MOWLEM

Mowlem plc

PRESS RELEASE

Date: 28 September 2005

MOWLEM PLC

INTERIM RESULTS ANNOUNCEMENT FOR

THE SIX MONTHS ENDED 30 JUNE 2005

Headlines

- Reported loss before tax of £73.4m (2004: £6.8m profit)*
- Profit before tax and exceptional items of £4.3m (2004: £18.9m)*
- No interim dividend (2004: 2.9p)
- Stable order book at £2.3 billion
- UK construction operations reorganised
- Financial controls and risk management substantially improved
- Further success in PFI

* a reconciliation of profit figures quoted is shown in the Financial Review

Mowlem Chairman, Joe Darby, commented:

"The first half of 2005 has been a difficult period of great change for Mowlem. The transition to the new executive management team, which began when Simon Vivian became Group Chief Executive in January, was completed when Paul Mainwaring took over as Finance Director in May. Since then substantial progress has been made. While it is disappointing to report such a significant loss, we now have improved operating structures, new risk management processes and a new contract valuation policy."

Mowlem Chief Executive, Simon Vivian, commented:

"We have made significant progress in the first half in reshaping the business and improving management controls and processes and this will continue in the second half. With new management teams in place and favourable market conditions, we anticipate progressive improvement in underlying performance as we strive to increase margins and reduce risk.

Our expectations for the full year remain unchanged."

CHIEF EXECUTIVE'S REVIEW

Overview

It has been a difficult period for Mowlem, but one in which significant progress has been made. While profit before tax and exceptional items of £4.3m on turnover of £1,055m is below our aspirations, it reflects the period of significant change the Group has undergone during the first half and our more prudent approach to profit recognition.

Business activity and order intake has continued to be good in the markets that we operate in. Our order book is stable at £2.3bn and its quality is improving. Further improvements to internal controls, management reporting and cash flow forecasting are required and these will receive continued attention in the second half of 2005.

At the beginning of the year we announced our intention to move to more prudent and consistent accounting rules for recognising income on contracts. In early July we announced a comprehensive review of the Group's approach to profit recognition and contract valuation, which has now been completed. This review has confirmed the preliminary assessment, made at that time, of the impact of this revised approach on profits in the current year. It has also resulted in an adjustment of £71.5m to the carrying value of contracts in the balance sheet as at 31 December 2004 to bring them onto a consistent basis that reflects anticipated cash flows more closely. Details of this adjustment - which is reported as a separate item in the results for the first half and was disclosed to the market on 20 September - and the new rules on profit recognition are discussed in the Financial Review.

This more prudent approach to profit recognition complements our previously announced moves to strengthen financial and commercial controls and introduce new risk management processes, which in combination are continuing to improve the quality of work being secured and the cash flows that accrue from it.

Strategy Update

My initial review of strategy at the beginning of the year concluded that Mowlem's vision of being a leading provider of solutions to users of facilities and infrastructure was essentially sound, but that delivery of the strategy was being inhibited by overly complicated management structures and weak internal processes.

We have taken steps to address these issues and the reorganisation of our construction services operation is now complete and the anticipated cost savings are being delivered. The benefits of our new structure in allowing us to offer integrated solutions on a national basis are starting to come through.

The management of risk within the business has been improved significantly with the newly created Risk Management Board having responsibility for setting policy, major tender reviews and process compliance. Divisional risk committees have been strengthened and improved. All contracts over £3m are subject to risk review.

The creation of Mowlem Projects, which brought together all our PFI activities, has been a success and allows us to pursue opportunities in this market sector on an integrated basis. Three new PFI projects reached financial close in the first half and we have recently been named preferred bidder on the £1bn Northwood Project for the Ministry of Defence. We continue to make good progress towards financial close on our major Allenby Connaught project.

In Australia we have reorganised the business to focus more on integrated rail and infrastructure projects and less on traditional building. An early success resulting from this strategic move is the award of the £65m Chatswood rail interchange project for the New South Wales government.

In Support Services our FM and asset management business has had a strong first half and we see increasing opportunities to combine our expertise in this area with more technical solutions offered by other parts of the business. We are currently considering how best to exploit the considerable growth opportunities this sector offers and will have made significant progress on this by the end of the year.

The Board continues to reassess its current strategy to ensure that the scope of Mowlem's activities is best aligned to take advantage of the opportunities in the construction and related services industry.

Pensions

Actuarial valuations of the Group's two main defined benefit pension schemes are under way and are anticipated to complete by the end of the year. It is expected that the funding deficit will be similar to the figure from the previous valuation as at 31 December 2002. The Group is likely to increase significantly its cash contributions to make good the deficit on the schemes. Further details are set out in the Financial Review.

Dividend and Distributable Reserves

The adoption of IFRS, particularly the recognition of the pensions deficit on the balance sheet, together with the adjustment to contract carrying values, has had a negative impact on Mowlem plc's distributable reserves. We are investigating the options available to address this situation, but the Board has decided not to pay an interim dividend. It is the Board's intention to resume dividend payments as soon as practicable.

Outlook

We have made significant progress in the first half in reshaping the business and improving management controls and processes and this will continue in the second half. With new management teams in place and favourable market conditions, we anticipate progressive improvement in underlying performance as we strive to increase margins and reduce risk.

Our expectations for the full year remain unchanged.

OPERATIONAL REVIEW

UK and Ireland Construction

The major restructuring of our construction services business, which resulted in over 200 redundancies, was completed in May. The £6m restructuring costs are reflected in our first half results. New senior management teams have bedded down effectively and are starting to deliver improved performances.

We are continuing to pursue our successful policy of focusing increasingly on repeat and negotiated business and longer-term frameworks. Our contracts for Hampshire County Council (£52m) and South Lanarkshire Council (£54m) are excellent examples of our success in securing framework type agreements, as is our key role in helping Wm Morrison to roll-out one of the UK's largest and most exciting rebranding and refurbishment programmes for many years. Our securing of nearly 15% of all NHS LIFT work so far awarded further underlines our success on innovative procurement models.

In Infrastructure, we have continued to concentrate our efforts on growing our core civils business, with national teams now focusing on the highways, rail and utilities sectors. Amongst the notable successes achieved in these areas have been: the recently awarded £397m M1 widening Early Contractor Involvement (ECI) scheme (in joint venture); our five-year £70m Northumbrian Water framework agreement (an integrated solution which also involves our Engineering Division); and a five-year £125m framework agreement with Network Rail in Scotland.

