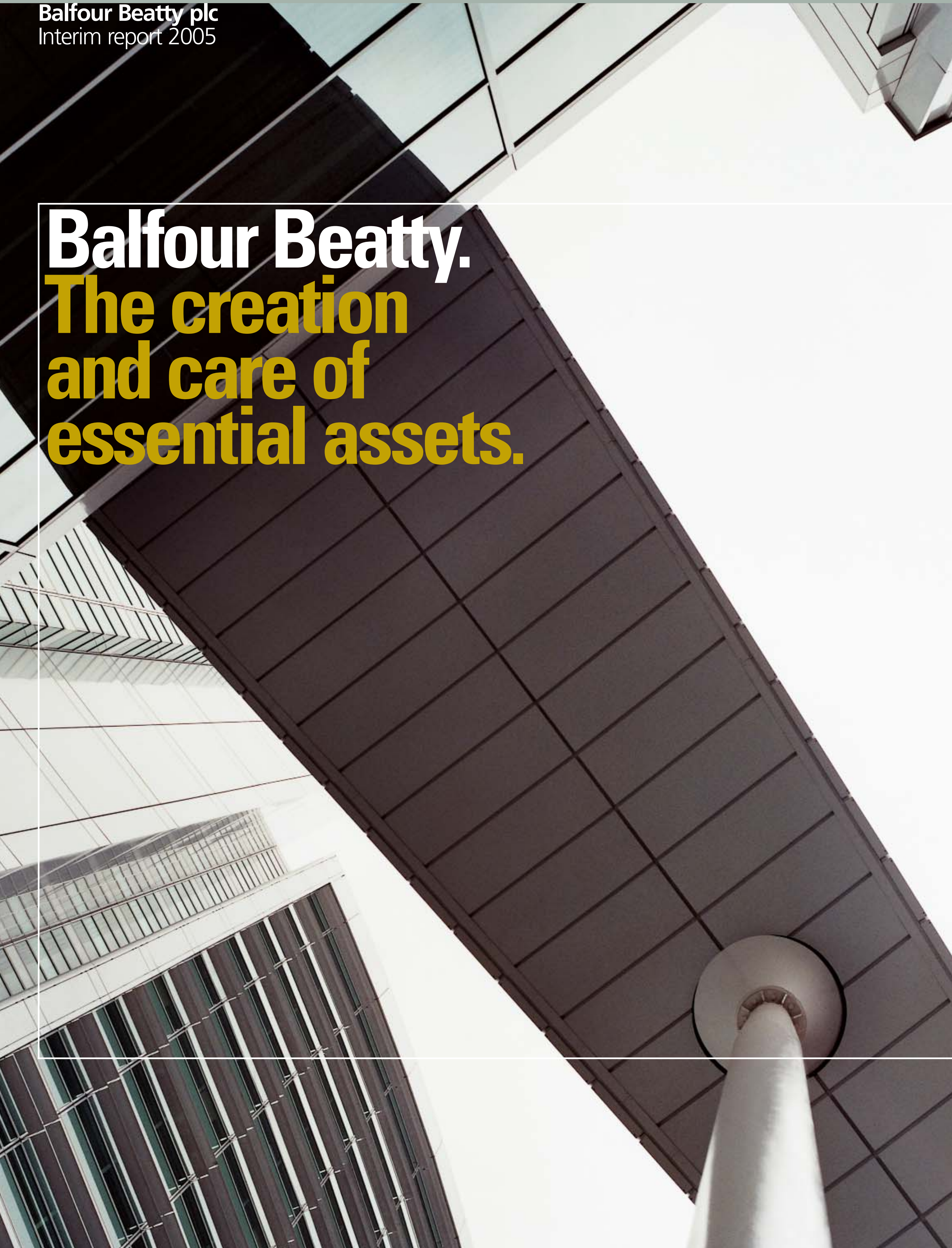
Balfour Beatty plc
Interim report 2005

Balfour Beatty.
The creation and care of essential assets.



Highlights

Continuing growth in comparable pre-tax profits

Strong operating cash performance

Earnings per share impacted by increased tax charge

Interim dividend increased by 23% to 3.5p (2004: 2.85p)

Order book at record £7.4bn, up 9% since year end

Bassetlaw and North Lanarkshire Schools PFI concessions reach financial close

Acquisitions of UK ground engineering specialist and German rail signalling company

Financial summary

	2005 first half	Pro forma† 2004 first half	2004 first half
Revenue including joint ventures and associates	**£2,308m**	£2,026m	£2,026m
Pre-tax profit from continuing operations			
– before exceptional items	**£52m**	£44m	£53m
– after exceptional items	**£67m**	£49m	£56m
Earnings per share			
– adjusted*	**9.3p**	10.1p	10.4p
– basic	**13.4p**	10.9p	9.6p
Financing			
– net cash before PFI/PPP subsidiaries (non-recourse)	**£299m**	£121m	£121m
– net borrowings of PFI/PPP subsidiaries (non-recourse)	**£(247)m**	£(238)m	£(238)m

* before exceptional items and the premium arising on the buy-back of preference shares, and including the results of discontinued operations.
† including the impact of IAS 32 and IAS 39 on first half 2004 numbers.

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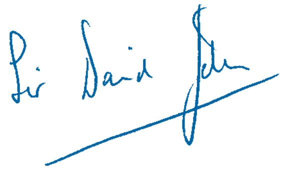
Interim results

Sir David John Chairman



Ian Tyler Chief Executive

First half year results

These results are the Group's first to be presented under International Financial Reporting Standards (IFRS). While the new standards have little impact on the results in Balfour Beatty's contracting sectors (Building, Engineering and Rail), two of the new standards, IAS 32 and IAS 39, relating to financial instruments, fundamentally affect the way we account for our interests in PFI/PPP concessions and for our preference shares. The results presented in the formal accounts reflect the application of these standards to first half 2005 results but not to those for the first half of 2004, with a consequent impact on comparability.

In order to provide appropriate period-to-period comparisons, in addition to the formal accounts we have provided "pro forma" first half and full year 2004 results, including the impact of IAS 32 and IAS 39, following this statement.

Balfour Beatty's profits from continuing operations before taxation and exceptional items for the six months to 2 July 2005 were £52m (2004: £44m*). Adjusted earnings per share were 9.3p (2004: 10.1p*), reflecting an increased tax charge following £4m Advance Corporation Tax credits in the first half of 2004.

The Board has declared an interim dividend increased by 23% to 3.5p per ordinary share (2004: 2.85p). This represents a rebased level, following the trend in recent periods of earnings per share growth to outstrip dividend growth.

There was a net exceptional profit after tax of £17m in the first half of 2005, arising from the receipt of initial distributions by Barking Power from the administrators of TXU Europe, of which Balfour Beatty's share was £24m after tax. This was offset by the premium paid on the purchase of preference shares (£3m), together with the cost of repaying a US$120m term loan (£4m after tax). Pre-tax profit for the period from continuing operations, including exceptional items, stood at £67m (2004: £49m*) and basic earnings per share rose to 13.4p (2004: 10.9p*).

Cash performance was again strong and period-end net cash stood at £299m (2004: £121m) before taking account of the consolidation of £247m non-recourse net debt (2004: £238m) in the PPP road and street lighting concession companies which are wholly owned by Balfour Beatty.

The period-end order book at a record £7.4bn was up by 14% since June 2004 (£6.5bn) and by 9% since the year-end (£6.8bn).

Revenue, including the Group's share of joint ventures and associates, at £2,308m (2004: £2,026m), was up by 14% on the first half of 2004.

* including the impact of IAS 32 and IAS 39 on first half 2004 numbers.

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, sustainable 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 and other long-term growth opportunities.

First half year in brief

The Board
Ian Tyler succeeded Mike Welton as Chief Executive on 1 January 2005.

Operations
The period saw satisfactory results in most of our businesses and strong order intake, most notably in the UK utilities market. In the US, management changes, reorganisation and other steps taken to address the poor performance of the last two years have begun to show results, with a significantly improved performance in the civil engineering business. However, losses on a US rail contract and US litigation settlement costs have impacted first half results.

We have continued our review of the Group's strategy and the options available for further improving the business mix.

Acquisitions
The JCM Group, acquired in February 2005, gives Heery, our US project and programme management company, a substantial presence in southern California. This follows the purchase of HLM, a recognised leader in the planning and design of US healthcare projects in October 2004. Since the half year, the Group has acquired Pennine, a UK ground engineering specialist, for £8m, and agreed to acquire SBB, a German rail signalling company, for €14m. Pennine will strengthen the Group's presence in the UK foundations market and SBB will broaden the range of the services which we offer to Deutsche Bahn in Germany.

