The Morgan Crucible Company plc

Restatement of primary financial information for 2004 under International Financial Reporting Standards (IFRS)

CONTENTS

1. INTRODUCTION

The Morgan Crucible Company plc and its subsidiaries (the Group) has, for the accounting periods up to 4 January 2005, prepared its consolidated financial statements under UK Generally Accepted Accounting Principles (UK GAAP). From 5 January 2005, the Group is required by European Directives to report its consolidated financial statements under International Financial Reporting Standards (IFRS). The first published results under IFRS will be the 2005 Interim Report for the period ended 4 July 2005.

This announcement explains how the Group's previously reported UK GAAP financial performance and position are reported under IFRS. It includes on an IFRS basis:

- The consolidated income statement for the period ended 4 July 2004 and for the year ended 4 January 2005; and

- The consolidated balance sheet at 5 January 2004 (date of transition to IFRS), 4 July 2004, 4 January 2005 and 5 January 2005.

In preparing its opening IFRS balance sheet at 5 January 2004, an opening IFRS balance sheet at 5 January 2005 and comparative information for the six months ended 4 July 2004 and for the year ended 4 January 2005, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. Detailed explanations of the adjustments and the effect of transition to IFRS are set out in section 5 below.

2. BASIS OF PREPARATION

European Union (EU) law requires that the next annual consolidated financial statements of the Group, for the year ending 4 January 2006, be prepared in accordance with IFRS adopted for use in the EU.

The 2004 restated financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are endorsed, or are expected to be endorsed by the EU and effective (or available for early adoption) at 4 January 2006, the Group's first annual reporting date at which it is required to use adopted IFRS (except that IAS 32 Financial Instruments: Disclosures and Presentation and IAS 39 Financial Instruments: Recognition and Measurement have not been applied as allowed by IFRS 1). Based on these IFRS the directors have made assumptions about the accounting policies expected to be applied, which are as set out in section 6, when the first annual IFRS financial statements are prepared for the year ending 4 January 2006. It has been assumed that the IAS 19 (amended) Employee benefits will be adopted by the EU in sufficient time that it will be available for use in the annual IFRS financial statements for the period ending 4 January 2006.

In accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards', no adjustments have been made for any changes in estimates made at the time of approval of the UK GAAP financial statements on which the preliminary IFRS financial statements are based.

The adopted IFRS that will be effective (or available for early adoption) in the financial statements for the year ending 4 January 2006 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 only be determined finally when the financial statements are prepared.

The financial information included in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The consolidated statutory accounts for The Morgan Crucible Company plc in respect of the year ended 4 January 2005, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under Section 237 (2) or (3) of the Companies Act 1985.

3. TRANSITIONAL ARRANGEMENTS

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its IFRS accounting policies as at 4 January 2006 and, in general apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 5 January 2004.

The standard allows a number of exceptions to this general principle to assist companies as they change to reporting under IFRS. The areas where the Group has taken advantage of these exemptions are set out below:

- Pensions and other post-retirement benefits (IAS 19)

  The Group has chosen to recognise all cumulative actuarial gains and losses at the date of transition to IFRS. From 5 January 2005, in accordance with IAS 19 (revised), actuarial gains and losses will be recognised immediately in the Statement of Recognised Income and Expense. This approach is consistent with the treatment required by FRS 17, the effect of which has previously been disclosed in our UK GAAP accounts.

- Share schemes (IFRS 2)

  The Group has applied IFRS 2 for all share-based payment awards made after 7 November 2002, as permitted by IFRS 1.

- Business combinations (IFRS 3)

  The Group has elected to apply IFRS 3 prospectively from the date of transition to IFRS (5 January 2004) rather than restate previous business combinations.

- Cumulative translation differences (IAS 21)

  Under IAS 21, cumulative foreign exchange movements on translation of foreign entities on consolidation should be disclosed separately within shareholders' funds. The Group has taken advantage of the election to reset the foreign currency translation reserve to zero as at 5 January 2004.

- Financial instruments (IAS 32 and 39)

  The Group has taken advantage of the one year exemption for implementation of the financial instruments standards. The 2004 IFRS restated figures continue to account for financial instruments in accordance with UK GAAP. For 2005 reporting, adjustments will be made as at 5 January 2005 to reflect the differences between UK GAAP and IAS 32 and 39.

- Property, plant and equipment (IAS 16)

  The Group has elected to use the carrying amounts as at 5 January 2004 as "deemed cost".