We intend to exit a number of smaller under-performing infrastructure businesses, leaving us with a focused regional civils business to complement the national team initiative.

Our new Engineering Division is coming together well. It made a small loss in the first half but improved on the performance of the same businesses in 2004. We anticipate further integration of the business and a commensurate improvement in performance. We intend targeting the significant opportunities in the nuclear and power sectors and will continue to pursue large mechanical & electrical (M&E) frameworks. We intend to exit some loss making parts of this Division.

International

During the first half of the year, legacy issues in our Australian business, Barclay Mowlem, were substantially addressed. We have reduced significantly our exposure to building work in Australia and will concentrate more on the rail and infrastructure sectors, which have lower risk profiles. We are also looking at further rail work in Taiwan following our successful AU$450m involvement on the Taiwan High Speed Rail project. With world demand for minerals and materials remaining high, our materials handling operation is performing strongly. We expect an improved performance from our Australian business in the second half.

In the USA, Charter Builders turned in another good performance. Charter continued to focus on its core education markets and business wins included four new school projects with a combined value of $165m.

Mowlem Projects

We saw clear benefits in the first half of integrating our PFI, public sector services and larger building activities into a single Division. In joint venture, we reached financial close on three PFI schemes with a total value of £565m. We have, in joint venture with HSBC Infrastructure Fund Management, also been named Preferred Bidder by the Ministry of Defence (MoD) on a £1bn PPP project to rationalise and upgrade its Northwood Headquarters site near Watford.

Significant resources are being directed towards achieving financial close on our joint ventured £7bn Allenby Connaught project for the Ministry of Defence (MoD), which all parties are working closely to secure. We have achieved a considerable milestone on this project by agreeing all significant contract terms with the MoD and submitting the deal to the bond rating agencies prior to the £1.5bn financing of the project.

The agreements have taken a long time to finalise because of the complexity of the project, the range of services being provided and the difficulty of embodying the commercial arrangements in over 2000 pages of contract and schedules for a 35 year project.

Mowlem Projects also secured a £59m contract from the Rugby Football Union for a new stand complex at Twickenham Stadium.

Support Services

The performance of our Support Services operations was adversely affected by continued pricing pressure in the 'blue collar' direct delivery sector, which overshadowed excellent results in our facilities and asset management business.

The situation at Mowlem Technical Services (MTS), our mechanical and electrical (M&E) business, has stabilised following the difficulties reported at the end of last year. In future, MTS will concentrate entirely on M&E maintenance work where a number of high quality opportunities are being pursued. The M&E installation activities will be transferred to other Group businesses or closed down.

Mowlem Pall Mall (MPM), our cleaning services and security business, continues to compete in a very mature and competitive market. Difficulty in sustaining margins on food retail contracts has prompted us to focus more on opportunities where we can leverage our regional network, which is seen as a key differentiator. Targets include non-food retailers, shopping centres and financial/corporate headquarters facilities. MPM took the decision to exit from the hotels sector in the first half, but is seeking to achieve further organic growth in security and has already committed to a number of key investments.

Mowlem Asset Services (MAS), our higher-value facilities and asset management business, performed well and is developing a growing reputation as the quality service provider in this sector. National contracts with AXA, the Health & Safety Executive and our £60m contract with Centrica were successfully mobilised in the first half and we are now seeing some growth as the relationships develop. The bid pipeline is healthy, giving confidence of further growth in the UK. The new Corporate Real Estate business which we launched as part of MAS in February is outperforming business plan projections and pursuing some excellent opportunities focused on adding value through the integration of FM and estates management.

Using our successful ArcadisAqumen FM joint venture as a platform, we are looking to develop pan-European FM solutions for new and existing customers. We have recently secured a Euro 45m contract to provide FM services to DSM in the Netherlands and are seeing substantial growth in our Philips account.

During the second half of the year we will be looking to further strengthen our MAS management team in order to convert and mobilise the significant opportunities available to us. We see a number of interesting growth opportunities for this business, particularly in combination with the technical expertise available in other Group companies.

Our Environmental Sciences Group continues to focus on delivering services to the built and personal environments where legislation and compliance are the primary drivers. Future prospects remain good driven by increasing legislation in all sectors, wider enforcement and a trend for longer term frameworks.

FINANCIAL REVIEW

International Financial Reporting Standards

Prior to 2005 the Group prepared its financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). Mowlem plc, as a listed company in the European Union, is required to report its consolidated accounts under International Financial Reporting Standards (IFRS) from January 2005.

These interim results, including comparative information for 2004, are the first set of financial statements produced by the Group under IFRS. It is possible that there will be further changes to IFRS, as well as new technical and commercial interpretations, which may lead to adjustments to the financial information contained in this interim report before it is published as comparative information.

An explanation of the adjustments made in the transition from UK GAAP to IFRS is set out in note 3 of the interim accounts.

Interim results

The Group's trading performance can be summarised as follows:

	6 months to 30 June	
£m	**2005**	**2004**
Turnover	1,055.2	953.4
Operating profit		
- Group	3.8	18.7
- Jointly controlled entities	5.5	3.7

	9.3	22.4
Interest		
- Group	(2.1)	(1.1)
- Jointly controlled entities	(2.9)	(2.4)
	(5.0)	(3.5)
Profit before tax and exceptional items	**4.3**	**18.9**
- Jointly controlled entities' share of income tax	(0.2)	(0.1)
- Exceptional items: Restructuring costs	(6.0)	-
Contract review	(71.5)	-
Australian building contracts	-	(12.0)
Reported (loss)/profit before taxation	(73.4)	6.8

The figures for jointly controlled entities shown above represent the Group's share of operating profit and interest of PFI joint ventures, and other arrangements (principally in Australia) which are equity accounted under IFRS but which would have been proportionately consolidated under UK GAAP. In the first half of 2005 the operating profit from these arrangements was £1.9m (2004: £0.8m) on turnover of £14.6m (2004: £3.8m).

Exceptional items
Operating costs in the first half of 2005 include two items which are exceptional in nature: restructuring costs (£6.0m) and the impact of the contract review (£71.5m).

Restructuring costs

The reorganisation of the Construction Services Divisions resulted in a number of senior management redundancies and the closure of a number of offices and depots. In addition, the Group has incurred losses on disposal of plant and equipment that as a result of the reorganisation is no longer required.

