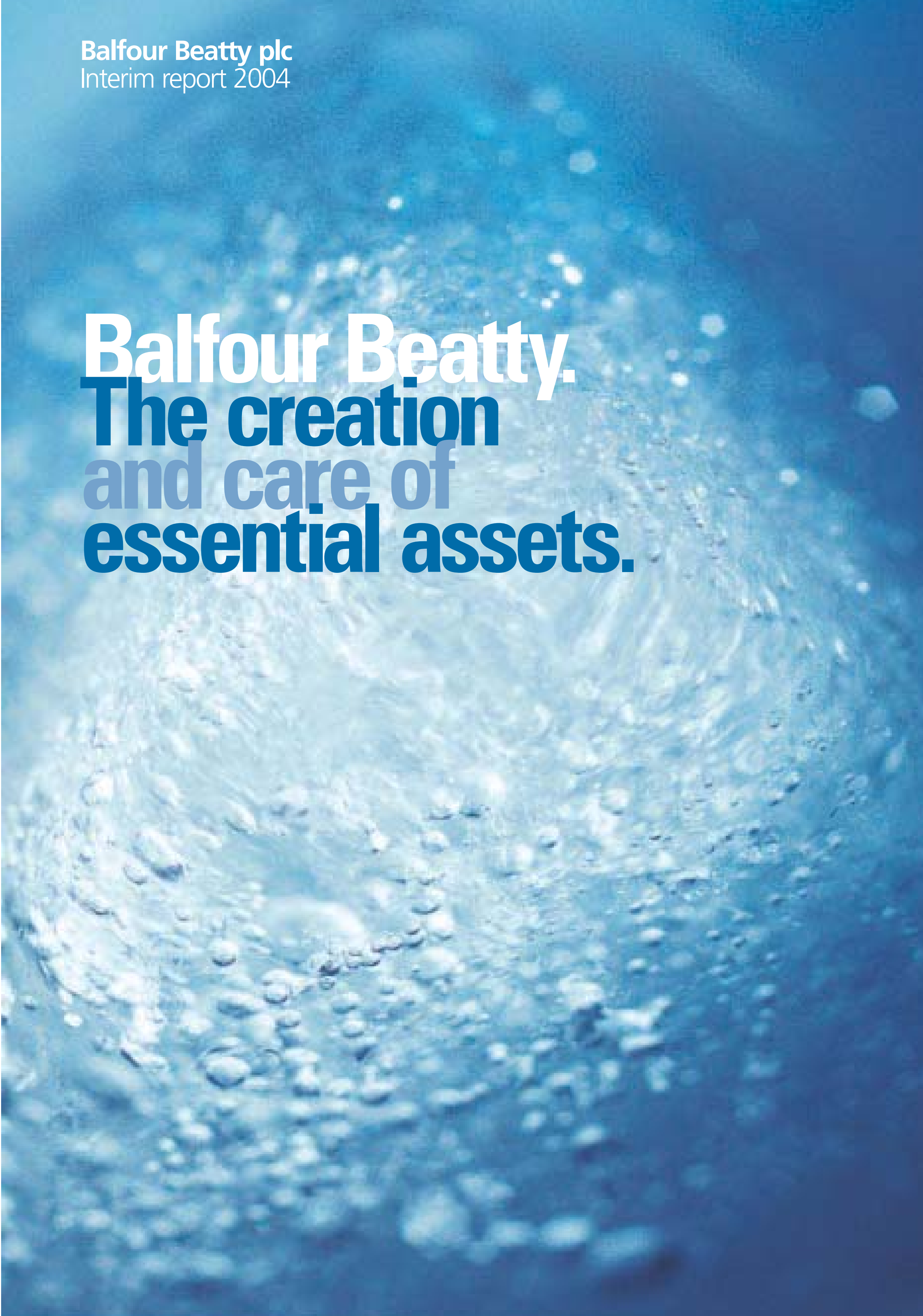
Balfour Beatty plc
Interim report 2004



Balfour Beatty. The creation and care of essential assets.

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

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

Highlights

- Continued growth in underlying pre-tax profits and earnings per share
- Financial settlement and handover of rail maintenance contracts
- Strong operating cash performance
- Order book increased by 12% to £6.5bn since year-end
- Two new PPP concession preferred bidder awards
- Interim dividend increased by 10% to 2.85p

Post half year

- Disposal of Andover Controls for $403m (£226m)
- Acquisition of 50% interest in Gammon in Hong Kong

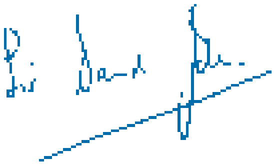
Financial summary

	2004 first half	2003 first half	Change
Turnover including joint ventures and associates	**£1,992m**	£1,751m	14%
Pre-tax profit			
– before goodwill amortisation and exceptionals	**£68m**	£51m	33%
– after goodwill amortisation and exceptionals	**£61m**	£42m	45%
Earnings per share			
– adjusted*	**10.7p**	8.0p	34%
– basic	**7.5p**	4.8p	56%
Financing			
– Net cash before PPP subsidiaries (non-recourse)	**£121m**	£104m	16%
– Net borrowings on PPP subsidiaries (non-recourse)	**£(238m)**	£0m	

* before the amortisation of goodwill, exceptional items and the premium arising on buy-back of preference shares.

