



Glanbia plc
Glanbia House
Kilkenny, Ireland

Restatement of Financial Information under
International Financial Reporting Standards (IFRS)

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This document is intended for issue to the market to explain how the previously reported financial statements of Glanbia are impacted by the transition to IFRS.

GENERAL INFORMATION

In July 2002, the European Union (EU) approved a regulation requiring all EU listed companies to prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for accounting periods commencing on or after 1 January 2005. Glanbia plc will publish its 2005 annual report in accordance with IFRS. Previously the Group prepared its financial statements in accordance with accounting standards generally accepted in Ireland ("Irish GAAP"). This document provides information on the impact of the adoption of IFRS on Glanbia's financial statements.

The adoption of IFRS represents a change in the basis of preparation of financial statements and does not affect the operations or cash flows of the group.

Impact of IFRS on 2004 at a Glance

	Irish GAAP	IFRS	Change	Principal reason for change
	€'000	€'000	€'000	
Turnover	1,846,045	1,753,645	(92,400)	<i>Discontinued operations excluded -€92.4m</i>
Operating profit pre exceptional	84,422	86,257	1,835	<i>Discontinued operations excluded -€0.9m Credit re pension charge +€2.6m</i>
Operating profit post exceptional	84,822	89,152	4,330	<i>As above and also including: Reclassification of exceptional +€3.3m Foreign currency loss -€0.8m</i>
Profit before tax and pre exceptional	77,742	79,011	1,269	<i>As above and also including: Tax on joint ventures and associates included in PBT -€0.7m</i>
Equity share capital and reserves	221,401	113,825	(107,576)	<i>Employee benefits [pension] -€113.7m Timing of dividend recognition +€9.0m</i>
	cent	cent	Change cent	
Earnings per share (EPS)	20.41	21.03	0.62	
Adjusted earnings per share ⁽¹⁾	20.10	20.59	0.49	

⁽¹⁾ Adjusted EPS is based on profits pre exceptional

A full reconciliation of all changes is provided in the schedules on pages 12 to 17.

Basis of preparation of financial statements under International Financial Reporting Standards (“IFRS”).

The Group's date of transition to IFRS is 4 January 2004. The Group's financial statements for the year ended 31 December 2005 will be prepared in accordance with IFRS and the comparatives for those periods will be restated to reflect IFRS, except where otherwise required or permitted by IFRS 1 First Time Adoption of International Accounting Standards.

IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. As a general principle, IFRS 1 requires the standards effective at the reporting date to be applied retrospectively. However, retrospective application is prohibited in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of the particular transaction is already known. A number of optional exemptions from full retrospective application of IFRS's are granted where the cost of compliance is deemed to exceed the benefits to users of the financial statements.

The financial information in this document has been prepared in accordance with IFRS's, which the Group expects to be effective at 31 December 2005. The standards currently in issue are subject to ongoing review and endorsement by the EU, while the application of the standards continue to be subject to interpretation by the International Financial Reporting Interpretations Committee (“IFRIC”). The EU has yet to approve the amendment to IAS 19, which, as mentioned in more detail below, the group has implemented. In addition, the EU has endorsed a revised version of IAS 39 rather than the version published by the International Accounting Standards Board.

Further standards may be issued that could be applicable for financial years beginning on or after 2 January 2005, or are applicable to later periods, but with the option for companies to adopt for earlier periods. As a result, additional adjustments could therefore be required to the 2004 financial information prior to its inclusion as comparative figures in the 2005 final financial statements.

Relevant accounting periods

The financial statements of the Group are prepared on a 52 week basis. The 2004 full-year financial statements were prepared for a 52 week period ending on 1 January 2005 and are referred to herein as FY 2004. Full-year comparatives for 2003 are referred to as FY 2003. The 2004 interim financial statements were prepared for a 26 week period ending on 3 July 2004 and are referred to herein as H1 2004.

GLANBIA plc

RESTATED INCOME STATEMENTS

	FY 2004			H1 2004		
	Pre-	Exceptional	Total	Pre-	Exceptional	Total
	exceptional	€'000	€'000	exceptional	€'000	€'000
Turnover	<u>1,753,645</u>		<u>1,753,645</u>	<u>880,412</u>		<u>880,412</u>
Operating profit	86,257	2,895	89,152	41,390	(325)	41,065
Group interest	(5,723)		(5,723)	(4,073)		(4,073)
Share of losses of JV's and associates	(1,523)		(1,523)	(249)		(249)
Profit before tax	79,011	2,895	81,906	37,068	(325)	36,743
Taxation	(8,386)		(8,386)	(5,037)		(5,037)
Profit after tax	70,625	2,895	73,520	32,031	(325)	31,706
Discontinued operations		(1,601)	(1,601)		429	429
Profit for the period	70,625	1,294	71,919	32,031	104	32,135
Attributable to:						
Equity holders of the parent			61,119			26,218
Non-equity minority interest			10,387			5,602
Equity minority interest			<u>413</u>			<u>315</u>
			<u>71,919</u>			<u>32,135</u>
EPS cent			21.03			9.03

The schedules on pages 13 and 15 of this document provide a reconciliation between the above IFRS figures for FY 2004 and H1 2004 respectively to the previously reported Irish GAAP results.