4. RESTATEMENTS

4.1

Summary Income Statement

	Note	4 July 2004 Previous UK GAAP £m	4 July 2004 Effect of Transition To IFRS £m	4 July 2004 IFRS £m	4 January 2005 Previous UK GAAP £m	4 January 2005 Effect of Transition To IFRS £m	4 January 2005 IFRS £m
Revenue		406.2	-	406.2	795.9	-	795.9
Operating costs before restructuring costs, cost associated with settlement of anti-trust litigation and property disposals	l	(381.3)	0.3	(381.0)	(742.2)	2.1	(740.1)
Profit from operations before restructuring costs, costs associated with settlement of anti-trust litigation and property disposals		24.9	0.3	25.2	53.7	2.1	55.8
Restructuring costs and costs associated with settlement of anti-trust litigation		(17.5)	-	(17.5)	(58.7)	-	(58.7)
Loss on disposal of property		(4.0)	-	(4.0)	(3.8)	-	(3.8)
Goodwill amortisation	m	(3.3)	3.3	-	(6.4)	6.4	-
Operating profit/(loss) before financing costs		0.1	3.6	3.7	(15.2)	8.5	(6.7)
Finance Income	n	0.7	10.1	10.8	1.5	19.4	20.9
Finance Expenses	n	(7.6)	(12.0)	(19.6)	(13.7)	(23.3)	(37.0)
Net financing costs		(6.9)	(1.9)	(8.8)	(12.2)	(3.9)	(16.1)
Loss on partial disposal of businesses		(0.5)	-	(0.5)	(8.2)	-	(8.2)
Profit/(loss) before taxation		(7.3)	1.7	(5.6)	(35.6)	4.6	(31.0)
Income tax expense	o	(2.9)	-	(2.9)	(2.9)	0.4	(2.5)
Profit/(loss) after taxation but before loss on discontinued operations		(10.2)	1.7	(8.5)	(38.5)	5.0	(33.5)
Loss on sale of discontinued operations, net of tax	p	(37.8)	12.5	(25.3)	(42.8)	16.1	(26.7)
Loss for the period		(48.0)	14.2	(33.8)	(81.3)	21.1	(60.2)
Loss for period attributable to:							
Equity holders of the Morgan Crucible Company plc		(48.8)	14.2	(34.6)	(83.1)	21.1	(62.0)
Equity minority interest		0.8	-	0.8	1.8	-	1.8
		(48.0)	**14.2**	**(33.8)**	**(81.3)**	**21.1**	**(60.2)**
Earnings/(loss) per share		(16.7p)	4.0p	(12.7p)	(27.3p)	5.3p	(22.0p)
Basic *		(16.7p)	4.0p	(12.7p)	(27.3p)	5.3p	(22.0p)
Diluted *							

* Under UK GAAP these EPS measures are shown before goodwill amortisation.

4.2

Summary Balance Sheet

	Note	Opening Balance Sheet as at: 5 January 2004			Closing Balance Sheet as at: 4 July 2004			Closing Balance Sheet as at: 4 January 2005			Opening Balance Sheet as at: 5 January 2005*		
		Previous UK GAAP	Effect of Transition To IFRS	IFRS	Previous UK GAAP	Effect of Transition to IFRS	IFRS	Previous UK GAAP	Effect of Transition to IFRS	IFRS	Previous UK GAAP	Effect of Transition to IFRS	IFRS
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Assets													
Property, plant and equipment	a	386.3	(7.8)	378.5	323.5	(7.2)	316.3	326.3	(6.5)	319.8	326.3	(6.5)	319.8
Intangible assets	b	112.2	8.1	120.3	95.3	10.8	106.1	93.8	13.3	107.1	93.8	13.3	107.1
Other investments		5.6	-	5.6	5.4	-	5.4	5.6	-	5.6	5.6	-	5.6
Other receivables	c	28.5	(21.2)	7.3	31.9	(20.7)	11.2	23.8	(20.3)	3.5	23.8	(20.3)	3.5
Deferred tax assets		-	34.9	34.9	-	34.9	34.9	-	31.2	31.2	-	31.2	31.2
Total non-cu rrent assets		**532.6**	**14.0**	**546.6**	**456.1**	**17.8**	**473.9**	**449.5**	**17.7**	**467.2**	**449.5**	**17.7**	**467.2**
Inventories		131.5	-	131.5	130.3	-	130.3	121.3	-	121.3	121.3	-	121.3
Trade and other receivables	e	178.2	-	178.2	165.7	-	165.7	165.6	(0.3)	165.3	165.6	(0.3)	165.3
Cash and cash equivalents		57.9	-	57.9	51.3	-	51.3	56.3	-	56.3	56.3	-	56.3
Total current assets		**367.6**	**-**	**367.6**	**347.3**	**-**	**347.3**	**343.2**	**(0.3)**	**342.9**	**343.2**	**(0.3)**	**342.9**
Total assets		**900.2**	**14.0**	**914.2**	**803.4**	**17.8**	**821.2**	**792.7**	**17.4**	**810.1**	**792.7**	**17.4**	**810.1**
Liabilities													
Interest -bearing loans and borrowings	f	230.6	0.7	231.3	149.3	0.6	149.9	137.5	0.4	137.9	137.5	0.4	137.9
Employee benefits	g	94.0	53.3	147.3	86.7	86.6	173.3	89.2	93.8	183.0	89.2	93.8	183.0
Grants for capital expenditure		0.6	-	0.6	0.7		0.7	0.4	-	0.4	0.4	-	0.4
Provisions	h	12.4	(8.5)	3.9	13.1	(9.2)	3.9	15.1	(10.1)	5.0	15.1	(10.1)	5.0
Deferred tax liabilities	d	24.8	24.9	49.7	24.6	24.9	49.5	21.3	20.8	42.1	21.3	20.8	42.1
Total non-current liabilities		**362.4**	**70.4**	**432.8**	**274.4**	**102.9**	**377.3**	**263.5**	**104.9**	**368.4**	**263.5**	**104.9**	**368.4**
Bank overdraft		0.6	-	0.6	0.6	-	0.6	0.8	-	0.8	0.8	-	0.8
Interest -bearing loans and borrowings		76.0	-	76.0	60.8	-	60.8	65.5	-	65.5	65.5	-	65.5
Trade and other payables	i	176.5	(0.2)	176.3	173.7	0.1	173.8	184.2	(0.2)	184.0	184.2	0.3	184.5
Provisions		24.9	-	24.9	25.9	-	25.9	38.3	-	38.3	38.3	-	38.3
Total current liabilities		**278.0**	**(0.2)**	**277.8**	**261.0**	**0.1**	**261.1**	**288.8**	**(0.2)**	**288.6**	**288.8**	**0.3**	**289.1**
Total liabilities		**640.4**	**70.2**	**710.6**	**535.4**	**103.0**	**638.4**	**552.3**	**104.7**	**657.0**	**552.3**	**105.2**	**657.5**
Total net assets		**259.8**	**(56.2)**	**203.6**	**268.0**	**(85.2)**	**182.8**	**240.4**	**(87.3)**	**153.1**	**240.4**	**(87.8)**	**152.6**
Equity													
Issued capital		60.3	-	60.3	74.8	-	74.8	74.8	-	74.8	74.8	-	74.8
Share premium		44.4	-	44.4	84.1	-	84.1	84.0	-	84.0	84.0	-	84.0
Reserves	j	39.1	0.2	39.3	51.0	(25.0)	26.0	52.9	(16.7)	36.2	52.9	(16.8)	36.1
Retained earnings	k	105.7	(56.4)	49.3	49.3	(60.2)	(10.9)	18.0	(70.6)	(52.6)	18.0	(71.0)	(53.0)
Total equity attributable to equity holders of the parent company		**249.5**	**(56.2)**	**193.3**	**259.2**	**(85.2)**	**174.0**	**229.7**	**(87.3)**	**142.4**	**229.7**	**(87.8)**	**141.9**
Minority interest		10.3	-	10.3	8.8	-	8.8	10.7	-	10.7	10.7	-	10.7
Total equity		**259.8**	**(56.2)**	**203.6**	**268.0**	**(85.2)**	**182.8**	**240.4**	**(87.3)**	**153.1**	**240.4**	**(87.8)**	**152.6**

