

LAING

# CREATING VALUE...

2004

Preliminary information on the implementation  
of International Financial Reporting Standards

JOHN LAING plc 31 December

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# Letter from A J H Ewer, Group Finance Director

Dear Shareholder

## **Preliminary information on the implementation of International Financial Reporting Standards**

You will be aware that adoption of International Financial Reporting Standards (IFRS)\* becomes mandatory for all listed companies in respect of reporting periods commencing on or after 1 January 2005. John Laing plc will accordingly produce interim and full year accounts for 2005 that comply with IFRS in so far as they have been adopted by the EU. This will include comparative 2004 information.

This publication is being made available to all shareholders and is intended to provide an explanation of the main impacts of adopting IFRS. These impacts fall into two main categories:

- presentational changes to the primary financial statements and disclosures; and
- changes to accounting policies.

Within this publication, we have set out the preliminary reconciliation of the presentational changes between existing United Kingdom Generally Accepted Accounting Practice (UK GAAP) and IFRS and the changes to accounting policies. We are setting out, herein, the impact on the Group balance sheet as at 1 January 2004 and at 31 December 2004 and the Group income statement for the year ended 31 December 2004.

The restated balance sheet and income statement must at this stage be regarded as preliminary and subject to change. In particular, changes are likely to result from additional guidance on interpretation of IFRS that is issued from time to time by the International Financial Reporting Interpretations Committee (IFRIC).

The John Laing IFRS implementation programme commenced early in 2004 with an examination of the IFRS in issue to determine the impact on John Laing. We have worked closely with our auditors, Deloitte & Touche LLP, on the application of IFRS. However, this preliminary information has not been audited.

Our purpose in circulating this publication is to draw attention to the significant impacts of conversion from UK GAAP to IFRS. We have not, therefore, included all of the additional note disclosures.

We believe the most useful format of cash flow statement excludes the movements arising in non-recourse PFI/PPP Project Companies. Since this information is already provided within the Financial Review on page 42 of the 2004 Annual Report, we have not included a cash flow statement in this publication.

An option exists under IFRS for the basis of presentation of the results of joint ventures. Companies may opt for either the net equity method or proportional consolidation. Since the Group conducts much of its business through joint ventures, we have opted to use proportional consolidation. This enables readers of the accounts to see the Group's share of the results of joint ventures on a line-by-line basis.

The Group's tax charge is reduced significantly under IFRS. This is partly due to presentation changes whereby the results of the associate and discontinued operations are shown in the income statement net of tax. However, due to different rules for the calculation of deferred tax in PFI/PPP Project Companies, we can no longer use the whole life effective tax rate, which produced a uniform tax rate over the life of a PFI/PPP project. The tax charge will therefore be more volatile under IFRS.

The most significant change to the Group's financial statements will result from the adoption of IAS39 'Financial Instruments: Recognition and Measurement'. However, the comparatives for 2004 will not be restated and the impact will only become evident in the 2005 financial statements. The Company, along with a number of other companies involved in PFI/PPP concessions, has written to IFRIC pointing out that adoption of IAS39 will create significant balance sheet volatility and potentially misleading results in relation to PFI/PPP concessions. This is because IAS39 requires that interest swaps entered into by PFI/PPP Project Companies are 'marked to market'. These swaps are transacted to fix the rate of interest on project finance, normally over the whole project life.

IAS39 requires marking to market of these liabilities, which would reduce the Group's consolidated net assets by £110.2 million as at 1 January 2005 when this standard is adopted. IFRS does not permit the corresponding marking to market of the finance debtors of PFI/PPP Project Companies.

IFRIC intends to issue guidance which will, in certain circumstances, call for the financial assets of PFI/PPP Project Companies to be marked to market. IFRIC has recently issued a discussion draft on accounting for service concessions. The Company will comment on the discussion draft before the 31 May deadline. It remains to be seen whether or not the new guidelines on accounting for service concessions will correct the potentially misleading presentation of the results of PFI/PPP Project Companies that will be caused in the absence of further guidance. In any event, John Laing is required to adopt IAS39 from 1 January 2005 as it stands.

Under IFRS there are a number of options regarding the form of presentation and selection of accounting policies. We have set out, on pages 3 to 6 of this publication, the options selected by John Laing.

We will also be using this publication as a basis for preparing analysts for the impact of adopting IFRS so as to aid their understanding when we first report our 2005 interim results under IFRS in August 2005.

Yours faithfully



**A J H Ewer**  
Group Finance Director

19 April 2005

\* Implementation of IFRS includes the International Accounting Standards (IAS) still in issue and the more recent IFRS.

## Overview of impact

John Laing plc currently prepares its consolidated Group financial statements under UK GAAP. Following the decision of the European Union (EU) to adopt IFRS (other than IAS39 which has been adopted only in part) for the purpose of financial reporting for publicly traded companies, the Group will be required to comply with IFRS.

This change comes into effect for financial years commencing on or after 1 January 2005. Accordingly the Group's first Annual Report under IFRS will be for the year ending 31 December 2005. The Interim Report for the six months to 30 June 2005 will also be prepared under IFRS. Since comparative numbers will be required, the balance sheet as at 1 January 2004 has been restated to form the opening balance sheet under IFRS.

To explain the impact of the adoption of IFRS on the Group's financial position and performance, this document includes:

- the Group consolidated balance sheet at 1 January 2004 (date of transition);
- the Group consolidated balance sheet at 31 December 2004; and
- the Group consolidated income statement for the year ended 31 December 2004.

	31 December 2004	
	UK GAAP £ million	IFRS £ million
Profit before taxation	25.1	25.0
Taxation	(13.7)	(7.3)
Profit after taxation and discontinued businesses	11.4	15.2
Net assets	80.3	87.1
Earnings per share	4.9p	7.1p

The most significant changes required by IFRS which effect the presentation and quantum of the Group's 2004 results are:

- calculation of deferred taxation on a different basis;
- proportional consolidation of joint ventures; and
- change in respect of the fair value of share options and long-term incentive scheme shares granted after 7 November 2002.

To assist in the understanding of the nature and effect of specific IAS/IFRS, the position under UK GAAP is reconciled to IFRS in the Appendix.

## Introduction

The following financial information has been prepared in accordance with IFRS including interpretations issued by the International Accounting Standards Board (IASB) and its committees. These are subject to ongoing review and endorsement by the European Commission and subject to change. Consequently, information within this document may require updating for any subsequent amendments to IFRS required for first time adoption and for interpretations that the Group may elect to adopt early.

Of significant impact to the Group is the service concession accounting guidance which is a current IFRIC project. A draft interpretation was issued in March 2005 followed by a 90 day comment period with a finalised interpretation expected to be issued later in 2005.

The Group will be required to adopt IAS39 'Financial Instruments: Recognition and Measurement' and IAS32 'Financial Instruments: Disclosure and Presentation' from 1 January 2005 in the form adopted by the EU. However, due to an exemption provided in IFRS1, the comparative information for 2004 will not be restated. Financial instruments are therefore included in the restated balance sheet as at 31 December 2004 at amortised cost.

Under IAS39 and IAS32, interest rate swaps, and the other derivatives utilised by PFI/PPP Project Companies to hedge against future changes to interest rates and inflation, are to be valued at market value. This will result in significant volatility to the stated value of financial liabilities. If these standards had been adopted as at 31 December 2004, the balance sheet value of financial liabilities would have increased by £123.3 million, which will be partly offset by applicable deferred tax.

