Balfour Beatty plc
Interim report 2003

The creation and care of essential assets

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

Balfour Beatty

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.

Operational achievements

- Further progress in profits and earnings
- Strong cash performance
- Record order book of £6.4bn
- Metronet's London Underground PPP concessions brought to financial close
- Major project wins in roads, rail, PFI and building
- Principal market prospects encouraging

Interim results

Sir David John Chairman

Mike Welton Chief Executive

Financial highlights	**2003 first half**	2002 first half
Turnover	**£1,751m**	£1,685m
Pre-tax profits*	**£51m**	£48m
Earnings per share*	**8.1p**	6.3p
Dividends per ordinary share	**2.60p**	2.35p
Net cash	**£104m**	£41m
Order book	**£6.4bn**	£4.8bn

* before amortisation of £9m (2002: £8m) which reconciles with profit before tax and after goodwill amortisation of £42m (2002: £40m). Basic earnings per share were up by 37% at 5.9p (2002: 4.3p).

Overview

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 position, with significant net cash 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/PFI and other long-term growth opportunities.

First-half results

It is pleasing to be able to report another period of growth in Balfour Beatty's profits and earnings. Once again, operating cash flow was highly satisfactory with a very strong working capital performance.

Pre-tax profits for the six months to 28 June 2003 were up 6% at £51m (2002: £48m) before goodwill amortisation of £9m (2002: £8m). These results were achieved after an increase of £6m in pension charges, which impacted the building, engineering and rail sector results. Earnings per share before goodwill amortisation were 8.1p (2002: 6.3p), reflecting a significantly reduced tax charge arising from the release of Advanced Corporation Tax (ACT) credits.

Net cash stood at £104m (29 June 2002: £41m). The half-year-end order book stood at £6.4bn (29 June 2002: £4.8bn), of which £1.2bn arose from orders placed by Metronet.

Turnover increased to £1,751m (2002: £1,685m).

The Board has declared an increased interim dividend of 2.60p per ordinary share (2002: 2.35p).

Since the end of 2002, we have been successful in converting our preferred bidder status on six PPP/PFI projects, including the two Metronet PPP concessions, to contract. These projects involve aggregate construction and services contracts to Balfour Beatty companies worth over £1.5bn. We have also been successful in securing major new contracts for road construction, widening and maintenance, won substantial works for Heathrow Terminal 5 and been appointed preferred bidder, by Network Rail, for large-scale projects in rail power systems and rail renewals.

During the first half of the year, the Group's markets have generally been strong, although the US market has been weaker than last year. Public sector expenditure on major UK building and transport infrastructure projects has continued to grow and PPP/PFI has continued to provide a good selection of opportunities in our areas of expertise.

Finance

First-half net cash at £104m reflected good underlying operating cash generation and continuing working capital improvements. There was a significantly reduced tax charge arising from the release of ACT credits. ACT credit release will continue to benefit earnings in the second half of the year and we anticipate that it will continue to do so in subsequent years.

Business sectors

Building, Building Management and Services

Sales in this sector represent approximately 33% of the Group total.

Operating profits pre-goodwill amortisation in this sector at £19m were £2m lower than for the same period in 2002. Most of the businesses in the sector performed well, broadly in line with the previous year. However, profits in Andover Controls, the building control systems business, were lower due to the impact of slower US market conditions, particularly in the first quarter. Haden Building Management's profits benefited from a first significant contribution from its 49% share in Romec, the facilities management company, which has a £1.3bn, multi-year contract to manage and maintain the Royal Mail's UK premises.

The order book in the building sector was augmented by substantial station refurbishment work for Metronet on the London Underground, major PFI construction and maintenance programmes for Blackburn Hospital and Rotherham Schools and the construction and fit-out management contract for Heathrow Terminal 5.

Civil and Specialist Engineering and Services

Sales in this sector represent approximately 39% of the Group total.

Operating profits pre-goodwill amortisation in this sector at £7m showed no change over the same period in 2002.

