earnings growth and increasing financial strength.

Turnover increased by 18%, of which 10% was attributable to the acquisitions made in 2000 and 2001. The modest level of organic growth of 8% compared to the growth in underlying earnings reflects a continuing focus on the quality of earnings rather than volume growth.

Operating profit from continuing businesses (before goodwill amortisation and exceptional items) increased by 24%. Profits in our rail businesses, which were adversely affected in 2000 by losses in UK maintenance activities recovered and there were strong performances from the businesses acquired in 2000 and 2001, particularly Balfour Beatty Rail Power Systems and Integral Technologies. The UK building and support services businesses continued to grow. These factors were partially offset by the impact of Foot and Mouth Disease on our Power Networks business and of the write-down in value of certain US projects in line with our conservative accounting policies.

We believe that the margins achieved in both our contracting and services businesses are capable of being sustained in the medium term and that, notwithstanding concerns about general economic conditions in both the UK and US economies, many of our markets have significant growth potential. A more detailed assessment of relevant economic trends is contained in the Operating Review. We anticipate continued positive contributions to growth from our acquisitions. The inherent characteristics of our PFI portfolio are such that we can anticipate a growing long-term contribution to earnings from this source.

Acquisitions

The Group made four acquisitions during the year. These included John Kennedy (£38m) and the rail electrification business of ABB (£31m). In total, acquisitions in the year accounted for £93m net cash outflow and provisional goodwill arising from these acquisitions amounted to £94m.

Operating profits were after charging £12m in respect of goodwill amortisation arising from acquisitions made primarily in 2000 and 2001. Goodwill amortisation will increase slightly in future years as the impact of acquisitions in 2001 is reflected for a full accounting year.

Disposals

During the year, the Group disposed of its 30% interest in Ducab for £25m. Profit up to the date of disposal in July 2001 amounted to £2m. It also disposed of its interests in BICC Egypt and Emform. The net exceptional gain on the disposal of these businesses was £13m.

Taxation

The Group's effective tax rate in 2001 was 26% of profit before goodwill amortisation and exceptional items. This charge benefited from the use of brought forward losses against US and German taxable income which we expect to continue in 2002.

Pre-tax profits and earnings

As a result of these factors, pre-tax profits increased by 20% and earnings per share by 32%, both figures calculated before the impact of goodwill amortisation and exceptional items.

Cash and interest

The combination of strong cash flow from the Group's operations and the disposal of Ducab provided further capacity for acquisitions to grow the Group's core activities whilst retaining a significant level of net cash which, at the end

Ian Tyler Finance Director

of 2001 stood at £63m. The equivalent figure in 2000 of £104m included £24m of cash in respect of the Group's captive insurer. As part of a review of that business' operations, that cash has now been converted to fixed interest bonds and is shown under investments in the balance sheet in 2001.

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 £1m included £3m of interest receivable from subordinated loans to our PFI concession investments.

Pensions

The actuarial valuation of the Balfour Beatty Pension Scheme in 2001 showed a funding position of 109%. Following that valuation, a charge to the P&L account of £8m (2000: £8m) has been made. In addition £1m (2000: £3m) has been charged to the P&L account in respect of the cost of providing benefits to employees who are members of the Balfour Beatty section of the Railways Pension Scheme. These charges include the benefit of amortising the prior surplus over the average remaining service lives of scheme members in accordance with SSAP 24.

The way in which pension arrangements are reflected in the Group's earnings and net assets will change radically when the requirements of FRS 17 "Retirement Benefits" are fully implemented.

Treasury

The Group's policy remains to carry no significant net debt other than in respect of project finance vehicles, including PFI and PPP concessions, whose borrowings 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 instruments with a range of maturities. During 2001 the Group replaced its £150m syndicated bank facility, which was due to mature in November 2002, with a series of bilateral facilities which total £210m maturing between 2004 and 2006. Furthermore, the Group issued US$120m of loan notes with a maturity of 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 future activities.

Interest rate risk The fixed rate loan notes were swapped into floating rate 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 14% of total borrowings (2000: 87%).

Currency risk Balfour Beatty faces currency exposures on the translation of the profits and net assets of overseas subsidiaries and associates, primarily in the USA and Europe and on its trading transactions.

Balfour Beatty does not hedge its profit translation exposures as these are an accounting rather than cash exposure. As the Company accounts for currency profits using average exchange rates, there is a smoothing effect on short-term currency movements.

Balfour Beatty's balance sheet translation exposure is managed by matching net assets denominated in currencies other than sterling with currency borrowings. Details of the position and fair values at the year end are shown in Note 14.

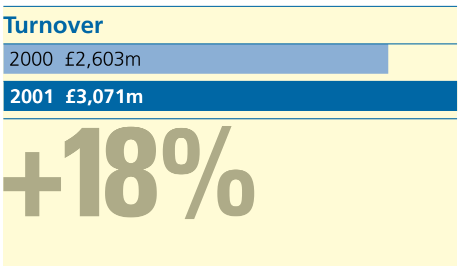
The Company hedges a proportion of its known transactional exposures by taking out forward foreign exchange contracts.

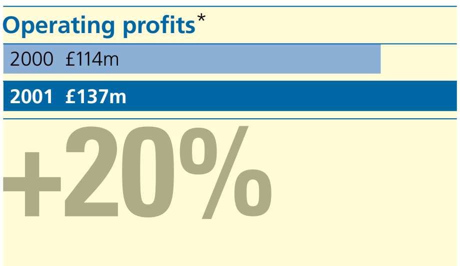
Accounting standards

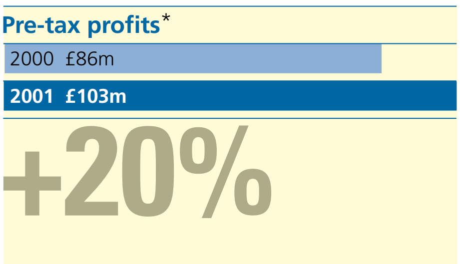
The accounts provide the transitional disclosure required by FRS 17 "Retirement Benefits" in respect of the assets and liabilities of the Group's defined benefit pension arrangements. These are set out in Note 22 and show that at the year end the Group had net pension assets of £33m under FRS 17. This year, the Group has also adopted FRS 18 "Accounting Policies" which has not resulted in any change to the accounting policies previously followed. FRS 19 "Deferred Tax" will be adopted next year.

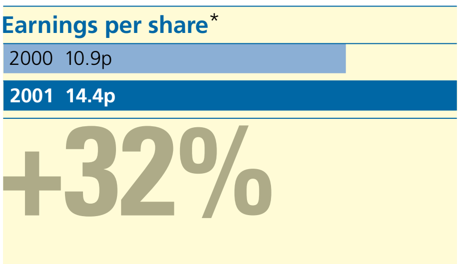
Going concern

The Directors, having made appropriate enquiries, consider it reasonable to assume that the Group and 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.









*Before amortisation of goodwill and exceptional items

Board of Directors

01 **Viscount Weir** Chairman†
Age 68. 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 55. 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** Finance Director
Age 41. A chartered accountant. Group Finance Director since 1999. Joined the Group from Hanson plc as Finance Director of the Group's principal trading subsidiary, Balfour Beatty Group Limited, in 1996. Formerly financial controller of Hanson plc and finance director of ARC Ltd, one of its principal subsidiaries.

04 **Paul Lester** Managing Director, Building, Building Management and Services
Age 52. A mechanical engineer. Appointed a Director in 2000 having joined the Group in 1997. Currently a non-executive director of Vosper Thornycroft Holdings plc and president of The Engineering Employers' Federation. Formerly chief executive of Graseby plc and a senior manager with Schlumberger and Dowty Group.

05 **Jim Cohen** Managing Director, Rail Engineering and Services, Investments and Developments
Age 60. An economist. A Director since 2000 having joined the Group in 1993. Previously, he held senior management positions with GTE and GEC and prior to that was a senior civil servant at the Department of Energy. In July 2001, he was appointed a trustee of The CIRAS Charitable Trust, which is responsible for maintaining the confidentiality of all information held within 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 56. 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.

01	03	05	07	09	11
02	04	06	08	10	12






07 **Peter Zinkin** Planning and Development Director
Age 48. 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. He is a governor and director of the University of North London.

08 **Michael Miles** OBE†
Age 65. Appointed a Director in 1996. Chairman of Johnson Matthey PLC and Korea-Europe Fund PLC. A director of ING Barings Holdings Limited and a non-executive director of BP Amoco PLC and Pacific Assets PLC and an adviser to the Board of John Swire & Sons Ltd.

09 **Udo Stark**†
Age 54. A Director since 1995. He is chairman of the Shareholder Committee of Messer Griesheim GmbH, and senior adviser to, and formerly chairman 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 BHF Bank, Frankfurt. He is a graduate of Harvard Business School.

10 **Christopher Reeves**†
Age 66. 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 Cornhill Insurance and a number of other companies. Chairman of the Audit Committee.

11 **Sir David John** KCMG†
Age 63. Appointed a Director in 2000. He is chairman of Premier Oil Group and 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 chairman of the CBI International Committee. He is a vice chairman of British Trade International, a director and trustee of the Council for Industry and Higher Education and a governor of the School of Oriental and African Studies. Chairman of the Business Practices Committee.

12 **Robert Walvis**†
Age 55. Appointed a Director in September 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 member of council of the Royal Institute of International Affairs.

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






Directors' report

Activities

The Chairman's statement and Chief Executive's review on pages 2 to 7 and the Financial review on pages 26 and 27 report on the principal activities of the Group, its operations during 2001 and future developments in its businesses.

Dividends

The Directors recommend a final dividend on ordinary shares of 2.8p (net) per share, making, with the interim dividend of 2.2p, a total dividend for 2001 of 5p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2001.

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 the recently introduced Financial Services & Markets Act. 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 Mr R J W Walvis, who was appointed on 26 September 2001.

In accordance with the Articles of Association, Mr Walvis holds office until the Annual General Meeting at which he is eligible and offers himself for election. Mr Walvis is a non-executive Director and has no service contract. Mr H M P Miles is retiring at the Annual General Meeting.The Directors who retire by rotation at the Annual General Meeting in 2002 are Mr M W Welton, Mr J L Cohen and Mr P J Lester and, being eligible, they each offer themselves for re-election. Mr Welton is Chief Executive and has a service contract with the Company with an unexpired term of two years. Mr Cohen and Mr Lester are each executive Directors. Each has a service contract with the Company with an unexpired term of one year. Mr Welton was last re-elected at the Annual General Meeting in 1999 and Mr Cohen and Mr Lester were each last elected at the Annual General Meeting in 2000.