While IAS39 requires certain financial liabilities of PFI/PPP Project Companies to be marked to market, there is no corresponding standard in respect of the financial assets of PFI/PPP Project Companies. This anomaly appears to have been recognised by IFRIC in the draft interpretation referred to above. It is likely that under this draft interpretation the majority of financial assets will be marked to market, provided they meet certain criteria. Whilst the full implications of this draft interpretation are still under consideration, it is not possible to estimate the overall impact.

## Adoption of IFRS

IFRS1 'First-time Adoption of International Financial Reporting Standards' sets out the rules that the Group is following for the first consolidation under IFRS. It requires that the IFRS accounting policies to be applied for the first consolidation at 31 December 2005 are determined and then applied retrospectively to the opening balance sheet at 1 January 2004. IFRS1 contains certain optional exemptions to assist the Group in its transition to IFRS. Described below are the significant instances where the Group has opted for these exemptions together with other changes in accounting policy required through the adoption of IFRS.

### **IAS38 'INTANGIBLE ASSETS'**

The transition to IFRS will affect the classification of the Chiltern Railways franchise costs although the accounting treatment will remain the same. Under UK GAAP, the franchise was classified as goodwill, recognised in the balance sheet at initial cost and amortised over its 20 year useful economic life.

Under the revised text of IAS38, the Chiltern Railways franchise will be classified as an intangible asset to reflect its nature as a resource controlled by the Group and from which the Group expects to derive future economic benefit, which lacks physical substance and is identifiable, i.e. it arises from contractual or other legal rights.

As such, and subject to impairment review, the franchise will be recognised on the balance sheet within intangible assets at cost and amortised over its remaining useful economic life, being the remaining life of the franchise, resulting in a nil net impact to the IFRS financial statements as compared to the UK GAAP accounts.

### **IAS19 'EMPLOYEE BENEFITS'**

Under IAS19, a company may elect to use the 'corridor' approach for the recognition of actuarial gains and losses. However, IFRS1 offers an election to recognise the actuarial gains and losses in full at the date of transition. In the Group accounts for the year to 31 December 2003, John Laing decided to early adopt FRS17 and consequently the cumulative actuarial gains and losses were recognised in the balance sheet at the date of transition to IFRS, 1 January 2004. IAS19 will therefore only have a negligible impact on the opening IFRS balance sheet due to the valuation of the assets at bid-price rather than the UK GAAP mid-price. From 1 January 2004, actuarial gains and losses will be recognised in full in the statement of changes in equity in the period in which they are incurred. This is in accordance with the amendment to IAS19, issued on 16 December 2004. On the face of the balance sheet the IAS19 deficit and the associated deferred tax asset are presented on a gross basis.

### **IAS21 'THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES'**

IAS21 requires the classification of translation differences in a reserve as a separate component of equity and IFRS1 includes an exemption to set these to zero at the date of transition. The Group has chosen to adopt the transitional arrangements.

### **IFRS2 'SHARE BASED PAYMENTS'**

IFRS2 requires a charge to the income statement representing the fair value of the share options and long-term incentive scheme shares at the date of the grant. This is recognised on a straight line basis over the vesting period of the scheme. The fair value has been calculated using the Black-Scholes option valuation method. Transitional arrangements permit application of the standard to options granted after 7 November 2002 and the Group has chosen to adopt the transitional arrangements.

### **IAS39 'FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT' AND IAS32 'FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION'**

IFRS1 provides an exemption from the requirement to restate comparative information for IAS32 and IAS39. Therefore the effective date is 1 January 2005. IAS39 will be implemented to the level adopted by the EU, but this will still produce volatility in the balance sheet valuation of liabilities as explained in the Introduction.

# Presentation of financial statements

IAS1 'Presentation of Financial Statements' prescribes the format of the IFRS Group accounts, which is different to the UK GAAP presentation, and introduces a new primary statement, the statement of changes in equity. In the balance sheet, debtors and creditors of more than one year are presented as non-current assets and liabilities respectively.

## **SUBSIDIARIES, JOINT VENTURES AND ASSOCIATE**

IAS27 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries' introduces the concept of control which determines the entities that should be consolidated. IAS27 defines control as power to govern the financial and operating policies of the enterprise so as to obtain benefits from its activities. The reference to power is to legal power. An assessment of all the Group's holdings was undertaken focussing on the concept of control. The Group concluded that the subsidiaries to be consolidated is consistent with UK GAAP.

IAS31 'Financial Reporting of Interests in Joint Ventures' defines a joint venture as an entity in which the Group has joint control over financial and operating decisions. An assessment of all the Group's holdings was undertaken focussing on the percentage of ownership, representation on the Board and voting rights. The Group concluded that its joint ventures which are currently equity accounted under UK GAAP fall within the definition of joint ventures under IFRS.

Within IAS31, there is a choice in the presentation of accounting for joint ventures: equity accounting or proportional consolidation. Under the equity method, the balance sheet disclosure is consistent with UK GAAP. However on the income statement, the Group's share of the results of joint ventures would be shown within operating profit, net of interest and taxation. The proportional consolidation method would require line-by-line consolidation of the Group's share of income and expenditure and the Group's share of assets and liabilities.

The nature of John Laing's investment business is the facilitation of one or more venturers to form a consortium to design, build, finance and subsequently operate PFI/PPP projects. Currently, business is primarily carried out as a member of a number of joint ventures. Hence to create primary statements which give a high degree of transparency, the Group has opted to use proportional consolidation. Within both the income statement and the balance sheet, to provide further clarity over the proportion of the Group's activities performed under either subsidiaries or joint ventures, a columnar disclosure is given from which the reader can see the total values consolidated on a proportional basis in respect of joint ventures.

The decision to adopt proportional consolidation of joint ventures has no effect on the Group's consolidated net assets or profit after taxation.

The Group currently has one associate which will continue to be equity accounted in accordance with IAS28.

## **POST RETIREMENT OBLIGATIONS PRESENTATION**

Under UK GAAP, the post retirement obligation deficit is presented net of the associated deferred tax asset. This net disclosure is not permitted under IFRS. Therefore, the deficit is presented gross under liabilities and the deferred tax asset presented separately within assets.

## Accounting policy changes

### **IAS10 'EVENTS AFTER THE BALANCE SHEET DATE'**

Under IAS10, dividends declared after the balance sheet date should not be classified as a liability at the balance sheet date as the liability does not represent a present obligation under IAS37 'Provisions, Contingent Liabilities and Contingent Assets'. Under UK GAAP, the final 2003 dividend, which was proposed and declared at the 19 May 2004 AGM, was accounted for as a charge to the 2003 profit and loss account and recognised as a liability in the balance sheet as at 31 December 2003. This dividend is reversed from the income statement and balance sheet and accounted as a distribution to shareholders in 2004. Similarly, the 2004 final dividend is not charged to the 2004 income statement and is not a liability in the 31 December 2004 balance sheet.

### **IFRS2 'SHARE BASED PAYMENTS'**

Under UK GAAP, only the Group's share awards under the Long-Term Incentive Scheme (LTIP) resulted in a charge to the profit and loss account, as the Group's other share options are deemed to have a fair value equivalent to the option price. Under IFRS2, for both the LTIP and share option awards, the fair value of the award is calculated and then amortised over the vesting period to the income statement. The UK GAAP profit and loss account for the year ended 2004 included a charge of £0.5 million in respect of LTIPs awarded prior to 7 November 2002 which is reversed under IFRS. However, a charge of £0.2 million is introduced under IFRS2 arising from options issued and a different basis for calculating fair value of the LTIPs. The net result, therefore, is a credit of £0.3 million to the income statement for the year to 31 December 2004.