Metronet
The operating and financial performance of Metronet, the London Underground PPP concession company in which Balfour Beatty has a 20% interest, remains satisfactory and improvements in existing asset performance have continued.

The 30-year capital works programme required to upgrade and renew the asset, made possible only by the adoption of a PPP approach, is enormous in its scope and complexity. In its early stages of development, some aspects of the programme are behind their original schedule. Metronet is confident that any delays will be recovered as start-up problems are addressed and resolved by the new management team appointed this year.

Hatfield
Charges of manslaughter against Balfour Beatty Rail Infrastructure Services (BBRIS) and two of its former employees in respect of the Hatfield rail accident of October 2000 were dismissed in July of this year. BBRIS has subsequently entered a qualified plea of guilty in respect of charges under the Health and Safety At Work Act. The trial of the other accused parties continues.

Business sectors

Building, Building Management and Services
Profits from operations, before exceptional items, in this sector fell from £14m in the first half of 2004 to £8m in the first half of 2005. Performance was generally good, particularly in Mansell, which won substantial amounts of new work. However, losses were incurred on a small number of construction contracts, largely as a result of raw material cost inflation between contract and project execution.

Order intake has been very strong, with several major new contracts secured in recent months, most notably under the North Lanarkshire and Bassetlaw Schools PFI projects. Preferred bidder status was also achieved for two new Ambulatory Care and Diagnostic Centres, a major hospital development scheme in Glasgow. These three contracts will be worth more than £400m. The substantial orders won by Mansell were largely in the social housing sector and for the United States Air Force at Lakenheath in Suffolk.

The first phase of University College London Hospital was handed over on time and budget, as was the major office development project at Waverleygate in Edinburgh. The substantial enabling works for the new Birmingham Hospital continued satisfactorily.

A significantly stronger performance is expected in the building sector in the second half of the year.

Civil and Specialist Engineering and Services
Profits from operations, before exceptional items, in the engineering sector more than doubled to £17m (2004: £8m). This was very largely due to a significantly improved performance from Balfour Beatty Construction Inc in the US, where losses were markedly reduced. Elsewhere in the sector, performance was steady.

Order intake in the engineering sector has been strong during the course of the year so far. Balfour Beatty Utilities has been extremely successful in its bidding activities following last year's regulatory reviews in the gas and water sectors. In February, the £380m contract to renew all the gas mains in Greater Manchester was secured from National Grid Transco. Major new long-term service contracts were also awarded by Anglian Water, United Utilities, Severn Trent Water, Yorkshire Water and South West Water to a total additional value of over £700m.

In March, Balfour Beatty Civil Engineering, now in the final stages of widening the M25 adjacent to Heathrow Airport, was awarded the £241m contract to widen the M1 between Junctions 6A and 10.

There were some notable successes for Gammon in Hong Kong, including winning contracts for a major casino and hotel complex in Macau, civil works for the Southern Link project for the Kowloon and Canton Railway Corporation and for road maintenance in Hong Kong.

The new £132m M77 motorway and Glasgow Southern Orbital relief road project was handed over in April to time and budget.

In August, the acquisition was announced of Pennine, the UK ground engineering specialist. Balfour Beatty is, through Stent Foundations, already a leader in the piling sector and this acquisition provides a strong complementary presence in ground engineering.

The good progress of the first half in this sector is expected to be maintained in the second half of the year.

Rail Engineering and Services

In this sector, profits from operations, before exceptional items, at £20m (2004: £23m) reflected a sound performance despite reduced UK volumes following the loss of the maintenance contracts which were taken back in-house by Network Rail in the middle of last year. Profits were enhanced by contract settlements in UK rail renewals.

Performance under the substantial long-term programmes of track renewal being undertaken for Network Rail and under the London Underground PPP project was satisfactory, as was that on the West Coast Main Line electrification project and at Heathrow Terminal 5.

Conditions in the US rail market continue to offer challenges to the Group. Problems in respect of a signalling contract continued to impact performance adversely.

In Germany, demand remained depressed, while electrification work in Italy continued to be buoyant and progress was good on the current phase of the Metro do Porto contract. Two new projects were secured in Sweden with a total value of approximately £50m.

In July, we agreed to acquire SBB, the leading German signal specialist. This acquisition will further broaden Balfour Beatty's signalling capability and helps develop Balfour Beatty Rail Power Systems' strong existing relationship with Deutsche Bahn.

Performance in the rail sector is expected to remain satisfactory in the second half of the year.

Investments and Developments

Profits from operations, before exceptional items, in the Investments and Developments sector at £8m were marginally ahead of 2004 (£7m). Much of the profits derived from assets in this sector are now accounted for as investment income. Operating concession performance was satisfactory, including contributions from Metronet and Barking Power in line with those of the first half of 2004. Barking Power also received initial distributions from the administrator of TXU Europe, with Balfour Beatty taking its share of £24m, net of tax, as an exceptional profit. The cash has been retained within Barking Power.

During the first half of the year, concessions for both University College London Hospital (Phase 1) and the M77/Glasgow Southern Orbital road became operational.

In June, the £140m North Lanarkshire Schools project reached financial close, followed in mid-July by the £127m Bassetlaw Schools project in north Nottinghamshire. Work continues to bring the £520m Birmingham Hospital and the £60m Birmingham Schools projects, for which Balfour Beatty is preferred bidder, to financial close in the second half of the year. We are also preferred bidder for the £250m Pinderfields Hospital in Yorkshire, for which a new design was recently approved and financial close is expected in 2006.

Balfour Beatty now has 17 operational concessions and has committed some £238m of equity to the PPP market. The prequalification and bidding pipeline remains strong.

Andover Controls

Andover Controls contributed £7m of operating profit in the first half of 2004. The company was sold in July 2004 for US$403m.

Outlook

Trading prospects in our key markets continue to be positive, although the medium-term outlook in UK and German rail remains unclear. Significant new orders have been won already in the second half of the year and bidding opportunities in most of our markets remain encouraging.

Our investment in PPP/PFI is continuing. Two further concessions are likely to have reached financial close before the year end. Three other major concessions will be at preferred bidder stage. We anticipate that recovery in US civil engineering will continue and that there will be good progress in the building sector in the second half of the year.

We have substantial net cash. During the year, we have made good progress in developing our strategy with a view to maintaining, in the long-term, our successful trend of profits and earnings growth.

We expect our seasonal performance to resume its normal pattern and anticipate that 2005 as a whole will be a year of good progress.

International Financial Reporting Standards

This is our first set of financial statements prepared under International Financial Reporting Standards (IFRS). Notes 1 and 16 to the accounts describe the key issues and changes arising from the introduction of these new standards which have a material effect on the way we present our financial statements. To help readers of our accounts better interpret the impact of the adoption from 1 January 2005 of IAS 32 and IAS 39, pages 18 to 20 give pro forma numbers showing what the Group's results would have been had we adopted IAS 32 and IAS 39 from the beginning of 2004.

Group income statement
For the half-year ended 2 July 2005 based on unaudited figures

	Notes	2005 first half Before exceptional items £m	2005 first half Exceptional items (Note 6) £m	2005 first half Total £m	2004 first half Before exceptional items £m	2004 first half Exceptional items (Note 6) £m	2004 first half Total £m	2004 year Before exceptional items £m	2004 year Exceptional items (Note 6) £m	2004 year Total £m
Revenue including share of joint ventures and associates		**2,308**	**–**	**2,308**	2,026	–	2,026	4,239	–	4,239
Share of revenue of joint ventures and associates	3	**(494)**	**–**	**(494)**	(334)	–	(334)	(749)	–	(749)
Group revenue		**1,814**	**–**	**1,814**	1,692	–	1,692	3,490	–	3,490
Group operating profit		**24**	**–**	**24**	29	3	32	58	(2)	56
Share of results of joint ventures and associates	3	**19**	**24**	**43**	13	–	13	36	–	36
Profit from operations		**43**	**24**	**67**	42	3	45	94	(2)	92
Investment income	4	**29**	**–**	**29**	26	–	26	56	–	56
Finance costs	5	**(20)**	**(9)**	**(29)**	(15)	–	(15)	(28)	–	(28)
Profit before taxation		**52**	**15**	**67**	53	3	56	122	(2)	120
Taxation	7	**(12)**	**2**	**(10)**	(9)	(1)	(10)	(23)	(5)	(28)
Profit for the period from continuing operations		**40**	**17**	**57**	44	2	46	99	(7)	92
Profit for the period from discontinued operations	8	**–**	**–**	**–**	7	–	7	8	160	168
Profit for the period		**40**	**17**	**57**	51	2	53	107	153	260
Preference dividends	5	**–**	**–**	**–**	(7)	–	(7)	(13)	–	(13)
Premium paid on buy-back of preference shares		**–**	**–**	**–**	(5)	–	(5)	(6)	–	(6)
Profit for the period attributable to equity shareholders		**40**	**17**	**57**	39	2	41	88	153	241

