Babcock International Group PLC

Transition to International Financial Reporting Standards

1. Introduction

Following the EU's adoption of International Financial Reporting Standards (IFRS), Babcock International Group PLC (the group) will be adopting IFRS in its consolidated accounts for accounting periods from 1 April 2005.

The first financial information to be reported by the group in accordance with IFRS will be for the six months ending 30 September 2005 but the requirement to present comparative information means that a balance sheet prepared in accordance with IFRS as at 1 April 2004 is required.

This announcement includes the consolidated results of the group converted from a UK Generally Accepted Accounting Principles (UK GAAP) basis to an IFRS basis for the year to 31 March 2005 and balance sheets at 31 March 2004 and 31 March 2005.

This document explains the significant accounting policy changes from the accounting policies adopted under UK GAAP for the year ended 31 March 2005.

The most significant changes leading to the restatement relate to:-

- The recognition, on the balance sheet, of pension scheme liabilities under IAS 19
- The inclusion of a fair value charge in respect of employee share options issued post 7 November 2002
- The cessation of goodwill amortisation
- The creation and amortisation of intangibles acquired in the year ending 31 March 2005
- No longer recognising proposed dividends as a liability at the balance sheet date

In addition, the group will be implementing IAS 32 Financial Instruments: Disclosure and Presentation (IAS 32) and IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) in its consolidated accounts with effect from 1 April 2005.

Under IAS19 there is a choice as to whether Pension Finance costs are shown under interest or within Operating Profit. The attached schedules assume that this adjustment is included with operating profit but the group reserves its position awaiting the development of general practice.

Attached are:

Group Balance Sheets in IFRS format as at 31 March 2005, as at 31 March 2004 (section 5.1)
Group Income Statement in IFRS format year ended 31 March 2005 (section 5.2)

Appendix

1. Group Balance Sheet – reconciliation UK GAAP to IFRS including IFRS adjustments made as at 31 March 2004
2. Group Balance Sheet – reconciliation UK GAAP to IFRS including IFRS adjustments made as at 31 March 2005

3. Group Income Statement – reconciliation UK GAAP to IFRS including IFRS adjustments made for the year ended 31 March 2005

2. Basis of preparation

The adjustments to the UK GAAP financial statements have been prepared on the basis of all IFRSs including Standing Interpretations Committee and International Financial Reporting Interpretations Committee interpretations expected to be effective at 31 March 2006. These are subject to ongoing review and endorsement by the EU or possible amendment by interpretative guidance from the IASB and are therefore still subject to change. The unaudited financial information which follows represents our current view and may be impacted by changes in our business or to IFRS and the interpretation thereof.

In general, for the first-time adoption of IFRS, the standards are applied retrospectively. However, there are a number of exceptions available under IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) and note 4.2 details the exceptions that the group has applied.

In November 2004, the EU endorsed a reduced version of the IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) standard as issued previously by the International Accounting Standards Board (IASB). With effect from 1 April 2005, the group will adopt IAS 39 in accordance with the guidance issued by the IASB.

In preparing this financial information, the group has assumed that the EU will endorse the amendment issued in December 2004 to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures.

3. Overview of impact

3.1 Underlying profit before tax and EPS

Under UK GAAP the group has previously presented measures of its underlying profit before tax performance which excluded exceptional items and amortisation of goodwill. This measure will be retained, but will be amended to exclude amortisation of intangibles arising on acquisition.

	Ref	**£m**
Profit before tax, goodwill and exceptional items – UK GAAP – for the year ending 31 March 2005		35.1
Joint ventures	4.1	(0.1)
Pensions	4.3	0.1
Share based payments	4.6	(0.5)
Long-term contracts	4.7	(0.1)
Holiday pay	4.10	0.6
Debtor discounting	4.11	(0.1)
Profit before tax, acquired intangibles and exceptional items – IFRS		35.0

After allowing for a tax credit (relating to share based payments) the basic EPS pre-goodwill and exceptional for the year ended 31 March 2005 changes marginally from 14.20p under UK GAAP to 14.22p under IFRS.