### **IAS12 'INCOME TAXES'**

Under UK GAAP, the Group has accounted for deferred tax on its PFI activities using life effective tax rates for the PFI projects. IAS12 does not permit the life effective rate method of accounting for deferred tax. It requires the balance sheet liability method of accounting for deferred tax (which focusses on temporary differences, being the differences between the tax base of an asset or liability and its carrying value in the balance sheet). The result is likely to be a more volatile tax charge in the income statement. The effect on the restated 2004 income statement is a reduction in the tax charge of £3.5 million.

IAS12 also requires deferred tax to be provided on differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases, where those assets and liabilities belong to a subsidiary acquired by the Group after the subsidiary had started trading (i.e. acquired as a business combination). This is in contrast to the position that would apply if the Group had purchased the underlying assets directly, when the 'initial recognition exemption' would apply and no deferred tax provision would be required. The Group has therefore provided additional deferred tax of £4.9 million on three PFI projects which are considered to be business combinations, where a controlling interest in the Project Company was acquired after the project contract had been signed.

Finally, IAS12 introduces revised disclosure requirements. Accordingly, an entity shall offset deferred tax assets and liabilities if, and only if, specific conditions are satisfied. For the Group as at 31 December 2004, this means that separate deferred tax assets and liabilities of companies falling within the UK tax group are offset, as are separate deferred tax assets and liabilities of individual joint venture companies. However, deferred tax assets and liabilities of Group companies outside the UK tax group, of separate joint venture companies and of the companies within the UK tax group cannot be offset against each other.

## Accounting policy changes

### **IAS39 'FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT' AND IAS32 'FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION'**

IAS32 and IAS39 address the accounting for, and financial reporting of, financial instruments. IAS32 covers disclosure and presentation whilst IAS39 covers recognition and measurement.

IAS39, applied in isolation, produces volatility in the balance sheets of PFI/PPP Project Companies due to the marking to market of certain financial liabilities without a corresponding treatment for financial assets, as further explained below. John Laing's interests in PFI/PPP project concessions are predominantly accounted for as finance debtors. These are valued at amortised cost in a similar way to UK GAAP. Most of these projects are financed by variable rate debt which, on financial close, is required by the funders to be fully hedged by means of swapping to fixed interest rates for the life of the debt (typically 25 to 30 years). This secures the level of costs and cashflow over the life of the project.

Despite this fully hedged position, IAS39 requires that the variable rate debt is valued at amortised cost, but that the interest rate hedge (achieved by way of interest rate swap) is marked to market each period. These swaps are typically of long maturity and so will potentially exhibit large IAS39 variations in value.

Conversely, projects financed by fixed rate debt, which achieves the same economic effect as those financed by variable rate debt that is fully swapped, are accounted for at amortised cost and so do not show these IAS39 variations in value.

John Laing and other UK industry participants, as well as other European companies, have brought this to the attention of the IASB and have asked IFRIC to review the issue. IFRIC have recently issued draft interpretation guidelines which are still under review and subject to comment. These draft guidelines would allow the revaluation of financial assets in certain circumstances. However, without the final agreement of the guidance, John Laing is required to adopt IAS39 from 1 January 2005 as it stands. This is as follows:

- cash, deposits and short-term investments, comprising funds held at banks and other financial institutions, are classified as loans and receivables and are held at amortised cost;
- long-term loans are held at amortised cost; and
- interest rate swaps, and other derivatives, will be treated as cash flow hedges. These will be marked to market and differences will be taken to equity if the hedge is fully effective. If any ineffectiveness is judged to have occurred, either a proportion or the full amount of the difference will be taken to the income statement, depending on the level of ineffectiveness.

On the adoption of IAS39 at 1 January 2005, the effect on the Group balance sheet would be to reduce net assets by £110.2 million in respect of the swaps. In addition, there is a further reduction in net assets of £13.1 million due to the marking to market of the listed Severn River Crossing plc debentures stock, the balance sheet of which we proportionally consolidate to reflect our 35% interest (including 35% of the debentures) although we only hold 2.67% of the debenture stock. These amounts are stated before reflecting any associated deferred tax asset which, if recognised, would reduce the overall impact.

## Reconciliation of UK GAAP to IFRS

IFRS1 'First-time Adoption of International Financial Reporting Standards' requires an entity to explain how the transition from UK GAAP to IFRS affected its reported financial position, financial performance and cash flows.

The reconciliations set out in the Appendix explain the transition in two steps. Firstly, the presentation changes to restate the UK GAAP position to be the UK GAAP balances but on an IFRS format and secondly, applying the IFRS accounting policy changes to arrive at the final IFRS position.

The reconciliations set out in the Appendix include:

- the Group consolidated balance sheet at 1 January 2004 (date of transition);
- the Group consolidated balance sheet at 31 December 2004; and
- the Group consolidated income statement for the year ended 31 December 2004.

## Income statement – in accordance with IFRS for the year ended 31 December 2004 (unaudited)

	Notes	Total £ million	Group £ million	Joint ventures £ million
<b>CONTINUING OPERATIONS</b>				
Revenue		451.1	249.3	201.8
Cost of sales		(384.5)	(201.0)	(183.5)
<b>GROSS PROFIT</b>		<b>66.6</b>	48.3	18.3
Administrative expenses		(52.7)	(51.4)	(1.3)
Other operating income		6.9	6.9	-
Share of results of associate	7	0.3	0.3	-
<b>PROFIT FROM OPERATIONS</b>		<b>21.1</b>	4.1	17.0
Finance income (net)		3.9	8.1	(4.2)
<b>PROFIT BEFORE TAX</b>		<b>25.0</b>	12.2	12.8
Tax	2	(7.3)	(3.7)	(3.6)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>17.7</b>	8.5	9.2
<b>DISCONTINUED OPERATIONS</b>				
Loss for the period from discontinued operations (after tax)	3	(2.5)	(2.5)	-
<b>PROFIT FOR THE PERIOD</b>		<b>15.2</b>	<b>6.0</b>	<b>9.2</b>
<b>EARNINGS PER SHARE</b>				
From continuing operations				
Basic	5	<b>8.5p</b>		
Diluted	5	<b>8.5p</b>		
From continuing and discontinued operations				
Basic	5	<b>7.1p</b>		
Diluted	5	<b>7.1p</b>		

For the reconciliation from the UK GAAP profit and loss account to the IFRS income statement refer to the Appendix.

## Statement of changes in equity – in accordance with IFRS for the year ended 31 December 2004 (unaudited)

	Share capital	Share premium	Other reserves	Post retirement obligations	Retained earnings	Total
<b>BALANCE AT 1 JANUARY 2004</b>	<b>83.6</b>	<b>82.8</b>	<b>2.3</b>	<b>(94.2)</b>	<b>42.1</b>	<b>116.6</b>
Exchange differences on translation of foreign operations	-	-	0.9	-	-	<b>0.9</b>
Actuarial losses on post retirement obligations	-	-	-	(67.5)	-	<b>(67.5)</b>
Deferred tax on actuarial losses on post retirement obligations	-	-	-	22.0	-	<b>22.0</b>
Tax relief on pension contribution	-	-	-	-	1.2	<b>1.2</b>
Warrants exercised	1.5	4.6	-	-	-	<b>6.1</b>
IAS19 net charge	-	-	-	(2.9)	-	<b>(2.9)</b>
Profit for the year (excluding IAS19 charge)	-	-	-	-	18.1	<b>18.1</b>
Crystallisation of post retirement loss	-	-	-	7.1	(7.1)	-
	<b>85.1</b>	<b>87.4</b>	<b>3.2</b>	<b>(135.5)</b>	<b>54.3</b>	<b>94.5</b>
Employee share option and LTIP schemes	-	-	-	-	0.6	<b>0.6</b>
Final 2003 dividend and interim 2004 dividend	-	-	-	-	(8.0)	<b>(8.0)</b>
<b>BALANCE AT 31 DECEMBER 2004</b>	<b>85.1</b>	<b>87.4</b>	<b>3.2</b>	<b>(135.5)</b>	<b>46.9</b>	<b>87.1</b>