Interim results

Sir David John Chairman



Mike Welton Chief Executive

Balfour Beatty is a world-class engineering, construction and services group, well positioned in infrastructure markets which offer significant growth potential. Its partnerships with public and private customers generate secure, long-term income. Its financial strength, with a significant cash position and with strong operating cash flows, offers continuing flexibility to add additional capacity and expertise to the business mix and to make appropriate investments in PPP concessions and other long-term growth opportunities.

First-half results

Balfour Beatty's pre-tax profits for the six months to 26 June 2004 were up by 33% at £68m (2003: £51m) before goodwill amortisation of £9m (2003: £9m) and net exceptional profits of £2m (2003: nil). These results reflect significant underlying profit growth. They also include recognition of the settlement agreed with Network Rail following early termination of our UK maintenance contracts and some other settlements previously anticipated for the second half year.

Profit before tax, but after goodwill amortisation and exceptional items, was £61m (2003: £42m). Exceptional profits are the net of the gain from the release of provisions set up in 2003 and the losses on sale of our businesses in Turkey and the Philippines.

Earnings per share, before goodwill amortisation, exceptional items and the premium arising on the buy-back of preference shares were up by 34% at 10.7p (2003: 8.0p).

Net cash stood at £121m (2003: £104m) before taking account of the consolidation of £238m of non-recourse net debt held in Connect Roads, the PPP road concession company of which Balfour Beatty became sole shareholder in January 2004, and in the 100%-owned Sunderland Street Lighting concession. Operating cash performance was, once again, very satisfactory.

Turnover, at £1,992m (2003: £1,751m) increased by 14%.

Since the end of the accounting period, the Group has completed the sale of Andover Controls. Andover's sales and operating profit before goodwill amortisation for the six months to 26 June 2004 were £48m and £7m respectively.

The Board has declared an increased interim dividend of 2.85p per ordinary share (2003: 2.60p).

Key events

Mansell, the UK construction and construction services business acquired at the end of December, is being successfully integrated into the Group and is performing at anticipated levels.

Further important steps were taken to strengthen the business's long-term growth potential. The sale of Andover Controls in the US for $403m and the acquisition of a 50% share of Gammon, Hong Kong's leading construction and construction services contractor, for £33m have been completed since the end of June and will be accounted for in the second half of the year.

In the PPP sector, preferred bidder status was achieved for the Birmingham Hospital and North Lanarkshire Schools concessions. These successes, together with the acquisition of Atkins' interest in Connect Roads, will bring our committed equity in PPP concessions to over £200m.

A satisfactory settlement was reached with Network Rail in respect of their decision to take UK maintenance in-house and all operational responsibilities in this regard reverted to them in early July. This settlement is accounted for in the first-half results.

New five-year contracts were awarded by Network Rail for UK rail renewals work, which, combined with our trackwork under the London Underground PPP, gives us a UK track replacement business with annual sales of around £200m.

Significant new contracts were secured in the transport sector in the US, for UK road building and for civil engineering works on the London Underground.

During the period, our order book has grown from the 2003 year-end position of £5.8bn to £6.5bn.

Disposals and acquisitions

In January, we acquired Atkins' 32.2% interest in Connect Roads, our principal PPP roads concession vehicle, for the sum of £13m through the exercise of pre-emption rights. A secondary market in PPP assets is now developing and we will continue to review our options in that light.

In May, we announced the sale of Andover Controls, our US-based building management controls and security systems company, to Schneider Electric of France for $403m.

Balfour Beatty has sustained Andover's market position in recent years through expenditure on product development and by acquisition. In the last two years, there has been accelerating consolidation in the US building controls industry. Andover, operating as a separate entity in this market, would have become increasingly vulnerable to its major competitors and faced increasingly difficult strategic challenges. In these circumstances, it became clear that Andover's highest future value to Balfour Beatty would be realised through disposal.

The sale, completed in July, achieved at a multiple in excess of 15 times historic earnings, provides substantial additional resources with which to further strengthen the Group's business mix.

Late in May, we announced our intention to acquire Skanska's 50% interest in Gammon, the market leader for construction and construction services in Hong Kong. This transaction was completed in early August 2004 for a consideration of £33m, following a period of due diligence. This acquisition gives us a strong, established base in a regional market with excellent growth potential, with a very substantial partner in Jardine Matheson. Balfour Beatty's existing civil, electrical and mechanical Hong Kong contracting businesses are in the process of being fully integrated into the Gammon organisation.

