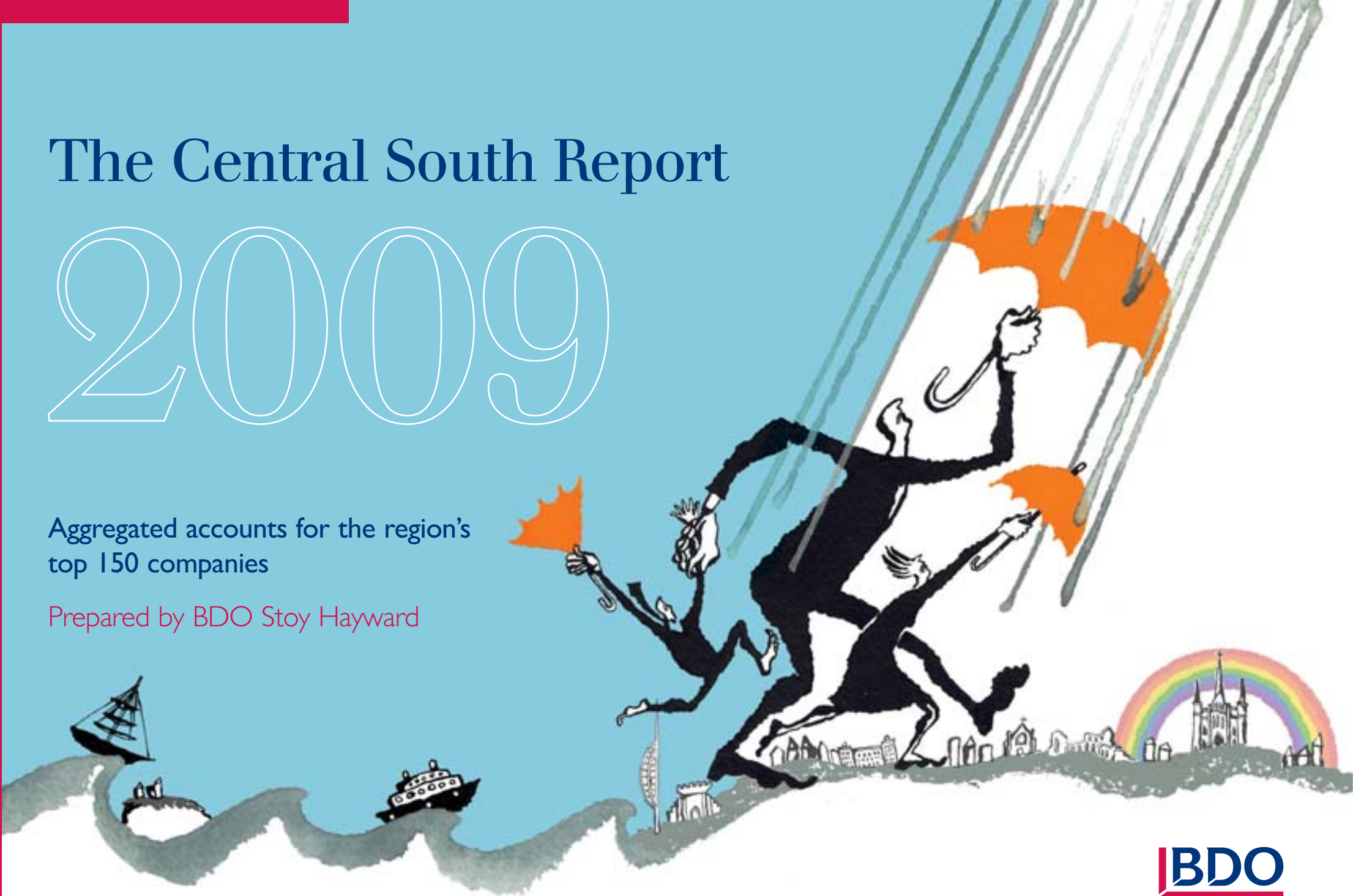


# The Central South Report

# 2009

Aggregated accounts for the region's  
top 150 companies

Prepared by BDO Stoy Hayward



**BDO**

BDO Stoy Hayward

# Ready to weather the storm?



**Revenue 2008** £70.9bn

Revenue 2007 £63.3bn

**Increase in revenue 2008** 12%

Increase in revenue 2007 36%

**Operating profit 2008** £4.5bn

Operating profit 2007 £4.1bn

**Investment 2008** £9.2bn

Investment 2007 £3.8bn

**People employed 2008** 324,031

People employed 2007 318,154

**Overall effective tax charge 2008** 23.2%

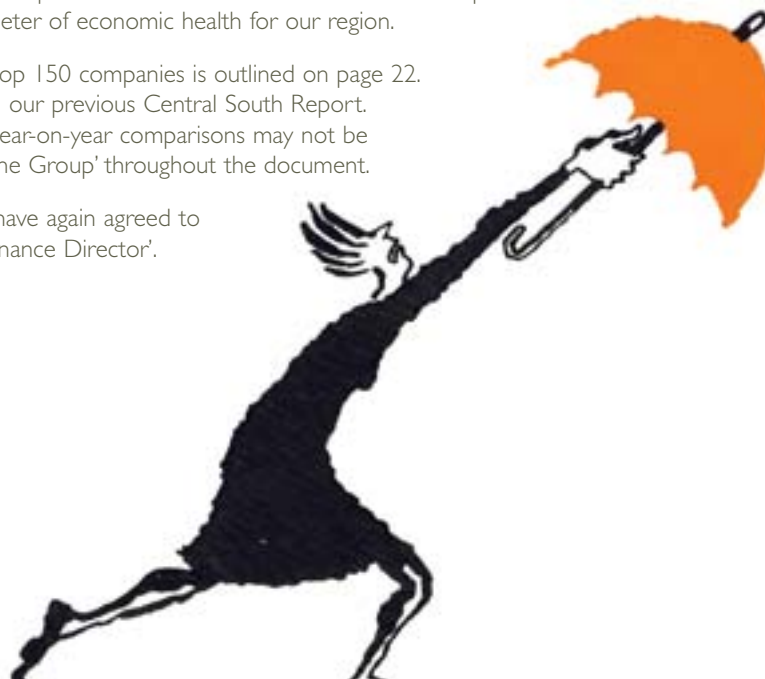
Overall effective tax charge 2007 34.2%

## Welcome to the Central South Report 2009 prepared by BDO Stoy Hayward.

This is the second in our series of annual reports which compiles the accounts of the Central South's top 150 companies, aggregating the figures to create a barometer of economic health for our region.