GLANBIA plc

RESTATED BALANCE SHEETS

	FY 2004 €'000	H1 2004 €'000	FY 2003 €'000
ASSETS			
Non-current assets			
Property, plant and equipment:	302,057	295,795	280,378
Intangible assets	36,698	22,181	21,672
Investments in associates and joint ventures	59,199	36,174	22,204
Financial assets	28,672	22,342	12,225
Receivables	51,942	52,239	(1)
Deferred tax assets	12,299	7,775	7,594
	490,867	436,506	344,072
Current assets			
Inventories	133,419	121,009	129,467
Receivables and prepayments	172,622	303,073	167,375
Cash and cash equivalents	51,625	38,364	37,669
	357,666	462,446	334,511
Assets held for sale and included in disposal groups			200,725
Total assets	848,533	898,952	879,308
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	17,559	17,559	17,551
Capital and other reserves	194,063	188,486	193,158
Revenue reserves	(97,797)	(89,807)	(104,194)
Equity share capital and reserves	113,825	116,238	106,515
Equity minority interest	6,085	5,986	5,671
Non-equity minority interest	110,384	119,302	115,759
	230,294	241,526	227,945
Non-current liabilities			
Borrowings	198,682	211,388	170,351
Deferred tax liabilities	30,375	31,143	28,232
Retirement benefit obligations	126,676	88,515	86,563
Capital grants	15,276	15,732	16,611
Other liabilities	5,348	7,187	5,380
	376,357	353,965	307,137
Current liabilities			
Trade and other payables	238,373	302,934	280,049
Borrowings	3,509	527	43,221
	241,882	303,461	323,270
Total liabilities	618,239	657,426	630,407
Liabilities included with disposal groups			20,956
Total shareholders' equity and liabilities	848,533	898,952	879,308

The schedules on pages 12, 14 and 16 of this document provide a reconciliation between the above IFRS figures for FY 2004 and H1 2004 respectively to the previously reported Irish GAAP balances

OPTIONAL EXEMPTIONS AVAILED OF AT TRANSITION

As stated earlier, IFRS 1 and certain other IFRS's contain a number of optional exemptions that can be availed of by companies on transition to IFRS. Glanbia, in common with the majority of listed companies, has elected to avail of the following options:

- (i) Business combinations that took place before transition date have not been restated and therefore all goodwill written off to reserves or amortised prior to date of transition remains written off and will not be taken into account either for subsequent impairment reviews or on disposal of the subsidiary.
- (ii) Fair value, or a previous revaluation to fair value adjusted for subsequent depreciation, may be used as deemed cost for any item of property, plant and equipment at the date of transition. The Group has opted to regard the fixed asset valuations of 31 December 1988 and 31 December 1992 as deemed cost and the related asset values therefore remain unadjusted on transition to IFRS. Certain assets in the Foods Ingredients and Agribusiness divisions have been fair valued at date of transition.
- (iii) The Group has elected to set the cumulative translation differences on foreign subsidiaries to zero at date of transition.
- (iv) The actuarial losses on the Group's defined benefit schemes have been recognised in full on the balance sheet at the date of transition, and adjusted against reserves.
- (v) Given the delay encountered in securing EU approval, the effective date of the revised versions of IAS 32 and IAS 39 is 1 January 2005 and therefore the group is adopting these standards only in respect of the 2005 figures. Irish GAAP will apply to the 2004 reported figures.
- (vi) In accordance with the transitional arrangements set out in IFRS 2 Share Based Payment, this standard has been applied in respect of share options granted after 7 November 2002, which had not vested by transition date.
- (vii) The Group has elected to recognise its interest in joint ventures using the equity method of accounting.
- (viii) The Group has opted for early adoption of IFRS 5 Non-current assets held for sale and discontinued operations and has applied this standard from transition date.

IMPACT OF TRANSITION TO IFRS

The adoption of IFRS will result in the following changes to the Group's accounting policies and the financial impact of each is summarised. The overall impact on the Group's reported figures can be found in the schedules on pages 12 to 17.

Employee benefits

Under Irish GAAP, the Group accounted for its defined benefit plans under SSAP24 which spread the pension cost over the employees' periods of service. Disclosures required under the transitional arrangements of FRS 17, (including the fair values of the pension assets and liabilities and the amounts that would have been recognised in the P&L account and in the statement of recognised gains and losses ("STRGL")) were made in the notes to the accounts.

Under IFRS 1, the Group has determined that prospective application of the corridor methodology under IAS would not be appropriate and therefore has opted for early adoption of the amendment to IAS 19 allowing recognition in the statement of recognised income and expense ("SRIE") of actuarial gains and losses in full in the period in which they occur. The accounting treatment of defined benefit plans will thus be similar to that previously disclosed in respect of FRS 17. The balance sheet will reflect the full value of the pension scheme

deficits, actuarial gains and losses will be recognised directly in equity through the SRIE and the charge to the income statement will include current and past service costs.

As mentioned earlier, the amendment to IAS 19 allowing the recognition of actuarial gains and losses in the SRIE has not been fully adopted by the European Commission to date but is expected to be shortly.

The impact of implementing IAS 19 on the previously reported figures is as follows:

	FY 2004	H1 2004	FY 2003
	€'000	€'000	€'000
Balance Sheet			
Increase in retirement benefit obligation	(126,676)	(88,515)	(86,563)
Increase in deferred tax asset	12,372	7,812	7,594
Decrease in deferred tax liability	540	540	540
Decrease in current & non-current receivables (SSAP 24 assets)	(6,228)	(5,424)	(5,554)
Decrease in non-current payables (SSAP 24 liability)	6,332	6,946	7,951
To foreign currency translation reserve	(80)	1,376	
	<hr/>	<hr/>	<hr/>
Net impact on revenue reserves	(113,740)	(77,265)	(76,032)
Income Statement			
Reduction in pension charge	2,833	1,687	
Related tax charge	(281)	(174)	
	<hr/>	<hr/>	
Net impact on profit for the period	2,552	1,513	

Business combinations and goodwill

Under IFRS 3, goodwill, being the excess of the cost of a business combination over the acquiror's interest in the net fair value of identifiable assets and liabilities, is recognised as an asset. Goodwill is not amortised but is subject to annual impairment tests.