3.2 Profit after tax

Reconciliation of profit after tax for year ending 31 March 2005

	Ref	£m
UK GAAP		20.7
Joint ventures	4.1	(0.0)
Pensions - ordinary	4.3	0.1
- exceptional	4.3	4.2
Acquired intangibles - exceptional	4.4	(8.8)
- ordinary	4.4	(3.1)
Goodwill – UK GAAP reversed	4.5	6.2
Share based payments	4.6	(0.4)
Long-term contracts	4.7	(0.1)
Holiday pay	4.10	0.5
Debtor discounting	4.11	(0.1)
Profit after tax IFRS		19.2

Each of the above adjustments are shown after the related tax charge. EPS under UK GAAP of 10.87p reduces to 10.08p under IFRS mainly as a result of the amortisation of acquired intangibles.

3.3 Net assets

Reconciliation of net assets as at 31 March 2005

	Ref	£m
Net assets – UK GAAP		174.0
Pensions	4.3	(82.6)
Acquired intangibles	4.4	9.0
Goodwill	4.5	7.7
Share based payments	4.6	0.1
Long-term contracts	4.7	0.1
Dividends	4.8	5.4
Other tax adjustments	4.9	(0.3)
Holiday pay	4.10	(0.7)
Debtor discounting	4.11	(0.3)
Net assets IFRS		112.4

Each of the above adjustments are shown after the related tax effect.

4. Impact of IFRS adjustments

Due to the implementation of IFRS there have been some changes to the group's accounting policies, the following are an explanation of the resulting changes.

4.1 Presentation of financial statements

The group's financial information will be prepared on a basis that is consistent with IAS 1 Presentation of Financial Statements. The statements shown in Section 5 have been presented as far as possible in accordance with IAS 1 and may still be subject to change.

This, in conjunction with other standards, has had the following impacts:

i. Under UK GAAP, the group's share of operating profit, interest and tax of equity accounted investments were presented separately. Under IAS, the group's share of results from equity accounted investments is presented as a single line on the income statement. As a result of the reclassification, £0.1m relating to the group's share of tax of equity accounted investments is reclassified from tax under UK GAAP to within profit before tax under IFRS.

ii. Under IAS 1, the financial performance from discontinued operations is shown as a single line item after profit from continuing activities.

iii. Finance costs: Under IAS 1, income and expense cannot be offset and therefore financial costs and financial income are separately disclosed.

iv. Retirement benefit obligations are being separately presented from creditors.

v. Debtors, creditors and provisions reclassifications: IAS 1 requires that assets and liabilities are presented on a current and non-current basis.

vi. Generally IFRS requires further grossing-up of balance sheet items resulting in higher debtors and creditors.

vii. Other reclassifications

Software: IAS 38 requires that software costs are capitalised as intangible assets. UK GAAP included such costs in tangible fixed assets. Accordingly, £1.9m previously disclosed as tangible assets under UK GAAP is reclassified as intangible assets under IFRS.

4.2 IFRS 1 exemptions

IFRS 1 sets out the rules for an entity preparing its first IFRS financial statements. The entity is required to determine its IFRS accounting policies in accordance with the IFRS that are in place at the date of transition (1 April 2004) and, in general, apply them retrospectively. There are a number of possible exemptions from the retrospective application to assist the entity in making the transition. Babcock has taken the following exemptions:

- Business combinations: Business combinations prior to the transition date (1 April 2004) have not been restated onto an IFRS basis.
- Employee benefits: All cumulative actuarial gains and losses on the group's defined benefit pension schemes have been recognised in equity at the date of transition.

- Financial instruments: Financial instruments in the comparative period are recorded on the existing UK GAAP basis, rather than in accordance with IAS 32 and IAS 39, which will be adopted from 1 April 2005.
- Cumulative translation difference: IAS 21 The Effects of Changes in Foreign Exchange Rates requires translation differences relating to a net investment in a foreign operation to be classified as a separate component of equity. In accordance with IFRS 1, the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition.