	Notes	2005 first half pence	2004 first half pence	2004 year pence
Basic earnings per ordinary share				
– continuing operations	10	**13.4**	8.0	17.3
– discontinued operations	10	**–**	1.6	40.1
		13.4	9.6	57.4
Diluted earnings per ordinary share				
– continuing operations	10	**13.2**	7.9	17.2
– discontinued operations	10	**–**	1.6	39.7
		13.2	9.5	56.9
Dividends proposed for the period	9	**3.50**	2.85	6.60

Group statement of recognised income and expense
For the half-year ended 2 July 2005 based on unaudited figures

	2005 first half £m	2004 first half £m	2004 year £m
Actuarial losses on retirement benefit obligations	**–**	–	(17)
Losses on cash flow hedges	**(14)**	–	–
Fair value revaluation of PFI/PPP financial assets	**19**	–	–
Tax on items taken directly to equity	**(1)**	–	3
Exchange adjustments	**2**	(2)	1
Net income/(expense) recognised directly in equity	**6**	(2)	(13)
Profit for the period from continuing operations	**57**	46	92
Profit for the period from discontinued operations	**–**	7	168
Total recognised income for the period	**63**	51	247
Attributable to:			
Equity shareholders	**63**	44	234
Non-equity shareholders	**–**	7	13
	63	51	247

Group balance sheet
At 2 July 2005 based on unaudited figures

	Notes	2005 first half £m	2004 first half £m	2004 year £m
Non-current assets				
Goodwill		**276**	286	279
Property, plant and equipment		**156**	146	149
Investments in joint ventures and associates	13	**252**	137	189
Investments		**42**	36	42
PFI/PPP financial assets		**356**	255	282
Deferred tax assets		**64**	100	87
Trade and other receivables		**52**	45	41
		1,198	1,005	1,069
Current assets				
Inventories		**58**	53	50
Due from customers for contract work		**267**	228	218
Derivative financial instruments		**1**	–	–
Trade and other receivables		**520**	590	563
Cash and cash equivalents				
– PFI/PPP subsidiaries		**23**	39	30
– other		**306**	197	388
		1,175	1,107	1,249
Non-current assets classified as held for sale		**–**	57	–
Total assets		**2,373**	2,169	2,318
Current liabilities				
Trade and other payables		**(983)**	(993)	(946)
Due to customers for contract work		**(251)**	(206)	(264)
Derivative financial instruments				
– PFI/PPP subsidiaries		**(14)**	–	–
– other		**(4)**	–	–
Current tax liabilities		**(31)**	(42)	(38)
Borrowings				
– PFI/PPP non-recourse term loans		**(14)**	(13)	(13)
– other		**(7)**	(9)	(15)
		(1,304)	(1,263)	(1,276)
Non-current liabilities				
Borrowings				
– PFI/PPP non-recourse term loans		**(256)**	(264)	(261)
– other		**–**	(67)	(62)
Liability component of preference shares		**(99)**	–	–
Trade and other payables		**(68)**	(72)	(58)
Deferred tax liabilities		**(2)**	(1)	(2)
Retirement benefit obligations		**(256)**	(255)	(254)
Provisions		**(111)**	(113)	(103)
		(792)	(772)	(740)
Liabilities directly associated with non-current assets classified as held for sale		**–**	(14)	–
Total liabilities		**(2,096)**	(2,049)	(2,016)
Net assets		**277**	120	302
Capital and reserves				
Called-up share capital		**213**	212	213
Share premium account		**24**	148	150
Equity component of preference shares		**18**	–	–
Special reserve		**178**	185	181
Other reserves		**(156)**	(425)	(242)
		277	120	302
Equity interests		**277**	(17)	166
Non-equity interests		**–**	137	136
Equity/shareholders funds		**277**	120	302

Group cash flow statement
For the half-year ended 2 July 2005 based on unaudited figures

	Notes	2005 first half £m	2004 first half £m	2004 year £m
Cash flows from operating activities				
Cash generated from operations	14(a)	**89**	109	148
Income taxes paid		**(12)**	(16)	(41)
Net cash from operating activities		**77**	93	107
Cash flows from investing activities				
Dividends received from joint ventures and associates		**6**	2	8
Acquisition of businesses, net of cash and cash equivalents acquired		**(6)**	25	(17)
Purchase of property, plant and equipment		**(29)**	(20)	(51)
Investment in and loans made to joint ventures and associates		**(4)**	(5)	(11)
Investment in financial assets		**(16)**	(34)	(65)
Disposal of businesses, net of cash and cash equivalents disposed		**–**	1	217
Disposal of property, plant and equipment		**4**	5	13
Disposal of investments		**2**	–	51
Net cash (used in)/from investing activities		**(43)**	(26)	145
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**3**	1	4
Purchase of ordinary shares		**(1)**	(1)	(2)
Proceeds from new loans		**2**	8	6
Repayment of loans		**(72)**	(6)	(12)
Finance lease principal repayments		**(2)**	(2)	(2)
Buy-back of preference shares		**(9)**	(18)	(20)
Ordinary dividends paid		**(28)**	(11)	(25)
Interest received		**26**	18	47
Interest paid		**(14)**	(15)	(24)
Premium paid on repayment of US Dollar term loan		**(9)**	–	–
Preference dividends paid		**(13)**	(7)	(15)
Net cash used in financing activities		**(117)**	(33)	(43)
Net (decrease)/increase in cash and cash equivalents		**(83)**	34	209
Effects of exchange rate changes		**–**	1	(1)
Cash and cash equivalents at beginning of period		**406**	198	198
Cash and cash equivalents at end of period	14(b)	**323**	233	406

Group statement of changes in equity
For the half-year ended 2 July 2005 based on unaudited figures

	Notes	2005 first half £m	2004 first half £m	2004 year £m
Total recognised income and expense attributable to equity shareholders		**63**	44	234
Ordinary dividends	9	**(16)**	(14)	(26)
Premium paid on buy-back of preference shares		**–**	(5)	(6)
Issue of ordinary shares		**3**	1	4
Buy-back of preference shares – carrying value in equity/shareholders’ funds		**(1)**	(13)	(14)
Movements relating to share-based payments		**1**	1	4
		50	14	196
Shareholders' funds at beginning of period		**302**	106	106
Implementation of IAS 32 and IAS 39	1	**(75)**	–	–
Equity/shareholders’ funds at end of period		**277**	120	302

1 Basis of presentation

The interim financial statements have been prepared for the first time in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), which have been adopted from 1 January 2004.

As permitted by IFRS 1 "First-time Adoption of IFRS", the Group has adopted IAS 32 and IAS 39 "Financial Instruments" prospectively from 1 January 2005, and comparative figures have not been restated. These standards have a significant impact on the Group and particularly affect the accounting for the Company's convertible redeemable preference shares, the hedging activities of the Group's PFI/PPP concessions and their income which, in accordance with the International Financial Reporting Interpretations Committee (IFRIC)'s draft interpretations on service concessions, D12 to D14, is determined under IAS 39 to be a financial asset. The adoption of IAS 32 and IAS 39 has reduced the Group's net assets as follows:

	£m
Net assets at 31 December 2004	302
Preference shares – liability element and deferred tax	(113)
Group derivatives	(3)
PFI/PPP concessions – derivatives	(46)
PFI/PPP concessions – financial assets	87
Net assets at 1 January 2005	227

The accounting policies used in the interim financial statements are consistent with those that the Directors intend to use in the annual financial statements, but some changes to these policies may be necessary if there are changes to IFRIC's draft interpretations on service concessions or those standards yet to be endorsed by the European Commission.

The accounting policies are set out in Section 5 of the IFRS report published by the Company on 23 June 2005 and are available on its website (at www.balfourbeatty.com/bbeatty/ir/ifrs/).