No Director had any material interest in any contract of significance with the Group during the period under review. Interests of Directors in the share capital of the Company and its subsidiary undertakings are set out in Note 21b on page 53 and, in respect of options over such share capital, in the table on page 33. The application of the Performance Share Plan 2001 as far as it concerns Directors is described on page 31.

Share capital and major shareholders

Details of the share capital of the Company as at 31 December 2001 are set out in Note 17 on page 50. During the year to 31 December 2001, 875,000 ordinary shares (representing 0.2% of the ordinary share capital) were cancelled following repurchase at a price of 116.5p and 3,500,000 preference shares (representing 2.1% of the preference share capital) were repurchased for cancellation at 133.5p. 397,637 ordinary shares were issued following the exercise of options held under the Company's Savings-Related Share Option Scheme and 38,461 ordinary shares were issued following the exercise of an option held under the Company's Executive Share Option Scheme. No other shares were issued during the year.

As at 5 March 2002, 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:

CGNU plc	33.2m shares	8.0%
Morley Fund Management Ltd (included in the interest of CGNU plc above)	33.2m shares	8.0%
FMR Corp. and Fidelity International	20.3m shares	4.9%
Royal & Sun Alliance Insurance Group plc	16.8m shares	4.1%
Prudential plc	15.4m shares	3.7%
Standard Life Investments Limited	12.9m shares	3.1%

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 2001, 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. Compliance in relation to internal control is described in the paragraphs below under the heading Risk management. The Auditors' report on page 35 describes their review of the Company's compliance with the provisions of the Combined Code which are the subject of their review.

The Board and its Committees The Board is comprised of six non-executive Directors including the Chairman, and six executive Directors including the Chief Executive.

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

The Board generally meets monthly. The Board has a schedule of matters specifically reserved to it, including appropriate strategic, financial and organisational issues. It has delegated some of its responsibilities to Board Committees, and all their proceedings are reported to the Board. The major standing Committees are the Audit Committee, the Business Practices Committee and the Compensation and Appointments Committee. The membership of each of these Committees comprises the non-executive Directors only. Matters dealt with by other Committees, both standing and ad hoc, include capital expenditure and investments, major tenders and banking issues, and these are also reported to the Board, together with detailed financial information on the Group's performance.

Health, Safety and Environment Last year we published the text of our health, safety and environmental policies in this report. As we stated then, the safety and environmental management systems under which our companies operate had been further enhanced as a result of the implementation of the Group's framework for risk management which specifically addresses health and safety and environmental matters. This process continues. As stated earlier in this report, we have made an appointment to a new post having the title Director of Safety and the Environment, which further underlines the importance we attach to these matters.

Ethics and Human Rights Last year we published the text of our policies in these areas in our Annual Report. Our commitment as set out in these policies remains fully and firmly in place.

Shareholders should note that we have this year produced a separate Environmental and Social Report. Shareholders and other interested parties can obtain a copy of this document by following the instructions on page 7 of this Report.

Risk management Sound risk management throughout the Group is critical to the delivery of shareholder value. The Board takes ultimate responsibility for the Group's system of internal control and, in respect of the key activities of the Group and the systems of internal control, reviews its effectiveness at regular intervals. It remains committed to achieving a progressive improvement in the effectiveness of the Group's management of risk. 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 and key opportunities to enhance Group performance are secured. However, any system of internal control can only reduce and not eliminate the risk of loss.

The importance of risk management has been recognised within the Group for many years. In October 2000, an enhanced Group wide risk management framework was introduced and is applicable to all parts of the Group, whether business strategy, operational management or support functions. Throughout the year the key risks facing the Group and its operating companies are reviewed and the key controls assessed. These are documented in risk registers and action plans identified where appropriate. The risk registers are updated on an ongoing basis and reporting procedures are in place to provide a regular flow of risk management information to the Board.

The most important means by which risks facing the Group are identified, evaluated and managed are the following:

– The Audit Committee

This meets at least three times each year and reviews all significant judgements made in the Group's annual and half-year accounts prior to Board approval and publication. The Committee, which comprises all the non-executive Directors of the Company, provides a forum for regular communication between the Board and the Group's external and internal auditors. It also reviews the key issues raised by both external and internal auditors at each of these meetings with a full review of audit activity undertaken annually, and it approves the annual audit programme. It has power to seek external advice in any of its deliberations.

– Internal controls

A system of internal controls is in operation throughout the Group, comprising financial controls established by rules laid down from time to time by Committees of the Board and as set out in the Group Finance Manual, tender and project review panels, and procedures and policies established from time to time in particular risk areas. All internal controls are monitored and tested on a continuous basis by internal and external personnel. This is generally coordinated by the Internal Audit function.

– Internal audit

This function exists at both central Group level and in individual operating companies. It is brought together by the Head of Group Audit and Risk Management, who has direct reporting lines to the Board and, in particular, to the Audit Committee. Under the internal audit procedures, reviews of critical processes and controls, operational and central, are carried out and risks assessed. In selected high risk areas, spot checks are conducted. These procedures form part of the risk management framework already referred to.

– Risk reviews

All areas of business activity are regulated by the executive Directors and reviewed by the Board as a whole. General risk reviews are intended to address areas of risk faced by ongoing businesses, and are often supported by outside consultants. New projects and tenders, new investments or disposals, and new areas of business, whether by territory or subject matter, are subject to specific risk assessment at all initial stages, and managed throughout implementation in accordance with the Group's risk management procedures as updated from time to time.

– Group Finance Manual

This contains all the Group's strategic planning, budgeting and financial reporting policies. It is updated in accordance with best practice from time to time.

– Financial controls

All borrowings, deposits, bond facilities and guarantees are negotiated centrally and coordinated by the Group Treasurer. Local treasury managers monitor the use of the bond facilities and the movement of funds and report direct to the Group Treasurer. Foreign exchange dealing is restricted to specific individuals and strictly separated from approval and settlement processes. Foreign currency transaction exposures are hedged. All significant currency translation exposures are managed centrally.

The remuneration report

The Compensation and Appointments Committee of the Board is responsible for determining the remuneration policy and conditions of service for its executive Directors. In addition, it is responsible for recommending appointments of executive Directors to the Board. The Committee consists of all the non-executive Directors and is chaired by Viscount Weir. The Chief Executive is invited to join its meetings whenever appropriate and the Director of Personnel attends as secretary.

The appointment, remuneration and conditions of service for the non-executive Directors are decided by the Board other than the non-executives.

There are two executive Directors with service contracts which provide for a notice period of two years, namely Mr Welton and Mr Zinkin, who have been Directors since 1996 and 1991 respectively. The remaining executive Directors have service contracts with notice periods of 12 months.

The Company's policy in relation to the base salary of Directors is to pay at a level which reflects the size, performance and complexity of the Group's businesses and the contribution of individual job holders.

The Group has maintained its approach of obtaining advice from independent consultants on the remuneration levels paid in comparable construction, engineering, industrial and services companies. Such advice and data were used, together with the Committee's judgment of the performance of individual Directors, to determine salary increases at 1 July 2001. As a result of this review, the average increase in base salary was 8.5%.

Each executive Director participates in an annual incentive plan in which the achievement of predetermined performance targets may be rewarded by the payment of non-pensionable cash bonuses. The maximum potential bonus of executive Directors and other senior managers was 50% in 2001. Bonus payments were dependent on the achievement of selected key performance indicators and, for the year ended 31 December 2001, the cash bonus achieved by each Director is shown in the table on page 32.

Following shareholder approval of the Performance Share Plan for executive Directors and key senior managers at the 2001 Annual General Meeting, performance related awards were made to executive Directors and key managers in June 2001. As a consequence of these awards, and in accordance with the rules of the Plan and the terms of his award, each executive Director may receive ordinary shares in the Company up to a maximum number equivalent in value at the date of award to his basic annual salary, which may be transferred to him if and to the extent that an earnings per share (EPS) growth target is met. The extent to which the target is achieved over the three year performance period ending 31 December 2003 will determine the number of shares under the award (if any) which a Director can acquire. The Directors will only be entitled to a maximum award if the Company's EPS, before exceptional items and goodwill amortisation, increases by at least 100% from 10.9p per share to 21.8p per share. If EPS growth is 30%, the Directors will be entitled to an award of 30% of the shares which could be awarded, and if EPS growth is between 30% and 100% a proportion of the award will be exercised calculated on a straight line basis. No award will be made if EPS growth is less than 30%.

As the executive Directors participated in the Performance Share Plan, no share options were granted to executive Directors during 2001 under the Executive Share Option Scheme 2001. Share options granted to them in previous years under the 1991 Executive Share Option Scheme are shown in the table on page 33. Options granted after 1 January 1996 are exerciseable only on the achievement of a performance condition linked to the growth in EPS over the relevant vesting period.

The table on page 32 details the elements of the remuneration package earned by each Director in 2001. The second table on page 32 shows the increase in accrued pension entitlement during the year. The table on page 33 sets out the interests of Directors in options granted over ordinary shares in the Company. Save as described in that table or in Note 21b to the financial statements on page 53, no Director had any interest in the share or loan capital of the Company or any subsidiary undertaking of it during the year.

Executive Directors participate in the same pension scheme as other executives. The scheme provides for a normal retirement age of 62 and each Director pays an annual contribution equal to 5% of pensionable salary. The salaries of Mr Cohen, Mr Eckersall, Mr Lester and Mr Tyler are subject to the Inland Revenue cap for pension purposes and details of the Company's contributions to additional arrangements for them are noted underneath the second table on page 32.

Employment

The Group operates across a number of business sectors and in many different environments and has a decentralised management structure. Employment policies are, therefore, designed to suit the needs of individual businesses although it is expected that each operating company will comply with certain key principles: to provide an open, challenging, rewarding and participative environment; to enable all employees to fully utilise their talents, skills and abilities through appropriate training and development; to provide compensation and benefits which reflect good current local practices and reward collective and individual abilities and personal performance; to ensure open, competitive access to career opportunities by having in place policies that emphasise that no job applicant or employee should receive less favourable treatment on the grounds of ethnic or national origin, disability, sexual orientation, gender 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 provides a forum for employee member representatives to discuss pension matters together with management and Fund advisers. 50% of the Trustees of the Balfour Beatty Pension Fund are nominated by members. During 2001 the Company arranged a series of communications meetings with its pensioners in the Balfour Beatty Pension Fund to communicate developments in that Pension Fund.

