

BUILDING SYSTEMS BUILDING VALUE GLOBALLY

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BPB AT A GLANCE

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WHO WE ARE

BPB is the world leader in the supply of plasterboard and gypsum plasters, and a major supplier of insulation, ceiling tiles and related products for interiors, serving growing markets for building systems in over 50 countries.

BPB market leader p14-15

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WHERE WE'RE GOING

We aim to be the preferred choice for interior building systems that provide innovative design solutions.

Chairman's statement p10-11

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WHAT WE THINK

We are committed to delivering a superior customer offering through world class processes, enhancing and leveraging our global leadership in plasterboard systems and gypsum plasters by pursuing real progress in three key areas: profitable sales growth, continuous cost reduction and the development of our people.

Using this clear business model, we aim to achieve in a responsible manner our business objectives of delivering improving performance and meeting the value expectations of our shareholders, customers and employees.

Chief executive's review p12-13

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WHY WE'RE GROWING

BPB plasterboard systems continue to record some of the best market penetration and product growth rates in the building interiors sector, as specifiers and consumers worldwide benefit from our extensive range of solutions to satisfy high-level specifications for fire and humidity resistance, thermal insulation, sound transmission, structural integrity and design aesthetics.

Global building needs for energy efficiency, safety, comfort and the flexibility to create additional space are increasingly met using plasterboard systems, with around 1 in 5 of all boards sold around the world now supplied by BPB.

BPB products in action p2-9

Operating and financial review p16-29

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WHO LEADS US

The directors and senior management are:

Chairman: Sir Ian Gibson CBE

Chief executive: Richard Cousins

Executive directors: Jean-Pierre Clavel, Bob Heard, Mark Higson, Paul Hollingworth, Paul Withers

Non-executive directors: Gerry Acher, Lady Balfour of Burleigh, Andrew Dougal, David Hamill, Evert Henkes, Franz Leibenfrost

Additional executive committee members: John Colley, Jane Kingston, Brent Thomson

Biographies and Board committee memberships p32-33

YEAR TO 31 MARCH (£m)

| | 2005 | 2004 |
|--------------------------------|---------|---------|
| Turnover | 2,316.8 | 2,170.8 |
| Underlying profit before tax* | 287.5 | 222.8 |
| Reported profit before tax | 258.7 | 180.3 |
| Underlying earnings per share* | 39.1p | 30.5p |
| Reported earnings per share | 36.7p | 23.4p |
| Final dividend per share | 10.75p | 9.45p |
| Total dividends per share | 16.00p | 14.25p |

* before goodwill amortisation and exceptional items described on page 48

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HOW WE BEHAVE

The Board is committed to maintaining high standards of corporate governance in its management of the affairs of the group and when accounting to shareholders. The group's policy guidelines provide a framework for complying with the best practice principles and provisions of the Combined Code on Corporate Governance and the guidance in the Turnbull Report on Internal Control.

A Code of Business Conduct sets out the basic principles and values which are to be applied everywhere that we do business, and a Corporate Responsibility Review explains our commitment to responsible corporate behaviour.

Corporate responsibility report **p30-31**
 Directors' report **p34-35**
 Corporate governance report **p36-39**
 Remuneration committee's report **p40-46**

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HOW WE'RE DOING

- Record results from further good growth in global plasterboard demand, increased building plaster volumes, and improved selling prices
- Underlying operating profit up 24% to £308.1 million, as sales and profits advanced in all three regions
- Underlying profit before tax up 29% to £287.5 million and underlying earnings per share up 28% at 39.1p
- Reported PBT up 43.5%, reflecting improved results and a lower net exceptional charge of £12.5 million (2004 £24.5 million)
- Operating cash flow up £66.1 million to £416.6 million and year-end net debt down £73.0 million to £422.0 million
- Post-tax return on average capital invested increased to 12.7% (2004 9.9%)
- Final dividend up 13.8% to 10.75p, giving a total dividend up 12.3% at 16.00p per share
- High plant utilisations in most of the US, Asia and in parts of Europe - BPB's capacity expansion programme underway with capital expenditure up more than 50% to £154.1 million

Responsibilities of the directors and independent auditors' report **p47**
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 Five year financial summary **p64-65**
 Principal operating companies **p66**
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Global demand continues to grow for interior lining solutions that deliver a combination of higher technical performance and customer end-use requirements for good design, safety and comfort. And potentially there is scope for even greater demand, through faster penetration in emerging markets and broader application of easy-to-install systems in developing and more advanced markets. BPB is committed to meeting the essential need

TECHNICAL PERFORMANCE

in construction markets worldwide for the creation of additional living, working and recreational space – optimising its customer offering at every stage of market development, and supplying plasterboard systems and building plasters that conform to increasingly stringent building technology standards for structural integrity, energy efficiency and acoustic performance

BPB's building
plaster products hold significant
local sales profiles across a mix of highly
developed, developing and emerging markets,
contributing to global brand penetration and profitable
sales growth. With annual sales reaching nearly 5 million
tonnes, BPB is the world's leading supplier of high-quality
branded plasters. Leadership positions in many national and

B R A N D P E N E T R A T I O N

local markets reflect BPB's manufacturing excellence in both
lightweight and traditional pre-mixed gypsum plasters for
coating solid backgrounds and skimming plasterboard
systems, offering consistent setting qualities and
freedom from shrinkage – essential for enabling
applicators to build with confidence
and create smooth, durable
interior finishes

Annual
wallboard
demand in North
America, the world's
most advanced market, is
now approaching 11 square
metres per head. Activity in
the more developed markets
of Europe is progressing above
3 square metres per head, while
elsewhere in developing markets
consumption has yet to exceed
2 square metres per head. Organic
growth in Emerging Markets, such
as Asia, is moving forward from a

ORGANIC GROWTH

much lower base, but with sales
volumes increasing rapidly. Further
development of these markets,
essential to BPB's profitable growth, is
being driven by the specification of
BPB's industry-leading products and
services – with the group's national
businesses focused on enabling
merchants and contractors, their
primary routes to market, to optimise
product mix and performance in the
residential, commercial and renovation
sectors for interior building systems

Sustained
economic growth
and higher lifestyle
aspirations are reflected in the
continuing urbanisation of Emerging
Markets, providing BPB with the
opportunity to develop rapid plasterboard
penetration in the commercial sector and
leading the way to creating substantial
longer-term residential demand. Public sector
investment activity represents an important
entry point in developing new markets,

EMERGING MARKETS

enabling group businesses to demonstrate
the ability of plasterboard systems to
substitute traditional building methods
and deliver demanding specifications –
BPB systems make an essential
contribution in providing innovative
and efficient solutions to meet
the needs of growing urban
communities for active,
comfortable and safe
interiors

>> BPB DELIVERED RECORD RESULTS,
WITH A BROADLY-BASED PERFORMANCE
IMPROVEMENT ACROSS ALL THREE MAJOR
REGIONS LIFTING GROUP UNDERLYING
PRE-TAX PROFIT BY 29% TO £287.5 MILLION

DEAR SHAREHOLDER

I am pleased, in this my first statement to you, to report substantial further progress in a year that clearly demonstrates across a number of fronts the benefits of our sharpened strategic focus on improving performance by developing BPB's excellent growth platform in plasterboard and plasters.

Having taken over the role of chairman last July I wish to express my sincere gratitude to Allan Gormly, my distinguished predecessor, for his sound leadership of the Board during seven eventful years. We have developed a clear global growth strategy and an experienced management team, led by Richard Cousins, totally committed to the successful execution of that strategy. I am therefore firmly convinced that with our strong industry position, sound resources and growth markets, we will continue to deliver for BPB's customers, employees and shareholders.

STRONG PERFORMANCE IN 2004/05

BPB delivered record results, with a broadly-based performance improvement across all three major regions lifting group underlying pre-tax profit (before goodwill and exceptional items) by 29% to £287.5 million.

Reported profit before tax was 43.5% higher at £258.7 million, reflecting the improved underlying results and a £12.0 million reduction in the net exceptional charge to £12.5 million. The latter included provision for exceptional closure costs of £34.0 million for the Aberdeen paperboard mill (*2004 closure costs of £28.8 million for the Purfleet mill*) which will mark BPB's strategic exit from the in-house manufacture of paperboard.

Underlying earnings per share rose by 28% to 39.1p and the company's post-tax return on average capital invested increased from 9.9% to 12.7%, substantially above BPB's weighted average cost of capital.

BPB strengthened its financial position – a key component for the successful execution of management's capacity expansion strategy in growth markets – with further strong cash generation from operations funding capital expenditure of £154.1 million (*2004 £99.6 million*), facilitating the purchase of minority interests in Asia (£36.8 million), and reducing balance sheet net debt by £73.0 million to £422.0 million. Interest cover on underlying operating profit improved from 8.1 to 11.3 times.

IMPROVED SHAREHOLDER VALUE

Recognising the positive results for the year, and following last November's interim dividend increase of 9.4% to 5.25p per share, the Board is recommending for shareholder approval a 13.8% increase in the final dividend to 10.75p per share, resulting in the company's annual dividend increasing 12.3% to 16.0p (*2004 5.2% increase*) and yet still enabling dividend cover to improve from 2.1 to 2.4 times underlying earnings.

BPB's year-end share price improved by 40% to 496.5p and, with a market capitalisation of £2.5 billion, the group entered the reserve list of the FTSE 100. At the year-end share price, the yield on the full-year dividend of 16.0p per share was 3.2%.

Shareholders' funds increased by £141.4 million to £936.3 million, with retained profit after tax benefiting from BPB's improvement in profitability; the return on average shareholders' funds increased by 2.7 percentage points to 16.2%.

The Board will again seek to renew the company's share buy-back authority at this year's AGM but, bearing in mind the significant business development opportunities presented by BPB's medium-term investment programme, the directors currently have no firm plans to use that authority.

287.5m
underlying PBT (£), up
from £222.8m last year

"We have developed a clear global growth strategy and an experienced management team"

GOOD GOVERNANCE AND OUR PEOPLE

We have paid close attention to ensuring that BPB's already high standards of corporate governance meet all the recommendations of the Financial Reporting Council's Combined Code in a shareholder value-adding manner, and where we take a different stance on an issue we state clearly why we have done so. In the wider context of risk management, it was gratifying to note that the new FTSE ISS corporate governance index rated BPB's practices highly. I look forward to the evolving debate with shareholders as to how we could be a better governed business to manage even more effectively and securely the assets entrusted to us.

I am delighted that David Hamill joined us last January as a non-executive director. David, currently an executive director of ICI and chairman and chief executive of their substantial paints division, brings to BPB extensive industrial and international experience.

My confidence in BPB's future rests with the considerable management talent we have in place and which is being developed around the group. I am consistently impressed as I visit our operations with the quality and enthusiasm of the teams I encounter – a vital element in strengthening our global competitive advantage. On your behalf I am pleased to thank all our people for their significant contribution to a rewarding year for BPB.

POSITIVE CURRENT YEAR OUTLOOK

We are currently seeing a continuation of the positive momentum in sales demand and pricing levels achieved last year in our key markets, even though manufacturing capacity is constraining sales growth in some locations. Given the group's well positioned low-cost businesses and our clear strategy for growth, the Board is confident that BPB will build on last year's record profits and deliver good progress for the current year.



SIR IAN GIBSON CBE

16.0p

dividends per share,
a 12.3% increase
on last year

"With our strong industry position, sound resources and growth markets, we will continue to deliver for BPB's customers, employees and shareholders"

28%

increase in underlying
EPS to 39.1p

OUR FOCUS

CLEAR GROWTH STRATEGY

Management continued to focus on growing the group profitably through the development of BPB's global leadership in plasterboard and building plasters. This sharpened strategy, introduced in 2003/04, resulted in the delivery of a further strong full year performance as underlying profit before tax for 2004/05 advanced 29%.

Against the background of growing demand in key markets and tremendous worldwide potential for BPB's core products, our actions have kept to a clear business plan for future growth, targeting:

- profitable sales growth, by investing capital and resource in strengthening our global sector leadership
- continuous cost reduction, by challenging ourselves to significantly improve operating efficiencies over the medium-term and spreading repeatable best practices across the group
- development of our people, by empowering business teams to successfully run their local businesses within a simple framework of key group policies and change initiatives

BPB has changed considerably over the past two years, becoming truly global by establishing credible positions in North America and in Emerging Markets, leveraging a strong European presence and achieving a number of important structural and operational advances. In particular we have:

- consolidated our European leadership in plasterboard and plasters (generating some 70% of the group's operating profit) following the integration of Gyproc Benelux and, with the market growing at over 5% per annum, recovered regional sales margin to 12.7%
- established a sound business platform and No.3 wallboard position in the huge North American market, following the successful integration of James Hardie Gypsum, throughout a period of sustained high construction activity (which has seen market growth almost double the long-term average rate of around 3.5% per annum) enabling regional sales margin to more than double to 13.4%
- strengthened the group's strategic positioning in the Emerging Markets, investing in rapidly developing markets for our core products in Asia, growing overall plasterboard volumes by nearly one-third and lifting sales margin by more than 5 points to 15.1%
- tightened our product focus with our anticipated withdrawal from the manufacture of paperboard, following the establishment of long-term supply agreements with two major European plasterboard liner manufacturers as part of our low-cost global sourcing network, and disposing of our UK paper sacks and recycling businesses
- embarked on an investment programme of capacity expansion in our key established and developing markets aimed at meeting medium-term sales growth, underpinned by a demanding world class manufacturing improvement programme which is strengthening the competitiveness of our existing operations



RICHARD COUSINS

>> AGAINST THE BACKGROUND OF GROWING DEMAND IN KEY MARKETS AND TREMENDOUS WORLDWIDE POTENTIAL FOR BPB'S CORE PRODUCTS, OUR ACTIONS HAVE KEPT TO A CLEAR BUSINESS PLAN FOR FUTURE GROWTH

"These are exciting times to be working at BPB, with huge growth potential still to unlock for our core products"

308.1m

underlying operating profit (£), up from £249.2m last year

We are now progressing the next stage of BPB's drive for profitable sector growth as, after several years of increasing global demand, our plasterboard capacity utilisation rates have risen to an average of above 90% and we are approaching capacity constraint positions in most of the US, Asia and in parts of Europe.

Capital expenditure in 2004/05 increased by over 50% to £154.1 million and, using the group's strong cash generation, we plan to increase the annual spend during the next few years to more than two times depreciation. Based on projects approved to-date, by late 2008 we will have added around 20% to the group's existing plasterboard capacity, with new and upgraded plants operational in the eastern US (where we are currently under-represented), the British Isles, Spain, Romania, Thailand, India and Malaysia. Our core building plasters business will also see growth-related investments coming on-stream in the UK, France, Spain, Mexico and India.

STRONG TRADING PERFORMANCE

BPB delivered an excellent outturn for the full year, as positive trading trends were sustained in key markets, with sales, profits and operating cash flow ahead in all three major regions of Europe, North America and the Emerging Markets. Global plasterboard volumes grew almost 5% due principally to further good demand in the British Isles, Spain, Eastern Europe, South Africa and Asia, and continuing high levels of housing and renovation activity across the US and Canadian markets (even though second-half US sales volumes were constrained by tight capacity levels). Overall sales of building plaster were up more than 6% on the previous year resulting from increased growth in Spain, which benefited from the development of added-value lightweight plasters, and strong demand in the British Isles, Italy, Romania, Mexico, Egypt and Turkey. Together with better average selling prices and the benefit of restructuring actions, this resulted in the group's underlying operating profit advancing 24% to £308.1 million on worldwide turnover up 7% to over £2.3 billion.

More detailed explanations of group strategy, performance and risk are given in the new-style operating and financial review on pages 16 to 29.

Our key actions and initiatives during the year, in line with BPB's focused plasterboard and building plasters development strategy, were:

- concluding a further substantial long-term European plasterboard liner supply agreement, with the likely closure of the group's remaining paperboard mill at Aberdeen
- buying-out most of the minority interests in BPB's rapidly developing Thai and Indian businesses
- achieving cost savings representing around 1% of group turnover, the major contribution coming from the benefits of last year's restructurings in Germany and Belgium and the external sourcing of continental European plasterboard liner
- substantially improving German profitability arising from significant cost reductions and the market re-positioning of our plasterboard and insulation systems
- financing the group's capex programme entirely from internally generated cash flow
- strengthening the fabric of our business by re-investing most of the group's cost savings in additional management resources and development of business systems to ensure the delivery of BPB's growth ambitions

FOCUSED ON DELIVERY

We will continue to target real progress in BPB's business plan for profitable growth, with important tasks for the BPB team in 2005/06 being to:

- progress the successful execution of the group's medium-term capacity expansion programme
- enhance and develop BPB's resource pool of experienced and talented managers to take the group forward
- converge and embed repeatable world class processes across our businesses, using a strategic framework of key change initiatives in safety, marketing, product management, manufacturing, supply chain, people development and information systems – all aimed at significantly improving the way we meet our customers' needs

These are exciting times to be working at BPB, with huge growth potential still to unlock for our core products, and as I go around our businesses I am delighted to see real commitment and passion about BPB's change programme to deliver a superior customer offering. Once again, I am grateful to our dedicated teams of people for their considerable support and contribution to achieving our key goals of growth and improving performance.

“Capital expenditure in 2004/05 increased by over 50% to £154.1 million and we plan to increase the annual spend during the next few years to more than two times depreciation”

No.1

in the world
for plasterboard
systems

1.2bn+

m² of plasterboard
sold annually

12,500+

employees serving
markets around the
world with building
systems, building value

50+

growing national
markets for
plasterboard
supplied by BPB

nearly

20%

share of a global
plasterboard
market of over
6 billion m²

No.1

in Europe for
plasterboard, selling
600 million m² pa

70%+

of BPB turnover
derived in Europe,
20%+ in North America

No.3

in North America for
wallboard, selling
520 million m² pa

No.1

for branded building
plasters in Europe

4.8m

tonnes pa of
building plasters
sold globally

80%+

of BPB's capital invested in
plasterboard and plasters

130+

manufacturing
sites worldwide

No.1-2

in emerging
plasterboard markets,
selling 90 million m² pa

No.3

in the world
for ceiling tiles

No.1

in Europe for expanded
polystyrene insulation

No.1

for value

>> BPB HAS A CLEAR BUSINESS STRATEGY AND DEFINED VALUES, A STRONG INDUSTRY POSITION AND PROVIDES ONE OF THE MAIN GROWTH PRODUCTS IN THE BUILDING MATERIALS SECTOR

BPB STRATEGY AND VALUES

BPB is the world leader in the supply of plasterboard and gypsum plasters, and a major supplier of insulation, ceiling tiles and related products for interiors, serving growing markets for building systems in over 50 countries. It operates more than 130 manufacturing sites and employs more than 12,500 people worldwide.

The group aspires to be the preferred choice for interior building systems that provide innovative design solutions. In pursuing this vision for future growth, management's key strategic aim is to strengthen BPB's competitive positioning in plasterboard and building plasters over the medium term and grow profitably from the development of the group's global sector leadership.

BPB's business model provides the strategic framework for focusing on the delivery of a superior customer offering through world class processes, targeting real progress in three key areas:

- profitable sales growth – by enhancing and leveraging BPB's global leadership in plasterboard and gypsum plasters
- continuous cost reduction – by pursuing world class standards in repeatable business processes and securing the lowest delivered cost wherever BPB does business
- development of its people – by fostering a common sense of purpose and promoting a challenging environment of empowerment and continuous learning

The underlying strength of BPB's straightforward business model is grounded in the exciting growth characteristics of plasterboard across all stages of market development, the contribution to product mix and performance from gypsum plasters and other interior products, and the group's international spread of well-located low-cost operating facilities.

BPB's annual plasterboard sales volume from over 50 growing national markets now represents nearly 20% of a world market of some 6.5 billion square metres, where demand is around 1 square metre per head and exhibiting long-term average annual growth of about 5%. Behind this positive global picture there are significant business development opportunities for the group arising from:

- an enlarging European Community, with its mix of more-developed and emerging markets, where BPB is currently growing at 5-6% per annum from a relatively under-developed per capita base of less than 3 square metres
- the advanced North American market (now approaching 11 square metres per head and representing over 50% of world demand) growing at around 3.5% per annum over the long-term and providing scope for further investment
- the potentially huge Emerging Markets, particularly Asia, with their fast expanding economies driving double digit growth in demand

Local managing directors and their teams are empowered to run their businesses within a specified framework of Board approved strategic goals, mandatory governance policies, and key business change initiatives. The protection of BPB's reputation is of fundamental importance and employees throughout the world are made aware of the behavioural principles and values which should be applied in pursuit of the group's vision and strategic objectives.

BPB has a clear business strategy and defined values, a strong industry position and provides one of the main growth products in the building materials sector. With these core operating strengths and a robust financial platform, BPB aims to achieve its business objectives of delivering improving performance, meeting the value expectations of shareholders, customers and employees, and acting as a responsible member of its communities, locally, nationally and globally.

>> This review (along with the chairman's statement on pages 10 and 11, the chief executive's review on pages 12 and 13 and the corporate responsibility report on pages 30 and 31) is intended to assist stakeholders in BPB to assess the strategies adopted by the company and the potential for those strategies to succeed. It sets out a summary account of the development, performance and financial position of the group for 2004/05, together with the

main trends and factors underlying the year's results and which are likely to affect future performance. It also describes the group's business and its key objectives, strategies, values and resources, together with the main risks and uncertainties it faces. A cautionary comment concerning forward-looking statements is given on the inside back cover.

>> THE BENEFIT OF BETTER TRADING PERFORMANCES AND IMPROVED OPERATING EFFICIENCIES ACROSS BPB'S BUSINESSES EXCEEDED THE IMPACT OF SIGNIFICANT COST INFLATION, RESULTING IN THE GROUP'S RETURN ON SALES IMPROVING FROM 11.5% TO 13.3%

| GROUP | 2005 | 2004 |
|----------------------------------|---------|---------|
| Turnover (£m) | 2,316.8 | 2,170.8 |
| Underlying operating profit (£m) | 308.1 | 249.2 |
| Return on sales (%) | 13.3 | 11.5 |
| People | 12,689 | 12,907 |

FINANCIAL OVERVIEW

Group turnover increased by 6.7% to £2,317 million (up 10% in local currency terms), driven by further good growth in global plasterboard demand, substantially increased overall sales of building plasters, and improved selling prices, as relatively low interest rates in the group's principal markets supported buoyant construction activity, particularly in the residential and renovation sectors. Underlying operating profit increased 24% to £308.1 million, with adverse currency translation of over £6 million mainly offset by lower restructuring and redundancy costs of £15.3 million, some £4.9 million less than in 2004. The benefit of better trading performances and improved operating efficiencies across BPB's businesses exceeded the impact of significant cost inflation, resulting in the group's return on sales improving from 11.5% to 13.3%.

Underlying profit before tax was up 29% to £287.5 million, reflecting the improved trading performance, a reduction in the group's net interest charge as a result of lower average net debt levels, and an increase of over 55% in BPB's share of profits from joint ventures and associated companies to £6.7 million (2004 £4.3 million).

Underlying earnings per share increased by 28% to a record 39.1p (2004 30.5p), slightly lower than the increase in underlying profit before tax as a result of a higher number of shares in issue; the underlying tax rate remained stable at just under 32%.

GLOBAL SALES GROWTH

Sales of plasterboard and accessories increased almost 10% to £1,518 million, representing around two-thirds of group turnover, with overall plasterboard volumes growing by almost 5% to 1.2 billion square metres. European volumes advanced by more than 6% to 600 million square metres, with strong growth in the British Isles, Spain and Eastern Europe and slightly higher sales in the French market. Nordic volumes began to recover after several

years of weak demand and, although construction activity in Germany remained subdued, BPB's restructured business achieved a modest improvement in sales volumes. North American wallboard sales of 520 million square metres continued to be underpinned by strong residential and renovation markets in the US and Canada, with volume growth of just under 3% restricted by capacity constraints, particularly in the second-half. Volumes in the Emerging Markets advanced over 9% to 90 million square metres driven by strong growth in South Africa and substantial Asian demand, which continued to grow at double-digit rates in Thailand, China and India.

Overall plaster volumes (comprising building, industrial and specialist plaster sales) increased by over 6% to 5.8 million tonnes, with turnover increasing 6% to £367 million (16% of group turnover). Building plaster sales also increased by over 6% to 4.8 million tonnes, driven by growth in Spain, Italy and the British Isles (which more than offset a further contraction in French demand) and by increased sales in the developing markets of Egypt and Turkey. Growth in Spain, BPB's largest building plasters market and representing over 25% of group volumes, reflected further progress with sales mix enrichment as traditional plasters continued to be replaced with higher margin lightweight plasters. In the Emerging Markets, sales in Egypt were boosted by further market share gains and encouraging growth was achieved in the developing plaster businesses of South Africa, Thailand, India and Mexico.

Turnover from other building products decreased by 3% to £432 million, with the reduction in paperboard operations offsetting growth in BPB's Iberian distribution business, which increased its turnover by 9% to over £70 million. Following the likely closure this year of the group's remaining paper mill, located at Aberdeen in the UK, BPB's other building products segment will mainly comprise European insulation and fixings, textured finishes, Iberian distribution, and the ceiling tile businesses in North America and Europe.

COST ISSUES

The average annual rate of cost inflation on the total group cost base rose to 4%, double the previous year's level, adding nearly £75 million to costs in 2004/05. The major variable cost increases were in energy and freight, driven by higher oil and natural gas prices, with costs for labour, steel, expanded polystyrene beads and US paperboard liner also increasing.

Group-wide operating cost savings of over £25 million exceeded management's on-going annual target of 1% of turnover, reflecting the full year benefits of lower plasterboard liner costs in continental Europe and the restructuring of the US ceiling tiles and German businesses, together with further efficiencies arising from the integration of Gyproc Benelux. Most of these savings were re-invested in additional functional and systems resources to ensure the delivery of BPB's growth objectives and medium-term capital expansion programme.

Key operational efficiency initiatives during the year, which will deliver further cost savings in 2005/06, included:

- further reducing the group's plasterboard liner costs in Europe by sourcing substantial quantities from the St Regis paper division of DS Smith, complementing last year's successful sourcing of increased liner volumes from the group's German associate, Tecnokarton
- restructuring the French and Belgian sales operations, the closure of the gypsum block plant at Grozon, and the planned closure of the plasters plant at Wijnegem with the transfer of production to Vaujours
- progression of the group's world class manufacturing, purchasing and supply chain initiatives, with a broader application of best practice standards relating to safety, customer service, product quality, operating efficiency and capacity utilisation

CURRENT INVESTMENT PROGRAMME

BPB's recent and planned capacity expansions in plasterboard and plaster markets, aimed at meeting medium-term sales growth, are summarised below:

EUROPE

| | |
|-----------------------|--------------|
| Kingscourt, Ireland ○ | January 2005 |
| Kirkby Thore, UK ✧ | January 2005 |
| Country-wide, Spain ✧ | Ongoing |
| Vaujours, France ✧ | Mid 2005 |
| Turda, Romania △ | Late 2005 |
| Madrid, Spain △ | 2006 |
| Sherburn, UK △ | 2007 |
| East Leake, UK □ | 2007 |

NORTH AMERICA

| | |
|----------------------|------|
| West Virginia, US △ | 2007 |
| North Carolina, US △ | 2008 |

EMERGING MARKETS

| | |
|---------------------------|-----------|
| Mumbai, India □ | Mid 2005 |
| Laem Chabang, Thailand ○ | Late 2005 |
| Mumbai, India △ | Late 2005 |
| Kuala Lumpur, Malaysia △ | 2006 |
| San Luis Potosi, Mexico ✧ | 2006 |

- expansion of existing plasterboard capacity
- △ new plasterboard facility
- ✧ expansion of existing plaster capacity
- new plaster facility

>> MANAGEMENT FURTHER DEVELOPED THE GROUP'S RISK EVALUATION PROCESS, ENHANCING THE RISK PROFILING EXERCISES UNDERTAKEN BY OPERATING BUSINESSES TO IDENTIFY, EVALUATE AND CONTROL RISK

BPB's risk environment has improved significantly over the past few years, with a risk governance framework embedded in operational management processes and good progress being made in better understanding and managing the group's significant risks. In addition, the increased scale and geographic spread of the group's operations serves to mitigate the impact of any single unexpected event, while management's strategic focus on the profitable development of BPB's global leadership in plasterboard and building plasters further contributes to restricting operational risk. To support the continuing growth of core products across the group's worldwide operations, BPB is progressing a measured capital expansion programme aiming to increase productive capacity to meet global sales demand anticipated over the medium term.

The group's approach to internal control is business risk driven, with emphasis given to both business and financial risks, as explained in the corporate governance review on page 38. During the year management further developed the group's risk evaluation process, enhancing the risk profiling exercises undertaken by operating businesses to identify, evaluate and control risk.

The following represent the significant risks identified by BPB that could materially affect the group's financial condition, performance, strategies and prospects:

Ineffective execution of BPB's business plan for future profitable growth, specifically in the areas of: productive capacity utilisation; capital investment project management; implementation of changes in business information systems; continuity of key raw material supply; people management and development. Management is engaged in delivering a focused programme of group operational initiatives, aimed at improving manufacturing efficiencies and supplying customers with market-leading solutions, as a series of significant failures across these key operational risk categories could affect the competitive advantage and opportunities for growth of BPB's low-cost business operations.

Significant changes in BPB's key markets arising from: timing of industry investment; rationalisation of distribution channels; loss of critical BPB production facilities; launch of a new product

replicating plasterboard functionality. BPB's operating teams are focused on the continuous improvement of product quality and sales mix, customer service performance, and operating efficiency. However, unanticipated actions by competitors or customers could result in a lower contribution from core products and/or a decline of market share.

Inadequate systems of group self-regulation, communication and co-ordination, resulting in: unforeseen adverse decisions in the regulatory environment; ineffective integration of acquisitions; decline in shareholder support for the stewardship of BPB. The Board believes that the alignment throughout the group of comprehensive governance policies, standards and procedures with BPB's clear business model for growth engenders responsible corporate behaviour, serving to restrict exposure to these categories of reputational risk.