4.3 Pensions

Under UK GAAP, the group currently accounts for defined benefit pension schemes in accordance with Statement of Standard Accounting Practice 24 Accounting for Pension Costs (SSAP 24). The group also reports the transitional disclosures required in accordance with Financial Reporting Standard 17 Retirement Benefits (FRS 17), including the adjustment from the figures reported under SSAP 24 which would be required if FRS 17 was adopted in the financial statements.

The methodology and assumptions used to calculate the value of pension assets and liabilities under FRS 17 are substantially consistent with the requirements of IAS 19 Employee Benefits. Although there are some minor technical differences, which result in a different income statement charge. IAS 19 allows a choice as to whether finance costs/incomes are shown within interest or operating profit. This announcement assumes the income will be within operating profit but the group reserves its position dependent on the development of general practice.

The balance sheet adjustment replaces the existing SSAP 24 net pension assets and related deferred tax with the IAS 19 pension liability and the related deferred tax assets. Part of the adjustment to goodwill represents the impact of replacing the SSAP 24 pension asset in the acquisition balance sheet of certain acquisitions made in 2004/5 with the IAS 19 asset and the related deferred tax.

The income statement adjustment reflects the difference between the existing SSAP 24 operating charge and the group's IAS 19 pension charge and net pension financing credit.

Under IAS 19, in the event of a significant reduction in active members, the effect on the surplus/deficit is taken to the income statement immediately rather than spread over average active service lives as with SSAP 24. This has been shown as exceptional gain of £5.6m.

Currently still under development is the treatment of government supported pension schemes where any change in contribution is funded by the government. Under UK GAAP these schemes are treated as defined contribution. Under IFRS these schemes may be treated as defined benefit schemes. This may result in some grossing up within the Income Statement and Balance Sheet but no net effect.

The impact from these changes is summarised as follows:

	As at 1 April 2004 £m	For the year ended 31 March 2005 £m
Income statement		
Service costs		(8.7)
Financial income		56.6
Financial expense		(47.8)
Total operating profit change		0.1
Exceptional curtailment		5.6
Related taxation effect - exceptional		(1.4)
Adjustment to profit after taxation		4.3
Net assets		
Debtors	(67.0)	(58.3)
Retirement benefit obligation	1.3	(60.0)
	(65.7)	(118.3)
Related taxation effect	19.7	35.7
Adjustment to net assets	(46.0)	(82.6)
Resultant net surplus/deficit per IFRS	1.1	(14.4)

4.4 Business combinations

Under UK GAAP, the difference between the consideration paid for an acquisition and the fair value of the net tangible assets acquired is recognised as goodwill. IFRS requires that intangible assets of an acquired business are separately recognised from goodwill if their fair value can be measured reliably. Intangible assets include contracts and customer relationships. Intangible assets recognised are then amortised over their useful life. Under the transition rules, the group is not required to identify any acquired intangible assets for acquisitions prior to 31 March 2004. As a result of acquisitions made in 2004/5 the group has reclassified intangible assets of £25.9m out of goodwill arising on acquisition, of which £8.8m relates to the rail maintenance contracts existing at the date of acquisition. There is an associated ordinary amortisation charge of £4.4m for the year ended 31 March 2005 and in addition the amortisation of £8.8m relating to the rail maintenance transfer which is treated as exceptional.

The impact from these changes is summarised as follows:

	For the year ended 31 March 2005 £m	
Income statement		
Amortisation of intangible assets - ordinary	(4.4)	
- exceptional	(8.8)	
Adjustment to profit before taxation	(13.2)	
Related taxation effect - ordinary	1.3	
Adjustment to profit after taxation	(11.9)	
Net assets		
Intangible assets - acquisitions	12.7	(a)
Related taxation effect	(3.8)	
Adjustment	9.0	

Notes:

(a)

	£m
Acquired intangibles	25.9
Amortisation of intangible assets	(13.2)
	12.7

4.5 Intangible assets - goodwill

Under UK GAAP, the group's policy was to capitalise goodwill in respect of businesses acquired and amortised on a straight line basis over its estimated useful economic life, which had been assessed as 20 years for all recent acquisitions. In addition at 31 March 2005 it held negative goodwill of £2.9m arising on acquisition.