Performance in the UK businesses continued to be satisfactory, with particularly good progress being made in major projects, the regional civil engineering business and in power networks. Profits from the Group's share in Devonport Dockyard also increased. In the recently-acquired utilities business, results were affected by integration costs and the nature of the work released under certain contracts which is now under review.

In the US, unplanned costs continued to be incurred on some projects on the Eastern seaboard, although the trend is now improving and all but two are now substantially complete. During the first half-year, substantial claims were lodged with the respective owners. Some settlements are anticipated during the remainder of 2003.

During the first half of the year, some £460m of infrastructure work for Metronet on the LUL PPP was added to the order book, as were the major new M25 widening works, the M77 motorway in Scotland and the multi-year contract for the maintenance of Highways Agency Area 4 to a total additional value of over £300m.

Rail Engineering and Services

Sales in this sector represent approximately 23% of the Group total.

Operating profits pre-goodwill amortisation in this sector at £16m matched those for the first half of 2002. Performance in maintenance and other UK activities and in Europe was good, while results in the US were lower pending final settlements on some completed projects. Progress on the Group's many major projects, including the West Coast Main Line in the UK and major power systems projects in Italy, Malaysia and Portugal, was good.

The development of future workflows progressed satisfactorily as the company achieved preferred bidder status on the inner London portion of Network Rail's upgrade of its Southern Region Power System and for UK rail renewals work likely to be worth in excess of £450m over the next five years.

Additionally, approximately £500m of trackwork was added to the order book on financial close for the Metronet LUL PPPs.

In partnership with Network Rail, Balfour Beatty introduced the first iteration of the

"New Maintenance Programme" in the Anglia region. Under these arrangements decisions on engineering and prioritisation pass to Network Rail. The outcome for Balfour Beatty is that in return for satisfactory perfomance levels we can expect acceptable margins within the new risk profile. This model will be implemented by Network Rail across the entire UK network, with Balfour Beatty's Kent contract early in the roll-out programme. It has been agreed that the Wessex contract, due to expire in March 2004, is to be transferred later this year, under mutually acceptable arrangements, to Network Rail's full direct control.

Investments and Developments

Operating profits pre-goodwill amortisation in this sector rose by £3m to £24m in the period. Lower profits from Barking Power reflected the impact of the administration of TXU Europe, one of that business's principal customers. As a result, over 25% of the station's output is now sold on the spot market.

By contrast, income from the Group's PFI concessions rose sharply with existing concessions continuing to perform well overall, including a first significant contribution from the newly-completed Edinburgh Royal Infirmary and three months' income from the Group's interest in Metronet which reached financial close in early April 2003.

New concessions for Rotherham Schools, the M77 motorway in Scotland, Blackburn Hospital, Sunderland street lighting, as well as two London Underground PPP projects have been converted to contract from preferred bidder status since the end of 2002.

We continue to prequalify and bid for large-scale schemes, principally in the healthcare, transport and education sectors.

The Hatfield rail crash

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

The Board and senior management

Viscount Weir, Chairman of the Board since 1996 and a Director since 1977, retired from the Group at the AGM in May. He has accepted an invitation to become Life President of Balfour Beatty plc. He has been succeeded by Sir David John, previously Chairman of BOC plc and currently Chairman of Premier Oil and BSI Group.

Also in May, Christopher Reeves retired from the Board after 21 years as a Director. Udo Stark also retired from the Board to pursue other business interests and has been succeeded by Dr Hans Christoph von Rohr, Chairman of the German Institute for Market Economy and Competition.
In January, David Wathen was appointed as President and Chief Executive Officer responsible for the Group's North American Operations.

Pensions

As indicated in March, although we believe that the assets and liabilities of the various Group funds are broadly in balance on an actuarial basis, changes in market conditions since the last formal reviews in 2001 have led us to decide to increase contributions to the Group pension funds with retrospective effect from the beginning of the year. For the full-year, we anticipate an £11m increase in the pension charge to profit and loss, which has been fully anticipated in our budgets and has been proportionately taken into the half-year accounts.