Key measures and approaches incorporated within BPB's operational framework for managing risk include: performance audits; compliance confirmations; benchmarking to world class standards; market assessments and forecasts; forward plans and contingency provisions; monitoring market developments and building trends; mineral resource and site risk management; groupwide repetition of best practices; training and development programmes; and monitoring and addressing stakeholder issues and regulatory developments.

As well as the specific risks identified by BPB, the group's businesses face general risks arising from their exposure to national building cycles, which themselves are influenced by levels of economic growth, interest rates, demographic change, local building regulations and the general condition of public and private buildings. Weather can also affect demand. Local markets are highly competitive, with sales volumes sensitive to selling prices, industry production levels and customer demand, while operating costs are sensitive to labour costs and raw material price inflation, particularly for energy, freight and paper liner supplies. Political risk may be an issue in some locations and, as for all international businesses, variations in currency exchange rates may have an impact, although generally only through translation of results into Sterling.

"The group's approach to internal control is business risk driven, with emphasis given to both business and financial risks"

>> OPERATING PROFIT INCREASED BY 12.2% TO £217.6 MILLION, BENEFITING FROM CONTINUING STRONG DEMAND AND HIGH PLANT UTILISATION LEVELS

| EUROPE | 2005 | 2004 |
|----------------------------------|---------|---------|
| Turnover (£m) | 1,707.8 | 1,647.4 |
| Underlying operating profit (£m) | 217.6 | 193.9 |
| Return on sales (%) | 12.7 | 11.8 |
| People | 8,836 | 9,104 |

European underlying operating profit increased by 12.2% to £217.6 million, benefiting from continuing strong demand and high plant utilisation levels, the recovery of substantial cost inflation through selling price increases, and efficiency improvements arising mainly from last year's restructuring actions and sourcing of lower cost paperboard liner. Turnover growth of almost 4% to £1,707.8 million was impacted by the closure of various non-core paperboard businesses, together with adverse foreign currency translation as Sterling strengthened against the Euro. Plasterboard volumes advanced by 6.1% driven by good growth in the British Isles, Spain and Eastern Europe, and continued high levels of demand in France. Building plaster volumes grew by almost 4% to 4.2 million tonnes with strong demand experienced in the British Isles, Spain and Italy. The benefit of lower restructuring charges was more than offset by a £6 million increase in UK pensions costs, adverse foreign exchange translation, and development costs for a new European business information system. Regional return on sales increased from 11.8% to 12.7%.

NORTH & WESTERN EUROPE

Continued strong growth in demand in the **British Isles** and increased trading activity in the **Nordic** area more than offset a higher UK pension charge, systems development costs and lower profits from paperboard operations, resulting in regional underlying operating profit advancing by 3% to £108.3 million. Following the partial exit from paperboard manufacturing activities, turnover was broadly unchanged at £596.1 million, although the increased focus on core plasterboard and plaster businesses improved return on sales by 0.3 of a percentage point to 18.2%.

UK sales volumes grew strongly, driven by a good housing market, further public sector investment in schools, hospitals and housing and an active renovation sector. Substantial cost inflation pressures

during the year were offset by increased selling prices, with results also benefiting from improved plant efficiencies and lower freight costs. Imports from BPB's Belgian business were substantially reduced following the upgrade of the East Leake plant in early 2004.

The UK market continues to benefit from changes in building regulations which require greater levels of insulation and sound-proofing performance. Sales mix enrichment continues, with higher performance boards now accounting for around one-third of total plasterboard sales. To meet the continuing strong demand for core products, BPB is progressing plans to construct a new medium-sized plasterboard plant at Sherburn (near Leeds) to be commissioned in early 2007, and additional plaster capacity was recently introduced at Kirkby Thore, with further capacity planned to come on-stream at East Leake in 2007.

Following the previous year's closure of the Purfleet paperboard mill there was insufficient demand to support the UK recovered paper operation and consequently the business was sold in August. In March 2005, the group entered into a substantial long-term agreement to source lower-cost, lighter grammage plasterboard liner from DS Smith plc in the UK, complementing the liner agreement entered into with the group's German associate, Tecnokarton, in 2004. As a consequence, BPB's remaining paper mill located at Aberdeen is likely to be closed in July.

Building plaster and plasterboard sales again grew strongly in **Ireland** as construction activity remained buoyant, particularly in housing. Additional capacity was commissioned in January at the Kingscourt plant and, during the plant upgrade, plasterboard was imported from group companies resulting in additional freight costs.

Greater plasterboard sales in the Nordic area, driven by a more active housing sector, combined with cost efficiencies to offset inflationary pressures and deliver an improved overall performance. **Denmark** achieved a further good performance, supported by increased construction activity, with **Sweden** benefiting from cost efficiencies following a plant upgrade and improved sales. Strong volume growth was achieved in **Finland** but exports to **Russia** were again restricted by the relative strength of the Euro, and BPB's **Norwegian** profitability stabilised after a period of severe price competition.

>> WCM IS DELIVERING
MUCH MORE THAN
CONSISTENTLY
IMPROVING PLANT
EFFICIENCY RATES

BPB's world class manufacturing programme (WCM) – now established as a way of life across the majority of the group's operations – is a continuous improvement process focused on safety, reducing all waste, improving product quality and plant reliability, and converging the performance of BPB's international spread of plants with those of the group's best-in-class production facilities.

But WCM is delivering much more than consistently improving plant efficiency rates – the process generates real value by involving BPB's people and fostering employee empowerment, motivating local teams to excel at their tasks and contributing to improved working relations.

Coaching teams on how to identify areas of loss and inefficiency, the best ways to plan and deliver their own solutions, and the steps necessary to rigorously measure and review progress, represents a significant groupwide change management challenge – one that is now delivering clear gains in manufacturing and people development.

SOUTHERN EUROPE

Better results in France, good growth in Spain and Italy, improved regional operating efficiencies and selling prices, and lower restructuring costs in Belgium led to profitability rising by over 10% to £84.1 million, despite significant commodity cost inflation, on regional turnover up by almost 4.5% to £760.8 million. Regional return on sales increased to 11.1% (2004 10.5%).

France experienced modest growth in overall plasterboard volumes albeit at a high level of activity, with local construction activity remaining buoyant, particularly in the residential sector. Profitability improved through a combination of increased demand for performance boards and added-value lightweight plasters, together with selling price increases which offset considerable cost inflation (particularly for energy, steel, and expanded polystyrene beads); cost savings also contributed, driven by the sourcing of lower-cost plasterboard liner and improved plant performances at Chambéry and Cognac. The Gyproc and Placo sales functions were integrated and simplified to focus on the development of the market leading Placo brand. The increasing penetration of plasterboard systems in the building sector has contributed to some erosion in demand for gypsum blocks, resulting in the impending closure of the plant at Grozon. Domestic building plaster volumes declined slightly, although at a less rapid rate than in recent years, as demand for value-added lightweight plasters increased and plaster production was transferred from the now redundant Wijnegem site in Belgium to the recently upgraded Vaujours facility near Paris.

The **Spanish** construction market continued to grow strongly, and the **Portuguese** market began to recover from last year's recession. Growth in overall plaster volumes was accompanied by the commencement of the second phase of a substantial investment programme in lightweight plaster capacity to meet increasingly strong demand and enrich the product mix. Plasterboard volumes grew rapidly as penetration of the commercial construction market continued, assisted by increasing use of plasterboard systems in the new housing sector. To meet expected medium-term sales growth, a new 26 million square metre capacity plant is to be constructed near Madrid, with commissioning anticipated in late 2006 to support the existing plant at Quinto. BPB's Iberian

distribution business experienced good sales growth, enhancing the group's ability to progress the development of the Iberian plasterboard systems market.

BPB's **Italian** business also delivered increased profitability as plasterboard penetration of the growing residential sector continued, offsetting a weak commercial market. Further strong growth in plaster volumes was achieved, supported by additional investments.

Profitability in the **Netherlands** was affected by continuing strong competition, with margins affected as cost savings were insufficient to offset cost inflation. However, a better performance in a relatively flat **Belgian** market was mainly due to a lower restructuring charge and the commencement of cost savings following the upgrade of the Kallo plasterboard plant.

"Plasterboard volumes advanced by 6.1% driven by good growth in the British Isles, Spain and Eastern Europe"

CENTRAL & EASTERN EUROPE

Significantly improved German profitability (particularly in the second-half), further sales volume growth in Eastern Europe and lower restructuring costs drove a doubling of regional operating profit to £25.2 million, on turnover up more than 6% to £350.9 million. Return on sales increased by over three percentage points to 7.2%.

German plasterboard volumes grew moderately, against the background of a depressed but stable domestic construction market, benefiting from exports to capacity-constrained markets. Plant utilisation and efficiency levels increased and an improvement in average selling prices towards the end of the year compensated for significantly higher energy, haulage and raw material costs. Results also reflected the delivery of €10 million of annualised cost savings targeted during the restructuring programme last year. Elsewhere in Central Europe, sales of plasterboard and gypsum blocks increased in **Switzerland**, and **Austria** achieved good plasterboard volume growth in both its domestic market and from exports to the **Balkans**.

Further good penetration of plasterboard in Eastern Europe's developing commercial and residential sectors, together with high levels of construction activity in most countries, resulted in continued double-digit volume growth. Better prices and increased volumes were achieved in **Poland** (BPB's largest plasterboard market in Eastern Europe) despite a declining construction market, while the group's businesses in the **Czech Republic**, **Hungary** and **Romania** all delivered strong growth in sales volumes. The construction of a new plasterboard plant near to the group's existing plaster plant in Romania is progressing towards commissioning in late 2005. Sales of plasterboard in the **Ukraine** continued to grow strongly, driven by demand from the commercial and renovation sectors. Building plaster sales also grew encouragingly, with good progress in the developing Romanian market, and strong demand in **Turkey** benefiting from a relatively mild Winter. Over the medium term, it is expected that the recent enlargement of the European Community will contribute to the growing demand in Eastern Europe for plasterboard systems, building plasters and ceiling tiles.

“Building plaster volumes grew by almost 4% to 4.2 million tonnes with strong demand experienced in the British Isles, Spain and Italy”

>> RECORD US WALLBOARD DEMAND, COMBINED WITH HIGHER INDUSTRY PLANT UTILISATION LEVELS, SUSTAINED A SIGNIFICANT INCREASE IN BPB'S AVERAGE WALLBOARD PRICES

| NORTH AMERICA | 2005 | 2004 |
|----------------------------------|-------|-------|
| Turnover (£m) | 532.1 | 488.8 |
| Underlying operating profit (£m) | 71.4 | 40.1 |
| Return on sales (%) | 13.4 | 8.2 |
| People | 1,964 | 2,022 |

Record US wallboard demand, combined with higher industry plant utilisation levels, sustained a significant increase in BPB's average wallboard prices, resulting in a 78% increase in North American underlying operating profit to £71.4 million. Despite further substantial commodity cost inflation, the restructuring of the group's Las Vegas mining activities, second-half patent protection costs, and adverse currency translation, regional return on sales advanced 5.2 percentage points to 13.4% on turnover up almost 9% to £532.1 million.

Buoyant activity across the new housing and renovation sectors led to a further substantial increase in North America's wallboard market, although BPB's first-half volume growth of 5% was restricted to an annualised rate of nearly 3% due to lack of capacity in the major eastern markets. To strengthen the group's representation in the east, BPB announced in March the completion of a long-term agreement with American Electric Power for the supply of desulphogypsum to a new 700 million square feet capacity plant to be located near Mitchell in West Virginia. This planned \$100 million investment complements the agreement made last year with Progress Energy to supply desulphogypsum to a new \$100 million wallboard plant alongside their coal-fired generator at Roxboro in North Carolina. The new Mitchell-sourced plant will be commissioned in the second half of 2007, with the Roxboro plant expected to come on-stream in late 2008.

BPB's average realised US wallboard prices increased to \$117 per 1,000 square feet (some \$23 up on the average for the prior year) with most of the price increases being realised in the first half. A further headline price increase of 10% was announced at the end of April and since the year-end prices have averaged around \$125.

Market acceptance of GlasRoc, an added value high-performance exterior sheathing product launched in early 2004, grew rapidly during the year. This successful glass-reinforced gypsum wallboard became the subject of patent claims, originated by Georgia Pacific, which both parties recently agreed to dismiss. Demand continued to grow for BPB's high quality ProFin wallboard finishing products and work began on the construction of a new manufacturing facility near Toronto. The new highly automated plant, due for commissioning in the Autumn of 2005, will improve product quality, customer service levels and operating efficiency in the Ontario region and provide the market with a full range of jointing compounds and setting powders.

The US ceiling tiles business experienced further weak demand in the commercial sector. However, efficiency savings arising from restructuring actions taken in the previous year and better selling prices offset the impact of cost inflation, contributing to a near break-even performance. A modest recovery in commercial activity is anticipated for the current year and management continues to focus on strengthening operating efficiency and building a higher-margin sales mix.

Construction activity in Canada remained strong, with BPB plants operating at near capacity levels as the domestic wallboard market grew by 2% to a record level of approximately 3.2 billion square feet. Export volumes grew by 20% as Canadian plants supplemented constrained US manufacturing capacity particularly in the north east. Higher selling prices were sustained and this, combined with manufacturing efficiencies, offset cost inflation pressures (notably energy, freight and paperboard liner) enabling the business to deliver a substantial improvement in results.

>> WORKING TO
WORLD CLASS
STANDARDS AND
SUPPLYING THE
BEST PRODUCT
AND CUSTOMER
SERVICE OFFERINGS

BPB's local business teams aim to be the preferred choice – the first company that customers turn to – working to world class standards and supplying individual markets with the best product and customer service offerings.

Adding real value and shaping the face of retail, work, home, educational, healthcare and leisure environments,

BPB products provide industry-leading solutions which are fast, reliable and cost-effective for all stages of market development in all market segments (renovation, residential and commercial) and for all product sectors (walls, partitions, columns, floors and ceilings).

Working alongside architects and specifiers, BPB people promote and

develop an advanced range of products which meet local building specifications for energy efficiency, comfort and safety, and satisfy customer needs for interior building systems that deliver space division, thermal insulation, acoustic absorption, fire and humidity resistance, utilities and circuitry distribution, structural integrity and design aesthetics.

>> OVERALL RETURN ON SALES AGAIN IMPROVED, INCREASING FROM 14.0% TO 15.1%, ON PLASTERBOARD VOLUME GROWTH OF ALMOST 10%

| EMERGING MARKETS | 2005 | 2004 |
|----------------------------------|-------|-------|
| Turnover (£m) | 126.4 | 108.6 |
| Underlying operating profit (£m) | 19.1 | 15.2 |
| Return on sales (%) | 15.1 | 14.0 |
| People | 1,889 | 1,781 |

Excellent progress was achieved in the profitable development of BPB's Emerging Markets businesses, with underlying operating profit of £19.1 million advancing by over 25%, driven by a strong performance from a buoyant South African market, improved South American results and further good volume growth in Asia. Overall return on sales again improved, increasing from 14.0% to 15.1%, on plasterboard volume growth of almost 10% and turnover up more than 16% to £126.4 million. Together, BPB's South African and Asian businesses contributed over 80% of regional profit.

Double-digit sales volume growth was achieved by BPB's Asian plasterboard producers although export volumes were restricted by capacity constraints. Capital investment plans were successfully progressed during the year, the aim being to meet growing demand for plasterboard and building plasters in selected developing markets. In addition BPB spent £36.8 million to acquire substantially all the minority interests in its fast-growing businesses in Thailand and India where the group has established strong market positions.

Further good plasterboard volume growth was achieved in **South Africa** and, with better selling prices offsetting higher input costs, led to a good improvement in results. Strong growth in new residential and renovation activity, and increased commercial demand, were underpinned by a stable currency, lower interest rates and a continuing low rate of inflation. Economic forecasts point to continuing strong growth in building sector activity during the current year, particularly in housing. Other factors influencing demand during the year were the imposition of anti-dumping duties on Indonesian importers and the government's promotion of energy efficient low-income housing, an area of future opportunity for BPB's Gyproc and Rhino systems. Sales of building plasters, albeit developing from a low base, continued to be encouraging.

Substantially increased sales of building plasters and better selling prices resulted in a significantly improved performance in **Egypt**. Industry competition in the current year is expected to intensify.

Strong growth in plasterboard volumes continued in **Thailand**, attracting more intense competition which resulted in reduced profitability as market share was maintained. Substantial additional capacity will come on-stream with the group's new plant at Laem Chabang later this year, significantly improving BPB's domestic and export operating cost platform.

New plasterboard capacity near Kuala Lumpur will be commissioned in early 2006, to support growing demand in the **Malaysian** peninsula and increase BPB's market representation.

BPB's developing **Chinese** business reported a maiden profit, driven by strong plasterboard sales growth, improved manufacturing efficiencies and stable selling prices. This result was achieved against the background of continuing substantial growth in construction activity and further market consolidation. The increasing availability of low-cost desulphogypsum close to major markets in eastern China will further improve industry operating efficiencies.

Substantial volume growth of plasterboard and building plasters was achieved in **India**, due to further market penetration and continued buoyant commercial construction activity. This led to a significant performance improvement despite increased competition from plasterboard imports. While the impact on construction activity levels in the current year arising from government changes to the sales tax regime is uncertain, BPB anticipates further strong growth in sales volumes and plans to bring on-stream in late 2005 a new combined plasterboard and plasters facility near Mumbai to strengthen its distribution infrastructure across the sub-continent.

South American operations delivered improved results, reflecting good growth of plasterboard sales in **Brazil** and further solid progress in strengthening BPB's presence as a manufacturer of high quality building plasters in **Mexico**.

>> IMPLEMENTING
A PLASTERBOARD
CAPACITY EXPANSION
PROGRAMME OF
CIRCA 5% PA OVER
THE MEDIUM-TERM

BPB's plasterboard capacity utilisation is running at a high level after several years of significant growth in global demand – which continues to outpace the development of construction markets generally – leading to attractive opportunities in the group's three major regions for investing in future profitable growth.

Central and operating BPB teams are now engaged in implementing a plasterboard capacity expansion programme of circa 5% pa over the medium-term, based on current plans for new investments spread across Europe, North America and Emerging Markets (principally Asia), combined with capacity liberated through performance improvements at existing plants.

Spreading best practice and transferring relevant technologies are essential tasks in BPB's strategy for installing lower-cost capacity, with the group's technical and innovation teams actively assessing the impact of regulatory and environmental influences and pilot-testing process developments aimed at achieving step-changes in manufacturing performance.

>> BPB'S ROBUST FINANCIAL POSITION
IS UNDERPINNED BY A HIGHLY
CASH GENERATIVE BUSINESS MODEL
COMBINED WITH A PRUDENT APPROACH
TO FINANCIAL MANAGEMENT

GROUP FINANCIAL POSITION

Strong results in 2004/05 were driven by a rise in both volumes and selling prices in all three major regions and benefited from restructuring actions taken in previous years. This further consolidated BPB's robust financial position, which is underpinned by a highly cash generative business model combined with a prudent approach to financial management. Operating cash flows amounted to over £400 million, allowing the group to fund its accelerating capital investment programme, the buy-out of Asian minority shareholders and increased dividend payments to shareholders entirely from internally generated resources. The group interest charge was covered over 11 times by underlying operating profit and year-end gearing was 44.6%.

REPORTED PROFIT, GOODWILL AND EXCEPTIONAL ITEMS

A reconciliation of the group's reported profit before tax of £258.7 million (2004 £180.3 million) to the underlying pre-tax profit (before goodwill amortisation and exceptional items) of £287.5 million (2004 £222.8 million) is set out in the table below, together with equivalent post-tax analysis. This shows:

- an operating exceptional charge of £34.0 million arising from the likely closure of the paperboard mill at Aberdeen in the UK in July. The charge comprises £24.0 million relating to redundancy, plant de-commissioning and other site closure costs and a £10 million write-down of the paper machine and related equipment
- an operating exceptional pre-tax gain of £14.6 million arising from the company's share of BPB Canada's pension fund surplus distribution, made following regulatory approval of an agreement between the company and the pension scheme members
- non-operating exceptional profit of £6.9 million, arising principally from the sale of surplus land in the UK and Belgium
- amortisation of goodwill of £16.3 million (2004 £18.0 million)

In addition the group benefited from an operating exceptional tax credit of £13.9 million arising from the recognition of brought forward tax losses in the US, resulting from the substantial improvement in profitability of the US wallboard business during the year.

NET DEBT AND CASH FLOW

Year-end net debt of £422.0 million was £73.0 million lower than at the previous year-end, after a net cash inflow of £78.4 million and adverse foreign exchange movements of £5.4 million arising from the translation of debt held in foreign currencies. The main features of the group cash flow statement this year were:

- continued strong operating cash flow, which increased by £66.1 million to £416.6 million reflecting improved profitability and good working capital management
- increased capital expenditure of £154.1 million (2004 £99.6 million), 1.4 times the annual depreciation charge and consistent with the group's expanded capital investment plans
- taxation payments of £66.2 million, with the cash tax rate on underlying profit falling to 23% (2004 27%) mainly due to the utilisation of tax losses brought forward in the US and Germany
- £36.8 million spent in buying out minority shareholder interests in Thailand and India

| GROUP CASH FLOW | 2005 £m | 2004 £m |
|---------------------------------|------------|------------|
| EBITDA | 408.8 | 344.5 |
| Net movement in working capital | 7.8 | 6.0 |
| Operating cash flow | 416.6 | 350.5 |
| Capital expenditure | (154.1) | (99.6) |
| Fixed asset disposals | 6.6 | 15.6 |
| Taxation | (66.2) | (60.2) |
| Other | 1.0 | 0.5 |
| Interest | (27.2) | (31.4) |
| Dividends | (73.1) | (67.3) |
| Free cash flow | 103.6 | 108.1 |
| Purchase of Asian minorities | (36.8) | - |
| Acquisitions | (9.7) | (5.1) |
| Disposals | 8.6 | 7.5 |
| Net shares issued | 12.7 | 9.8 |
| Net cash inflow | 78.4 | 120.3 |

RECONCILIATION OF MOVEMENT
IN PROFIT: YEAR TO 31 MARCH 2005

| | Before tax £m | Tax £m | After tax £m |
|---------------------------|------------------|-----------|-----------------|
| Underlying profit | 287.5 | (91.4) | 196.1 |
| Amortisation of goodwill | (16.3) | 2.7 | (13.6) |
| Aberdeen closure costs | (34.0) | 8.7 | (25.3) |
| Canadian pension refund | 14.6 | (5.8) | 8.8 |
| Exceptional US tax credit | - | 13.9 | 13.9 |
| Disposals/sales | 6.9 | (2.6) | 4.3 |
| Reported profit | 258.7 | (74.5) | 184.2 |

CAPITAL INVESTED AND RETURN ON INVESTMENT

Approximately two-thirds of BPB's £1.73 billion (2004 £1.66 billion) capital invested continues to be in Europe with nearly a quarter in North America and around 10% in Emerging Markets.

Return on capital invested advanced strongly to 12.7% from last year's 9.9%, well above BPB's weighted average cost of capital. This reflects the sharp improvement in operating results on a modestly increased capital base and high plant utilisation levels.

PENSIONS

BPB operates a number of pension schemes (detailed in note 6 to the accounts on pages 53 to 55), with the largest being the principal UK funded defined benefit scheme. Following actuarial advice ahead of the results of the triennial valuation of the UK scheme, due later in 2005, that the surplus had largely been eroded, the additional annual pension charge introduced in 2002/03 was increased to £12.2 million (2004 £6.2 million) and a matching cash contribution made to the pension scheme.

TREASURY

BPB's treasury operations operate within clearly defined Board approved policies and limits. Group treasury is not a profit centre and hedging/derivative transactions are only undertaken to manage the range of commercial exposures the group faces. The department follows controlled reporting procedures and is the subject of regular internal and external reviews.

Group liquidity is provided through a range of committed debt facilities in excess of immediate needs. Committed debt facilities comprise £379.3 million of Euro and US Dollar denominated bonds and £644.7 million of committed bank facilities. The total of these facilities of £1,024 million is significantly more than the drawn debt requirement of £560.9 million at 31 March 2005. The average length of time to maturity of BPB's committed debt facilities was over 5 years at the balance sheet date.

Group policy with regard to reducing interest rate risk is to keep between 50% and 80% of borrowings at fixed rates of interest. At the year end, 53% of the group's core debt requirement was at fixed rates of interest and the average maturity of the group's fixed debt remained around 6 years.

The group's current debt ratings are BBB+ (stable) from Standard & Poor's and Baa1 (stable) from Moody's.

More detailed information on the group's treasury policies is provided in note 23 to the financial statements on pages 60 and 61.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The group's programme to achieve transition to International Financial Reporting Standards ("IFRS") is progressing to plan and BPB, along with other EU listed companies, will prepare and report consolidated financial statements for its current financial year to 31 March 2006 under IFRS. BPB's September trading update and interim 2005/06 financial statements will also be prepared under IFRS. In advance of these, detailed guidance on the impact of IFRS on BPB's 2004/05 financial statements will be provided in July.

Initial indications are that IFRS will have a limited impact on the financial statements for the year to 31 March 2005:

- there will be no significant change to revenue and no change to actual cash flows, although there will be presentational changes to the cash flow statement
- underlying profit before tax will fall by between 1% and 2%. This will mainly be due to additional charges for share-based awards, as other adjustments to the Income Statement, including the impact of adopting IAS 19 in respect of retirement and other employee benefits, are not expected to be significant
- reported profit before tax will be slightly higher as goodwill is no longer amortised (£16.3 million) but reviewed annually for impairment, and the exceptional Canadian pension refund (£14.6 million), recorded under UK GAAP, is not recognised in the Income Statement under IFRS
- net assets will fall following recognition in the balance sheet of defined benefit pension fund deficits (similar in size to those disclosed under FRS17 in note 6) and additional deferred taxation liabilities. These reductions in net assets will be partly offset by a reversal of the proposed final dividend accrual of £53.9 million until approval at the annual general meeting

IFRS, and in particular their interpretation, are still evolving and further adjustments may be identified during the transition and audit process. Similarly the IFRS impact on the 2005/06 financial statements is unlikely to be the same as that anticipated for 2004/05. In particular an additional charge of circa £2 million for share-based awards is expected in 2005/06 as the transition rules of IFRS 2 mean that the full annual impact of the standard is not expected until the year to 31 March 2008. Furthermore, BPB has adopted IAS32 and IAS39 from 1 April 2005 and hence the potential earnings volatility from marking to market financial instruments will be reported for the first time in the interim results for the six months to 30 September 2005.

>> THE GROUP AIMS TO PURSUE ITS BUSINESS WITH INTEGRITY, RESPECTING THE DIFFERENT CULTURES AND THE DIGNITY AND RIGHTS OF INDIVIDUALS IN ALL COUNTRIES IN WHICH IT OPERATES, RECOGNISING THAT THE TRUST AND CONFIDENCE OF THOSE WITH WHOM IT DEALS ARE AMONGST ITS MOST IMPORTANT ASSETS

CORPORATE RESPONSIBILITY

OUR COMMITMENT TO RESPONSIBLE CORPORATE BEHAVIOUR
BPB recognises that the highest practicable standards of safety, ethical and environmental practices are vital to its success in building value, and are a key responsibility of all employees. Our policies and procedures in these areas, which incorporate monitoring and reporting arrangements, are designed to identify relevant risks and opportunities and provide a clear framework for our approach to doing business and against which performance can be assessed.

To reinforce our commitment to achieve these standards, BPB has produced a group-wide Code of Business Conduct which clearly sets out the basic principles which are to be applied everywhere that we do business. The Code is published on the group's internet and intranet sites, has been translated into 29 languages and given to every group employee.

The group's safety, ethics & environment committee has responsibility for facilitating throughout the group the promotion by management of a culture of responsible corporate behaviour and for assessing the adequacy of management reporting of such behaviour in compliance with embedded policies and procedures.

Further details of our corporate responsibility activities are set out in a Corporate Responsibility Review which may be obtained from the secretary's department at the company's registered office and can be accessed in the corporate responsibility section on BPB's website (www.bpb.com).

SAFETY

Safety at work remains our first priority and features as the first item on the agenda of all management meetings. BPB is committed to the protection and safety of its staff and others affected by its operations, adopting the most rigorous and highest practicable safety standards. Our key goal remains no injury incidents and no harm to people and is encapsulated in the group's health and safety policy which is published in 29 languages and sets out required standards and objectives for operating safe and efficient businesses.

All employees and contractors who work for BPB know they are personally responsible for the health and safety of themselves and others. Health and safety are embedded in the management responsibilities for all BPB businesses, with management being responsible for ensuring that health and safety hazards are systematically identified and controlled, staff are fully trained, safety programmes are implemented, monitored and reviewed, and working environments are created in which all instances of occupational ill health and injury at work are regarded as preventable.

Group and local health and safety programmes, safety audits and formal accident investigations, together with continued investment in training, manufacturing processes, equipment and safety management systems form the key elements of our drive to continually raise standards, promote best practice throughout the group and foster a culture in which health and safety management is integral to the way our businesses operate.

The drive to deliver better safety performance was sustained during the year with a reduction for the second consecutive year of 40% in our lost time injury frequency rate. BPB is pleased to report that there were no fatal accidents in the year (*2004 two employees and three contractors died as a result of two road traffic accidents while on company business and one operational incident*). Although this is a significant improvement in our safety record, it is still some way from the perfect record BPB seeks to achieve, emphasising the need to strive to further improve our safety performance.

ENVIRONMENT

BPB recognises society's right to expect industry to exercise the highest practicable level of environmental care. Through the group-wide implementation of an environmental and site risk policy which provides a framework for establishing effective management practices, BPB aims to minimise any adverse effects its activities may have on the environment.

All operations are required to have an environmental management system in place which is at least equivalent to either ISO14001 or EMAS, the international standards for environmental management.