Elements of remuneration package of each Director earned in 2001

Name	Basic salary £	Fees £	Benefits in kind £	Annual bonus £	Total 2001 remuneration £	Total 2000 remuneration £
J L Cohen	240,082	–	20,325	90,325	350,732	294,415
M K Eckersall	240,082	–	16,586	90,325	346,993	224,685
Sir David John	–	25,000	–	–	25,000	9,495
P J Lester	240,082	–	15,076	90,325	345,483	295,119
H M P Miles	–	25,000	–	–	25,000	25,000
C R Reeves	–	25,000	–	–	25,000	25,000
U G Stark	–	25,000	–	–	25,000	25,000
I P Tyler	240,082	–	15,954	90,325	346,361	322,574
R J W Walvis	–	6,575	–	–	6,575	–
Viscount Weir	–	150,000	–	–	150,000	150,000
M W Welton	367,644	–	18,657	132,621	518,922	477,335
P J L Zinkin	267,562	–	19,248	94,770	381,580	363,461
Total	1,595,534	256,575	105,846	588,691	2,546,646	2,212,084

Notes:
Basic salary was that paid in respect of the period of the year during which individuals were Directors.
Benefits in kind are calculated in terms of UK taxable values.
Mr R J W Walvis was appointed to the Board on 26 September 2001.
Fees payable to the Chairman were not increased during 2001.

Pension benefits earned by each Director in 2001

Name	Accrued deferred pension at 31 December 2000 (including revaluation to 31 December 2001) £	Accrued deferred pension at 31 December 2001 £	Increase in accrued pension during 2001 £	Transfer value corresponding to the increase at 31 December 2001 £
J L Cohen	21,842	24,911	3,069	53,505
M K Eckersall	3,048	6,102	3,054	43,157
P J Lester	10,674	13,735	3,061	36,213
I P Tyler	11,028	13,361	2,333	14,420
M W Welton	168,549	184,815	16,266	217,102
P J L Zinkin	94,578	101,737	7,159	66,912

Notes:
The accrued pension shown is that which would be paid annually from the Balfour Beatty Pension Fund on retirement based on service to 31 December 2001. The increase in accrued pension during the year excludes any increase for inflation. The transfer value has been calculated on the basis of the actuarial advice in accordance with Actuarial Guide Note GN11 less Directors' contributions. Directors have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The salaries of Mr Cohen, Mr Eckersall, Mr Lester and Mr Tyler were subject to the Inland Revenue cap for pension purposes and the Company contributed to a Funded Unapproved Retirement Benefit Scheme for each of them. In 2001 the Company's contribution to Mr Cohen's plan was £26,799, to Mr Eckersall's £53,586, to Mr Lester's £36,986 and to Mr Tyler's £27,232. Benefits under these Schemes are additional to those set out in the table above.

Options

	Number of options				Exercisable	
	At 1 January 2001*	Date granted	At 31 December 2001	Exercise price	from	to
J L Cohen						
Executive Share Options	15,340	13 April 1995	15,340	311.9p	April 1998	April 2005
	80,000	9 November 1999	80,000	110.0p	November 2002	November 2009
	100,000	13 April 2000	100,000	79.0p	April 2003	April 2010
Savings-Related Options	2,697	22 May 1998	–	120.0p	August 2001	January 2002
	2,498	24 May 2000	2,498	76.0p	August 2003	January 2004
	–	19 July 2001	1,610	154.0p	October 2004	March 2005
M K Eckersall						
Executive Share Options	100,000	13 April 2000	100,000	79.0p	April 2003	April 2010
Savings-Related Options	–	19 July 2001	3,462	154.0p	October 2006	March 2007
P J Lester						
Executive Share Options	80,000	9 November 1999	80,000	110.0p	November 2002	November 2009
	100,000	13 April 2000	100,000	79.0p	April 2003	April 2010
Savings-Related Options	2,575	24 May 2000	2,575	76.0p	August 2005	January 2006
	–	19 July 2001	1,585	154.0p	October 2004	March 2005
I P Tyler						
Executive Share Options	80,000	9 November 1999	80,000	110.0p	November 2002	November 2009
	100,000	13 April 2000	100,000	79.0p	April 2003	April 2010
Savings-Related Options	4,087	23 May 1997	–	208.0p	August 2000	January 2001
	340	6 October 1999	340	91.0p	December 2002	May 2003
	3,671	24 May 2000	3,671	76.0p	August 2003	January 2004
	–	19 July 2001	1,358	154.0p	October 2004	March 2005
M W Welton						
Executive Share Options	31,772	14 April 1992	31,772	305.0p	April 1995	April 2002
	15,340	27 April 1994	15,340	438.1p	April 1997	April 2004
	15,340	13 April 1995	15,340	311.9p	April 1998	April 2005
	150,000	9 November 1999	150,000	110.0p	November 2002	November 2009
	150,000	13 April 2000	150,000	79.0p	April 2003	April 2010
Savings-Related Options	2,012	16 May 1995	–	257.2p	August 2000	January 2001
	2,575	8 May 1996	2,575	267.9p	August 2001	January 2002
	2,156	23 May 1997	2,156	208.0p	August 2002	January 2003
	1,274	24 May 2000	1,274	76.0p	August 2003	January 2004
	–	19 July 2001	780	154.0p	October 2004	March 2005
P J L Zinkin						
Executive Share Options	19,067	16 April 1991	–	417.7p	April 1994	April 2001
	76,254	14 April 1992	76,254	305.0p	April 1995	April 2002
	80,000	9 November 1999	80,000	110.0p	November 2002	November 2009
	100,000	13 April 2000	100,000	79.0p	April 2003	April 2010
Savings-Related Options	2,575	8 May 1996	2,575	267.9p	August 2001	January 2002
	975	23 May 1997	–	208.0p	August 2000	January 2001
	1,380	22 May 1998	1,380	120.0p	August 2003	January 2004
	1,260	6 October 1999	1,260	91.0p	December 2004	May 2005
	2,842	24 May 2000	2,842	76.0p	August 2005	January 2006
	–	19 July 2001	2,454	154.0p	October 2006	March 2007

*or date of appointment if later.

All options are in respect of 50p ordinary shares of Balfour Beatty plc and all interests at the dates shown are beneficial. The middle market price of the Company's ordinary shares on 31 December 2001 was 173.0p. During the year the price ranged from 120.0p to 224.0p.

During the year, the options granted to Mr Zinkin on 16 April 1991 under the executive share option scheme and to Mr Tyler, Mr Welton and Mr Zinkin on 23 May 1997, 16 May 1995 and 23 May 1997, respectively under the savings-related share option scheme lapsed unexercised. On 1 October 2001, Mr Cohen exercised an option over 2,697 shares that was held under the savings-related share option scheme. The middle market price of the Company's ordinary shares on 1 October 2001 was 183.0p and, as a result, a gain of £1,699 was realised. There were no changes between 31 December 2001 and 5 March 2002 except that the options granted under the savings-related share option scheme on 8 May 1996 to Mr Welton and Mr Zinkin lapsed unexercised in January 2002.

Donations
In 2001, the Group contributed approximately £0.05m to charities, mostly in the UK. The Group made no political contributions in 2001.

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 and Strathclyde and UMIST.

Details of the Group's 2001 research and development expenditure are given in Note 2b on page 41.

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 2001 the year end creditors days of the Company were 29 (2000: 30).

Directors' responsibilities for the accounts
The following statement, which should be read in conjunction with the Independent Auditors' report on page 35, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year. The Directors consider that, in preparing the financial statements on pages 36 to 58, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements 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 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
Arthur Andersen has indicated its 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.

By Order of the Board

C R O'N Pearson Secretary
5 March 2002

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 2001, which comprise the profit and loss account, balance sheets, cash flow statement, statement of total recognised gains and losses, accounting policies and the related notes numbered 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards are set out in the statement of Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 or the Listing Rules regarding Directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the corporate governance statements reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do 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 Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, Chief Executive's review, operating and financial reviews, Directors' report, corporate governance statements, remuneration report, statement of Directors' responsibilities and five-year summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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. It also includes an assessment of the significant estimates and judgments 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2001 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
London
5 March 2002

Group profit and loss account

For the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Turnover including share of joint ventures and associates	1	**3,071**	2,603
Share of turnover of joint ventures		**(130)**	(83)
Share of turnover of associates		**(207)**	(178)
Group turnover		**2,734**	2,342
Continuing operations		**2,671**	2,300
Acquisitions		**60**	–
Discontinued operations		**3**	42
Cost of sales	2	**(2,479)**	(2,114)
Gross profit		**255**	228
Net operating expenses	2	**(193)**	(171)
Group operating profit		**62**	57
Share of operating profit of joint ventures	2	**40**	30
Share of operating profit of associates	2	**23**	24
Operating profit including share of joint ventures and associates		**125**	111
Operating profit before goodwill amortisation		**137**	114
Goodwill amortisation		**(12)**	(3)
Continuing operations		**124**	107
Acquisitions		**–**	–
Discontinued operations		**1**	4
Net profit on sale of operations	3	**13**	11
Profit before interest		**138**	122
Net interest payable and similar charges:			
Group	4	**(1)**	2
Share of joint ventures' interest	4	**(25)**	(20)
Share of associates' interest	4	**(8)**	(10)
Profit on ordinary activities before taxation		**104**	94
Taxation	5	**(27)**	(23)
Profit for the financial year		**77**	71
Dividends:			
Preference	6	**(16)**	(17)
Ordinary	6	**(21)**	(19)
Transfer to reserves		**40**	35
Adjusted earnings per ordinary share	7	**14.4p**	10.9p
Goodwill amortisation		**(2.9)p**	(0.6)p
Exceptional items after attributable taxation	3	**3.0p**	2.5p
Basic earnings per ordinary share	7	**14.5p**	12.8p
Diluted earnings per ordinary share	7	**14.3p**	12.8p
Dividends per ordinary share	6	**5.0p**	4.5p