2 Segment analysis – continuing operations

For the period ended 2 July 2005

Performance by activity:	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Group revenue	788	633	367	26	–	1,814
Group operating profit	6	12	20	(4)	(10)	24
Share of results of joint ventures and associates	2	5	–	12	–	19
Profit from operations before exceptional items	8	17	20	8	(10)	43
Exceptional items	–	–	–	24	–	24
Profit from operations	8	17	20	32	(10)	67
Investment income						29
Finance costs						(29)
Profit before taxation						67

Performance by geographic origin:	Europe £m	North America £m	Other £m	Total £m
Group revenue	1,590	218	6	1,814
Profit from operations before exceptional items	58	(16)	1	43
Exceptional items	24	–	–	24
Profit from operations	82	(16)	1	67

For the period ended 26 June 2004

Performance by activity:	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Group revenue	690	586	374	42	–	1,692
Group operating profit	12	5	25	(3)	(10)	29
Share of results of joint ventures and associates	2	3	(2)	10	–	13
Profit from operations before exceptional items	14	8	23	7	(10)	42
Exceptional items	–	–	3	–	–	3
Profit from operations	14	8	26	7	(10)	45
Investment income						26
Finance costs						(15)
Profit before taxation						56

Performance by geographic origin:	Europe £m	North America £m	Other £m	Total £m
Group revenue	1,518	172	2	1,692
Profit from operations before exceptional items	61	(18)	(1)	42
Exceptional items	3	–	–	3
Profit from operations	64	(18)	(1)	45

2 Segment analysis – continuing operations continued

For the year ended 31 December 2004

Performance by activity:	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Group revenue	1,468	1,144	800	78	–	3,490
Group operating profit	32	7	45	(9)	(17)	58
Share of results of joint ventures and associates	2	9	(1)	26	–	36
Profit from operations before exceptional items	34	16	44	17	(17)	94
Exceptional items	–	1	(3)	–	–	(2)
Profit from operations	34	17	41	17	(17)	92
Investment income						56
Finance costs						(28)
Profit before taxation						120

Performance by geographic origin:	Europe £m	North America £m	Other £m	Total £m
Group revenue	3,107	377	6	3,490
Profit from operations before exceptional items	137	(45)	2	94
Exceptional items	15	(18)	1	(2)
Profit from operations	152	(63)	3	92

3 Share of results of joint ventures and associates

	2005 first half £m	2004 first half £m	2004 year £m
Share of revenue of joint ventures and associates	**494**	334	749
Operating profit before exceptional items	**21**	21	44
Investment income	**29**	27	56
Finance costs	**(22)**	(29)	(49)
Taxation	**(9)**	(6)	(15)
Share of results of joint ventures and associates before exceptional items	**19**	13	36

4 Investment income

	2005 first half £m	2004 first half £m	2004 year £m
PFI/PPP non-recourse – interest on financial assets	**18**	18	34
PFI/PPP subordinated debt interest receivable	**3**	3	9
Other interest receivable and similar income	**8**	5	13
	29	26	56

5 Finance costs

		2005 first half £m	2004 first half £m	2004 year £m
PFI/PPP non-recourse	– other interest payable	**9**	10	18
Other interest payable	– bank loans and overdrafts	**2**	2	2
	– finance leases	**–**	–	1
	– other loans	**2**	3	7
		13	15	28
Preference shares	– finance cost	**7**	–	–
		20	15	28
Exceptional items	– premium on buy-back of preference shares	**3**	–	–
	– net premium on repayment of US Dollar term loan	**6**	–	–
		29	15	28

The finance cost and premium on buy-back of preference shares are treated as finance costs under IAS 32 from adoption on 1 January 2005, but were previously treated as appropriations of profit for the period.

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 2005 on 1 July 2005 to holders of these shares on the register on 27 May 2005. 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 2005 on 1 January 2006 to holders of these shares on the register on 25 November 2005 by direct credit or, where no mandate has been given, by cheque posted on 29 December 2005 payable on 1 January 2006. These shares will be quoted ex-dividend on 23 November 2005.

6 Exceptional items

	2005 first half £m	2004 first half £m	2004 year £m
(a) Credited to/(charged against) profit from operations			
Group operating profit – cancellation of Network Rail maintenance contracts	–	3	7
– pension settlement gain	–	–	8
– profit on sale of Hong Kong business	–	–	1
– impairment of goodwill	–	–	(18)
Share of results of joint ventures and associates			
– TXU distributions to Barking Power Ltd	24	–	–
	24	3	(2)
(b) Charged to finance costs			
– premium on buy-back of preference shares	(3)	–	–
– net premium on repayment of US Dollar term loan	(6)	–	–
Credited to/(charged against) profit before taxation	15	3	(2)
Taxation thereon	2	(1)	(5)
Credited to/(charged against) profit for the period from continuing operations	17	2	(7)
(c) Credited to profit for the period from discontinued operations			
– profit on sale of operations	–	–	160
Credited to profit for the period	17	2	153

In accordance with its IFRS accounting policies, the Group has presented and disclosed items of income and expense which are both material and non-recurring as "exceptional items".

(a) The exceptional item credited to profit from operations in share of results of joint ventures and associates in 2005 arises in Barking Power Ltd in which the Group holds a 25.5% interest. In November 2002, TXU Europe, whose subsidiaries are respectively a shareholder and customer of Barking Power Ltd, entered administration. As a result, the long-term electricity supply contract with a TXU subsidiary was terminated, triggering an entitlement to payment for damages, for which Barking Power Ltd lodged a substantial claim. In December 2004, Barking Power Ltd reached an agreement in principle with the administrators on the value of its claim at £179m. The Group's share of the gain arising from the initial distributions received from TXU was £24m, after charging taxation of £10m.

Exceptional items credited to profit from operations in 2004 arose in respect of the resolution of certain matters (first half £3m, full year £7m) previously provided for in 2003 in relation to the cancellation of three Network Rail maintenance contracts; an £8m settlement gain on curtailment of the Railways Pension Scheme; a profit of £1m arising on the transfer of the Group's construction contracts in progress in Hong Kong to the Gammon Skanska Group following the acquisition of a 50% interest in that business; and a goodwill impairment charge of £18m in respect of Balfour Beatty Rail Inc.

(b) The exceptional items charged against finance charges in 2005 are the premium of £3m arising on the repurchase for cancellation of 5.6m preference shares at a cost of £9m, and the net premium of £6m arising from the repayment of the US Dollar term loan.

(c) The exceptional item credited to profit for the period from discontinued operations in 2004 comprised the gain arising on the disposal of Andover Controls amounting to £160m, after charging taxation of £12m.

7 Taxation

	2005 first half £m	2004 first half £m	2004 year £m
UK current tax	6	8	29
UK advance corporation tax	–	(4)	(17)
Foreign current tax	2	2	4
Deferred tax	2	4	12
	10	10	28

Corporation tax for the period is charged at 36% (2004: full year 27%, but on a "pro forma" basis 32%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year.

8 Discontinued operations

Andover Controls, sold in July 2004, has been classified as discontinued. The profit for the year from discontinued operations comprises the post-tax results of Andover Controls (2004: first half £7m, full year £8m) and the profit on sale of Andover Controls (2004: full year £160m).

9 Dividends on ordinary shares

	2005 first half		2004 first half		2004 year	
	Per share pence	Amount £m	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period:						
Interim 2004	–	–	2.85	12	2.85	12
Final 2004	–	–	–	–	3.75	16
Interim 2005	3.50	15	–	–	–	–
	3.50	15	2.85	12	6.60	28
Recognised dividends for the period:						
Final 2003		–		14		14
Interim 2004		–		–		12
Final 2004		16		–		–
		16		14		26

The interim 2005 dividend will be paid on 3 January 2006 to holders of ordinary shares on the register on 28 October 2005 by direct credit or, where no mandate has been given, by cheque posted on 29 December 2005 payable on 3 January 2006. These shares will be quoted ex-dividend on 26 October 2005.

10 Earnings per share

	2005 first half		2004 first half		2004 year	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings						
– continuing operations	**57**	**57**	34	34	73	73
– discontinued operations	**–**	**–**	7	7	168	168
	57	**57**	41	41	241	241
Premium on buy-back of preference shares	**–**		5		6	
Exceptional items	**(17)**		(2)		(153)	
Adjusted earnings	**40**		44		94	

	m	**m**	m	m	m	m
Weighted average number of ordinary shares	**423.0**	**428.4**	418.7	423.6	419.4	423.6

	pence	**pence**	pence	pence	pence	pence
Earnings per share						
– continuing operations	**13.4**	**13.2**	8.0	7.9	17.3	17.2
– discontinued operations	**–**	**–**	1.6	1.6	40.1	39.7
	13.4	**13.2**	9.6	9.5	57.4	56.9
Premium on buy-back of preference shares	**–**		1.3		1.5	
Exceptional items	**(4.1)**		(0.5)		(36.4)	
Adjusted earnings per share	**9.3**		10.4		22.5	

The calculation of basic earnings is based on profit from continuing operations after charging preference dividends and appropriations arising on the buy-back of preference shares. The weighted average number of shares used to calculate diluted earnings per share has been adjusted for the conversion of share options. 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 each period. Adjusted earnings per ordinary share, before exceptional items and appropriations arising on the buy-back of preference shares and including the results of discontinued operations, have been disclosed to give a clearer understanding of the Group's underlying trading performance.