"The drive to deliver better safety performance was sustained during the year with a reduction for the second consecutive year of 40% in our lost time injury frequency rate"

A rolling audit programme has been established for identifying and managing environmental and site risks and opportunities, with all sites being audited at least every five years and major sites at least every three years. The results of this programme are encouraging, with solid progress being made across the group and significant savings made to group insurance costs; BPB also recently won an award for "best loss prevention strategy" at the European Strategic Risk Management Awards.

Our continuous drive to improve energy efficiency has played a key part in many initiatives. For example, in Norway, heat generated by the manufacturing process is recycled and used to supply over 370,000 kWh of energy to local homes and businesses, and in the US, a new project to recycle waste heat has identified savings of over 10% in total plant utility spend.

BPB works in partnership with housebuilders in the UK and a specialist waste company in Canada to collect and recycle gypsum-based building site waste, thus reducing the need for landfill sites and the extraction rate of the group's mineral reserves. In addition, over 14,000 tonnes per annum of manufacturing waste in the UK and Ireland is converted into agrigypsum to enhance the quality of soil. BPB's mineral reserves of over 1,000 million tonnes worldwide – enough to meet current requirements for many decades – are further preserved through the use of high grade synthetic gypsum produced by power station desulphurisation processes. Use of desulphogypsum and other synthetic gypsums is set to increase further with the recent completion of long-term agreements with American Electric Power and Progress Energy to supply desulphogypsum to the group's new wallboard plants near Mitchell in West Virginia and Roxboro in North Carolina, which are expected to come on-stream in 2007 and 2008 respectively.

OUR PEOPLE

With a global workforce of over 12,500 people, BPB is committed to providing equal opportunities and creating a culture that recognises team and individual performance, values innovation and continuous improvement, and empowers and encourages individual responsibility.

As a global organisation, our strategy is increasingly to devolve our human resources practices into the local businesses, creating a responsive culture that promotes the involvement and empowerment of people at a local level, and which is aligned with the aims of our business. To this end, during the year BPB published a clear set of values that articulate the high standards of social accountability, ethical behaviour and approach to working with colleagues, customers and suppliers that our people need to adopt in seeking to achieve the group's vision 'to be the preferred choice for interior building systems that provide innovative design solutions'.

A continual supply of talented managers is essential to the future success of the company. To realise this, BPB has developed robust succession planning processes, defining core competencies to ensure that the best people are identified and developed across the group. Further information on the company's employment policies is set out in the directors' report on page 35.

COMMUNITY

BPB is committed to supporting local communities and remaining sensitive to their needs. Our Code of Business Conduct reflects the group's aim that its conduct should be a source of positive influence for those whom its business impacts. BPB believes it is able to benefit communities most by concentrating its efforts on projects which are closely related to its business operations, allowing it to encourage the involvement of more of its employees and to strengthen links with local communities.

During the year, BPB carried out community projects both locally and nationally, ranging from the donation of employees' time and skills, materials or financial help to educational and vocational initiatives. The group donated over £100,000 to the Tsunami disaster relief fund through a number of local and international charities including Architecture for Humanity and the Red Cross.

In 2004/05 donations for charitable purposes in the UK amounted to £216,500 (2004 £128,000) including support for organisations providing shelter for the homeless and low-cost accommodation for young people linked to skills training and job opportunities.

1. ANDREW DOUGAL (53)

Non-executive director since 2003

Formerly chief executive of Hanson plc (the international building materials company), having previously been group finance director and holder of a number of senior management positions in Hanson (the former diversified industrial company) from 1986 until its demerger in 1997. Non-executive director of Taylor Woodrow plc and formerly of Celtel International BV.

2. LADY BALFOUR OF BURLEIGH (59)

Non-executive director since 2000

Non-executive director of Scottish American Investment Trust plc, Stagecoach Group plc and Murray International Trust plc. Chairman of the Nuclear Liabilities Fund. Formerly a director of Cable and Wireless plc, Midlands Electricity plc and WH Smith plc.

3. JEAN-PIERRE CLAVEL (57)

Executive director since 2000

Joined the group in 1990 as managing director of the group's plasterboard business in France. Appointed regional managing director for Southern Europe in 1999 prior to becoming group managing director of BPB's businesses in Southern Europe, Germany, Austria and Switzerland in 2003. He has additional responsibility for BPB Formula, the group's industrial plasters division.

4. RICHARD COUSINS (46)

Chief executive since 2000

Joined the group's planning and business development department in 1990, becoming group financial controller in 1992 and managing director of Abertay Paper Sacks in 1996. President and CEO of BPB Canada from 1998 to 2000. Appointed to the Board in 2000.

5. DAVID HAMILL (47)

Non-executive director since 26 January 2005

Currently an executive director of Imperial Chemical Industries PLC and chairman and chief executive of the ICI Paints division, a leading international paint business with sales of over £2 billion. Before joining ICI in December 2003, he had worked for Royal Philips Electronics for 17 years, latterly as President and CEO of Philips Lighting, having previously held a range of senior management appointments including President of Philips Lighting Asia-Pacific, where he was responsible for activities in China and Hong Kong.

6. MARK HIGSON (49)

Group operations director since 2000

Joined BPB in 1996 as director of operations, and was appointed group managing director for Southern Africa in 2002. He has additional responsibility for leading the implementation of the group's enhanced capital expenditure programme. Previously responsible for BPB's businesses in Northern Africa, Turkey, the Middle East and Northern Europe, and for BPB Formula.

BOARD COMMITTEES

■ **Executive**

Executive directors

Three additional members

■ **Audit**

G Acher†

A J Dougal

Sir Ian Gibson

F J Leibenfrost

■ **Remuneration**

Lady Balfour of Burleigh

A J Dougal

Sir Ian Gibson

E Henkes†

■ **Nomination & management development**

D C Hamill

E Henkes

Sir Ian Gibson

F J Leibenfrost†

■ **Safety, ethics & environment**

G Acher

Lady Balfour of Burleigh†

D C Hamill

Sir Ian Gibson

† Committee chairman

7. PAUL HOLLINGWORTH (45)

Finance director since 2002

Formerly finance director of De La Rue plc, having previously held similar positions at English China Clays plc and Ransomes plc. Prior to that he was group financial controller at the former Unigate plc.

8. EVERT HENKES (61)

Non-executive director since 2003

Formerly CEO of Shell Chemicals, having spent 30 years working for the Royal Dutch/Shell Group of companies in a number of senior management positions in Europe and Asia Pacific. Non-executive director of Tate & Lyle plc, Outokumpu OYJ, SembCorp Industries Ltd and CNOOC Ltd (China National Offshore Oil Company), and member of the Air Products European Advisory Council.

9. BOB HEARD (52)

Executive director since 1995, and group secretary

Joined the group in 1974. Appointed group secretary in 1985. Chairman of the group's US and Canadian pension committees, a director of the group's UK pension trustee companies and a member of the ICOSA's company secretaries' forum.

10. SIR IAN GIBSON CBE (58)

Chairman since 21 July 2004

A non-executive director of GKN plc, Northern Rock plc and Chelys Ltd, and a trustee of the Centre for Life. Formerly a member of the Court of the Bank of England, chief executive of Nissan Europe NV and senior vice president of Nissan Motor Company (Japan) Ltd, and deputy chairman of Asda Group plc. Appointed to the Board in 2001 and as deputy chairman in May 2003.

11. PAUL WITHERS (48)

Business development director since 2000

Joined the group in 1985 and now group managing director of BPB's businesses in Asia, South America, Mexico and Egypt, with additional responsibility for the group's acquisition programme and for group marketing. Previously managing director of British Gypsum Ltd, regional managing director for Western Europe and responsible for BPB's businesses in Eastern Europe.

12. FRANZ LEIBENFROST (67)

Non-executive director since 1999

Chairman of Solvay Österreich AG and Eisenwerk Sulzau Werfen AG, and a non-executive director of Foreign & Colonial Small Companies plc. Formerly chairman and chief executive of Custodia Holding AG, Löwenbrau AG, Veitscher Magnesitwerke AG and Semperit AG, and a non-executive director of Atlas Copco Holding AG. He is currently BPB's senior independent director.

13. GERRY ACHER CBE, LVO (60)

Non-executive director since 2002

Non-executive director and formerly interim chairman of Camelot Group plc, chairman of the London Climate Change Partnership and a Trustee and Senior Treasurer of the RSA. Formerly vice chairman of London First, a member of the Board of KPMG and the Senior Partner of its London Office, and a Council member and chairman of the Audit Faculty of the ICAEW.

**ADDITIONAL EXECUTIVE
COMMITTEE MEMBERS**

JOHN COLLEY (51)

Group managing director,
Eastern and North &
Western Europe

JANE KINGSTON (47)

Director of group
human resources

BRENT THOMSON (53)

Group managing director,
North America

DIRECTORS' REPORT

A perspective of the group is given on the inside front cover, page 1 and pages 14 and 15, and the activities of the company's principal subsidiary, associated and joint venture companies are indicated on page 66. Analyses of turnover, operating profit and net assets are shown in note 3 on page 52. Reviews of the operating and financial performance of the group for the year, of any important events after the year end, and of likely future developments, are given on pages 12 to 29 and, together with the Chairman's statement on pages 10 and 11, and the corporate responsibility report on pages 30 and 31, form part of this report.

The corporate governance report on pages 36 to 39 is submitted by the Board, and the remuneration report to shareholders on pages 40 to 46 is submitted by the remuneration committee on behalf of the Board.

A statement of directors' responsibilities for the preparation of financial statements for the year to 31 March 2005 is given on page 47, and a cautionary comment concerning forward-looking statements is made on the inside back cover.

DIVIDENDS

The Board recommends a final dividend of 10.75p per share (2004 9.45p) making a total for the year of 16.00p (2004 14.25p). If approved, the final dividend will be paid on 19 August 2005 to shareholders on the register on 22 July 2005; the interim dividend of 5.25p was paid on 21 January 2005.

SHARE CAPITAL

Full details of changes in the company's share capital which occurred during the year are shown in note 24 on page 62.

No shares were purchased during the year under the limited authority granted at the 2004 annual general meeting to make market purchases of up to 10% of the company's shares.

At 31 March 2005 there were 500.3 million ordinary shares in issue held by 8,488 shareholders. These shareholdings are analysed in the tables below by category of shareholder and size of shareholding.

As at 4 May 2005, the company had been notified of the following interests of 3% or more in its issued ordinary share capital: Prudential plc 7.3%; Sprucegrove Investment Management Ltd 6.3%; Standard Life Investments 3.9%; Legal & General Investment Management Ltd 3.1%.

ANNUAL GENERAL MEETING

The company's annual general meeting will be held at 12 noon on Wednesday 20 July 2005. After considering the ordinary business, shareholders will be asked to consider, as special business, proposals to:

- renew the directors' limited authority to make certain payments which might inadvertently breach the provisions of the Political Parties, Elections and Referendums Act 2000
- renew the directors' limited authority to make market purchases of the company's shares

Details of the meeting venue and full details of the resolutions to be proposed, together with explanatory notes, are set out in a separate notice of meeting which accompanies this annual report and accounts.

Following recent changes to the Companies Act 1985 as a result of the Companies (Audit, Investigations and Community Enterprise) Act 2004, the company is required to disclose that under article 157 of the company's articles of association the directors have the benefit of an indemnity, to the extent permitted by the Companies Act 1985 (as amended), against liabilities incurred by them in the execution of their duties and the exercise of their powers. A copy of the company's articles of association (which contain this indemnity) is available for inspection at the company's registered office during normal business hours and will be available for inspection at the company's forthcoming annual general meeting.

The company will continue its policy of providing details of proxy voting at each AGM. These will also be provided after each meeting in the investor centre on the company's website (www.bpb.com).

| Category of shareholder | Number of accounts | % of total accounts | % of ordinary share capital |
|--|--------------------|---------------------|-----------------------------|
| Individuals | 6,299 | 74.21 | 3.42 |
| Banks and nominees | 2,003 | 23.60 | 95.07 |
| Companies | 182 | 2.14 | 1.22 |
| Insurance companies and pension trusts | 4 | 0.05 | 0.29 |
| | 8,488 | 100.00 | 100.00 |

The majority of holdings in the second category are of investment managers who act for a much larger number of investors.

| Size of shareholding | Number of accounts | % of total accounts | % of ordinary share capital |
|----------------------|--------------------|---------------------|-----------------------------|
| 1-1,000 | 2,812 | 33.13 | 0.31 |
| 1,001-10,000 | 4,595 | 54.14 | 2.89 |
| 10,001-100,000 | 702 | 8.27 | 4.17 |
| 100,001-500,000 | 234 | 2.75 | 11.08 |
| 500,001-1,000,000 | 65 | 0.77 | 9.36 |
| over 1,000,000 | 80 | 0.94 | 72.19 |
| | 8,488 | 100.00 | 100.00 |

ELECTRONIC SHAREHOLDER SERVICES

Shareholders can elect to obtain shareholder documents, such as annual and interim reports and notices of general meetings, electronically from BPB's website rather than by post. Those shareholders who wish to take advantage of this free service may do so by registering their details on BPB's registrar's website (www.shareview.co.uk). Additionally, shareholders may, if they so wish, register the appointment of a proxy for the AGM electronically by logging on to BPB's registrar's proxy appointment website at www.sharevote.co.uk where full details of the procedure are given. Similarly, CREST members who wish to appoint a proxy through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. Further information on both these electronic proxy lodgement services is set out in a separate notice of meeting which accompanies this annual report and accounts.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year were as shown on pages 32 and 33, together with Allan Gormly CBE, who retired on 21 July 2004.

The interests of the directors holding office at the year end in the company's ordinary shares as at 31 March 2005, and movements during the year in their share option, share matching plan and performance share plan interests, were as shown in the remuneration committee's report on pages 45 and 46; the weighted average prices of directors' share options, together with the pre-tax gain in value of exercisable options at 31 March 2005 are shown on page 46.

During the year no director had any interest in the company's 6.5% euro denominated bonds due 2010 or in any shares or debenture or loan stocks of the company's subsidiaries, or any material interest in any contract with the company or a subsidiary being a contract of significance in relation to the company's business.

David Hamill, who will retire having been appointed since the last annual general meeting, together with Sir Ian Gibson, Paul Hollingworth and Franz Leibentrost, who retire by rotation, offer themselves for re-election at the forthcoming annual general meeting.

As explained in the service agreements paragraph on page 42, Paul Hollingworth has a service contract terminable by the company on one year's notice. Sir Ian Gibson, Franz Leibentrost and David Hamill do not have service contracts.

EMPLOYMENT POLICIES

The group continues to develop and maintain progressive policies for all aspects of employment, the overall objective being to optimise performance through recruitment and retention of effective, well-motivated people in every sector of its business.

BPB seeks to realise the potential of every employee, recognising individual and team contribution and rewarding competitively relative to the group's success.

Group companies operate within a framework of human resources' policies appropriate to their country of operation.

The group attaches considerable importance to keeping its employees informed on matters affecting their jobs and the progress of the business. Although there are various communication channels, including a global magazine, an intranet site and emails, the primary one is face-to-face communication between managers and their staff. These are complemented by formal consultation processes through a works council in Europe and national systems of employee representation. All these communication channels, along with training programmes, enhance awareness of financial and economic factors affecting BPB's performance and promote good communication and mutual understanding.

Employees in the UK have the opportunity to participate in the company's SAYE share option scheme over a three or five year period, and further details of these arrangements are given in note 24 on page 62. Approximately 66% of eligible employees (those with a minimum of one year's service) participate in the scheme, each holding on average options over 3,000 shares and saving almost £170 per month. In addition, employees are able to participate in the BPB UK employee share ownership plan providing a further opportunity to increase their shareholding in BPB by enabling them to buy shares on a monthly basis out of pre-tax salary. Almost 15% of eligible employees (those with a minimum of 18 months' service) participate in the plan, investing on average almost £75 per month in BPB shares.

BPB also encourages, where appropriate, the introduction of all-employee share schemes in other countries in accordance with predetermined group guidelines, primarily involving the use of shares already in issue.

BPB is committed to promoting diversity across the group, both in recognition of the inherent value of diversity and to ensure that BPB's local businesses reflect the diversity of their customer base. To this end, BPB is committed to providing equal opportunity in recruitment, promotion, career development, training and reward for all employees without discrimination and continues to be supportive of the employment and advancement of disabled persons in accordance with their abilities and aptitudes, provided that they can be employed in a safe working environment. If employees become disabled every effort is made to ensure their employment continues, with appropriate training where necessary.

Training and development remains a key priority in achieving the group's goals and in ensuring that all employees perform to their highest potential. To this end, employees have the opportunity to participate in training and development in the fields of technology, building and construction industry, professional and leadership skills. Linked to a group-wide process for encouraging employees, where relevant, to transfer between group companies, this provides the opportunity for BPB people to experience new and challenging environments and for the sharing of skills and expertise throughout the group.

Further comment on employment issues is contained on page 31.

CREDITOR PAYMENT POLICY

It is the company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of satisfactory invoices.

The number of trade creditor days for the year ended 31 March 2005 was 45 (2004 45 days).

RESEARCH AND DEVELOPMENT

The group's research and development programme plays a key role in supporting BPB's activities. During the year, the group spent £5.3 million (2004 £5.4 million) on increasing manufacturing efficiency, improving product quality and introducing new products. BPB's acoustic, fire, systems-development and structural testing facilities are accredited to a range of international standards through UKAS; such accreditation is also recognised by a variety of international standards authorities. In addition, the facilities hold notified body status allowing tests to be conducted in support of CE marking in accordance with the Construction Products Directive.

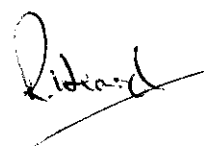
CHARITABLE AND POLITICAL CONTRIBUTIONS

Details of payments for charitable purposes made during the year are given on page 31. The company did not make donations to or incur expenses to benefit any UK or other EU political parties or organisations (2004 nil).

AUDITORS

A resolution proposing the re-appointment of Ernst & Young LLP as auditors to the company will be put to the annual general meeting on 20 July 2005.

On behalf of the Board
RM Heard
Director and group secretary
18 May 2005



CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance in its management of the affairs of the group and when accounting to shareholders.

This section of the annual report has been prepared in accordance with the Code of Best Practice in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the Combined Code). The group's policy guidelines on corporate direction and control ensure that the company applies all of the principles of good governance contained in the Combined Code in the organisational structure it has adopted to conduct its business, the means by which directors are remunerated, the manner of contact with shareholders, and the procedures adhered to in its financial reporting, internal control and assurance process. The following report explains in more detail how the company applied the principles of the Combined Code and complied with its detailed best practice governance provisions throughout the financial year.

THE BOARD

Effective management and good stewardship are led by the Board of directors, which currently consists of thirteen directors, twelve of whom served throughout the financial year, with David Hamill having been appointed on 26 January 2005; Allan Gornly was also a director (and chairman) up to 21 July 2004. In addition to the current chairman there are six executive directors and six non-executive directors; this balance ensures that no individual director or small group of directors dominates the decision making process.

It is BPB's policy that, excluding the group chairman, at least half the Board should normally be independent non-executive directors. The Board considers each of its current non-executive directors to be independent in character and judgement. In reaching its determination of independence the Board has concluded that there are no relationships or circumstances which are likely to affect, or could appear to affect, each non-executive director's judgement.

Seven regular Board meetings were held during the financial year, one of which was held over two days and two more were held in conjunction with visits to company locations which took a total of five days. Attendance of the current directors at Board and committee meetings was almost 99% during the year; of the 29 meetings held Andrew Dougal and Evert Henkes were absent from one meeting each.

NON-EXECUTIVE DIRECTORS, AND SENIOR INDEPENDENT DIRECTOR

The non-executive directors provide a strong independent element and a solid foundation for good corporate governance. Although all directors are equally accountable under the law for the proper stewardship of the company's affairs, the non-executive directors fulfil a vital role in corporate accountability. They have a particular responsibility to examine critically the strategies proposed by the executive directors, scrutinise the performance of management in meeting agreed goals and objectives, and play a leading role in the functioning of the main Board committees. Between them, the current non-executive directors bring experience, expertise and independent judgement from a variety of business sectors and public life.

From 21 July 2004 until the conclusion of the AGM in 2006, Franz Leibenfrost will be the senior independent director. To ensure every independent non-executive director is equally well informed, this role will be rotated every two years. The senior independent director will, along with the other directors, be available to discuss matters of concern with shareholders which normal channels of communication with the group chairman, chief executive or finance director have failed to resolve or for which such contact is inappropriate. He (or she) also leads the annual evaluation by the non-executive directors of the group chairman's performance.

CHAIRMAN

The group chairman is a member of the audit, remuneration, nomination & management development, and safety, ethics & environment committees. The Board continues to believe that he should be engaged in all aspects of the group, particularly Board committees, due to the breadth of knowledge and relevant experience he brings to these committees, and the fact that encompassed in his role is the leadership of the Board. The commonly practised alternative of sitting in attendance at committee meetings is not considered to be an adequate alternative. It is, however, the Board's policy that the first two committees will normally also have at least three independent non-executive directors as members, with the nomination & management development committee having at least two independent non-executive directors. The chairmen of all four committees will be non-executive directors. The Board is satisfied that, in the unlikely event that the group chairman is required to arbitrate on any differences between Board committees and management, he would do so totally objectively.

Sir Ian Gibson is a non-executive director of GKN plc, Northern Rock plc and Chelys Ltd, and a trustee of the Centre for Life. The Board is satisfied that these are not such commitments on his time as to interfere with the performance of his duties as chairman of the company.

INDUCTION, TRAINING AND INFORMATION

Following appointment to the Board, all new directors receive a comprehensive and structured induction tailored to their individual requirements. The induction programme, which is approved by the group chairman and arranged by the company secretary, includes visits to the group's businesses and meetings with senior management as appropriate. This facilitates their understanding of the group, the key drivers of business performance, the role of the Board and its committees, the company's corporate governance practices and procedures, and provides them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public listed company. When a non-executive director is appointed to one of the Board's committees, additional induction training is given which is relevant to that appointment.

To assist directors in the performance of their duties, there are procedures to provide them with appropriate and timely information, including information between meetings about developments in the group's business and financial performance, so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues. Directors also have access to the advice and services of the group secretary, the appointment and removal of whom is a matter for the whole Board, and, in appropriate circumstances, may obtain independent professional advice at the company's expense.

Where appropriate, additional training and updates on particular issues are arranged. For example, over the last 12 months, the Board and audit committee, have received specific briefings by internal management and the external auditors on the introduction of International Financial Reporting Standards and their likely impact on future reporting by BPB.

To ensure that the Board as a whole remains fully informed on the views of shareholders, the Board receives regular reports on shareholder sentiment from the chairman, chief executive and finance director. Although not part of their induction programme, all non-executive directors have a standing invitation to attend shareholder meetings and analyst presentations, and shareholders may meet informally with directors at the annual general meeting. In addition, the chairman and senior independent director will normally attend the post-announcement presentations of the preliminary results to selected principal institutional investors and report the outcome to the Board. Furthermore, at least once a year, one or both of the company's brokers make a presentation on shareholder issues to the non-executive directors without the executive directors being present.

PERFORMANCE EVALUATION

A full Board performance evaluation process was undertaken in late 2004, facilitated by the Board Performance Unit of the Institute of Chartered Secretaries and Administrators, with fully documented results being presented to the January 2005 Board meeting.

The process was carefully structured but pragmatic, tailored to bring about a genuine debate of issues that matter and assist in identifying any potential for improvement in BPB processes. It entailed initial and sign-off meetings with the group chairman and company secretary, individual interviews with each director and a composite detailed report by ICSA assessing the quality of the Board's performance in a range of different areas. While being satisfied with its overall performance, the Board is developing action plans in respect of certain processes identified for improvement, including for example the way in which potential Board candidates are identified to all existing directors at an earlier stage in the appointment process.

During the year the chairman also held one formal meeting with the non-executive directors without executive directors being present to discuss the functioning of the Board and its committees, and the contribution of the executive directors. There was also one meeting of the non-executive directors without the group chairman being present to evaluate his performance, led by the senior independent director. In addition, the chairman met the non-executive directors informally on two occasions without any executive director attending.

The performance of the Board committees was also appraised by the group chairman, with input from the chief executive, the company secretary and the committee chairmen. Sir Ian Gibson, as group chairman, undertakes a documented rolling annual programme of evaluation of the performance of each individual non-executive director. His one-to-one review during the year with Franz Leibenfrost to discuss his individual performance was particularly rigorous in view of the fact that he has served on the Board for more than six years. Executive directors' performance was appraised by the chief executive, with input from the group chairman, and discussed with the nomination & management development committee. The performance of the chief executive was appraised by the group chairman in conjunction with discussion at both remuneration committee and nomination & management development committee meetings.

Following this year's review the nomination & management development committee and Board have confirmed that all directors standing for re-election at the forthcoming annual general meeting continue to perform effectively and to demonstrate commitment to their roles.

While self-assessment remains the most appropriate mechanism for continuing evaluation of individual performance, a mixture of self-assessment and full or top-up review by third parties is most likely to be BPB's way forward with Board and committee evaluations.

RE-ELECTION OF DIRECTORS

New directors appointed by the Board must submit themselves for re-election by shareholders at the AGM following their appointment. Thereafter BPB's articles of association require that all directors stand for re-election at least every three years.

BOARD AND COMMITTEE RESPONSIBILITIES/MEMBERSHIPS

The Board as a whole determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors the performance of the executive. Although it has a formal schedule of matters specifically referred to it for decision, the Board has five principal committees to deal with specific aspects of the group's affairs. In addition, the group secretary has a specific responsibility to the group as a whole for its sound governance and for the guidance of the Board in the responsible and effective execution of its tasks.

The *group executive committee*, which met on eight occasions during the year, consists of all the executive directors together with three senior group executives, and is chaired by the group chief executive. Its principal tasks are to ensure the proper management of the group's operations, to act as a forum for consultation and co-ordination, and to make recommendations to the Board.

The *audit committee* increased the number of meetings it intends to hold each year from three to four. This reflects the importance the Board attaches to the role of the committee and the amount of work it is now required to carry out. Committee members are Gerry Acher (chairman), Andrew Dougal and Franz Leibenfrost (all of whom are considered by the Board to be independent non-executive directors) together with Sir Ian Gibson (group chairman). At least one member of the committee has recent and relevant financial experience.

For the reasons set out on page 36, the Board has concluded that it remains appropriate for the group chairman to continue as a member of the committee for the time being.

At the end of each meeting the committee meets with the external auditors, without management present, to facilitate the discussion of any matter relating to its remit and any issues arising from the audit. Arrangements have also been adopted to ensure that the head of internal control, audit & risk has direct access to the committee chairman and is accountable to the committee.

The committee receives at each meeting detailed reports from management and the external auditors to facilitate the discharge of its duties. It is responsible for recommending the appointment, re-appointment, and approving the terms of engagement, of the company's auditors, ensuring that key partners are rotated at appropriate intervals, and (if necessary) considering the resignation or dismissal of the auditors. It also reviews the auditors' performance and cost competitiveness, including the scope and effectiveness of, and matters arising from, the annual audit. The committee reviews and discusses the intended publication of results and, whenever practicable, other financial statements, the estimates and judgements applied by management in the preparation of those statements, the efficacy and reliability of internal control, the effectiveness of the company's internal control function and its relationship with the external auditors, the effectiveness of management actions in controlling the intensity of key group risks identified by the Board, and any changes to financial reporting requirements.

The committee also receives regular reports on developments in financial reporting practices and other relevant matters so as to keep abreast of current thinking on accounting policies and standards.

The full remit of the committee is available in the investor centre on BPB's website (www.bpb.com) and on request from the secretary's department at the company's registered office. The remit and effectiveness of the committee is reviewed annually.

The committee has reviewed the adequacy of the company's procedures for the receipt and treatment of any concerns and suspicions that might be raised by employees in confidence or anonymously regarding possible legal, regulatory or other violations in matters of financial reporting and other matters.

In respect of 2004/05, the committee reviewed the execution of the agreed external audit plan, the robustness and perceptiveness of the external auditors in their handling of key accounting and audit judgements and the content of the external auditors' half-yearly review and annual audit report. As noted above, the committee also met four times with the external auditors alone. On the basis of these meetings, detailed feedback and reports from senior group and operating management, and other information available to the committee, the committee is able to assess the ongoing effectiveness of the external audit process.

CORPORATE GOVERNANCE

To satisfy its responsibility for reviewing and monitoring the external auditors' objectivity and independence, the committee reviewed the proposed key external audit staff in the external auditors' plan, the arrangements for the management of the audit relationship, and the external auditors' arrangements to identify, report and manage any conflicts of interest. The committee has also determined a framework for governing the provision of audit and non-audit services by the auditors and their associates, taking into consideration relevant professional and regulatory requirements and reports from the external auditors on their policies and procedures regarding independence and quality control.

The committee's framework includes a policy identifying certain non-audit services which the auditors are prohibited from providing and a process through which audit and non-audit services are approved. Certain categories of non-audit service are approved by the committee on an annual basis and, in addition, the committee chairman (or in his absence a committee member) may approve urgent engagements not covered by these categories, subsequently notifying the committee at its next meeting. The non-audit services of the external auditors will only be used where the company benefits in a cost-effective manner and the auditors maintain the necessary degree of independence and objectivity. The framework is kept under review and may be amended from time to time as necessary.

Subject to receipt of appropriate shareholder authority, the committee approves all fees paid to the external auditors. Details of the amounts paid to the external auditors during the year for audit and non-audit services are set out in note 4 on page 53.

The **remuneration committee** met four times during the year. The members of the committee are Evert Henkes (chairman from 21 July 2004), Lady Balfour of Burleigh (from 21 July 2004), and Andrew Dougal (from 21 July 2004) (all of whom are considered by the Board to be independent non-executive directors) together with Sir Ian Gibson (group chairman, who was chairman of the committee until his appointment as group chairman on 21 July 2004). Details of the committee's main functions, and its current remuneration policies for parent company directors and senior executives, are given in the remuneration committee's report commencing on page 40.

The **nomination & management development committee** consists of Franz Leibenfrost (chairman), Evert Henkes (from 21 July 2004) and David Hamill (from 26 January 2005) (all of whom are considered by the Board to be independent non-executive directors) together with Sir Ian Gibson (group chairman).