The way we identified and analysed the Central South's top 150 companies is outlined on page 22. Prior year figures are based on the top 150 companies in our previous Central South Report. As the composition of the top 150 has changed slightly, year-on-year comparisons may not be like-for-like. We refer to these companies collectively as 'the Group' throughout the document.


We are grateful to Paul Lester and Richard Pearce, who have again agreed to contribute commentary as the Group's 'Chairman' and 'Finance Director'.



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# Profits surge before the storm



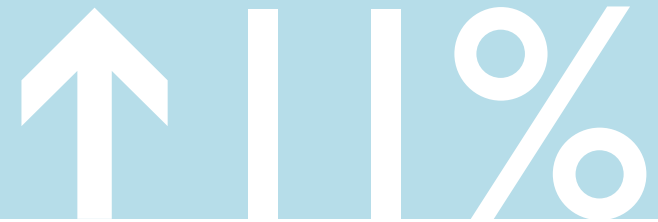
**With revenue up 12 per cent and pre-tax profit surging 20 per cent, could the Group be immune to the global economic crisis? Much of this apparent resilience is due to the timing of results announcements – the major effects of the 2008 downturn had yet to be reported. These may be the Group's best results for some time...**

Trading conditions remained buoyant during the year and the Group is pleased to report a 12 per cent increase in revenues. However, it is important to note that this report covers financial years ending between 31 March 2007 and 31 March 2008 for the Group's underlying businesses: it thus reflects the initial impact of the credit crunch, but only the first tremors of the downturn that has followed.

Although the combined businesses faced increased costs from both trading and borrowing, the Group was able to translate its sales growth into a very pleasing 20 per cent increase in pre-tax profit.

While the majority of Group companies were able to report steady growth, the overall increase in revenues was greatly assisted by companies contributing to the Group's results for the first time. These included BAE Systems (Operations), Nokia UK and Eli Lilly, booking over £10bn of incremental sales. In addition, the Group also benefited from a £1.9bn turnover increase at Ineos Group, which contributed a massive 28 per cent of total Group revenues.

Operating profit increased by 11 per cent to £4.5bn, while net (after-tax) profit rose 41 per cent to £2.7bn. The £802m increase in net profit benefited from reduced taxation charges (down from £974m to £791m) as the average tax rate fell to 23 per cent from the previous year's high of 34 per cent.



Shareholders saw an exceptional return in the year, with dividends rising from £0.5bn to £2.0bn. But this was due mainly to three companies making particularly large distributions of accumulated profits to parent companies.

The Group remains well diversified over a broad range of sectors. The largest revenue contribution comes from chemical manufacturing through Ineos Group but the aerospace and defence, business services, retail (home improvement and technology), financial services and biotechnology and drugs sectors are also strongly represented.

The Group's revenues generated from Asia showed a massive threefold growth, and a 21 per cent increase from Continental Europe while the domestic market stayed flat.

As in last year's report, over 80 per cent of Group companies made a positive contribution to profit. The top 10 companies contributed 67 per cent of Group pre-tax profit compared with 65 per cent in the previous year.

The top profit performers included BAE Systems (Operations), Ineos Group, Eli Lilly, Cobham and B&Q. A small number of Group companies aggregated losses of over £300m, explained in part by high finance charges due to relatively high gearing.

Last year I expressed a concern that this reporting period would be a tough one. In the event, the Group delivered a strong performance. My fear (and expectation) is that through the last six months of the 2008 calendar year the financial performance of many Group businesses will have deteriorated significantly, with probably only the major exporters finding much grounds for optimism. The sectors worst hit, at the time of writing, are construction, retailing, motor dealers and financial services.

It remains to be seen how much worse 2009 will prove to be and how long this recession will last. But against this backdrop, there can be little doubt that the Group's next financial statements will present a very different picture. In the sections of this report that follow, we consider the implications of this, as well as reflecting on the past year's performance.

**Paul Lester**  
Chairman

**Operating profit increased by 11 per cent to £4.5bn driven by a 12 per cent increase in revenue.**

#### **Paul Lester**

Before becoming Chief Executive of VT Group in 2002, Paul Lester was Group Managing Director of Balfour Beatty plc, the international engineering, construction and services group. Other previous appointments include Chief Executive of Graseby plc and senior management positions in Schlumberger and the Dowty Group plc. He is currently President of the Society of Maritime Industries. Paul is a non-executive director of Chloride Group plc and is Chairman of Solent Synergy, which is a not-for-profit company established to help drive the knowledge economy in the Solent area. He is also Chairman of Business in the Community Solent area Leadership Team. In 2007 he was awarded the CBE for services to the defence industry.

# Exports could offer a downturn lifeline



**While reported profit continued to rise, evidence of the global economic downturn has begun to appear. Margins began to soften as employee and borrowing costs rose significantly. But there is some encouragement to be drawn from the Group's growing export sales: with more than half of its turnover now earned overseas, the weakness of sterling could provide opportunities within certain areas of the Group.**

The Group's continuing growth in 2007/08 added £7.6bn to the top line. The principal driver of this growth was the export market – more than half the Group's sales are now made overseas. Exports accounted for 53 per cent of Group income last year, compared with 48 per cent in the previous year. The largest increase in sales revenues came from Europe, which contributed

£3.8bn of the increase to total revenue. Given sterling's continuing depreciation against the euro in 2008, this could augur well for the Group's sales prospects in 2009.