11 Acquisitions

On 17 February 2005, the Group acquired JCM Group in the USA for an initial consideration of US$9m, deferred consideration of US$1m and costs of US$2m. The provisional fair value of net assets acquired was US$4m and provisional goodwill arising was US$8m.

12 PFI/PPP subsidiaries

The Group has a 100% interest in four PFI/PPP concessions through its shareholdings in Connect Roads Ltd, Connect M77/GSO Holdings Ltd and Connect Roads Sunderland Holdings Ltd. The performance of these PFI/PPP concessions (since becoming subsidiaries as appropriate) and their balance sheets are summarised below:

	2005 first half £m	2004 first half £m	2004 year £m
Income statement			
Group revenue	**24**	42	78
Profit from operations	**–**	1	1
Investment income	**18**	18	34
Finance costs	**(9)**	(10)	(18)
Profit before taxation	**9**	9	17
Taxation	**(3)**	(2)	(5)
Profit for the period	**6**	7	12
Cash flow			
Profit from operations	**–**	1	1
Decrease in working capital	**5**	41	6
Income taxes paid	**(1)**	(1)	(4)
Net cash inflow from operating activities	**4**	41	3
Net cash outflow from investing activities	**(16)**	(37)	(7)
Net cash inflow/(outflow) from financing activities	**9**	(2)	–
Net cash (outflow)/inflow	**(3)**	2	(4)
Net borrowings at beginning of period/date of acquisition	**(244)**	(240)	(240)
Net borrowings at end of period	**(247)**	(238)	(244)
Balance sheet			
PFI/PPP financial assets	**356**	255	282
Derivative financial instruments	**(14)**	–	–
Current and deferred taxation	**(23)**	(10)	(9)
Other net current assets	**–**	23	3
Cash and cash equivalents	**23**	39	30
Non-recourse term loans	**(270)**	(277)	(274)
Net assets	**72**	30	32

13 Investments in joint ventures and associates

	2005 first half £m	2004 first half £m	2004 year £m
Property, plant and equipment	**184**	167	180
PFI/PPP financial assets	**795**	576	635
Net cash/(borrowings) – PFI/PPP non-recourse	**(594)**	(486)	(531)
– other	**2**	(71)	(29)
Other net liabilities	**(135)**	(49)	(66)
	252	137	189

14 Notes to the cash flow statement

	2005 first half £m	2004 first half £m	2004 year £m
(a) Cash generated from operations comprises:			
Profit from operations	**67**	45	92
Trading profit from discontinued operations	**–**	7	8
Share of results of joint ventures and associates	**(43)**	(13)	(36)
Depreciation of property, plant and equipment	**20**	20	41
Impairment of goodwill	**–**	–	18
Movements relating to share-based payments	**2**	1	2
(Profit)/loss on disposal of property, plant and equipment	**(1)**	1	1
Profit on disposal of businesses	**–**	(1)	(1)
Operating cash flows before movements in working capital	**45**	60	125
Decrease in working capital	**44**	49	23
Cash generated from operations	**89**	109	148
(b) Cash and cash equivalents comprise:			
Cash and deposits	**142**	120	119
Term deposits	**164**	77	269
UK PFI/PPP project finance – cash and deposits	**2**	2	–
– term deposits	**21**	37	30
Bank overdrafts	**(6)**	(3)	(12)
	323	233	406
(c) Analysis of net cash/(borrowings):			
US Dollar fixed rate term loan 8.06% (2008)	**–**	(65)	(62)
Bank overdrafts	**(6)**	(3)	(12)
Other short-term loans	**(1)**	(6)	(1)
Finance leases	**–**	(2)	(2)
Cash and deposits	**142**	120	119
Term deposits	**164**	77	269
	299	121	311
UK PFI/PPP project finance – Sterling floating rate term loan (2008–2027)*	**(10)**	(5)	(8)
– Sterling floating rate term loan (2005–2011)*	**(24)**	(26)	(25)
– Sterling floating rate term loan (2005–2012)*	**(88)**	(98)	(93)
– Sterling fixed rate bond (2006–2034)	**(148)**	(148)	(148)
– cash and deposits	**2**	2	–
– term deposits	**21**	37	30
Net cash/(borrowings)	**52**	(117)	67

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

	2005 first half £m	2004 first half £m	2004 year £m
(d) Analysis of movement in net cash/(borrowings):			
Opening net cash	**67**	124	124
Net (decrease)/increase in cash and cash equivalents	**(83)**	34	209
Acquisitions – borrowings at date of acquisition	**–**	(278)	(278)
New loans	**(2)**	(8)	(6)
Repayment of loans	**72**	6	12
Finance lease principal repayments	**2**	2	2
Exchange adjustments	**(4)**	3	4
Closing net cash/(borrowings)	**52**	(117)	67

15 Post balance sheet events

On 9 August 2005, the Group acquired Pennine, the UK ground engineering business, for approximately £8m. On 8 July 2005, the Group agreed to acquire Signalbau Bahn GmbH, the specialist German rail signalling contractor, for €14m.

16 Explanation of transition to IFRS

As described in Note 1, the interim 2005 financial statements have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS). On 23 June 2005, the Company published restated consolidated financial information for the half-year 2004 and full year 2004. Following completion of the required conversion work on all the Group's PFI/PPP concessions resulting from the adoption of IAS 32 and IAS 39 "Financial Instruments" and the draft interpretations on PFI/PPP concession accounting prospectively from 1 January 2005, the Company has made further amendments to the restated 2004 financial information in relation to the accounting for five of its PFI/PPP concessions to conform with IFRIC 4. As a result of these further amendments, an increase in "Net assets" of £19m arose on transition at 1 January 2004, "Profit before taxation" increased by £5m and £12m for the half-year and full year 2004 respectively and "Net assets" increased by £22m and £29m at 26 June 2004 and 31 December 2004 respectively. Revised reconciliations showing the changes between UK GAAP and IFRS disclosure format and the changes arising from the adoption of IFRS have been placed on the Company's website (at www.balfourbeatty.com/bbeatty/ir/ifrs/).

Reconciliations of the Group's profit for the half-year 2004 and balance sheet as at 26 June 2004, showing the effects of changes in presentation and accounting policies arising from the adoption of the recognition and measurement criteria of IFRS on the figures published under UK GAAP on 11 August 2004, are set out on the following pages, with the principal changes described below.

(a) Principal changes in presentation (reformat)

The financial statements prepared under UK GAAP have been reformatted in accordance with the requirements of IFRS as follows:

(i) Under IFRS, the post-tax results of discontinued operations include the profit on sale of those operations and are reported on a single line after "Profit for the period from continuing operations". Non-current assets and groups of assets to be disposed of and associated liabilities are separately classified if their carrying amount will be recovered through a sale transaction rather than through continuing use. The assets and associated liabilities of Andover Controls, which was sold in July 2004, are therefore separately disclosed in the balance sheet at 26 June 2004;

(ii) Interests in associates and joint venture entities are accounted for using the equity method under UK GAAP and IFRS. Under UK GAAP, the Group's share of their operating profits, interest and taxation were included under those respective captions in the income statement. Under IFRS, the Group's share of the post-tax profits of joint ventures and associates are disclosed in a single line within "Profit from operations";

(iii) Deferred tax assets, included within debtors under UK GAAP, are separately classified within "Non-current assets" under IFRS. Current and deferred tax liabilities, included within other creditors under UK GAAP, are separately classified within "Current liabilities" and "Non-current liabilities" under IFRS;

(iv) Debtors due after one year, included within current assets under UK GAAP, are reclassified within "Non-current assets" under IFRS; and

(v) Balances arising on long-term contracts are reclassified as "Due from customers for contract work" and "Due to customers for contract work" in accordance with the requirements of IAS 11 "Construction Contracts".