The committee, which provides a formal and transparent procedure for the appointment of new directors to the Board, generally engages external consultants to advise on prospective Board appointees. The committee keeps under review the need for planned and progressive refreshing of the Board, prepares a description of the specific experience and skill needed for an appointment, considers candidates put forward by external consultants, and recommends to the Board the appointments of all directors after having met short-listed candidates. It also supervises and puts in place succession plans for the posts of group chairman and group chief executive and keeps under review the management development and succession plans for all senior management appointments within the group, including the identification of senior executives judged to have potential for Board appointment. The full remit of the committee is available in the investor centre on BPB's website (www.bpb.com) and on request from the secretary's department at the company's registered office.

During the year, the committee recommended the appointment of one further non-executive director. A detailed job description was agreed by the committee, having regard to the desired balance of skills and experience for the Board as a whole, before external search consultants were engaged to prepare a shortlist of candidates. Only after a rigorous interview process was a candidate recommended to the Board. The committee met three times during the year for formal meetings in addition to the interview sessions referred to above, and participated in performance evaluation processes as outlined in the separate section above.

The **safety, ethics & environment committee**, which met three times during the year, consists of Lady Balfour of Burleigh (chairman), Sir Ian Gibson (from 21 July 2004), Gerry Acher and David Hamill (from 26 January 2005).

Its principal tasks are to facilitate throughout the group the promotion by management of a culture of responsible corporate behaviour and for assessing the adequacy of management reporting of such behaviour in compliance with embedded procedures and policies. It also assists in promoting a culture of safe working practices and care and sensitivity towards the environment, and overviews the group's charitable donations policy.

The full remit of the committee is available in the investor centre on BPB's website (www.bpb.com) and on request from the secretary's department at the company's registered office.

INTERNAL CONTROL

The Board has overall responsibility for the group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system is designed to identify, evaluate and control the significant risks associated with the group's achievement of its business objectives with a view to safeguarding shareholders' investments and the group's assets. Because of the limitations that are inherent in any system of internal control, this system is designed to meet the company's particular needs and the risks to which it is exposed and is designed to manage rather than eliminate risk. Accordingly, such a system can provide reasonable, but not absolute, assurance against material misstatement or loss.

In accordance with the Combined Code Turnbull Guidance on internal control, the Board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the group and that it has been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

The Board has adopted a risk-based approach in establishing the group's system of internal control and in reviewing its effectiveness. To identify and manage key risks, it has established a number of group-wide procedures, policies and standards, has set up a framework for reporting and escalating matters of significance, has authorised the audit committee to undertake reviews of the effectiveness of management actions in controlling the intensity of key group risks identified by the Board, has developed a system of regular reports from management setting out key performance and risk indicators and has reserved specific, key matters for its decision. This process is designed to provide assurance by way of cumulative assessment and is embedded in operational management and governance processes.

Key elements of the group's system of internal control which have operated throughout the year are:

- a clearly defined organisation structure with established responsibilities
- a simple and focused business strategy, thus restricting potential risk exposures
- group financial, business conduct, operating and administrative policies and procedures which incorporate statements of required behaviour
- continuous review of operating performance
- monitoring by the Board of a comprehensive reporting system, including monthly results, annual budgets, and periodic forecasts
- approval by the Board of all major investments, with proposals being subject to rigorous strategic and commercial examination, and with post-investment appraisals of all significant projects

- a centrally co-ordinated internal audit programme which uses both internal and external resource to support the Board in its role of ensuring a sound control environment
- completion by business unit management of an annual internal control assessment confirming compliance with company policies and procedures, detailing controls in operation and listing any weaknesses
- an internal control, audit and risk committee for each group managing director's businesses which normally meets at least annually
- assurance activities covering the key business risks summarised and reported annually to the Board, the audit committee or, where appropriate, the safety, ethics & environment committee
- local businesses undertaking annual risk profiling exercises for identifying, monitoring and managing significant risks. The results of the exercise are discussed at business review and internal control, audit and risk meetings
- a group risk profiling workshop for reviewing all business risk profiles and for identifying, monitoring and overseeing the management of corporate risks across the group. The results of this workshop are used to produce a key, group-wide risk and control schedule for consideration by the Board

The Board regards responsible corporate behaviour as an integral part of the overall governance framework and believes that it should be fully integrated into management structures and systems. Therefore the risk management policies, procedures and monitoring methods described above apply equally to the identification, evaluation and control of BPB's safety, ethical and environmental risks and opportunities. This approach has enabled the company to comply with the disclosure guidelines issued by the Association of British Insurers on socially responsible investment which require listed companies to report to shareholders and give assurance that the company is managing its risks in these matters.

All acquired businesses are brought within the group's system of internal control as soon as practicable and in any event within twelve months of acquisition.

The Board has completed its annual review of the effectiveness of the system of internal control for the period since 1 April 2004 and is satisfied that it is in accordance with the Turnbull Guidance. The assessment included consideration of the effectiveness of the Board's on-going process for identifying, evaluating and managing the risks facing the group.

Further information on the company's system of internal controls is set out in the operational and financial review in the section analysing the risks and uncertainties faced by the group on page 19 and in the corporate responsibility report on pages 30 and 31.

GOING CONCERN

After reviewing the group's financial resources and projected cash flows, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

SHAREHOLDER COMMUNICATIONS AND VOTING PATTERN

The Board recognises the importance of good communication with shareholders. In addition to the interim and annual reports which are sent to all shareholders, there is a regular dialogue with individual institutional shareholders, who also from time to time visit the group's operations. There are also general stockbroker/institutional analyst presentations each half year, webcasts of the post-announcement presentations of the interim and preliminary results to city analysts and principal institutional shareholders, trading update announcements with associated conference calls each March and September, and there is an opportunity for individual shareholders to question the chairman and, through him, the chairmen of the principal Board committees at the AGM. After the AGM, shareholders can meet informally with the directors. The company consults principal shareholders over significant changes in remuneration policy, discusses its approach to corporate governance whenever requested to do so by them and responds as necessary to letters from individual shareholders on a wide range of issues. The company's website, www.bpb.com, includes a section focusing specifically upon investors, and contains an archive of all recent parent company press releases and annual reports.

Although the Board has previously noted a trend of rising voting participation levels at BPB annual general meetings, it was disappointing to note that the total number of shares voted by proxy (as a proportion of the company's issued share capital) decreased to 63% at the 2004 annual general meeting, compared to the previous year's 69%. Details of the proxy votes cast for use at that AGM are available in the investor centre on the company's website; those for the 2005 AGM will be available at the meeting and will be displayed on the company's website as soon as possible thereafter.

REMUNERATION COMMITTEE'S REPORT

INTRODUCTION

This report to shareholders is in a number of sections, the first of which deals with the Committee and its remit. The second part provides details of the company's remuneration policy for executive directors and senior managers. The third part describes the elements of remuneration for the year to 31 March 2005 and the fourth addresses miscellaneous matters such as service agreements, non-executive director fees and policy on external appointments. The last part provides details of the remuneration and interests in ordinary shares, share matching awards, performance share awards and share options of the directors for the year ended 31 March 2005.

Decisions and recommendations of the Committee are reported to the Board, and this report is submitted to shareholders by the Committee on behalf of the Board.

As required by schedule 7A to the Companies Act 1985 - The Directors' Remuneration Report Regulations 2002 (the Regulations) - this report will be subject to an advisory shareholder vote at the forthcoming annual general meeting. This report fully complies with the requirements of the Regulations and has been audited by Ernst & Young LLP to the extent required by those Regulations. Comment on compliance with the Combined Code on corporate governance is contained in the Corporate Governance section of this annual report.

THE COMMITTEE AND ITS REMIT

BPB's remuneration committee is primarily responsible for determining and recommending, to the Board, the framework for executive remuneration and determining, on behalf of the Board and shareholders, the entire remuneration package of the executive directors and executive committee members. It also recommends and monitors the level and structure of remuneration paid to other senior executives and decides on the grant of entitlements under senior executive share option, performance share, deferred share bonus and (for the last time in July 2004) share matching plans. The full remit of the Committee is available in the investor centre on BPB's website (www.bpb.com) and on request from the secretary's department at the company's registered office.

The remuneration of and fees paid to the chairman, any deputy chairman and the non-executive directors are decided in line with market levels by the Board, but with the relevant individuals abstaining as appropriate.

Committee members are Evert Henkes (chairman of the Committee from 21 July 2004), Lady Balfour of Burleigh (from 21 July 2004) and Andrew Dougal (from 21 July 2004) (all of whom are considered by the Board to be independent non-executive directors) together with Sir Ian Gibson (group chairman, who was chairman of the Committee until his appointment as group chairman on 21 July 2004); they all bring a wide range of experience from other organisations and their biographies are shown on pages 32 and 33. Franz Leibenfroist and Allan Gormly were members until 21 July 2004.

For the reasons set out in the Corporate Governance section on page 36, the Board has concluded that it remains appropriate for the group chairman to continue as a member of the Committee.

The group secretary acts as secretary to the Committee and the chief executive, director of group human resources and group head of reward normally attend meetings, at the invitation of the Committee, to provide information and advice. The Committee also has access to professional services from the Hay Group and the Monks Partnership for the provision and interpretation of comparative senior management remuneration data; this allows the Committee to be informed by a consensus market view of data across the wide range of countries in which the group operates. New Bridge Street Consultants provide information to the Committee primarily on equity-based incentive schemes, and Watson Wyatt provide and interpret information on UK and overseas pension benefits. These are all leading independent remuneration consultants who have been appointed with specific terms of reference directly by the Committee. The four firms also provide advice to the company on UK and international salary matters, share schemes and pensions respectively, as the company believes this is the most efficient way to assist with implementation of policies agreed by the Committee.

REMUNERATION POLICY

The Committee seeks to ensure that the company's remuneration policies and practices facilitate the employment and motivation of high calibre personnel with the appropriate skills to implement the group's business objectives, while also relating reward to performance and aligning the interests of directors and senior executives with those of shareholders. It aims to follow best practice in relation to its remuneration policy and, in particular, complies with the Regulations and the Combined Code.

In constructing and reviewing remuneration packages, the emphasis is on rewarding directors competitively for their contribution to the company's overall performance and for enhancing value to shareholders, taking into account market comparisons and the competitive pressures in the construction and building materials sector. External comparisons, including annual assessments of the relevant senior executive remuneration market, look at comparable roles in similar organisations in terms of turnover, profitability, market capitalisation and geographic spread of operations.

The strategy for executive director remuneration, in general terms, is to provide a balanced package which includes base pay and benefits in kind at around the median market level for comparable industrial companies and performance-based incentives which are capable of delivering upper quartile rewards for excellent and sustained performance; poor performance would result in total remuneration below the median. A high proportion of the total remuneration will be awarded through performance-related elements, with phased delivery over the short, medium and long term. Performance measures will be balanced between absolute financial measures and peer group comparative measures to achieve better alignment between executive director and shareholder objectives and to reinforce BPB's focus on creating shareholder value in a period of heavy capital expansion. Short and medium term incentives are provided through an annual bonus scheme with opportunity for partial deferral into BPB shares; other medium term and all long term incentives are delivered in the form of options over, or performance-related awards of, BPB shares. Executive directors are required to comply with share ownership guidelines. Remuneration arrangements and performance targets are reviewed on a regular basis to achieve these strategic objectives, the targets being designed to remain stretching in the light of on-going forecasts.

The Committee strives to ensure that the remuneration policy provides a strong and demonstrable link between incentives and the group's strategy, and sets a performance-biased framework for remuneration which is consistent with the group's scale, which motivates its growing international spread of managers and which enables executives to share in the long term success of the group, without delivering excessive benefits. As a result of this year's review, the Committee has concluded that the existing policy continues to serve the company and shareholders well and will remain in place for 2005/06. The Committee has reviewed the current trends and best practice in performance targets and is satisfied that the structure and level of BPB's existing earnings per share (EPS) and total shareholder return (TSR) performance conditions remain sufficiently challenging and appropriate for grants to be made under the senior executive share option scheme and performance share plan during 2005/06. It also considers it appropriate to continue to include a demanding return on investment (ROI) target in the matrix of measures which determine annual bonuses.

ELEMENTS OF REMUNERATION FOR EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

The principal components of remuneration for executive directors and senior executives are base salary and benefits in kind, annual bonus opportunity, medium/long term share-based incentives and pension benefits; these are explained further below.

- **Base salary and benefits in kind** are generally reviewed with effect from 1 April each year. Base salary is set within a range around the market median for comparable industrial companies to reflect the size and nature of the job, individual performance and experience, comparator group relativities, BPB's performance and the policies adopted for other groups of staff within the company. Benefits include a company car or equivalent cash allowance, health insurance and, where appropriate, relocation assistance, all in line with entitlements provided for executives in similar positions in comparable industrial companies.

- **Annual bonus opportunity** based upon specific and challenging targets which are objective and measurable, set at the start of each financial year and weighted to reflect each participant's role within the group; the Committee may, in exceptional circumstances, also award discretionary bonuses, but no such awards have been made in the last five years.

The annual bonus opportunity comprises up to five discrete elements: a business unit component, a group of key performance indicators (KPI), a corporate EPS component, an ROI measure and personal objectives. Payments for business performance are related to relevant operational results (primarily operating profit), with awards made in return for achievement above target. The key performance indicators measure performance related to factors such as safety improvement, cost reduction and the implementation of world class manufacturing and other group change initiatives, with payments being made for achievement of stretching targets. The corporate EPS component (the largest single element of bonus) is geared to group underlying earnings per share, with bonuses only being generated above a demanding threshold level. The ROI measure rewards performance related to the creation of long-term shareholder value, with payments being made for achievement above stretching targets; in future, these will contain relative as well as absolute performance measures. An element of each director's maximum entitlement is measured against clearly defined personal objectives orientated towards specific actions or projects.

While the mix of KPI and personal targets will depend on the individual responsibilities and job function of each director, only those with direct responsibility for operating companies (Jean-Pierre Clavel, Mark Higson and Paul Withers) have a business unit component (representing between 5 and 20 percentage points of potential bonus); all directors have EPS and ROI corporate components (representing in aggregate between 60 and 80 percentage points of potential bonus), and KPI/personal components (representing between 10 and 20 percentage points of potential bonus). Specific targets are not disclosed as they would give a clear indication of the group's business targets, which are commercially sensitive.

Bonuses (which are all payable in cash but which may in part be deferred into BPB shares) are disclosed for the year in which they are earned although they are not due and payable until the following June, and they are not pensionable. The maximum performance-related bonus targets, achievable only by full participation in the deferred share bonus plan, are 90% of base salary for executive directors and 100% for the chief executive, with generally lower limits being applicable to other senior executives. For the achievement of target performance, 45% of maximum entitlement is payable for most components of bonus.

Executive directors and eligible senior executives are now able to participate in a deferred share bonus plan whereby each year one half of their actual cash bonus earned can be deferred and invested in the company's shares to be held by an employee share trust. Provided the executive remains in employment the shares will normally be released after three years, assisting the accumulation of greater long-term shareholdings by participants. For those executives who opt not to participate in this plan the cash bonus available will be reduced by half the value of the deferred share right foregone, with the result that the total cash bonus paid will be 25% lower.

Initial awards under the deferred share bonus plan will be granted around June/July 2005 when bonuses for 2004/05 will be payable. Assuming full participation in the plan, bonuses actually earned by executive directors in 2004/05 will have averaged 89.8% compared with 76.9% in the previous year including the value of bonus matching awards made under the former share matching plan. With no deferral into shares the average bonus earned will be 67.3% (2004 55.5% excluding the grant of matching awards). These payments reflect the significant improvement in results achieved by the group over the last two years.

- **Share matching plan allocations** were awarded for the last time in July 2004 (when bonuses earned in 2003/04 were paid) under a BPB plan whereby eligible directors and selected senior executives were invited to invest up to half of their actual cash bonus (net of deductions) in the company's shares. In return, participants were granted a matching award over a number of shares equal in value to the amount of bonus invested (before deductions). Provided the executive remains in employment, the matching awards are normally exercisable after three years, but only if the shares purchased with the bonus have not been sold.

In this way each executive was invited to commit part of his earned performance-tested bonus for a three year period in return for additional shares in the group. Vesting of the matching award will (unless it amounts to less than 20% of base salary when granted) depend upon BPB's TSR performance. As each outstanding award was below this threshold when granted, the vesting of such awards is not dependent upon the achievement of the performance condition, although the bonus payments on which the awards had been based had themselves already been performance tested.

Following the introduction of the deferred share bonus plan, the share matching plan has been withdrawn and no new awards will be made under it.

- **Performance share plan awards** operate in conjunction with the senior executive share option scheme (see below). Under the plan, awards are granted to executive directors and selected senior executives over company shares worth up to a maximum of one times base salary each year, although proportionally higher grants may be made where an executive agrees to satisfy the employer's National Insurance Contribution liability arising when awards vest. Vesting of the awards will be subject to the achievement of demanding performance criteria, with 50% of each award being subject to BPB's relative TSR performance and the remaining 50% being subject to BPB's actual EPS performance. Taking performance share awards and share options together, the overall weighting of performance criteria will effectively be 75% EPS and 25% TSR. A fixed three-year performance period will apply to all performance share awards, with no retesting.

Under the TSR performance condition, which measures the change in value of a share and reinvested dividends over the period of measurement, BPB's performance will be compared to a bespoke comparator group of 20 UK and international quoted construction and building materials companies, with no vesting below median TSR, 25% of this portion of the award (12.5% of the total) vesting for median performance and full vesting (50% of the total) for upper quartile performance; a sliding scale of vesting will be applied for performance between median and upper quartile performance. Measuring the company's performance against the comparator companies recognises the importance to shareholders that the company should outperform its peers and seeks to align executives' interests with those of shareholders. The preparation and calculation of such comparison will be determined by the Committee with the assistance of independent remuneration consultants.

The composition of the comparator group is reviewed annually by the Committee. The current group of comparator companies (applicable for awards in 2005) comprises:

| | |
|-------------------------------|-----------------------------|
| Boral Ltd | Cemex SA de CV |
| Compagnie de Saint Gobain SA | CRH plc |
| CSR Ltd | Eagle Materials Inc |
| Florida Rock Industries Inc | Hanson plc |
| HeidelbergCement AG | Holcim Ltd |
| Italcementi SpA | James Hardie Industries Ltd |
| Kingspan Group plc | Lafarge SA |
| Martin Marietta Materials Inc | Pilkington plc |
| Rinker Group Ltd | Societe Ciments Francais SA |
| Vulcan Materials Company | Wienerberger AG |

The EPS performance condition requires substantial improvement in the underlying financial performance of the company before awards vest, 25% of this portion of the award will vest for achievement of EPS growth of UK RPI plus an annual average of 3 percentage points during the performance period, rising to full vesting for achievement of UK RPI growth plus 8 percentage points per annum, with a sliding scale of vesting being applied between these performance levels. These targets will be reviewed annually by the Committee to ensure that they remain demanding for future award grants. In the event of a change of control, awards will normally vest on a pro-rata basis by reference to the length of time since the award was granted, and only if the performance conditions can effectively be regarded as having been satisfied at that time. The EPS figure for both the performance share plan and senior executive share option scheme (see below) is determined in accordance with FRS14 adjusted to exclude goodwill amortisation and exceptional items as disclosed in the group's annual accounts for the relevant period. With the advent of reporting under International Financial Reporting Standards (IFRS) it is anticipated that, for the purposes of comparison,

REMUNERATION COMMITTEE'S REPORT

the Committee will in future agree an approach for re-stating future (IFRS) EPS figures under the current (UK GAAP) approach.

Where performance share awards are granted in any year this will reduce the capacity to grant options to an executive under the company's senior executive share option scheme within that scheme's effective annual limit of, from 2005, two times base salary (previously two times earnings). The aggregation of the value of performance share and option awards in this way will mean that the maximum limit on share based awards available in any year from 2005 will be two times base salary; for this purpose, one performance share will be valued as equivalent to two shares under option.

- **Share option allocations** under the company's various equity participation schemes. BPB policy for new option grants made to executive directors and senior executives after 2004 is generally to grant options over shares under the senior executive scheme approved by shareholders in 2001 (the 2001 plan) with a value up to two times base salary in any year (previously two times earnings), although grants of options in excess of this limit may be made where the executive agrees to satisfy the employer's National Insurance Contribution liability arising on the exercise of options, or if the Committee and Board decide that this is justified in the circumstances of recruitment, or in other exceptional circumstances. While the Committee believes that the individual annual limit of two times base salary is appropriate and in line with market practice, only the most senior participants in the 2001 plan are likely to receive awards at this level, with other senior executives receiving lower levels of grant commensurate with seniority and performance.

Exercise of all options will be subject to the achievement of a performance condition. To focus executive directors on generating real earnings growth, BPB's earnings per share (EPS) must grow by at least an annual average of 3 percentage points over the growth in the UK RPI for a period of at least three years measured from a fixed base beginning at the end of the financial year last preceding the date of grant, and any grants with a value greater than one times salary in a year, in respect of the excess, require EPS growth to exceed the UK RPI by at least an annual average of 6 percentage points over the same period (previously 4 percentage points over the same period) for full vesting. A sliding scale of vesting between these hurdles applies for the higher levels of grant. For grants made in 2004 there is one retesting opportunity at the end of year four, while from 2005 onwards there will be no retesting of new grants made to executive directors and senior executives, so if the performance condition is not met after the three year period, the option will lapse. In the event of a change of control, options will normally vest on a pro-rata basis, by reference to the length of time since the option was granted and only if the performance conditions can effectively be regarded as having been satisfied at that time. The 2001 plan also affords beneficial tax and social security charge treatment for share options granted to participants who are resident in France, including Jean-Pierre Clavel, provided certain criteria are met as to the setting of the price at which options are granted and the exercise period during which such options are exercisable (normally only exercisable from the fourth anniversary of the date of grant).

Executive directors are eligible to participate in the company's SAYE scheme, which is open to all UK employees with at least one year's service. It permits the grant of options to acquire ordinary shares in the company (at a discount of up to 20% of the share price at the time of invitation) and is linked to a bank save-as-you-earn contract, with a maximum savings limit of £250 per month.

Executive directors are also eligible to participate in the BPB UK employee share ownership plan. This is an Inland Revenue approved plan and is open to all UK employees with at least 18 months' service. The plan permits the purchase of existing BPB shares from pre-tax salary on a monthly basis at prevailing market prices, subject to a maximum of £125 per month.

The company complies with the ABI/NAPF dilution limits restricting the number of new shares which can be issued in pursuance of awards granted under all of the company's employee share schemes in a 10-year period to 10% of the company's ordinary share capital in issue from time to time, and with the 5% in 10 years limit for discretionary schemes; as at the year end, the amount utilised was 5.9% for the former and 3.3% for the latter (2004 5.9% and 3.1% respectively).

- **Share ownership guidelines** to better align executive director interests with those of shareholders were introduced for executive directors in 2004. The guidelines require each executive director to build up and maintain a holding in shares of the company to the value of one times base salary. Executive directors have five years from the date of their appointment to build and maintain this level of shareholding, or, if later, two years from 1 April 2004. The value of a holding is based essentially on the cost of the shares to the director on the date they are acquired, and not their market value at any given point in time.

- **Pension provision** for directors (except in the case of Jean-Pierre Clavel – see note (vi) on page 44) of up to two-thirds of their final year's base salary at the normal retirement age of 60 (less than two-thirds where service to age 60 is below 20 years) under the BPB senior executive pension scheme, a tax approved, defined benefit, funded scheme, subject to an independent trust under which contributions are payable by the company. Directors may retire and draw their pensions earlier than age 60, in which case the pension payable will be reduced by up to 4%, dependent on the circumstances of their retirement, for each year early. On death before retirement a lump sum of four times the annual rate of base salary is provided together with a spouse's/financial dependants' pension of two-thirds of the director's prospective pension at age 60; a pension of two-thirds of the director's pre-commutation pension is payable on death after retirement. Child allowances of up to one-third of the director's prospective or actual pension at age 60 are payable on death both before and after retirement. Once in payment, pensions are guaranteed to increase in line with inflation up to a maximum of 5% per annum (or higher if the Board agrees).

For executive directors who entered service after 31 May 1989, the benefits which can be provided under the BPB senior executive pension scheme are restricted by the operation of the Inland Revenue earnings cap. Such executive directors receive an additional unfunded pension entitlement from the company on an equivalent basis to compensate for the shortfall.

The details of future pension arrangements for UK executives remain under review in light of the Government's proposals for simplification of the pension tax regime with effect from April 2006. While the Committee will seek as far as possible to maintain the existing pensions promise, it has, however, decided that BPB's policy decisions will be made within a framework built around the principles of broad cost neutrality to the company, no compensation for extra personal taxation and relative simplicity, durability and flexibility.

OTHER REMUNERATION MATTERS

Service agreements

Notwithstanding the possible necessity to offer a longer initial period immediately following appointment, new executive directors will be employed on a contract that can be terminated by the company on giving one year's notice, with the director required to give not less than six months' notice of termination. The contracts of Richard Cousins, Mark Higson, Paul Withers, Paul Hollingworth and Bob Heard are all terminable by the company on one year's notice. These were granted to the first three on 31 March 2001, Paul Hollingworth on 1 July 2002 and Bob Heard on 1 June 1995.

As many of Jean-Pierre Clavel's operational duties, and his pension rights and tax residency, lie in or are based on his location in France, he has retained the French-based contract of employment granted on 6 April 1999 he held immediately prior to his appointment as an executive director in May 2000, which entitles him to receive six months' notice from the company plus 12 months' severance entitlement under French law determined by his length of service. Under French law an additional payment would also be required if the company wished to enforce a non-competition provision in his contract following termination. He also has a collateral employment agreement dated 22 May 2000 in respect of his appointment as a parent company director which is coterminous with his French agreement but also capable of termination in its own right on six months' notice. He is required to give not less than six months' notice of termination under both agreements.

The Committee continues to believe that in the event of early termination it is better to consider the specific circumstances of each case, including where appropriate phased payment of compensation over a fixed period or until the executive director finds a new position, if earlier, and mitigation of payment of compensation through providing a legal obligation on the part of the outgoing executive director to seek new employment, rather than explicitly provide for compensation commitments in service contracts.

The Committee will continue to monitor the appropriateness of these policies in the light of market practice to ensure that they allow the company to attract and retain executive directors of the right calibre.

Policy on external appointments

Although there are none at present, the Committee believes that the company can benefit from executive directors holding one approved non-group directorship, offering directors the opportunity to broaden their experience and knowledge. Company policy is to allow directors to retain fees paid from any such appointment. Executive directors are not permitted to take on the chairmanship of a FTSE 100 company.

Non-executive directors

Non-executive directors are normally appointed for an initial period of three years; re-appointment is not automatic, they do not have service contracts with the company and they receive no benefits other than their fees, the rate of which is £35,000 per annum. No additional fees are paid to reflect time spent working on Board committees.

Since his appointment as group chairman on 21 July 2004, Sir Ian Gibson has received remuneration at the rate of £155,000 per annum in addition to his non-executive director fees; prior to that date he had received remuneration at the rate of £57,000 per annum in addition to his non-executive fees in his role as deputy chairman. From his appointment to the role on 21 July 2004, the senior independent director, Franz Leibenfrost, has received additional remuneration of £5,000 per annum.

The chairmen of the audit committee, the remuneration committee, the safety, ethics & environment committee and the nomination & management development committee each receive additional remuneration; this is payable at the rate of £10,000 per annum for the first committee, £7,500 per annum for the second committee and £5,000 per annum for the other two, the varying rates reflecting the differing burdens of the roles of the four respective chairmen. Until 21 July 2004 the rate of pay for the chairman of the audit committee was £7,500 per annum.

REMUNERATION FOR THE YEAR TO 31 MARCH 2005

The total emoluments of the directors for the year to 31 March 2005 were as shown in the table below.

| | Year to 31 March | | | 2005 | | 2004 | |
|------------------------------------|-------------------------|--------------------------|-----------------------------|--|--|--|--|
| | Salary/ fees £000 | Bonus note(i) £000 | Other emoluments £000 | Total including DSB awards note(i) £000 | Total excluding DSB awards note(i) £000 | Total including SMP awards note(i) £000 | Total excluding SMP awards note(i) £000 |
| Directors' emoluments | | | | | | | |
| Chairman | | | | | | | |
| Sir Ian Gibson (from 21 July 2004) | 160 | - | - | 160 | 160 | 83 | 83 |
| AG Gormly (to 21 July 2004) | 56 | - | - | 56 | 56 | 172 | 172 |
| Chief executive | | | | | | | |
| RJ Cousins | 550 | 533 | 22 | 1,105 | 972 | 952 | 842 |
| Executive directors | | | | | | | |
| J-P Clavel | 317 | 287 | 13 | 617 | 545 | 462 | 406 |
| RM Heard | 220 | 193 | 13 | 426 | 378 | 385 | 341 |
| MV Higson | 285 | 244 | 14 | 543 | 482 | 474 | 417 |
| PR Hollingworth | 320 | 274 | 14 | 608 | 539 | 536 | 472 |
| PN Withers | 290 | 248 | 15 | 553 | 491 | 496 | 438 |
| Non-executive directors | | | | | | | |
| G Acher | 44 | - | - | 44 | 44 | 38 | 38 |
| Lady Balfour of Burleigh | 40 | - | - | 40 | 40 | 39 | 39 |
| AJ Dougal | 35 | - | - | 35 | 35 | 23 | 23 |
| DC Hamill (from 26 January 2005) | 6 | - | - | 6 | 6 | - | - |
| E Henkes | 40 | - | - | 40 | 40 | 23 | 23 |
| FJ Leibenfrost | 44 | - | - | 44 | 44 | 38 | 38 |
| Former directors | | | | | | | |
| | - | - | - | - | - | 62 | 62 |
| Total emoluments | 2,407 | 1,779 | 91 | 4,277 | 3,832 | 3,783 | 3,394 |
| 2004 analysis | 2,291 | 1,007 | 96 | | | | |

(i) The individual bonus payments shown above assume full participation in June/July 2005 in the Deferred Share Bonus plan referred to on page 41; the total for the year to 31 March 2005 excluding any DSB awards includes alternative cash bonuses 25% lower than those shown, totalling £1,334,000. Totals for the year to 31 March 2004 have similarly been shown with and without the value of bonus matching awards made under the former Share Matching Plan.