The largest sector contribution to sales came from chemical manufacturing, accounting for just under 30 per cent of Group income (2007: 28 per cent) due to the very significant sales of Ineos Group. The sectors experiencing greatest growth were aerospace and defence (up by over 100 per cent) and biotechnology and drugs (up nearly 80 per cent) – though this was due primarily to the inclusion of BAE Systems (Operations) and Eli Lilly in the Group for the first time.

Despite the increase in sales, overall profit margins softened slightly, with operating profit falling from 6.4 per cent to 6.3 per cent. As a result, the increase in operating profit was only £437m; and this was almost entirely absorbed by the net cost of borrowing, which rose from £1bn to £1.4bn.

The drop in gross profit margin of over 4 per cent for the second year running is a concern. In the main it reflects rises in raw material and energy prices and the unusually high increase in staff costs, but in such a diverse group there will also be a range of other factors.

Under the circumstances, the £802m overall increase in the Group's net profit might seem unexpectedly large. Rather than any improvement in operating profits, it owed much to a lower effective

# 53%

tax rate of 23 per cent following the previous year's unusually high 34 per cent, a £441m profit on sale of businesses, and a welcome positive return from group associates and joint ventures.

Staff costs rose in line with turnover, reflecting a 2 per cent increase in staff numbers and a surprisingly large 10 per cent increase in average pay calculated after pension costs, which rose considerably.

Net assets increased by £4.4bn to £20.5bn. Investment in non-current assets was consistent with a decrease in amounts held by financial institutions offset by increases of £3bn in property, plant and equipment and £4.4bn in intangible assets.

Cash balances reduced substantially, due to the large reduction in cash deposits held by financial institutions compared to the previous year.

Inventories rose by £1bn while trade and other receivables showed an increase of £1.1bn. But this does not represent a worsening of credit management: it reflects the addition to the Group of two businesses with particularly significant receivables. Overall the Group's current assets rose by £3bn to £47.4bn. Total liabilities fell by £1.8bn, though this hides an increase in current liabilities of £3.7bn offset by a £5.5bn fall in non-current liabilities.

The final salary pension scheme deficit of £562m has decreased by nearly two thirds. There were several contributing factors, primarily the changes in actuarial assessments of discount rates. However, the

performance of equity and bond markets in the latter half of 2008 and early 2009 suggest that these gains will be short-lived and we should be prepared for a reversal this year.

## Outlook

It would be foolhardy to offer anything approaching a trading forecast for the current period. For many of the Group's businesses, the events of recent months and weeks will be having a significant impact on revenues, costs of domestic and imported goods, employee numbers and much else. There will be inevitable pressure on trading margins and a strong focus on converting assets to cash, to running the businesses as leanly as possible, and different – probably more difficult – conversations with the Group's bankers and financiers.

However, every downturn presents new opportunities, and I am confident that the entrepreneurial spirit and drive in many of the Group's businesses will find them. This year's report presents a last snapshot of the Group before the storm broke – next year's picture will doubtless be very different.

**Richard Pearce**  
Finance Director

**Exports accounted for over half of Group income, being the main driver in the £7.6bn increase in revenue.**

### **Richard Pearce**

Richard Pearce is Chief Financial Officer of Xyratex Ltd and has played a significant role in material acquisition, divestiture and financing activities. Before joining Xyratex Ltd, he held a number of financial positions in IBM over a period of six years. Richard is a member of the Chartered Institute of Management Accountants.

# Funding & gearing

## Moving up a couple of cogs

Overall, the group appears to have taken a much more aggressive stance on investment in 2008. Borrowing was up yet again, and gearing is now far more stretched. It looks as if many Group companies have been taking advantage of private equity's discomfort to seize acquisition opportunities that might previously have been out of their reach. But in unpredictable times, four in ten companies are still taking no chances...



A year that ended in turmoil in the financial sector has seen big changes in the Group's funding and gearing – including a sharp drop from net cash of £3.7bn to net debt of £9.3bn. But a clearer picture of what's going on emerges if we exclude financial institutions.

**The rest of the Group increased its net debt by £1.8bn over the year, from £9.5bn to £11.3bn, albeit that many companies are still looking distinctly risk averse with 41 per cent having net cash positions at the end of the year.**

**A year ago we were suggesting that Group companies' attitudes to borrowing were conservative and that this might be the time for those with strong balance sheets to take advantage of expansion opportunities. So did they take the same view?**

Certainly they stepped-up their gearing. Still excluding financial institutions, they ended the year at 66 per cent – up from 43 per cent the previous year and only 20 per cent the year before that.

This higher gearing suggests that companies are trying to manage their balance sheets more efficiently, taking advantage of financial strength to take on debt more aggressively to fund acquisitions and other investments. The continuing reduction in borrowing costs will inflate the returns on capital invested, making expansion projects look more and more attractive.

Looking forward, tough trading conditions and the credit squeeze on private equity buyers should ensure plenty of attractively priced acquisition opportunities for Group companies – if they have the confidence to act boldly in such uncertain times.

Of course, not everyone will have the wherewithal. The current tightening of credit availability means that Group companies will have to manage even relatively straightforward re-financing carefully to ensure the right debt package is put in place – and at the right price. While historic conservatism has left many businesses in a relatively strong financial position, the Group's overall gearing is beginning to look fairly high and no one can say what the next 12 months hold. So while some Group companies will take full advantage of the opportunities now available, many others will be content to sit on their strong balance sheets and hold a steady course.

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“Liquidity and the flow of funds reduced sharply in 2008. The combination of further sub-prime losses, regulatory changes (Basle II), the aftermath of previous rate hikes and lower valuations for commercial and residential property all took their toll. The spread between three-month LIBOR and bank rate hit historically high levels as liquidity dried up. Looking ahead, liquidity will gradually improve; but it is unlikely to return to 2007 levels quickly. The other key feature of the market is the need for companies to ensure continued liquidity and with high levels of renewal of funding anticipated in 2009 we recommend companies address their future requirements in a timely manner.”

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**Robin Barnes**  
Regional Director,  
The Royal Bank of Scotland

# Investment and M&A

## Buy now while shocks last

Acquisition was the name of the game last year. While capital investment in organic growth faltered, overall investment rose sharply as the focus shifted to acquiring scale. Reduced competition from private equity meant keener purchase prices, but disposals stalled as it became ever harder to obtain a worthwhile sale price. In the current climate there will be tempting bargains to be had – but the past year's shopping spree is unlikely to be repeated.