Contract review

A comprehensive review of the Group's approach to profit recognition and contract valuation has been completed. The Group is adopting and progressively implementing more prudent and consistent accounting rules for recognising income on contracts and has made an adjustment to the carrying value of the contracts in the balance sheet as at 31 December 2004 of £71.5m.

The new rules, which relate to the basis for the recognition of add to value ("ATV") on construction contracts, which is defined as all income not formally agreed and certified by the client can be summarised as follows:

Only three categories of ATV will be permitted: agreed and due (timing issues), variations to contract, and claims.

The new rules will be applied as follows:

For contracts with a cumulative contract value of less than £1m, only timing issues and compliant variations will be allowed. No claims will be taken to value.

For contracts with a cumulative contract value of between £1m and £5m, the rule will be as above but up to 50% of costed and submitted claims will be allowed as ATV.

Other rules include:

- Current margin must never exceed forecast margin at completion.
- No margin to be taken on any new contract until 20% of tender value completed.
- Contract debtors over three months old must be reversed out of debtors and shown as ATV, or written off.
- All ATV over 18 months old to be subject to specific review by senior management.

Contracts with a cumulative contract value of over £5m will be subject to regular individual reviews by senior management which will determine the extent of the margin and ATV that can be carried.

Group interest
The £1m increase in the net interest charge to £2.1m for the first half of 2005 reflects a higher UK interest charge resulting from an increase in average UK borrowings and the impact of higher interest rates, and higher local Australian borrowings.

Taxation
The Group has recognised net tax relief of £0.3m on the loss before tax of £73.4m. Prudently, no tax relief has been recognised on the £71.5m exceptional item arising from the contract review. A small tax charge arising in the United States has been more than offset by net tax relief arising in the UK and Australia due to the tax losses arising in the first half.

Cash flow

	6 months to 30 June	
£m	**2005**	**2004**
Operating profit before exceptional items	3.8	18.7
Depreciation	5.6	6.9
EBITDA	9.4	25.6
Capital expenditure including finance leases	(7.2)	(6.1)
Asset disposals NBV	2.1	5.1
Working capital	23.3	(68.5)
Contributions to fund pension deficits	(2.1)	(3.0)
Investments	(1.8)	(10.7)
Receipts from jointly controlled entities	7.3	1.7
Net interest	(2.6)	(1.8)
Taxation	(0.5)	(4.6)
Cashflow on exceptional items	(2.4)	(12.0)
Cash inflow/(outflow)	25.5	(74.3)

The Group's cash inflow of £25.5m in the first half of 2005 is driven by a working capital inflow of £23.3m reflecting the timing of receipts and payments around 30 June, and the payment of dividends and repayment of loans by jointly controlled entities.

The exceptional cash outflow in 2005 reflects the cash costs of restructuring the Construction Services Divisions.

Capital expenditure at £7.2m includes £1.8m funded by new finance leases.

The £1.8m investments during the first half include further investment in Asia Pacific Transport of £1.4m.

The Group's net taxation payment in 2005 reflects the settlement of overseas taxation liabilities of £2.4m, and a refund of UK tax paid in 2004 of £1.9m.

Movement in net debt

£m	6 months to 30 June 2005
Cash inflow / (outflow)	25.5
Shares issued	0.1
Exchange	0.7
Movement in net debt	26.3
Opening net debt	(27.4)
Closing net debt	(1.1)

Average balance sheet net debt during the first half of 2005 was £76m (2004: £70m).

Pensions

Actuarial valuations as at 31 December 2004 of the two main defined benefit pension schemes operated by the Group are in progress. The combined actuarial funding deficit of these schemes as at 31 December 2004 is estimated to be around £106m, very similar to the position at the previous actuarial valuation date of 31 December 2002. The latest actuarial valuation reflects an increase in the liabilities as a result of the adoption of updated mortality tables but also a significant increase in the value of the schemes' respective assets.

The Group is likely to increase significantly its cash contributions to make good the deficit in the schemes. Further details will be provided when the actuarial valuation processes are complete and schedules of contributions have been discussed with the trustees of the schemes.

Consolidated interim income statement – unaudited

For the six months ended 30 June 2005

	Note	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Revenue	*1*	1,055.2	953.4	2,049.0
Operating costs before exceptional items		(1,051.4)	(934.7)	(2,047.9)
Exceptional items				
- contract review	*2*	(71.5)	-	-
- restructuring costs	*2*	(6.0)	-	-
- Australian building contracts	*2*	-	(12.0)	(12.0)
		(77.5)	(12.0)	(12.0)
Total operating costs		(1,128.9)	(946.7)	(2,059.9)
Operating (loss)/profit before financing costs		(73.7)	6.7	(10.9)
Financial income		1.3	1.5	2.3
Financial expenses		(3.4)	(2.6)	(5.4)
Net financing costs		(2.1)	(1.1)	(3.1)
Jointly controlled entities:				
Share of operating profit		5.5	3.7	9.7
Share of net financing costs		(2.9)	(2.4)	(5.2)
Share of income tax expense		(0.2)	(0.1)	(0.7)
Share of profit of jointly controlled entities	*3g*	2.4	1.2	3.8
(Loss)/profit before taxation		(73.4)	6.8	(10.2)
Income tax relief/(expense)		0.3	(1.4)	3.3
(Loss)/profit for the financial period attributable to equity holders of the parent		(73.1)	5.4	(6.9)
Basic (loss) / earnings per share (pence)	*4*	(51.6)	3.9	(4.9)
Diluted (loss) / earnings per share (pence)	*4*	(51.3)	3.9	(4.9)

All operations are continuing.