Balance sheets

At 31 December 2001

	Notes	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Intangible assets – goodwill	8	**250**	168	**–**	–
Tangible assets	9	**138**	124	**3**	3
Investments	10	**26**	–	**889**	839
Investments in joint ventures:					
Share of gross assets		**560**	503	**–**	–
Share of gross liabilities		**(502)**	(444)	**–**	–
	10	**58**	59	**–**	–
Investments in associates	10	**28**	39	**–**	–
		500	390	**892**	842
Current assets					
Stocks	11	**86**	81	**2**	2
Debtors – due within one year	12	**663**	554	**37**	47
– due after one year	12	**79**	85	**22**	30
Cash and deposits	13	**177**	192	**5**	1
		1,005	912	**66**	80
Creditors: amounts falling due within one year					
Borrowings	13	**(20)**	(71)	**(72)**	(76)
Other	15	**(1,073)**	(927)	**(54)**	(67)
Net current liabilities		**(88)**	(86)	**(60)**	(63)
Total assets less current liabilities		**412**	304	**832**	779
Creditors: amounts falling due after more than one year					
Borrowings	13	**(94)**	(17)	**(86)**	(10)
Other	15	**(31)**	(48)	**–**	–
Provisions for liabilities and charges	16	**(99)**	(82)	**(19)**	(19)
		188	157	**727**	750
Capital and reserves					
Called-up share capital	17	**209**	209	**209**	209
Share premium account	18	**325**	325	**325**	325
Revaluation reserves	18	**21**	23	**–**	–
Other reserves	18	**4**	6	**50**	50
Profit and loss account	18	**(371)**	(407)	**143**	166
Shareholders' funds		**188**	156	**727**	750
Equity interests		**22**	(14)	**561**	580
Non-equity interests		**166**	170	**166**	170
Minority equity interests		**–**	1	**–**	–
		188	157	**727**	750

On behalf of the Board

Viscount Weir Director
I P Tyler Director
5 March 2002

Group cash flow statement

For the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Net cash inflow from operating activities	26(a)	**117**	105
Dividends from joint ventures and associates		**14**	14
Returns on investments and servicing of finance			
Interest received		**10**	3
Interest paid		**(6)**	(3)
Preference dividends paid		**(16)**	(17)
Net cash outflow from returns on investments and servicing of finance		**(12)**	(17)
UK corporation tax paid		**(7)**	(3)
Foreign tax paid		**(2)**	(2)
Taxation		**(9)**	(5)
Capital expenditure and financial investment			
Capital expenditure		**(44)**	(42)
Disposal of tangible fixed assets		**7**	12
Investment in joint ventures and associates		**6**	(8)
Other investments		**(24)**	–
Net cash outflow from capital expenditure and financial investment		**(55)**	(38)
Acquisitions and disposals			
Acquisitions of businesses	26(d)	**(89)**	(158)
Disposals of businesses	26(e)	**25**	147
Net cash outflow from acquisitions and disposals		**(64)**	(11)
Ordinary dividends paid		**(19)**	(17)
Cash (outflow)/inflow before use of liquid resources and financing		**(28)**	31
Management of liquid resources			
Decrease/(increase) in term deposits	26(b)	**12**	(7)
Net cash inflow/(outflow) from management of liquid resources		**12**	(7)
Financing			
Buy-back of ordinary and preference shares		**(5)**	(15)
Repayment of minority interests		**(1)**	–
New loans		**84**	46
Repayment of loans		**(65)**	(21)
Capital element of finance lease payments		**(2)**	(2)
Net cash inflow from financing		**11**	8
(Decrease)/increase in cash in the period	26(c)	**(5)**	32

Group statement of total recognised gains and losses

For the year ended 31 December 2001

	2001 £m	2000 £m
Profit for the financial year:		
Group	**58**	54
Share of joint ventures and associates	**19**	17
Exchange adjustments	**(3)**	1
Total recognised gains and losses for the year	**74**	72

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 18 "Accounting Policies" and the transitional disclosure requirements of FRS 17 "Retirement Benefits". FRS 19 "Deferred Tax" will be adopted in 2002.

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 20 years. Goodwill arising before 1 January 1998 is 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 hedge exposures to fluctuations in interest rates and 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 net 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 corporation tax and deferred tax. Corporation 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 since the Directors consider such differences will reverse in the foreseeable future. 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 2001 £m	Turnover 2000 £m	**Operating profit before exceptional items 2001 £m**	Operating profit before exceptional items 2000 £m	**Capital employed 2001 £m**	Capital employed 2000 £m
Total Group, including share of joint ventures and associates						
Building, building management and services	**1,074**	1,013	**44**	39	**(93)**	(141)
Civil and specialist engineering and services	**1,150**	986	**22**	24	**(52)**	(16)
Rail engineering and services	**698**	439	**24**	6	**6**	(6)
Investments and developments	**135**	99	**46**	41	**56**	70
	3,057	2,537	**136**	110	**(83)**	(93)
Discontinued operations	**14**	66	**1**	4	**–**	8
	3,071	2,603	**137**	114	**(83)**	(85)
Goodwill amortisation			**(12)**	(3)		
Operating profit			**125**	111		
Net interest payable			**(34)**	(28)		
Profit before tax and exceptional items			**91**	83		
Net cash					**63**	104
Goodwill (including share of joint ventures and associates)					**255**	175
Tax and dividends					**(47)**	(37)
					188	157
Share of joint ventures and associates						
Building, building management and services	**19**	1	**1**	–	**1**	–
Civil and specialist engineering and services	**171**	141	**2**	8	**26**	30
Rail engineering and services	**1**	–	**–**	–	**–**	–
Investments and developments	**135**	95	**60**	43	**54**	53
	326	237	**63**	51	**81**	83
Discontinued operations	**11**	24	**2**	3	**–**	8
	337	261	**65**	54	**81**	91

The Group's interest in Dubai Cable Company (Pte) Ltd sold in July 2001 and Emform Ltd sold in December 2001 and the Brand-Rex cable businesses sold in March 2000 have been classified as discontinued. Goodwill amortisation arises in Building, building management and services £1.5m (2000: £0.7m), Civil and specialist engineering and services £3.3m (2000: £0.3m) and Rail engineering and services £7.4m (2000: £1.8m). Goodwill arises in Building, building management and services £28m (2000: £29m), Civil and specialist engineering and services £66m (2000: £7m), Rail engineering and services £160m (2000: £138m) and Investments and developments £1m (2000: £1m). Goodwill amortisation arising on joint ventures and associates is £2.3m (2000: £0.2m), £2.0m of which related to the impairment of goodwill in Garanti Balfour Beatty due to the changed economic prospects in Turkey. Goodwill relating to joint ventures and associates amounts to £5m (2000: £7m).

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

b) Performance by geographic origin

	Turnover 2001 £m	Turnover 2000 £m	**Operating profit before goodwill amortisation and exceptional items 2001 £m**	Operating profit before goodwill amortisation and exceptional items 2000 £m	**Capital employed 2001 £m**	Capital employed 2000 £m
Total Group, including share of joint ventures and associates						
Europe	**2,415**	2,056	**121**	85	**(122)**	(104)
North America	**577**	459	**14**	26	**36**	9
Other	**79**	88	**2**	3	**3**	10
	3,071	2,603	**137**	114	**(83)**	(85)
Goodwill amortisation arises in Europe £7.7m (2000: £0.9m), North America £4.2m (2000: £1.7m) and Other £0.3m (2000: £0.2m). Goodwill arises in Europe £156m (2000: £108m), North America £97m (2000: £65m) and Other £2m (2000: £2m).						
Share of joint ventures and associates						
Europe	**303**	217	**66**	49	**71**	70
Other	**34**	44	**(1)**	5	**10**	21
	337	261	**65**	54	**81**	91

Goodwill amortisation on joint ventures and associates arises in Europe £2.2m (2000: £0.2m) and Other £0.1m (2000: nil) and related goodwill arises in Europe £3m (2000: £5m) and Other £2m (2000: £2m).

1 Segment analysis continued

c) Turnover by destination

	2001 £m	2000 £m
Total Group, including share of joint ventures and associates		
United Kingdom	**2,144**	1,866
Rest of Europe	**164**	94
North America	**571**	452
Other	**192**	191
	3,071	2,603

2 Profit before interest and exceptional items

a) Turnover, cost of sales and net operating expenses

	Continuing operations 2001 £m	Acquisitions 2001 £m	Discontinued operations 2001 £m	Total 2001 £m	Continuing operations 2000 £m	Discontinued operations 2000 £m	Total 2000 £m
Turnover including share of joint ventures and associates	**2,997**	**60**	**14**	**3,071**	2,537	66	2,603
Less: share of turnover of joint ventures	**(130)**	**–**	**–**	**(130)**	(83)	–	(83)
Less: share of turnover of associates	**(196)**	**–**	**(11)**	**(207)**	(154)	(24)	(178)
Group turnover	**2,671**	**60**	**3**	**2,734**	2,300	42	2,342
Cost of sales	**(2,423)**	**(53)**	**(3)**	**(2,479)**	(2,082)	(32)	(2,114)
Gross profit	**248**	**7**	**–**	**255**	218	10	228
Administrative expenses (including goodwill amortisation)	**(172)**	**(7)**	**(1)**	**(180)**	(152)	(6)	(158)
Distribution expenses	**(13)**	**–**	**–**	**(13)**	(10)	(3)	(13)
Group operating profit before exceptional items	**63**	**–**	**(1)**	**62**	56	1	57
Share of operating profit of joint ventures	**40**	**–**	**–**	**40**	30	–	30
Share of operating profit of associates	**21**	**–**	**2**	**23**	21	3	24
Operating profit before exceptional items	**124**	**–**	**1**	**125**	107	4	111

Operating profit before goodwill amortisation on acquisitions in 2001 was £2m.

b) Profit before interest is stated after charging:

	2001 £m	2000 £m
Depreciation	**35**	32
Goodwill amortisation	**12**	3
Hire charges for plant and equipment	**52**	43
Other operating lease rentals	**38**	35
Research and development expenditure	**13**	8
Auditors' remuneration, which for Balfour Beatty plc was £0.3m (2000: £0.3m)	**1**	1

Fees paid to Arthur Andersen for non-audit services, including amounts not charged in profit before interest, amounted to £1.0m (2000: £1.6m) of which £0.7m (2000: £1.5m) was paid in the UK. These non-audit fee amounts principally related to transaction due diligence £0.5m (2000: £1.0m), overseas taxation compliance, and tax advisory services £0.3m (2000: £0.3m) and other assurance services £0.2m (2000: £0.3m).