Overall net investment by Group companies more than doubled to £9.2bn. The driver: steeply rising net investment in M&A, suggesting that Group companies see acquisition as a better way of achieving their ambitions than organic growth in the current climate. Capex actually fell – down 9 per cent to £1.8bn.

Income from disposals was up 25 per cent to £956m, giving an overall decrease of 32 per cent in capital investment net of disposals. This decrease, combined with a 31 per cent decrease in research and development expenditure to £590m, indicates that the Group is taking a much more cautious approach to investing in its existing operations.

**The real focus was on M&A. Total acquisition spend was £8.4bn, a 70 per cent increase on the previous year. And that's only part of the story. With income from disposals down 95 per cent to only £123m, net investment rose by a staggering 232 per cent to £8.3bn.**

The £8.4bn spend included a small number of particularly large acquisitions – notably the £2.5bn purchase of wireless communications infrastructure provider NGW by Macquarie UK Broadcast Holdings from National Grid and the £1.2bn acquisition of US-based speciality pharma company New River Pharmaceuticals by Shire Biopharmaceuticals. Private equity played a significant role with the £1.1bn buyout of McCarthy & Stone, backed by an HBOS-led consortium.

The volume of acquisitions made in the period may also have been impacted by the 2008 change in capital gains tax (CGT). Shareholders of privately owned companies saw their effective CGT rate rise from 10 per cent to 18 per cent if sales were not completed by 5 April 2008; as a result, many transactions were accelerated so that shareholders could benefit from the lower rate.

Of the Group's 150 companies, 37 took part in M&A activity (up from 31 in the previous year). Of these, 22 made acquisitions, six made disposals and nine were busy on both sides of the fence. Compared to 23 acquisitions, 15 disposals and seven involved in both last year.

The number of companies making acquisitions was broadly in line with the previous year but the number involved in disposals more than halved. Is the Group hanging on to non-core businesses at a time when it may be hard to achieve a good price? Or perhaps Group companies had already taken advantage of the buoyant market conditions of the past few years to dispose of non-core operations when pricing was much more favourable.

As the recession deepens, more and more businesses will experience difficulties. Chances to acquire distressed companies on the cheap should proliferate, and the Group could benefit from an opportunist stance. But its diminishing confidence in the scope for driving organic growth in the current climate, combined with the reduced valuations being achieved in the M&A market generally, mean that this period of substantial investment may be drawing to a close. Next year's investment and M&A story could be significantly less positive.

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**“2008 has been a year of two halves. In the first half we successfully completed three acquisitions as well as an equity fund-raising. Our pipeline had been strong. But in the second half we saw good acquisition opportunities go on hold as owners could no longer convince themselves that this was the best time to sell. However, 2009 may well see more distressed sale opportunities. Internal investment has been maintained, with funding for capital and R&D projects continuing.”**

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**Paul Rayner**  
Finance Director  
Chemring Group plc

# Managing the tax charge

## Reduce the risk and curb the outflow

The Group's strong financial performance last year demonstrates the value of effective tax charge management. While the increase in operating profit was all but wiped out by increased borrowing costs, net profit benefited from a £183m reduction in the tax charge to £791m despite the increase in pre-tax earnings.



For the Group as a whole, the effective tax rate fell from the previous year's unusually high 34 per cent to a considerably more comfortable 23 per cent. The relief was not evenly distributed – 22 Group companies reported tax rates above 50 per cent. And there was a further increase in overseas taxes – up almost 20 per cent to £176m, reflecting the growth in the Group's overseas operations. But in general, Group companies were reporting increased profits without significantly increased tax charges, as companies have taken more advantage of the available tax reliefs.

Rather fewer Group companies are likely to be showing increased profits in next year's report, though they will at least benefit from the reduction in the standard corporation tax rate from 30 per cent to 28 per cent. But they can expect a tougher line from HMRC as it strives to minimise the drop in tax take caused by falling profits.

HMRC is now rolling out its Risk Assessment programme across mid to large corporates. This fundamentally changes the way it interacts with companies over all taxes including corporation tax, VAT and PAYE. Those considered low risk will enjoy relatively infrequent scrutiny. But those considered high risk can expect a significant number of inspectors consistently challenging their returns. To tighten the screws still further a tougher penalty regime covering all taxes from April 2009 and enhanced powers (including the right to enter business premises) will make life even more challenging for all companies.

Companies will do well to try to influence their risk assessment proactively – by understanding what a fair rating would be, challenging theirs if it seems unfair, and acting to enhance their rating. For example, a board-approved, documented tax strategy demonstrates that an organisation takes tax seriously.

Taxes are a significant element of total cash outflows, in particular for labour intensive sectors such as retail and manufacturing. As the downturn bites, it is more important than ever for companies to manage their total tax costs actively to protect shareholders' funds. Companies should ensure that they are fully maximising valuable reliefs such as R&D and capital allowances.

**International tax planning, especially in Europe, can still produce rewards. Many global groups are now considering migrating to lower tax jurisdictions like Ireland. The EU is now strongly impacting on the tax treatment of cross-border groups, and the European courts are consistently ruling in favour of the taxpayer in discrimination cases.**

As the economic downturn takes its toll in 2009/10, companies will need to ensure that they make the most of their losses by claiming them as early as possible, for example, utilising carrybacks and avoid trapping them where they cannot be used.

## **Defer difficult debts – tax ones at least!**

The Group's businesses will have gained little relief from the 2008 Pre Budget Report. However, HMRC is taking a sympathetic approach to companies who need longer to settle tax liabilities due to the economic downturn.

Businesses can now take advantage of a dedicated Business Payment Support Service (BPSS), which will enable them to defer their tax payments when facing cash-flow difficulties.

Through the BPSS, businesses can apply to defer the payment of all their taxes, including corporation tax, PAYE, National Insurance and VAT.