Consolidated interim balance sheet – unaudited

As at 30 June 2005

	30 June 2005 £m	30 June 2004 £m	31 Dec 2004 £m
Assets			
Property, plant and equipment	51.7	51.9	51.6
Intangible assets - goodwill	58.5	58.4	58.5
Investments in jointly controlled entities	19.1	25.1	24.6
Other investments	24.9	20.5	22.5
Trade and other receivables	27.9	31.9	31.0
Deferred tax assets	46.5	40.2	43.9
Total non-current assets	228.6	228.0	232.1
Inventories	20.9	34.1	22.0
Current tax assets	1.8	-	3.5
Trade and other receivables	631.0	696.9	629.8
Cash and cash equivalents	79.9	34.8	31.9
Non-current assets classified as held for sale	0.8	-	-
Other financial assets	0.9	1.1	-
Total current assets	735.3	766.9	687.2
Total assets	963.9	994.9	919.3
Equity			
Issued capital	35.5	34.9	35.4
Share premium	54.5	54.3	54.5
Accumulated pension deficit	(74.9)	(74.9)	(74.9)
Other reserves - deficit	(0.5)	(2.2)	(1.2)
Retained earnings	38.9	129.7	116.0
Total equity attributable to equity holders of the parent	53.5	141.8	129.8
Liabilities			
Interest-bearing loans and borrowings	65.9	7.5	28.3
Pension liabilities	99.1	104.0	101.2
Trade and other payables	12.9	18.5	13.9
Provisions	1.0	1.0	1.0
Total non-current liabilities	178.9	131.0	144.4
Bank overdrafts	8.1	14.5	10.0
Interest-bearing loans and borrowings	7.0	79.6	21.0
Current tax liabilities	3.2	4.1	3.8
Trade and other payables	711.2	623.9	609.7
Other financial liabilities	2.0	-	0.6
Total current liabilities	731.5	722.1	645.1
Total liabilities	910.4	853.1	789.5
Total equity and liabilities	963.9	994.9	919.3

Consolidated statement of changes in equity - unaudited

For the six months ended 30 June 2005

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Effect of foreign exchange rate changes	0.8	(3.5)	(1.6)
Movement in cash flow hedges, net of tax	(0.9)	1.8	0.7
Movement in available for sale financial assets held within equity accounted PFI jointly controlled entities, net of tax	(2.8)	-	-
Net losses recognised directly in equity	(2.9)	(1.7)	(0.9)
(Loss)/profit for the period	(73.1)	5.4	(6.9)
Total recognised(expense)/ income for the period	(76.0)	3.7	(7.8)
Share-based payment charge	0.3	0.6	0.8
Equity dividends	(3.6)	(7.1)	(11.2)
Scrip dividend adjustment	0.3	-	2.7
Issue of ordinary share capital	0.1	1.0	1.7
	(78.9)	(1.8)	(13.8)
Shareholders' equity at 1 January	129.8	143.6	143.6
Adoption of IAS32 and IAS39, net of tax	2.6	-	-
Shareholders' equity at period end	53.5	141.8	129.8

Consolidated interim statement of cash flows - unaudited

For the six months ended 30 June 2005

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Cash flows from operating activities			
Operating (loss)/profit before financing costs	(73.7)	6.7	(10.9)
Adjustments for :-			
- Contract review	71.5	-	-
- Loss/(profit) on disposal of property, plant and equipment	1.3	(0.4)	(0.4)
- Depreciation of property, plant and equipment	5.6	6.9	14.6
Reduction in pension fund liabilities	(2.1)	(3.0)	(5.8)
Increase in trade and other receivables	(66.1)	(105.9)	(30.6)
(Increase)/decrease in inventories	(0.5)	(7.8)	4.6
Increase in trade payables	93.5	45.2	28.7
Cash generated from/(used in) operations	29.5	(58.3)	0.2
Interest paid	(3.9)	(3.3)	(6.7)
Income taxes paid	(0.5)	(4.6)	(6.4)
Net cash generated from/(used in) operating activities	25.1	(66.2)	(12.9)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	0.8	3.8	4.9
Proceeds from sale of investments	-	1.7	2.0
Loan stock redeemed by jointly controlled entities	0.3	1.3	1.6
Loans repaid by jointly controlled entities	2.4	0.3	0.4
Interest received	1.3	1.5	2.3
Dividends received from jointly controlled entities	4.6	0.2	6.1
Disposal costs of jointly controlled entities	-	(0.1)	(0.3)
Acquisition of subsidiaries, net of cash acquired	(0.3)	(0.2)	(3.7)
Acquisition of property, plant and equipment	(5.4)	(4.0)	(10.0)
Acquisition of other investments	(1.4)	(7.5)	(8.4)
Equity and loan stock invested in jointly controlled entities	(0.1)	(1.6)	(1.6)
Loans to jointly controlled entities	-	(1.4)	(4.0)
Net cash generated from/(used in) investing activities	2.2	(6.0)	(10.7)
Cash flows from financing activities			
Proceeds from the issue of share capital	0.1	1.0	1.7
Increase in/(repayment of) long-term borrowings	37.2	(16.0)	5.1
(Reduction)/increase in other borrowings	(10.0)	66.1	12.4
Payment of capital element of finance leases	(1.2)	(1.9)	(3.6)
Equity dividends paid	-	-	(8.5)
Net cash from financing activities	26.1	49.2	7.1
Net increase/(decrease) in cash and cash equivalents	53.4	(23.0)	(16.5)
Cash and cash equivalents at 1 January	17.1	35.0	35.0
Net foreign exchange difference	0.9	(1.4)	(1.4)
Cash and cash equivalents at period end	71.4	10.6	17.1

Cash and cash equivalents consist of:

	30 June 2005 £m	30 June 2004 £m	31 Dec 2004 £m
- cash and cash equivalents	79.9	34.8	31.9
- overdrafts	(8.1)	(14.5)	(10.0)
- less cash held on behalf of jointly controlled entities	(0.4)	(9.7)	(4.8)
	71.4	10.6	17.1

Reconciliation of net cash flow to movement in net funds

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Net increase/(decrease) in cash and cash equivalents	53.4	(23.0)	(16.5)
Net cash inflow from borrowings	(27.2)	(50.1)	(17.5)
Cash outflow from lease financing	1.2	1.9	3.6
Effect of foreign exchange differences on net cash/(debt)	0.7	(1.1)	(1.4)
New finance lease additions	(1.8)	(2.1)	(3.2)
Movement in net funds	26.3	(74.4)	(35.0)
Opening net (borrowings)/funds	(27.4)	7.6	7.6
Closing net borrowings	(1.1)	(66.8)	(27.4)

Notes to the consolidated interim accounts

Mowlem plc is a company domiciled in the United Kingdom. The consolidated interim accounts of the Company for the six months ended 30 June 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The results for the six months ended 30 June 2005 and the six months ended 30 June 2004 are unaudited. The financial information set out above does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The Group's published accounts for the year ended 31 December 2004 have been reported on by the Company's auditors and filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

A copy of this statement has been sent to every shareholder. Further copies are available from the Company's registered office.

The consolidated interim accounts were authorised for issuance on 28 September 2005.

Basis of preparation

The accounts are presented in pounds sterling and are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial assets designated as available for sale within Private Finance Initiative jointly controlled entities, derivative financial instruments and financial instruments held for trading.