(ii) Executive salaries were generally increased to align with market median benchmarks on 1 April 2004. Sir Ian Gibson received additional remuneration as deputy chairman prior to his appointment as chairman on 21 July 2004.

(iii) Bonus payments reflect the significant improvement in financial results, high levels of achievement against targets and the revised structure of awards introduced with shareholder support last year.

(iv) The Board has agreed with Allan Gormly that he will continue to assist the group in dealing with matters arising out of its appeal against the EC fine levied in November 2002 by the European Commission on BPB and other major competitors in the European plasterboard industry for allegedly attempting to stabilise certain EU markets between 1992 and 1998. He will receive a fee for each day's consultation services which the company decides to call for in this capacity, with the amount paid being included within the figure for payments made to former directors.

REMUNERATION COMMITTEE'S REPORT

Executive Committee

The aggregate emoluments for the year to 31 March 2005 of the three members of the executive committee who are not executive directors were as shown in the table below.

| Emoluments of additional executive committee members | 2005 | | 2004 | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | Including OSB awards £000 | Excluding OSB awards £000 | Including OSB awards £000 | Excluding OSB awards £000 |
| Salaries | 648 | 648 | 593 | 593 |
| Bonus | 547 | 410 | 443 | 318 |
| Other emoluments | 34 | 34 | 33 | 33 |
| Total emoluments | 1,229 | 1,092 | 1,069 | 944 |

- (i) Salaries for the year to 31 March 2004 did not include the full amount of increases made part way through that year as a consequence of changes in the group's management structure.
(ii) Bonuses have increased for the same reasons as explained above for executive directors.

Pensions

The table below shows the accrued pension benefits and transfer values for individual executive directors under the BPB senior executive pension scheme, including (where appropriate) unfunded, unapproved arrangements. Jean-Pierre Clavel's position is explained separately in note (vi) to the table.

| Executive directors' pension benefits | Age at 31 March 2005 | Total accrued pension as at | | Gross increase in accrued pension during the year £ | Increase in accrued pension during the year net of inflation of 3.1% £ | Transfer value of total accrued pension as at | | Increase in transfer value for the year to 31 March 2005 £ |
|---------------------------------------|----------------------|-----------------------------|--------------------|--|---|---|--------------------|---|
| | | 1 April 2004 £ | 31 March 2005 £ | | | 1 April 2004 £ | 31 March 2005 £ | |
| RJ Cousins | 46 | 157,895 | 186,550 | 28,655 | 23,760 | 1,593,472 | 1,991,111 | 397,639 |
| RM Heard | 52 | 109,060 | 119,187 | 10,127 | 6,746 | 1,535,663 | 1,767,628 | 231,965 |
| MV Higson | 48 | 93,721 | 110,038 | 16,317 | 13,411 | 1,090,294 | 1,353,761 | 263,467 |
| PR Hollingworth | 44 | 17,033 | 29,333 | 12,300 | 11,772 | 162,951 | 296,832 | 133,881 |
| PN Withers | 48 | 108,377 | 123,125 | 14,748 | 11,388 | 1,256,385 | 1,509,532 | 253,147 |

- (i) Total accrued pensions are those which would be paid annually on retirement at normal retirement age based on service at 31 March 2005.
(ii) Transfer values have been calculated on the basis of actuarial advice in accordance with actuarial guidance note GN11. They represent a liability of the pension scheme to the extent they are funded and otherwise they are a liability of the company, rather than any remuneration due to the executive director, and cannot meaningfully be aggregated with annual remuneration, and do not represent money the executive director is entitled to receive. Transfer values increased during the year primarily because of the accrual of one year's additional benefit and the ageing of directors.
(iii) No contributions were made to the pension scheme by directors during the year.
(iv) The accumulated unfunded pension provision as at 31 March 2005 is £8,257,000 (2004 £7,686,000) including provision in respect of three (2004 three) former directors; payments are disclosed as pensions paid to past directors when they are made. During the year £302,808 was paid in respect of three former directors (2004 £294,560 for three former directors).
(v) With the exception of Jean-Pierre Clavel (see note (vi) below), the contributions paid by the company on the basis of the full service cost, as advised by the actuaries, for the funded entitlements explained in the pension provision section set out on page 42 was 35% of salary.
(vi) Jean-Pierre Clavel (age 57 at 31 March 2005) is a member of the French complementary pension schemes (known as ARRCO and AGIRC) for his French earnings, to which the group contributed £30,317 in 2004/05 (2003/04 £20,689). He is also entitled to an unfunded, top-up cash balance plan from the company which aims to provide 13.5% of final salary at age 60 or 22% at age 65. When aggregated with his estimated State pension, this is targeted to provide a pension of 40% of final salary at age 60 or 52% at age 65. On death after age 60 a spouse's pension of two-thirds of his entitlement under the plan at that time would be provided. No pension benefits are payable from the plan if he decides to leave the company before reaching age 60. For that part of his basic salary paid in the UK (£35,000 in 2004/05), no pension is being accrued.

Ordinary shares and share matching awards

The interests of the directors who held office on 31 March 2005 in the company's ordinary shares (including shares acquired during the year under the UK employee share ownership plan) as at that date and 1 April 2004 (or their date of appointment, if later), together with movements in the matched shares awarded under the share matching plan, were as shown in the table on page 45.

No changes in those interests occurred in the period between 1 April 2005 and 4 May 2005, except for monthly purchases of shares under the company's UK employee share ownership plan which resulted in Richard Cousins, Bob Heard, Mark Higson and Paul Withers acquiring 26 shares and Paul Hollingworth acquiring 25 shares during that period.

All of those interests were held beneficially. During the year none of the directors had any interest in the company's 6.5% euro denominated bonds due 2010.

Executive directors were entitled to participate in the company's share matching plan, under which they purchased for cash during the year a total of 53,380 shares in their own names at 399.5p per share. Directors were then granted matched awards for a nil consideration over a total of 97,227 shares which are held by the BPB Employee Trust and which are normally accessible only from 8 July 2007.

At the year end, directors held matched shares awarded under the share matching plan over a total of 263,234 shares (2004 192,536) which are normally exercisable between the third and seventh anniversaries of the date of grant. The executive directors, as potential beneficiaries of the BPB Employee Trust, are also deemed to have an interest in all 913,006 BPB ordinary shares held by the Trust at 31 March 2005 (2004 467,443); similarly, they are also deemed to have an interest in all 5,188 ordinary shares held by the BPB QUEST (see note 24 on page 62) at 31 March 2005 (2004 614,332).

| Directors' interests in ordinary shares and share matching awards | 1 April 2004 ^a | | | | 31 March 2005 | |
|---|---------------------------|-----------------------------|---------|---|-----------------------------|---------|
| | shares | Share matching awards | Granted | Share matching award movements Exercised | Share matching awards | Shares |
| G Acher | 3,000 | - | - | - | - | 5,000 |
| Lady Balfour of Burleigh | 3,400 | - | - | - | - | 3,840 |
| J-P Clavel | 29,448 | 23,446 | 13,926 | 12,118 | 25,254 | 42,255 |
| RJ Cousins | 76,977 | 64,672 | 27,517 | 4,677 | 87,512 | 111,259 |
| AJ Dougal | 5,000 | - | - | - | - | 5,000 |
| Sir Ian Gibson | 26,370 | - | - | - | - | 51,369 |
| DC Hamill (from 26 January 2005) | - | - | - | - | - | 1,000 |
| RM Heard | 57,989 | 27,225 | 11,006 | 2,763 | 35,468 | 66,471 |
| E Henkes | - | - | - | - | - | - |
| MV Higson | 26,480 | 32,616 | 14,259 | 3,754 | 43,121 | 48,011 |
| PR Hollingworth | 27,548 | 12,883 | 16,010 | - | 28,893 | 37,118 |
| FJ Leibenfrost | 5,000 | - | - | - | - | 5,000 |
| PN Withers | 110,192 | 31,694 | 14,509 | 3,217 | 42,986 | 128,026 |
| | 373,404 | 192,536 | 97,227 | 26,529 | 263,234 | 504,349 |

^afor date of appointment, if later

- (i) Share matching awards were granted during the year on 8 July 2004 when the market price was 399.5p; they normally become exercisable between the third and seventh anniversary from that date.
- (ii) The aggregate pre-tax gain in value on the exercise by executive directors of matched awards during the year was £116,018 (2004 £82,563). Jean-Pierre Clavel exercised an award over 4,661 shares and the remaining directors exercised awards as shown in the table above all at a market price on the date of exercise of 404.5p per share, such awards having been granted on 5 July 2001 (when the prevailing market price was 260p) and which had first become exercisable on 5 July 2004 (when the prevailing market price was 406.5p). In addition, Jean-Pierre Clavel exercised an award over 1,457 shares at a market price on the date of exercise of 521.3p; this had been granted on 10 July 2000 and had first become exercisable on 10 July 2003, when the prevailing market prices were 300p and 331p respectively. Apart from sales of some shares to meet associated tax and national insurance liabilities, all shares acquired on the exercise of these awards were retained by each director.
- (iii) At the year end, executive directors held an average of 72,190 shares, an increase of almost 32% on the 54,772 shares they held on 1 April 2004.

Share options

Executive directors are entitled to participate in the company's SAYE and senior executive share option schemes, and the interests of those who held office on 31 March 2005 are set out in the table below; details of the total number of options granted and shares outstanding under these schemes are given in note 24 on page 62.

allowance of approximately 13% of the number of shares under option to compensate directors for assuming the company's National Insurance Contribution liability on the gain arising on the exercise of each option. Excluding that allowance, no option exceeded two times any director's earnings. No SAYE share options were granted to executive directors during the year.

During the year, executive share options over 763,500 shares at an option price of 412p per share were granted to executive directors under the 2001 plan as set out in the table below. All of these options were unapproved options and (apart from Jean-Pierre Clavel's, which was granted under the France schedule of the plan) include a proportionate

After allowing for the exercise of options during the year as set out below, at the year end directors held options over a total of 33,551 shares under the SAYE scheme and 3,785,200 shares under the senior executive share option schemes.

| Directors' interests in share options | 1 April 2004 | Option movements | | | 31 March 2005 | Earliest date from which any option is exercisable | Latest expiry date |
|--|--------------|------------------|-----------|--------|---------------|---|--------------------------|
| | | Granted | Exercised | Lapsed | | | |
| J-P Clavel | 583,100 | 75,200 | 58,200 | - | 600,100 | 29 June 2003 | 1 July 2014 |
| RJ Cousins | 1,542,410 | 232,600 | 662,800 | - | 1,112,210 | 1 Aug 2004 | 1 July 2014 |
| RM Heard | 598,333 | 92,600 | 235,300 | - | 455,633 | 5 July 2005 | 1 July 2014 |
| MV Higson | 817,036 | 114,500 | 358,400 | - | 573,136 | 15 July 2002 | 1 July 2014 |
| PR Hollingworth | 396,436 | 129,900 | - | - | 526,336 | 5 July 2005 | 1 July 2014 |
| PN Withers | 707,236 | 118,700 | 274,600 | - | 551,336 | 5 July 2005 | 1 July 2014 |
| | 4,644,551 | 763,500 | 1,589,300 | - | 3,818,751 | | |

- (i) Options over shares granted under the SAYE scheme are normally exercisable for six months after the third or fifth anniversary of the commencement of the related savings contract.
- (ii) Options over shares granted under the senior executive share option schemes are normally exercisable between the third and tenth anniversaries of the date of grant, apart from options granted in 1997 which are normally exercisable between the third and seventh anniversary and options granted under the France schedule of the 2001 plan, which are normally exercisable between the fourth and tenth anniversaries of the date of grant.
- (iii) All senior executive share options are subject to the achievement of a performance condition, which may impact the earliest date from which an option is exercisable.
- (iv) Senior executive share options were exercised over a number of shares during the year as follows: Jean-Pierre Clavel - 58,200 shares at an option price of 395p and a market price on date of exercise of 490.7p; Richard Cousins - 351,900 shares at 256p, 8,300 at 333p, 35,400 at 395p and 267,200 at 348p were all exercised at a market price of 447p; Bob Heard - 67,400 shares at 348p and 7,200 at 333p were exercised at a market price of 400p, and 10,100 shares at 395p and 150,600 at 256p were exercised at a market price of 447p; Mark Higson - 35,200 shares at 327p were exercised at a market price of 403p, and 172,800 shares at 256p, 20,600 at 333p and 129,800 at 348p were exercised at a market price of 447p; Paul Withers - 96,500 shares and 76,400 at 256p were exercised at a market price of 447p and 470p respectively, and 8,400 shares at 333p, 73,100 at 348p and 20,200 at 395p were exercised at a market price of 540p.
- (v) The aggregate gain in value on the exercise of such options, before tax and employee's national insurance (but after allowing £209,680 in respect of employer's national insurance liability met by executive directors exercising those options) was £2,187,744 (2004 £108,452).

REMUNERATION COMMITTEE'S REPORT

The weighted average prices of directors' share options, together with the pre-tax gain in value of those which could have been exercised to produce a surplus at the year end share price of 496.5p, were as shown below.

| Directors' share options outstanding | Weighted average option prices (in pence per share) at 31 March 2005 | | | | Pre-tax gain in value (note(i)) of exercisable options at 31 March 2005 £ |
|--------------------------------------|--|-------|---------------------|-------|--|
| | Exercisable | | Not yet exercisable | | |
| | Number | Price | Number | Price | |
| J-P Clavel | 55,100 | 348 | 545,000 | 313 | 81,824 |
| RJ Cousins | 2,300 | 256 | 1,109,910 | 335 | 5,532 |
| RM Heard | – | – | 455,633 | 334 | – |
| MV Higson | 22,400 | 395 | 550,736 | 335 | 22,736 |
| PR Hollingworth | – | – | 526,336 | 337 | – |
| PN Withers | – | – | 551,336 | 336 | – |

(i) There is no company National Insurance Contribution liability due on any of the exercisable options.

(ii) Executive share options granted since 2000 may only be exercised if they meet the performance conditions set out on page 42; those granted prior to that date may only be exercised if the growth in BPB's earnings per share exceeds the growth in the UK Retail Prices Index by at least 6 percentage points over any three year period following each relevant date of grant.

The market value of the company's shares during the year was in the range 345p to 543.5p per share.

The register of directors' interests, which is open to inspection, contains full details of directors' shareholdings, share options, share ownership plan holdings, share matching awards and performance share awards.

Performance share plan

Executive directors and senior executives are entitled to participate in the company's performance share plan, which was approved by shareholders at the 2004 annual general meeting. Initial awards under this plan utilised shares acquired at a price of 407.3p and were granted for nil consideration on 30 July 2004, when the prevailing market price was 393.3p; these awards will vest on 30 July 2007 to the extent that the performance conditions set out on page 41 are satisfied. The interests of executive directors who held office on 31 March 2005 are set out below.

| Directors' interests in performance share awards | 1 April 2004 | Award movements | | | 31 March 2005 |
|--|--------------|-----------------|--------|--------|---------------|
| | | Granted | Vested | Lapsed | |
| J-P Clavel | – | 38,054 | – | – | 38,054 |
| RJ Cousins | – | 102,317 | – | – | 102,317 |
| RM Heard | – | 40,736 | – | – | 40,736 |
| MV Higson | – | 50,395 | – | – | 50,395 |
| PR Hollingworth | – | 57,171 | – | – | 57,171 |
| PN Withers | – | 52,229 | – | – | 52,229 |
| | – | 340,902 | – | – | 340,902 |

Audited information

The information in this report which has been audited is included in the tables and related notes entitled directors' emoluments, executive directors' pension benefits, directors' interests in ordinary shares and share matching awards, directors' interests in share options, directors' share options outstanding and directors' interests in performance share awards.

On behalf of the Board

E Henkes

Chairman of the Remuneration Committee

18 May 2005



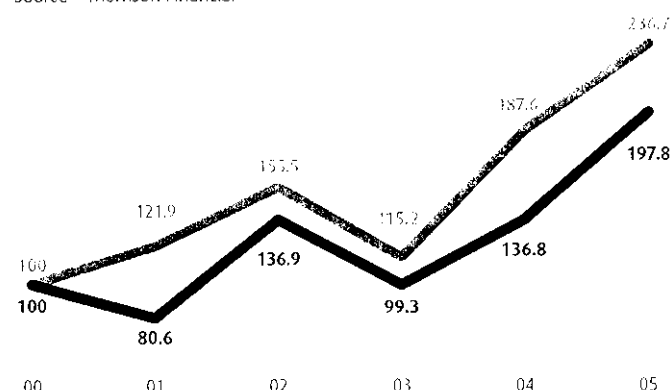
Performance graph

In accordance with the Regulations, the graph below shows the total shareholder return performance of the company and that of the FTSE 350 Construction & Building Materials index over the five year period to 31 March 2005; although BPB underperformed the index by 16% in that period it outperformed the index by 15% during the year to 31 March 2005. This index has been selected as it is a broad equity index of which BPB is a constituent member.

Total shareholder return

Indexed change in year end share price plus dividend

Source – Thomson Financial



● BPB

● FTSE 350 Construction & Building Materials index

RESPONSIBILITIES OF THE DIRECTORS FOR THE PREPARATION OF FINANCIAL STATEMENTS

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company and the group as at the end of each financial year and of the profit or loss of the group for that period. They are also responsible for maintaining proper accounting records, for safeguarding the assets of the group and for preventing and detecting fraud and other irregularities.

In preparing these financial statements on a going concern basis, the directors have ensured that appropriate accounting policies have been used and been applied consistently, that applicable accounting standards have been followed and that reasonable and prudent judgements have been made.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BPB PLC

We have audited the group's financial statements for the year ended 31 March 2005 which comprise the group profit and loss account, balance sheets, group cash flow statement, group statement of total recognised gains and losses and the related notes 1 to 30. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the remuneration committee report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the annual report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the statement of directors' responsibilities above. The directors are also responsible for preparing the remuneration committee report.

Our responsibility is to audit the financial statements and the part of the remuneration committee report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the listing rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration committee report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the listing rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement reflects the group's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the listing rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises the directors' report, unaudited part of the remuneration committee report, chairman's statement, chief executive's review, operating and financial review, corporate responsibility statement, corporate governance statement, the financial highlights and five year statistical summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the remuneration committee report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the remuneration committee report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration committee report to be audited.

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2005 and of the profit of the group for the year to that date; and
- the financial statements and the part of the remuneration committee report to be audited have been properly prepared in accordance with the Companies Act 1985

Ernst & Young LLP
Registered Auditor
London 18 May 2005



GROUP PROFIT AND LOSS ACCOUNT

| Year to 31 March | Note | 2005 £m | 2004 £m |
|--|------|----------------|----------------|
| TURNOVER | | | |
| Group and share of joint ventures and associates | | 2,373.5 | 2,220.1 |
| Less: share of joint ventures' turnover | | (26.4) | (22.5) |
| share of associates' turnover | | (30.3) | (26.8) |
| GROUP TURNOVER | 3 | 2,316.8 | 2,170.8 |
| Cost of sales | 4 | (1,516.4) | (1,451.5) |
| GROSS PROFIT | | 800.4 | 719.3 |
| Net operating expenses | 4 | (528.0) | (516.9) |
| OPERATING PROFIT | | | |
| On-going before exceptional items | | 291.8 | 231.2 |
| Exceptional items – on-going operations: Aberdeen closure costs | 8 | (34.0) | – |
| Canadian pension refund | 8 | 14.6 | – |
| Purfleet closure costs | 8 | – | (28.8) |
| Group operating profit | 3 | 272.4 | 202.4 |
| Share of operating profit in: | | | |
| Joint ventures | | 2.4 | 1.7 |
| Associates | | 5.4 | 4.0 |
| Non-operating exceptional items: | | | |
| Disposals of fixed assets | 8 | 8.8 | 4.0 |
| Sale and termination of operations | 8 | (1.9) | 0.3 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST | | 287.1 | 212.4 |
| Net interest payable | 9 | (28.4) | (32.1) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAX | | 258.7 | 180.3 |
| Tax on profit on ordinary activities | 10 | (74.5) | (63.0) |
| Profit on ordinary activities after tax | | 184.2 | 117.3 |
| Minority interests | | (1.9) | (2.3) |
| PROFIT ATTRIBUTABLE TO BPB PLC | | 182.3 | 115.0 |
| Dividends | 11 | (80.0) | (70.4) |
| RETAINED PROFIT FOR THE YEAR | | 102.3 | 44.6 |
| BASIC EARNINGS PER SHARE | 12 | 36.7p | 23.4p |
| Diluted earnings per share | 12 | 36.4p | 23.3p |
| DIVIDENDS PER SHARE | 11 | 16.00p | 14.25p |
| UNDERLYING RESULTS | | | |
| Before goodwill amortisation of £16.3 million (2004 £18.0 million), exceptional operating items | 13 | | |
| – Aberdeen closure costs of £34.0 million (2004 £nil), Canadian pension refund of £14.6 million (2004 £nil) and Purfleet closure costs of £nil (2004 £28.8 million) – and net non-operating income of £6.9 million (2004 £4.3 million) | 8 | | |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAX (£m) | | 287.5 | 222.8 |
| EARNINGS PER SHARE | 12 | 39.1p | 30.5p |

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| YEAR TO 31 MARCH | | 2005 £m | 2004 Re stated £m |
|---|----|--------------|-------------------------|
| PROFIT ATTRIBUTABLE TO BPB PLC | | 182.3 | 115.0 |
| Currency translation differences | 25 | 19.6 | (39.1) |
| TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR | 25 | 201.9 | 75.9 |
| Prior year adjustment | 1 | 0.7 | |
| | | 202.6 | |

Movements in reserves are shown in note 25

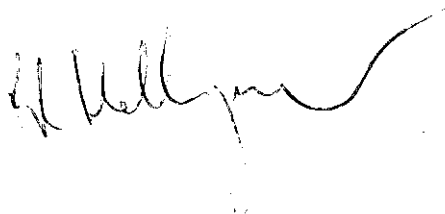
BALANCE SHEETS

| As at 31 March | Note | Group | | Company | |
|---|------|------------|-------------------------|------------|-------------------------|
| | | 2005 £m | 2004 Re-stated £m | 2005 £m | 2004 Re-stated £m |
| FIXED ASSETS | | | | | |
| Intangible assets | 13 | 270.9 | 261.7 | - | - |
| Tangible assets | 14 | 1,150.6 | 1,099.6 | - | - |
| Investments in joint ventures: | 15 | | | | |
| Share of gross assets | | 26.5 | 22.1 | - | - |
| Share of gross liabilities | | (18.0) | (14.2) | - | - |
| | | 8.5 | 7.9 | - | - |
| Investments in associates | 15 | 25.5 | 21.4 | - | - |
| Other investments | 15 | 1.0 | 0.9 | 1,060.0 | 1,059.9 |
| | | 1,456.5 | 1,391.5 | 1,060.0 | 1,059.9 |
| CURRENT ASSETS | | | | | |
| Stocks | 16 | 165.0 | 139.7 | - | - |
| Debtors due within one year | 17 | 537.2 | 491.2 | 57.3 | 31.3 |
| Debtors due after more than one year | 17 | 22.4 | 15.3 | 1,603.9 | 1,518.8 |
| Cash and short-term deposits | 18 | 138.9 | 71.4 | 87.4 | 25.0 |
| | | 863.5 | 717.6 | 1,748.6 | 1,575.1 |
| CREDITORS due within one year | | | | | |
| Loans, overdrafts and finance leases | 18 | (38.5) | (24.5) | (75.5) | (36.7) |
| Other creditors | 19 | (600.9) | (529.2) | (1,608.8) | (1,509.8) |
| NET CURRENT ASSETS | | 224.1 | 163.9 | 64.3 | 28.6 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,680.6 | 1,555.4 | 1,124.3 | 1,088.5 |
| CREDITORS due after more than one year | | | | | |
| Loans and finance leases | 18 | (522.4) | (541.9) | (472.5) | (497.7) |
| Other creditors | 19 | (27.9) | (31.8) | - | - |
| PROVISIONS FOR LIABILITIES AND CHARGES | 20 | (185.0) | (162.6) | (9.7) | (8.9) |
| | | 945.3 | 819.1 | 642.1 | 581.9 |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 24 | 250.1 | 247.8 | 250.1 | 247.8 |
| Share premium account | 25 | 248.7 | 235.9 | 248.7 | 235.9 |
| Capital redemption reserve | 25 | 32.7 | 32.7 | 32.7 | 32.7 |
| Investment in own shares | 25 | (3.4) | (1.4) | (3.4) | (1.4) |
| Profit and loss account | 25 | 408.2 | 279.9 | 114.0 | 66.9 |
| SHAREHOLDERS' FUNDS | | 936.3 | 794.9 | 642.1 | 581.9 |
| MINORITY INTERESTS | | 9.0 | 24.2 | - | - |
| | | 945.3 | 819.1 | 642.1 | 581.9 |

Approved by the Board on 18 May 2005

RJ Cousins Chief executive

PR Hollingworth Finance director




GROUP CASH FLOW STATEMENT

| Year to 31 March | Note | 2005 £m | 2004 £m |
|--|--------|------------|------------|
| CASH FLOW FROM OPERATING ACTIVITIES | 27 | 416.6 | 350.5 |
| DIVIDENDS RECEIVED FROM JOINT VENTURES AND ASSOCIATES | | | |
| Dividends from joint ventures | | 0.7 | 0.9 |
| Dividends from associates | | 0.9 | 0.5 |
| | | 1.6 | 1.4 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 5.9 | 0.4 |
| Interest paid | | (33.0) | (31.7) |
| Interest element of finance lease payments | | (0.1) | (0.1) |
| Dividends paid to minority shareholders of subsidiaries | | (0.6) | (1.6) |
| | | (27.8) | (33.0) |
| TAX | | | |
| United Kingdom corporation tax paid | | (18.7) | (11.5) |
| Overseas tax paid | | (47.5) | (48.7) |
| | | (66.2) | (60.2) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Purchase of tangible fixed assets | | (154.1) | (99.6) |
| Sale of tangible fixed assets | | 6.6 | 15.6 |
| Repayment of loans by joint ventures | 30 | - | 0.7 |
| | | (147.5) | (83.3) |
| ACQUISITIONS AND DISPOSALS | | | |
| Purchase of businesses and minority interests | 26 | (46.5) | (5.1) |
| Sale of businesses | | 8.6 | 7.5 |
| | | (37.9) | 2.4 |
| DIVIDENDS PAID TO SHAREHOLDERS OF BPB PLC | | (73.1) | (67.3) |
| CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING | | 65.7 | 110.5 |
| Management of liquid resources | | (65.3) | (3.8) |
| FINANCING | | | |
| Issue of share capital | 24, 25 | 15.1 | 9.8 |
| Purchase of own shares | 25 | (2.4) | - |
| Loan from associated company | 30 | - | 0.3 |
| Decrease in borrowings | 28, 29 | (1.2) | (52.6) |
| | | 11.5 | (42.5) |
| INCREASE IN CASH | 28, 29 | 11.9 | 64.2 |

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with applicable UK Accounting Standards under the historical cost convention. They incorporate the results of the parent company and its subsidiary undertakings and include the results of joint ventures and associated undertakings. Joint ventures are long-term investments which are jointly controlled by the group and one or more other venturers. They are accounted for using the gross equity method. Entities, other than subsidiary undertakings and joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associated undertakings. All subsidiary and associated undertakings and joint ventures are companies, and are referred to as such in these financial statements. As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is shown for the parent company, BPB plc.

The accounts of all subsidiaries have been prepared for the year to 31 March 2005. The group's share of associated companies' and joint ventures' profits is based, for the principal companies, on the latest audited accounts, which cover in all cases the year to 31 December 2004. Shareholders' funds, minority interests and dividends referred to in these financial statements are wholly attributable to equity interests.

Changes in accounting standards

During the year the Accounting Standards Board issued UITF Abstract 38 – Accounting for ESOP Trusts and UITF Abstract 17 (Revised) – Employee Share Schemes. These have both been adopted in the current year.

Abstract 38 changes the presentation in the balance sheet of an entity's own shares held in an employee share trust from requiring them to be recognised as assets to requiring their value to be deducted in arriving at shareholders' funds. The impact of this change in accounting policy has been to reduce fixed asset investments by £0.7 million and to reduce shareholders' funds by £0.7 million at 31 March 2004.

Turnover

Turnover represents the value of sales stated net of trade discounts, VAT and other sales taxes.

Acquisitions and disposals

The results of subsidiary and associated companies and joint ventures sold or acquired are included in the group accounts up to, or from, the date when control effectively passes.

The net assets of subsidiaries are included at fair values on acquisition; any goodwill arising on the acquisition of a subsidiary, associated company or joint venture is treated as described below. Group reserves include the group's share of the post-acquisition reserves of associated companies and joint ventures.

Goodwill arising on acquisitions prior to 31 March 1998 was written off directly against reserves. This goodwill was not reinstated on implementation of FRS10. Positive goodwill arising on acquisitions since 1 April 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition, and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill, whether previously written off to reserves or capitalised as an asset, is included in the calculation of profit or loss on any subsequent disposal or termination of the entities to which it relates.

Tangible fixed assets

Depreciation is provided to write off the cost, less residual value, of tangible fixed assets on the straight line basis over the expected future lives in their current location.

No depreciation is provided on freehold land where the cost is separately identifiable, and major projects are not depreciated whilst in the course of construction. Typical asset lives used are:

Freehold buildings – up to 33 years
Leasehold property – the period of the lease
Plant and machinery – 8 to 20 years
Mobile plant and vehicles – 3 to 7 years

1 PRINCIPAL ACCOUNTING POLICIES continued

Mineral deposits are depleted in the proportion that extraction for the year bears to the latest estimate of the usable tonnage.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Capital grants

Capital grants are treated as a deferred credit and are transferred to the profit and loss account over the lives of the relevant assets.