Under Irish GAAP, goodwill on acquisitions made before 4 January 1998 was offset against reserves – the revaluation reserve for acquisitions made up to 1992 and revenue reserves thereafter. On subsequent disposal of such businesses any related goodwill was taken into account in determining the profit or loss on disposal. With effect from 4 January 1998, goodwill was capitalised and classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life (not exceeding twenty years).

The Group has adopted the optional exemption in IFRS 1 not to restate business combinations made before the date of transition. Goodwill arising after transition date and unamortised goodwill carried as an asset at transition date is not amortised but is subject to an annual impairment review. Goodwill written off to reserves is not included in the gain or loss on subsequent disposal of the relevant business.

Goodwill on acquisitions up to 1992 was debited to revaluation reserve until such time as the revaluation reserve was completely written down. The balance sheet as prepared under Irish GAAP did not disclose this goodwill separately as both it and the revaluation reserve had been netted to zero. As stated below, the Group has opted to use previous revaluations in arriving at the deemed cost of property, plant and equipment and as required by IFRS 1, the balance on the revaluation reserve in this instance is transferred to revenue reserves. Accordingly, the revaluation reserve was reinstated by transferring goodwill previously written off to revaluation reserve to the goodwill reserve and crediting revenue reserves as follows: FY 2004 €59,610,000, H1 2004 €60,937,000 and FY 2003 €60,387,000.

As required under IFRS 1, goodwill was reviewed for impairment as at transition date and no impairment resulted from that review. Reversal of the goodwill amortisation for 2004 results in a credit to Income Statement of €238,000 for FY 2004 and €81,000 for H1 2004.

Property, plant and equipment

Under Irish GAAP, fixed assets were stated at cost or valuation less accumulated depreciation. The transitional provisions of FRS 15 were followed, whereby the book value of revalued assets was retained in place of a policy of ongoing revaluations. Depreciation was calculated on all fixed assets, excluding freehold land, on a straight line basis, by reference to the expected useful lives of the assets concerned.

Under IAS 16, property, plant and equipment requires initial measurement at cost. IFRS 1 allows entities to use a deemed cost at transition date for assets acquired prior to transition. Deemed cost can be

- (a) the depreciated historical cost
- (b) the fair value of the asset at date of transition, or
- (c) a revaluation to fair value under previous GAAP which has been depreciated up to the transition date.

Valuations of the Group's assets were carried out at 31 December 1988 and 31 December 1992. These valuations were based on open market value or where appropriate, an open market value calculated on a depreciated replacement cost basis and were therefore broadly comparable to fair values at that time.

The Group has elected to use option (c) for assets that were revalued, and depreciated historical cost for assets acquired since those revaluation dates, with the exception of particular assets within the Food Ingredients and Agribusiness Divisions that have been fair valued at date of transition, with a net increase in value of those assets of €85,000.

After initial recognition, property plant and equipment will be carried at cost less accumulated depreciation and accumulated impairment losses.

Software development costs previously capitalised under Irish GAAP as plant and equipment have been reclassified as intangible assets. The amounts reclassified are as follows: FY 2004 €19,808,000, H1 2004 €19,684,000 and FY 2003 €19,206,000.

Foreign currencies

Currency translation differences on foreign currency net investments have been written off under Irish GAAP to revenue reserves.

Under IAS 21, translation differences are recorded in a separate currency translation reserve. On disposal of a foreign operation, the cumulative translation differences relating to that operation are transferred to the income statement as part of the profit or loss on disposal.

The Group has availed of the IFRS 1 exemption allowing it to deem all cumulative translation differences that have arisen up to transition date to be equal to zero. These translation differences will therefore remain written off against revenue reserves and will no longer be separately disclosed in the notes to the accounts.

Certain intercompany loans had been treated under Irish GAAP as part of the net investment in the foreign entity and foreign exchange gains or losses arising on these loans had been recognised directly in reserves. On transition, loans between fellow subsidiaries do not qualify under IFRS as part of the net investment and therefore gains or losses on these loans must be recognised in the Income Statement.

IAS 21 provides specific guidance on how the functional currency (i.e. the currency that an entity should use to record its transactions) of a company should be determined and the functional currencies of a small number of group companies have altered as a result of the application of this guidance.

The financial impact of the above is an additional charge to the income statements as follows: FY 2004 €798,000 and H1 2004 €325,000.

Income taxes

Under Irish GAAP, deferred tax was provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date. Deferred tax was not provided on the unremitted earnings of subsidiaries, associates or joint ventures where there was no commitment to remit these earnings, or on the revaluation of assets unless a binding sales agreement existed at the balance sheet date.

Under IAS 12, deferred tax is provided on all temporary differences that exist at the balance sheet date including unremitted earnings of associates and joint ventures where the group does not have the ability to control the payment of dividends by the associate or joint venture. Deferred tax is provided on all revaluations and rolled over capital gains, regardless of whether there is an intention to dispose of the relevant assets in the future.

Deferred tax adjustments are also required to account for the tax effects of other IFRS adjustments.