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated accounts of the Company, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU ("adopted IFRS").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that, either are endorsed by the EU and effective (or available for early adoption) at 30 June 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these adopted and unadopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied. Details of significant amendments to Mowlem plc's accounting policies (as set out in the 2004 annual accounts) resulting from the adoption of IFRS are included in note 3. With the exception of those changes detailed therein, the accounting policies used are consistent with those disclosed in the 2004 annual accounts.

In addition, the adopted IFRS that will be effective (or available for early adoption) in the annual accounts for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual accounts are prepared for the year ending 31 December 2005.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 3. This note includes reconciliations of equity and profit or loss for comparative periods reported under UK GAAP (previous GAAP) to those reported for those periods under IFRS.

As permitted by IFRS1, the Group has adopted IAS32 Financial Instruments: disclosure and presentation and IAS39 Financial Instruments: recognition and measurement from 1 January 2005. The impact of the change on total equity at 1 January 2005 following the adoption of IAS32 and IAS39 is shown in the consolidated statement of changes in equity.

On first time adoption of IFRS the standards are applied generally with full retrospective effect. However, the Group has elected to apply the following permitted exemptions within the transition rules and subsequent standards adoption.

i) to retain previous UK GAAP carrying values of property, plant and equipment as deemed cost at 1 January 2004.

ii) to recognise all cumulative gains and losses in respect of defined benefit pension schemes and similar benefits in shareholders' equity at 1 January 2004.

iii) To apply IFRS2 Share-based Payment only to awards granted after 7 November 2002 and not vested by 1 January 2005.

iv) To deem cumulative translation differences for all foreign operations to be nil at 1 January 2004.

v) Not to restate its business combinations made prior to 1 January 2004 to comply with IFRS3 Business Combinations.

vi) Not to present comparative information in accordance with IAS32 Financial Instruments: Disclosure and Presentation and IAS39 Financial Instruments: Recognition and Measurement .

Notes to the consolidated interim accounts

1. Business segment reporting

Segment information is presented in the consolidated interim accounts in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis.

Notes to the consolidated interim accounts

1. Business segment reporting (continued)

For the six months ended 30 June 2005

Revenue	**2005**			**2004**		
	External £m	**Inter Segment £m**	**Total £m**	**External £m**	**Inter Segment £m**	**Total £m**
Construction Services	498.2	0.1	498.3	453.4	0.4	453.8
Support Services	183.3	18.0	201.3	191.7	18.8	210.5
Mowlem Projects	122.0	-	122.0	132.0	-	132.0
Mowlem International	251.7	-	251.7	176.3	-	176.3
Eliminations		(18.1)	(18.1)		(19.2)	(19.2)
Total revenue	1,055.2	-	1,055.2	953.4	-	953.4

Segment result before exceptional items	2005 £m	2004 £m
Construction Services	5.8	10.0
Support Services	4.9	8.3
Mowlem Projects	-	(0.6)
Mowlem International	(3.0)	3.8
	7.7	21.5
Share of JCEs		
Construction Services	-	-
Support Services	0.1	0.2
Mowlem Projects	0.4	0.5
Mowlem International	1.9	0.5
	2.4	1.2
Profit before exceptional items	10.1	22.7
Unallocated expenses		
- Corporate overheads	(3.9)	(2.8)
- Net financing costs	(2.1)	(1.1)
Profit before exceptional items	4.1	18.8
Exceptional items		
Construction Services	(61.8)	-
Support Services	(8.7)	-
Mowlem Projects	-	-
Mowlem International	(7.0)	(12.0)
Total exceptional items	(77.5)	(12.0)
(Loss)/profit before taxation	(73.4)	6.8

* All segments are continuing operations

Notes to the consolidated interim accounts

1. Segment reporting (continued)

For the six months ended 30 June 2005

Assets	2005			2004		
	Segment assets £m	**Investments in Jointly Controlled Entities £m**	**Total £m**	**Segment assets £m**	**Investments in Jointly Controlled Entities £m**	**Total £m**
Construction Services	410.3	-	410.3	530.2	-	530.2
Support Services	171.1	0.8	171.9	164.3	0.5	164.8
Mowlem Projects	130.0	17.0	147.0	91.0	17.6	108.6
Mowlem International	152.0	1.3	153.3	114.7	7.0	121.7
Eliminations	(46.7)	-	(46.7)	(5.5)	-	(5.5)
	816.7	19.1	835.8	894.7	25.1	919.8
Unallocated assets			128.1			75.1
Total assets			963.9			994.9
Liabilities						
Construction Services			407.9			441.3
Support Services			95.0			56.6
Mowlem Projects			107.8			54.1
Mowlem International			163.2			96.9
Eliminations			(46.7)			(5.5)
			727.2			643.4
Unallocated liabilities			183.2			209.7
Total liabilities			910.4			853.1
Net assets			53.5			141.8
Capital expenditure including new finance leases						
Construction Services			3.4			1.4
Support Services			0.5			1.0
Mowlem Projects			0.1			-
Mowlem International			2.8			3.3
			6.8			5.7
Corporate			0.4			0.4
Total capital expenditure			7.2			6.1

2. Exceptional items

Contract review

A comprehensive review of the Group's approach to profit recognition and contract valuation has been completed. The Group has adopted more prudent and consistent accounting rules for recognising income on contracts and has made an adjustment to the carrying value of the contracts in the balance sheet as at 31 December 2004 of £71.5m.

No tax relief has been recognised on this loss.

Restructuring costs

Earlier this year the Construction Services Divisions were restructured involving office closures and reorganisations, staff redundancies and losses on disposal of plant and equipment that, as a result of the reorganisation, was no longer required. The charge of £6.0m includes costs incurred to 30 June 2005 and provision for costs which have been approved to be incurred in the second half of the year. The £6.0m restructuring costs are reflected in the Construction Services (UK & Ireland) Business Segment result.

Australian building contracts

The operating exceptional item of £12.0m in the six months to 30 June 2004 resulted from the Group's activities in the New South Wales, Australian building sector. This charge is reflected in the Mowlem International Business Segment result.

3. Explanation of transition to IFRS

As previously stated these are the Group's first consolidated interim accounts for part of the period covered by the first IFRS annual consolidated accounts prepared on the basis of recognition and measurement requirements of IFRS.