Outlook

UK expenditure on public buildings, public infrastructure and physical asset maintenance, both through privately financed projects and public procurement, continues to grow. The commercial building market, by contrast, is flat.
A major new road programme, concentrating on widening projects, was announced in July. Rail renewal and project spending continues to be significant, both for Network Rail and London Underground. However, Network Rail's maintenance activity is in the process of radical change.

In our markets outside the UK, we see continuing major infrastructure investment programmes in the US, Italy, the Middle East and Hong Kong, with some growth now also anticipated in German rail expenditure. The US building and security control market continues to be less buoyant than in previous years.

In building and in rail, we anticipate trading for the year to be broadly in line with that of last year, while in engineering and in investments we believe we will "make significant progress".

We remain clearly focused on sustained increases in shareholder value and are confident of delivering further progress in the second half of 2003 and beyond.

Group profit and loss account

For the half-year ended 28 June 2003 based on unaudited figures

	Notes	**2003 first half £m**	2002 first half £m	2002 year £m
Turnover including share of joint ventures and associates	2	**1,751**	1,685	3,441
Share of turnover of joint ventures		**(146)**	(65)	(191)
Share of turnover of associates		**(94)**	(81)	(150)
Group turnover		**1,511**	1,539	3,100
Group operating profit		**23**	28	58
Group operating profit before exceptional items and goodwill amortisation		**31**	36	88
Exceptional items	3	**–**	–	(9)
Goodwill amortisation		**(8)**	(8)	(21)
Share of operating profit of joint ventures		**21**	17	42
Share of operating profit of associates		**13**	12	19
Operating profit including share of joint ventures and associates		**57**	57	119
Operating profit before exceptional items and goodwill amortisation		**66**	65	149
Exceptional items	3	**–**	–	(9)
Goodwill amortisation		**(9)**	(8)	(21)
Profit before interest		**57**	57	119
Net interest payable and similar charges:				
Group		**(1)**	(2)	–
Share of joint ventures' interest		**(9)**	(11)	(24)
Share of associates' interest		**(5)**	(4)	(7)
Profit before taxation		**42**	40	88
Taxation	4	**(10)**	(14)	(35)
Profit for the period		**32**	26	53
Dividends:				
Preference	5	**(7)**	(8)	(16)
Ordinary		**(11)**	(10)	(22)
Transfer to reserves		**14**	8	15
Adjusted earnings per ordinary share		**8.1p**	6.3p	16.1p
Goodwill amortisation		**(2.2)p**	(2.0)p	(4.9)p
Exceptional items after attributable taxation		**–p**	–p	(2.2)p
Basic earnings per ordinary share	6	**5.9p**	4.3p	9.0p
Diluted earnings per ordinary share	6	**5.9p**	4.2p	8.9p
Dividends per ordinary share	7	**2.60p**	2.35p	5.40p

Statement of total recognised gains and losses

For the half-year ended 28 June 2003 based on unaudited figures

	2003 first half £m	2002 first half £m	2002 year £m
Profit for the period:			
Group	**18**	16	33
Share of joint ventures	**9**	4	12
Share of associates	**5**	6	8
Exchange adjustments	**1**	(1)	(1)
Total recognised gains and losses for the period	**33**	25	52