# Balance sheet – in accordance with IFRS (unaudited)

	31 December 2004			Opening IFRS balance sheet 1 January 2004			
	Notes	Total £ million	Group £ million	Joint ventures £ million	Total £ million	Group £ million	Joint ventures £ million
<b>NON-CURRENT ASSETS</b>							
Intangible assets		11.9	11.6	0.3	12.3	12.2	0.1
Property, plant and equipment		68.1	45.2	22.9	31.4	31.2	0.2
Investments		25.4	25.4	–	–	–	–
Interests in associate	7	15.9	15.9	–	15.8	15.8	–
Deferred tax assets	8	50.1	50.1	–	27.8	27.8	–
Trade and other receivables		1,527.1	406.2	1,120.9	1,342.3	318.5	1,023.8
		<b>1,698.5</b>	554.4	1,144.1	1,429.6	405.5	1,024.1
<b>CURRENT ASSETS</b>							
Inventories		15.3	2.1	13.2	16.0	2.8	13.2
Trade and other receivables		125.0	53.5	71.5	115.5	58.2	57.3
Tax recoverable		0.1	0.1	–	–	–	–
Cash and cash equivalents		191.0	94.5	96.5	181.5	101.7	79.8
		<b>331.4</b>	150.2	181.2	313.0	162.7	150.3
Assets classified as held for sale or discontinued	3	18.3	18.3	–	23.3	23.3	–
<b>TOTAL ASSETS</b>		<b>2,048.2</b>	722.9	1,325.3	1,765.9	591.5	1,174.4
<b>CURRENT LIABILITIES</b>							
Bank overdrafts and loans		48.4	23.6	24.8	82.9	4.0	78.9
Trade and other payables		108.0	69.4	38.6	95.3	57.4	37.9
Tax liabilities		7.8	7.8	–	2.4	2.4	–
		<b>164.2</b>	100.8	63.4	180.6	63.8	116.8
<b>NET CURRENT ASSETS</b>		<b>1,884.0</b>	622.1	1,261.9	1,585.3	527.7	1,057.6
<b>NON-CURRENT LIABILITIES</b>							
Bank loans		1,468.5	401.2	1,067.3	1,199.9	325.3	874.6
Trade and other payables		41.6	3.5	38.1	43.7	3.8	39.9
Retirement benefit obligations		194.0	193.6	0.4	130.7	130.3	0.4
Deferred tax liabilities	8	50.8	6.8	44.0	45.4	6.9	38.5
Long-term provisions		3.3	0.8	2.5	1.5	1.5	–
		<b>1,758.2</b>	605.9	1,152.3	1,421.2	467.8	953.4
Liabilities classified as discontinued	3	38.7	38.7	–	47.5	47.5	–
<b>TOTAL LIABILITIES</b>		<b>1,961.1</b>	745.4	1,215.7	1,649.3	579.1	1,070.2
<b>NET ASSETS</b>		<b>87.1</b>	<b>(22.5)</b>	<b>109.6</b>	116.6	12.4	104.2
<b>EQUITY</b>							
Share capital		85.1			83.6		
Share premium account		87.4			82.8		
Non-distributable reserve		2.3			2.3		
Translation reserves		0.9			–		
Net accumulated losses		(88.6)			(52.1)		
Post retirement obligations		(135.5)			(94.2)		
Retained earnings		46.9			42.1		
<b>TOTAL EQUITY</b>		<b>87.1</b>			116.6		

For the reconciliation from the UK GAAP to the IFRS balance sheets refer to the Appendix.

# Selected notes to the IFRS Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of these financial statements are set out below. These policies have been consistently applied to the years presented unless otherwise stated. The restated balance sheet and income statement must be regarded as preliminary and subject to change at this stage. Changes are likely to result from additional guidance on interpretation of IFRS that is issued from time to time by IFRIC.

### a) Basis of preparation

The financial statements have been prepared in accordance with IFRS for the first time. The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules in the Appendix.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below:

### b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and jointly controlled (its joint ventures which are proportionally consolidated i.e. with the Group's share of individual line items being reflected within the income statement and balance sheet), made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### c) Investment in associate

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of the associate are incorporated in these financial statements using the equity method of accounting. Investment in the associate is carried in the balance sheet at cost as adjusted by post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associate in excess of the Group's interest in the associate are not recognised.

### d) Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale and discontinued operations are measured at the lower of the carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The Directors must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In addition, assets and liabilities associated with the disposal of the Group's Construction, Homes and Property businesses are classified as discontinued operations. These include retained onerous contracts and warranties which will take a number of years to bring to a conclusion.

### e) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

# Selected notes to the IFRS Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### f) Revenue recognition

Revenue in the continuing operations comprises the Group's share of:

#### Revenue in PFI/PPP Project Companies

- The value of construction work-in-progress on PFI projects where the principal asset is to be accounted for as a finance debtor;
- availability fees and usage fees on PFI projects where the principal asset is to be accounted for as a fixed asset;
- third party revenues on PFI projects; and
- revenues from the provision of facilities management services to PFI Project Companies.

#### Revenue from Train Operating Companies

- Income generated by ticket sales, Strategic Rail Authority subsidy, advertising and retail revenues generated as part of rail activities; and
- the attributed share of season ticket income is deferred within creditors and released to the income statement over the life of the relevant season ticket.

Revenue excludes the value of intra-group transactions, VAT and includes the Group's share of turnover of joint ventures.

### g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

#### The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see accounting policy i).

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

### h) Foreign currencies

Translations into sterling are made at the average of rates ruling throughout the year for income statement items and at the rates ruling at 31 December for assets and liabilities.

Exchange differences arising in the ordinary course of trading are reflected in the income statement; those arising on translation of net equity are transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Monetary assets and liabilities expressed in foreign currency are reported at the rate of exchange prevailing at the balance sheet date or, if appropriate, at the forward contract rate. Any difference arising on the retranslation of these amounts is taken to the income statement. The exception to this is long-term shareholder loans where any difference arising on the retranslation of these amounts is taken to a translation reserve on the balance sheet.

# Selected notes to the IFRS Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of amounts drawn under specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### j) Retirement benefit costs

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

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with full actuarial valuations being carried out every three years which are updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of changes in equity.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost plus the present value of available refunds and reductions in future contributions to the plan.

### k) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that effects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### l) Inventories

Inventories are stated at the lower of cost, including production overheads, and net realisable value.

# Selected notes to the IFRS Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### m) Financial instruments

#### Derivative financial instruments and hedge accounting (with effect from 1 January 2005)

##### i) Group and recourse subsidiaries

The Group operates a central treasury operation for John Laing and its recourse subsidiaries, and has a Board approved policy for hedging its foreign exchange and interest rate risks. There are currently no derivatives outstanding for John Laing or its recourse subsidiaries.