Leases

Assets held through finance leases are capitalised and depreciated similarly to other assets. The interest element of the rental payment is charged to the profit and loss account over the period of the lease. Rentals for assets used under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is arrived at mainly on a first-in first-out basis and includes all the expenditure incurred in bringing stocks to their present location and condition. Provision is made where necessary against slow-moving, damaged or obsolete stock.

Employee share schemes

No charge is made to the profit and loss account in respect of SAYE schemes that are offered on similar terms to all, or substantially all, UK employees.

Pension costs and post-retirement benefits

The cost of providing pensions and other benefits for employees is charged against profit systematically, with actuarially assessed surpluses or deficits being amortised over employees' expected average remaining period of service.

Deferred tax

Deferred tax is recognised as a liability or asset if the transactions or events that give rise to an obligation to pay more, or a right to pay less, tax in the future have occurred by the balance sheet date. In particular:

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets
- provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries, associated companies and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date, and is not discounted.

Reclamation provisions

Reclamation provisions are made when the group has either a legal or constructive obligation to restore mineral workings to an agreed condition. These provisions are stated after discounting the estimated liability to present values.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES continued

Foreign currencies

The results of overseas companies are translated at average rates for the year. Assets and liabilities in foreign currencies are translated at the closing rates of exchange ruling at the year end. Differences between results translated at average and at closing rates together with differences arising on consolidation on the retranslation of opening net assets are taken to reserves. Differences on foreign currency borrowings and foreign currency swaps used to finance or provide a hedge against overseas equity investments are treated as a reserve movement; other exchange differences are included in trading profit. Transactions denominated in foreign currencies are translated at the rates applying on the date of the transaction, unless covered by a forward currency contract, in which case the rate under the forward contract is used.

Financial instruments held as hedges

Hedging instruments, principally forward foreign exchange contracts and interest rate swaps, are matched with the item being hedged. Gains and losses on forward foreign exchange contracts are recognised within operating profit at the same time as the exchange gain or loss on the underlying purchase or sale. Interest differentials on interest rate swaps are recognised on an accruals basis within net interest payable over the interest period of the underlying financial instrument.

Research and development

Expenditure on research and development is charged against profit when it is incurred.

2 EXCHANGE RATES

The principal exchange rates used to translate the results and balances of overseas subsidiaries are as follows:

| Rates to sterling | Average | | At 31 March | |
|--------------------|---------|-------|-------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| Euro | 1.47 | 1.44 | 1.45 | 1.50 |
| US dollar | 1.85 | 1.70 | 1.89 | 1.84 |
| Canadian dollar | 2.36 | 2.30 | 2.29 | 2.42 |
| South African rand | 11.50 | 12.01 | 11.76 | 11.58 |

3 SEGMENTAL ANALYSIS

The principal national groupings that form the geographical segments shown below are as follows:

North & Western Europe: UK, Ireland, Sweden, Denmark, Finland, Norway, Russia, Latvia, Lithuania and Estonia.

Southern Europe: France, Spain, Italy, Belgium and Holland.

Central & Eastern Europe: Germany, Austria, Switzerland, Poland, Czech Republic, Hungary, Romania, Bulgaria, Greece, Turkey, Slovakia and Slovenia.

North America: USA and Canada.

Emerging Markets: South Africa, Thailand, India, China, Egypt, Brazil and Mexico (previously classified as Rest of the World).

| | Group turnover by origin | | Operating net assets | |
|-------------------------------|--------------------------|------------|----------------------|-------------------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 Re-stated £m |
| North & Western Europe | 596.1 | 588.5 | 246.5 | 296.7 |
| Southern Europe | 760.8 | 728.1 | 585.7 | 556.6 |
| Central & Eastern Europe | 350.9 | 330.8 | 270.1 | 243.9 |
| Europe | 1,707.8 | 1,647.4 | 1,102.3 | 1,097.2 |
| North America | 532.1 | 488.8 | 403.8 | 394.9 |
| Emerging Markets | 126.4 | 108.6 | 162.8 | 110.5 |
| | 2,366.3 | 2,244.8 | 1,668.9 | 1,602.6 |
| Less inter-area | (49.5) | (74.0) | - | - |
| | 2,316.8 | 2,170.8 | 1,668.9 | 1,602.6 |
| Associates and joint ventures | 56.7 | 49.3 | 58.9 | 54.2 |
| | 2,373.5 | 2,220.1 | 1,727.8 | 1,656.8 |

3 SEGMENTAL ANALYSIS continued

| | Underlying operating profit | | Operating profit | |
|-------------------------------|-----------------------------|------------|------------------|------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| North & Western Europe | 108.3 | 105.1 | 70.1 | 72.1 |
| Southern Europe | 84.1 | 76.2 | 81.2 | 72.8 |
| Central & Eastern Europe | 25.2 | 12.6 | 24.8 | 11.8 |
| Europe | 217.6 | 193.9 | 176.1 | 156.7 |
| North America | 71.4 | 40.1 | 78.4 | 31.2 |
| Emerging Markets | 19.1 | 15.2 | 17.9 | 14.5 |
| | 308.1 | 249.2 | 272.4 | 202.4 |
| Operating exceptional items: | | | | |
| Aberdeen closure costs | (34.0) | - | | |
| Canadian pension refund | 14.6 | - | | |
| Purfleet closure costs | - | (28.8) | | |
| Goodwill amortisation | (16.3) | (18.0) | | |
| Group operating profit | 272.4 | 202.4 | 272.4 | 202.4 |
| Associates and joint ventures | 7.8 | 5.7 | 7.8 | 5.7 |

| Return on sales (underlying) | % | % |
|------------------------------|------|------|
| North & Western Europe | 18.2 | 17.9 |
| Southern Europe | 11.1 | 10.5 |
| Central & Eastern Europe | 7.2 | 3.8 |
| Europe | 12.7 | 11.8 |
| North America | 13.4 | 8.2 |
| Emerging Markets | 15.1 | 14.0 |
| Group | 13.3 | 11.5 |

Turnover is not disclosed by destination as it is materially the same as that by origin. As described in note 8, group operating profit includes exceptional items against the results of: North & Western Europe – charge of £34.0 million (2004 charge of £28.8 million) and North America – credit of £14.6 million (2004 £nil).

Net non-operating income of £6.9 million (2004 £4.3 million) described in note 8 is excluded from group operating profit in accordance with FRS 3, but arose in the following segments: North & Western Europe – £3.7 million (2004 £0.6 million) and Southern Europe – £3.2 million (2004 £3.7 million).

The operating net assets of the geographical segments are stated after adding back goodwill written off to reserves prior to 1 April 1998 and goodwill amortised since that date. A reconciliation of operating net assets in the previous column to net assets in the consolidated balance sheet is shown below.

| | 2005 £m | 2004 Re-stated £m |
|---|------------|-------------------------|
| Operating net assets | 1,727.8 | 1,656.8 |
| Cumulative goodwill amortised and written off to reserves | (306.6) | (295.9) |
| Net borrowings | (422.0) | (495.0) |
| Dividends payable | (53.9) | (46.8) |
| Net assets | 945.3 | 819.1 |

4 COST OF SALES AND NET OPERATING EXPENSES

| | Continuing operations | |
|-------------------------|-----------------------|------------|
| | 2005 £m | 2004 £m |
| Cost of sales | 1,516.4 | 1,451.5 |
| Distribution costs | 321.2 | 316.2 |
| Administrative expenses | 212.0 | 208.5 |
| Other operating income | (5.2) | (7.8) |
| Net operating expenses | 528.0 | 516.9 |

Aberdeen closure costs of £34.0 million (2004 £nil) were classified as follows: cost of sales £30.6 million; and administrative expenses £3.4 million.

The Canadian pension refund of £14.6 million (2004 £nil) was allocated against the following categories of expense: cost of sales £5.1 million; distribution costs £2.9 million; and administrative expenses £6.6 million.

Purfleet closure costs recorded in 2004 of £28.8 million were classified as follows: cost of sales £28.5 million; distribution costs £0.2 million; and administrative expenses £0.1 million.

Administrative expenses include goodwill amortisation of £16.3 million (2004 £18.0 million).

Operating profit is stated after charging:

| | | |
|---|-------|-------|
| Auditors' remuneration: | | |
| Audit | 1.4 | 1.3 |
| Non-audit UK | 0.8 | 0.7 |
| Non-audit overseas | 0.3 | 0.5 |
| | 2.5 | 2.5 |
| Depreciation: | | |
| Owned assets | 111.1 | 109.5 |
| Leased assets | 0.3 | 0.5 |
| Capital grants transferred from deferred credits | (1.3) | (1.4) |
| | 110.1 | 108.6 |
| Operating exceptional – Aberdeen asset write-downs | 10.0 | – |
| – Purfleet asset write-downs | – | 15.5 |
| | 120.1 | 124.1 |
| Operating lease rentals: | | |
| Plant and machinery | 7.7 | 9.8 |
| Other | 6.0 | 6.5 |
| | 13.7 | 16.3 |
| Goodwill amortisation | 16.3 | 18.0 |
| Research and development expenditure | 5.3 | 5.4 |
| Restructuring – including asset write-downs of £4.0 million (2004 £2.6 million) | 15.3 | 20.2 |

Non-audit services of Ernst & Young LLP relate predominantly to advice on taxation (reorganisations and general compliance) and due diligence work. All payments for audit and non-audit services are approved within the framework established by the audit committee for that purpose.

Non-audit services are also provided by PricewaterhouseCoopers, Deloitte & Touche and KPMG, including advice on information technology, acquisitions and the provision of support to the group's internal control programme.

5 EMPLOYEES

| | 2005 Average number | 2004 Average number |
|---------------------------|------------------------|------------------------|
| Segmental analysis | | |
| North & Western Europe | 2,879 | 3,168 |
| Southern Europe | 3,772 | 3,838 |
| Central & Eastern Europe | 2,185 | 2,098 |
| Europe | 8,836 | 9,104 |
| North America | 1,964 | 2,022 |
| Emerging Markets | 1,889 | 1,781 |
| | 12,689 | 12,907 |

| | 2005 £m | 2004 £m |
|-----------------------|------------|------------|
| Employee costs | | |
| Wages and salaries | 291.5 | 292.5 |
| Social security costs | 68.8 | 67.7 |
| Other pension costs | 17.4 | 15.0 |
| | 377.7 | 375.2 |

6 PENSIONS AND POST RETIREMENT BENEFITS

The group operates pension and other post retirement benefit schemes throughout the world. Funded, self-administered, defined benefit schemes are operated in the UK, US, Canada, Ireland, Belgium and South Africa. These schemes, together covering approximately 41% of group employees, are valued at regular intervals by independent actuaries.

The group also operates insured defined benefit schemes in Holland and Finland, non-funded defined benefit schemes in Germany, Austria, Norway and Sweden and defined contribution schemes in Switzerland and Denmark.

Post retirement medical benefits are provided in the UK, US and South Africa. There are no material pension arrangements, apart from state schemes and compulsory complementary arrangements, in other areas of the group's operations.

The group currently accounts for pension and post retirement costs in accordance with SSAP24 and the pensions disclosures below are those required by that standard. The transitional disclosure requirements of FRS17 are also given. The liability for unfunded retirement benefits is included in provisions for liabilities and charges as disclosed in note 20.

SSAP24 pension disclosures

Contributions to the group's benefit schemes are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives. The contributions are determined by qualified actuaries.

The results of the most recent valuations for the main funded schemes in each country are detailed below. All valuations are conducted using the projected unit method. The level of funding represents the ratio of the market value of assets to accrued service liabilities in percentage terms.

| | UK | US | Canada | Ireland | South Africa |
|------------------------|-------------|------------|------------|--------------|--------------|
| Date of valuation | 31 Mar 2002 | 1 Jan 2004 | 1 Dec 2003 | 1 April 2002 | 31 Dec 2002 |
| Market value of assets | £m 544.3 | £m 17.5 | £m 58.8 | £m 47.8 | £m 8.4 |
| Level of funding | % 114 | % 73 | % 215 | % 113 | % 120 |

The most recent Canadian valuation pre-dates the refund referred to in note 8.

NOTES TO THE FINANCIAL STATEMENTS

6 PENSIONS AND POST RETIREMENT BENEFITS continued

The valuation of the principal UK scheme was based on the following assumptions: return on existing investments 6.0%; earnings increases 4.0%; pension increases 2.5%. Following actuarial advice during the year that the UK pension scheme surplus identified in the last triennial valuation at March 2002 is likely to have been fully eroded by the next valuation, an additional UK pension scheme charge of £6.0 million was made during the year.

A £2.9 million curtailment gain arose in connection with the restructuring of the group's paperboard division. The overall pension charge totalled £8.4 million (2004 £6.2 million). Included within prepayments and accrued income, disclosed in note 17, is a pension prepayment of £7.9 million (2004 £7.1 million).

FRS17 retirement benefits

The valuation of UK and overseas pension schemes was performed using the projected unit method and was based on the latest actuarial valuation as amended to take account of the specific requirements of FRS17. The financial assumptions used to calculate the liabilities of the main funded and unfunded schemes were:

| Assumptions At 31 March 2005 | UK % | US % | Canada % | Euro zone % | South Africa % |
|---------------------------------|----------|----------|-------------|-------------------|----------------------|
| Inflation rate | 2.80 | 2.75 | 2.75 | 2.00 | 4.00 |
| Rate of increase in salaries | 4.30 | 4.75 | 3.75 | 4.00 | 5.50 |
| Rate of increase for pensions: | | | | | |
| In payment | 2.80 | n/a | 2.75 | 2.00 | 4.00 |
| Deferred | 2.80 | n/a | 2.75 | 2.00 | n/a |
| Discount rate | 5.40 | 6.00 | 5.40 | 4.40 | 9.50 |
| At 31 March 2004 | % | % | % | % | % |
| Inflation rate | 2.75 | 2.75 | 2.75 | 2.00 | 5.75 |
| Rate of increase in salaries | 4.25 | 4.75 | 3.75 | 4.00 | 7.25 |
| Rate of increase for pensions: | | | | | |
| In payment | 2.75 | n/a | 2.75 | 2.00 | 5.75 |
| Deferred | 2.75 | n/a | 2.75 | 2.00 | n/a |
| Discount rate | 5.50 | 5.85 | 5.55 | 5.00 | 10.45 |
| At 31 March 2003 | % | % | % | % | % |
| Inflation rate | 2.25 | 2.75 | 2.75 | 2.00 | 5.75 |
| Rate of increase in salaries | 3.75 | 4.75 | 3.75 | 4.00 | 7.25 |
| Rate of increase for pensions: | | | | | |
| In payment | 2.25 | n/a | 2.75 | 2.00 | 5.75 |
| Deferred | 2.25 | n/a | 2.75 | 2.00 | n/a |
| Discount rate | 5.40 | 6.25 | 6.25 | 5.25 | 10.75 |

n/a = not applicable

Long-term healthcare cost increases for post retirement benefits offered in the UK, US and South Africa were assumed to be 5.0%, 5.0% and 8.75% respectively (2004 4.0%, 5.0% and 8.75%; 2003 4.0%, 5.25%, 9.0%).

The long-term expected rate of return on assets held by the pension schemes were:

| Expected rate of return At 31 March 2005 | UK % | US % | Canada % | Euro zone % | South Africa % |
|---|----------|----------|-------------|-------------------|----------------------|
| Equities | 7.80 | 8.00 | 8.00 | 7.15 | 10.50 |
| Bonds | 5.10 | 6.00 | 5.25 | 4.00 | 9.00 |
| Cash | 3.60 | 3.50 | 3.00 | 3.00 | 5.75 |
| Other | n/a | n/a | n/a | 5.58 | n/a |
| At 31 March 2004 | % | % | % | % | % |
| Equities | 8.00 | 8.00 | 8.00 | 7.35 | 12.25 |
| Bonds | 5.10 | 5.85 | 5.40 | 4.50 | 9.70 |
| Cash | 3.75 | 3.50 | 3.00 | 3.50 | 7.50 |
| Other | n/a | n/a | n/a | 6.00 | n/a |
| At 31 March 2003 | % | % | % | % | % |
| Equities | 8.00 | 8.25 | 8.50 | 7.50 | 12.75 |
| Bonds | 5.00 | 6.25 | 6.00 | 4.90 | 10.00 |
| Cash | 3.40 | 3.50 | 3.00 | 4.00 | 8.00 |
| Other | n/a | n/a | n/a | 6.20 | n/a |

6 PENSIONS AND POST RETIREMENT BENEFITS continued

| Market value of assets at 31 March 2005 | UK £m | US £m | Canada £m | Euro zone £m | South Africa £m | Group £m |
|--|----------|----------|--------------|--------------------|-----------------------|-------------|
| Equities | 383.2 | 9.9 | 17.1 | 40.2 | 8.0 | 458.4 |
| Bonds | 149.9 | 6.6 | 11.1 | 8.2 | 4.0 | 179.8 |
| Cash | 7.3 | 0.5 | 3.6 | 1.7 | 0.9 | 14.0 |
| Other | n/a | n/a | n/a | 11.9 | 0.2 | 12.1 |
| | 540.4 | 17.0 | 31.8 | 62.0 | 13.1 | 664.3 |

| | | | | | | |
|--|---------|--------|--------|--------|--------|---------|
| Present value of scheme liabilities | (669.8) | (26.6) | (32.8) | (55.8) | (11.2) | (796.2) |
| (Deficit)/surplus | (129.4) | (9.6) | (1.0) | 6.2 | 1.9 | (131.9) |
| Restriction on surplus | - | - | - | - | (4.8) | (4.8) |
| (Deficit)/surplus recognised | (129.4) | (9.6) | (1.0) | 6.2 | (2.9) | (136.7) |
| Related deferred tax asset | 38.8 | 3.9 | 0.4 | 0.1 | 0.9 | 44.1 |
| Net pension (liability)/asset | (90.6) | (5.7) | (0.6) | 6.3 | (2.0) | (92.6) |

Cash contributions of £18.8 million were made in the year to schemes in the UK, US, Ireland, Belgium, France and South Africa, whilst £14.6 million was refunded from schemes in Canada as explained in note 8. Future cash contributions into the principal UK scheme are expected to remain at a level consistent with the annual SSAP24 regular cost. For the remaining schemes contribution rates for future years remain subject to agreement with scheme trustees.

| Market value of assets at 31 March 2004 | UK £m | US £m | Canada £m | Euro zone £m | South Africa £m | Group £m |
|--|----------|----------|--------------|--------------------|-----------------------|-------------|
| Equities | 361.9 | 10.1 | 16.3 | 35.6 | 8.6 | 432.5 |
| Bonds | 140.9 | 6.8 | 13.1 | 8.3 | 1.5 | 170.6 |
| Cash | 8.0 | 0.2 | 30.6 | 0.5 | 1.4 | 40.7 |
| Other | n/a | n/a | n/a | 7.1 | n/a | 7.1 |
| | 510.8 | 17.1 | 60.0 | 51.5 | 11.5 | 650.9 |

| | | | | | | |
|---|---------|--------|--------|--------|-------|---------|
| Present value of scheme liabilities | (624.4) | (26.7) | (45.1) | (41.0) | (8.6) | (745.8) |
| (Deficit)/surplus | (113.6) | (9.6) | 14.9 | 10.5 | 2.9 | (94.9) |
| Restriction on surplus | - | - | - | - | (2.9) | (2.9) |
| (Deficit)/surplus recognised | (113.6) | (9.6) | 14.9 | 10.5 | - | (97.8) |
| Related deferred tax asset/(liability) | 34.1 | - | (6.0) | (1.8) | - | 26.3 |
| Net pension (liability)/asset | (79.5) | (9.6) | 8.9 | 8.7 | - | (71.5) |

6 PENSIONS AND POST RETIREMENT BENEFITS continued

| Market value of assets at 31 March 2003 | UK £m | US £m | Canada £m | Euro zone £m | South Africa £m | Group £m |
|---|----------|----------|--------------|--------------------|-----------------------|-------------|
| Equities | 292.4 | 9.9 | 14.7 | 25.8 | 5.6 | 348.4 |
| Bonds | 122.7 | 6.9 | 11.8 | 9.8 | 1.2 | 152.4 |
| Cash | 15.0 | 0.3 | 31.0 | 2.0 | 1.6 | 49.9 |
| Other | n/a | n/a | n/a | 3.9 | n/a | 3.9 |
| | 430.1 | 17.1 | 57.5 | 41.5 | 8.4 | 554.6 |
| Present value of scheme liabilities | (579.9) | (28.1) | (38.2) | (34.9) | (7.4) | (688.5) |
| (Deficit)/surplus | (149.8) | (11.0) | 19.3 | 6.6 | 1.0 | (133.9) |
| Restriction on surplus | - | - | - | - | (1.0) | (1.0) |
| (Deficit)/surplus recognised | (149.8) | (11.0) | 19.3 | 6.6 | - | (134.9) |
| Related deferred tax asset/(liability) | 44.9 | - | (7.6) | (1.1) | - | 36.2 |
| Net pension (liability)/asset | (104.9) | (11.0) | 11.7 | 5.5 | - | (98.7) |

| Movement in (deficit)/surplus | Funded retirement benefits | | | | Unfunded retirement benefits | Group £m |
|------------------------------------|----------------------------|------------------|--------------|-----------------|------------------------------|----------|
| | UK £m | North America £m | Euro zone £m | South Africa £m | £m | |
| (Deficit)/surplus at 1 April 2004 | (113.6) | 5.3 | 10.5 | 2.9 | (50.5) | (145.4) |
| Operating charges: | | | | | | |
| Current service cost | (15.9) | (2.5) | (1.6) | (0.2) | (2.9) | (23.1) |
| Past service cost | - | (0.3) | - | - | (0.3) | (0.6) |
| Curtailment gain | 0.8 | 0.2 | - | - | - | 1.0 |
| Other finance income/(expense): | | | | | | |
| Expected return on assets | 35.7 | 3.7 | 3.7 | 1.3 | - | 44.4 |
| Interest on liabilities | (33.6) | (3.5) | (2.2) | (1.2) | (2.3) | (42.8) |
| Recognised in STRGL: | | | | | | |
| Actuarial (loss)/gain | (16.5) | (2.7) | (5.3) | 1.2 | (1.1) | (24.4) |
| Currency gain/(loss) | - | 0.2 | 0.2 | - | (0.9) | (0.5) |
| Unfunded payments | - | - | - | - | 3.5 | 3.5 |
| Contributions/(refunds) | 13.7 | (11.0) | 0.9 | 0.6 | - | 4.2 |
| Transfers | - | - | - | (2.7) | 2.7 | - |
| (Deficit)/surplus at 31 March 2005 | (129.4) | (10.6) | 6.2 | 1.9 | (51.8) | (183.7) |

| Movement in (deficit)/surplus | Funded retirement benefits | | | | Unfunded retirement benefits | Group £m |
|------------------------------------|----------------------------|------------------|--------------|-----------------|------------------------------|----------|
| | UK £m | North America £m | Euro zone £m | South Africa £m | £m | |
| (Deficit)/surplus at 1 April 2003 | (149.8) | 8.3 | 6.6 | 1.0 | (47.8) | (181.7) |
| Operating charges: | | | | | | |
| Current service cost | (15.3) | (2.4) | (1.2) | (0.1) | (3.5) | (22.5) |
| Past service cost | - | (0.3) | - | - | - | (0.3) |
| Other finance income/(expense): | | | | | | |
| Expected return on assets | 29.3 | 4.0 | 2.8 | 1.0 | - | 37.1 |
| Interest on liabilities | (30.6) | (4.0) | (1.9) | (0.8) | (2.2) | (39.5) |
| Recognised in STRGL: | | | | | | |
| Actuarial gain/(loss) | 45.1 | (1.3) | 2.6 | 1.7 | (3.0) | 45.1 |
| Currency gain/(loss) | - | 1.0 | (0.3) | 0.1 | 1.4 | 2.2 |
| Unfunded payments | - | - | - | - | 4.6 | 4.6 |
| Contributions | 7.7 | - | 1.9 | - | - | 9.6 |
| (Deficit)/surplus at 31 March 2004 | (113.6) | 5.3 | 10.5 | 2.9 | (50.5) | (145.4) |

6 PENSIONS AND POST RETIREMENT BENEFITS continued

| History of experience gains and losses | 2005 | | 2004 | | 2003 | |
|--|--------|-----|--------|------|---------|------|
| | £m | % | £m | % | £m | % |
| Actual return less expected return on scheme assets | 5.7 | | 85.8 | | (189.2) | |
| Percentage of scheme assets | | 0.9 | | 13.2 | | 34.1 |
| Experience gains and losses arising on liabilities | (9.4) | | (14.2) | | (4.1) | |
| Percentage of scheme liabilities | | 1.2 | | 1.9 | | 0.6 |
| Changes in assumptions underlying present value of liabilities | (20.7) | | (26.5) | | (65.2) | |
| Actuarial (loss)/gain | (24.4) | | 45.1 | | (258.5) | |
| Percentage of the present value of the plan liabilities | | 3.1 | | 6.0 | | 37.5 |

If FRS 17 had been adopted in the financial statements, the group's net assets would have been £95.1 million (2004 £75.5 million) lower. The group's net assets at 31 March 2005 excluding SSAP24 pension and post-retirement benefit assets and liabilities were £976.4 million (2004 £853.9 million).

7 DIRECTORS' EMOLUMENTS

Aggregate emoluments of the directors of the company were as follows:

| | 2005 £000 | 2004 £000 |
|------------------|--------------|--------------|
| Base salaries | 2,156 | 2,000 |
| Fees | 251 | 253 |
| Annual bonuses | 1,779 | 1,007 |
| Other emoluments | 91 | 96 |
| | 4,277 | 3,356 |

The annual bonus figure for 2005 assumes full participation in June/July 2005 in the deferred share bonus plan referred to on page 41 and in note (i) on page 43.

More detailed information concerning directors' emoluments, pension entitlements, shareholdings, share option, share ownership plan, share matching plan and performance share plan interests, together with details of aggregate gains of £2,187,744 (2004 £108,452) made on the exercise of share options, is shown in the remuneration committee's report on pages 40 to 46.

8 EXCEPTIONAL ITEMS

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Operating exceptional items | | |
| Aberdeen closure costs | (34.0) | - |
| Canadian pension refund | 14.6 | - |
| Purfleet closure costs | - | (28.8) |
| | (19.4) | (28.8) |
| Non-operating exceptional items | | |
| Disposals of fixed assets | 8.8 | 4.0 |
| Sale and termination of operations | (1.9) | 0.3 |
| | 6.9 | 4.3 |
| | (12.5) | (24.5) |

NOTES TO THE FINANCIAL STATEMENTS

8 EXCEPTIONAL ITEMS continued

2005 exceptional items

The group announced the likely closure of its remaining paperboard mill at Aberdeen on 3 March 2005. A consequential operating exceptional charge of £34.0 million comprises £24.0 million relating to redundancy, plant de-commissioning and other site closure costs and £10.0 million of asset write-downs.

The Canadian pension refund of £14.6 million arose following regulatory approval of an agreement between the company and the pension scheme members to share in the distribution of part of a substantial pension fund surplus that had built up over a number of years.

The gain on disposals of fixed assets arose largely from the disposal of surplus land in the UK and Belgium, and the loss on sale and termination of operations arose on disposal of the group's recycling business.

2004 exceptional items

The group closed the paperboard mill at Purfleet in the UK on 17 December 2003. An operating exceptional charge of £28.8 million associated with the closure consists of redundancy costs of £5.1 million, asset write-downs of £15.5 million, and other site closure costs totalling £8.2 million.

The gain on disposals of fixed assets arose predominantly from the sale of the investment in a small French plasters company, Toupret, and the gain on sale and termination of operations arose on disposal of non-core operations in Germany and the UK.

The tax effect of exceptional items is shown in note 10.

9 NET INTEREST PAYABLE

| | 2005 £m | 2004 £m |
|-----------------------------------|------------|------------|
| Interest receivable | 4.3 | 3.2 |
| Interest payable: | | |
| Bank loans and overdrafts | (4.7) | (14.9) |
| Other loans and finance leases | (26.9) | (19.0) |
| | (27.3) | (30.7) |
| Share of joint ventures' interest | (0.5) | (0.3) |
| Share of associates' interest | (0.6) | (1.1) |
| | (28.4) | (32.1) |

Interest payable includes £0.1 million (2004 £0.1 million) relating to discounted bills of exchange and £0.1 million (2004 £0.1 million) relating to finance leases.

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2005 £m | 2004 £m |
|--|---------------|--------------|
| Analysis of tax charge in the year | | |
| UK corporation tax: | | |
| Charge for the period | 68.5 | 48.6 |
| Under-provision in prior years | 5.1 | 2.7 |
| | 73.6 | 51.3 |
| Double tax relief | (51.2) | (29.8) |
| | 22.4 | 21.5 |
| Overseas tax: | | |
| Charge for the period | 65.0 | 44.2 |
| Over-provision in prior years | (0.2) | (1.0) |
| | 64.8 | 43.2 |
| Share of joint ventures' tax | 0.5 | - |
| Share of associates' tax | 0.8 | 0.3 |
| Total current tax | 88.5 | 65.0 |
| Origination and reversal of timing differences | 0.2 | (5.8) |
| Changes in tax rates and laws | (0.3) | 3.8 |
| Total underlying deferred tax | (0.1) | (2.0) |
| Exceptional deferred tax credit | (13.9) | - |
| Total deferred tax | (14.0) | (2.0) |
| Tax on profit on ordinary activities | 74.5 | 63.0 |

Exceptional tax credit and tax effect of exceptional items

The exceptional deferred tax credit arose due to a deferred tax asset being recognised in respect of unrelieved losses that arose in the US in earlier years as there is now sufficient evidence that the asset will be recovered from future taxable profits.

Included within the tax charge for the year is a tax credit of £8.7 million arising from Aberdeen closure costs of £34.0 million, and a tax charge of £5.8 million from the Canadian pension refund of £14.6 million.