* Restated on adoption of IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement.*

4.3

CONSOLIDATED INCOME STATEMENT

	Unaudited Six months Continuing Operations Restated* 2004 £m	Unaudited Six months Discontinued Operations Restated* 2004 £m	Unaudited Six months Total Restated* 2004 £m	Unaudited Year Continuing Operations Restated* 2004 £m	Unaudited Year Discontinued Operations Restated* 2004 £m	Unaudited Year Total Restated* 2004 £m
Revenue	371.4	34.8	406.2	762.8	33.1	795.9
Operating costs before restructuring costs, cost associated with settlement of anti-trust litigation and property disposals	(346.3)	(34.7)	(381.0)	(706.9)	(33.2)	(740.1)
Profit from operations before restructuring costs, costs associated with settlement of anti-trust litigation and property disposals	25.1	0.1	25.2	55.9	(0.1)	55.8
Restructuring costs and costs associated with settlement of anti-trust litigation	(15.3)	(2.2)	(17.5)	(52.5)	(6.2)	(58.7)
Loss on disposal of property	(4.0)	-	(4.0)	(3.8)	-	(3.8)
Operating profit before financing costs	5.8	(2.1)	3.7	(0.4)	(6.3)	(6.7)
Finance Income	10.8	-	10.8	20.9	-	20.9
Finance Expenses	(19.6)	-	(19.6)	(37.0)	-	(37.0)
Net financing costs	(8.8)	-	(8.8)	(16.1)	-	(16.1)
Loss on partial disposal of businesses	(0.5)	-	(0.5)	(8.2)	-	(8.2)
(Loss) before taxation	(3.5)	(2.1)	(5.6)	(24.7)	(6.3)	(31.0)
Income tax expense	(2.9)	-	(2.9)	(2.5)	-	(2.5)
(Loss) after taxation but before loss on sale of discontinued operations	(6.4)	(2.1)	(8.5)	(27.2)	(6.3)	(33.5)
Loss on sale of discontinued operations, net of tax	-	(25.3)	(25.3)	-	(26.7)	(26.7)
Loss for the period	(6.4)	(27.4)	(33.8)	(27.2)	(33.0)	(60.2)
(Loss) for period attributable to:						
Equity holders of the Morgan Crucible Company plc	(7.2)	(27.4)	(34.6)	(29.0)	(33.0)	(62.0)
Equity minority interest	0.8	-	0.8	1.8	-	1.8
	(6.4)	(27.4)	(33.8)	(27.2)	(33.0)	(60.2)
(Loss) per share						
Basic **	(2.6p)	(10.1p)	(12.7p)	(10.3p)	(11.7p)	(22.0p)
Diluted **	(2.6p)	(10.1p)	(12.7p)	(10.3p)	(11.7p)	(22.0p)

* Restated in respect of 'International Financial Reporting Standards'

** Under UK GAAP these EPS measures are shown before goodwill amortisation

4.4

CONSOLIDATED BALANCE SHEET

	Unaudited Six months Restated 2004 £m	Unaudited Year Restated 2004 £m
Assets		
Property, plant and equipment	316.3	319.8
Intangible assets	106.1	107.1
Other investments	5.4	5.6
Other receivables	11.2	3.5
Deferred tax assets	34.9	31.2
Total non-current assets	**473.9**	**467.2**
Inventories	130.3	121.3
Trade and other receivables	165.7	165.3
Cash and cash equivalents	51.3	56.3
Total current assets	**347.3**	**342.9**
Total assets	**821.2**	**810.1**
Liabilities		
Interest -bearing loans and borrowings	149.9	137.9
Employee benefits	173.3	183.0
Grants for capital expenditure	0.7	0.4
Provisions	3.9	5.0
Deferred tax liabilities	49.5	42.1
Total non-current liabilities	**377.3**	**368.4**
Bank overdraft	0.6	0.8
Interest -bearing loans and borrowings	60.8	65.5
Trade and other payables	173.8	184.0
Provisions	25.9	38.3
Total current liabilities	**261.1**	**288.6**
Total liabilities	**638.4**	**657.0**
Total net assets	**182.8**	**153.1**
Equity		
Issued capital	74.8	74.8
Share premium	84.1	84.0
Reserves	26.0	36.2
Retained earnings	(10.9)	(52.6)
Total equity attributable to equity holders of the parent company	**174.0**	**142.4**
Minority interest	8.8	10.7
Total equity	**182.8**	**153.1**

* Restated in respect of 'Internation al Financial Reporting Standards'.