The Group has applied consistent accounting policies in preparing the consolidated interim accounts for the six months ended 30 June 2005, with the exception of the adoption of IAS32 and IAS39 with effect from 1 January 2005, the comparative information for the six months ended 30 June 2004, the accounts for the year ended 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, comparative information for the six months ended 30 June 2004 and accounts for the year ended 31 December 2004, the Group has adjusted amounts reported previously in accounts prepared in accordance with previous GAAP.

An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables. There are no material differences to the cash flows of the Group.

Notes to the consolidated interim accounts

3. Explanation of transition to IFRS

Reconciliation of profit for the six months ended 30 June 2004

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
		£m	£m	£m
Revenue	*3g*	957.0	(3.6)	953.4
Operating costs *	*3a,b,c,g,j*	(953.0)	6.3	(946.7)
Operating profit before financing costs		4.0	2.7	6.7
Financial income		1.5	-	1.5
Financial expenses	*3a,g*	(4.8)	2.2	(2.6)
Net financing costs		(3.3)	2.2	(1.1)
Jointly controlled entities:				
Share of operating profit	*3g*	3.2	0.5	3.7
Share of financial expenses	*3g*	-	(2.4)	(2.4)
Share of income tax expense	*3g*	-	(0.1)	(0.1)
Share of profit		3.2	(2.0)	1.2
Profit before tax		3.9	2.9	6.8
Income tax expense	*3d,g*	(1.1)	(0.3)	(1.4)
Profit for the financial period attributable to equity holders of the parent		2.8	2.6	5.4
Basic earnings per share (pence)	*4*	2.0	1.9	3.9
Diluted earnings per share (pence)	*4*	2.0	1.9	3.9

* including £(12.0)m treated as exceptional costs in respect of Australian building contracts.

3. Explanation of transition to IFRS (continued)

Reconciliation of profit for the year ended 31 December 2004

	Note	Previous GAAP £m	Effect of transition To IFRS £m	IFRS £m
Revenue	*3g*	2,066.0	(17.0)	2,049.0
Operating costs *	*3a,b,c,g,j*	(2,080.7)	20.8	(2,059.9)
Operating (loss)/profit before financing costs		(14.7)	3.8	(10.9)
Financial income		2.3	-	2.3
Financial expenses	*3a,g*	(10.2)	4.8	(5.4)
Net financing costs		(7.9)	4.8	(3.1)
Jointly controlled entities:				
Share of operating profit	*3g*	7.3	2.4	9.7
Share of financial expenses	*3g*	-	(5.2)	(5.2)
Share of income tax expense	*3g*	-	(0.7)	(0.7)
Share of profit		7.3	(3.5)	3.8
(Loss)/profit before tax		(15.3)	5.1	(10.2)
Income tax expense	*3d,g*	3.3	-	3.3
(Loss)/profit for the financial period attributable to equity holders of the parent		(12.0)	5.1	(6.9)
Basic loss per share (pence)	*4*	(8.6)	3.7	(4.9)
Diluted loss per share (pence)	*4*	(8.5)	3.6	(4.9)

* including £(12.0)m exceptional costs in respect of Australian building contracts.

Notes to the consolidated interim accounts

3. Explanation of transition to IFRS (continued)

Reconciliation of equity at 1 January 2004

	Note 3	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets				
Property, plant and equipment	*a*	55.0	3.2	58.2
Intangible assets - goodwill	*b*	58.4	-	58.4
Investments in jointly controlled entities	*g*	10.9	12.5	23.4
Other investments		14.7	-	14.7
Trade and other receivables	*k*	24.4	-	24.4
Deferred tax assets	*d*	9.9	27.2	37.1
Total non-current assets		173.3	42.9	216.2
Inventories	*g*	29.1	(3.8)	25.3
Current tax assets		-	-	-
Trade and other receivables	*g,i,k*	524.0	83.7	607.7
Cash and cash equivalents	*g*	55.9	(0.4)	55.5
Total current assets		609.0	79.5	688.5
Total assets		782.3	122.4	904.7
Equity				
Issued capital		34.7	-	34.7
Share premium		53.5	-	53.5
Accumulated pension deficit		-	(74.9)	(74.9)
Other reserves - deficit		2.0	(2.8)	(0.8)
Retained earnings		112.3	18.8	131.1
Total equity attributable to equity holders of the parent	*f*	202.5	(58.9)	143.6
Liabilities				
Interest-bearing loans and borrowings	*a,g*	20.0	2.8	22.8
Pension liabilities	*c*	13.8	93.2	107.0
Trade and other payables	*g*	9.4	-	9.4
Provisions		1.2	-	1.2
Total non-current liabilities		44.4	96.0	140.4
Bank overdrafts	*g*	13.9	-	13.9
Interest-bearing loans and borrowings	*g*	5.2	6.0	11.2
Current tax liabilities		3.2	-	3.2
Trade and other payables	*g,i,k*	513.1	77.9	591.0
Other financial liabilities	*i*	-	1.4	1.4
Total current liabilities		535.4	85.3	620.7
Total liabilities		579.8	181.3	761.1
Total equity and liabilities		782.3	122.4	904.7

Notes to the consolidated interim accounts

3. Explanation of transition to IFRS (continued)

Reconciliation of equity at 30 June 2004

	Note 3	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets				
Property, plant and equipment	*a*	48.8	3.1	51.9
Intangible assets - goodwill	*b*	56.6	1.8	58.4
Investments in jointly controlled entities	*g*	11.3	13.8	25.1
Other investments		20.5	-	20.5
Trade and other receivables	*k*	34.9	(3.0)	31.9
Deferred tax assets	*d*	13.3	26.9	40.2
Total non-current assets		185.4	42.6	228.0
Inventories	*g*	37.9	(3.8)	34.1
Current tax assets		-	-	-
Trade and other receivables	*g,i,k*	627.7	69.2	696.9
Cash and cash equivalents	*g*	36.0	(1.2)	34.8
Other financial assets	*i*	-	1.1	1.1
Total current assets		701.6	65.3	766.9
Total assets		887.0	107.9	994.9
Equity				
Issued capital		34.9	-	34.9
Share premium		54.3	-	54.3
Accumulated pension deficit		-	(74.9)	(74.9)
Other reserves - deficit		1.8	(4.0)	(2.2)
Retained earnings		110.0	19.7	129.7
Total equity attributable to equity holders of the parent	*f*	201.0	(59.2)	141.8
Liabilities				
Interest-bearing loans and borrowings	*a,g*	4.7	2.8	7.5
Pension liabilities	*c*	12.0	92.0	104.0
Trade and other payables	*g*	18.5	-	18.5
Provisions		1.0	-	1.0
Total non-current liabilities		36.2	94.8	131.0
Bank overdrafts	*g*	21.0	(6.5)	14.5
Interest-bearing loans and borrowings	*g*	64.0	15.6	79.6
Current tax liabilities		4.1	-	4.1
Trade and other payables	*g,i,k*	560.7	63.2	623.9
Total current liabilities		649.8	72.3	722.1
Total liabilities		686.0	167.1	853.1
Total equity and liabilities		887.0	107.9	994.9