Business sectors

Building, Building Management and Services (Turnover £751m)

Operating profits* from the continuing businesses in this sector were in line with 2003 at £13m. Mansell produced a satisfactory first six-month contribution and traded at anticipated levels. Our other construction, electrical and mechanical engineering businesses in this sector are now oriented very largely towards major projects. They have leading market positions and very substantial future workloads but first half results reflected a number of major projects being in their mobilisation or early construction phases.

In our services businesses, our joint venture, Romec, which maintains all the Royal Mail's premises, performed well. By contrast, the UK business of Heery International had a difficult first half year with one-off losses incurred on contracts in both the UK and Spain.

Civil and Specialist Engineering and Services (Turnover £683m)

Operating profits* in this sector, at £8m (2003: £7m), were 14% ahead of the same period in 2003.

Performance in UK civil, specialist and power engineering was satisfactory. The forward order book was augmented by the £171m A46 from Newark to Widmerpool. This is the fourth Early Contractor Involvement project we have won, amounting in total to over £600m of future work.

The £150m contract for the inspection of civil assets and an associated works programme for bridges, structures and deep tube tunnels for the Metronet consortium was also secured.

In Balfour Beatty Construction Inc in the US, further costs were incurred on the residual portions of some historic heavy marine engineering contracts. No major claim settlements were received in the first half year, although final payment on one project has been agreed since. The Central Division has been integrated with National Engineering & Contracting, which was acquired in 2001. Performance in the divisions serving California and Texas was good and substantial new contracts were won in these businesses and in Pennsylvania and Ohio.

In Balfour Beatty Utilities, performance improved following last year's integration of Kennedy and Kentons and as a result of an improving mix of business under its contract with Transco. RCS, the road management and maintenance company, also produced improved profits from successful long-term contracts for the Highways Agency and a range of Local Authorities.

*Before the amortisation of goodwill and exceptional items.

Rail Engineering and Services (Turnover £375m)

Operating profits* in the Rail Engineering and Services sector advanced by 44% to £23m (2003: £16m) in the first half. The underlying performance of the ongoing businesses was satisfactory, although first-half demand in the domestic German market showed some signs of weakness.

A proportion of the profits recognised in this half year arose upon financial settlement arising from the transfer of maintenance contracts to Network Rail. The detailed terms of this settlement are subject to a confidentiality agreement with the customer. Performance in the other UK rail businesses was satisfactory. In April, new five-year contracts with Network Rail commenced for UK rail renewals, under which Balfour Beatty's anticipated annual volumes will potentially increase by over 50% to in excess of £110m per annum.

In early August, we agreed, subject to due diligence, to acquire the UK Solid State Interlocking (SSI) signalling resources of Bombardier. This small acquisition will further expand the complementary range of capabilities which Balfour Beatty offers in rail engineering and services.

Investments and Developments (Turnover £135m)

Operating profits* in this sector rose by 29% to £31m (2003: £24m) and pre-tax profits rose by 55% to £17m (2003: £11m). This reflected continuing good performance from those concessions which are already operational. There was also a full six-month contribution from our equity interest in the London Underground Metronet concessions and increased profits from Connect Roads following our acquisition of the outstanding shares.

Metronet is performing in line with expectations, contributing half-year operating profits of £10m (2003: £4m).

In Barking Power Ltd, profits improved, partially as a result of higher spot electricity market prices. The settlement of Barking Power's claim against the administrators of TXU Europe now seems unlikely to be achieved before 2005.

We were appointed preferred bidder for two major new PPP concessions. Consort Healthcare won the £520m Birmingham Hospital in January. Financial close is planned for the first quarter of 2005. In June, Transform Schools won the £140m, 30-year North Lanarkshire Schools concession. This scheme, which is expected to reach financial close in October, will generate up to £100m of long-term services work.

Balfour Beatty Capital Projects continues to evaluate and bid for a number of large schemes, principally in the education and health sectors.

The Government's new initiative, "Building Schools for the Future", is now under way and the recent announcement that 14 new PPP hospital schemes are to be released to the market is also very encouraging.

Board succession

Mike Welton, the Group's Chief Executive, has decided to retire from the Company and resign from the Board at the end of the year. He will be succeeded by Ian Tyler, who has been Chief Operating Officer of Balfour Beatty since July 2002, having joined the Group as Finance Director from Hanson plc in 1996, where he was Finance Director of its subsidiary, ARC.

Mike Welton has been Chief Executive of Balfour Beatty since January 1996. In the period since, the Group has achieved consistent growth in profits and earnings and has become the leading engineering, construction and services company in the UK. Mike and Ian have worked closely together throughout this period and Ian is ideally positioned to take the Company on in its next stage of development. Mike Welton will leave with the Board's sincere gratitude and good wishes.