5. EXPLANATION OF TRANSITION TO IFRS

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.

Notes to Summary Balance Sheet

The notes below identify the adjustments made from UK GAAP to IFRS for each line item in the summary balance sheet.

a. Property, plant and equipment

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Software reclassified to intangible assets	(8.1)	(7.5)	(6.9)	(6.9)
Reclassification of operating leases to finance leases	0.7	0.7	0.8	0.8
Reclassification of land use rights to non-current receivables	(0.4)	(0.4)	(0.4)	(0.4)
Net (decrease) in property, plant and equipment	(7.8)	(7.2)	(6.5)	(6.5)

In accordance with IAS 38 *Intangible Assets,* the Group has reclassified costs of software which meet the definition of intangible assets from property, plant and equipment to intangible assets and at the same time reclassified the relevant accumulated depreciation to accumulated amortisation.

Under previous GAAP, certain leases were classified as operating leases based on legal ownership criteria. Under IAS 17 *Leases,* ownership of the asset is incidental and the accounting treatment is based on whether substantially all the risks and rewards are transferred to the lessor. As a consequence a number of leases have been reclassified as finance leases and the related assets recognised in the balance sheet of the Group.

The Group has paid for two land use rights in China that have been reclassified under IAS 17 to non-current receivables as IAS 17 does not permit land to be classified as a finance lease unless certain conditions are met, including the title transferring to the lessor at the end of the lease.

b. Intangible assets

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Software reclassified from Property, plant and equipment	8.1	7.5	6.9	6.9
Goodwill amortisation written-back to intangible assets	-	3.3	6.4	6.4
Net increase in intangible assets	8.1	10.8	13.3	13.3

Software costs and accumulated amortisation have been reclassified from property, plant and equipment (see note a).

Under IFRS 3 *Business Combinations,* goodwill is not amortised, but is tested annually for impairment. Accordingly, amortisation of goodwill in 2004 has been written-back under IFRS 3, and included as part of intangible assets. The Group tested goodwill for impairment at the date of transition to IFRS and at 4 January 2005 based upon the conditions existing at each respective date. No impairment existed at the date of transition or at 4 January 2005.

In accordance with previous GAAP all expenditure on research and development was written off in the year in which it was incurred. IAS 38 requires research costs to be written-off as incurred but development expenditure to be capitalised as an intangible asset provided certain criteria are met. Development expenditure that is incurred to maintain or enhance existing products is not deemed to be capable of capitalisation under IAS 38 and is expensed as incurred. The Group has reviewed its development costs for the period from 5 January 2002 (the intangible asset is amortised over three years straight line), and as at the date of transition, 4 July 2004 and 4 January 2005 concluded that no costs meet the IAS 38 recognition criteria for capitalisation because most development expenditure in the prior period has been incurred on enhancements to existing technologies rather than new technologies.

c. Other receivables (non-current assets)

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Pension prepayments	(21.6)	(21.1)	(20.7)	(20.7)
Reclassification of land use rights from Property, plant and equipment	0.4	0.4	0.4	0.4
Net (decrease) in other receivables	(21.2)	(20.7)	(20.3)	(20.3)

Pension prepayments under UK GAAP have been written-off to reserves as part of the adoption of IAS 19 *Employee Benefits.*

Land use rights have been reclassified from property, plant and equipment (see note a).

d. Deferred Tax asset and liability

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
IAS 12 deferred tax adjustment – employee benefits	(15.6)	(15.6)	(15.2)	(15.2)
IAS 12 deferred tax adjustment - fair value adjustments	5.6	5.6	4.8	4.8
Net (decrease) in net deferred tax creditor	(10.0)	(10.0)	(10.4)	(10.4)

IAS 12 required that deferred tax assets and liabilities are calculated by reference to temporary differences, the difference between the carrying amount of an asset and its tax base. The decrease in the deferred tax liability arises principally as a result of the restatement of the pension prepayments and provisions under IAS 19. The increase in the deferred tax liability arises on fair value adjustments on prior year acquisitions.

e. Trade and other receivables

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Reclassification of prepayments on operating leases to finance leases	-	-	(0.3)	(0.3)
Net (decrease) in trade and other receivables	-	-	(0.3)	(0.3)

See note a.

f. Interest bearing loans and borrowings (non current assets)

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Reclassification of operating leases to finance leases	0.7	0.6	0.4	0.4
Net increase in interest bearing loans and borrowings	0.7	0.6	0.4	0.4

See note a. As part of the reclassification of operating leases to finance leases under IAS 17, the obligation under each lease is shown in interest bearing loans and borrowings.