On transition to IFRS, IFRS 1 requires the group to conduct an impairment review of the carrying value of capitalised goodwill at 1 April 2004 for potential impairments. No further impairments above those made under UK GAAP were required at 1 April 2004.

In accordance with IFRS 3 Business Combinations, no amortisation of goodwill is charged in the group's consolidated IFRS accounts from 1 April 2004. Instead, annual impairment reviews of the goodwill are performed. In addition, negative goodwill at 1 April 2004 of £4.7m is taken to reserves in compliance with IFRS 3.

The adjustment reverses the amortisation charged in the year under UK GAAP of £6.6m with an adjustment of £0.1m for business disposed of during the year. Accordingly, there is a corresponding increase in net assets.

Other significant items adjusting goodwill include the effect on the acquisition balance sheets under IAS 19 pensions compared to SSAP 24 and the transfer from goodwill under UK GAAP to intangibles under IFRS as effected by tax.

The impact from these changes is summarised as follows:

	As at 1 April 2004 £m	For the year ended 31 March 2005 £m	
Income statement			
Operating costs		6.6	
Operating exceptional items		(0.1)	
Adjustment to profit before taxation		6.5	
Related taxation effect		(0.3)	
Adjustment to profit after taxation		6.2	
Adjustment to net assets	4.7	8.1	(a)
Taxation efect	-	(0.4)	
	4.7	7.7	

(a)

	£m
Acquired intangibles	(25.9)
Goodwill on amortisation	6.5
Negative goodwill	4.7
Fair value changes e.g. pensions	22.8
	8.1

4.6 Share-based payments

Under UK GAAP, the cost of share options was based on the intrinsic value in the option at the date of grant, meaning that options granted to employees at market price do not generate an expense.

Under IFRS 2 Share-based Payments, the group measures the cost of all share options granted since November 2002 using fair value models. As a result, additional expense is recognised in the IFRS income statement.

The adjustment increases the operating charge of the group's share option schemes.

The impact from these changes is summarised as follows:

	As at 1 April 2004 £m	For the year ended 31 March 2005 £m
Income statement		
Operating costs		(0.5)
Adjustment to profit before taxation		(0.5)
Related taxation effect		0.1
Adjustment to profit after taxation		(0.4)
Net assets		
Tax	0.0	0.1

4.7 Long-term contracts

The group accounted for long-term contracts under UK GAAP in accordance with Statement of Standard Accounting Practice 9 Stocks and Long-term Contracts. Under IFRS, long-term contracts are accounted for under either IAS 11 Construction Contracts and IAS 18 Revenue. These standards require that all such contracts, with no materiality test, as was the case under UK GAAP, are accounted for as long term contracts.

In addition, IAS prohibits netting of payments on account on a more strictly defined basis resulting in a grossing up of the balance sheet under IAS.

The impact from these changes is summarised as follows:

	As at 1 April 2004 £m	For the year ended 31 March 2005 £m
Combined sales of group		(1.1)
Operating costs		(1.0)
Adjustment to profit before taxation		(0.1)
Related taxation effect		0.0
Adjustment to profit after taxation		(0.1)
Net assets		
Debtors	2.6	53.9
Inventories	(1.7)	(0.7)
Creditors	(0.5)	(53.1)
	0.3	0.1
Related taxation effect	(0.1)	0.0
Adjustment to net assets	0.2	0.1

4.8 Proposed dividends

Under Statement of Standard Accounting Practice 17 Post Balance Sheet Events, proposed dividends are accrued for as an adjusting post balance sheet event in the accounting period to which they relate. Under IAS 10 Events after the Balance Sheet Date, dividends are recognised in the accounting period in which they are declared. Accordingly, the group has reversed the accrual for its proposed dividends. The impact from these changes is as follows:

	As at 1 April 2004 £m	For the year ended 31 March 2005 £m
Adjustment to net assets	3.1	5.4

4.9 Taxation

Under IAS 12 Income Taxes, certain temporary differences, in relation to property revaluations not recognised under UK GAAP require recognition of £0.3m.