Group balance sheet

At 28 June 2003 based on unaudited figures

	Notes	**2003 first half £m**	2002 first half £m	2002 year £m
Fixed assets				
Intangible assets – goodwill		**263**	271	266
Tangible assets		**140**	140	140
Investments		**39**	33	30
Investments in joint ventures:				
Share of gross assets		**789**	585	662
Share of gross liabilities		**(704)**	(525)	(584)
		85	60	78
Investments in associates		**40**	33	35
		567	537	549
Current assets				
Stocks		**121**	97	98
Debtors – due within one year		**705**	702	703
– due after one year		**64**	87	72
Cash and deposits		**190**	169	175
		1,080	1,055	1,048
Creditors: amounts falling due within one year				
Borrowings		**(9)**	(39)	(29)
Other		**(1,175)**	(1,106)	(1,129)
Net current liabilities		**(104)**	(90)	(110)
Total assets less current liabilities		**463**	447	439
Creditors: amounts falling due after more than one year				
Borrowings		**(77)**	(89)	(79)
Other		**(72)**	(58)	(57)
Provisions for liabilities and charges		**(120)**	(107)	(110)
		194	193	193
Capital and reserves	8	**194**	193	193

Capital and reserves include non-equity shareholders' funds of £150m (2002: first half £166m, year £161m).

Group cash flow statement

For the half-year ended 28 June 2003 based on unaudited figures

	Notes	**2003 first half £m**	2002 first half £m	2002 year £m
Net cash inflow from operating activities	9	**116**	46	142
Dividends from joint ventures and associates		**3**	6	20
Returns on investments and servicing of finance		**(11)**	(12)	(20)
Taxation		**(15)**	(9)	(17)
Capital expenditure and financial investment		**(29)**	(9)	(35)
Acquisitions and disposals of businesses		**(4)**	(34)	(67)
Ordinary dividends paid		**(10)**	(9)	(21)
Cash inflow/(outflow) before use of liquid resources and financing		**50**	(21)	2
Management of liquid resources		**–**	15	7
Financing				
Buy-back of preference shares		**(16)**	–	(7)
Issue of ordinary shares		**2**	1	1
(Repayment of loans)/new loans		**(7)**	27	(3)
Increase in cash in the period		**29**	22	–

Notes

1 Basis of presentation

The interim financial statements have been prepared on the basis of the accounting policies set out in the 2002 Balfour Beatty plc Annual Report and Accounts.

2 Segment analysis

	Turnover			Operating profit before exceptional items		
	2003 first half £m	2002 first half £m	2002 year £m	**2003 first half £m**	2002 first half £m	2002 year £m
Total Group, including share of joint ventures and associates						
Building, building management and services	**578**	542	1,123	**19**	21	46
Civil and specialist engineering and services	**678**	687	1,347	**7**	7	17
Rail engineering and services	**399**	394	838	**16**	16	37
Investments and developments	**96**	62	133	**24**	21	49
	1,751	1,685	3,441	**66**	65	149
Goodwill amortisation				**(9)**	(8)	(21)
Operating profit				**57**	57	128
Net interest payable				**(15)**	(17)	(31)
Profit before tax and exceptional items				**42**	40	97

Goodwill amortisation arises in Building, building management and services £1.3m (2002: first half £0.8m, full year £1.8m), Civil and specialist engineering and services £3.0m (2002: first half £2.1m, full year £5.8m) and Rail engineering and services £4.5m (2002: first half £5.2m, full year £12.9m).

3 Exceptional items

In 2002, exceptional items charged against operating profit comprised costs arising from the aborted acquisition of JA Jones Inc. Exceptional items had no effect on the Group's tax charge in 2002.

4 Taxation

	2003 first half £m	2002 first half £m	2002 year £m
UK current tax			
Corporation tax	**6**	9	26
Share of joint ventures' taxation	**3**	1	6
Share of associates' taxation	**3**	2	4
Foreign current tax	**2**	2	6
Deferred taxation	**–**	–	(7)
Advance corporation tax written-back	**(4)**	–	–
Tax charge	**10**	14	35

5 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 2003 on 1 July 2003 to holders of these shares on the register on 30 May 2003. 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 2003 on 1 January 2004 to holders of these shares on the register on 21 November 2003 by direct credit or, where no mandate has been given, by cheques posted on 30 December 2003 payable on 1 January 2004. These shares will be quoted ex-dividend on 19 November 2003.