Contact the BPSS before tax payments become overdue to avoid surcharges and allow time to agree a tax payment schedule. In most cases HMRC expect to be able to give a decision in 10 minutes. However larger deferrals or complex cases may require more time and further information to be provided before payment arrangements can be agreed.

# Risk management

## Staying balanced in uncertain times

**Tougher trading conditions call for tougher decisions.** As Group companies weigh the risks that shape their strategic thinking, achieving an appropriate balance between realising opportunities and minimising the potential for adverse impacts could become a decisive factor in their prospects – or even survival.



As the economic climate becomes ever bleaker, Group businesses are likely to find it increasingly difficult to strike the right balance between reducing outgoings and investing for future growth. As the decisions get harder, the stakes rise: it is more vital than ever to make each decision in full knowledge of the risks involved.

This has made risk management a more pressing issue for a wide range of stakeholders – including regulators, ratings agencies, lenders and non-executive directors. The majority of Group companies have recognised the benefits of having an effective risk management framework.

Risk management helps decision makers to strike an appropriate balance between realising opportunities and minimising the potential for adverse impacts. It can never eliminate risk entirely; it is not a silver bullet for eradicating bad decisions. But it systematically provides a board with the necessary information and process to weigh the pros and cons. Importantly, it also makes decisions more transparent – especially for investors, if relevant information is captured in the risk commentary in annual reports – and helps boards to review and challenge decisions once they have been made.

Across the Group, the great majority of companies have clearly articulated the risks they face. Those most commonly mentioned are shown in the panel (right). Inevitably, liquidity/cash management is now high on the list for virtually all companies and getting equal billing with 'normal' business risks such as the economic environment and competition.

As boards are all too well aware in today's economic conditions, you can only run out of cash once. Organisations large and small are equally challenged as lending facilities dry up. More and more are simply running out of cash – and if that means being unable to pay suppliers and staff, it's 'game over'. Having robust and appropriate treasury and cash management strategies in place is ever more important, as stated previously.

## Seizing the right opportunities

While the management of the risks articulated in the panel is important, Group companies should not forget that risk management also has a role to play in ensuring that they seize the right opportunities. A number of Group companies have recognised the advantage of having an effective and robust governance system and internal controls that give confidence in allowing greater autonomy for individuals at operational level.

An effective system of delegated authority allows appropriate individuals freedom to respond quickly to customers' changing requirements and take educated risks through innovation. Such responsiveness is going to be even more important if the Group companies are going to be competitive in the current economic environment climate and could be a crucial factor in determining who survives into 2010 and who doesn't.

## Preventing risk from becoming reality

For many companies, risk management may have looked more like a compliance issue than a core competence in recent years. The shifting priorities in Group companies' key risk tables reflect their recognition that those days are over. There has been wider recognition over the last year that effective risk management not only helps protect the company's reputation, but can make a real difference in improving financial and operational performance and ensuring the company is better placed to face the uncertain times ahead.

## Key risks and uncertainties

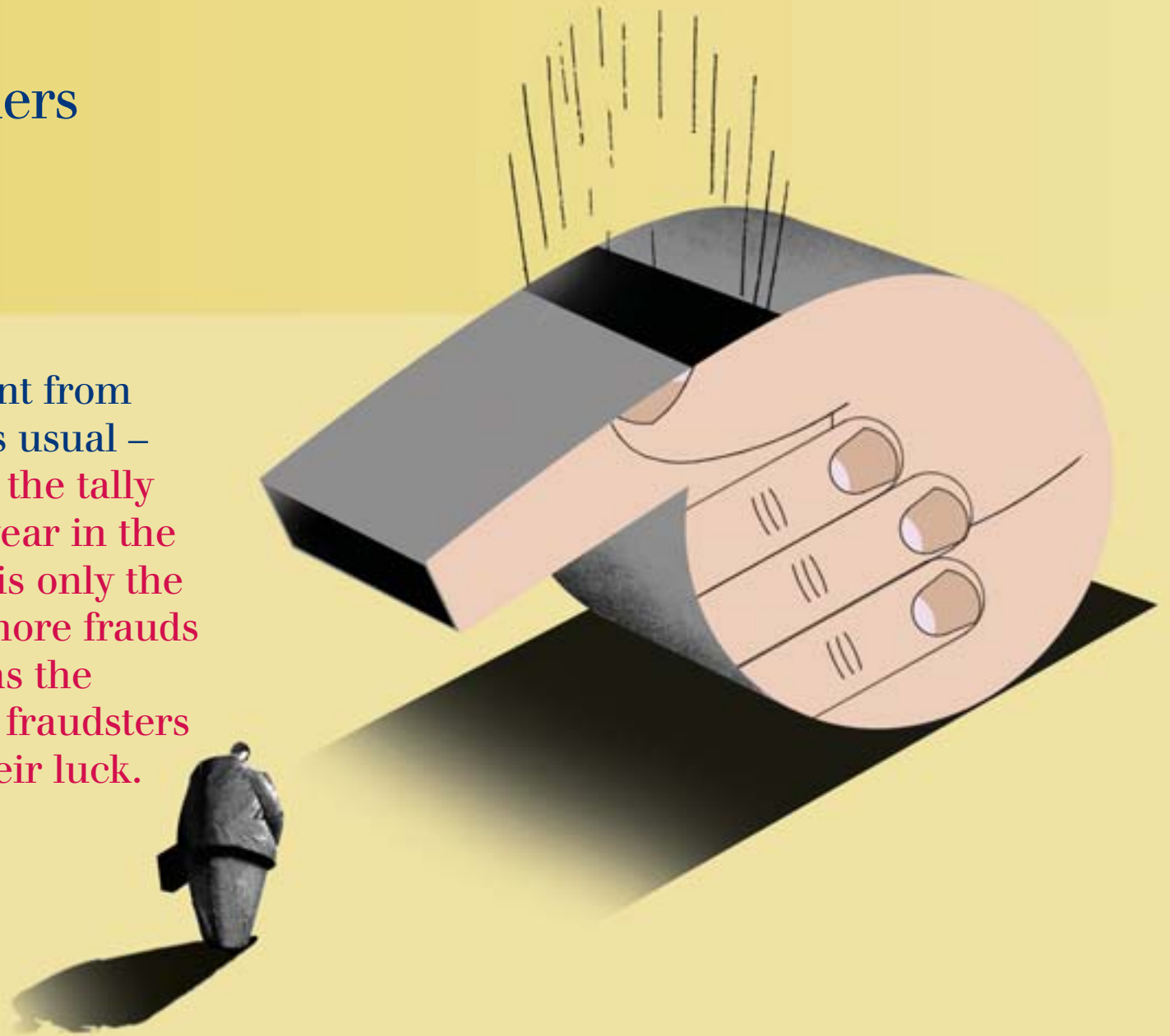
In no particular order, these are the key risks and uncertainties most commonly identified by Group companies:

- **Economic environment and competition** – it is widely recognised across the Group that significant adverse trading conditions across many of the major sectors the Group operates in will have a material effect on the results not only of the individual companies but of the Group as a whole.
- **Liquidity/cash management** – one of the key risks highlighted by companies across the Group is the risk of not having sufficient funds to finance their operations. Maintaining flexibility in funding by keeping committed credit lines available is seen as critical – as is the availability of replacement facilities in the wholesale and retail financial markets.
- **Strategic** – threats to the long term deliverability of the strategies of Group companies are high on the agenda. Principal risks vary from sector to sector but include loss of competitive position through either technological or government policy changes, and risks associated with acquisitions and the launch of new products and services.
- **Operational** – this covers a wide range of risks including business continuity risks, poor operational performance leading to quality issues in deliveries to customers, and loss of key staff impacting service delivery.
- **Financial** – in the current market the failure to deliver operating cost savings is seen as a key risk that could adversely affect future profitability.

# Fraud

## No downturn for fiddlers and fraudsters

One item conspicuously absent from Group reporting last year – as usual – was losses through fraud. Yet the tally of reported fraud rises each year in the UK, and it's thought that this is only the tip of the iceberg. Typically, more frauds come to light in a downturn as the economic tide goes out – and fraudsters have more incentive to try their luck.



The one thing guaranteed to rise in a recession is fraud. Even normally upright employees may be tempted to fiddle small expenses to cope with rising living costs and find extra money. Recessions often create favourable conditions for would-be fraudsters, as companies dismantle or relax internal controls in their drive to cut costs wherever possible.

Experts believe that some 80 per cent of all businesses suffer an economic fraud each year. A corporate fraud study by BDO Stoy Hayward LLP and the University of Portsmouth investigated unreported fraud in the South. Its findings offer some interesting insights into fraud that goes unprosecuted.

### How does it happen?

Nearly all frauds involve money laundering, theft of assets, counterfeiting and false accounting. The most common contributing factors are external collaboration with suppliers, inappropriate remuneration incentives and insufficient internal controls. Almost three-quarters (73 per cent) of recorded white-collar crimes involve asset misappropriation, and 35 per cent involve financial misrepresentation.

### Who does it?

The profile of the 'average' fraudster is a male director or senior manager in the finance function, under 45, with five to 10 years' service in the organisation, working in collusion with others for a gain of less than £100,000. They are likely to be dismissed – but not very likely to suffer any further penalty.

Fraud is a management issue: 82 per cent is committed by people in middle management and above. Directors and senior management commit four times more fraud than other employees. Over 40 per cent of frauds involve finance and accounting staff, and two-thirds involve collusion.

### How is it detected?

Infrequently, and most often through sheer bad luck on the fraudsters' part. Fraud is uncovered through internal audits in 24 per cent of cases and whistle-blowers reveal another 11 per cent; but 28 per cent come to light by pure chance, while experts consider that the majority remain undetected.

So what should companies be looking out for? Typically, dishonest staff are committed to an expensive lifestyle out of step with their earnings. These staff are opportunists who lack ethical standards, which may be apparent in other aspects of their work. The need to cover their tracks can make them appear 'workaholic': reluctant to take holidays, spending long hours at the office, dealing personally with inappropriately trivial tasks and refusing to delegate.

### What happens when it's discovered?

All too often very little. Some 40 per cent of employees who discover a fraud do nothing about it for fear of losing their jobs. Directors may be fearful for the company's reputation – or their own. Only 84 per cent of economic losses are reported to the board, and only 69 per cent are reported to the police. According to BDO Stoy Hayward's annual FraudTrack report, the value of reported cases of fraud in the UK rose by 14 per cent to £1.19bn in 2008. More discreetly, 10 per cent of defrauded businesses engage an external investigator and 20 per cent bring in a specialist adviser.

### Prevention or cure?

In many ways, the odds are stacked in the fraudster's favour. Less than 20 per cent of the total proceeds of fraud are recovered. Fewer than three in 10 fraudsters face criminal prosecution, and the chances of a successful prosecution are very low.

**One conclusion for employers is clear: think very carefully before cutting back on internal controls. It could be a false economy.**

### BDO Fraud Survey 2009 Key findings in the South

- 70 per cent of companies believe fraud will increase in the short term.
- 67 per cent admit they have no fraud awareness/training programme.
- 60 per cent have initiated standard risk management measures.
- 28 per cent say they have suffered a fraud in the past two years.
- Top fraud factors:
  - Poor IT security
  - Weak internal controls
  - Dominant personalities
  - Lack of division of duties
  - Poor accounting records not regularly balanced
  - Lack of management reports.

# Scenario planning

## The 'what ifs' get wider

For the past 10 years or so, growth has been almost a given: business planning has simply helped optimise the pace. The 'what ifs' have guided recruitment targets, capex, marketing budgets and how much of the additional cash generation to share with investors. But with growth now looking increasingly elusive, should Group businesses change their whole approach to planning?



The Group is significantly exposed to some of the sectors that suffer most and first in a downturn. Its financial services, retail, property and motor businesses are already hurting. Others, notably in the leisure and tourism, aerospace and defence sectors, should be more resilient. Knowledge and science based businesses are important to the Group and rank among the UK's largest potential developers of GDP. Their survival is vital to the Group, and to the regional economy: it needs to be part of government scenario planning at regional and national level.