This is the only adjustment to the cash flow for the Group. T his reclassification increases the Groups net borrowing position at each of the balance sheet dates above.

g. Employee benefits liability

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Net additional liability required under IAS 19	44.2	77.5	84.7	84.7
Reclassification from provisions	8.8	8.7	8.7	8.7
Reclassification from accruals	0.3	0.4	0.4	0.4
Net increase in employee benefits liability	53.3	86.6	93.8	93.8

IAS 19 has been adopted from the date of transition as the Group has opted to apply the exemption in IFRS 1 to recognise all cumulative actuarial gains and losses at the date of transition to IFRS as an adjustment to the opening balance of retained earnings. IAS 19 prescribes a similar valuation approach to FRS 17, although the range of schemes covered is somewhat wider than FRS 17. All post retirement benefits where the actuarial and investment risk falls on the Group must be provided for on consolidation. This has required an increased liability to be shown on the balance sheet as well as the reclassification of amounts shown under provisions and accruals under prior GAAP. The effect has been to increase the employee benefits liability on the Group's balance sheet as shown above.

h. Provisions

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Reclassification of provisions to employee benefits	(8.8)	(8.7)	(8.7)	(8.7)
Recognise obligation on dilapidation of lease	0.3	0.3	0.4	0.4
Reclassification of share-based payments obligation	-	(0.8)	(1.8)	(1.8)
Net (decrease) in provisions	(8.5)	(9.2)	(10.1)	(10.1)

See note g for reclassification of provisions to the employee benefits liability as part of the adoption of IAS 19.

An obligation exists to restore a site for the effect of the Group's operations. Under UK GAAP this was not recognised as part of the cost of the assets and was not provided for. Under IFRS this provision has been recognised and was £0.4m at 4 January 2005.

Share-based payments, see note k for adjustment from UK GAAP.

i. Trade and other payables

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
Accruals reclassified to employee benefits	(0.3)	(0.4)	(0.4)	(0.4)
Vacation pay accrued	0.1	0.4	0.1	0.1
Other	-	0.1	0.1	0.1
Derivative financial liabilities	-	-	-	0.5
Net increase/(decrease) in trade and other payables	(0.2)	0.1	(0.2)	0.3

See note g for reclassification of accruals to the employee benefits liability as part of the adoption of IAS 19.

Under UK GAAP in line with many other corporates no accrual was made for vacation pay. Under IAS 19 a liability is required to be recognised for vacation pay based on the number of days leave at each balance sheet date that employees are entitled to, but have not used, and that can be used (or paid) in future periods.

The Group elected not to restate comparatives to comply with IAS 32 *Financial Instruments: Disclosure and Presentation and* IAS 39 *Financial Instruments: Recognition and Measurement,* but have restated the Group's opening balance sheet at 5 January 2005. The Group has recognised derivative financial liabilities (interest rate swap and forward exchange contract) at fair value at that date, increasing liabilities by £0.5m. The effect on reserves is to decrease retained earnings by £0.4m and decrease the hedging reserve by £0.1m (see notes k and l).

j. Reserves

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
IAS 19 Employee benefits translation reserve	-	(5.8)	1.1	1.1
IFRS 2 Share-based payments reserve (note k)	0.2	1.0	1.9	1.9
IFRS 3 Goodwill written-back to special reserve (note p)	-	(12.5)	(16.1)	(16.1)
IAS 21 Reclassify net exchange differences from retained earnings to translation reserve	-	(7.8)	(3.7)	(3.7)
IAS 21 Recycle foreign currency translation on disposal of businesses (see note p)	-	0.1	0.1	0.1
IAS 39 Hedging reserve (see note i)	-	-	-	(0.1)
Net increase/(decrease) in reserves	0.2	(25.0)	(16.7)	(16.8)

The Group has recognised net foreign exchange differences in relation to the movement in the additional liability for employee benefits required under IAS 19 (see note g). In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, these net exchange differences are recognised in the translation reserve as a separate component of equity.

The Group has presented net foreign exchange differences in a separate component of equity (translation reserve), as required by IAS 21.

k. Retained earnings

	5 January 2004 £m	4 July 2004 £m	4 January 2005 £m	5 January 2005 £m
IAS 19 Employee benefits	(65.8)	(92.8)	(106.5)	(106.5)
IAS 12 Deferred tax (see note d)	15.6	15.6	15.2	15.2
IAS 12 Deferred tax (see note d)	(5.6)	(5.6)	(4.8)	(4.8)
IFRS 2 Employee share schemes	(0.2)	(0.2)	(0.1)	(0.1)
IAS 21 Reclassify net exchange differences to translation reserve (see note j)	-	7.8	3.7	3.7
IAS 21 Recycle foreign currency translation on disposed businesses (see note p)	-	(0.1)	(0.1)	(0.1)
IAS 37 Recognise obligations on dilapidation of lease (see note h)	(0.3)	(0.3)	(0.4)	(0.4)
IFRS 3 Goodwill written back to reserves (see note p)	-	12.5	16.1	16.1
IFRS 3 Goodwill amortisation written back to intangible assets (see note m)	-	3.3	6.4	6.4
IAS 19 Vacation accrual	(0.1)	(0.4)	(0.1)	(0.1)
IAS 39 – Fair value of derivatives (see note h)	-	-	-	(0.4)
Net (decrease) in retained earnings	(56.4)	(60.2)	(70.6)	(71.0)

The move to IAS 19 employee benefits gives rise to an adjustment to retained earnings and other reserves (see note j) of £106.5m and £(1.1m) respectively, a net £105.4m reduction in total reserves for the full year for the Group. The deficit recognised on transition in accordance with the transitional provisions of IFRS 1 amount to £65.8m. The increase in the deficit subsequent to 5 January 2004 has been recognised in the Statement of Recognised Income and Expense in accordance with IAS 19 (revised).