The financial impact on the previously reported figures, excluding the deferred tax impact of retirement benefit obligations, which are shown above, are:

	FY 2004	H1 2004	FY 2003
	€'000	€'000	€'000
(Increase) in deferred tax liability	<u>(1,495)</u>	<u>(1,512)</u>	<u>(1,528)</u>
Additional charge to income statement	<u>(33)</u>	<u>(16)</u>	

Share-based payments

Share-based payments include executive share option schemes, employee sharesave schemes and share awards.

Under Irish GAAP, the charge to the profit & loss account was based on the difference between the market value of the shares at the date of grant and the exercise price.

Under IFRS 2, the charge to the income statement in respect of share-based payments is based on the fair value of the options granted and is spread over the vesting period of the instrument. Under IFRS 1, this requirement applies only to grants of shares, share options or other equity instruments made after 7 November 2002 that have not vested by transition date. The Trinomial model was used in the valuation of the share options.

The implementation of IFRS 2 results in a cumulative charge to revenue reserves for FY 2003 of €9,000 and a charge to the income statement for FY2004 of €76,000 and for H1 2004 of €23,000.

Dividends

Under Irish GAAP, the group accrued for dividends declared after the balance sheet date.

Under IAS 10, these dividends are not considered liabilities of the group at the balance sheet date and so are not provided for, but are disclosed in the notes to the accounts.

This results in an increase in revenue reserves at FY 2004 of €8,989,000, at H1 2004 of €6,274,000 and at FY 2003 of €8,535,000.

Exceptional items

Under Irish GAAP, three types of exceptional items were required to be shown after operating profit – (i) profits / losses on sale or termination of an operation, (ii) costs of a fundamental reorganisation and (iii) profits / losses on disposal of fixed assets.

Under IFRS, all exceptional items, apart from the results of discontinued operations, are disclosed in the appropriate operating line item before operating profit, with separate disclosure for items which are material by virtue of their size or nature.

This results in a reclassification of exceptional items reported by the group for FY 2004.

Joint ventures and associates

Under Irish GAAP, the results of joint ventures and associates were split between operating profit, interest and tax with each separate figure shown in the profit and loss account beside the equivalent group figure. Joint ventures were accounted for under the gross equity method of accounting whereby the Group's share of turnover was separately disclosed within turnover and the Group's share of gross assets and liabilities was separately disclosed in the balance sheet.

Under IAS 28 and IAS 31, a single figure for results of joint ventures and associates is disclosed after operating profit and before interest. The Group has opted to account for its joint ventures under the equity method of accounting, rather than proportional consolidation, in line with the accounting treatment of associates.

Following a review of all its investments, the group has concluded that its holding in Westgate Biological Ltd, which had been accounted for at cost within other investments, should be reclassified as an associate and accordingly accounted for under the equity method of accounting.

The results of certain associates and joint ventures have been adjusted to take account of the implementation of IFRS within their own accounts.

	FY 2004 €'000	H1 2004 €'000	FY 2003 €'000
Balance sheet			
Share of results of reclassified investment	(187)	(116)	(35)
Impact of retirement benefit obligations recognised in joint venture	(1,546)	(1,122)	(1,122)
Net impact on revenue reserves	<u>(1,733)</u>	<u>(1,238)</u>	<u>(1,157)</u>
Income statement			
Share of results of reclassified investment	(152)	(81)	
Impact of retirement benefit obligations recognised in joint venture	12	0	
Net impact on profit for period	<u>(140)</u>	<u>(81)</u>	

Non-current assets for sale and discontinued operations

IFRS 5 requires that non current assets and disposal groups (groups of assets that are to be disposed of in a single transaction) be presented separately from other assets and liabilities. There was no Irish GAAP equivalent requirement for separate disclosure of these items.

Under Irish GAAP, turnover and results of discontinued operations until disposal date were separately disclosed within total turnover and operating profit. The profit or loss on disposal of the operation was separately disclosed below operating profit.

Under IFRS 5, a single number is disclosed on the face of the income statement after operating profit, being the total of (i) the discontinued operation's post-tax profit / loss and (ii) the post tax gain / loss on disposal of the operation.

IFRS 5 is effective for accounting periods beginning on or after 1 January 2005 but the group has opted under the standard's transitional provisions to implement it from date of transition, using valuations and other information that were available at that date.

Financial assets and financial instruments

IFRS 1 gives companies the option to implement IAS 32 and IAS 39 from date of transition or if adopting for the first time in 2005, to implement only in respect of the 2005 figures and not the comparative period. The group has chosen the latter option and therefore Irish GAAP applies to the 2004 reported figures. The differences that apply to the restated opening 2005 figures are noted below.

(a) Derivative financial instruments

The activities of the group expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group uses derivative financial instruments such as foreign exchange contracts and options, interest rate swap contracts and forward rate agreements to hedge these exposures.

Under Irish GAAP, gains or losses on derivative financial instruments were generally recognised in the accounts on the settlement of the hedged item. The fair values of such derivatives were disclosed in the notes to the accounts. Where the matched underlying asset or liability ceased to exist, or was no longer considered likely to exist prior to any associated financial instrument held as a hedge, the hedging instrument was terminated and any profit or loss arising was recognised in the profit and loss account at that time.

In order to apply hedge accounting for financial instruments under IAS 39, strict criteria, including the existence of formal documentation and the achievement of effectiveness tests must be met. Hedge accounting may be applied to three types of hedging relationship – fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. All derivatives must be recognised on the balance sheet at fair value. In the case of fair value hedges, the gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. At the same time, the carrying amount of the hedged item is adjusted for the gain or loss attributable to the hedged risk and the change is also recognised immediately in the income statement to offset the value change on the hedging instrument. Gains or losses on the remeasurement of cash flow hedges and hedges of a net investment in a foreign operation to fair value are deferred in equity to the extent the hedging instrument is determined to be effective and are recycled to the income statement when the hedged cash flows affect income.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

(b) Preferred securities and preference shares

Under Irish GAAP these were accounted for as non-equity minority interests, with the dividends recorded through the dividends and appropriations line of the profit and loss account.