What all sectors share is uncertainty. Has the recession bottomed out yet? How long it will take? Where will the economy get back to? The only consensus is that nobody has the answer. In such conditions, is there any need for scenario planning – or any point? We believe the need is greater than ever, but the approach must be wider-ranging:

- The range of 'what ifs' for sales should be broader: some businesses are envisaging a fall in revenue of 25 per cent or more.
- Importers of goods or components should consult with their bankers and advisers on the possible range of exchange rates over the next two to three years and explore defensive measures such as hedges, collars and caps.
- Heavy energy users have to consider the effect of continued price volatility and the potential impact of any disruption to supply due to conflict in other parts of the world.
- Those that are slimming down significantly should note any redundant assets and consider whether they can be sold if necessary – and whether there is a market.

- In reviewing seriously lower-revenue scenarios, companies need to ask just how far the workforce could be cut while keeping the business sustainable, how much any wider scale redundancy programmes would cost, and how that cost could be met.
- Scenarios should also examine the security of the entire supply chain: at what point might the company have to accept cost increases or grant more credit to help suppliers – or customers – to survive?
- It's not just about profit. In the coming months, the most pressing need will probably be to stress test the company's cash and bank positions, and its balance sheet, against a range of scenarios. They may be coming under closer scrutiny in relation to the company's banking covenants and security.
- Scenarios should recognise that different parts of the business may be very differently affected. Over the past six months, one business with two distinct segments has reported revenues collapsing by 65 per cent in one segment while the other saw steady 10 per cent growth.

Robust scenario planning could lead many businesses to consider quite radical reorganisations, reducing layers of management and overweight support functions.

**Deadlines.** All scenarios should include milestones for review and recommended actions that management can take with a clear understanding of their implications.

**New markets.** At a time when government spending can be expected to rise, many companies might want to reconsider the public sector; for example. Margins may be tight, but contracts can be long and the cash comes in. The weakness of sterling means it is also worth exploiting export markets and perhaps not shelving plans for international expansion.

**Communication.** Planned changes, and the reasons for them, need to be communicated widely, not kept in the boardroom. Companies will need to keep their own people inside, particularly the high flyers who can make a real difference. They may have to be more open than usual with their supply chain. And they can expect their bankers to seek assurance that they have done these exercises and know how to deliver against them.

For all Group businesses, scenario planning should allow room for innovation and product development; because the objective cannot just be survival. At some point in the future, the upturn will come. The companies that have done their scenario planning best will be ready for it: they will know when to release the handbrake, and will get their leaner, meaner businesses back up to speed faster and more effectively than their competitors.

# Outlook

## Changing forecast

The Group has now entered **uncharted waters**. Nobody knows how long or deep the downturn will be – but it's a safe bet that next year's financial results will fall short of those reported here. To get a feel for the Group's outlook, we talked to business people in some of the region's key sectors. We summarise their views here, along with some opportunities for new businesses and investors...



In general, expectations about the likely depth of the recession have worsened. Consumer spending has slowed dramatically, and all sectors are feeling the effect.

While exporters have benefited from sterling's depreciation, for most businesses its main effect has been to ramp-up costs. Helping to offset this, falling energy prices have eased inflationary pressures somewhat. At the year-end, Group businesses had 324,031 employees, a modest increase on the previous year's 318,154. This is likely to fall in 2008/09, but the jobs market is by no means moribund. There is still demand for the best people in key jobs, and companies seeking new talent have a broader choice of candidates than hitherto.

#### Technology, media and telecoms

The impact of the recession on this sector is expected to be limited. There will be many winners as well as losers, although shortages of capital for investment will hit technology companies looking to exploit their intellectual property and expand. Adverse foreign exchange movements and lengthening payment terms are other prominent threats to this sector.

The growth of opportunities in Asia has already been reversed, but flagging demand from China and India has been offset by renewed focus on traditional markets in Western Europe and North America. And for a sector that stands or falls on its intellectual assets, rising unemployment offers a bigger talent pool. Taking advantage of this will ensure that companies will recruit the best staff they can in these difficult times.

#### Manufacturing

Demand in both domestic and export markets has already decreased markedly. With bank lending effectively on hold, the impact has been harsher than expected and the outlook for this sector remains bleak. In recent years, manufacturing companies in the Central South region have faced a succession of economic challenges with adaptability and resilience, but they recognise that the current recession will demand further changes in their market positioning and cost bases to maintain all-important cash flows.

There are still signs of optimism with some companies continuing to improve their competitive position for the longer term. In particular, seeking to supply niche markets where they are able to give customers an enhanced and focused level of service and help them in the current economic climate.

#### Retail

Consumer spending is predicted to fall further in 2009, with many more shoppers spurning the high street in favour of online retailers. While footfall in shops remains high, more customers are browsing on their feet and then buying at home on the internet. Almost all retailers are cutting capex budgets and concentrating on their existing units. The survivors will be those with clear and focused strategies or who target a specific market and have a loyal customer base.

Turnover by sector (%)



	%
■ Manufacturing (includes Aerospace and Defence)	43.17
■ Business Services	5.47
■ Retail	13.36
■ Technology, media and telecoms	14.86
■ Financial Services	6.42
■ Biotechnology and Healthcare	4.99
■ Construction and Real Estate	5.46
■ Other	6.25

**“As the UK’s largest dedicated chain of arts and crafts superstores, we’ve bucked the retail trend. For the year to February 2008 we grew turnover by £7.7m to £62.1m and pre-tax profits by 10 per cent, to £3.2m. And we’re actively pursuing exciting expansion plans in 2009. We remain confident because we have a loyal base of customers who know we can provide what they need to pursue their hobby – and the trend towards ‘make-it-yourself’ and customisation means that more new customers are discovering HobbyCraft than ever before.”**

**Warren Haskins**  
Executive Chairman  
Hobby Craft

### Motor

The motor sector was especially hard hit in the second half of 2008. Sales of new vehicles have dropped dramatically, this has continued into 2009 with like for like sales in January 2009 down 30 per cent. This has hit residuals on stocks of used cars, saddling dealers with additional losses.