IFRS 2 *Share-based Payment,* requires that an expense for share-based payments be recognised in the income statement based on the fair value at the date of grant. This expense is recognised over the vesting period of the options. The Group has not measured this expense for equity-settled share-based payment arrangements granted before 7 November 2002 in accordance with the exemption permitted under IFRS 1. The Group has adopted appropriate models for calculating the fair value. The Group has granted equity-settled share-based payments in 2002, 2003, 2004 and 2005.

The effect of accounting for equity-settled share-based payment transactions at fair value is to recognise a new share-based payment reserve of £0.2m at the date of transition and recognise a corresponding decrease in the income and expenditure reserves of the same amount.

For the period ended 4 July 2004 a reversal of the previous GAAP expense of £0.8m and corresponding provision of the same amount is replaced with charge of £0.8m and increase in the share-based payment reserve of the same amount.

For the period ended 4 January 2005 a reversal of the previous GAAP charge of £1.8m and corresponding provision of the same amount is replaced with a charge of £1.7m and increase in the share-based payment reserve of the same amount.

Notes to Summary Income Statement

The notes below identify the adjustments made from UK GAAP to IFRS for each line item in the summary income statement.

l. Operating costs before restructuring costs, costs associated with settlement of anti-trust litigation and property disposals.

Operating costs have been reduced by £2.1m (Half year 2004: £0.3m) on the basis of the following adjustments:

i. IAS 19 Employee benefits charge is £2.0m (Half year 2004: £0.6m) less than the previous UK GAAP charge.
ii. IFRS 2 Share based payments overall reduction in charge of £0.1m (Half year 2004: £Nil) (see note k).
iii. IAS 19 Employee benefits vacation accrual charge (see note k) for the full year 2004 £Nil (Half year 2004: £0.3m).

m. Goodwill amortisation

Goodwill amortisation has been written back to intangible assets under IFRS 3 (see note b), £6.4m for the full year 2004 (Half year 2004: £3.3m).

n. Net finance charges

Net finance charges have been increased by £3.9m (Half year 2004: £1.9m) on the basis of two adjustments:

i. IAS 19 Employee benefits interest charge on scheme liabilities of £23.2m (Half year 2004: £12.0m) and interest receivable on scheme assets of £19.4m (Half year 2004: £10.1m).

ii. IAS 17 Interest charges on operating leases reclassified as finance leases was £0.1m (Half year 2004: £Nil).

o. Income tax expense

See note d for movement in deferred tax for 2004. For the full year 2004 the movement was a £0.4m reduction in the tax expense.

p. Loss on sale of discontinued operations

Loss on sale of discontinued operations has been adjusted by three changes under IFRS:

i. Under IFRS 3 goodwill, previously written-off goodwill to reserves but recycled through the income statement on the sale of operations, is not recycled through the income statement and the £16.1m (Half year 2004: £12.5m) represents the writing back to reserves of the goodwill previously recycled (see note k).

ii. As allowed by IFRS 1, IAS 21 was adopted from the date of transition. IAS 21 requires all foreign currency translation differences, that arose on disposed businesses from the transition date to be recycled from the translation reserve to the income statement. For the full year 2004 this was £0.1m (Half year 2004: £0.1m).

iii. The net assets written off on disposal of a foreign operation were reduced by £(0.1)m (Half year 2004: £(0.1)m) due to the recognition of an increased liability for employee benefits under IAS 19.

6. ACCOUNTING POLICIES

The following section provides a summary of the Group accounting policies under IFRS.

(a) Statement of compliance

EU law (IAS Regulation EC 1606/2002) required that the next annual consolidated financial statements of the company, for the year ending 4 January 2006, be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU ("adopted IFRS").

This 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 5 January 2005 or are expected to be endorsed and effective or available for early adoption at 4 January 2006, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these adopted and unadopted IFRS, the directors have made assumptions about the accounting policies expected to be applied, which are as set out below, when the first annual IFRS financial statements are prepared for the period ending 4 January 2006.

In particular, the directors have assumed that the following IFRS issued by the International Accounting Standards Board and IFRIC Interpretations issued by the International Financial Reporting Interpretations Committee will be adopted by the EU in sufficient time that they will be available for use in the annual IFRS financial statements for the period ending 4 January 2006.

- IAS 19 (amended) – Employee Benefits

In addition, the adopted IFRS that will be effective or available for early adoption in the annual financial statements for the period ending 4 January 2006 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 financial statements are prepared for the year ending 4 January 2006.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Group is provided in this document on our website.

(b) Basis of preparation

The financial statements are presented in £ sterling. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 5 January 2004 for the purposes of the transition to IFRS.

The accounting policies have been applied consistently by Group entities.

(c) Basis of consolidation

(i) Subsidiaries

, Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

(i) Foreign currency transactions

, Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to £ sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets an d liabilities denominated in foreign currencies that are stated at fair value are translated to £ sterling at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to £ sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to £ sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The revenues and expenses of foreign operations in hyperinflationary economies are translated to £ sterling at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

In respect of all foreign operations, any differences that have arisen after 4 January 2004, are presented as a separate component of equity.

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediat ely in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) Hedging

(i) Cash flow hedges

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Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or li ability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non -financial asset or non-financial liability, or a forecast transaction for a non -financial asset or non -financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e., when interest income or expense is recognised). For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediatel y in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

(iii) Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in profit or loss.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost, or as deemed cost, less accumulated depreciation (see below) and impairment losses (see accounting policy l). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 5 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

?	Buildings	50 years
?	Plant and equipment - Presses, Kilns and Furnaces	10 – 20 years
	- Other	10 years
?	Fixtures and fittings	10 years
?	Motor vehicles and IT equipment	3 years

(h) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 5 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 5 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 5 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy l). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy l). Other development expenditure is recognised in the income statement as an expense as incurred.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy l).

