



Balfour Beatty

International Financial Reporting Standards (IFRS)

23 June 2005



Introduction

Background to IFRS

Significant changes in accounting policies

Presentational changes

Restated financial results for 2004

Introduction of IAS 32 / IAS 39
(Financial Instruments) for 2005

Background to IFRS

EU requires introduction of IFRS from
1 January 2005

Balfour Beatty will report interim 2005 results
under IFRS

Potential changes, especially in relation to
accounting for PFI / PPP concessions

IFRS has no impact on Balfour Beatty's ...

Underlying business operations or business strategy

Risk management

Cash resources and financing arrangements

Trading cash flows

Ability to pay dividends

IFRS does not affect Balfour Beatty's . . .

Basis of profit recognition on contracting and service activities

Valuation of stocks and unbilled work in progress

Categorisation of subsidiaries, joint ventures and associates

Accounting for leases

and . . . reportable primary segments do not change

IFRS implementation process

Implementation team established in 2003

Re-examined all UK GAAP accounting policies

Participated in industry forum on accounting for PFI / PPP concessions

All principles agreed with auditors

Significant changes in accounting policies

Defined benefit pension schemes (IAS 19)

Share-based payments (IFRS 2)

Goodwill (IFRS 3)

Deferred tax (IAS 12)

Proposed dividends (IAS 10)

Financial instruments (IAS 32 and IAS 39) – from
1 January 2005

Defined benefit pension schemes (IAS 19)

Current practice

- Pension funding established by triennial actuarial reviews
- P&L charge in accordance with SSAP 24
- FRS 17 disclosures in notes

IFRS (similar to FRS 17)

- No change to actuarial reviews and funding levels
- Scheme deficit and related deferred tax appear as non-current items on Balance Sheet
- Service cost, return on scheme assets and interest charge on scheme liabilities taken to Income Statement
- Actuarial gains and losses taken directly to Equity

IFRS adjustments	2004
Profit for the year	
• pre-exceptional	(£12m)
• exceptional	£8m
Net assets	(£174m)

Share-based payments (IFRS 2)

Current practice

- No P&L charge for share options
- Fair value of performance share plan awards charged to P&L over qualifying period

IFRS

- Fair values of share options and performance share plan awards taken through Income Statement over vesting period
- Tax credits included in Equity rather than in the Income Statement

IFRS adjustments	2004
Profit for the year	(£3m)
Net assets	£5m

Goodwill (IFRS 3)

Current practice

- Prior to 1998, purchased goodwill written off to reserves
- Since 1998, purchased goodwill recognised as an intangible asset and amortised over its estimated useful life (20 years)

IFRS

- Goodwill held at 1 January 2004 carrying value
- No amortisation charge, but annual test for impairment
- Profit / loss on disposal of businesses no longer takes into account goodwill previously written off to reserves

IFRS adjustments	2004
Profit for the year	
• continuing	£18m
• discontinued	£37m
Net assets	£17m

Deferred tax (IAS 12)

Current practice

- No provision for deferred tax on retained profits of overseas affiliates

IFRS

- Deferred tax recognised on overseas affiliates' retained profits, unless remittance not foreseeable

IFRS adjustments	2004
Profit for the year	-
Net assets	(£4m)

Proposed dividends (IAS 10)

Current practice

- Proposed dividends recognised as a liability in the period to which they relate

IFRS

- Dividends recognised as a liability when formally declared

IFRS adjustments	2004
Profit for the year	-
Net assets	£16m

Financial instruments (IAS 32 & IAS 39)

IAS 32 – classification and disclosure

IAS 39 – recognition and measurement

Principal areas of change for Balfour Beatty

- Convertible redeemable preference shares
- PFI / PPP concessions

Implementation 1 January 2005

No restatement of 2004 results, but indicative 2004 figures given

Presentational changes under IFRS

Joint ventures and associates

Discontinued operations

Exceptional items

Restated income for full year 2004

£m	Pre-tax- profits*	Goodwill amortisation & impairment	Exceptional items	Tax	Profit for the year
As previously reported	150	(35)	142	(54)	203
Presentational changes					
- Joint ventures & associates	(18)	-	-	18	-
- Discontinued operations	(8)	-	(137)	13	(132)
- Exceptional items	(2)	-	2	-	-
Changes in accounting policies					
- Defined benefit pension schemes	(12)	-	8	-	(4)
- Share-based payments (tax)	-	-	-	(3)	(3)
- Goodwill amortisation	-	17	-	-	17
- Goodwill written off to reserves	-	-	1	-	1
IFRS continuing operations	110	(18)	16	(26)	82
IFRS discontinued operations	8	-	160	-	168
IFRS profit for the year	118	(18)	176	(26)	250