Notes to the consolidated interim accounts

3. Explanation of transition to IFRS (continued)

Reconciliation of equity at 31 December 2004

	Note 3	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets				
Property, plant and equipment	*a*	48.6	3.0	51.6
Intangible assets - goodwill	*b*	54.9	3.6	58.5
Investments in jointly controlled entities	*g*	11.4	13.2	24.6
Other investments		22.5	-	22.5
Trade and other receivables	*k*	21.7	9.3	31.0
Deferred tax assets	*d*	17.3	26.6	43.9
Total non-current assets		176.4	55.7	232.1
Inventories	*g*	26.8	(4.8)	22.0
Current tax assets		3.5	-	3.5
Trade and other receivables	*g,i,k*	610.8	19.0	629.8
Cash and cash equivalents	*g*	34.5	(2.6)	31.9
Total current assets		675.6	11.6	687.2
Total assets		852.0	67.3	919.3
Equity				
Issued capital		35.4	-	35.4
Share premium		54.5	-	54.5
Accumulated pension deficit		-	(74.9)	(74.9)
Other reserves - deficit		1.8	(3.0)	(1.2)
Retained earnings		95.3	20.7	116.0
Total equity attributable to equity holders of the parent	*f*	187.0	(57.2)	129.8
Liabilities				
Interest-bearing loans and borrowings	*a,g*	25.6	2.7	28.3
Pension liabilities	*c*	10.3	90.9	101.2
Trade and other payables	*g*	14.8	(0.9)	13.9
Provisions		1.0	-	1.0
Total non-current liabilities		51.7	92.7	144.4
Bank overdrafts	*g*	16.9	(6.9)	10.0
Interest-bearing loans and borrowings	*g*	10.9	10.1	21.0
Current tax liabilities		3.8	-	3.8
Trade and other payables	*g,i,k*	581.7	28.0	609.7
Other financial liabilities	*i*	-	0.6	0.6
Total current liabilities		613.3	31.8	645.1
Total liabilities		665.0	124.5	789.5
Total equity and liabilities		852.0	67.3	919.3

Notes to the consolidated interim accounts

3. Explanation of transition to IFRS (continued)

Notes to the reconciliation of equity at 1 January 2004, 30 June 2004 and 31 December 2004.

(a) Leases

Under previous GAAP, leases of property were classified as operating leases based on legal ownership criteria. The application of IAS17 causes the reclassification of certain of such leases as finance leases. Where the leases are treated as finance leases under IAS17, the related assets are recognised in the balance sheet of the Group and a liability is recognised for the net present value of the minimum lease payments.

The effect is to increase *Property, plant and equipment* by £3.2m at 1 January 2004, by £3.2m at 30 June 2004 and by £3.1m at 31 December 2004.

The effect is also to increase Interest-bearing loans and borrowings by £3.2m at 1 January 2004, by £3.2m at 30 June 2004 and by £3.1m at 31 December 2004; to decrease *Operating costs* by £0.2m, and to increase Financial expenses by £0.2m for the six months ended 30 June 2004 and to decrease *Operating costs* by £0.4m, and to increase Financial expenses by £0.4m for the year ended 31 December 2004.

(b) Business combinations

The accounting for subsidiary companies is unchanged on the policy reported in the 31 December 2004 accounts, except that under IAS36 goodwill is not subject to annual amortisation but is tested annually for impairment. The carrying amount of *Goodwill* is therefore increased by £1.8m at 30 June 2004 and by £3.6m at 31 December 2004, representing the write-back of the previously recognised amortisation charge. The Group has applied IFRS3 to all business combinations that have occurred since 1 January 2004 (the date of transition to IFRS), although there have been no material acquisitions in that period.

(c) Employee benefits (primarily pensions)

Under the Group's previously reported accounting policy, the Group's defined benefit plans were accounted for under SSAP 24. Under IFRS1 the excess of the present value of the scheme liabilities, calculated using the projected unit method, over the fair value of the scheme assets is recognised in the balance sheet at the transition date. Subsequent to that date the Group is applying the corridor method as allowed by IAS19. Under this approach, any actuarial gains and losses that exceed 10% of the higher of the present value of the scheme's liabilities or the fair value of its assets would be recognised over the average remaining service lives of the members.

Following the above and in accordance with IFRS1 the cumulative net actuarial losses existing at 1 January 2004 have been recognised for all defined benefit plans, amounting to £107.0m. The effect is to increase liabilities for *Pensions* by £107.0m at 1 January 2004 and to reduce other payables within current liabilities by £13.8m at that date in respect of the SSAP24 pension creditor. As the Group is accounting from 1 January 2004 under the corridor method there is no change to the liability for *Pensions* at 30 June 2004 and 31 December 2004 even though actuarial gains of £12.0m and £11.6m respectively were recorded at those dates. Other payables within current liabilities reduce by £12.0m and £10.3m respectively at 30 June 2004 and 31 December 2004; *Operating costs reduce* by £1.2m for the six months ended 30 June 2004 and by £2.3m for the year ended 31 December 2004.

(d) Deferred taxation

Under IFRS deferred tax is provided using the balance sheet liabilities method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The practical application of the standard gives rise to certain adjustments. At 1 January 2004, 30 June 2004 and 31 December 2004 amounts of £2.0m, £1.8m and £1.8m respectively have been reclassified from a revaluation reserve recognised under previous GAAP to retained earnings. These amounts represent balances on the revaluation reserve in respect of assets that are measured on the basis of deemed cost under IFRS. A deferred tax liability of £0.8m has been provided on the revaluation reserve and charged directly to retained earnings within equity.
The above changes affect the deferred tax asset as follows:

	Note	1 Jan 2004 £m	30 Jun 2004 £m	31 Dec 2004 £m
Employee benefits – pension liabilities	*c*	28.0	27.6	27.3
Charged on revaluation reserve surplus	*d*	(0.8)	(0.8)	(0.8)
Joint venture reclassification	*g*	-	0.1	0.1
Increase in deferred tax asset		27.2	26.9	26.6

The effect on the income statement for the six months ended 30 June 2004 and for the year ended 31 December 2004 was to increase the previously reported overall tax charge for the respective periods by £0.4m and £0.7m.