Under IAS 32 and IAS 39, the Group will account for the preferred securities and preference shares as borrowings since the holders are entitled to fixed dividends. The dividends will be included within the interest charge in the income statement.

(c) Financial assets excluding investments in joint ventures and associates

Under Irish GAAP, all financial assets apart from investments in associates and joint ventures were carried at cost less provisions for permanent diminution in value, with the market value of the quoted investments disclosed in the notes to the accounts.

Under IAS 32 and IAS 39, these financial assets will be designated as available-for-sale financial assets and recognised at fair value in the balance sheet. Any movement in fair value will be charged or credited to a fair value reserve. The cumulative movement in fair value on a financial asset will be removed from the fair value reserve and reflected in the income statement on disposal of the investment.

The impact of the above on the reported figures is shown in the schedule on page 17 of this document.

Reconciliation of Balance Sheet at date of transition – 4 January 2004

	Irish GAAP	Goodwill	Dividend	Assets held for sale	Fixed Assets	JV's & Associates	Employee Benefits	Deferred Tax	Share Options	IFRS Accounts
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
ASSETS										
Non-current assets										
Property, plant and equipment	363,641			(64,142)	(19,121)					280,378
Intangible assets	2,466				19,206					21,672
Investments in associates and joint ventures	22,551					(347)				22,204
Available-for -sale investments	13,035					(810)				12,225
Receivables	14,082			(8,657)			(5,426)			(1)
Deferred tax assets							7,594			7,594
	415,775			(72,799)	85	(1,157)	2,168			344,072
Current assets										
Inventories	202,736			(73,269)						129,467
Receivables and prepayments	200,054			(32,551)			(128)			167,375
Cash and cash equivalents	59,775			(22,106)						37,669
	462,565			(127,926)			(128)			334,511
Assets held for sale and included in disposal groups				200,725						200,725
Total assets	878,340				85	(1,157)	2,040			879,308
SHAREHOLDERS' EQUITY AND LIABILITIES										
Shareholders' equity										
Ordinary shares	17,551									17,551
Share premium	80,005									80,005
Own shares	(3,235)									(3,235)
Merger reserve and capital reserves	116,379								9	116,388
Revenue reserves - profit and loss account	(726)	60,387	8,535		85	(1,157)	(76,032)	(1,528)	(9)	(10,445)
- goodwill	(33,362)	(60,387)								(93,749)
	176,612		8,535		85	(1,157)	(76,032)	(1,528)		106,515
Equity minority interest	5,671									5,671
Non-equity minority interest	115,759									115,759
	298,042		8,535		85	(1,157)	(76,032)	(1,528)		227,945
Non - current liabilities										
Borrowings	170,351									170,351
Deferred tax liabilities	27,559			(315)			(540)	1,528		28,232
Retirement benefit obligation							86,563			86,563
Capital grants	16,611									16,611
Other liabilities	13,331						(7,951)			5,380
	227,852			(315)			78,072	1,528		307,137
Current liabilities										
Trade and other payables	309,225		(8,535)	(20,641)						280,049
Borrowings	43,221									43,221
	352,446		(8,535)	(20,641)						323,270
Liabilities included in disposal groups				20,956						20,956
Total liabilities	580,298		(8,535)				78,072	1,528		651,363
Total shareholders' equity and liabilities	878,340				85	(1,157)	2,040			879,308

Restatement of Income Statement for Year ended 1 January 2005

	As reported under Irish GAAP			Pre- exceptional							Exceptional		IFRS accounts		
	Pre- exceptional	Exceptional	Total	JV's & Associates	Dis- continued operations	Share options	Employee Benefits	Joint Venture	Goodwill	Deferred Tax	Foreign Currencies	Exceptional items	Pre- exceptional	Exceptional	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Turnover	1,846,045		1,846,045		(92,400)								1,753,645		1,753,645
Operating costs	(1,761,623)	400	(1,761,223)		91,481	(76)	2,592		238		(798)		(1,667,388)	(398)	(1,667,786)
Profit on disposal / termination												3,293		3,293	3,293
Group operating profit	84,422	400	84,822										86,257	2,895	89,152
Share of JV and associates	201		201	(1,724)	(919)	(76)	2,592		238		(798)	3,293	(1,523)		(1,523)
Loss on sale of operation	84,623	400	85,023	(1,724)	(919)	(76)	2,592		238		(798)	3,293	84,734	2,895	87,629
Profit on sale of fixed assets		(2,601)	(2,601)									2,601			
Profit on termination		929	929									(929)			
Group interest		2,445	2,445									(2,445)			
Share of interest of JV & assoc	(5,964)		(5,964)	917			241						(5,723)		(5,723)
Profit before tax	77,742	1,173	78,915	(807)	(919)	(76)	2,833		238		(798)	2,520	79,011	2,895	81,906
Taxation	(8,805)		(8,805)	667			(281)			33			(8,386)		(8,386)
Profit after tax	68,937	1,173	70,110	(140)	(919)	(76)	2,552		238	33	(798)	2,520	70,625	2,895	73,520
Discontinued operations					919							(2,520)		(1,601)	(1,601)
Profit for year	68,937	1,173	70,110	(140)		(76)	2,552		238	33	(798)		70,625	1,294	71,919
Attributable to:															
Equity holders of the parent			59,310	(140)		(76)	2,552		238	33					61,119
Non-equity minority interest			10,387												10,387
Equity Minority interest			413												413
			70,110	(140)		(76)	2,552		238	33					71,919
EPS cent			20.41												21.03
Adjusted EPS			20.10												20.59