Other tax adjustments have been reflected within the relevant adjustments as tax effects.

4.10 Holiday pay

As a result of further more prescriptive guidance in IAS 19, holiday pay accruals and prepayments are definitively required. The impact from these changes is summarised as follows:

	As at 1 April 2004 £m	For the year ended 31 March 2005 £m
Income statement		
Operating costs		0.6
Taxation expense		(0.1)
Adjustment to profit after taxation		0.5
Net assets		
Debtors	0.4	0.4
Creditors	(0.8)	(1.4)
Deferred tax	0.1	0.3
Adjustment to net assets	0.3	0.7

4.11 Discounting debtors

Under IAS 18 Revenue account must be taken of any inbuilt financing within extended payment terms. Where payment terms are deemed to fall into this category the related debtor is stated at the present value after discounting at prevailing interest rates. The deemed financing element of the debt is credited to profit and loss as interest income as the discount unwinds. Application of this standard has resulted in the following changes:

	As at 1 April 2004 £m	For the year ended 31 March 2005 £m
Turnover		(0.3)
Finance income		0.2
Adjustment to profit after taxation		0.1
Debtors	(0.3)	(0.4)
Deferred tax	0.1	0.1
Adjustment to net assets	0.2	0.3

4.12 Financial instruments (applicable from 1 April 2005)

Within the group's South African business a significant element of its purchases are in US dollars. In order to protect itself against currency fluctuations, the group's policy is to hedge all firm transactional exposures. The dollar is in the main not the functional currency of the supplier and hence the contracts are deemed to include embedded derivatives which must be fair valued. The forward cover contracts are also marked to fair value and substantially offset the embedded derivative accounting.

The group also uses interest rate derivative instruments to manage the group's exposure to interest rate fluctuations on its borrowings and deposits by varying the proportion of fixed rate debt relative to floating rate debt over the forward time horizon.

To achieve hedge accounting under IAS 39, the group is required to designate these financial instruments against specific assets, liabilities, income and expenses. All such instruments are measured at fair value as at the balance sheet date and the effectiveness of each hedge tested against defined criteria. Changes in the fair value of the financial instruments are recognised either in profit or loss for the period or, in the case of a cash flow hedge, directly in equity and subsequently recognised in profit or loss for the period when the underlying transaction is realised. For financial instruments designated as fair value hedges, changes in the fair value of the hedged item and the derivative are recognised in the profit and loss for the period. Gains and losses on financial instruments, both realised and unrealised, that do not quality for hedge accounting are included in the profit or loss for the period. The group will consider whether to seek hedge accounting on an instrument by instrument basis.

Under IAS 39, all financial instruments are recognised on the balance sheet as either financial assets or financial liabilities.

Under the IFRS transition rules, IAS 32 and IAS 39 will apply to accounting periods beginning on or after 1 April 2005 with no requirement for comparative information in the period to 31 March 2005. Therefore this area will continue to be accounted for under UK GAAP in the 2004/5 comparatives of the group's 2005/6 IFRS financial statements. An adjustment is made as at 1 April 2005 to reflect the adoption of IAS

32 and IAS 39 which restates hedged assets and liabilities to balance sheet rates and recognises the fair value of financial instruments on the balance sheet together with the associated deferred tax. The impact of these changes is not expected to be significant.

5. Financial statements

These statements have been presented as far as possible in accordance with IAS 1 and may still be subject to change.