The tax effect of non-operating exceptional income of £6.9 million (2004 £4.3 million) is a charge of £2.6 million (2004 £0.5 million).

Factors affecting tax charge for the period

The current tax charge on profit on ordinary activities varied from the expected tax charge for the year due to the factors detailed in the table below. The expected tax charge is based solely on the relevant tax rate and amount of accounting profit in each jurisdiction in which the group operates.

| | 2005 £m | 2004 £m |
|---|-------------|-------------|
| Expected tax charge | 81.6 | 53.9 |
| Expenses not deductible for tax purposes | 6.9 | 3.9 |
| Goodwill amortisation not deductible | 3.5 | 5.4 |
| Income not subject to tax | (1.5) | (2.3) |
| Accounting depreciation in excess of tax depreciation | 2.6 | (2.3) |
| Movement on other timing differences | (1.7) | 5.3 |
| Current tax losses not utilised | 0.3 | 2.4 |
| Utilisation of tax losses | (12.3) | (1.1) |
| Adjustments relating to prior years' corporation tax | 4.9 | 1.7 |
| Other | 4.2 | (1.9) |
| Current tax charge | 88.5 | 65.0 |

10 TAX ON PROFIT ON ORDINARY ACTIVITIES continued

Factors that may affect future tax charges

Unrelieved tax losses and other timing differences of £87.0 million (2004 £106.1 million) can be recovered against future taxable profits. Based on current plans to increase levels of investment, the level of tax depreciation compared to accounting depreciation is likely to increase, resulting in a higher deferred tax but lower current tax charge. No provision has been made for £8.5 million (2004 £8.5 million) of deferred tax on gains on disposal of fixed assets that have been rolled over into replacement assets as there was no commitment at the balance sheet date to dispose of the replacement assets. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures as the group does not expect to pay tax on them in the foreseeable future.

11 DIVIDENDS

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Interim 5.25p per share (2004 4.8p) | 26.1 | 23.6 |
| Proposed final 10.75p per share (2004 9.45p) | 53.9 | 46.8 |
| | 80.0 | 70.4 |

12 EARNINGS PER SHARE

The basic earnings per share figure is calculated on profit after tax and minority interests of £182.3 million (2004 £115.0 million) and on the weighted average of 497.2 million (2004 490.9 million) ordinary shares in issue during the year, after excluding the investment in the company's own shares.

The diluted earnings per share figure is based on the same profit as the basic earnings per share figure and on the total diluted number of shares calculated as shown in the table below. The underlying earnings per share figure is based on profit adjusted for goodwill amortisation and exceptional items and on the same weighted average number of shares used in the basic earnings per share calculation above. The directors consider that this measure provides an additional indicator of the underlying performance of the group.

| | 2005 m | 2004 m |
|---|-----------|-----------|
| Basic weighted average number of shares | 497.2 | 490.9 |
| Dilutive potential ordinary shares arising from share options | 4.0 | 2.1 |
| Total | 501.2 | 493.0 |

| | 2005 Effect on EPS £m | 2004 Effect on EPS £m |
|---|--------------------------------|--------------------------------|
| Profit after tax and minority interests | 182.3 | 115.0 |
| Goodwill amortisation | 16.3 | 18.0 |
| Exceptional items: | | |
| Aberdeen closure costs | 34.0 | — |
| Canadian pension refund | (14.6) | — |
| Purfleet closure costs | — | 28.8 |
| Disposals of fixed assets | (8.8) | (4.0) |
| Sale and termination of operations | 1.9 | (0.3) |
| Deferred tax credit | (13.9) | — |
| Tax effect of goodwill amortisation | (2.7) | — |
| Tax effect of exceptional items | (0.3) | (1.6) |
| Underlying earnings and EPS | 194.2 | 149.8 |

13 INTANGIBLE FIXED ASSETS

| | Goodwill £m |
|----------------------------------|----------------|
| Balance sheet movements | |
| Cost | |
| At 1 April 2004 | 321.1 |
| Currency adjustments | (0.1) |
| Acquisitions | 25.4 |
| At 31 March 2005 | 346.4 |
| Amortisation | |
| At 1 April 2004 | 59.4 |
| Currency adjustments | (0.2) |
| Amortisation charge for the year | 16.3 |
| At 31 March 2005 | 75.5 |
| Net book value | |
| At 31 March 2005 | 270.9 |
| At 1 April 2004 | 261.7 |

Goodwill is being amortised evenly over its useful life up to a presumed maximum of 20 years from the date of each acquisition unless it is considered impaired in which case a charge is taken immediately.

14 TANGIBLE FIXED ASSETS

| | Total £m | Land and buildings £m | Plant and machinery £m |
|----------------------------------|----------------|-----------------------------|------------------------------|
| Balance sheet movements | | | |
| Cost | | | |
| At 1 April 2004 | 2,166.5 | 732.6 | 1,433.9 |
| Currency adjustments | 48.0 | 13.1 | 34.9 |
| Acquisitions | 4.6 | 2.4 | 2.2 |
| Additions | 154.2 | 26.5 | 127.7 |
| Disposals | (75.2) | (11.2) | (64.0) |
| At 31 March 2005 | 2,298.1 | 763.4 | 1,534.7 |
| Depreciation | | | |
| At 1 April 2004 | 1,066.9 | 252.0 | 814.9 |
| Currency adjustments | 27.5 | 9.7 | 17.8 |
| Depreciation charge for the year | 121.4 | 22.2 | 99.2 |
| Disposals | (68.3) | (6.6) | (61.7) |
| At 31 March 2005 | 1,147.5 | 277.3 | 870.2 |
| Net book value | | | |
| At 31 March 2005 | 1,150.6 | 486.1 | 664.5 |
| At 1 April 2004 | 1,099.6 | 480.6 | 619.0 |

The depreciation charge for the year includes as an exceptional operating charge the Aberdeen asset write-downs of £10.0 million (2004 £nil) described in note 8.

The net book value of land and buildings comprises £58.6 million (2004 £21.5 million) of long-leasehold property, £0.1 million (2004 £0.1 million) of short-leasehold property, mineral reserves of £118.3 million (2004 £117.6 million) and other freehold property of £309.1 million (2004 £341.4 million). The net book value of assets held under finance leases was £9.2 million (2004 £4.7 million).

| | 2005 £m | 2004 £m |
|--------------------------------------|------------|------------|
| Capital and other commitments | | |
| Capital expenditure contracted for | 69.8 | 31.4 |

Commitments under operating leases are not material.

Certain subsidiaries have entered into contracts to purchase synthetic gypsum and plasterboard liner over a number of years; the present value of these commitments is unquantifiable due to the nature of the contracts.

NOTES TO THE FINANCIAL STATEMENTS

15 INVESTMENTS

| | Total £m | Associated companies £m | Joint ventures £m | Other £m |
|--------------------------------|-------------|-------------------------------|-------------------------|-------------|
| Group | | | | |
| At 1 April 2004 | 30.9 | 21.4 | 7.9 | 1.6 |
| Prior year adjustment | (0.7) | - | - | (0.7) |
| At 1 April 2004 (as re-stated) | 30.2 | 21.4 | 7.9 | 0.9 |
| Currency adjustments | 0.9 | 1.0 | (0.1) | - |
| Additions | 0.3 | - | - | 0.3 |
| Disposals | (0.2) | - | - | (0.2) |
| Share of retained profits | 3.8 | 3.1 | 0.7 | - |
| At 31 March 2005 | 35.0 | 25.5 | 8.5 | 1.0 |

| | 2005 £m | 2004 Re-stated £m |
|------------------------------|-------------|-------------------------|
| Investments comprise: | | |
| Listed | 15.8 | 14.6 |
| Unlisted | 19.2 | 15.6 |
| | 35.0 | 30.2 |

Investments in associated companies and joint ventures represent the group's share of their net assets. Other investments are shown at net book value. The market value of listed investments was £29.7 million (2004 £12.5 million)

Details of transactions and balances outstanding between group companies and the group's associates and joint ventures are given in note 30.

The group's principal subsidiary and associated companies and joint ventures are listed on page 66.

| | Shares at cost and net book value | |
|-------------------------------------|--------------------------------------|-------------------------|
| | 2005 £m | 2004 Re-stated £m |
| Company | | |
| Investments in subsidiary companies | 1,060.0 | 1,059.9 |
| | 1,060.0 | 1,059.9 |

16 STOCKS

| | 2005 £m | 2004 £m |
|------------------|--------------|--------------|
| Raw materials | 65.7 | 52.3 |
| Work-in-progress | 2.8 | 2.4 |
| Finished goods | 96.5 | 85.0 |
| | 165.0 | 139.7 |

The replacement cost of stocks is not materially different from these amounts.

17 DEBTORS

| | Group | | Company | |
|--|--------------|--------------|-------------|-------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Due within one year: | | | | |
| Trade debtors | 422.9 | 377.5 | - | - |
| Bills of exchange receivable | 57.9 | 61.7 | - | - |
| Amounts due from subsidiary companies | - | - | 48.0 | 20.7 |
| Amounts due from associated companies and joint ventures | 1.8 | 1.6 | - | - |
| Corporation tax repayable | 4.1 | 5.4 | - | - |
| Other debtors | 11.8 | 14.9 | 0.9 | 2.2 |
| Prepayments and accrued income | 30.8 | 28.2 | 8.4 | 8.4 |
| Deferred tax asset | 7.9 | 1.9 | - | - |
| | 537.2 | 491.2 | 57.3 | 31.3 |

| | Group | | Company | |
|--|-------------|-------------|----------------|----------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Due after more than one year: | | | | |
| Amounts due from subsidiary companies | - | - | 1,603.9 | 1,517.6 |
| Amounts due from associated companies and joint ventures | 7.3 | 7.2 | - | - |
| Corporation tax repayable | 1.2 | - | - | - |
| Other debtors | 6.7 | 8.1 | - | 1.2 |
| Deferred tax asset | 7.2 | - | - | - |
| | 22.4 | 15.3 | 1,603.9 | 1,518.8 |

18 NET BORROWINGS

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Loans, finance leases and overdrafts | | | | |
| due within one year: | | | | |
| Bank loans: unsecured | 29.6 | 8.9 | 20.9 | - |
| Obligations under finance leases | 2.8 | 0.9 | - | - |
| Other unsecured loans and overdrafts | 6.1 | 14.7 | 54.6 | 36.7 |
| | 38.5 | 24.5 | 75.5 | 36.7 |
| Loans and finance leases due after more than one year: | | | | |
| Bank loans: secured | - | 0.6 | - | - |
| unsecured | 130.0 | 164.3 | 93.2 | 123.3 |
| Finance leases | 13.1 | 2.6 | - | - |
| €400 million 6.5% bond 2010 | 273.5 | 265.6 | 273.5 | 265.6 |
| \$100 million 4.9% bond 2013 | 52.9 | 54.4 | 52.9 | 54.4 |
| \$100 million 5.0% bond 2015 | 52.9 | 54.4 | 52.9 | 54.4 |
| | 522.4 | 541.9 | 472.5 | 497.7 |
| Total borrowings | 560.9 | 566.4 | 548.0 | 534.4 |
| Cash and short-term deposits | (138.9) | (71.4) | (87.4) | (25.0) |
| Net borrowings | 422.0 | 495.0 | 460.6 | 509.4 |

Secured loans are charged against the assets of the subsidiary companies concerned.

18 NET BORROWINGS continued

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Aggregate amount of repayments due: | | | | |
| In one year or less, or on demand | 38.5 | 24.5 | 75.5 | 36.7 |
| In more than one year but not more than two | 14.9 | 28.9 | 6.7 | 21.8 |
| In more than two years but not more than five | 388.7 | 123.7 | 360.0 | 101.5 |
| In more than five years | 118.8 | 389.3 | 105.8 | 374.4 |
| Total borrowings | 560.9 | 566.4 | 548.0 | 534.4 |

Borrowing powers

The articles of association of BPB plc effectively restrict the net borrowings of the company and its subsidiaries to two times shareholders' funds.

Undrawn borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 March in respect of which all conditions precedent had been met were as follows:

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Expiring in one year or less | - | - |
| Expiring in more than one year but not more than two | 1.0 | - |
| Expiring in more than two years | 488.2 | 441.9 |
| | 489.2 | 441.9 |

20 PROVISIONS FOR LIABILITIES AND CHARGES

| | total £m | Deferred tax £m | Retirement benefits £m | Recultiva- tion £m | Restruc- turing £m | Other provisions £m |
|----------------------|-------------|--------------------|------------------------------|--------------------------|--------------------------|---------------------------|
| At 1 April 2004 | 162.6 | 59.9 | 51.1 | 20.9 | 18.8 | 11.9 |
| Currency adjustments | 2.9 | 1.2 | 1.0 | 0.4 | 0.1 | 0.2 |
| Transfers | 0.7 | (0.2) | 0.1 | - | - | 0.8 |
| Charge for the year | 67.0 | 1.0 | 19.5 | 7.5 | 35.7 | 3.3 |
| Utilised in the year | (43.3) | (2.2) | (14.9) | (2.9) | (21.4) | (1.9) |
| Released in the year | (4.9) | - | (3.3) | (0.1) | (0.9) | (0.6) |
| At 31 March 2005 | 185.0 | 59.7 | 53.5 | 25.8 | 32.3 | 13.7 |

The provision for retirement benefits includes an amount in respect of unfunded pension liabilities of £38.6 million (2004 £31.0 million).

Recultivation provisions are made when the group has either a legal or constructive obligation to rectify the effects of its mining or quarrying activities. The amounts provided are the liabilities at the balance sheet date to restore mineral workings to an agreed condition as discounted to present values. The effect of the unwinding of the discount applied to provisions at 31 March 2005 on the interest charge in this year's profit and loss account is immaterial. Utilisation of the provision is expected to occur over the next 13 years.

Restructuring and other provisions are mostly expected to be utilised within a year.

The company's provisions of £9.7 million (2004 £8.9 million) mainly arise in respect of unfunded retirement benefits of £8.9 million (2004 £8.4 million).

21 DEFERRED TAX

| | 2005 £m | 2004 £m |
|--------------------------------|------------|------------|
| Year end analysis | | |
| Accelerated capital allowances | 105.8 | 106.8 |
| Other timing differences | (6.4) | (6.1) |
| Unrelieved losses | (39.7) | (40.8) |
| Deferred tax liabilities | 59.7 | 59.9 |

A deferred tax asset of £15.1 million (2004 £1.9 million) has been recognised in respect of unrelieved losses as there is sufficient evidence that the asset will be recoverable from future taxable profits. Note 17 includes £7.9 million (2004 £1.9 million) within debtors due within one year and £7.2 million (2004 £nil) within debtors due after more than one year. Insufficient evidence exists to record other unrelieved losses and other timing differences of £25.8 million (2004 £63.5 million) as deferred tax assets.

22 CONTINGENT LIABILITIES

The company has guaranteed the liabilities of its Irish subsidiary companies so that these companies are exempt from the requirement to file their accounts. The company has also guaranteed the banking facilities of overseas subsidiary and associated companies, the principal amounts being in the US, Chile and Italy. At 31 March the total facilities guaranteed were £50.3 million (2004 £50.7 million), of which £31.2 million (2004 £31.6 million) had been drawn.

19 OTHER CREDITORS

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Due within one year: | | | | |
| Trade creditors | 128.7 | 144.5 | 1.9 | 1.4 |
| Bills of exchange payable | 33.7 | 18.7 | - | - |
| Amounts due to subsidiary companies | - | - | 1,542.1 | 1,448.9 |
| Amounts due to associated companies and joint ventures | 2.2 | 3.1 | - | - |
| Corporation tax | 79.5 | 55.3 | - | 2.5 |
| Other taxes and social security costs | 53.7 | 51.1 | 0.3 | - |
| Accruals | 106.4 | 90.0 | 8.1 | 5.6 |
| Acquisition consideration | 1.4 | 2.4 | - | - |
| Dividends payable | 53.9 | 46.8 | 53.9 | 46.8 |
| Other creditors | 141.4 | 117.3 | 2.5 | 4.6 |
| | 600.9 | 529.2 | 1,608.8 | 1,509.8 |
| Due after more than one year: | | | | |
| Acquisition consideration | 0.9 | 1.1 | - | - |
| Deferred credits for capital grants | 17.4 | 18.3 | - | - |
| Corporation tax | 0.6 | - | - | - |
| Other creditors | 9.0 | 12.4 | - | - |
| | 27.9 | 31.8 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

23 TREASURY POLICIES, FINANCIAL INSTRUMENTS & DERIVATIVES

Treasury policy overview

Group treasury's main functions are to manage the financial risks of the business and to secure funding at minimum cost, pursuant to policies and procedures agreed by the Board. The performance of treasury is monitored closely, as are controls which seek to prevent fraud, error and unauthorised transactions. The key risks managed by treasury are interest rate; finance and liquidity; foreign currency; and credit. The Board reviews and agrees policies for managing each of them which are summarised in the following paragraphs. It is, and has been throughout the period under review, the group's policy that no speculative trading in financial instruments is undertaken; and that the market price of all financial instruments is monitored regularly.

(a) Treasury policies relating to specific risks

Interest rate risk

Group policy is to keep between 50% and 80% of its borrowings at fixed rates of interest. The group borrows in a number of currencies and then uses interest rate swaps to generate the desired interest profile and to manage its sensitivity to interest rate fluctuations. At the year end, 53% (2004 70%) of borrowings and interest rate swaps were at fixed rates. The longest term of any significant fixed rate debt was 10 years (2004 11 years), with the average maturity of fixed rate gross borrowings at 6.0 years (2004 5.3 years).

A 1% and 5% rise in average interest rates for the year ended 31 March 2005 from market levels seen at March 2005 would reduce group profit before tax by £2.6 million and £13.2 million (2004 £1.7 million and £8.5 million) respectively. This has been calculated on debt only and has not taken account of changes in exchange rates following such an interest rate move, nor the increased interest earned on cash balances.

Finance and liquidity risk

The group's objective is to ensure that there are sufficient sources of funding to meet projected requirements. It finances its operations through equity finance, retained profits, bank facilities and debt raised in the capital markets. Funds are normally drawn centrally by group treasury and lent to subsidiaries on commercial terms. External debt at subsidiary level is only used where this is more efficient.

The group has a range of both syndicated and bilateral multicurrency bank facilities with maturities from 1 to 5 years, and bonds in both the Euro and US capital markets with maturities between 5 and 10 years.

Total committed facilities at the year end were £1,024 million (2004 £993 million) against a drawn debt requirement of £535 million (2004 £551 million). The group also has access to overdraft and uncommitted facilities to provide short-term liquidity.

Foreign currency risk

The group's objectives are to manage its structural currency exposures to provide a partial hedge against currency depreciation whilst keeping the cost of borrowing as low as possible. As a result of substantial investment in overseas operations, the consolidated balance sheet can be affected significantly by movements in exchange rates. The group seeks to minimise possible adverse movements by holding a proportion of its debt requirements in local currency – at the year end the percentage of overseas capital employed matched by non-sterling borrowings was 37% (2004 44%).

Where operating companies are based in countries with more unstable financial markets, the group can face prohibitive interest costs and a reduction in the value of local currency cash balances. These can be managed by borrowing in stable currencies, repatriating cash and taking out forward currency contracts as appropriate.

The group also has transactional currency exposures arising from sales or purchases by subsidiaries in foreign currencies. Forward currency contracts are used when appropriate to eliminate exposures on balances that are not expected to mature within 30 days.

Credit risk

The group is potentially exposed to credit related losses in the event of non-performance by counterparties under financial instruments. This is controlled by entering into transactions only with highly rated, authorised counterparties and by limiting total exposure to them. The group does not expect any counterparties to fail to meet their obligations. Positions and ratings are monitored regularly.

23 TREASURY POLICIES, FINANCIAL INSTRUMENTS & DERIVATIVES continued

(b) Borrowing covenants

With the exception of some small overseas facilities, all borrowings are either in the name of BPB plc, or are guaranteed by BPB plc. The group's principal financial covenant is that interest will be covered at least 3 times by underlying earnings before interest, tax and goodwill amortisation.

(c) Analysis of financial assets and liabilities (included in notes 15, 17, 18, 19 and 20)

Financial assets and liabilities comprise drawn borrowings and certain other debtors, creditors and provisions.

The tables below show the interest rate risk profile of the net financial assets and liabilities of the group at 31 March, after taking into account interest rate and foreign exchange swaps.

| 2005 Net financial assets and liabilities | Total £m | Sterling £m | Euro zone £m | US dollar £m | Other £m |
|--|-------------|----------------|--------------------|--------------------|-------------|
| Fixed rate borrowings | (297.2) | – | (186.7) | (98.3) | (12.2) |
| Floating rate borrowings | (262.6) | (32.3) | (104.6) | (109.0) | (16.7) |
| Nil interest borrowings | (1.1) | – | – | (0.1) | (1.0) |
| Total borrowings | (560.9) | (32.3) | (291.3) | (207.4) | (29.9) |
| Cash and short-term deposits | 138.9 | 62.5 | 26.3 | 3.4 | 46.7 |
| Net borrowings | (422.0) | 30.2 | (265.0) | (204.0) | 16.8 |
| Loans to joint ventures | | | | | |
| Floating | 7.9 | 6.5 | 1.4 | – | – |
| Loans to associate | | | | | |
| Non interest | 0.8 | – | – | – | 0.8 |
| Loan from associate | | | | | |
| Floating | (1.3) | – | – | (1.3) | – |
| Employee profit share scheme | (8.4) | – | (8.4) | – | – |
| Fixed asset investments | | | | | |
| Non interest | 1.0 | – | 1.0 | – | – |
| At 31 March 2005 | (422.0) | 36.7 | (271.0) | (205.3) | 17.6 |
| Fixed rate financial liabilities | | | | | |
| Weighted average interest rate (%) | 5.3 | – | 5.6 | 4.3 | 4.3 |
| Weighted average period for which rate is fixed (years) | 6.0 | – | 3.8 | 10.5 | 5.0 |

| 2004 Net financial assets and liabilities | Total £m | Sterling £m | Euro zone £m | US dollar £m | Other £m |
|--|-------------|----------------|--------------------|--------------------|-------------|
| Fixed rate borrowings | (397.7) | – | (283.2) | (114.0) | (0.5) |
| Floating rate borrowings | (167.5) | (2.3) | (13.2) | (135.6) | (16.4) |
| Nil interest borrowings | (1.2) | – | – | (0.5) | (0.7) |
| Total borrowings | (566.4) | (2.3) | (296.4) | (250.1) | (17.6) |
| Cash and short-term deposits | 71.4 | 7.6 | 19.5 | 10.2 | 34.1 |
| Net borrowings | (495.0) | 5.3 | (276.9) | (239.9) | 16.5 |
| Loans to joint ventures | | | | | |
| Floating | 7.7 | 6.5 | 1.2 | – | – |
| Loans to associate | | | | | |
| Non interest | 0.7 | – | – | – | 0.7 |
| Loan from associate | | | | | |
| Floating | (1.3) | – | – | (1.3) | – |
| Employee profit share scheme | (10.3) | – | (10.3) | – | – |
| Fixed asset investments | | | | | |
| Non interest | 0.9 | – | 0.9 | – | – |
| At 31 March 2004 | (497.3) | 11.8 | (285.1) | (241.2) | 17.2 |
| Fixed rate financial liabilities | | | | | |
| Weighted average interest rate (%) | 4.7 | – | 4.7 | 4.6 | 13.0 |
| Weighted average period for which rate is fixed (years) | 5.3 | – | 3.2 | 10.2 | 0.9 |

23 TREASURY POLICIES, FINANCIAL INSTRUMENTS & DERIVATIVES continued

Cash and short-term deposits earn interest at floating rates appropriate to the local market. Floating rate borrowings bear interest at the appropriate local market rates plus an agreed margin.

Maturity profile of financial assets and liabilities

The maturity profile of the group's total borrowings is given in note 18. Amounts due under the employee profit share scheme are payable as follows:

| | 2005 £m | 2004 £m |
|------------------------------|------------|------------|
| Within one year or on demand | 1.4 | - |
| Between one and two years | 1.5 | 2.2 |
| Between two and five years | 5.5 | 8.1 |
| | 8.4 | 10.3 |

The loan from associate represents a rolling facility of less than one year and non-interest bearing loans and investments do not have a maturity date. The £6.5 million floating rate loan to a joint venture is repayable on 31 December 2008.

(d) Currency exposures

Translation exposures

As explained on page 60, the group manages its structural currency exposures arising from its net asset investments in overseas companies. Gains and losses arising from these currency exposures are recognised as movements in reserves.

Transactional exposures

The group also manages exposures arising where monetary assets and liabilities (principally debtors, creditors and cash) are held in a different currency from the functional currencies of the group's businesses. Gains and losses arising from these currency exposures are recognised in the profit and loss account. The following table details these exposures after taking account of forward foreign exchange contracts.

| Net foreign currency monetary assets/(liabilities) | Total £m | Sterling £m | Euro zone £m | US dollar £m | Other £m |
|---|-------------|----------------|--------------------|--------------------|-------------|
| Functional currency of operation | | | | | |
| Sterling | 3.9 | - | 2.5 | 0.1 | 1.3 |
| Euro | 3.0 | 0.4 | - | 0.5 | 2.1 |
| US dollar | (1.0) | - | (1.2) | - | 0.2 |
| Other | (3.5) | (0.6) | (3.7) | 1.2 | (0.4) |
| At 31 March 2005 | 2.4 | (0.2) | (2.4) | 1.8 | 3.2 |
| Functional currency of operation | | | | | |
| Sterling | 7.9 | - | 6.8 | 0.4 | 0.7 |
| Euro | 2.6 | 1.2 | - | 0.4 | 1.0 |
| US dollar | (0.7) | - | (1.0) | - | 0.3 |
| Other | (0.2) | (0.2) | (0.7) | 0.5 | 0.2 |
| At 31 March 2004 | 9.6 | 1.0 | 5.1 | 1.3 | 2.2 |

(e) Fair value of financial assets and financial liabilities

Set out below is a comparison by category of book and fair values of all the group's financial assets and liabilities at 31 March.

| Primary financial instruments | Total £m | Cash and Total short-term borrowings deposits £m | Other £m |
|----------------------------------|-------------|---|-------------|
| At 31 March 2005 | | | |
| Book value | (422.0) | (560.9) | 138.9 |
| Fair value | (459.9) | (598.8) | 138.9 |
| At 31 March 2004 | | | |
| Book value | (497.3) | (566.4) | 71.4 |
| Fair value | (531.2) | (600.3) | 71.4 |

23 TREASURY POLICIES, FINANCIAL INSTRUMENTS & DERIVATIVES continued

The fair value of total borrowings includes the group's €400 million 6.5% bond at £311.4 million (2004 £299.5 million) compared to a book value of £273.5 million (2004 £265.6 million). The difference between book and fair value is not a liability of the group.

The fair value of the group's interest rate swaps is calculated by comparing the actual swap contract rate with the rate at which a swap contract on similar terms could be entered into on the balance sheet date. This fair value would be realised in the profit and loss account in the period to the maturity of the swaps if future interest rates are the same as those assumed at the balance sheet date.

The fair value of the group's forward currency contracts is calculated by comparing, for equivalent maturity profiles, the rate at which currency contracts with the same principal amounts could be acquired at the balance sheet date with the actual contract rate. This fair value will only be realised in the profit and loss account in the period to 31 March 2006 if forward foreign exchange rates at that date remain unchanged.

| Derivative financial instruments (hedges) | Total £m | interest rate swaps £m | Forward foreign currency contracts £m |
|--|-------------|---------------------------------|---|
| At 31 March 2005 | | | |
| Book value | 0.2 | (0.1) | 0.3 |
| Fair value | 14.2 | 14.4 | (0.2) |
| Unrecognised gains and losses | 14.0 | 14.5 | (0.5) |
| At 31 March 2004 | | | |
| Book value | (0.1) | (0.5) | 0.4 |
| Fair value | 10.4 | 9.7 | 0.7 |
| Unrecognised gains and losses | 10.5 | 10.2 | 0.3 |

(f) Use of derivatives

The group uses derivatives to manage interest rate and foreign currency risks as described in the treasury policies section on page 60. The tables under (e) on this page show where the group has unrecognised gains and losses (those not reflected in the 'book value' row in the table on derivative instruments in place at the year end).

All the unrecognised gains and losses on derivative instruments are expected to be matched by losses and gains on the underlying exposures or positions.

| Reconciliation of movement in unrecognised gains and losses | Total £m | Derivative Gains £m | Losses £m |
|--|-------------|---------------------------|---------------|
| Unrecognised gains and losses | | | |
| At 31 March 2004 | 10.5 | 21.7 | (11.2) |
| Recognised in the year | (2.2) | (17.7) | 15.5 |
| Arising in the year | 5.7 | 10.5 | (4.8) |
| At 31 March 2005 | 14.0 | 14.5 | (0.5) |
| Expected to be recognised: | | | |
| In the year to 31 March 2006 | 1.4 | 6.3 | (4.9) |
| In the year to 31 March 2007 or after | 12.6 | 8.2 | 4.4 |
| Unrecognised gains and losses | | | |
| At 31 March 2003 | 4.3 | 23.3 | (19.0) |
| Recognised in the year | 2.5 | (14.4) | 16.9 |
| Arising in the year | 3.7 | 12.8 | (9.1) |
| At 31 March 2004 | 10.5 | 21.7 | (11.2) |
| Expected to be recognised: | | | |
| In the year to 31 March 2005 | 0.6 | 8.0 | (7.4) |
| In the year to 31 March 2006 or after | 9.9 | 13.7 | (3.8) |

NOTES TO THE FINANCIAL STATEMENTS

24 SHARE CAPITAL

| | Number | | Nominal value | |
|------------------------------------|-----------|-----------|---------------|------------|
| | 2005 m | 2004 m | 2005 £m | 2004 £m |
| Ordinary shares of 50p each | | | | |
| Authorised | 680.0 | 680.0 | 340.0 | 340.0 |
| Allotted, called up and fully paid | 500.3 | 495.7 | 250.1 | 247.8 |

At the 2004 annual general meeting shareholders authorised the company to buy-back up to 10% of its allotted share capital, although no such purchases were made during the year to 31 March 2005.