(b) Principal changes in accounting policy (restatement)

The transition to IFRS has resulted in the following restatements as a result of changes in accounting policies:

(i) Under UK GAAP, goodwill was amortised on a straight line basis over its economic useful life of up to 20 years, tested for impairment and provided for as necessary. Under IFRS, goodwill is no longer amortised but is carried at cost and subject to annual review for impairment at 31 December. This change increased "Profit from operations" for the half-year 2004 and "Net assets" at 26 June 2004 by £9m.

Under UK GAAP, the gain on disposal of businesses was determined after taking into account goodwill previously written-off to reserves. Such goodwill is not included in determining the profit on disposal under IFRS. This change increased "Profit from operations" for the half-year 2004 by £1m;

(ii) Under UK GAAP, the Group accounted for its defined benefit pension schemes in accordance with the requirements of SSAP 24 "Accounting for pension costs". The cost of providing the defined benefit pensions was charged against "Operating profit" with surpluses and deficits arising in the funds amortised to "Operating profit" over the remaining service lives of participating employees. Under IAS 19 "Employee Benefits", the cost of providing pension benefits (current service cost) for defined benefit pension schemes is recognised in the income statement and the defined benefit pension obligation is determined annually by independent actuaries and recognised on the balance sheet. The Group has elected to include within "Group operating profit" the interest cost arising on the projected obligations and the returns on the schemes' assets in addition to the current service cost. Actuarial gains and losses are recognised in the Statement of recognised income and expense in the period in which they occur. The effect of this change is to decrease "Profit from operations" for the half-year 2004 by £6m and "Net assets" at 26 June 2004 by £162m;

(iii) Under IFRS 2 "Share-based Payment", a charge is recognised in the Income statement for all share-based payments granted after 7 November 2002 but not vested, based on the fair values of the grants and the number expected to become exercisable. £1m of current and deferred tax credits recognised in the Income statement for the half-year 2004 are, under IAS 12 "Income Taxes", required to be credited directly to Equity. As a result "Profit for the period" is reduced through the revised recognition of these credits.

In the UK, the tax relief arising from share-based payments is not related to the expense recognised under IFRS 2. IAS 12 specifies how both the current tax relief and deferred tax arising on share-based payments should be assessed. Recognition of the deferred tax asset gives rise to an increase of £5m in "Net assets" at 26 June 2004;

(iv) Under UK GAAP, proposed dividends were recognised as a liability in the period to which they related. Under IAS 10 "Events after the Balance Sheet Date", dividends are not recognised as a liability until they are declared. As a result, "Net assets" at 26 June 2004 increase by £12m;

(v) IAS 12 requires the recognition of deferred tax on property revaluations and, subject to certain conditions, on the undistributed reserves of foreign subsidiaries, associates and joint ventures. Under UK GAAP such provisions were not required. The effect of this change is to reduce "Net assets" at 26 June 2004 by £3m; and

(vi) IFRIC 4 requires arrangements which convey the right to use assets in return for a payment or series of payments to be treated as a lease and accounted for in accordance with IAS 17 "Leases". This change in accounting for certain of the Group's PFI/PPP concessions results in an increase of £5m in "Profit before taxation" for the half-year 2004 and an increase of £22m in "Net assets" at 26 June 2004.

Reformat of Group income statement
For the half-year ended 26 June 2004 based on unaudited figures

UK GAAP	UK GAAP as previously reported £m	Discontinued operations £m	Joint ventures' and associates' tax and interest £m	Exceptional items £m	Ordinary dividend to reserves £m	UK GAAP in IFRS format £m	UK GAAP in IFRS format
Turnover including share of joint ventures and associates	1,992	(48)	–	–	–	1,944	Revenue including share of joint ventures and associates
Share of turnover of joint ventures and associates	(279)	–	–	–	–	(279)	Share of revenue of joint ventures and associates
Group turnover	1,713	(48)	–	–	–	1,665	Group revenue
Group operating profit	44	(7)	–	(1)	–	36	Group operating profit
– before exceptional items	41	(7)	–	–	–	34	– before exceptional items
– exceptional items	3	–	–	(1)	–	2	– exceptional items
Share of operating profits of joint ventures and associates	32	–	(18)	–	–	14	Share of results of joint ventures and associates
Loss on sale of operations	(3)	–	–	3	–	–	
Provision for loss on sale of operations	2	–	–	(2)	–	–	
Profit on ordinary activities before interest	75	(7)	(18)	–	–	50	Profit from operations
Investment income	9	–	–	–	–	9	Investment income
Finance costs	(12)	–	–	–	–	(12)	Finance costs
Share of joint ventures' and associates' net interest payable	(11)	–	11	–	–	–	
Profit on ordinary activities before taxation	61	(7)	(7)	–	–	47	Profit before taxation
Profit on ordinary activities before goodwill amortisation, exceptional items and taxation	68	(7)	(7)	–	–	54	Profit before goodwill amortisation, exceptional items and taxation
Goodwill amortisation	(9)	–	–	–	–	(9)	Goodwill amortisation
Exceptional items	2	–	–	–	–	2	Exceptional items
Tax on profit on ordinary activities	(17)	–	7	–	–	(10)	Taxation
Profit for the period	44	(7)	–	–	–	37	Profit for the period from continuing operations
	–	7	–	–	–	7	Profit for the period from discontinued operations
	44	–	–	–	–	44	Profit for the period
Dividends	(19)	–	–	–	12	(7)	Preference dividends
Premium paid on buy-back of preference shares	(5)	–	–	–	–	(5)	Premium paid on buy-back of preference shares
Transfer to reserves	20	–	–	–	12	32	Profit for the period attributable to equity shareholders

UK GAAP	UK GAAP as previously reported pence	Discontinued operations pence	Joint ventures' and associates' tax and interest pence	Exceptional items pence	Ordinary dividend to reserves pence	UK GAAP in IFRS format pence	UK GAAP in IFRS format
Basic earnings per ordinary share							Basic earnings per ordinary share
– continuing operations	–	6.0	–	–	–	6.0	– continuing operations
– discontinued operations	–	1.5	–	–	–	1.5	– discontinued operations
	7.5	–	–	–	–	7.5	

Restatement of Group income statement
For the half-year ended 26 June 2004 based on unaudited figures

	UK GAAP in IFRS format £m	Goodwill amortisation £m	Goodwill in reserves £m	Retirement benefit obligations £m	Share-based payments £m	Deferred taxation £m	Impact of IFRIC 4 on PFI/PPP concessions £m	IFRS £m
Revenue including share of joint ventures and associates	1,944	–	–	–	–	–	82	2,026
Share of revenue of joint ventures and associates	(279)	–	–	–	–	–	(55)	(334)
Group revenue	1,665	–	–	–	–	–	27	1,692
Group operating profit	36	8	1	(6)	–	–	(7)	32
– before exceptional items	34	8	–	(6)	–	–	(7)	29
– exceptional items	2	–	1	–	–	–	–	3
Share of results of joint ventures and associates	14	1	–	–	–	–	(2)	13
Profit from operations	50	9	1	(6)	–	–	(9)	45
Investment income	9	–	–	–	–	–	17	26
Finance costs	(12)	–	–	–	–	–	(3)	(15)
Profit before taxation	47	9	1	(6)	–	–	5	56
Profit before goodwill amortisation, exceptional items and taxation	54	–	–	(6)	–	–	5	53
Goodwill amortisation	(9)	9	–	–	–	–	–	–
Exceptional items	2	–	1	–	–	–	–	3
Taxation	(10)	–	–	2	(1)	1	(2)	(10)
Profit for the period from continuing operations	37	9	1	(4)	(1)	1	3	46
Profit for the period from discontinued operations	7	–	–	–	–	–	–	7
Profit for the period	44	9	1	(4)	(1)	1	3	53
Preference dividends	(7)	–	–	–	–	–	–	(7)
Premium paid on buy-back of preference shares	(5)	–	–	–	–	–	–	(5)
Profit for the period attributable to equity shareholders	32	9	1	(4)	(1)	1	3	41

	UK GAAP in IFRS format pence	Goodwill amortisation pence	Goodwill in reserves pence	Retirement benefit obligations pence	Share-based payments pence	Deferred taxation pence	Impact of IFRIC 4 on PFI/PPP concessions pence	IFRS pence
Basic earnings per ordinary share								
– continuing operations	6.0	2.1	0.3	(1.0)	(0.1)	0.1	0.6	8.0
– discontinued operations	1.5	0.1	–	–	–	–	–	1.6
	7.5	2.2	0.3	(1.0)	(0.1)	0.1	0.6	9.6