(e) Dividends

Under UK GAAP dividends were recognised when declared. Under IAS final dividends are only included in the Group accounts once they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are approved by the Board of Directors.

(f) Adjustments to equity

The effect of the above adjustments on equity is as follows:

	Note	1 Jan 2004 £m	30 Jun 2004 £m	31 Dec 2004 £m
Goodwill	*b*	-	1.8	3.6
Employee benefits – pension liabilities	*c*	(93.2)	(92.0)	(90.9)
Deferred tax	*d*	27.2	26.9	26.6
Dividend adjustment	*e*	7.1	4.1	3.5
Total adjustment to equity attributable to equity holders of the parent		(58.9)	(59.2)	(57.2)

(g) Joint Ventures

Under UK GAAP where a Group company was party to a joint arrangement which is not an entity, that company accounted directly for its part of the income and expenditure, assets, liabilities and cash flows. IAS 31 considers the legal form of joint ventures. Joint ventures are accounted for either as jointly controlled entities or jointly controlled operations. The Group has determined that it will equity account for all jointly controlled entities.

Following the application of this change, certain entities which were previously proportionately consolidated are now treated as jointly controlled entities and have been equity accounted under IFRS, with no effect on shareholders' equity. Individual assets and liabilities are consolidated on the investments in jointly controlled

entities line in the consolidated balance sheet. As a result Group net cash decreases by £6.0m at 1 January 2004, Group net borrowings increase by £9.9m at 30 June 2004 and by £5.4m at 31 December 2004.
Various compensating movements arise within the Income statement including a charge for income tax (previously included in the income tax expense line) which under IAS 31 is required to be shown as part of the Group's share of the results of jointly controlled entities, rather than as part of the Group tax charge. In Australia, the responsibility for paying the tax is that of the Mowlem investing company.

(h) Private Finance Initiatives – derivative accounting

In March 2005, the International Financial Reporting Interpretations Committee (IFRIC) issued draft guidance on accounting for service concession arrangements (drafts D12 to D14). IFRIC are currently considering the comments received on this draft guidance, with the final guidance expected to be issued by early 2006. Until the final guidance is issued and endorsed by the EU and in the absence of specific guidance within IFRS, the Group has, from 1 January 2005, recognised the FRS 5 finance debtors relating to concession arrangements held by jointly controlled entities as available for sale assets as defined by IAS39 and carried these assets at fair value. The accounting for these assets may be changed subject to the final guidance issued by IFRIC.

(i) Available for sale investments and derivative financial instruments

In accordance with IFRS, available for sale investments and all derivative financial instruments have been recognised as assets or liabilities at fair value.
There were no available for sale investments held during 2004. The asset/liability arising from the hedge of the Australian net assets has resulted in a transfer of £1.1m from current trade and other receivables to other financial assets at 30 June 2004, £1.4m and £0.6m respectively from current trade and other payables to other financial liabilities at 1 January 2004 and 31 December 2004.

(j) Share-based payment

The Group applied IFRS 2 to its active share-based payment arrangements at 1 January 2005 except for equity-settled share-based payment arrangements granted before 7 November 2002 that had not vested by 1 January 2005. The Group has granted equity-settled share-based payments in 2004 and 2005.

These share-based payment arrangements are accounted for by the Group at fair value. Under IFRS 2 the Group now has to account for the expense arising on its executive share option scheme and its SAYE schemes.

The effect of accounting for equity-settled share-based payment transactions under IFRS is to increase *Operating costs* by £0.1m for the year ended 31 December 2004. The expense recognised for the consumption of employee services received as consideration for share options granted will be deductible for tax purposes when the share options are exercised.

(k) Construction Contracts

The adoption of IAS11 Construction Contracts has resulted in a change to the grossing-up of contract debtors and creditors in the Group balance sheet. Additionally, the classification of retentions over and under one year has been amended.

(l) Impairment

Assets that are subject to depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Additionally, goodwill is tested at least annually for impairment. An impairment loss is recognised in the income statement based on the amount by which the carrying value exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

(m) Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. These derivative financial instruments are measured at fair value. The gains or losses on remeasurement are taken to the income statement except where the derivative is designated as a cash flow hedge. For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses in the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity and the ineffective portion is recognised in the income statement.

(n) Cash flow statement presentation

The application of IFRS changes the presentation of the cash flow statement which now shows cash flows from three activities - operating, investing and financing.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are classified as cash and cash equivalents under IFRS. Under previous GAAP results and net assets of certain joint ventures were proportionately consolidated by the Group, whereas IFRS requires them to be equity accounted as jointly controlled entities. Accordingly funds lent to the Group by these entities no longer offset on consolidation. These are now reported as borrowings and form part of cash and cash equivalents.
There are no other material differences between the cash flow statement under IFRS and that under previous GAAP.

4. Earnings per share
The following average number of shares have been used in the earnings per share calculations:

	Six months to 30 June 2005	**Six months to 30 June 2004**	**Year to 31 December 2004**
Basic	141.7m	138.7m	140.3m
Diluted	142.4m	139.7m	141.3m

5. Exchange
The results of overseas operations have been expressed in Sterling using the following principal exchange rates.

	30 June 2005	**30 June 2004**	**31 December 2004**
Average rates:			
Australian dollar	2.42	2.46	2.49
U.S dollar	1.87	1.82	1.83
Euro	1.46	1.48	1.47
Period end rates:			
Australian dollar	2.35	2.61	2.45
U.S dollar	1.79	1.82	1.90
Euro	1.48	1.50	1.41

KPMG Review Statement

Independent review report to Mowlem plc

Introduction

We have been engaged by the company to review the financial information set out on pages 6 to 25 and 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 the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

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 which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

As disclosed in page 11 to the financial information, the next annual accounts of the group will be prepared in accordance with IFRS adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual accounts. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual accounts for the first time in accordance with those IFRS adopted for use by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 *Review of interim financial information* 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 is substantially less in scope than an audit performed in accordance with 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 30 June 2005.

KPMG Audit Plc
Chartered Accountants
28 September 2005

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London,
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