##### ii) Non-recourse subsidiaries

Due to the nature of PFI/PPP projects, it is important that all financial risks are hedged at the inception of the project and, indeed, the funders of projects will insist on this. Therefore each PFI/PPP project will have the interest rates on its debt fixed. In a minority of cases, this is achieved by issuing a fixed rate bond. In the majority of cases, this is achieved by funding the project with variable rate bank debt which is fully swapped into fixed rate at the inception of the project. In addition, and where appropriate, inflation risk is hedged by the use of RPI swaps and the risk of rising fuel prices is hedged by the use of commodity swaps.

These swaps, or other derivatives, will be treated as cash flow hedges. These will be marked to market and differences will be taken directly to equity if the hedge is fully effective.

If any ineffectiveness on any derivative is judged to have occurred, either a proportion or the full amount of the difference will be taken to the income statement depending on the level of ineffectiveness.

Hedge accounting is discontinued when the hedging instrument expires or is terminated, for example when a project is refinanced. At that time, the net cumulative gain or loss on the hedging instrument recognised in equity is transferred to the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement.

### n) Share based payments

In accordance with the transitional provisions of IFRS1, IFRS2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Group issues share option and long-term incentive plan awards to certain senior executives on a periodic basis. The awards are valued at fair value at the date of the grant and are expensed over the vesting period, based on the Group's estimate of shares that will eventually vest.

The share awards are valued using the Black-Scholes option valuation method.

### o) Preference Shares

The Group has Convertible Cumulative Preference Shares in issue. These are undated, not redeemable, have no voting rights and their rights on winding up are restricted to repayment of the nominal value and may be converted into ordinary shares at a specified rate. These are classified as equity instruments due to their irredeemable nature and the fact that the Directors have the discretion to cancel the dividend.

### p) Intangible assets

The Chiltern Railways franchise is classified as an intangible asset, as per IAS38. As such, it is recognised on the balance sheet at its carrying value as at the date of transition to IFRS and thereafter amortised on a straight line basis over the remaining life of the franchise, subject to impairment review.

### q) Property, plant and equipment

The Group does not own any property.

Plant and equipment, including fixtures and fittings and computer equipment, are stated at cost less accumulated depreciation and any impairment loss.

# Selected notes to the IFRS Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### q) Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives using the straight line method on the following bases:

Leasehold offices	Lesser of period of lease or 50 years
Rail infrastructure	Remaining length of franchise
Fixtures and fittings	3 to 5 years
Vehicles, plant and machinery	3 to 10 years
IT equipment	3 years

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

### r) Provisions

Provisions for restructuring costs, legal claims and environmental restoration are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

## 2. TAX

	<b>2004</b> <b>£ million</b>
Current tax:	
UK corporation tax	(1.5)
Foreign tax	(0.7)
	(2.2)
Deferred tax	(5.1)
<b>Tax charge for the year</b>	<b>(7.3)</b>

UK corporation tax is calculated at 30% of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>2004</b> <b>£ million</b>
<b>Profit before tax</b>	<b>25.0</b>
Tax at the UK corporation tax rate of 30%	(7.5)
Notional tax at 30% on the results of PFI companies	4.9
Sale of tax losses of PFI joint ventures to third parties	2.5
Losses not utilised	(0.7)
Chargeable gains in excess of book profits	(0.3)
Capital allowances in excess of depreciation	0.8
Disallowed expenses and similar items	(1.0)
Prior year adjustments	(1.0)
Equity accounting for associate	0.1
<b>Current tax charge for the year</b>	<b>(2.2)</b>
Deferred tax liability of PFI companies	(5.5)
Accelerated capital allowances of PPP/non-PFI companies	(0.7)
Spread deduction for pension contribution	0.7
Prior year deferred tax adjustments	0.4
<b>Total tax charge for the year</b>	<b>(7.3)</b>

In addition to the above, there is a tax charge of £2.3 million in respect of discontinued activities, a tax charge of £0.6 million in respect of the associate and an increase in the deferred tax asset in respect of the pension deficit of £22.0 million, making the total tax movement for the year an £11.8 million credit.

## Selected notes to the IFRS Statements

### 3. AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

In October 2001, the Group commenced the refocussing of the business through the sale of the Construction division. This was followed by the disposal of the Property division in April 2002 and the Homes division in October 2002. Within the respective sale agreements, a number of contracts and liabilities were identified and retained as a liability of John Laing, hence provisions were made for the completion of these contracts. As a consequence of these disposals, Woodcroft Insurance Company Limited, the captive insurance company, ceased writing any new business and is being wound down. These disposals are all part of the single disposal plan that the Group had and has substantially implemented. The major disposals were completed in 2001 and 2002 though it is taking some time for the remaining contracts and liabilities to be completed.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	<b>2004</b> <b>£ million</b>
Revenue	0.8
Expenses	(1.0)
Loss before tax	(0.2)
Attributable tax expense	(2.3)
<b>Net loss attributable to discontinued operations</b>	<b>(2.5)</b>

The tax charge arises on the profits of the Group's offshore captive insurance company. These profits are balanced by additional provisions for construction contract losses which do not qualify for tax deduction.

The major classes of assets and liabilities comprising the operations classified as held for sale and discontinued are as follows:

	<b>31 December</b> <b>2004</b> <b>£ million</b>	<b>1 January</b> <b>2004</b> <b>£ million</b>
Investment	–	0.5
Trade and other receivables	0.8	1.1
Cash and cash equivalents	17.5	21.7
Total assets classified as held for sale	18.3	23.3
Trade and other payables	(3.2)	(2.7)
Provisions	(35.5)	(44.8)
Total liabilities associated with assets classified as held for sale	(38.7)	(47.5)
<b>Net liabilities</b>	<b>(20.4)</b>	<b>(24.2)</b>

### 4. DIVIDENDS

Amounts recognised as distributions to ordinary shareholders in the period:

	<b>2004</b> <b>£ million</b>
Final dividend for the year ended 31 December 2003 of 2.0p per share	3.5
Interim dividend for the year ended 31 December 2004 of 1.1p per share	2.0
	5.5
On 6.4% Convertible Cumulative Preference Shares	2.5
	<b>8.0</b>

The proposed final dividend for the year ended 31 December 2004 is 2.2p per share amounting to £4.0 million, and is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. If approved, it will be paid on 1 June 2005 to shareholders who are on the register on 1 April 2005.

## Selected notes to the IFRS Statements

### 5. EARNINGS PER SHARE

#### From continuing and discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

<b>Earnings</b>	<b>2004 £ million</b>
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	12.8
Effect of dilutive potential ordinary shares	-
<b>Earnings for the purposes of diluted earnings per share</b>	<b>12.8</b>

#### Number of shares

Weighted average number of ordinary shares for the purposes of basic earnings per share

<b>Number</b>
<b>180,393,664</b>

Earnings per share from continuing and discontinued operations

7.1p

#### From continuing operations

	<b>2004 £ million</b>
Net profit attributable to equity holders of the parent	12.8
Adjustments to exclude loss for the period from discontinued operations	2.5
Earnings from continuing operations for the purpose of basic earnings per share excluding discontinued operations	<b>15.3</b>

Earnings per share from continuing operations

8.5p

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

#### From discontinued operations

	<b>2004</b>
Earnings per share	
Basic	(1.4p)
Diluted	(1.4p)

## Selected notes to the IFRS Statements

### 6. SHARE BASED PAYMENTS

#### Equity-settled share option and long-term incentive scheme plans

The John Laing Executive Share Option Plan 2002 (the 'Plan') provides options over John Laing plc Ordinary Shares of 25p each at an option price calculated on the average closing mid-market share price over the three business days immediately preceding the date of the grant. Provisional awards are also made under the 2001 LTIP whereby conditional awards are made to individuals at nil cost. The performance conditions are set out in the 2004 Annual Report and Accounts within the report of the Remuneration Committee.