3 Exceptional items

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.

In 2000, the net profit on sale of operations arose on the disposal of the Brand-Rex cable businesses (£20m after charging goodwill of £53m previously written off to reserves) less further losses arising from the disposal in 1999 of the Energy Cable businesses and related costs (£9m).

Exceptional items had no effect on the Group's tax charge in 2001 and 2000.

4 Net interest payable and similar charges

	2001 £m	2000 £m
Bank loans and overdrafts	**3**	3
Finance leases	**1**	1
Other loans	**3**	–
	7	4
Interest receivable and similar income	**(6)**	(6)
Group net interest payable/(receivable)	**1**	(2)
Share of joint ventures' net interest payable	**25**	20
Share of associates' net interest payable	**8**	10
	34	28

5 Taxation

a) Taxation charge

	2001 £m	2000 £m
UK current tax		
Corporation tax on profits of the period at 30% (2000: 30%)	**14**	9
Double tax relief	**(1)**	(1)
Adjustments in respect of previous periods	**1**	–
	14	8
Share of joint ventures' taxation	**4**	1
Share of associates' taxation	**6**	4
	24	13
Foreign current tax		
Foreign tax on profits of the period	**1**	2
Adjustments in respect of previous periods	**2**	–
	3	2
Share of joint ventures' taxation	**1**	2
	4	4
Total current tax	**28**	17
Deferred taxation		
UK	**2**	12
Foreign	**–**	1
Adjustments in respect of previous periods	**(3)**	(7)
Total deferred tax	**(1)**	6
Taxation charge	**27**	23

b) Factors that may affect future tax charges

The Group has benefited from overseas tax losses in Germany and the USA. This has resulted in reduced tax payments in recent years and the Group expects to continue to benefit in 2002.

5 Taxation continued

c) Taxation reconciliation

	2001 £m	2000 £m
Profit on ordinary activities before tax	**104**	94
Profit on ordinary activities before tax at standard UK corporation tax rate of 30% (2000: 30%)	**31**	28
Effects of:		
Expenses not deductible for tax purposes including goodwill amortisation	**9**	3
Timing differences		
– capital allowances for period in excess of depreciation	**(1)**	(9)
– other short-term timing differences	**(1)**	(4)
Utilisation of overseas tax losses	**(6)**	(6)
(Lower)/higher tax rates on overseas profits	**(1)**	2
Disposal of investments and other assets not taxable	**(5)**	(9)
Goodwill previously written off to reserves	**–**	16
Release of provisions against investments	**(1)**	(4)
Adjustments in respect of prior years	**3**	–
Current tax charge	**28**	17

6 Dividends

	Per share 2001 pence	**Amount 2001 £m**	Per share 2000 pence	Amount 2000 £m
On preference shares				
Paid	**4.8375**	**8**	4.8375	9
Payable	**4.8375**	**8**	4.8375	8
	9.6750	**16**	9.6750	17
On ordinary shares				
Interim payable	**2.20**	**9**	2.00	8
Final proposed	**2.80**	**12**	2.50	11
	5.00	**21**	4.50	19

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 414.2m (2000: 419.3m).

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 conversion of share options by 5m (2000: 1m). As in 2000, no adjustment has been made in respect of the conversion of the cumulative convertible redeemable preference shares which were 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 2001	**171**	**(3)**	**168**
Exchange adjustments	**(2)**	**–**	**(2)**
Businesses acquired (see Note 19)	**94**	**–**	**94**
Charge for the year	**–**	**(10)**	**(10)**
At 31 December 2001	**263**	**(13)**	**250**

The above analysis excludes goodwill arising on joint ventures and associates of £5m (2000: £7m).

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 2001	**36**	**281**	**1**	**318**	**4**	**2**	**6**
Exchange adjustments	**–**	**2**	**–**	**2**	**–**	**–**	**–**
Additions	**2**	**41**	**1**	**44**	**2**	**–**	**2**
Disposals	**(4)**	**(19)**	**–**	**(23)**	**(3)**	**–**	**(3)**
Businesses acquired	**1**	**19**	**–**	**20**	**–**	**–**	**–**
Businesses sold	**–**	**(1)**	**–**	**(1)**	**–**	**–**	**–**
Transfers	**–**	**2**	**(2)**	**–**	**–**	**–**	**–**
At 31 December 2001	**35**	**325**	**–**	**360**	**3**	**2**	**5**
Depreciation:							
At 1 January 2001	**11**	**183**	**–**	**194**	**2**	**1**	**3**
Exchange adjustments	**–**	**2**	**–**	**2**	**–**	**–**	**–**
Charge for the year	**1**	**34**	**–**	**35**	**–**	**–**	**–**
Disposals	**(1)**	**(16)**	**–**	**(17)**	**(1)**	**–**	**(1)**
Businesses acquired	**–**	**9**	**–**	**9**	**–**	**–**	**–**
Businesses sold	**–**	**(1)**	**–**	**(1)**	**–**	**–**	**–**
At 31 December 2001	**11**	**211**	**–**	**222**	**1**	**1**	**2**
Net book value at 31 December 2001	**24**	**114**	**–**	**138**	**2**	**1**	**3**
Net book value at 31 December 2000	25	98	1	124	2	1	3

The net book value of assets held under finance leases was £7m (2000: £7m) for the Group with related depreciation provided in the year of £2m (2000: £1m). The Company has no fixed assets held under finance leases.

b) Analysis of net book value of land and buildings

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Freehold	**18**	19	**2**	2
Long leasehold – over 50 years unexpired	**4**	4	**–**	–
Short leasehold	**2**	2	**–**	–
	24	25	**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 2001 £m	At valuation 2000 £m	Original cost 2001 £m	Original cost 2000 £m
Gross	**4**	5	**2**	2
Depreciation	**(1)**	(1)	**(1)**	(1)
Net	**3**	4	**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 2001	**30**	**27**	**2**	**59**	**1,139**	**11**	**–**	**1,150**
Exchange adjustments	**(1)**	**1**	**–**	**–**	**–**	**–**	**–**	**–**
Profit and loss account	**5**	**–**	**–**	**5**	**–**	**–**	**–**	**–**
Additions	**–**	**–**	**25**	**25**	**–**	**–**	**1**	**1**
Businesses acquired	**1**	**–**	**2**	**3**	**–**	**–**	**–**	**–**
Disposals and transfers	**(11)**	**(7)**	**–**	**(18)**	**(24)**	**(3)**	**–**	**(27)**
At 31 December 2001	**24**	**21**	**29**	**74**	**1,115**	**8**	**1**	**1,124**
Goodwill:								
At 1 January 2001	**7**	**–**	**–**	**7**	**–**	**–**	**–**	**–**
Amortisation	**(2)**	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**
At 31 December 2001	**5**	**–**	**–**	**5**	**–**	**–**	**–**	**–**
Loans due from investments:								
At 1 January 2001	**28**	**31**	**–**	**59**	**370**	**28**	**–**	**398**
Movements	**9**	**1**	**–**	**10**	**126**	**8**	**–**	**134**
At 31 December 2001	**37**	**32**	**–**	**69**	**496**	**36**	**–**	**532**
Provisions:								
At 1 January 2001	**(6)**	**(19)**	**(2)**	**(27)**	**(206)**	**(5)**	**–**	**(211)**
Profit and loss account	**(1)**	**(6)**	**(1)**	**(8)**	**–**	**(1)**	**(1)**	**(2)**
Disposals and transfers	**6**	**–**	**–**	**6**	**6**	**4**	**–**	**10**
At 31 December 2001	**(1)**	**(25)**	**(3)**	**(29)**	**(200)**	**(2)**	**(1)**	**(203)**
Loans due to investments:								
At 1 January 2001	**–**	**–**	**–**	**–**	**(498)**	**–**	**–**	**(498)**
Movements	**(7)**	**–**	**–**	**(7)**	**(59)**	**(7)**	**–**	**(66)**
At 31 December 2001	**(7)**	**–**	**–**	**(7)**	**(557)**	**(7)**	**–**	**(564)**
Net book value at 31 December 2001	**58**	**28**	**26**	**112**	**854**	**35**	**–**	**889**
Net book value at 31 December 2000	59	39	–	98	805	34	–	839

Principal subsidiaries, joint ventures and associates are shown on page 58. The original cost of the Group's investments in joint ventures and associates was £27m (2000: £44m). The Group's share of borrowings of joint ventures and associates is shown in (b) and (c) below. The amount of these which was supported by the Group and the Company was nil (2000: nil). The borrowings of Barking Power Ltd and the PFI/PPP joint venture and associate companies are repayable over periods extending up to 34 years. 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 are restricted until certain banking covenants are met.

Other investments in the Group include £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 2001, 0.4m shares were purchased at a cost of £0.7m (2000: nil). The market value of those shares at 31 December 2001 was £0.7m (2000: nil). 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 2001. The trustees have waived the rights to dividends on shares held by the trust.