Outlook

Prospects in our key markets continue to be positive. Our UK infrastructure markets, already strong, have been further underpinned by the Government's interim spending review. Those sections of the PPP concession market on which we focus continue to grow. Further outsourcing of non-core services remains on the agenda of many of our public and private sector customers.

In the US, we have a new management team with developing plans to build on our strong core business base. Closure of the heavy marine engineering business will follow residual project completions. In Asia, we have acquired a substantial footprint upon which to build long-term growth.

Following the sale of Andover Controls, we are in an excellent position to improve, carefully, the mix and coverage of our business portfolio.

This year, due to a number of settlements, most notably in UK rail maintenance, a higher proportion of our profits than normal will fall in the first half year. We anticipate that 2004 will be a year of good progress in line with current expectations.

*Before the amortisation of goodwill and exceptional items.

Group profit and loss account

For the half-year ended 26 June 2004 based on unaudited figures

	Notes	2004 first half £m	2003 first half as restated £m	2003 year as restated £m
Turnover including share of joint ventures and associates	2	**1,992**	1,751	3,678
Share of turnover of joint ventures		**(137)**	(146)	(297)
Share of turnover of associates		**(142)**	(94)	(220)
Group turnover		**1,713**	1,511	3,161
Continuing operations		**1,647**	1,464	3,058
Acquisitions		**18**	–	–
Discontinued operations		**48**	47	103
Group operating profit		**44**	23	71
Group operating profit before exceptional items and goodwill amortisation		**49**	31	83
Operating exceptional items	3	**3**	–	3
Goodwill amortisation		**(8)**	(8)	(15)
Share of operating profit of joint ventures		**11**	21	47
Share of operating profit of associates		**21**	13	29
Operating profit including share of joint ventures and associates		**76**	57	147
Operating profit before exceptional items and goodwill amortisation		**82**	66	161
Operating exceptional items	3	**3**	–	3
Goodwill amortisation		**(9)**	(9)	(17)
Continuing operations		**68**	52	131
Acquisitions		**2**	–	–
Discontinued operations		**6**	5	16
Exceptional items				
Loss on sale of operations	3	**(3)**	–	–
Provision for loss on sale of operations	3	**2**	–	(10)
Profit on sale of fixed assets	3	**–**	–	12
Profit on ordinary activities before interest		**75**	57	149
Net interest payable and similar charges:				
Group	4	**(3)**	(1)	(1)
Share of joint ventures' interest	4	**(5)**	(9)	(18)
Share of associates' interest	4	**(6)**	(5)	(12)
Profit on ordinary activities before taxation		**61**	42	118
Profit on ordinary activities before exceptional items and goodwill amortisation		**68**	51	130
Exceptional items	3	**2**	–	5
Goodwill amortisation		**(9)**	(9)	(17)
Tax on profit on ordinary activities	5	**(17)**	(10)	(29)
Profit for the period		**44**	32	89
Dividends:				
Preference	6	**(7)**	(7)	(15)
Ordinary		**(12)**	(11)	(25)
Premium paid on buy-back of preference shares		**(5)**	(5)	(5)
Transfer to reserves		**20**	9	44
Adjusted earnings per ordinary share		**10.7p**	8.0p	20.6p
Goodwill amortisation		**(2.2)p**	(2.2)p	(4.1)p
Exceptional items after attributable taxation		**0.3p**	–p	1.4p
Premium paid on buy-back of preference shares		**(1.3)p**	(1.0)p	(1.0)p
Basic earnings per ordinary share	7	**7.5p**	4.8p	16.9p
Diluted earnings per ordinary share	7	**7.4p**	4.8p	16.7p
Dividends per ordinary share	8	**2.85p**	2.6p	6.0p

Group balance sheet

At 26 June 2004 based on unaudited figures

	Notes	2004 first half £m	2003 first half as restated £m	2003 year as restated £m
Fixed assets				
Intangible assets – goodwill		**302**	263	306
Tangible assets – PFI/PPP constructed assets		**262**	–	–
– other		**150**	140	158
Investments		**36**	39	36
Investments in joint ventures:				
Share of gross assets		**652**	789	866
Share of gross liabilities		**(579)**	(704)	(777)
		73	85	89
Investments in associates		**60**	40	47
		883	567	636
Current assets				
Stocks		**127**	121	109
Debtors – due within one year		**816**	705	759
– due after one year		**66**	64	60
Cash and deposits – PFI/PPP subsidiaries		**39**	–	–
– other		**197**	190	202
		1,245	1,080	1,130
Creditors: amounts falling due within one year				
Borrowings – non-recourse PFI/PPP term loans		**(13)**	–	–
– other		**(9)**	(9)	(7)
Other		**(1,243)**	(1,174)	(1,195)
Net current liabilities		**(20)**	(103)	(72)
Total assets less current liabilities		**863**	464	564
Creditors: amounts falling due after more than one year				
Borrowings – non-recourse PFI/PPP term loans		**(264)**	–	(3)
– other		**(67)**	(77)	(68)
Other		**(118)**	(72)	(95)
Provisions for liabilities and charges		**(177)**	(120)	(167)
		237	195	231
Capital and reserves				
Called-up share capital		**212**	210	212
Share premium account		**148**	327	328
Special reserve		**185**	–	–
Other reserves		**(308)**	(342)	(309)
Shareholders' funds	11	**237**	195	231
Equity interests		**100**	45	81
Non-equity interests		**137**	150	150
		237	195	231