* Before goodwill amortisation and impairment, and exceptional items

Restated eps for full year 2004

Pence	Adjusted eps*	Goodwill amortisation & impairment	Exceptional items	Premium on buy-back of preference shares	Basic eps
As previously reported	23.4	(8.3)	30.2	(1.5)	43.8
Presentational changes					
- Discontinued operations	(1.9)	0.2	(29.7)	-	(31.4)
- Exceptional items	(0.4)	-	0.4	-	-
Changes in accounting policies					
- Defined benefit pension schemes	(1.9)	-	1.2	-	(0.7)
- Share-based payments (tax)	(0.9)	-	-	-	(0.9)
- Goodwill amortisation	-	3.9	-	-	3.9
- Goodwill written off to reserves	-	-	0.3	-	0.3
IFRS continuing operations	18.3	(4.2)	2.4	(1.5)	15.0
IFRS discontinued operations	1.9	-	38.2	-	40.1
	20.2	(4.2)	40.6	(1.5)	55.1

* Before goodwill amortisation and impairment, exceptional items and premium on buy-back of preference shares

Restated consolidated net assets

£m	31 Dec 2004
As previously reported	413
Changes in accounting policies	
- Defined benefit pension schemes	(174)
- Share-based payments (tax)	5
- Goodwill amortisation	17
- Deferred taxation	(4)
- Proposed dividends	16
IFRS net assets	273

Restated segmental profit full year 2004

- continuing operations

£m	Building	Civils	Rail	Investments	Centre	Total
As previously reported*	32	23	43	67	-	165
Presentational changes						
- Joint ventures & associates	(1)	(4)	-	(36)	-	(41)
- Exceptional items	1	(4)	1	-	-	(2)
- Central costs	7	6	2	2	(17)	-
Changes in accounting policies						
- Defined benefit pension schemes	(5)	(5)	(2)	-	-	(12)
Profit from operations before exceptional items	34	16	44	33	(17)	110
Goodwill impairment	-	-	(18)	-	-	(18)
Exceptional items	-	1	15	-	-	16
IFRS profit from operations	34	17	41	33	(17)	108

* before goodwill amortisation and impairment, and exceptional items

Financial Instruments

IAS 32 – classification and disclosure

IAS 39 – recognition and measurement

Principal areas of change for Balfour Beatty

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- PFI / PPP concessions

Implementation 1 January 2005

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Convertible redeemable preference shares

Current practice

- Included within shareholders' funds, as £136m non-equity
- £13m preference dividend and £6m premium paid on buy-back treated as appropriations of profit after tax

IFRS from 1 January 2005

- Compound financial instrument comprising £19m equity and £102m liability components, with £10m deferred tax liability
- Interest expense (2004 : £14m) on liability component, based on interest rate for similar non-convertible instrument at issue date
- Premium paid on buy-backs (2004 : £6m) also included in interest expense, but as an exceptional item

IFRS adjustments	2004
Profit for the year	
• pre-exceptional	(£14m)
• exceptional	(£6m)
Net assets	(£112m)

PFI / PPP concessions

Recharacterisation of assets – financial assets

New income recognition policy

Revaluations of assets and liabilities – fair values

Work ongoing

PFI / PPP concessions

– pro forma income for full year 2004

£m	Profit from operations	Finance income & expense	Tax	Profit for the year
PFI / PPP concession companies	63	(30)	(11)	22
PFI / PPP bidding costs & overheads	(10)	-	-	(10)
As previously reported	53	(30)	(11)	12
- Joint ventures & associates	(27)	18	9	-
- Financial assets	(17)	28	(2)	9
Pro forma IFRS BB Capital Projects	9	16	(4)	21

Note: excludes £9m exceptional gain on share purchase

PFI / PPP concessions

– pro forma net assets

£m	31 Dec 2004
As previously reported	110
Changes in accounting policies	
- Derivatives	(43)
- Financial assets	131
Pro forma IFRS	198

Summary of 2004 restatements

	UK GAAP	IFRS	IFRS pro forma
Pre-tax profits*	£150m	£118m	£114m
Pre-tax profits* - continuing operations	£142m	£110m	£106m
Adjusted eps*	23.4p	20.2p	21.9p
Basic eps	43.8p	55.1p	59.1p
Net assets at 31 Dec 2004	£413m	£273m	£247m

* Before goodwill amortisation and impairment, exceptional items, and in the case of eps, premium on buy-back of preference shares

In conclusion . . .

No impact on business operations, strategy or cash

Largely presentational changes, other than pensions

Concession company accounting subject to change, but focus remains on cash flows