Reconciliation of Balance Sheet as at 1 January 2005

	Iriah GAAP €'000	Goodwill €'000	Dividend €'000	Foreign Currencies €'000	JV's & Associates €'000	Fixed Assets €'000	Employee Benefits €'000	Currency reserve €'000	Deferred Tax €'000	Share Options €'000	IFRS Accounts €'000
ASSETS											
Non-current assets											
Property, plant and equipment	321,780					(19,723)					302,057
Intangible assets	16,652	238				19,808					36,698
Investments in associates and joint ventures	59,735				(536)						59,199
Available-for -sale investments	29,869				(1,197)						28,672
Receivables	58,170						(6,228)				51,942
Deferred tax assets							12,299				12,299
	486,206	238			(1,733)	85	6,071				490,867
Current assets											
Inventories	133,419										133,419
Receivables and prepayments	172,622										172,622
Cash and cash equivalents	51,625										51,625
	357,666										357,666
Total assets	843,872	238			(1,733)	85	6,071				848,533
SHAREHOLDERS' EQUITY AND LIABILITIES											
Shareholders' equity											
Ordinary shares	17,559										17,559
Share premium	80,212										80,212
Own shares	(2,563)										(2,563)
Fair value and currency translation reserves		(777)		798			80	(58)			43
Merger reserve and capital reserves	116,286									85	116,371
Revenue reserves - profit retained	43,258	60,625	8,989	(798)	(1,733)	85	(113,740)	58	(1,495)	(85)	(4,836)
- goodwill reserve	(33,351)	(59,610)									(92,961)
	221,401	238	8,989		(1,733)	85	(113,660)		(1,495)		113,825
Equity minority interest	6,085										6,085
Non -equity minority interest	110,384										110,384
	337,870	238	8,989		(1,733)	85	(113,660)		(1,495)		230,294
Non - current liabilities											
Borrowings	198,682										198,682
Deferred tax liabilities	29,493						(613)	1,495			30,375
Retirement benefit obligation							126,676				126,676
Capital grants	15,276										15,276
Other liabilities	11,680						(6,332)				5,348
	255,131						119,731	1,495			376,357
Current liabilities											
Trade and other payables	247,362		(8,989)								238,373
Borrowings	3,509										3,509
	250,871		(8,989)								241,882
Total liabilities	506,002		(8,989)				119,731	1,495			618,239
Total shareholders' equity and liabilities	843,872	238			(1,733)	85	6,071				848,533

Reconciliation of Income Statement for half year ended 3 July 2004

	As reported under Irish GAAP			Pre-exceptional						Exceptional Foreign Currencies €'000	IFRS accounts			
	Pre-exceptional €'000	Exceptional €'000	Total €'000	JV's & Associates €'000	Dis-continued options €'000	Share Employee benefits €'000	Joint Venture €'000	Goodwill €'000	Deferred Tax €'000		Pre-exceptional €'000	Exceptional €'000	Total €'000	
Turnover	974,012		974,012		(93,600)							880,412		880,412
Operating costs	(933,843)		(933,843)		93,171	(23)	1,592		81	(325)		(839,022)	(325)	(839,347)
Group Operating Profit	40,169		40,169		(429)	(23)	1,592		81	(325)		41,390	(325)	41,065
Share of JV and associates	108		108	(357)								(249)		(249)
	40,277		40,277	(357)	(429)	(23)	1,592		81	(325)		41,141	(325)	40,816
Group interest	(4,168)		(4,168)				95					(4,073)		(4,073)
Share of interest of JV and assoc	(360)		(360)	360										
Profit before tax	35,749		35,749	3	(429)	(23)	1,687		81	(325)		37,068	(325)	36,743
Taxation	(4,795)		(4,795)	(84)			(174)				16	(5,037)		(5,037)
Profit after tax	30,954		30,954	(81)	(429)	(23)	1,513		81	(325)	16	32,031	(325)	31,706
Discontinued operations					429								429	429
Profit for period	30,954		30,954	(81)		(23)	1,513		81	(325)	16	32,031	104	32,135
Attributable to:														
Equity holders of the parent			25,037	(81)		(23)	1,513		81	(325)	16			26,218
Non-equity minority interest			5,602											5,602
Equity minority interest			315											315
			30,954	(81)		(23)	1,513		81	(325)	16			32,135
EPS cent			8.62											9.03
Adjusted EPS			8.65											8.99