On 14 April 2004, an LTIP award under the Executive unapproved Plan 2002 was made. The share awards were valued using the Black-Scholes option valuation method. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation were as follows:

Grant date	14 April 2004
Share price at grant date	214.416p
Exercise price	nil
Number of employees	39
Shares under award	483,840
Vesting period (years)	3
Expected life (years)	3
Expected volatility	40%
Risk-free rate	4.69%
Dividend yield	1.54
Fair value per share award	<u>204.734p</u>

Expected volatility is based on historical volatility of the Group's share price over the last three years. The risk-free rate of return is the yield on 4.5% treasury gilts of a term consistent with the assumed award life. A reconciliation of the option and awards movements over the year to 31 December 2004 is shown below:

	Share options awards Number	Weighted average exercise price (in p)	LTIP awards Number	Weighted average exercise price (in p)
Outstanding at beginning of period	546,557	126.076	616,620	-
Granted during the period	-	-	483,840	-
Forfeited during the period	-	-	(43,759)	-
<b>Outstanding at the end of the period</b>	<b>546,557</b>	<b>126.076</b>	<b>1,056,701</b>	<b>-</b>

The total charge for the year to 31 December 2004 relating to employee share based payment plans was £0.6 million plus a provision of £0.2 million for the National Insurance liability thereon.

## Selected notes to the IFRS Statements

### 7. INTERESTS IN ASSOCIATE

	<b>31 December 2004 £ million</b>
Aggregated amounts relating to associate (John Laing share)	
Total assets	46.4
Total liabilities	(30.5)
<b>Interests in associate</b>	<b>15.9</b>
Revenue	24.2
Operating profit	3.7
Net finance cost	(2.8)
Attributable tax expense	(0.6)
<b>Share of results of associate</b>	<b>0.3</b>

### 8. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year to 31 December 2004.

	<b>Accelerated tax deduction for PFI projects £ million</b>	<b>Additional temporary differences on business combinations £ million</b>	<b>PFI tax losses £ million</b>	<b>Tax reserves on overseas subsidiaries £ million</b>	<b>Other taxable temporary differences £ million</b>	<b>Retirement benefit obligations £ million</b>	<b>Other deductible temporary differences £ million</b>	<b>Total £ million</b>
At 1 January 2004	(99.5)	(6.1)	61.3	(6.8)	(2.7)	36.1	0.1	<b>(17.6)</b>
Charge to income - current year	(9.8)	1.2	3.0	-	(0.9)	-	1.0	<b>(5.5)</b>
Credit to income - prior year	-	-	-	-	0.2	-	0.2	<b>0.4</b>
Credit to equity	-	-	-	-	-	22.0	-	<b>22.0</b>
At 31 December 2004	<b>(109.3)<sup>(1)</sup></b>	<b>(4.9)</b>	<b>64.3<sup>(2)</sup></b>	<b>(6.8)<sup>(3)</sup></b>	<b>(3.4)</b>	<b>58.1</b>	<b>1.3</b>	<b>(0.7)</b>

<sup>(1)</sup> This includes deferred tax in respect of joint ventures of £94.6 million (2003 – £87.9 million)

<sup>(2)</sup> This includes deferred tax in respect of joint ventures of £51.7 million (2003 – £50.3 million)

<sup>(3)</sup> This relates to tax that may become payable on final distributions from discontinued overseas operations

A deferred tax asset has not been recognised in respect of unused tax losses of non-PFI companies brought forward due to the unpredictability of future profit streams. These losses may be carried forward indefinitely.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>31 December 2004 £ million</b>	<b>1 January 2004 £ million</b>
Deferred tax assets	50.1	27.8
Deferred tax liabilities	(50.8)	(45.4)
	<b>(0.7)</b>	<b>(17.6)</b>

## Selected notes to the IFRS Statements

### **9. NON-STATUTORY FINANCIAL STATEMENTS**

The Preliminary information on the implementation of International Financial Reporting Standards is not the Company's statutory financial statements. Statutory financial statements for the year ended 31 December 2003 have been delivered to the Registrar of Companies. The statutory financial statements for the year ended 31 December 2004, copies of which are available from the Company's website, have been sent to the members of the Company and will be sent to the Registrar in due course following the Company's AGM. Both sets of statutory financial statements contain an unqualified report from the Company's auditors which did not contain a statement under s237(2) or (3) of the Companies Act 1985.

## Opening IFRS balance sheet at 1 January 2004 – effect of IAS1 ‘Presentation of Financial Statements’

<b>UK GAAP BALANCES IN UK GAAP FORMAT</b>	<b>£ million</b>	<b>Discontinued operations £ million</b>	<b>Pension deficit £ million</b>	<b>Debtors £ million</b>	<b>Creditors £ million</b>	<b>Provisions £ million</b>	<b>£ million</b>	<b>UK GAAP BALANCES IN IFRS FORMAT</b>
<b>FIXED ASSETS</b>								<b>NON-CURRENT ASSETS</b>
Intangible assets	12.2						12.2	Intangible assets
Tangible assets	31.2						31.2	Property, plant and equipment
Investments	0.5	(0.5)					–	Investments
Investment in joint ventures	101.1					(8.8)	92.3	Investment in joint ventures
Investment in associate	15.8		35.8			(3.8)	15.8	Interests in associate
				318.5			32.0	Deferred tax assets
							318.5	Trade and other receivables
	<b>160.8</b>	(0.5)	35.8	318.5	–	(12.6)	<b>502.0</b>	
<b>CURRENT ASSETS</b>								<b>CURRENT ASSETS</b>
Stocks	2.8						2.8	Inventories
Debtors	380.2	(1.1)		(320.9)			58.2	Trade and other receivables
Short-term investments	2.2	(2.2)						
Cash and bank deposits	121.1	(19.4)					101.7	Cash and cash equivalents
	<b>506.3</b>	(22.7)	–	(320.9)	–	–	<b>162.7</b>	
		23.3					23.3	Assets classified as held for sale or discontinued
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>								<b>CURRENT LIABILITIES</b>
Bank and other loans	4.0						4.0	Bank overdrafts and loans
Other creditors	68.4	(2.7)			(4.8)		60.9	Trade and other payables
				(2.4)	4.8		2.4	Tax liabilities
	<b>72.4</b>	(2.7)	–	(2.4)	–	–	<b>67.3</b>	
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>								<b>NON-CURRENT LIABILITIES</b>
Bank and other loans	325.3						325.3	Bank overdrafts and loans
Other creditors	3.8		129.5				3.8	Trade and other payables
						0.6	129.5	Retirement benefit obligations
							0.6	Long-term provisions
	<b>329.1</b>	–	129.5	–	–	0.6	<b>459.2</b>	
		47.5					47.5	Liabilities classified as discontinued
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>								
Investment in joint venture	8.8					(8.8)		
Other provisions	49.1	(44.7)				(4.4)		
Pensions and other post retirement liabilities	93.7		(93.7)					
<b>NET ASSETS</b>	<b>114.0</b>	–	–	–	–	–	<b>114.0</b>	<b>NET ASSETS</b>
								<b>EQUITY</b>
Called up share capital	83.6						83.6	Share capital
Share premium account	82.8						82.8	Share premium account
Other reserves	2.3						2.3	Non-distributable reserve
Profit and loss account	(54.7)						(54.7)	Net accumulated losses
Pension reserve	(93.7)						(93.7)	Post retirement obligations
Other	39.0						39.0	Retained earnings
<b>SHAREHOLDERS' FUNDS</b>	<b>114.0</b>	–	–	–	–	–	<b>114.0</b>	<b>TOTAL EQUITY</b>