10 Investments continued

b) Share of results and net assets of joint ventures

	Yorkshire Link Ltd 2001 £m	Connect Roads Ltd 2001 £m	Other PFI/PPP investments 2001 £m	Other 2001 £m	Total 2001 £m	Yorkshire Link Ltd 2000 £m	Connect Roads Ltd 2000 £m	Other PFI/PPP investments 2000 £m	Other 2000 £m	Total 2000 £m
Turnover	**23**	**26**	**12**	**69**	**130**	24	10	–	49	83
Operating profit	**18**	**17**	**–**	**5**	**40**	16	9	–	5	30
Net interest payable	**(15)**	**(10)**	**1**	**(1)**	**(25)**	(15)	(7)	–	2	(20)
Profit before taxation	**3**	**7**	**1**	**4**	**15**	1	2	–	7	10
Taxation	**(1)**	**(2)**	**(1)**	**(1)**	**(5)**	–	(1)	–	(2)	(3)
Profit after taxation	**2**	**5**	**–**	**3**	**10**	1	1	–	5	7
Fixed assets	**134**	**117**	**31**	**10**	**292**	131	120	25	12	288
Current assets	**22**	**17**	**199**	**30**	**268**	19	12	141	43	215
	156	**134**	**230**	**40**	**560**	150	132	166	55	503
Creditors – due within one year	**(6)**	**(9)**	**(12)**	**(28)**	**(55)**	(20)	(8)	(6)	(24)	(58)
Creditors – due after more than one year	**(143)**	**(104)**	**(200)**	**–**	**(447)**	(121)	(108)	(146)	(11)	(386)
	(149)	**(113)**	**(212)**	**(28)**	**(502)**	(141)	(116)	(152)	(35)	(444)
Net assets	**7**	**21**	**18**	**12**	**58**	9	16	14	20	59
Net (debt)/cash included above	**(123)**	**(87)**	**(165)**	**(2)**	**(377)**	(124)	(92)	(125)	9	(332)

c) Share of results and net assets of associates

	Barking Power Ltd 2001 £m	Devonport Management Ltd 2001 £m	PFI/PPP investments 2001 £m	Other 2001 £m	Total 2001 £m	Barking Power Ltd 2000 £m	Devonport Management Ltd 2000 £m	PFI/PPP investments 2000 £m	Other 2000 £m	Total 2000 £m
Turnover	**57**	**131**	**8**	**11**	**207**	52	95	7	24	178
Operating profit	**19**	**5**	**1**	**(2)**	**23**	16	5	–	3	24
Interest	**(7)**	**–**	**(1)**	**–**	**(8)**	(9)	–	–	(1)	(10)
Profit before taxation	**12**	**5**	**–**	**(2)**	**15**	7	5	–	2	14
Taxation	**(4)**	**(1)**	**–**	**(1)**	**(6)**	(3)	(1)	–	–	(4)
Profit after taxation	**8**	**4**	**–**	**(3)**	**9**	4	4	–	2	10
Fixed assets	**124**	**25**	**32**	**1**	**182**	129	18	29	11	187
Current assets	**28**	**32**	**14**	**9**	**83**	29	21	10	27	87
	152	**57**	**46**	**10**	**265**	158	39	39	38	274
Creditors – due within one year	**(15)**	**(40)**	**(7)**	**(3)**	**(65)**	(16)	(23)	(3)	(18)	(60)
Creditors – due after more than one year	**(132)**	**(4)**	**(35)**	**(1)**	**(172)**	(137)	(3)	(32)	(3)	(175)
	(147)	**(44)**	**(42)**	**(4)**	**(237)**	(153)	(26)	(35)	(21)	(235)
Net assets	**5**	**13**	**4**	**6**	**28**	5	13	4	17	39
Net (debt)/cash included above	**(90)**	**(8)**	**(24)**	**1**	**(121)**	(98)	(1)	(23)	(9)	(131)

11 Stocks

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Contract work in progress	**114**	89	**–**	–
Progress applications	**(63)**	(48)	**–**	–
Net contract balances	**51**	41	**–**	–
Development land and work in progress	**2**	2	**2**	2
Manufacturing work in progress	**4**	5	**–**	–
Raw materials and consumables	**21**	29	**–**	–
Finished goods and goods for resale	**8**	4	**–**	–
	86	81	**2**	2

12 Debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due within one year:				
Trade and other debtors	431	330	7	7
Due from subsidiary undertakings	–	–	16	29
Due from joint ventures and associates	6	4	5	2
Due from joint arrangements	5	6	–	–
Recoverable on contracts	114	124	–	–
Contract retentions	57	60	–	–
Prepayments and accrued income	35	22	6	7
Deferred taxation (see Note 16)	9	8	3	2
Due on acquisitions	6	–	–	–
	663	554	37	47
Amounts falling due after more than one year:				
Trade and other debtors	17	18	15	16
Contract retentions	29	28	–	–
Pension prepayments	33	39	7	14
	79	85	22	30
	742	639	59	77

13 Borrowings

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Unsecured borrowings:				
Euro fixed rate loans 6.5% (2003)	9	14	9	14
Floating rate term borrowings (2002)	1	42	–	42
US dollar fixed rate term loan 8.06% (2008)	82	–	82	–
Bank overdrafts	12	5	67	15
Other short-term loans	–	17	–	15
	104	78	158	86
Finance leases	10	10	–	–
	114	88	158	86
Cash and deposits	(151)	(154)	–	(1)
Term deposits	(26)	(38)	(5)	–
Net (cash)/borrowings	(63)	(104)	153	85

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

Borrowings are repayable in the following periods:

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due after more than one year:				
Over five years – other than by instalments	82	–	82	–
Two to five years	5	5	–	5
One to two years	7	12	4	5
Amounts falling due within one year	20	71	72	76
	114	88	158	86
Borrowings comprise:				
Bank borrowings	22	78	76	86
Other borrowings	82	–	82	–
Finance leases	10	10	–	–
	114	88	158	86

Unutilised committed borrowing facilities expiring beyond 12 months amount to £210m (2000: £130m).
Group borrowings repayable by instalments, any part of which is repayable after five years, are nil (2000: nil).
Cash, deposits and term deposits include the Group's share of amounts held by contracting joint arrangements of £114m (2000: £108m).

14 Financial instruments

A discussion 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 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 £m**	**Weighted average period until maturity years**
Liabilities							
Currency							
Sterling	**5**	**3**	**2**	**7.0**	**0.3**	**3**	**1.6**
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**	**31**	**1.8**
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**

The interest rate risk profile for the financial liabilities and assets of the Group at 31 December 2000 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	57	6	51	7.1	0.3	7	1.5
US dollar	12	–	12	9.1	2.5	41	2.0
Other	19	5	14	6.5	1.5	–	–
Total borrowings and long-term creditors	88	11	77	7.3	0.8	48	1.9
Sterling cumulative convertible redeemable preference shares	170	–	170	10.75	19.0	–	–
Assets							
Currency							
Sterling	124	124	–	–	–	37	3.0
US dollar	54	54	–	–	–	9	2.9
Other	14	14	–	–	–	–	–
	192	192	–	–	–	46	3.0

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 interest rate swaps.

b) Currency exposures

The Group's currency exposures, representing those transactional exposures 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 2001 £m	**Euro 2001 £m**	**Other 2001 £m**	**Total 2001 £m**	US dollar 2000 £m	Euro 2000 £m	Other 2000 £m	Total 2000 £m
Functional currency of operation								
Sterling	**–**	**(2)**	**1**	**(1)**	–	–	–	–
Other	**2**	**(1)**	**–**	**1**	2	–	(2)	–
	2	**(3)**	**1**	**–**	2	–	(2)	–

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.

14 Financial instruments continued

c) Liquidity risk profile

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

	Preference shares 2001 £m	Borrowings 2001 £m	Long-term creditors 2001 £m	Preference shares 2000 £m	Borrowings 2000 £m	Long-term creditors 2000 £m
In one year or less, or on demand	–	20	–	–	71	–
In more than one year but not more than two years	–	7	24	–	12	32
In more than two years but not more than five years	–	5	7	–	5	16
In more than five years	166	82	–	170	–	–
	166	114	31	170	88	48

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

	2001 £m	2000 £m
Expiring in one year or less	–	28
Expiring in more than one year but not more than two years	–	130
Expiring in more than two years	210	–
	210	158

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 2001 £m	Fair value 2001 £m	Book value 2000 £m	Fair value 2000 £m
Primary financial instruments				
Short-term borrowings and current portion of long-term borrowings	(20)	(20)	(71)	(71)
Long-term borrowings	(94)	(94)	(17)	(17)
Cash and deposits	177	177	192	192
Other financial liabilities	(31)	(30)	(48)	(44)
Other financial assets	70	64	46	37
Sterling cumulative convertible redeemable preference shares	(166)	(217)	(170)	(189)
Derivative financial instruments				
Forward foreign currency contracts	3	2	8	9
Interest rate swaps	–	–	–	(1)

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 exposure that is being hedged is itself recognised. Unrecognised gains and losses at 31 December 2001 were:

	Gains 2001 £m	Losses 2001 £m	Net 2001 £m	Gains 2000 £m	Losses 2000 £m	Net 2000 £m
Unrecognised gains and losses on hedges at 1 January	1	(1)	–	–	(1)	(1)
Gains and losses arising in previous years recognised in the year	1	(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	(2)	(1)	1	(1)	–
Unrecognised gains and losses on hedges at 31 December	1	(2)	(1)	1	(1)	–
Of which:						
Gains and losses expected to be recognised in the next year	1	(2)	(1)	1	(1)	–
Gains and losses expected to be recognised thereafter	–	–	–	–	–	–

15 Other creditors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due within one year:				
Trade and other creditors	**380**	331	**4**	10
Advance progress applications	**219**	155	**–**	–
Due to subsidiary undertakings	**–**	–	**1**	–
Corporate taxation	**27**	18	**8**	18
VAT, payroll taxes and social security	**49**	44	**6**	8
Dividends on ordinary shares	**21**	19	**21**	19
Dividends on preference shares	**8**	8	**8**	8
Accruals and deferred income	**343**	346	**6**	4
Due on acquisitions	**26**	6	**–**	–
	1,073	927	**54**	67
Amounts falling due after more than one year:				
Trade and other creditors	**27**	33	**–**	–
Due on acquisitions	**4**	15	**–**	–
	31	48	**–**	–

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 2001	**–**	**33**	**21**	**28**	**82**
Profit and loss account	**(1)**	**2**	**7**	**6**	**14**
Utilised	**–**	**(1)**	**(5)**	**(3)**	**(9)**
Businesses acquired	**–**	**5**	**4**	**2**	**11**
Transfer to debtors	**1**	**–**	**–**	**–**	**1**
At 31 December 2001	**–**	**39**	**27**	**33**	**99**

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 full potential deferred taxation asset is not significantly different from the amount recognised in the balance sheet. The recognised amount of deferred taxation, included in debtors, comprises:

	UK 2001 £m	Foreign 2001 £m	UK 2000 £m	Foreign 2000 £m
Excess of depreciation over taxation allowances	**(6)**	**–**	(6)	–
Other, including short-term timing differences	**(4)**	**1**	(3)	1
	(10)	**1**	(9)	1
	(9)		(8)	

b) Company

	Deferred taxation £m	Other provisions £m	Total £m
At 1 January 2001	**–**	**19**	**19**
Profit and loss account	**(1)**	**–**	**(1)**
Transfer to debtors	**1**	**–**	**1**
At 31 December 2001	**–**	**19**	**19**

17 Share capital

	Authorised 2001 £m	Authorised 2000 £m	Issued and fully paid 2001 £m	Issued and fully paid 2000 £m
Ordinary shares of 50p each – authorised 696m (2000: 696m) issued 414m (2000: 415m)	**348**	348	**207**	207
Cumulative convertible redeemable preference shares of 1p each – authorised 177m (2000: 177m) issued 166m (2000: 170m)	**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.