Option schemes

Allotments of shares by the parent company and options granted during the year under the company's employee share option schemes were as follows:

| | Allotments | | | Options granted | | |
|-------------------|------------|---------------|--------|-----------------|-----------------|-------|
| | Shares | Consideration | Number | Shares | Exercise period | Price |
| SAYE: | 616,622 | £2.7m | 631 | 564,206 | 1.3.08-31.8.08 | 356p |
| | | | 238 | 289,924 | 1.3.10-31.8.10 | 356p |
| Senior executive: | 3,963,882 | £12.4m | 104 | 2,197,500 | 1.7.07-30.6.14 | 412p |
| | | | 10 | 206,200 | 1.7.08-30.6.14 | 412p |

At 31 March 2005, 3,216 options over 4,712,112 shares were outstanding under the company's SAYE share option scheme, exercisable during various periods up to 31 August 2010 at prices between 188p and 356p per share. A further 361 options over 10,298,761 shares were outstanding under the senior executive share option schemes, exercisable during various periods up to 30 June 2014 at prices between 254p and 412p per share.

The company has a qualifying employee share ownership trust (QUEST) to subscribe for BPB ordinary shares for transfer to employees exercising options under BPB's UK SAYE share option scheme. The trustee of the QUEST is BPB QUEST Trustees Ltd, a wholly owned subsidiary of the company. During the year, the QUEST transferred a total of 1,171,864 shares to employees on the exercise of options for a consideration of £2.6 million (already included in the figures for shares allotted under the company's SAYE share option schemes given in the table above). A total of 562,720 shares were acquired by the QUEST during the year using funds received from employees on the exercise of options. All employees of UK group subsidiary companies, including executive directors of the company, are potential beneficiaries under the QUEST. The QUEST has waived the dividends payable on all the 5,188 (2004 614,332) shares that it owned at 31 March 2005.

25 RESERVES

| | Total £m | Share premium £m | Capital recession reserve £m | Investment in own shares £m | Profit and loss account £m |
|------------------------------------|--------------|------------------------|---------------------------------------|--------------------------------------|-------------------------------------|
| Movements in reserves | | | | | |
| Group | | | | | |
| At 1 April 2004 | 547.8 | 235.9 | 32.7 | - | 279.2 |
| Prior year adjustment | (0.7) | - | - | (1.4) | 0.7 |
| At 1 April 2004 (as re-stated) | 547.1 | 235.9 | 32.7 | (1.4) | 279.9 |
| Currency adjustments | | | | | |
| Overseas net assets | 25.0 | - | - | - | 25.0 |
| Borrowings | (5.4) | - | - | - | (5.4) |
| Premium on shares issued | 12.8 | 12.8 | - | - | - |
| Purchase of shares by ESOP | (2.4) | - | - | (2.4) | - |
| ESOP charge for year | 1.2 | - | - | - | 1.2 |
| ESOP reserve movements | - | - | - | 0.4 | (0.4) |
| Goodwill written back on disposals | 5.6 | - | - | - | 5.6 |
| Retained profit | 102.3 | - | - | - | 102.3 |
| At 31 March 2005 | 686.2 | 248.7 | 32.7 | (3.4) | 408.2 |
| Company | | | | | |
| At 1 April 2004 | 334.8 | 235.9 | 32.7 | - | 66.2 |
| Prior year adjustment | (0.7) | - | - | (1.4) | 0.7 |
| At 1 April 2004 (as re-stated) | 334.1 | 235.9 | 32.7 | (1.4) | 66.9 |
| Premium on shares issued | 12.8 | 12.8 | - | - | - |
| Purchase of shares by ESOP | (2.4) | - | - | (2.4) | - |
| ESOP charge for year | 1.2 | - | - | - | 1.2 |
| ESOP reserve movements | - | - | - | 0.4 | (0.4) |
| Retained profit | 46.3 | - | - | - | 46.3 |
| At 31 March 2005 | 392.0 | 248.7 | 32.7 | (3.4) | 114.0 |

At 31 March 2005 the cumulative amount of goodwill written off to reserves, net of amounts attributed to disposals, in respect of acquisitions prior to the adoption of FR510 on 1 April 1998 was £232.2 million (2004 £237.8 million). At 31 March 2005 and 2004 negative goodwill added to reserves was £7.4 million.

| | 2005 £m | 2004 Re-stated £m |
|--|--------------|-------------------------|
| Movements in shareholders' funds | | |
| At 1 April | 795.6 | 780.3 |
| Prior year adjustment | (0.7) | (0.7) |
| At 1 April (as re-stated) | 794.9 | 779.6 |
| Total recognised gains and losses for the year | 201.9 | 75.9 |
| Dividends | (80.0) | (70.4) |
| ESOP transactions | (1.2) | - |
| Goodwill written back on disposal | 5.6 | - |
| New shares issued | 15.1 | 9.8 |
| At 31 March | 936.3 | 794.9 |

26 ACQUISITIONS

Consideration for acquisitions including purchase costs was £45.3 million, of which £36.8 million relates to the buy-out of minority interests in Thai Gypsum Products pcl and India Gypsum Limited.

£43.9 million of the £45.3 million was paid in the period, with the balance due in later years. The net book and fair value of assets acquired was £19.9 million. Goodwill arising on these acquisitions was £25.4 million.

Consideration paid in the period in respect of acquisitions completed in previous years totalled £2.6 million.

27 NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2005 £m | 2004 £m |
|---|------------|------------|
| Operating profit | 272.4 | 202.4 |
| Depreciation less transfers from deferred credits (before Aberdeen & Purfleet asset write-downs) | 110.1 | 108.6 |
| Aberdeen asset write-downs | 10.0 | - |
| Purfleet asset write-downs | - | 15.5 |
| Goodwill amortisation | 16.3 | 18.0 |
| EBITDA | 408.8 | 344.5 |
| Changes in working capital: | | |
| Stocks and work-in-progress | (21.8) | 4.2 |
| Debtors | (21.7) | (41.7) |
| Creditors and provisions | 51.3 | 43.5 |
| | 7.8 | 6.0 |
| Net cash inflow from operating activities | 416.6 | 350.5 |

29 CHANGES IN NET BORROWINGS

| | At 1 April 2004 £m | Cash flow movement £m | Currency movement £m | At 31 March 2005 £m |
|------------------------------|-----------------------------|--------------------------------|----------------------------|------------------------------|
| Cash at bank and in hand | 58.6 | 1.9 | 0.2 | 60.7 |
| Overdrafts | (14.7) | 10.0 | (1.4) | (6.1) |
| | 43.9 | 11.9 | (1.2) | 54.6 |
| Loans and finance leases: | | | | |
| Due within one year | (9.8) | (23.0) | 0.4 | (32.4) |
| Due after more than one year | (541.9) | 24.2 | (4.7) | (522.4) |
| | (551.7) | 1.2 | (4.3) | (554.8) |
| Short-term deposits | 12.8 | 65.3 | 0.1 | 78.2 |
| Net borrowings | (495.0) | 78.4 | (5.4) | (422.0) |
| Cash at bank and in hand | 58.6 | | | 60.7 |
| Short-term deposits | 12.8 | | | 78.2 |
| Cash and short-term deposits | 71.4 | | | 138.9 |

30 RELATED PARTY TRANSACTIONS

During the year the group purchased goods from, and sold goods to, its associated companies, joint ventures and their related parties for £30.3 million and £1.5 million respectively (2004 £8.5 million and £1.3 million). The amounts outstanding at the year end on these purchases and sales were £0.9 million and £0.3 million respectively (2004 £1.8 million and £0.3 million).

The group received royalties from associated companies of £0.1 million (2004 £0.1 million). In addition, the group recharged £0.4 million (2004 £0.4 million) to its associated companies in respect of administrative costs incurred on their behalf; the amount outstanding at the year end was £0.1 million (2004 £0.1 million).

At the year end loans outstanding from, and to, associated companies totalled £1.3 million (2004 £1.3 million) and £0.8 million (2004 £0.7), respectively. A loan from BPB United Kingdom Ltd to a joint venture, British Gypsum-Isover Ltd, of £6.5 million was outstanding (2004 £6.5 million). A loan from Rigips Dammsysteme GmbH to a joint venture, Netherlands Dammsysteme BV, of £1.4 million (2004 £1.2 million) was outstanding at year end.

As part of the acquisition of Thai Gypsum Products pcl ('TGP') an agreement was signed in December 1999 between TGP and its then managing director and former principal shareholder, Mr Krisada Kampanatsanyakorn stipulating that a number of companies controlled by him and his family would operate TGP's mines and provide transportation services. During the year TGP was charged £1.9 million (2004 £2.4 million) of which £0.2 million (2004 £0.1 million) remained due at the year end.

28 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET BORROWINGS

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Increase in cash | 11.9 | 64.2 |
| Decrease in borrowings | 1.2 | 52.6 |
| Management of liquid resources | 65.3 | 3.8 |
| Change in borrowings resulting from cash flows | 78.4 | 120.6 |
| Currency adjustments | (5.4) | 47.9 |
| Movement in net borrowings | 73.0 | 168.5 |
| Net borrowings at 1 April | (495.0) | (663.5) |
| Net borrowings at 31 March | (422.0) | (495.0) |

FIVE YEAR FINANCIAL SUMMARY

| YEAR TO 31 MARCH | | 2005 £m | 2004 £m | 2003 £m | 2002 £m | 2001 £m |
|---|----|------------|------------|------------|------------|------------|
| PROFIT AND LOSS ACCOUNT SUMMARY | | | | | | |
| Turnover | | | | | | |
| North & Western Europe | | 596.1 | 588.5 | 566.7 | 545.7 | 547.6 |
| Southern Europe | | 760.8 | 728.1 | 594.9 | 520.1 | 504.7 |
| Central & Eastern Europe | | 350.9 | 330.8 | 289.7 | 270.2 | 281.7 |
| Europe | | 1,707.8 | 1,647.4 | 1,451.3 | 1,336.0 | 1,334.0 |
| North America | | 532.1 | 488.8 | 458.5 | 293.2 | 231.3 |
| Emerging Markets | | 126.4 | 108.6 | 92.4 | 97.1 | 88.9 |
| | | 2,366.3 | 2,244.8 | 2,002.2 | 1,726.3 | 1,654.2 |
| Less inter-area | | (49.5) | (74.0) | (71.0) | (64.5) | (67.1) |
| Group turnover | | 2,316.8 | 2,170.8 | 1,931.2 | 1,661.8 | 1,587.1 |
| Growth | % | 6.7 | 12.4 | 16.2 | 4.7 | 11.2 |
| Underlying operating profit (note a) | | | | | | |
| North & Western Europe | | 108.3 | 105.1 | 95.8 | 98.3 | 95.9 |
| Southern Europe | | 84.1 | 76.2 | 79.3 | 75.3 | 75.9 |
| Central & Eastern Europe | | 25.2 | 12.6 | 6.9 | 10.7 | 10.6 |
| Europe | | 217.6 | 193.9 | 182.0 | 184.3 | 182.4 |
| North America | | 71.4 | 40.1 | 29.4 | (11.8) | (1.9) |
| Emerging Markets | | 19.1 | 15.2 | 9.1 | 7.5 | 4.5 |
| Group underlying operating profit | | 308.1 | 249.2 | 220.5 | 180.0 | 185.0 |
| Growth | % | 23.6 | 13.0 | 22.5 | (2.7) | (20.8) |
| Operating exceptional items | | (19.4) | (28.8) | (133.1) | - | (18.0) |
| Goodwill amortisation | | (16.3) | (18.0) | (16.2) | (9.7) | (7.2) |
| Group operating profit | | 272.4 | 202.4 | 71.2 | 170.3 | 159.8 |
| Disposals of fixed assets and businesses | | 6.9 | 4.3 | 7.4 | 3.0 | (0.3) |
| Share of profits of associated companies and joint ventures | | 7.8 | 5.7 | 0.4 | 3.4 | 5.8 |
| Profit on ordinary activities before interest | | 287.1 | 212.4 | 79.0 | 176.7 | 165.3 |
| Net interest payable | | (28.4) | (32.1) | (30.6) | (30.4) | (27.4) |
| Profit on ordinary activities before tax | | 258.7 | 180.3 | 48.4 | 146.3 | 137.9 |
| Tax on profit on ordinary activities | | (74.5) | (63.0) | (49.1) | (57.5) | (46.1) |
| Minority interests | | (1.9) | (2.3) | (4.0) | (0.4) | 0.4 |
| Profit/(loss) attributable to BPB plc | | 182.3 | 115.0 | (4.7) | 88.4 | 92.2 |
| Return on sales (underlying) | | | | | | |
| North & Western Europe | % | 18.2 | 17.9 | 16.9 | 18.0 | 17.5 |
| Southern Europe | % | 11.1 | 10.5 | 13.3 | 14.5 | 15.0 |
| Central & Eastern Europe | % | 7.2 | 3.8 | 2.4 | 4.0 | 3.8 |
| Europe | % | 12.7 | 11.8 | 12.5 | 13.8 | 13.7 |
| North America | % | 13.4 | 8.2 | 6.4 | (4.0) | (0.8) |
| Emerging Markets | % | 15.1 | 14.0 | 9.8 | 7.7 | 5.1 |
| Group | % | 13.3 | 11.5 | 11.4 | 10.8 | 11.7 |
| Underlying pre-tax profit (note a) | | | | | | |
| | £m | 287.5 | 222.8 | 191.6 | 153.0 | 163.4 |
| Growth | % | 29.0 | 16.3 | 25.2 | (6.4) | (28.1) |
| Underlying tax rate (note a) | % | 31.8 | 31.7 | 32.0 | 36.9 | 33.0 |

| YEAR TO 31 MARCH | | 2005 £m | 2004 Re-stated £m | 2003 Re-stated £m | 2002 Re-stated £m | 2001 Re-stated £m |
|---|-------|------------|-------------------------|-------------------------|-------------------------|-------------------------|
| BALANCE SHEET SUMMARY | | | | | | |
| Shareholders' funds | | 936.3 | 794.9 | 780.3 | 831.1 | 706.7 |
| Minority interests | | 9.0 | 24.2 | 25.4 | 25.7 | 23.0 |
| Net borrowings | | 422.0 | 495.0 | 663.5 | 371.1 | 497.8 |
| Dividends payable | | 53.9 | 46.8 | 43.7 | 42.1 | 38.5 |
| Cumulative goodwill amortised and written off | | 306.6 | 295.9 | 277.9 | 251.5 | 241.8 |
| Capital invested | | 1,727.8 | 1,656.8 | 1,790.8 | 1,521.5 | 1,507.8 |
| Growth | % | 4.3 | (7.4) | 17.7 | 0.9 | 17.0 |
| Return on capital invested (note b) | % | 12.7 | 9.9 | 8.8 | 7.6 | 9.1 |
| Return on shareholders' funds (note c) | % | 16.2 | 13.5 | 11.5 | 9.5 | 11.4 |
| Gearing (note d) | % | 44.6 | 60.4 | 82.4 | 43.3 | 68.2 |
| Group interest cover (note e) | times | 11.3 | 8.1 | 7.5 | 6.1 | 6.9 |
| CASH FLOW SUMMARY | | | | | | |
| EBITDA (note f) | | 408.8 | 344.5 | 326.1 | 264.2 | 268.0 |
| Net movement in working capital | | 7.8 | 6.0 | (10.0) | 0.2 | 31.1 |
| Capital expenditure | | (154.1) | (99.6) | (96.5) | (84.5) | (90.6) |
| Fixed asset disposals | | 6.6 | 15.6 | 12.2 | 3.7 | 13.1 |
| Taxation | | (66.2) | (60.2) | (43.8) | (57.7) | (76.1) |
| Other | | 1.0 | 0.5 | (0.2) | 1.8 | 2.7 |
| Interest | | (27.2) | (31.4) | (30.1) | (28.7) | (28.4) |
| Dividends | | (73.1) | (67.3) | (64.9) | (59.1) | (57.7) |
| Free cash flow | | 103.6 | 108.1 | 92.8 | 39.9 | 62.1 |
| Acquisitions | | (46.5) | (5.1) | (315.7) | (31.1) | (276.7) |
| Disposals | | 8.6 | 7.5 | 40.0 | 1.4 | 6.4 |
| Shares issued | | 15.1 | 9.8 | 1.2 | 111.7 | 2.1 |
| Purchase of own shares/EC fine | | (2.4) | - | (89.2) | - | (0.2) |
| Contributions from minority shareholders | | - | - | - | 0.5 | 0.9 |
| Cash inflow/(outflow) (note g) | | 78.4 | 120.3 | (270.9) | 122.4 | (205.4) |
| OTHER STATISTICS | | | | | | |
| Shares in issue (average) | m | 497.2 | 490.9 | 490.1 | 458.1 | 456.3 |
| Basic earnings/(loss) per share | p | 36.7 | 23.4 | (1.0) | 19.3 | 20.2 |
| Growth | % | 56.8 | n/a | n/a | (4.5) | (36.3) |
| Underlying earnings per share (note a) | p | 39.1 | 30.5 | 25.8 | 21.0 | 24.1 |
| Growth | % | 28.2 | 18.2 | 22.9 | (12.9) | (25.2) |
| Dividends per share | p | 16.0 | 14.25 | 13.55 | 13.1 | 12.8 |
| Growth | % | 12.3 | 5.2 | 3.4 | 2.3 | 2.4 |
| Dividends | £m | 80.0 | 70.4 | 66.5 | 62.7 | 58.4 |
| Share price: high | p | 544 | 383 | 440 | 391 | 374 |
| low | p | 345 | 258 | 230 | 217 | 206 |
| Year end market capitalisation | £m | 2,484 | 1,762 | 1,328 | 1,910 | 1,104 |
| Number of shares in issue at 31 March | m | 500.3 | 495.7 | 492.8 | 489.8 | 458.3 |
| Ordinary shareholdings | 000 | 8.5 | 9.7 | 8.8 | 8.4 | 8.9 |

Notes

- Underlying amounts are calculated before goodwill amortisation and exceptional items.
- Underlying profit before interest and after tax, as a percentage of average capital invested (including goodwill amortised and written off to reserves).
- Underlying profit attributable to BPB plc as a percentage of average shareholders' funds (including goodwill amortised and written off to reserves).
- Net borrowings as a percentage of shareholders' funds plus minority interests.
- Underlying operating profit divided by net interest before exceptional interest and share of associates' and joint ventures' interest.
- Earnings before interest, tax, depreciation less deferred credits, goodwill amortisation and in 2003 group EC fine of £89.2 million.
- Cash flow before management of liquid resources, loans from associated companies and decrease or increase in borrowings.

PRINCIPAL OPERATING COMPANIES

| Interior building systems | Notes | % Interest in equity capital | | Business and country of operation |
|--|-------|------------------------------|------|-----------------------------------|
| Artex Rawlplug Ltd | b | 100 | 2 | United Kingdom |
| Binje Ackermans SA | | 100 | 1, 2 | Belgium |
| BPB America Inc | | 100 | 1, 2 | USA |
| BPB Belgium NV | c | 100 | 1, 2 | Belgium |
| BPB Canada Inc | | 100 | 1, 2 | Canada |
| BPB Formula GmbH | d | 100 | 2 | Germany |
| BPB Gypsum, Inc | | 100 | 1 | USA |
| BPB Gypsum Production & Trading Ltd | | 100 | 2 | Turkey |
| BPB Gypsum (Pty) Ltd | | 100 | 1, 2 | South Africa |
| BPB Hellas ABEE | | 100 | 1 | Greece |
| BPB Iberplaco SA | | 100 | 1, 2 | Spain |
| BPB Italia SpA | e | 100 | 1, 2 | Italy |
| BPB LLC | | 100 | 1 | Russian Federation |
| BPB Malaysia Gypsum Sdn Bhd | f | 100 | 1 | Malaysia |
| BPB Manufacturing, Inc | | 100 | 1, 2 | USA |
| BPB Mexico SA de CV | | 100 | 2 | Mexico |
| BPB Nederland BV | | 100 | 1, 2 | Holland |
| BPB Paperboard Ltd | g | 100 | 2 | United Kingdom |
| BPB Placo SAS | | 100 | 1, 2 | France |
| British Gypsum Ltd | | 100 | 1, 2 | United Kingdom |
| British Gypsum-Isover Ltd (joint venture) | h | 50 | 2 | United Kingdom |
| Commatone Ltd | b | 100 | 1, 2 | United Kingdom |
| Compania Industrial El Volcan SA (associate) | i | 26.1 | 1, 2 | Chile |
| Distriplac SL | | 100 | 2 | Spain |
| Donn Products (Pty) Ltd | | 66.7 | 2 | South Africa |
| Egyptian Gypsum Company SAE | f, j | 50 | 2 | Egypt |
| Gypco Shanghai Company Ltd | f | 85.5 | 1 | China |
| Gyproc AB | | 100 | 1, 2 | Sweden |
| Gyproc A/S | | 100 | 1, 2 | Denmark |
| Gyproc as | | 100 | 1, 2 | Norway |
| Gyproc Oy | | 100 | 1, 2 | Finland |
| Gypsum Industries Ltd | | 100 | 1, 2 | Republic of Ireland |
| Gypsum Industries (Pte) Ltd | | 100 | 1, 2 | Zimbabwe |
| India Gypsum Ltd | f, k | 95.4 | 1, 2 | India |
| Moy-Isover Ltd (joint venture) | l | 50 | 2 | Republic of Ireland |
| Placo do Brasil Ltda | | 66.7 | 1 | Brazil |
| Placoplatre SA | m | 99.7 | 1, 2 | France |
| Rigips AG | | 100 | 1, 2 | Switzerland |
| Rigips GmbH | | 100 | 1, 2 | Germany |
| Rigips Austria GesmbH | n | 100 | 1, 2 | Austria |
| Rigips Bulgaria EOOD | | 100 | 2 | Bulgaria |
| Rigips Hungaria Gipszkarton Kft | | 100 | 1, 2 | Hungary |
| Rigips Polska-Stawiany Sp zoo | n | 100 | 1, 2 | Poland |
| Rigips Romania Srl | | 100 | 1, 2 | Romania |
| Rigips Slovakia sro | | 100 | 1 | Slovakia |
| Rigips sro | | 100 | 1 | Czech Republic |
| Sogeco SAS | | 100 | 1, 2 | France |
| Tecnokarton GmbH & Co KG (associate) | f, o | 29 | 2 | Germany |
| Thai Gypsum Products pvt | f, p | 99.6 | 1, 2 | Thailand |

Notes

- a) Business activities for each company are indicated as follows:
- 1 Internal linings, comprising plasterboard and accessories,
 - 2 Complementary products, comprising plasters, ceiling tiles, insulation, other building materials and paperboard, and distribution.
- b) Each subsidiary, associated and joint venture company is incorporated in its main country of operation as shown; companies operating in the United Kingdom are subsidiaries of, and (except for Artex Rawlplug Ltd and Commatone Ltd) authorised agents acting for and on behalf of, BPB United Kingdom Ltd (a company operating mainly in the United Kingdom).
- c) On 1 April 2004 Isugips NV merged into BPB Belgium NV.
- d) BPB Formula also operates through branches in France, Romania, Spain, Thailand, the UK and the USA, and trades worldwide.
- e) BPB United Kingdom Ltd (note b) and BPB Italia SpA are the only operating companies in which BPB plc has a direct interest.
- f) Not audited by the auditors of BPB plc or by their associates.
- g) BPB Paperboard Ltd, a subsidiary of and authorised agent of BPB United Kingdom Ltd (note b), operates through a unit manufacturing plasterboard liner.
- h) The BPB group is interested in 50% of the issued equity share capital of £22.6 million.
- i) The BPB group is interested in 26.1% of the issued equity share capital of CH\$75 billion.
- j) The BPB group has control of the Board of Egyptian Gypsum Company SAE.
- k) The interest of the BPB group in the issued share capital has increased from 80% to 95.4% following the buy-out of a significant proportion of the minority interests during the financial year.
- l) The BPB group is interested in 50% of the issued equity share capital of €5.3 million.
- m) On 13 February 2005 Unigyp France SAS merged into Placoplatre SA.
- n) Rigips Austria GesmbH also operates through branches in Bosnia, Croatia, Macedonia, Serbia and Slovenia, and Rigips Polska-Stawiany Sp zoo also operates through a branch in Ukraine.
- o) The BPB group is interested in 29% of the issued capital of €4.1 million.
- p) The interest of the BPB group in the issued share capital has increased from 64.8% to 99.6% following the buy-out of a significant proportion of the minority interests during the financial year.
- q) A complete list of subsidiary, associated and joint venture companies will be annexed to the company's next annual return to the Registrar of Companies.

SHAREHOLDER INFORMATION

WEBSITE

A wide range of information on BPB is available at www.bpb.com including details of activities, press releases and annual and interim reports, together with subsidiary company website addresses.

SHARE PRICE INFORMATION

The BPB ordinary share price is available on Ceefax and Teletext, by calling the FT Cityline service, telephone (0906) 843 1888 (calls charged at premium rates), or via the investor centre section of the BPB website at www.bpb.com.

SHARE DEALING SERVICE

A low-cost service for existing and potential shareholders for dealing in BPB shares is available through JPMorgan Cazenove, one of the company's stockbrokers. Full details are contained in a brochure available from JPMorgan Cazenove's share schemes department: telephone (020) 7155 5155.

TAXATION OF CAPITAL GAINS

For the purposes of capital gains tax calculations, the London Stock Exchange prices of the company's 50p ordinary shares at 6 April 1965 and 31 March 1982 were 129½p and 395p respectively. These prices should be adjusted (as appropriate) for relevant capital issues since 6 April 1965: 1 for 4 rights issue at 68p (September 1975), 1 for 1 capitalisation issues (August 1979, August 1983 and July 1987) and 1 for 5 rights issue at 155p (June 1991).

PAYMENT OF DIVIDENDS TO MANDATED ACCOUNTS BY BACS

Shareholders who have mandated their dividends to be paid directly into a bank or building society account on the payment date receive their tax voucher at their registered address, unless the company's share registrar has been otherwise informed. If the account is with a bank or building society which is not a member of the BACS system, the payment and tax voucher are sent to the account holding branch.

Shareholders who do not currently mandate their dividends and who wish to benefit from this service should contact the share registrar or complete the mandate form attached to their next dividend cheque.

PAYMENT OF DIVIDENDS IN OVERSEAS CURRENCY

Shareholders resident in certain countries outside the UK are able to elect to have their dividends credited to a local bank account in their local currency. This service, operated by the company's share registrar, is free (subject to a nominal currency conversion charge of £2.50 per dividend payment).

SHAREHOLDER ENQUIRIES

Enquiries concerning holdings of the company's ordinary shares, dividend payments and notification of a holder's change of address should be referred to the company's share registrar.

For general enquiries relating to the company, please contact the secretary's department at the company's registered office.

ELECTRONIC COMMUNICATIONS

Shareholders can elect to obtain shareholder documents, such as annual and interim reports and notices of general meetings, electronically from BPB's website rather than by post. Those who wish to take advantage of this free service may do so by registering their details on BPB's registrar's website at www.shareview.co.uk. Shareholders who register will receive an email notification as soon as new shareholder documents are available, have access to a range of information regarding their shareholding and be able to download change of address, dividend mandate and share transfer forms.

ELECTRONIC PROXY APPOINTMENTS

For the annual general meeting to be held on 20 July 2005, shareholders may if they so wish register the appointment of a proxy electronically by logging on to the Lloyds TSB Registrars proxy appointment website at www.sharevote.co.uk where full details of the procedure are given. You will need your voting reference numbers (the three 8 digit numbers shown on your proxy form). Similarly, if you are a member of CREST you may use the CREST electronic proxy appointment service.

Further details of these services are set out in the accompanying notice of annual general meeting.

CONSOLIDATION OF SHARE CERTIFICATES OR SHAREHOLDINGS

Shareholders wishing to consolidate four or more individual share certificates may do so by sending their certificates with a covering letter to the company's share registrar. Up to 15 certificates will be consolidated free of charge once a year; this facility cannot be used for transferring shares.

Shareholders who are currently receiving duplicate sets of company mailings as a result of an inconsistency in name or address details should write to the share registrar so that their holdings can be combined (if appropriate).

FINANCIAL CALENDAR

| | |
|--|----------|
| Ex dividend date for 2004/05 final dividend | 20.07.05 |
| Annual general meeting | 20.07.05 |
| Record date for 2004/05 final dividend | 22.07.05 |
| Payment date for 2004/05 final dividend | 19.08.05 |
| Announcement of trading update | 22.09.05 |
| Announcement of 2005/06 interim results and dividend | 17.11.05 |
| Interim report posted | 28.11.05 |
| Ex dividend date for 2005/06 interim dividend | 21.12.05 |
| Record date for 2005/06 interim dividend | 23.12.05 |
| Payment date for 2005/06 interim dividend | 20.01.06 |
| Payment date for 2005/06 6.5% bond interest | 17.03.06 |
| Announcement of trading update | 23.03.06 |
| Announcement of 2005/06 final results and dividend | 25.05.06 |

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Hoare Govett Ltd

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PRINCIPAL GROUP WEBSITES

www.bpb.com
www.artex-rawlplug.co.uk
www.bpbformula.co.uk
www.bpbitalia.it
www.bpb-na.com
www.bpbplaco.com
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www.indiagypsum.com
www.rigips.com
www.rigips.de
www.thaigypsum.com

Cautionary comment concerning forward-looking statements

The operating and financial review and certain other sections of this annual report contain forward-looking statements with respect to the business, strategy and plans of BPB and its current goals, assumptions and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they are based on and relate to expectations and assumptions as to future events, circumstances and other factors which are in some cases beyond BPB's ability to control or estimate precisely. As a result, the company's actual future financial condition, results or performance may differ materially from those expressed or implied by such forward-looking statements. BPB does not hereby undertake any obligation to update or release publicly any revisions to such forward-looking statements to reflect any changes in BPB's expectations with regard thereto or any events or changes in circumstances after the date of this annual report.

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