Reformat of Group balance sheet
At 26 June 2004 based on unaudited figures

UK GAAP	UK GAAP as previously reported £m	Discontinued operations £m	Taxation £m	Debtors £m	Contract balances £m	Other £m	UK GAAP in IFRS format £m	UK GAAP in IFRS format
Fixed assets								Non-current assets
Intangible assets – goodwill	302	(22)	–	–	–	–	280	Goodwill
Tangible assets								Property, plant and equipment
– PFI/PPP constructed assets	262	–	–	–	–	–	262	– PFI/PPP constructed assets
– other	150	(4)	–	–	–	–	146	– other
Investments in joint ventures	73	–	–	–	–	60	133	Investments in joint ventures and associates
Investments in associates	60	–	–	–	–	(60)	–	
Investments	36	–	–	–	–	–	36	Investments
	–	–	32	–	–	–	32	Deferred tax assets
	–	–	–	66	–	–	66	Trade and other receivables
	883	(26)	32	66	–	–	955	
Current assets								Current assets
Stocks	127	(8)	–	–	(66)	–	53	Inventories
	–	–	–	–	228	–	228	Due from customers for contract work
Debtors								
– due within one year	816	(23)	(31)	–	(170)	–	592	Trade and other receivables
– due after one year	66	–	–	(66)	–	–	–	
Cash and deposits								Cash and cash equivalents
– PFI/PPP subsidiaries	39	–	–	–	–	–	39	– PFI/PPP subsidiaries
– other	197	–	–	–	–	–	197	– other
	1,245	(31)	(31)	(66)	(8)	–	1,109	
	–	57	–	–	–	–	57	Non-current assets classified as held for sale
	2,128	–	1	–	(8)	–	2,121	Total assets
Creditors: amounts falling due within one year								Current liabilities
Other creditors	(1,243)	13	42	–	182	–	(1,006)	Trade and other payables
	–	–	–	–	(206)	–	(206)	Due to customers for contract work
	–	–	(42)	–	–	–	(42)	Current tax liabilities
Borrowings								Borrowings
– PFI/PPP non-recourse term loans	(13)	–	–	–	–	–	(13)	– PFI/PPP non-recourse term loans
– other	(9)	–	–	–	–	–	(9)	– other
	(1,265)	13	–	–	(24)	–	(1,276)	
Creditors: amounts falling due after more than one year								Non-current liabilities
Borrowings								Borrowings
– PFI/PPP non-recourse term loans	(264)	–	–	–	–	–	(264)	– PFI/PPP non-recourse term loans
– other	(67)	–	–	–	–	–	(67)	– other
Other creditors	(118)	–	–	–	22	–	(96)	Trade and other payables
	–	–	(1)	–	–	–	(1)	Deferred tax liabilities
Provisions for liabilities and charges	(177)	1	–	–	10	–	(166)	Provisions
	(626)	1	(1)	–	32	–	(594)	
	–	(14)	–	–	–	–	(14)	Liabilities directly associated with non-current assets classified as held for sale
	(1,891)	–	(1)	–	8	–	(1,884)	Total liabilities
	237	–	–	–	–	–	237	Net assets
Capital and reserves								Capital and reserves
Called-up share capital	212	–	–	–	–	–	212	Called-up share capital
Share premium account	148	–	–	–	–	–	148	Share premium account
Special reserve	185	–	–	–	–	–	185	Special reserve
Other reserves	(308)	–	–	–	–	–	(308)	Other reserves
Shareholders' funds	237	–	–	–	–	–	237	Shareholders' funds

Restatement of Group balance sheet
At 26 June 2004 based on unaudited figures

	UK GAAP in IFRS format £m	Goodwill £m	Retirement benefit obligations £m	Share-based payments £m	Proposed dividends £m	Deferred taxation £m	Impact of IFRIC 4 on PFI/PPP concessions £m	IFRS £m
Non-current assets								
Goodwill	280	7	–	–	–	–	(1)	286
Property, plant and equipment								
– PFI/PPP constructed assets	262	–	–	–	–	–	(262)	–
– other	146	–	–	–	–	–	–	146
Investments in joint ventures and associates	133	1	(11)	–	–	–	14	137
Investments	36	–	–	–	–	–	–	36
PFI/PPP financial assets	–	–	–	–	–	–	255	255
Deferred tax assets	32	–	65	5	–	(3)	1	100
Trade and other receivables	66	–	(16)	–	–	–	(5)	45
	955	8	38	5	–	(3)	2	1,005
Current assets								
Inventories	53	–	–	–	–	–	–	53
Due from customers for contract work	228	–	–	–	–	–	–	228
Trade and other receivables	592	–	(2)	–	–	–	–	590
Cash and cash equivalents								
– PFI/PPP subsidiaries	39	–	–	–	–	–	–	39
– other	197	–	–	–	–	–	–	197
	1,109	–	(2)	–	–	–	–	1,107
Non-current assets classified as held for sale	57	–	–	–	–	–	–	57
Total assets	2,121	8	36	5	–	(3)	2	2,169
Current liabilities								
Trade and other payables	(1,006)	1	–	–	12	–	–	(993)
Due to customers for contract work	(206)	–	–	–	–	–	–	(206)
Current tax liabilities	(42)	–	–	–	–	–	–	(42)
Borrowings								
– PFI/PPP non-recourse term loans	(13)	–	–	–	–	–	–	(13)
– other	(9)	–	–	–	–	–	–	(9)
	(1,276)	1	–	–	12	–	–	(1,263)
Non-current liabilities								
Borrowings								
– PFI/PPP non-recourse term loans	(264)	–	–	–	–	–	–	(264)
– other	(67)	–	–	–	–	–	–	(67)
Trade and other payables	(96)	–	4	–	–	–	20	(72)
Deferred tax liabilities	(1)	–	–	–	–	–	–	(1)
Retirement benefit obligations	–	–	(255)	–	–	–	–	(255)
Provisions	(166)	–	53	–	–	–	–	(113)
	(594)	–	(198)	–	–	–	20	(772)
Liabilities directly associated with non-current assets classified as held for sale	(14)	–	–	–	–	–	–	(14)
Total liabilities	(1,884)	1	(198)	–	12	–	20	(2,049)
Net assets	237	9	(162)	5	12	(3)	22	120
Capital and reserves								
Called-up share capital	212	–	–	–	–	–	–	212
Share premium account	148	–	–	–	–	–	–	148
Special reserve	185	–	–	–	–	–	–	185
Other reserves	(308)	9	(162)	5	12	(3)	22	(425)
Shareholders' funds	237	9	(162)	5	12	(3)	22	120

The results for the half-year ended 2 July 2005 are unaudited and were approved by the Board on 16 August 2005. The full year figures for 2004 included in this report do not constitute statutory accounts for the purposes of Section 240 of the Companies Act 1985. A copy of the Company's statutory accounts for the year ended 31 December 2004 has been delivered to 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 2 July 2005 which comprises the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement, the statement of changes in equity and the related notes on pages 7 to 16. 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 policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards (IFRS)

As disclosed in Note 1, the next annual financial statements of the Group will be prepared in accordance with IFRS as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The accounting policies are consistent with those that the Directors intend to use in the annual financial statements. There is, however, a possibility that the Directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with IFRS as adopted for use in the EU.

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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board 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 2 July 2005.

Deloitte & Touche LLP
Chartered Accountants
London
16 August 2005

Pro forma financial statements
For the half-year ended 2 July 2005 based on unaudited figures

As permitted by IFRS 1 "First-time Adoption of IFRS", the Group has elected to adopt IAS 32 and IAS 39 "Financial Instruments" prospectively from 1 January 2005, and comparative figures have not been restated. These standards have a significant impact on the Group and particularly affect the accounting for the Company's convertible redeemable preference shares, the hedging activities of the Group and those of the PFI/PPP concessions, and the assets and income of the PFI/PPP concessions.

Pro forma IFRS financial statements, which include the impact of IAS 32 and IAS 39 as if the Group had adopted them for the year ended 31 December 2004, are included below with the IFRS financial statements for the half-year 2005. These pro forma statements assume the full adoption of IAS 32 and IAS 39, and the application of hedge accounting where management believes it is appropriate to assume the relevant accounting criteria regarding documentation and effectiveness could have been met. The changes which the adoption of IAS 39 and the IFRIC draft interpretations in respect of PFI/PPP concessions would have made on the restated IFRS profit for the period and net assets if these standards had been adopted for the year ended 31 December 2004 are summarised below.