At 31 December share options outstanding were as follows:

Year of issue	Subscription prices	Normally exercisable in periods to	Number of ordinary shares 2001	Number of ordinary shares 2000
Savings-related				
1995	257.2p	January 2001	**–**	491,846
1996	267.9p	January 2002	**967,710**	997,960
1997	208.0p	January 2003	**943,056**	1,473,118
1998	120.0p	January 2004	**1,222,925**	1,755,552
1999	91.0p	May 2005	**1,845,823**	2,078,835
2000	76.0p	January 2006	**2,616,561**	2,908,588
2001	154.0p	March 2007	**1,957,159**	–
Executive				
1991	417.7p	April 2001	**–**	558,264
1992	305.0p	April 2002	**1,105,641**	1,105,641
1992	246.4p	October 2002	**122,723**	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	**398,000**	612,000
1998	181.0p	May 2008	**416,500**	913,930
1998	78.0p	September 2008	**160,256**	198,717
1999	110.0p	November 2009	**2,007,000**	2,092,000
2000	79.0p	April 2010	**2,830,000**	2,895,000
2001	200.0p	June 2011	**1,395,000**	–

On 7 June 2001, options were granted over 1,415,000 ordinary shares under the Balfour Beatty executive share option scheme, at 200p per share, and these are normally exercisable in the period from June 2004 to June 2011. On 19 July 2001, options were granted over 1,979,203 ordinary shares under the Balfour Beatty savings-related share option scheme, at 154p per share, and these are normally exercisable in the periods from October 2004 to March 2005 and from October 2006 to March 2007 depending upon the length of savings contract chosen by the participant.

18 Reserves

a) Group

	Share premium account £m	Revaluations: Tangible fixed assets £m	Revaluations: Investments in joint ventures and associates £m	Other £m	Profit and loss account £m
At 1 January 2001	**325**	**3**	**20**	**6**	**(407)**
Retained profit for the year	**–**	**–**	**(1)**	**(2)**	**43**
Exchange adjustments	**–**	**–**	**–**	**–**	**(3)**
Buy-back of ordinary and preference shares	**–**	**–**	**–**	**–**	**(5)**
Transfers	**–**	**(1)**	**–**	**–**	**1**
At 31 December 2001	**325**	**2**	**19**	**4**	**(371)**

At 31 December 2001, cumulative goodwill, net of merger relief of £39m (2000: £39m), eliminated against the profit and loss account amounted to £79m (2000: £79m), net of negative goodwill of £8m (2000: £8m).

b) Company

	Share premium account £m	Other £m	Profit and loss account £m
At 1 January 2001	**325**	**50**	**166**
Retained loss for the year	**–**	**–**	**(18)**
Buy-back of ordinary and preference shares	**–**	**–**	**(5)**
At 31 December 2001	**325**	**50**	**143**

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 (2000: £77m).

c) Reconciliation of movements in shareholders' funds

	2001 £m	2000 £m
Profit for the financial year	**77**	71
Dividends	**(37)**	(36)
	40	35
Other recognised gains and losses (net)	**(3)**	1
Goodwill – on businesses sold	**–**	53
Buy-back of ordinary and preference shares	**(5)**	(15)
	32	74
Opening shareholders' funds	**156**	82
Closing shareholders' funds	**188**	156

19 Acquisitions

a) On 26 February 2001 the Group acquired the Rail Systems Division of ABC-NACO for an initial consideration of US$21.1m which was paid on completion. The final consideration is subject to adjustment to reflect the net asset value of the business at completion and a recovery of US$8.3m has been assumed in these accounts. In October 2001 ABC-NACO filed a petition for bankruptcy under chapter 11 of the United States Bankruptcy Code. Under the terms of the acquisition agreement the Group has the right to offset purchase price adjustments against monies received on completed contracts excluded from the acquisition which would otherwise have been repayable to ABC-NACO.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	2	(1)	1
Debtors	5	–	5
Creditors and provisions	(8)	–	(8)
	(1)	(1)	(2)
Consideration and costs – cash			15
Consideration receivable			(6)
			9
Goodwill			11

Fair value adjustments principally relate to adjustments to reflect the fair value of fixed assets. The business recorded an operating loss, before goodwill amortisation, of £0.9m in the period from 26 February 2001 to 31 December 2001.

b) On 22 August 2001 the Group acquired National Engineering and Contracting Company, a US regional civil and specialist engineering contracting company, for an initial consideration of US$16.9m. A further US$1.1m payable on an earn out basis, 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	Accounting policy adjustments £m	Fair value adjustments £m	Fair value of assets acquired £m
Fixed assets	3	–	–	3
Investments	6	–	(4)	2
Debtors	15	1	–	16
Creditors and provisions	(13)	(9)	–	(22)
Net debt	(11)	–	–	(11)
	–	(8)	(4)	(12)
Consideration and costs – cash				12
Consideration and costs – deferred				1
				13
Goodwill				25

Fair value adjustments principally relate to adjustments to reflect the fair value of investments. Accounting policy adjustments relate to harmonisation of accounting policies for the recognition of profit on long-term contracts. The business recorded an operating profit, before goodwill amortisation, of £1.0m in the period from 22 August 2001 to 31 December 2001.

c) On 10 October 2001 the Group acquired John Kennedy (Holdings) Ltd, a UK utilities service business, for an initial consideration of £28.0m which was paid on completion and £9.2m deferred consideration and up to a further £0.2m as an earn out, all of which 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	5	–	5
Stocks	1	–	1
Debtors	16	–	16
Creditors and provisions	(12)	(1)	(13)
Net debt	(8)	–	(8)
	2	(1)	1
Consideration and costs – cash			29
Consideration and costs – deferred			9
			38
Goodwill			37

Fair value adjustments principally relate to adjustments to reflect the fair value of pension obligations. The business recorded an operating profit, before goodwill amortisation, of £1.6m in the period from 10 October 2001 to 31 December 2001. The business acquired recorded an operating profit (based on its accounting policies prior to acquisition) for the period 1 April 2001 to 9 October 2001 and for its previous financial year 1 April 2000 to 31 March 2001 of £2.0m and £3.7m respectively. Profit after tax for these periods was £0.9m and £1.6m respectively.

19 Acquisitions continued

d) On 31 December 2001 the Group acquired the rail electrification project business of ABB for an initial consideration of Euros 42.0m, all of which was paid on completion. The final consideration will be adjusted to reflect the net asset value of the business at 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	**2**	**–**	**2**
Stocks	**14**	**–**	**14**
Debtors	**49**	**–**	**49**
Creditors and provisions	**(55)**	**–**	**(55)**
	10	**–**	**10**
Consideration and costs – cash			**26**
Consideration and costs – deferred			**5**
			31
Goodwill			**21**

Fair value adjustments will be finalised in 2002. The business had no impact on Group performance in 2001. In 2001 the business had sales of approximately Euros 100m and operating profits of approximately Euros 8.5m based on unaudited management accounts and accounting policies prior to acquisition. Details of profit after tax are not available for the pre-acquisition period because the business acquired was managed as an operating division and was not a separate legal entity.

e) In April 2001 the Group received Euros 20m in respect of the rail electrification business of Adtranz-Daimler Chrysler Rail Systems acquired in October 2000 to reflect the net asset value of the business at completion. In addition, £8m deferred consideration was paid in 2001 in respect of acquisitions completed in 2000. No adjustments were made in 2001 to the fair value of assets of businesses acquired in 2000.

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

20 Employees

	2001 £m	2000 £m
Group employee costs during the year amounted to:		
Wages and salaries	**660**	579
Social security costs	**57**	47
Other pension costs (see Note 22)	**12**	13
	729	639

	2001	2000
The average number of Group employees was as follows:		
Building, building management and services	**9,932**	9,510
Civil and specialist engineering and services	**9,759**	8,463
Rail engineering and services	**6,276**	5,648
Investments and developments	**68**	65
	26,035	23,686
Discontinued operations	**63**	313
	26,098	23,999

At 31 December 2001, the total number of Group employees was 26,542 (2000: 24,617).

21 Directors' emoluments and interests

a) Directors' emoluments

	2001 £m	2000 £m
The remuneration of Directors of Balfour Beatty plc was:		
Non-executive Directors' fees	**0.256**	0.235
Executive Directors' emoluments		
– salary and benefits	**1.701**	1.416
– performance related bonus	**0.589**	0.561
Gain on exercise of share options	**0.002**	–
Money purchase pension contributions	**0.145**	0.092
	2.693	2.304

In 2001, the highest paid Director's emoluments were £518,922 (2000: £477,335) and at 31 December 2001 his accrued pension benefit was £184,815 per annum (2000: £163,165 per annum).

b) Directors' interests

The interests (other than in the form of options) 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 2001 Ordinary shares*	At 1 January 2001 Preference shares*	At 31 December 2001 Ordinary shares	At 31 December 2001 Preference shares
J L Cohen	–	–	**2,697**	**–**
C R Reeves	14,913	833	**14,913**	**833**
I P Tyler	1,000	–	**1,000**	**–**
Viscount Weir	1,653	–	**1,653**	**–**
M W Welton	10,000	–	**10,000**	**–**
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 2001 and 5 March 2002.

Share options granted to Directors in 2001 are disclosed in the Directors' Report on page 33. During the year, Mr Cohen exercised an option over 2,697 ordinary shares that was held under the savings-related share option scheme. No other share options were exercised by Directors in 2001.

Further details of Directors' emoluments, pension benefits and interests are set out on pages 31 to 33.

22 Pensions

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 £12m (2000: £13m), of which £3m (2000: £2m) related to overseas schemes.

At the date of the latest funding valuations of the principal defined benefit schemes, the market value of the assets of those schemes amounted to £1,758m. The actuarial value of those assets exceeded the benefits which had accrued to members after allowing for expected future increases in earnings.

The latest 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%, which is being used to reduce Company contributions over a period of seven years. 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 £12m (2000: £16m) is included in debtors.