Reconciliation of Balance Sheet at 3 July 2004

	As reported under Irish GAAP €'000	PYA own shares (Note) €'000	Irish GAAP restated €'000	Goodwill €'000	Dividend €'000	Foreign Currencies €'000	Fixed Assets €'000	JV's & Associates €'000	Employee benefits €'000	Currency reserve €'000	Deferred Tax €'000	Share Options €'000	IFRS Accounts €'000
ASSETS													
Non-current assets													
Property, plant and equipment	315,394		315,394				(19,599)						295,795
Intangible assets	2,416		2,416	81			19,684						22,181
Investments in associates and joint ventures	36,215		36,215					(41)					36,174
Available-for -sale investments	26,407	(2,868)	23,539					(1,197)					22,342
Receivables	57,663		57,663						(5,424)				52,239
Deferred tax assets									7,775				7,775
	438,095	(2,868)	435,227	81			85	(1,238)	2,351				436,506
Current assets													
Inventories	121,009		121,009										121,009
Receivables and prepayments	303,034	39	303,073										303,073
Cash and cash equivalents	38,364		38,364										38,364
	462,407	39	462,446										462,446
Total assets	900,502	(2,829)	897,673	81			85	(1,238)	2,351				898,952
SHAREHOLDERS' EQUITY AND LIABILITIES													
Shareholders' equity													
Ordinary shares	17,559		17,559										17,559
Share premium	80,212		80,212										80,212
Own shares		(3,235)	(3,235)										(3,235)
Fair value and currency translation reserves				550		325			(1,376)	(4,401)			(4,902)
Merger reserve and capital reserves	115,973	406	116,379									32	116,411
Revenue reserves - profit retained	13,963		13,963	60,468	6,274	(325)	85	(1,238)	(77,265)	4,074	(1,512)	(32)	4,492
- goodwill reserve	(33,689)		(33,689)	(60,937)						327			(94,299)
	194,018	(2,829)	191,189	81	6,274		85	(1,238)	(78,641)		(1,512)		116,238
Equity minority Interest	5,986		5,986										5,986
Mnon-equity minority interest	119,302		119,302										119,302
	319,306	(2,829)	316,477	81	6,274		85	(1,238)	(78,641)		(1,512)		241,526
Non - current liabilities													
Borrowings	211,388		211,388										211,388
Deferred tax liabilities	30,208		30,208						(577)		1,512		31,143
Retirement benefit obligation									88,515				88,515
Capital grants	15,732		15,732										15,732
Other liabilities	14,133		14,133						(6,946)				7,187
	271,461		271,461						80,992		1,512		353,965
Current liabilities													
Trade and other payables	309,208		309,208		(6,274)								302,934
Borrowings	527		527										527
	309,735		309,735		(6,274)								303,461
Total liabilities	581,196		581,196		(6,274)				80,992		1,512		657,426
Total shareholders' equity and liabilities	900,502	(2,829)	897,673	81			85	(1,238)	2,351				898,952

Note - a prior year adjustment would have been required under Irish GAAP to reflect UITF 38

Reconciliation of restated opening balance sheet as at 2 January 2005

	2004 IFRS Bal sheet €'000	Non equity minority interest €'000	Fair value financial assets €'000	Fair value financial derivatives €'000	JV's financial derivatives €'000	€'000
ASSETS						
Non-current assets						
Property, plant and equipment	302,057					302,057
Other Intangible assets	36,698					36,698
Investments in associates and joint ventures	59,199				(72)	59,127
Available-for -sale investments	28,672		1,165			29,837
Receivables	51,942					51,942
Deferred tax assets	12,299					12,299
	490,867		1,165		(72)	491,960
Current assets						
Inventories	133,419					133,419
Receivables and prepayments:	172,622			3,130		175,752
Cash and cash equivalents	51,625					51,625
	357,666			3,130		360,796
Total assets	848,533		1,165	3,130	(72)	852,756
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity						
Ordinary shares	17,559					17,559
Share premium	80,212					80,212
Own shares	(2,563)					(2,563)
Fair value and currency translation reserves	43		932	2,157	(72)	3,060
Merger reserve and capital reserve	116,371					116,371
Revenue reserves	(4,836)			(5,609)		(10,445)
P&L opening reserves	(92,961)					(92,961)
Goodwill						
	113,825		932	(3,452)	(72)	111,233
Equity Minority Interest	6,085					6,085
Non-equity minority interest	110,384	(110,384)				
	230,294	(110,384)	932	(3,452)	(72)	117,318
Non - current liabilities						
Borrowings	198,682	110,384				309,066
Deferred tax liabilities	30,375		233	397		31,005
Retirement benefit obligation	126,676					126,676
Capital grants	15,276					15,276
Other liabilities	5,348					5,348
	376,357	110,384	233	397		487,371
Current liabilities						
Trade and other payables	238,373			6,185		244,558
Borrowings	3,509					3,509
	241,882			6,185		248,067
Total liabilities	618,239	110,384	233	6,582		735,438
Total shareholders' equity and liabilities	848,533		1,165	3,130	(72)	852,756

Glanbia plc

Summary of provisional significant accounting policies

1. Consolidation

The Group financial statements incorporate:

(i) The financial statements of Glanbia plc (the Company) and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable net assets acquired, the difference (negative goodwill) is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) The Group's share of the results and net assets of associated companies and joint ventures are included based on the equity method of accounting. An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. A joint venture is an entity subject to joint control by the Group and other parties. Under the equity method of accounting, the group's share of the post-acquisition profits or losses of associates and joint ventures is recognised in the income statement and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate or joint venture.

2. Segment reporting

The Group reports segment information by class of business and by geographical area. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The group's primary reporting segment, for which more detailed disclosures are required, will be by class of business.

3. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Currency translation differences on monetary assets and liabilities are taken to the income statement, except where hedge accounting is applied.

(iii) Group companies

The income statement and balance sheet of Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities at each balance sheet date are translated at the closing rate at the date of the balance sheet
- (b) income and expenses in the income statement are translated at average exchange rates for the year. Resulting exchange differences and exchange movements on currency instruments designated as hedges of such investments, are taken to a separate translation reserve within equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as local currency assets and liabilities of the foreign entity and are translated at the balance sheet rate.