			2004 first half			2004 year
	Profit before taxation* £m	Profit for the period £m	Net assets £m	Profit before taxation* £m	Profit for the period £m	Net assets £m
IFRS restated	53	53	120	122	260	302
Preference shares						
– dividend restated as a finance cost	(7)	(7)	–	(13)	(13)	–
– additional accrued interest	–	–	–	(1)	(1)	–
– premium on buy-back restated as a finance cost	–	(5)	–	–	(6)	–
– liability element and deferred tax	–	–	(113)	–	–	(113)
Derivatives						
– Group interest rate swaps	(2)	(1)	(3)	(1)	(1)	(3)
– Group PFI/PPP concessions	–	–	(10)	–	–	(9)
– JV and associate PFI/PPP concessions	–	–	(31)	–	–	(37)
PFI/PPP financial assets						
– Group PFI/PPP concessions	–	–	35	–	–	35
– JV and associate PFI/PPP concessions	–	–	52	–	–	52
Goodwill adjustment arising from concession share purchase	–	7	–	–	7	–
Pro forma IFRS	44	47	50	107	246	227

*Before exceptional items

Pro forma Group income statement
For the half-year ended 2 July 2005 based on unaudited figures

				Pro forma IFRS including IAS 32 and IAS 39					
			2005 first half			2004 first half			2004 year
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue including share of joint ventures and associates	**2,308**	**–**	**2,308**	2,026	–	2,026	4,239	–	4,239
Share of revenue of joint ventures and associates	**(494)**	**–**	**(494)**	(334)	–	(334)	(749)	–	(749)
Group revenue	**1,814**	**–**	**1,814**	1,692	–	1,692	3,490	–	3,490
Group operating profit	**24**	**–**	**24**	29	10	39	58	5	63
Share of results of joint ventures and associates	**19**	**24**	**43**	13	–	13	36	–	36
Profit from operations	**43**	**24**	**67**	42	10	52	94	5	99
Investment income	**29**	**–**	**29**	26	–	26	56	–	56
Finance costs	**(20)**	**(9)**	**(29)**	(24)	(5)	(29)	(43)	(6)	(49)
Profit before taxation	**52**	**15**	**67**	44	5	49	107	(1)	106
Taxation	**(12)**	**2**	**(10)**	(8)	(1)	(9)	(23)	(5)	(28)
Profit for the period from continuing operations	**40**	**17**	**57**	36	4	40	84	(6)	78
Profit for the period from discontinued operations	**–**	**–**	**–**	7	–	7	8	160	168
Profit for the period attributable to equity shareholders	**40**	**17**	**57**	43	4	47	92	154	246

	2005 first half pence	2004 first half pence	2004 year pence
Basic earnings per ordinary share			
– continuing operations	**13.4**	9.3	18.6
– discontinued operations	**–**	1.6	40.1
	13.4	10.9	58.7
Exceptional items	**(4.1)**	(0.8)	(36.6)
Adjusted earnings per share	**9.3**	10.1	22.1

Pro forma Group balance sheet
At 2 July 2005 based on unaudited figures

	2005 first half £m	Pro forma IFRS including IAS 32 and IAS 39 2004 first half £m	2004 year £m
Non-current assets			
Goodwill	**276**	281	274
Property, plant and equipment	**156**	146	149
Investments in joint ventures and associates	**252**	158	204
Investments	**42**	36	42
PFI/PPP financial assets	**356**	313	340
Deferred tax assets	**64**	78	64
Trade and other receivables	**52**	44	41
	1,198	1,056	1,114
Current assets			
Inventories	**58**	53	50
Due from customers for contract work	**267**	228	218
Derivative financial instruments	**1**	–	–
Trade and other receivables	**520**	590	563
Cash and cash equivalents			
– PFI/PPP subsidiaries	**23**	39	30
– other	**306**	197	388
	1,175	1,107	1,249
Non-current assets classified as held for sale	**–**	57	–
Total assets	**2,373**	2,220	2,363
Current liabilities			
Trade and other payables	**(983)**	(993)	(946)
Due to customers for contract work	**(251)**	(206)	(264)
Derivative financial instruments			
– PFI/PPP subsidiaries	**(14)**	(14)	(13)
– other	**(4)**	(4)	(4)
Current tax liabilities	**(31)**	(42)	(38)
Borrowings			
– PFI/PPP non-recourse term loans	**(14)**	(13)	(13)
– other	**(7)**	(9)	(15)
	(1,304)	(1,281)	(1,293)
Non-current liabilities			
Borrowings			
– PFI/PPP non-recourse term loans	**(256)**	(264)	(261)
– other	**–**	(67)	(62)
Liability component of preference shares	**(99)**	(103)	(103)
Trade and other payables	**(68)**	(72)	(58)
Deferred tax liabilities	**(2)**	(1)	(2)
Retirement benefit obligations	**(256)**	(255)	(254)
Provisions	**(111)**	(113)	(103)
	(792)	(875)	(843)
Liabilities directly associated with non-current assets classified as held for sale	**–**	(14)	–
Total liabilities	**(2,096)**	(2,170)	(2,136)
Net assets	**277**	50	227
Capital and reserves			
Called-up share capital	**213**	211	212
Share premium account	**24**	12	15
Equity component of preference shares	**18**	19	19
Special reserve	**178**	185	181
Other reserves	**(156)**	(377)	(200)
Equity	**277**	50	227

Pro forma segmental analysis

For the period ended 26 June 2004

Performance by activity:	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Group revenue	690	586	374	42	–	1,692
Group operating profit	12	5	25	(3)	(10)	29
Share of results of joint ventures and associates	2	3	(2)	10	–	13
Profit from operations before exceptional items	14	8	23	7	(10)	42
Exceptional items	–	–	3	7	–	10
Profit from operations	14	8	26	14	(10)	52
Investment income						26
Finance costs						(29)
Profit before taxation						49

Performance by geographic origin:	Europe £m	North America £m	Other £m	Total £m
Group revenue	1,518	172	2	1,692
Profit from operations before exceptional items	61	(18)	(1)	42
Exceptional items	10	–	–	10
Profit from operations	71	(18)	(1)	52

For the year ended 31 December 2004

Performance by activity:	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Group revenue	1,468	1,144	800	78	–	3,490
Group operating profit	32	7	45	(9)	(17)	58
Share of results of joint ventures and associates	2	9	(1)	26	–	36
Profit from operations before exceptional items	34	16	44	17	(17)	94
Exceptional items	–	1	(3)	7	–	5
Profit from operations	34	17	41	24	(17)	99
Investment income						56
Finance costs						(49)
Profit before taxation						106

Performance by geographic origin:	Europe £m	North America £m	Other £m	Total £m
Group revenue	3,107	377	6	3,490
Profit from operations before exceptional items	137	(45)	2	94
Exceptional items	22	(18)	1	5
Profit from operations	159	(63)	3	99

Shareholder information

Financial calendar

	2005
26 October	Ex-dividend date for interim 2005 ordinary dividend
28 October	Interim 2005 ordinary dividend record date
23 November	Ex-dividend date for January 2006 preference dividend
25 November	January 2006 preference dividend record date
8 December	Final date for receipt of DRIP mandate forms 2006 (see below)
	2006
1 January	Preference dividend payable
3 January	Interim 2005 ordinary dividend payable
8 March*	Announcement of 2005 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 2005 will be paid on 3 January 2006. 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 8 December 2005 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 and electronic communications

The Balfour Beatty website at http://www.balfourbeatty.com/ offers shareholders and prospective investors a wealth of information about the Company, its people and businesses and its policies on corporate governance and corporate responsibility. It should be regarded as your first point of reference for information on any of these matters.

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

Balfour Beatty actively encourages all shareholders to register now for our electronic communications service through the eTree campaign being run by Pepper, who are part of Computershare. When you register for electronic communications, we will donate a tree to the Woodland Trust's 'Tree For All' campaign on your behalf. This service enables you to save paper, contribute to a better environment and give a child the chance to plant a tree.

In order to receive shareholder communications such as notices of shareholder meetings and the annual report and accounts electronically rather than by post, you need to register your details on www.etree.uk.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:

Mailing Preference Service
Freepost 29 LON20771
London W1E 0ZT

or visit the Mailing Preference Service website at http://www.mpsonline.org.uk.

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 the share donation charity ShareGift (registered charity no. 1052686). 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 JPMorgan Cazenove Limited, 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
JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
Telephone: 020 7155 5155

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

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

Both JPMorgan Cazenove Limited and Hoare Govett Limited are authorised and regulated by the Financial Services Authority.

Share price

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

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

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

Capital gains tax

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

Enquiries

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

PROSHARE
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Balfour Beatty

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