Certain Group employees are members of the Balfour Beatty Shared Cost Section of the Railways Pension Scheme. The last actuarial funding valuation of this defined benefit scheme was carried out by independent actuaries as at 31 December 1998 using the projected unit method and disclosed a surplus of assets over past service liabilities of 24%. The main assumptions used were that the rate of investment return net of inflation would be 3.75% per annum and that dividend growth on UK equities would be 0.75% per annum more than the rate of inflation. A prepayment of £26m (2000: £27m) is included in debtors.

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 full 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 2001 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 2001	
	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Inflation assumption	**2.50**	**2.50**
Rate of increase in salaries	**4.00**	**4.00**
Rate of increase in pensions in payment	**2.50**	**2.50**
Discount rate	**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 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)**

The Railways Pension Scheme is a shared cost scheme. The pension asset above takes 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 2001 for the principal schemes were £3m for the Balfour Beatty Pension Fund, and nil for the Railways Pension Scheme. Similar contribution rates are expected to be paid in 2002.

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

22 Pensions continued

If the Group had accounted for pensions in 2001 in accordance with the requirements of FRS 17 net assets would have been restated as follows:

	Total 2001 £m
Net assets per financial statements	188
SSAP 24 pension prepayments/provisions	(8)
FRS 17 pension assets/(liabilities):	
Group schemes – funded	37
Group schemes – unfunded	(16)
Share of joint ventures and associates' schemes	12
Net assets as adjusted	213
Net assets excluding net pension assets	180
Net pension assets	33
	213

23 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £9m (2000: £8m) in the Group and nil (2000: 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 £24m (2000: £26m), of which £16m (2000: £18m) is projected to be drawn down.

Annual operating lease commitments comprise:

	Land and buildings 2001 £m	Other 2001 £m	Land and buildings 2000 £m	Other 2000 £m
Group				
Leases terminating:				
Within one year	3	4	1	5
Between one and five years	8	16	7	15
In five years or more	11	1	12	–
	22	21	20	20
Company – leases terminating in five years or more	6	–	6	–

24 Contingent liabilities

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

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Guarantees of subsidiary undertakings and other support	–	–	13	31

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 Haliburton 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 2001 (2000: £2.1m).

The Group provided services to, and received management fees from, certain joint ventures, associates and joint arrangements amounting to £110m (2000: £115m). 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:

	2001 £m	2000 £m
Group operating profit before exceptional items	**62**	57
Depreciation	**35**	32
Goodwill amortisation	**10**	3
Profit on disposal of fixed assets	**(1)**	(5)
Provision against own shares held	**1**	–
Exceptional items – cash expenditure	**(4)**	(20)
Working capital decrease:		
Stocks	**4**	4
Debtors	**(27)**	13
Other creditors and provisions	**37**	21
	14	38
Net cash inflow from operating activities	**117**	105

b) Analysis of movement in net cash

	Cash and deposits and overdrafts £m	Term deposits £m	Borrowings (including finance leases) £m	Total 2001 £m	Total 2000 £m
At 1 January 2001	**149**	**38**	**(83)**	**104**	84
Cash flow	**(5)**	**(12)**	**(17)**	**(34)**	16
Acquisitions of businesses – debt at date of acquisition	**–**	**–**	**(4)**	**(4)**	–
Disposals of businesses – debt at date of disposal	**–**	**–**	**–**	**–**	6
Exchange adjustments	**(5)**	**–**	**2**	**(3)**	(2)
At 31 December 2001	**139**	**26**	**(102)**	**63**	104

26 Notes to the cash flow statement continued

c) Reconciliation of cash flow to movement in net cash

	2001 £m	2000 £m
(Decrease)/increase in cash in the period	**(5)**	32
Cash inflow from increase in borrowings	**(17)**	(23)
Cash (inflow)/outflow from decrease/increase in term deposits	**(12)**	7
Change in net cash resulting from cash flows	**(34)**	16
Acquisitions of businesses – debt at date of acquisition	**(4)**	–
Disposals of businesses – debt at date of disposal	**–**	6
Exchange adjustments	**(3)**	(2)
Movement in net cash	**(41)**	20

d) Acquisitions of businesses

	2001 £m	2000 £m
Net assets acquired:		
Intangible assets – goodwill	**94**	164
Tangible fixed assets	**11**	6
Investments	**3**	15
Stocks	**11**	24
Debtors	**70**	47
Creditors and provisions	**(95)**	(79)
Borrowings (including finance leases)	**(4)**	–
	90	177
Due on acquisitions	**(1)**	(19)
	89	158
Satisfied by:		
Cash consideration	**76**	162
Cash, deposits and overdrafts acquired	**13**	(4)
Cash outflow	**89**	158

Companies acquired during the year utilised £4m from operating activities and £1m in respect of capital expenditure and financial investment.

e) Disposals of businesses

	2001 £m	2000 £m
Net assets disposed of:		
Tangible fixed assets	**–**	48
Investments	**7**	–
Stocks	**1**	23
Debtors	**1**	68
Creditors and provisions	**3**	(50)
Borrowings, including finance leases	**–**	(6)
	12	83
Profit on sale, before goodwill	**13**	64
	25	147
Satisfied by:		
Cash consideration	**25**	131
Cash, deposits and overdrafts sold	**–**	16
Cash inflow	**25**	147

Disposals in the year 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. Disposals in 2000 comprised the Brand-Rex cable businesses.

Principal subsidiaries, joint ventures and associates

At 31 December 2001

	Country of incorporation or registration	Group equity holding %	Total issued share capital (Note ii) £m
Building, civil and rail engineering			
ABB Dacom SpA	Italy		
Andover Controls Corporation	USA		
Balfour Beatty Abu Dhabi LLC	Abu Dhabi	49.0	–
Balfour Beatty Construction Inc	USA		
Balfour Beatty Construction Ltd	Scotland		
Balfour Beatty Construction (Scotland) Ltd	Scotland		
Balfour Beatty Group Ltd			
Balfour Beatty Rail GmbH	Germany		
Balfour Beatty Rail Infrastructure Services Ltd			
Balfour Beatty Rail Ltd			
Balfour Beatty Rail Power Systems Ltd			
Balfour Beatty Rail Projects Ltd			
Balfour Beatty Rail Renewals Ltd			
Balfour Beatty Rail Srl	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 (Note v)	Dubai		
Cruickshanks Ltd	Scotland		
Devonport Management Ltd*		24.5	–
Dutco Balfour Beatty LLC (Note v)	Dubai		
First Philippine Balfour Beatty Inc	Philippines	40.0	3.7†
Garanti Balfour Beatty Insaat Sanayi ve Ticaret AS	Turkey	49.2	1.4†
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			
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			

	Country of incorporation or registration	Group equity holding %	Total issued share capital (Note ii) £m
Building, civil and rail engineering continued			
Raynesway Construction Southern Ltd			
Stent Foundations Ltd			
Zubair Kilpatrick LLC	Oman	49.0	0.5†
Investments and developments			
Aberdeen Environmental Services (Holdings) Ltd	Scotland	45.0	–†
Balfour Beatty Capital Projects Ltd			
Balfour Beatty Property Investments Ltd*			
Balfour Beatty Property Ltd*			
Connect Roads Ltd* (Note vi)		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†
Dundee Energy Recycling Ltd*	Scotland	20.0	0.3
Health Management (UCLH) Holdings Ltd		33.3	0.8†
Power Asset Development Company Ltd		25.0	–
Seeboard Powerlink Ltd		10.0	1.0
Thames Power Ltd* (Note vii)		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	USA
Edinburgh Royal Infirmary and University	85.0	Edinburgh, UK
Nan Cheong Station	50.0	Hong Kong
North East Corridor Project	50.0	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) The Group is the registered owner of 49% of the issued equity share capital of BK Gulf LLC and Dutco Balfour Beatty LLC.
(vi) 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.
(vii) Thames Power Ltd owns 51% of the equity capital in Barking Power Ltd.

Group five-year summary

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Profits					
Turnover (including share of joint ventures and associates)	**3,071**	2,603	2,904	3,975	4,478
Operating profit – before goodwill and exceptional items	**137**	114	90	108	150
Goodwill amortisation	**(12)**	(3)	–	–	–
Exceptional items	**13**	11	(434)	(184)	(111)
Profit/(loss) before interest	**138**	122	(344)	(76)	39
Net interest payable	**(34)**	(28)	(39)	(38)	(40)
Profit/(loss) before tax	**104**	94	(383)	(114)	(1)
Capital employed					
Shareholders' funds	**188**	156	82	199	372
Minority interests	**–**	1	1	9	94
Net (cash)/borrowings and minority redeemable capital	**(63)**	(104)	(84)	129	180
	125	53	(1)	337	646
Statistics					
Adjusted earnings per ordinary share*	**14.4p**	10.9p	5.1p	6.6p	10.1p
Basic earnings/(loss) per ordinary share	**14.5p**	12.8p	(93.8)p	(36.8)p	(14.0)p
Diluted earnings/(loss) per ordinary share	**14.3p**	12.8p	(93.8)p	(36.8)p	(14.0)p
Dividends per ordinary share	**5.0p**	4.5p	4.0p	6.0p	8.0p
Operating profit before goodwill amortisation and exceptional items: turnover	**4.5%**	4.4%	3.1%	2.7%	3.3%
Gearing – net borrowings and minority redeemable capital/shareholders' and minority shareholders' funds	**nil**	nil	nil	62%	39%

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

Continuing operations and acquisitions five-year summary

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Profits					
Turnover (including share of joint ventures and associates)	**3,057**	2,542	2,293	2,275	2,360
Operating profit – before goodwill and exceptional items	**136**	110	96	83	64
Goodwill amortisation	**(12)**	(3)	–	–	–
Exceptional items	**–**	–	(5)	–	–
Profit before interest	**124**	107	91	83	64

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

Shareholder information

Financial calendar

	2002
16 May	Annual General Meeting
1 July	Preference dividend payable
1 July*	Final 2001 ordinary dividend payable
14 August*	Announcement of 2002 half-year results
	2003
1 January	Preference dividend payable
2 January*	Interim 2002 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 Registrar and clearly state the shareholder's registered name and address and, if available, the full account 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 2001 will be paid on 1 July 2002. If you have already elected to join the DRIP, then you need take no further action. If you wish to join the DRIP, then you should complete a mandate form and return it to the Registrars by no later than 10 June 2002 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 on their website, the address of which is shown below. The site also contains information on recent trends in Balfour Beatty's share price.
www.computershare.com

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 under Sharegift, a 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

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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