Group cash flow statement

For the half-year ended 26 June 2004 based on unaudited figures

	Notes	2004 first half £m	2003 first half as restated £m	2003 year as restated £m
Net cash inflow from operating activities	12	**117**	116	170
Dividends from joint ventures and associates		**2**	3	11
Returns on investments and servicing of finance		**(11)**	(11)	(16)
Taxation		**(16)**	(15)	(25)
Capital expenditure and financial investment		**(55)**	(29)	(39)
Acquisitions and disposals of businesses		**(13)**	(4)	(21)
Ordinary dividends paid		**(11)**	(10)	(22)
Cash inflow before use of liquid resources and financing		**13**	50	58
Management of liquid resources		**(21)**	–	(32)
Financing:				
Issue of ordinary shares		**1**	2	5
Purchase of ordinary shares		**(1)**	–	(1)
Buy-back of preference shares		**(18)**	(16)	(16)
New loans		**8**	–	3
Repayment of loans		**(6)**	(5)	(11)
Capital element of finance lease payments		**(2)**	(2)	(3)
(Decrease)/increase in cash in the period		**(26)**	29	3

Group statement of total recognised gains and losses

For the half-year ended 26 June 2004 based on unaudited figures

	2004 first half £m	2003 first half as restated £m	2003 year as restated £m
Profit for the period:			
Group			
Group operating profit	**44**	23	71
Loss on sale of operations	**(3)**	–	–
Provision for loss on sale of operations	**2**	–	(10)
Profit on sale of fixed assets	**–**	–	12
Net interest payable and similar charges	**(3)**	(1)	(1)
Tax	**(10)**	(4)	(14)
	30	18	58
Share of joint ventures	**4**	9	19
Share of associates	**10**	5	12
Exchange adjustments	**(2)**	1	(1)
Total recognised gains and losses for the period	**42**	33	88

Notes

1 Basis of presentation

The interim financial statements have been prepared on the basis of the accounting policies set out in the 2003 Balfour Beatty plc Annual Report and Accounts except as noted below.

The Group has adopted UITF Abstract 38 "Accounting for ESOP trusts" and the amendments to UITF Abstract 17 "Employee share schemes" and comparative figures have been restated accordingly. Previously, investments in Balfour Beatty plc ordinary shares of 50p each acquired by the Group's discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Balfour Beatty Performance Share Plan, were recognised as a fixed asset investment, net of provisions. The cost of shares acquired was charged to the profit and loss account over the qualifying period. In accordance with UITF 38 and UITF 17, own shares held by the Group's employee discretionary trust are recorded as a deduction in arriving at shareholders' funds and the fair value of the shares at the date of award is charged to the profit and loss account over the qualifying period. This restatement has reduced operating profit in 2003 first half by £0.6m and has had no impact on operating profit in full year 2003. Shareholders' funds as at 28 June 2003 and at 31 December 2003 were increased by £0.9m and £1.3m respectively. The Group has also adopted UITF Abstract 37 "Purchases and sales of own shares" and comparative figures have been restated accordingly reducing basic earnings per ordinary share in 2003 first half and full year by 1.0p. The difference between the carrying amount of preference shares bought back and the consideration paid has been reported as an appropriation of profit.

Andover Controls, sold on 13 July 2004, has been classified as discontinued (see Note 13).

2 Segment analysis

	Turnover			Operating profit before exceptional items		
	2004 first half £m	2003 first half £m	2003 year £m	**2004 first half £m**	2003 first half as restated £m	2003 year as restated £m
Total Group, including share of joint ventures and associates						
Building, building management and services	**751**	531	1,093	**13**	13	28
Civil and specialist engineering and services	**683**	678	1,393	**8**	7	21
Rail engineering and services	**375**	399	873	**23**	16	41
Investments and developments	**135**	96	216	**31**	24	54
	1,944	1,704	3,575	**75**	60	144
Discontinued operations	**48**	47	103	**7**	6	17
	1,992	1,751	3,678	**82**	66	161
Goodwill amortisation				**(9)**	(9)	(17)
Operating profit				**73**	57	144
Net interest payable				**(14)**	(15)	(31)
Profit before tax and exceptional items				**59**	42	113

Goodwill amortisation arises in Building, building management and services £2.0m (2003: first half £0.6m, full year £1.3m), Civil and specialist engineering and services £2.3m (2003: first half £3.0m, full year £5.5m), Rail engineering and services £4.3m (2003: first half £4.5m, full year £9.0m), Investments and developments £0.1m (2003: first half and full year nil) and Discontinued businesses £0.7m (2003: first half £0.7m, full year £1.5m). In 2003 goodwill amortisation included £0.5m impairment charge in respect of Garanti Balfour Beatty.