# Opening balance sheet as at 1 January 2004 – reconciliation UK GAAP to IFRS

<b>UK GAAP BALANCES IN IFRS FORMAT</b>	<b>£ million</b>	<b>IAS10 Post balance sheet - dividends £ million</b>	<b>IFRS2 Share based payments £ million</b>	<b>IAS19 Employee benefits £ million</b>	<b>IAS31 Joint ventures - reverse equity accounting £ million</b>	<b>IAS31 Joint ventures - proportional consolidation £ million</b>	<b>IAS12 Income taxes £ million</b>	<b>IFRS £ million</b>
<b>NON-CURRENT ASSETS</b>								
Intangible assets	12.2					0.1		12.3
Property, plant and equipment	31.2					0.2		31.4
Investments	–				80.6	(80.6)		–
Investment in joint ventures	92.3				(92.3)			–
Interests in associate	15.8							15.8
Deferred tax assets	32.0			0.3			(4.5)	27.8
Trade and other receivables	318.5					1,023.8		1,342.3
	<b>502.0</b>	–	–	0.3	(11.7)	943.5	(4.5)	<b>1,429.6</b>
<b>CURRENT ASSETS</b>								
Inventories	2.8					13.2		16.0
Trade and other receivables	58.2					57.3		115.5
Cash and cash equivalents	101.7					79.8		181.5
	<b>162.7</b>	–	–	–	–	150.3	–	<b>313.0</b>
Assets classified as held for sale or discontinued	23.3							23.3
<b>TOTAL ASSETS</b>	<b>688.0</b>	–	–	0.3	(11.7)	1,093.8	(4.5)	<b>1,765.9</b>
<b>CURRENT LIABILITIES</b>								
Bank overdrafts and loans	4.0					78.9		82.9
Trade and other payables	60.9	(3.5)				37.9		95.3
Tax liabilities	2.4							2.4
	<b>67.3</b>	(3.5)	–	–	–	116.8	–	<b>180.6</b>
<b>NON-CURRENT LIABILITIES</b>								
Bank loans	325.3					874.6		1,199.9
Trade and other payables	3.8					39.9		43.7
Retirement benefit obligations	129.5			0.8		0.4		130.7
Deferred tax liabilities	–					49.6	(4.2)	45.4
Long-term provisions	0.6		0.1			0.8		1.5
	<b>459.2</b>	–	0.1	0.8	–	965.3	(4.2)	<b>1,421.2</b>
Liabilities classified as discontinued	47.5							47.5
<b>TOTAL LIABILITIES</b>	<b>574.0</b>	(3.5)	0.1	0.8	–	1,082.1	(4.2)	<b>1,649.3</b>
<b>NET ASSETS</b>	<b>114.0</b>	3.5	(0.1)	(0.5)	(11.7)	11.7	(0.3)	<b>116.6</b>
<b>EQUITY</b>								
Share capital	83.6							83.6
Share premium account	82.8							82.8
Non-distributable reserve	2.3							2.3
Net accumulated losses	(54.7)							(52.1)
Post retirement obligations	(93.7)			(0.5)				(94.2)
Retained earnings	39.0	3.5	(0.1)		(11.7)	11.7	(0.3)	42.1
<b>TOTAL EQUITY</b>	<b>114.0</b>	3.5	(0.1)	(0.5)	(11.7)	11.7	(0.3)	<b>116.6</b>

## Balance sheet as at 31 December 2004 – effect of IAS1 ‘Presentation of Financial Statements’

<b>UK GAAP BALANCES IN UK GAAP FORMAT</b>	£ million	<b>Discontinued operations £ million</b>	<b>Pension deficit £ million</b>	<b>Debtors £ million</b>	<b>Creditors £ million</b>	<b>Provisions £ million</b>	£ million	<b>UK GAAP BALANCES IN IFRS FORMAT</b>
<b>FIXED ASSETS</b>								<b>NON-CURRENT ASSETS</b>
Intangible assets	11.6						11.6	Intangible assets
Tangible assets	45.2						45.2	Property, plant and equipment
Investment in joint ventures	130.8					(8.7)	122.1	Investment in joint ventures
Investment in associate	15.9						15.9	Interests in associate
			57.9			(5.1)	52.8	Deferred tax assets
				406.2			406.2	Trade and other receivables
	<b>203.5</b>	-	57.9	406.2	-	(13.8)	<b>653.8</b>	
<b>CURRENT ASSETS</b>								<b>CURRENT ASSETS</b>
Stocks	2.1						2.1	Inventories
Debtors	460.5	(0.8)		(406.2)			53.5	Trade and other receivables
					0.1		0.1	Tax recoverable
Cash and bank deposits	112.0	(17.5)					94.5	Cash and cash equivalents
	<b>574.6</b>	(18.3)	-	(406.2)	0.1	-	<b>150.2</b>	
		18.3					18.3	Assets classified as held for sale or discontinued
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>								<b>CURRENT LIABILITIES</b>
Bank and other loans	23.6						23.6	Bank overdrafts and loans
Other creditors	84.3	(3.2)			(7.7)		73.4	Trade and other payables
					7.8		7.8	Tax liabilities
	<b>107.9</b>	(3.2)	-	-	0.1	-	<b>104.8</b>	
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>								<b>NON-CURRENT LIABILITIES</b>
Bank and other loans	401.2						401.2	Bank overdrafts and loans
Other creditors	3.5						3.5	Trade and other payables
			192.9				192.9	Retirement benefit obligations
						0.9	0.9	Long-term provisions
	<b>404.7</b>	-	192.9	-	-	0.9	<b>598.5</b>	
		38.7					38.7	Liabilities classified as discontinued
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>								
Investment in joint venture	8.7					(8.7)		
Other provisions	41.5	(35.5)				(6.0)		
Pensions and other post retirement liabilities	135.0		(135.0)					
<b>NET ASSETS</b>	<b>80.3</b>	-	-	-	-	-	<b>80.3</b>	<b>NET ASSETS</b>
								<b>EQUITY</b>
Called up share capital	85.1						85.1	Share capital
Share premium account	87.4						87.4	Share premium account
Other reserves	2.3						2.3	Non-distributable reserve
Profit and loss account	(94.5)						(94.5)	Net accumulated losses
Pension reserve	(135.0)						(135.0)	Post retirement obligations
Other	40.5						40.5	Retained earnings
<b>SHAREHOLDERS' FUNDS</b>	<b>80.3</b>	-	-	-	-	-	<b>80.3</b>	<b>TOTAL EQUITY</b>