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

?	Capitalised development costs	3 years
?	Computer software	3 years

(i) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy l).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see (i) below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill was tested for impairment at 5 January 2004, the date of transition to IFRS, even though no indication of impairment existed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

, An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Share capital

(i) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 5 January 2004, the date of transition to IFRS, were recognised. In respect of actuarial gains and losses that have risen since 5 January 2004, these have been recognised in full through the 'Statement of Recognised Income and Expenses'.

(iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, or similar approximation, and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds.

(iv) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the most appropriate models for each scheme, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(p) Trade and other payables

Trade and other payables are stated at cost.

(q) Revenue

(i) Goods sold and services rendered

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

(r) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f).

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability 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 following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.
Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products in a particular business segment, which is subject to risks and rewards that are different from those of other segments.

(u) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business operations.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

7. EFFECT OF IFRS RECLASSIFICATIONS ON UK GAAP BALANCES

The Morgan Crucible Company plc

IFRS Income statement for the period ended 4 July 2004
Effect of IFRS reclassifications on UK GAAP balances

UK GAAP balances in UK GAAP format		Reclassification		UK GAAP balances in IFRS format	
	£'m	**£'m**	**£'m**	**£'m**	
Turnover	406.2			406.2	Revenue
Operating profit before goodwill amortisation and operating exceptionals	24.9			24.9	Operating profit before restructuring costs, costs associated with settlement of anti litigation and property disposals
Operating exceptionals	-17.5			-17.5	Restructuring costs & costs associated with settlement of anti trust litigation
		-4.0		-4.0	Property disposals
Goodwill amortisation	-3.3			-3.3	Goodwill amortisation
Operating profit	4.1	-4.0		0.1	Operating profit before financing costs
Corporate exceptional items	-42.3	42.3			
			0.7	0.7	Financial income
			-7.6	-7.6	Financial expenses
Net finance charges	-6.9			-6.9	Net financing costs
		-0.5		-0.5	Loss on partial disposal of businesses
Loss on ordinary activities before taxation	-45.1	37.8		-7.3	Loss before taxation
Taxation	-2.9			-2.9	Income tax expense
				-10.2	Loss after taxation before loss on sale of discontinued operations
		-37.8		-37.8	Loss on sale on discontinued operations net of tax
Loss on ordinary activities after taxation	-48.0	0.0		-48.0	Loss for the period
					Attributable to:
				-48.8	Equity holders of parent
Minority interests - equity	-0.8			0.8	Minority interest
Loss for the financial year	-48.8			-48.0	

The Morgan Crucible Company plc

IFRS Income statement for the year ended 4 January 2005
Effect of IFRS reclassifications on UK GAAP balances

UK GAAP balances in UK GAAP format		Reclassification		UK GAAP balances in IFRS format	
	£'m	**£'m**	**£'m**	**£'m**	
Turnover	795.9			795.9	Revenue
Operating profit before goodwill amortisation and operating exceptionals	53.7			53.7	Operating profit before restructuring costs, costs associated with settlement of anti litigation and property disposals
Operating exceptionals	-58.7			-58.7	Restructuring costs & costs associated with settlement of anti trust litigation
		-3.8		-3.8	Property disposals
Goodwill amortisation	-6.4			-6.4	Goodwill amortisation
Operating loss	-11.4	-3.8		-15.2	Operating loss before financing costs
Corporate exceptional items	-54.8	54.8			
			1.5	1.5	Financial income
			-13.7	-13.7	Financial expenses
Net finance charges	-12.2			-12.2	Net financing costs
		-8.2		-8.2	Loss on partial disposal of businesses
Loss on ordinary activities before taxation	-78.4	42.8		-35.6	Loss before taxation
Taxation	-2.9			-2.9	Income tax expense
				-38.5	Loss after taxation before loss on sale of discontinued operations
		-42.8		-42.8	Loss on sale on discontinued operations net of tax
Loss on ordinary activities after taxation	-81.3	0.0		-81.3	Loss for the period
					Attributable to:
				-83.1	Equity holders of parent
Minority interests - equity	-1.8			1.8	Minority interest
Loss for the financial year	-83.1			-81.3	

The Morgan Crucible Company plc

IFRS Balance Sheet at 5 January 2004
Effect of IFRS reclassifications on UK GAAP balances

UK GAAP balances in UK GAAP format		**Reclassification**			**UK GAAP balances in IFRS format**	
		Debtors	Creditors	Provisions		
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	
Fixed assets						**Non Current assets**
Tangible assets	386.3				386.3	Property, plant and equipment
Intangible assets	112.2				112.2	Intangible assets
Other investments	5.6				5.6	Other investments
		28.5			28.5	Other receivables
	504.1	28.5	0.0	0.0	532.6	
Current assets						**Current assets**
Stocks	131.5				131.5	Inventories
Debtors	206.7	-28.5			178.2	Trade and other receivables
Cash at bank and in hand	57.9				57.9	Cash and cash equivalents
	396.1	-28.5	0.0	0.0	367.6	
					900.2	**Total assets**
Creditors due within one year						**Current liabilities**
	253.1		-76.6		176.5	Trade and other payables
			0.6		0.6	Bank overdraft
			76.0		76.0	Interest bearing loans and borrowings
				24.9	24.9	Provisions
	253.1	0.0	0.0	24.9	278.0	
Net current assets	143.0	-28.5	0.0	-24.9	89.6	**Net current assets**
Creditors due after one year						**Non-current liabilities**
Borrowings	230.6				230.6	Interest bearing loans and borrowings
Grants for capital expenditure	0.6				0.6	Grants for capital expenditure
	231.2				231.2	
Provisions for liabilities and charges						
	156.1			-62.1	94.0	Employee benefits
				12.4	12.4	Provisions
				24.8	24.8	Deferred tax liabilities
	387.3	0.0	0.0	-24.9	362.4	
					640.4	**Total liabilities**
Net assets	259.8	0.0	0.0	0.0	259.8	**Net assets**
Equity						**Equity**
Share capital	60.3				60.3	Share capital
Share premium account	44.4				44.4	Share premium account
Other reserves	39.1				39.1	Other reserves
Retained earnings	105.7				105.7	Retained earnings
	249.5				249.5	
Minority interest	10.3				10.3	Minority interest
Total equity	259.8				259.8	Total equity
					900.2	**Total equity and liabilities**