3 Exceptional items

	2004 first half £m	2003 first half £m	2003 year £m
a) Credited to/(charged against) operating profit:			
Cancellation of Network Rail maintenance contracts	3	–	(7)
Compensation for loss of use of operating facility	–	–	10
	3	–	3
b) Loss on sale of operations:			
Loss on disposal of Garanti Balfour Beatty	(2)	–	–
Loss on disposal of First Philippine Balfour Beatty Inc	(1)	–	–
	(3)	–	–
c) Provision for loss on sale of operations:			
Loss arising from the disposal of the discontinued Cables businesses	–	–	(8)
Provision for loss on disposal of Garanti Balfour Beatty	2	–	(2)
	2	–	(10)
d) Profit on sale of fixed assets:			
Profit on sale of operating facility	–	–	12
	–	–	12
	2	–	5

a) The exceptional item credited to Group operating profit in 2004 arises in respect of the resolution of certain matters previously provided for in 2003 in relation to the cancellation of three Network Rail maintenance contracts. Exceptional items charged against Group operating profit in 2003 also included compensation received in respect of business disruption, following the compulsory purchase of an operating facility. These exceptional items related to the Rail engineering and services segment.

b) In 2004 a loss of £2m (previously provided in 2003) arose on the disposal of the Group's 49.2% interest in Garanti Balfour Beatty Insaat Sanayi ve Ticaret AS for a consideration of US$1. Also, a loss of £1m (comprising goodwill previously written off to reserves) arose on the disposal of the Group's 40% interest in First Philippine Balfour Beatty Inc for a consideration of US$3.5m. These exceptional items related to the Civil and specialist engineering segment.

c) The provision for loss on sale of operations in 2003 comprised provision for environmental and employee retirement costs relating to the discontinued Cables businesses in North America sold in 1999 and provision for losses on the disposal in 2004 of the Group's 49.2% interest in Garanti Balfour Beatty in Turkey in the Civil and specialist engineering segment.

d) The profit on sale of fixed assets in 2003 arose on the compulsory purchase of an operating facility. The profit related to the Rail engineering and services segment.

e) Exceptional items increased the Group's tax charge in 2004 by £0.8m (2003: £0.5m reduction).

4 Net interest payable and similar charges

		2004 first half £m	2003 first half £m	2003 year £m
Group				
Non-recourse PFI/PPP	– interest payable	7	–	–
	– interest receivable	(1)	–	–
		6	–	–
Other	– interest payable	5	7	12
	– PFI/PPP subordinated debt interest receivable	(3)	(1)	(2)
	– other interest receivable	(5)	(5)	(9)
		3	1	1
Share of joint ventures				
PFI/PPP concessions	– interest on long-term finance assets	(9)	(9)	(18)
	– other net interest payable	14	18	36
Share of associates				
PFI/PPP concessions	– other net interest payable	4	2	7
Other associates	– net interest payable	2	3	5
		14	15	31

5 Tax on profit on ordinary activities

	2004 first half £m	2003 first half £m	2003 year £m
UK current tax	8	6	25
UK advance corporation tax	(4)	(4)	(13)
Foreign current tax	2	2	7
Deferred tax	4	–	(5)
Share of UK joint ventures' tax	2	3	10
Share of UK associates' tax	5	3	5
	17	10	29

6 Dividends per preference share

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid in respect of the six months ended 30 June 2004 on 1 July 2004 to holders of these shares on the register on 28 May 2004. A preference dividend of 5.375p gross (4.8375p net at current tax rate) per cumulative convertible redeemable preference share will be paid in respect of the six months ending 31 December 2004 on 1 January 2005 to holders of these shares on the register on 26 November 2004 by direct credit or, where no mandate has been given, by cheques posted on 29 December 2004 payable on 1 January 2005. These shares will be quoted ex-dividend on 24 November 2004.

7 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit for the period, after charging preference dividends and appropriations arising on the buy-back of preference shares, divided by the weighted average number of ordinary shares in issue during the period of 418.7m (2003: first half 414.6m, full year 416.3m). The calculation of diluted earnings per ordinary share is based on the profit for the period, after charging preference dividends and appropriations arising on the buy-back of preference shares, divided by the weighted average number of ordinary shares in issue adjusted for the conversion of share options by 5m (2003: first half 4m, full year 3m). As in 2003, no adjustment has been made in respect of the potential conversion of the cumulative convertible redeemable preference shares, the effect of which would have been antidilutive throughout the period. Adjusted earnings per ordinary share before goodwill amortisation, exceptional items and appropriations arising on the buy-back of preference shares have been disclosed to give a clearer understanding of the Group's underlying trading performance.