5.1 Group balance sheet in IFRS format

	2005 £m	2004 £m
Assets		
Non current assets		
Property, plant and equipment	36.0	11.8
Goodwill	161.3	81.5
Other intangible assets	14.8	1.0
Investments in associates	0.7	0.7
Retirement benefits	39.2	48.3
Trade and other receivables	0.4	0.4
Deferred tax assets	11.8	7.6
	264.2	**151.3**
Current assets		
Inventories	40.6	28.1
Trade and other receivables	231.7	71.9
Retirement benefits	2.3	0.3
Current tax	0.3	0.3
Financial assets	0.5	0.1
Cash and cash equivalents	33.1	17.5
	308.5	**118.2**
Total assets	**572.7**	**269.5**
Equity and liabilities		
Equity attributable to equity holders of the parent		
Share capital	125.0	90.1
Capital reserves	69.3	38.6
Other reserves	30.6	30.6
Retained earnings	(112.6)	(100.7)
	112.3	**58.6**
Minority interest	0.1	0.0
Total equity	**112.4**	**58.6**
Non current liabilities		
Long-term borrowings	2.1	15.0
Trade and payables	0.0	0.1
Current tax payable	0.0	0.1
Obligations under finance leases – due after more than one year	6.2	0.7
Retirement liabilities	61.3	46.6
Long term provisions	23.4	7.2
	93.0	**69.7**

5.1 Group balance sheet in IFRS format (continued)

	2005 £m	2004 £m
Current liabilities		
Trade and payables	260.8	105.7
Current portion of long-term borrowings	0.0	0.0
Current tax payable	6.2	6.0
Financial liabilities – due within one year	2.2	4.1
Obligations under finance leases – due within one year	2.3	0.4
Bank overdrafts and loans – due within one year	85.4	16.8
Retirement liabilities	0.5	0.0
Short-term provisions	9.9	8.2
	367.3	**141.2**
Total liabilities	**460.3**	**210.9**
Total equity and liabilities	**572.7**	**269.5**

5.2 Group income statement in IFRS format

	Year ended 31 March 2005 Before exceptionals and acquired intangible amortisation £m	Exceptionals and acquired Intangible amortisation £m	Total £m
Existing	516.9	-	516.9
Acquisitions	241.7	-	241.7
Revenue	**758.6**	**-**	**758.6**
Existing	29.5	-	29.5
Acquisitions	11.3	(6.2)	5.1
Profit from operations	**40.8**	**(6.2)**	**34.6**
Finance costs	(8.5)	-	(8.5)
Finance income	2.5	-	2.5
Share of profit of joint ventures	0.2	-	0.2
Profit before tax	35.0	(6.2)	28.8
Income tax expense	(8.0)	-	(8.0)
Profit for the year from continuing operations	**27.0**	**(6.2)**	**20.8**
Discontinued operations			
Loss for the year from discontinued operations	-	(1.6)	(1.6)
Profit for the period	**27.0**	**(7.8)**	**19.2**
Attributable to:			
Equity holders of the parent	26.9	(7.8)	19.1
Minority interest	0.1	-	0.1
Earnings per share			
Including discontinued operations			
Basic			10.08p
Diluted			10.07p
Excluding discontinued operations			
Basic			10.96p
Diluted			10.94p

Appendix 1

Reconciliation of equity at 1 April 2004 (Date of transition to IFRS)

The effect of the changes to the Group's accounting poicies on the equity of the Group at the date of transition, 1 April 2004 was as follows.