The Morgan Crucible Company plc

IFRS Balance Sheet at 4 July 2004
Effect of IFRS reclassifications on UK GAAP balances

UK GAAP balances in UK GAAP format		Reclassification			UK GAAP balances in IFRS format	
		Debtors	Creditors	Provisions		
	£'m	£'m	£'m	£'m	£'m	
Fixed assets						**Non Current assets**
Tangible assets	323.5				323.5	Property, plant and equipment
Intangible assets	95.3				95.3	Intangible assets
Other investments	5.4				5.4	Other investments
		31.9			31.9	Other receivables
	424.2	31.9	0.0	0.0	456.1	
Current assets						**Current assets**
Stocks	130.3				130.3	Inventories
Debtors	197.6	-31.9			165.7	Trade and other receivables
Cash at bank and in hand	51.3				51.3	Cash and cash equivalents
	379.2	-31.9	0.0	0.0	347.3	
					803.4	**Total assets**
Creditors due within one year						**Current liabilities**
	235.1		-61.4		173.7	Trade and other payables
			0.6		0.6	Bank overdraft
			60.8		60.8	Interest bearing loans and borrowings
				25.9	25.9	Provisions
	235.1	0.0	0.0	25.9	261.0	
Net current assets	144.1	-31.9	0.0	-25.9	86.3	**Net current assets**
Creditors due after one year						**Non-current liabilities**
Borrowings	149.3				149.3	Interest bearing loans and borrowings
Grants for capital expenditure	0.7				0.7	Grants for capital expenditure
	150.0				150.0	
Provisions for liabilities and charges						
	150.3			-63.6	86.7	Employee benefits
				13.1	13.1	Provisions
				24.6	24.6	Deferred tax liabilities
	300.3	0.0	0.0	-25.9	274.4	
					535.4	**Total liabilities**
Net assets	268.0	0.0	0.0	0.0	268.0	**Net assets**
Equity						**Equity**
Share capital	74.8				74.8	Share capital
Share premium account	84.1				84.1	Share premium account
Other reserves	51.0				51.0	Other reserves
Retained earnings	49.3				49.3	Retained earnings
	259.2				259.2	
Minority interest	8.8				8.8	Minority interest
Total equity	268.0				268.0	Total equity
					803.4	**Total equity and liabilities**

The Morgan Crucible Company plc

IFRS Balance Sheet at 5 January 2005
Effect of IFRS reclassifications on UK GAAP balances

UK GAAP balances in UK GAAP format		**Reclassification**			**UK GAAP balances in IFRS format**	
		Debtors	Creditors	Provisions		
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	
Fixed assets						**Non Current assets**
Tangible assets	326.3				326.3	Property, plant and equipment
Intangible assets	93.8				93.8	Intangible assets
Other investments	5.6				5.6	Other investments
		23.8			23.8	Other receivables
	425.7	23.8	0.0	0.0	449.5	
Current assets						**Current assets**
Stocks	121.3				121.3	Inventories
Debtors	189.4	-23.8			165.6	Trade and other receivables
Cash at bank and in hand	56.3				56.3	Cash and cash equivalents
	367.0	-23.8	0.0	0.0	343.2	
					792.7	**Total assets**
Creditors due within one year						**Current liabilities**
	250.5		-66.3		184.2	Trade and other payables
			0.8		0.8	Bank overdraft
			65.5		65.5	Interest bearing loans and borrowings
				38.3	38.3	Provisions
	250.5	0.0	0.0	38.3	288.8	
Net current assets	116.5	-23.8	0.0	-38.3	54.4	**Net current assets**
Creditors due after one year						**Non-current liabilities**
Borrowings	137.5				137.5	Interest bearing loans and borrowings
Grants for capital expenditure	0.4				0.4	Grants for capital expenditure
	137.9				137.9	
Provisions for liabilities and charges						
	163.9			-74.7	89.2	Employee benefits
				15.1	15.1	Provisions
				21.3	21.3	Deferred tax liabilities
	301.8	0.0	0.0	-38.3	263.5	
					552.3	**Total liabilities**
Net assets	240.4	0.0	0.0	0.0	240.4	**Net assets**
Equity						**Equity**
Share capital	74.8				74.8	Share capital
Share premium account	84.0				84.0	Share premium account
Other reserves	52.9				52.9	Other reserves
Retained earnings	18.0				18.0	Retained earnings
	229.7				229.7	
Minority interest	10.7				10.7	Minority interest
Total equity	240.4				240.4	Total equity
					792.7	**Total equity and liabilities**