# Balance sheet as at 31 December 2004 – reconciliation UK GAAP to IFRS

UK GAAP BALANCES IN IFRS FORMAT	£ million	IAS10 Post balance sheet dividends £ million	IFRS2 Share based payments £ million	IAS19 Employee benefits £ million	IAS31 Joint ventures - reverse equity accounting £ million	IAS31 Joint ventures - proportional consolidation £ million	IAS12 Income taxes £ million	Other £ million	IFRS £ million
<b>NON-CURRENT ASSETS</b>									
Intangible assets	11.6					0.3			11.9
Property, plant and equipment	45.2					22.9			68.1
Investments	–				110.9	(85.5)			25.4
Investment in joint ventures	122.1				(122.1)				–
Interests in associate	15.9								15.9
Deferred tax assets	52.8			0.2			(2.9)		50.1
Trade and other receivables	406.2					1,120.9			1,527.1
	<b>653.8</b>	–	–	0.2	(11.2)	1,058.6	(2.9)	–	<b>1,698.5</b>
<b>CURRENT ASSETS</b>									
Inventories	2.1					13.2			15.3
Trade and other receivables	53.5					71.5			125.0
Tax recoverable	0.1								0.1
Cash and cash equivalents	94.5					96.5			191.0
	<b>150.2</b>	–	–	–	–	181.2	–	–	<b>331.4</b>
Assets classified as held for sale or discontinued	18.3								18.3
<b>TOTAL ASSETS</b>	<b>822.3</b>	–	–	0.2	(11.2)	1,239.8	(2.9)	–	<b>2,048.2</b>
<b>CURRENT LIABILITIES</b>									
Bank overdrafts and loans	23.6					24.8			48.4
Trade and other payables	73.4	(4.0)				38.6			108.0
Tax liabilities	7.8								7.8
	<b>104.8</b>	(4.0)	–	–	–	63.4	–	–	<b>164.2</b>
<b>NON-CURRENT LIABILITIES</b>									
Bank loans	401.2					1,067.3			1,468.5
Trade and other payables	3.5					38.1			41.6
Retirement benefit obligations	192.9			0.7		0.4			194.0
Deferred tax liabilities	–					56.9	(6.1)		50.8
Long-term provisions	0.9		(0.1)			2.5			3.3
	<b>598.5</b>	–	(0.1)	0.7	–	1,165.2	(6.1)	–	<b>1,758.2</b>
Liabilities classified as discontinued	38.7								38.7
<b>TOTAL LIABILITIES</b>	<b>742.0</b>	(4.0)	(0.1)	0.7	–	1,228.6	(6.1)	–	<b>1,961.1</b>
<b>NET ASSETS</b>	<b>80.3</b>	4.0	0.1	(0.5)	(11.2)	11.2	3.2	–	<b>87.1</b>
<b>EQUITY</b>									
Share capital	85.1								85.1
Share premium account	87.4								87.4
Non-distributable reserve	2.3								2.3
Translation reserves	–							0.9	0.9
Net accumulated losses	(94.5)								(88.6)
Post retirement obligations	(135.0)			(0.5)					(135.5)
Retained earnings	40.5	4.0	0.1		(11.2)	11.2	3.2	(0.9)	46.9
<b>TOTAL EQUITY</b>	<b>80.3</b>	4.0	0.1	(0.5)	(11.2)	11.2	3.2	–	<b>87.1</b>

# Income statement for the year ended 31 December 2004 – effect of IAS1 ‘Presentation of Financial Statements’

UK GAAP BALANCES IN UK GAAP FORMAT	£ million	Equity accounted investments £ million	Presentational changes £ million	Discontinued operations £ million	£ million	UK GAAP BALANCES IN IFRS FORMAT
						<b>CONTINUING OPERATIONS</b>
Turnover	<b>250.1</b>			(0.8)	<b>249.3</b>	Revenue
Cost of sales	<b>(202.0)</b>			1.0	<b>(201.0)</b>	Cost of sales
<b>GROSS PROFIT</b>	<b>48.1</b>	–	–	0.2	<b>48.3</b>	<b>GROSS PROFIT</b>
Operating and administration expenses	<b>(52.5)</b>			0.8	<b>(51.7)</b>	Administrative expenses
Other operating income	<b>6.7</b>		0.2		<b>6.9</b>	Other operating income
Share of profits of:						
joint ventures	<b>17.0</b>				<b>17.0</b>	Share of results of joint ventures
associate	<b>3.7</b>	(3.4)			<b>0.3</b>	Share of results of associate
<b>OPERATING PROFIT</b>	<b>23.0</b>	(3.4)	0.2	1.0	<b>20.8</b>	<b>PROFIT FROM OPERATIONS</b>
Profit on disposal and amounts written off investments	<b>0.1</b>		(0.1)			
Profit on the disposal of operations	<b>0.1</b>		(0.1)			
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>	<b>23.2</b>	(3.4)	–	1.0	<b>20.8</b>	
Interest receivable	<b>86.3</b>					
group	<b>33.6</b>					
joint ventures	<b>52.7</b>					
Interest and other finance costs payable	<b>(84.4)</b>					
group	<b>(24.7)</b>					
joint ventures	<b>(56.9)</b>					
associate	<b>(2.8)</b>					
Net interest	<b>1.9</b>	2.8		(0.8)	<b>3.9</b>	Finance income (net)
<b>PROFIT BEFORE TAX</b>	<b>25.1</b>	(0.6)	–	0.2	<b>24.7</b>	<b>PROFIT BEFORE TAX</b>
Taxation	<b>(13.7)</b>	0.6		2.3	<b>(10.8)</b>	Tax
					<b>13.9</b>	<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>
				(2.5)	<b>(2.5)</b>	<b>DISCONTINUED OPERATIONS</b> Loss for the period from discontinued operations
<b>PROFIT AFTER TAXATION</b>	<b>11.4</b>	–	–	–	<b>11.4</b>	<b>PROFIT FOR THE PERIOD</b>
Dividends	<b>(8.6)</b>					
<b>RETAINED PROFIT FOR THE YEAR</b>	<b>2.8</b>					

# Income statement for the year ended 31 December 2004 – reconciliation UK GAAP to IFRS

<b>UK GAAP BALANCES IN IFRS FORMAT</b>	<b>£ million</b>	<b>IFRS2 Share based payments £ million</b>	<b>IAS31 Joint ventures - reverse equity accounting £ million</b>	<b>IAS31 Joint ventures - proportional consolidation £ million</b>	<b>IAS12 Income taxes £ million</b>	<b>IFRS £ million</b>
<b>CONTINUING OPERATIONS</b>						
Revenue	<b>249.3</b>			201.8		<b>451.1</b>
Cost of sales	<b>(201.0)</b>			(183.5)		<b>(384.5)</b>
<b>GROSS PROFIT</b>	<b>48.3</b>	–	–	18.3	–	<b>66.6</b>
Administrative expenses	<b>(51.7)</b>	0.3		(1.3)		<b>(52.7)</b>
Other operating income	<b>6.9</b>					<b>6.9</b>
Share of results of joint ventures	<b>17.0</b>		(17.0)			<b>–</b>
Share of results of associate	<b>0.3</b>					<b>0.3</b>
<b>PROFIT FROM OPERATIONS</b>	<b>20.8</b>	0.3	(17.0)	17.0	–	<b>21.1</b>
Finance income (net)	<b>3.9</b>					<b>3.9</b>
<b>PROFIT BEFORE TAX</b>	<b>24.7</b>	0.3	(17.0)	17.0	–	<b>25.0</b>
Tax	<b>(10.8)</b>				3.5	<b>(7.3)</b>
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>13.9</b>	0.3	(17.0)	17.0	3.5	<b>17.7</b>
<b>DISCONTINUED OPERATIONS</b>						
Loss for the period from discontinued operations	<b>(2.5)</b>					<b>(2.5)</b>
<b>PROFIT FOR THE PERIOD</b>	<b>11.4</b>	0.3	(17.0)	17.0	3.5	<b>15.2</b>

JOHN LAING plc

Registered Office:  
Allington House,  
150 Victoria Street,  
London SW1E 5LB  
England

Registered No. 1345670

Tel: +44 (0)20 7901 3200  
Fax: +44 (0)20 7901 3520

email: [marketing@laing.com](mailto:marketing@laing.com)  
[www.laing.com](http://www.laing.com)

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