8 Dividends per ordinary share

The interim dividend will be paid on 4 January 2005 to ordinary shareholders on the register on 29 October 2004 by direct credit or, where no mandate has been given, by cheques posted on 30 December 2004 payable on 4 January 2005. These shares will be quoted ex-dividend on 27 October 2004.

9 Acquisitions

On 1 January 2004 the Group acquired the business and assets of the railway division of ABB Gebaudetechnik AG based in Germany for a consideration of €3.3m. The provisional fair value of net liabilities acquired was £1m and provisional goodwill arising was £3m.

On 16 January 2004 and 23 January 2004 the Group acquired from Atkins its 32.2% interests in Connect Roads Ltd and Connect M77/GSO Holdings Ltd respectively for a total consideration of £13.3m cash. As a result, the Group's interests in the companies increased to 100% and they have been accounted for as subsidiaries from these dates. The provisional fair value of the net assets acquired, consideration paid and provisional goodwill arising were:

	Fair value of assets £m
Fixed assets	231
Debtors	73
Creditors and provisions	(42)
Cash and deposits	41
Non-recourse project finance term loans	(278)
	25
Investment in joint venture	(17)
	8
Consideration and costs	13
Goodwill	5

10 PFI/PPP subsidiaries

The Group has a 100% interest in three PFI/PPP concessions through its shareholdings in SBB Street Lighting (Holdings) Ltd, Connect Roads Ltd and Connect M77/GSO Holdings Ltd. The performance of these PFI/PPP concessions in the first half 2004 (from 1 January 2004 or since becoming subsidiaries as appropriate) and their balance sheets at 26 June 2004 are summarised below:

	2004 first half £m
Profit and loss account	
Turnover	**15**
Operating profit	**8**
Net interest payable	**(6)**
Profit on ordinary activities before taxation	**2**
Tax on profit on ordinary activities	**–**
Profit for the period	**2**
Cash flow	
Operating profit	**8**
Depreciation	**4**
Working capital decrease	**39**
Net cash inflow from operating activities	**51**
Returns on investments and servicing of finance	**(7)**
Taxation	**(1)**
Capital expenditure and financial investment	**(35)**
Dividends paid	**(6)**
Cash inflow before use of liquid resources and financing	**2**
Opening net borrowings/net borrowings at date of acquisition	**(240)**
Closing net borrowings	**(238)**
Balance sheet	
Tangible assets	**262**
Debtors	**43**
Creditors and provisions	**(46)**
Cash and deposits	**39**
Non-recourse project finance term loans	**(277)**
Net assets	**21**

11 Reconciliation of movements in shareholders' funds

	2004 first half £m	2003 first half as restated £m	2003 year as restated £m
Profit for the period	**44**	32	89
Dividends	**(19)**	(18)	(40)
Premium paid on buy-back of preference shares	**(5)**	(5)	(5)
	20	9	44
Other recognised gains and losses (net)	**(2)**	1	(1)
Goodwill – on business sold	**1**	–	–
Issue of ordinary shares	**1**	2	5
Buy-back of preference shares – carrying value	**(13)**	(11)	(11)
Movements relating to Balfour Beatty Employee Share Ownership Trust	**(1)**	2	2
	6	3	39
Opening shareholders' funds – as previously reported	**230**	193	193
Prior year adjustment	**1**	(1)	(1)
Closing shareholders' funds – as restated	**237**	195	231

By special resolution on 13 May 2004, confirmed by the Court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve fund was cancelled, effective on 25 June 2004. A special reserve of £185m was created which becomes distributable to the extent of future increases in share capital and share premium account.