	As reported under UK GAAP	IAS 19 Employee Benefits	IAS 19 Holiday Pay	Long Term Contracts	IAS 18	IAS 21 Financial Instruments	IAS 10 Post Balance Sheet Events	IAS 38 Intangible Assets	Goodwill	Tax/JV/other		IFRSs
Property, plant and equipment	12.2	-	-	-	-	-				(0.4)		11.8
Goodwill	76.8	-	-	-	-	-			4.7			81.5
Other intangible assets	0.7	-	-	-		-				0.4		1.1
Investments in Associates	0.7	-	-	-	-	-		-				0.7
Fixed Assets	**90.4**	**-**	**-**	**-**	**-**	**-**		**-**	**4.7**			**95.1**
Trade and other receivables	139.2	(20.4)	0.4	2.4	(0.3)	(0.1)		-				121.2
Inventories	29.7	-	-	(1.6)	-	-		-				28.1
Other receivables	-											-
Financial assets	-	-	-	-	-	0.1		-				0.1
Cash and cash equivalents	17.5	-	-	-	-	-		-				17.5
Total current assets	**186.4**	**(20.4)**	**0.4**	**0.8**	**(0.3)**	**-**	**-**	**-**	**-**	**-**	**-**	**166.9**
Total assets	**276.8**	**(20.4)**	**0.4**	**0.8**	**(0.3)**	**-**	**-**	**-**	**4.7**	**-**	**-**	**262.0**
Interest bearing loans	(32.9)	-	-	-	-	-		-				(32.9)
Trade and other payables	(111.7)	-	(0.8)	(0.6)	-	4.1	3.1	-				(105.9)
Financial liabilities	-	-	-	-	-	(4.1)		-				(4.1)
Employee benefit obligations	(1.3)	(45.3)				-		-				(46.6)
Provisions	(15.4)	-	-	-	-	-		-				(15.4)
Current tax liability	(6.1)	-	-	-	-	-		-		-		(6.1)
Deferred tax liability	(12.3)	19.7	0.1	(0.1)	0.1	-				0.1		7.6
Total liabilities	**(179.7)**	**(25.6)**	**(0.7)**	**(0.7)**	**0.1**	**-**	**3.1**	**-**	**-**	**0.1**		**(203.4)**
Total assets less total liabilities	**97.1**	**(46.0)**	**(0.3)**	**0.1**	**(0.2)**	**-**	**3.1**	**-**	**4.7**	**0.1**		**58.6**
Share Capital	(90.1)	-	-	-	-	-		-				(90.1)
Capital Reserves	(38.6)											(38.6)
Other reserves	(30.6)											(30.6)
Retained earnings	62.2	46.0	0.3	(0.1)	0.2	-	(3.1)	-	(4.7)	(0.1)		100.7
Total equity	**(97.1)**	**46.0**	**0.3**	**(0.1)**	**0.2**	**-**	**(3.1)**	**-**	**(4.7)**	**(0.1)**	**-**	**(58.6)**
	-											

Note: IFRS column represents adjusted numbers but not correct for IFRS format

Reconciliation of equity at 31 March 2005

Appendix 2

	As reported under UK GAAP	IAS 19 Employee Benefits	IAS 19 Holiday Pay	Long Term Contracts	IAS 18	IAS 21 Financial Instruments	IAS 10 Post Balance Sheet Events	IAS 38 Intangible Assets	Goodwill	IFRS 2 Share Based payments	Tax/JV/other	IFRSs
Property, plant and equipment	37.9										(1.9)	36.0
Goodwill	153.2								8.1			161.3
Other intangible assets	0.2							12.7			1.9	14.8
Investments in Associates	0.7											0.7
Fixed Assets	**192.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**12.7**	**8.1**	**0.0**	**0.0**	**212.8**
Trade and other receivables	278.5	(58.3)	0.4	53.9	(0.4)	(0.3)					0.1	273.9
Inventories	41.3			(0.7)								40.6
Financial Assets	-					0.5						0.5
Cash and cash equivalents	33.1											33.1
Total current assets	**352.9**	**(58.3)**	**0.4**	**53.2**	**(0.4)**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**348.1**
Total assets	**544.9**	**(58.3)**	**0.4**	**53.2**	**(0.4)**	**0.2**	**0.0**	**12.7**	**8.1**	**0.0**	**0.1**	**560.9**
Interest bearing loans	(96.0)											(96.0)
Trade and other payables	(213.7)		(1.4)	(53.0)		2.0	5.4				(0.1)	(260.8)
Financial liabilities	-					(2.2)						(2.2)
Employee benefit obligations	(1.8)	(60.0)										(61.8)
Provisions	(33.3)											(33.3)
Current tax liability	(6.2)		0.0									(6.2)
Deferred tax liability	(19.9)	35.7	0.3	(0.1)	0.1			(3.7)	(0.4)	0.1	(0.3)	11.8
Total liabilities	**(370.9)**	**(24.3)**	**(1.1)**	**(53.1)**	**0.1**	**(0.2)**	**5.4**	**(3.7)**	**(0.4)**	**0.1**	**(0.4)**	**(448.5)**
Total assets less total liabilities	**174.0**	**(82.6)**	**(0.7)**	**0.1**	**(0.3)**	**0.0**	**5.4**	**9.0**	**7.7**	**0.1**	**(0.3)**	**112.4**
Share Capital	(125.0)											(125.0)
Capital Reserves	(69.3)											(69.3)
Other reserves	(30.6)											(30.6)
Retained earnings	51.0	82.6	0.7	(0.1)	0.3	0.0	(5.4)	(9.0)	(7.7)	(0.1)	0.3	112.6
Minority Interest	(0.1)											(0.1)
Total equity	**(174.0)**	**82.6**	**0.7**	**(0.1)**	**0.3**	**0.0**	**(5.4)**	**(9.0)**	**(7.7)**	**(0.1)**	**0.3**	**(112.4)**