4. Property, plant and equipment

With the exception of assets that had been revalued or fair valued at transition to IFRS (see below), property, plant and equipment is stated at cost less subsequent depreciation less any impairment loss.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as the following rates:

	%
Land	Nil
Buildings	3 – 5
Plant and equipment	5 - 33
Motor vehicles	20 - 25

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Interest incurred on payments on account of major assets under construction is included in the cost of those assets.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Certain items of property, plant and equipment that had been revalued prior to the date of transition to IFRS (4 January 2004) are measured on the basis of deemed cost, being the revalued amount depreciated to date of transition. Items of property, plant and equipment that were fair valued at date of transition are also measured at deemed cost, being the fair value at date of transition.

5. Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and associates is included in intangible assets.

Goodwill is carried at cost less accumulated impairment losses, if applicable. Goodwill is tested for impairment on an annual basis.

In accordance with IFRS 1, goodwill written off to reserves prior to date of transition to IFRS remains written off. In respect of goodwill capitalised and amortised under previous accounting standards, its value at date of transition to IFRS is its carrying value under previous standards.

(ii) Development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably.

(iii) Intellectual property

Expenditure to acquire intellectual property is capitalised and amortised using the straight-line method over its useful life.

(iv) Computer software

Costs incurred on the acquisition of computer software are capitalised as are costs directly associated with developing or maintaining computer software programs, if they meet the recognition criteria of IAS 38. Computer software costs recognised as assets are written off over the estimated useful lives.

6. Investments

For 2004:

Financial fixed assets are shown at cost less provisions for permanent diminution in value. Income from financial fixed assets is recognised in the profit and loss account in the year in which it is receivable.

From 2005:

The group classifies all its investments as available for sale financial assets and they are initially recognised at fair value and are valued at fair value at each balance sheet date. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in equity. When such investments are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investments.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active the group establishes fair value using valuation techniques. Where the range of reasonable fair values is significant and no reliable estimate can be made, the group measures the investment at cost less impairment.

7. Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables, split between current and non-current as appropriate. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

8. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in-first-out (“FIFO”) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the costs of selling expenses.

9. Trade receivables

Trade receivables are carried at original invoice amount less provision for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

10. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. In the balance sheet, bank overdrafts, if applicable, are included in borrowings in current liabilities.

11. Income taxes

Current tax represents the expected tax payable or recoverable on the taxable profit for the period, taking into account adjustments relating to prior years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

12. Employee benefits

(i) Pension obligations

The Group operates a number of defined benefit and defined contribution schemes which provide retirement and death benefits for the majority of employees. The schemes are funded through separate trustee controlled funds.

In respect of defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at fair value. The operating and financing costs of such plans are recognised in the income statement; service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Payments to defined contribution schemes are charged as an expense as they fall due.

(ii) Share based payments

Share-based payments include executive share option schemes, employee sharesave schemes and share awards.

The charge to the income statement in respect of share-based payments is based on the fair value of the equity instruments granted and is spread over the vesting period of the instrument. The fair value of the instruments is calculated using the Trinomial model.

13. Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

14. Revenue recognition

Revenue comprises the fair value of the sale of goods and services to external customers net of value-added tax, rebates and discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from the rendering of services is recognised in the period in which the services are rendered. Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to expected maturity, when it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.

15. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstance indicate that the carrying value may not be recoverable. An impairment loss is recognised to the extent that the carrying value of the assets exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

16. Share capital

Preferred securities and preference shares

For 2004:

Preferred securities and preference shares, with fixed dividend entitlements and fixed redemption dates, are accounted for as non-equity minority instruments within shareholders' funds.

From 2005:

Such preferred securities and preference shares are classified as liabilities.

Own shares

The cost of own shares, held by an Employee Share Trust in connection with the company's Sharesave Scheme, is deducted from equity.

17. Dividends

Dividends to the company's shareholders are recognised as a liability of the company as follows:

Interim dividends when the board resolve to pay the dividend

Final dividends when the dividends are approved by the company's shareholders.

18. Derivative financial instruments

The activities of the group expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group uses derivative financial instruments such as foreign exchange contracts and options, interest rate swap contracts and forward rate agreements to hedge these exposures.

For 2004:

Derivative financial instruments used as hedging instruments are matched with their underlying hedged item. Each instrument's gain or loss is brought into the profit and loss account at the same time and in the same place as is the matched underlying asset, liability, income or cost. For foreign exchange instruments this will be in operating profit matched against the relevant purchase or sale and for interest rate instruments, within interest payable or receivable over the life of the instrument, or relevant interest period. The profit or loss on an instrument may be deferred if the hedged transaction is expected to take place or would normally be accounted for in a future period,

If the matched underlying asset or liability prematurely ceases to exist, or is no longer considered likely to exist prior to the maturity date of any associated financial instrument held as a hedge, the hedging instrument is terminated and any profit or loss arising is recognised in the profit and loss account at that time. Instruments which cease to be recognised as hedges are marked to market.

From 2005:

The Group accounts for financial instruments under IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'. In order to apply hedge accounting for financial instruments under IAS 39, strict criteria, including the existence of formal documentation and the achievement of effectiveness tests must be met. Hedge accounting may be applied to three types of hedging relationships – fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

All derivatives are recognised on the balance sheet at fair value. In the case of fair value hedges, the gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. At the same time, the carrying amount of the hedged item is adjusted for the gain or loss attributable to the hedged risk and the change is also recognised immediately in the income statement to offset the value change on the hedging instrument. Gains or losses on the remeasurement of cash flow hedges and hedges of a net investment in a foreign operation to fair value are deferred in equity to the extent the hedging instrument is determined to be effective and are recycled to the income statement when the hedged cash flows affect income.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.