12 Notes to the cash flow statement

	2004 first half £m	2003 first half as restated £m	2003 year as restated £m
a) Net cash flow from operating activities:			
Group operating profit before exceptional items	**41**	23	68
Depreciation	**23**	19	43
Goodwill amortisation	**8**	8	15
Profit on sale of fixed assets	**–**	(2)	(3)
Provision against own shares held	**1**	1	3
Exceptional items – cash (expenditure)/receipts	**(1)**	(4)	5
Working capital decrease	**45**	71	39
Net cash inflow from operating activities	**117**	116	170
b) Analysis of movement in net (borrowings)/cash:			
Opening net cash	**124**	67	67
Cash inflow before use of liquid resources and financing	**13**	50	58
Issue of ordinary shares	**1**	2	5
Purchase of ordinary shares	**(1)**	–	(1)
Buy-back of preference shares	**(18)**	(16)	(16)
Acquisitions – net (borrowings)/term deposits at date of acquisition	**(239)**	–	5
Exchange adjustments	**3**	1	6
Closing net (borrowings)/cash	**(117)**	104	124
c) Reconciliation of cash flow to movement in net (borrowings)/cash:			
(Decrease)/increase in cash in the period	**(26)**	29	3
Cash outflow from decrease in borrowings	**–**	7	11
Cash outflow from increase in term deposits	**21**	–	32
Change in net (borrowings)/cash resulting from cash flows	**(5)**	36	46
Acquisitions – net (borrowings)/term deposits at date of acquisition	**(239)**	–	5
Exchange adjustments	**3**	1	6
Movement in net (borrowings)/cash	**(241)**	37	57
d) Analysis of net (borrowings)/cash:			
US dollar fixed rate term loan 8.06% (2008)*	**(65)**	(73)	(66)
Bank overdrafts and other short-term loans	**(9)**	(8)	(5)
Finance leases	**(2)**	(5)	(4)
Cash and deposits	**120**	172	147
Term deposits	**77**	18	55
	121	104	127
UK PFI/PPP project finance – Sterling floating rate term loan (2027)*	**(5)**	–	(3)
– Sterling floating rate term loan (2011)*	**(26)**	–	–
– Sterling floating rate term loan (2012)*	**(98)**	–	–
– Sterling floating rate term loan (2034)*	**(148)**	–	–
– cash and deposits	**2**	–	–
– term deposits	**37**	–	–
Net (borrowings)/cash	**(117)**	104	124

*Interest rate swaps have been taken out to convert the US dollar fixed rate term loan to floating rate and the UK PFI/PPP project finance floating rate term loans to various fixed rates.

13 Post balance sheet events

On 13 July 2004 the Group completed the sale of Andover Controls to Schneider Electric for US$403m. The transaction will result in an exceptional gain, to be reported in the second half 2004, provisionally estimated at £123m after tax as follows:

	£m
Proceeds	226
Net assets sold	(22)
Goodwill (including goodwill previously written off to reserves £37m)	(59)
Costs	(12)
	133
Taxation	(10)
Net gain	123

Andover Controls was acquired in stages: goodwill arising before 1 January 1998 amounting to £37m was charged against reserves in the year of acquisition and that arising subsequently was capitalised. The profit on disposal is determined by including all attributable goodwill and that element previously eliminated against reserves is added back directly to equity. The disposal of Andover Controls will therefore increase shareholders' funds by £160m.

On 6 August 2004 the Group acquired from the Skanska group its 50% shareholdings in each of Gammon China Ltd, Gammon Asia Ltd and Gammon Construction Holdings Ltd (the "Gammon Skanska group") for a total consideration of HK$475m (£33m) in cash.

The financial information set out above (which was approved by the Board on 10 August 2004) does not constitute the Company's statutory accounts within the meaning of Section 240 of the Companies Act 1985. Comparative full year figures have been extracted from the 2003 Balfour Beatty plc Annual Report and Accounts which have been filed with the Registrar of Companies. The independent auditors' report on those accounts was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

Independent review report to Balfour Beatty plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 26 June 2004 which comprises the profit and loss account, the balance sheet, the cash flow statement and the statement of total recognised gains and losses and related notes 1 to 13. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting polices and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 26 June 2004.

Deloitte & Touche LLP
Chartered Accountants
London
11 August 2004

Shareholder information

Financial calendar

	2004
27 October	Ex dividend date for interim 2004 ordinary dividend
29 October	Interim 2004 ordinary dividend record date
24 November	Ex dividend date for January 2005 preference dividend
26 November	January 2005 preference dividend record date
9 December	Final date for receipt of DRIP mandate forms 2005 (see below)
	2005
1 January	Preference dividend payable
4 January	Interim 2004 ordinary dividend payable
9 March*	Announcement of 2004 full year results
May*	Annual General Meeting

*Provisional dates

Registrar and transfer office

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

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

They can help you to:
– check your shareholding;
– register a change of address or name;
– obtain a replacement dividend cheque or tax voucher;
– record the death of a shareholder;
– amalgamate multiple accounts;
– resolve any other question about your shareholding.

Dividend mandates

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

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

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

The interim dividend for 2004 will be paid on 4 January 2005. If you have already elected to join the DRIP, then you need take no further action. If you wish to join the DRIP, then you should complete a mandate form and return it to the Registrars by no later than 9 December 2004 in order to participate in the DRIP for this dividend. If you do not have a DRIP mandate form, please contact the Registrars.

PROSHARE
PRIVATE INVESTOR AWARDS
2003 WINNER

Balfour Beatty

Balfour Beatty plc
130 Wilton Road
London SW1V 1LQ
Telephone: 44 (0) 20 7216 6800
Facsimile: 44 (0) 20 7216 6950
www.balfourbeatty.com