Note: IFRS column represents adjusted numbers but not correct for IFRS format

Income statement reconciliation for year to 31 March 2005

	As reported under UK GAAP	IAS 19 Employee Benefits	IAS 19 Holiday Pay	Long Term Contracts	IAS 18	IAS 21 Financial Instruments	IAS 10 Post Balance Sheet Events	IAS 38 Intangible Assets	Goodwill	IFRS 2 Share Based payments	Tax/JV/other	IFRSs
Continuing Operations												
Turnover	**760.0**			**(1.1)**	**(0.3)**							**758.6**
Operating profit pre exceptionals and goodwill or acquired amortisation	41.0	**0.1**	**0.6**	**(0.1)**	**(0.3)**					**(0.5)**		**40.8**
Operating exceptionals, goodwill or acquired amortisation	(5.1)	**5.6**					**0.0**	**(13.2)**	**6.5**			**(6.2)**
Operating profit	**35.9**	**5.7**	**0.6**	**(0.1)**	**(0.3)**	**0.0**	**0.0**	**(13.2)**	**6.5**	**(0.5)**	**0.0**	**34.6**
Finance costs	(8.5)	0.0	0.0			0.0						**(8.5)**
Finance income	2.3	0.0			0.2							**2.5**
Share of profit of associates	0.3										(0.1)	**0.2**
Discontinued Operations	(1.6)											**(1.6)**
Profit before tax	**28.4**	**5.7**	**0.6**	**(0.1)**	**(0.1)**	**0.0**	**0.0**	**(13.2)**	**6.5**	**(0.5)**	**(0.1)**	**27.2**
Ordinary tax expense	(8.1)		(0.1)	0.0	0.0	0.0				0.1	0.1	**(8.0)**
Exceptional tax	0.4	(1.4)						1.3	(0.3)			**0.0**
Profit for the year	**20.7**	**4.3**	**0.5**	**(0.1)**	**(0.1)**	**0.0**	**0.0**	**(11.9)**	**6.2**	**(0.4)**	**0.0**	**19.2**
Minority Interest	(0.1)											**(0.1)**
	20.6	4.3	0.5	(0.1)	(0.1)	0.0	0.0	(11.9)	6.2	(0.4)	0.0	19.1
Underlying profit before tax, goodwill, acquired intangibles and exceptional items	**35.1**	**0.1**	**0.6**	**(0.1)**	**(0.1)**	**0.0**	**0.0**	**0.0**	**0.0**	**(0.5)**	**(0.1)**	**35.0**
Underlying EPS before tax, goodwill, acquired intangibles and exceptional items	14.20p											14.22p
EPS	10.87p											10.08p