6 Earnings per ordinary share

The calculation of the earnings per ordinary share is based on the profit for the period, after charging preference dividends, divided by the weighted average number of ordinary shares in issue during the period of 414.6m (2002: first half 414.2m, full year 414.1m). The calculation of diluted earnings per ordinary share is based on the profit for the period, after charging preference dividends, divided by the weighted average number of ordinary shares in issue adjusted for the conversion of share options by 4m (2002: first half 7m, full year 5m). As in 2002, no adjustment has been made in respect of the conversion of the cumulative convertible redeemable preference shares which were antidilutive throughout the period. 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.

7 Dividends per ordinary share

The interim dividend will be paid on 2 January 2004 to ordinary shareholders on the register on 31 October 2003 by direct credit or, where no mandate has been given, by cheques posted on 30 December 2003 payable on 2 January 2004. These shares will be quoted ex-dividend on 29 October 2003.

8 Reconciliation of movements in shareholders' funds

	2003 first half £m	2002 first half £m	2002 year £m
Profit for the period	**32**	26	53
Dividends	**(18)**	(18)	(38)
	14	8	15
Other recognised gains and losses (net)	**1**	(1)	(1)
Issue of ordinary shares	**2**	1	1
Buy-back of preference shares	**(16)**	–	(7)
	1	8	8
Opening shareholders' funds	**193**	185	185
Closing shareholders' funds	**194**	193	193

9 Notes to the cash flow statement

	2003 first half £m	2002 first half £m	2002 year £m
(a) Net cash flow from operating activities:			
Group operating profit before exceptional items	**23**	28	67
Depreciation	**19**	19	40
Goodwill amortisation	**8**	8	19
Profit on disposal of fixed assets	**(2)**	–	(1)
Provision against own shares held	**1**	1	1
Exceptional items – cash expenditure	**(4)**	(2)	(9)
Working capital decrease/(increase)	**71**	(8)	25
Net cash inflow from operating activities	**116**	46	142
(b) Analysis of movement in net cash:			
Opening net cash	**67**	63	63
Cash inflow/(outflow) before use of liquid resources and financing	**50**	(21)	2
Buy-back of preference shares	**(16)**	–	(7)
Issue of ordinary shares	**2**	1	1
Acquisitions – debt at date of acquisition	**–**	(1)	(1)
Exchange adjustments	**1**	(1)	9
Closing net cash	**104**	41	67
(c) Reconciliation of cash flow to movement in net cash:			
Increase in cash in the period	**29**	22	–
Cash outflow/(inflow) from decrease/increase in borrowings	**7**	(27)	3
Cash inflow from decrease in term deposits	**–**	(15)	(7)
Change in net cash resulting from cash flows	**36**	(20)	(4)
Acquisitions – debt at date of acquisition	**–**	(1)	(1)
Exchange adjustments	**1**	(1)	9
Movement in net cash	**37**	(22)	4

The financial information set out above (which was approved by the Board on 12 August 2003) does not constitute the Company's statutory accounts. Comparative full year figures have been extracted from the 2002 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 28 June 2003 which comprises the profit and loss account, the balance sheets, the cash flow statement and related notes 1 to 9. 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 28 June 2003.

Deloitte & Touche LLP
Chartered Accountants
London
12 August 2003

Shareholder information

Financial calendar

	2003
29 October	Ex dividend date for interim 2003 ordinary dividend
31 October	Interim 2003 ordinary dividend record date
19 November	Ex dividend date for January 2004 preference dividend
21 November	January 2004 preference dividend record date
5 December	Final date for receipt of DRIP mandate forms 2004 (see below)
	2004
1 January	Preference dividend payable
2 January	Interim 2003 ordinary dividend payable
4 March*	Announcement of 2003 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 2003 will be paid on 2 January 2004. If you have already elected to join the DRIP, then you need take no further action. If you wish to join the DRIP, then you should complete a mandate form and return it to the Registrars by no later than 5 December 2003 in order to participate in the DRIP for this dividend. If you do not have a DRIP mandate form, please contact the Registrars.

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