After dropping by around 11 per cent in 2008, new car registrations are forecast to fall by a further 19 per cent in 2009 to around 1.74m cars. There is little that dealers can do to ensure the sustainability of their businesses, except to review their cost bases rigorously and focus on used cars and aftersales.

### Property

This sector has been hit harder than most: prices have dropped and construction is on hold for many businesses. The freeze on lending has brought transactions almost to a standstill. Available cash is of paramount importance for these businesses to avoid becoming casualties in 2009 or 2010. Even businesses with multiple and significant assets are currently struggling to access the credit from banks which would leave them better placed to survive this recession.

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“The past 12 months have been the most turbulent I can recall. Our new car sales volumes fell 10 per cent and our need to manage-down used car stocks put pressure on our margin. Our business costs are predominantly people, property and utility costs, with additional pressure from rising bank lending margins: we have had to reorganise our business, de-risk problem areas and control our cash position with greater intensity. What we will not do is compromise on looking after our customers and our staff. But just to show that it is not all doom and gloom, our Commercial Vehicle Sales business has had its best year ever!”

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Paul Hendy  
Managing Director  
Hendy Group

## But there will be opportunities for...

### Entrepreneurs

For those intent on starting a business in the recession, Jim Surguy of Harvest Consulting offers three tips:

- Consumers want the same things, but smaller and fewer – think smaller bottles or shorter holidays.
- Consumers want the same size but cheaper – re-engineer downwards, get rid of the frills.
- Consumers still want to treat themselves, but cheaply – that's why Häagen-Dazs succeeded in the early 1990s.

### Investors

Characteristics of companies that will prosper in a downturn:

- Sin has great defensive qualities. According to US analysis by Merrill Lynch, in the six recessions since 1970, alcohol, tobacco and casino stocks have delivered an average 11 per cent positive return, while the S&P500 racked up a cumulative 1.5 per cent loss. And in five of those six recessions, they actually increased absolute earnings.
- Look for companies with recession-proof punters – older consumers with equity in their homes, people on fixed incomes.
- Look for relatively recession-proof sectors such as food, energy and education.
- Beware of structures built in good times, that weren't designed to resist bad times – such as fragile, ultra lean, cross-continental supply chains.
- Beware of established companies abandoning promising growth opportunities too fast.
- The keys to success in a recession:
  - Sales-driven approach and customer focus
  - Relentless cash management
  - Guts, determination and passion.

Indeed, you might well argue that guts, determination and passion are what we all need to see us through the next couple of years...

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“As a specialist retailer, we aim to develop the business by providing customers with the best shopping experience possible. Our unique selling proposition is to give customers the broadest range of products to choose from, bespoke offers and knowledgeable staff, all within a compelling shopping environment. This has helped build loyalty within our existing customer base and attracted new customers. In turn, this has allowed us to continue to drive strong revenue performance in a very difficult trading period for retailers.”

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The GAME Group plc

# How we compiled this report

## Source of information

The companies included in this report were selected by conducting an initial search on OneSource© using the following input criteria:

- Company location as either Hampshire, Isle of Wight, Dorset, South Wiltshire or Chichester and surrounding area.
- Turnover in excess of £40m.

This produced over 400 companies and copies of most recent financial statements were obtained from Companies House filings. Companies were eliminated if their registered office, as recorded in the financial statements, was not in the specified region. In addition, subsidiaries of parent companies where both were included in the population were deleted to eliminate duplication. This produced the final population of 150 companies. The published accounts (see opposite for year ends), obtained from Companies House filings, were used to provide the financial information included in this report.

## Year ends

The year ends included in the 'current period' financial information in this report range from 31 March 2007 to 31 March 2008 being the most recent accounts filed at Companies House at the time of the compilation of this report. For companies with December year ends (95 in the population) the 'current period' will be the year ended 31 December 2007. For January and February year ends (8) the current period is that ending in 2008. For April to November year end companies (39), due to the restrictions of the filing deadlines at Companies House and the timescale of compilation of this report the current periods are predominantly those ending in 2007 although eight 2008 March year ends were included.

## Aggregation

The published accounts of the 150 companies identified by the above processes have been combined by a simple aggregation to produce the financial information in this report. No consolidation adjustments have been made and in particular no adjustments have been made to reflect the non-coterminous year ends of the companies.

As the population in the Central South Report 2009 differs from that in last year's Report, adjustments were required to cash flow, reserves and non current assets and liabilities to reconcile the opening positions in the current period to the closing positions in the Central South Report 2008.

## IFRS and UK GAAP

Of the 150 companies, 36 have prepared their accounts under IFRS and the remainder under UK GAAP. However, as those 36 companies represent 23.6 per cent of total revenue and as the implementation of IFRS will increase in future we have continued to present the financial information in a format more consistent with IFRS than UK GAAP. We have made no attempt to adjust UK GAAP numbers to comply with IFRS; we have merely represented the UK GAAP numbers in a format similar to IFRS. Consequently a number of allocation judgements were required that may impact the comparability of the financial information.

## Discontinued operations/non-operating items

No distinction has been made between continuing and discontinued operations due to the variety of judgements and presentational approaches taken by relevant companies. Where it has been possible to identify such items, all 'exceptional' or similar items reflected outside operating profit have been aggregated and not analysed further, as 'non-operating items'.

## Cash flow statement

Whilst some of the individual line items on the cash flow statement have been obtained from the aggregation of cash flows, the cash flow statements have been largely derived from the simplistic approach of reconciling the movements between the balance sheets. This was to ensure that the changes in cash and cash equivalents in the cash flow statement reconciled with the balance sheets, which they do not in the aggregation due to the differences in starting points, definitions of cash and cash equivalents and the treatment of debt in all the companies.

## Financial institutions

A number of financial institutions (banks and building societies) are included in the aggregation. Three main assumptions have been made in aggregating the results of these companies with the wider population:

- Interest income has been included in revenue in the aggregation with interest expense in cost of sales to reflect the interest margin as gross profit.
- Cash and cash equivalents in the balance sheet for such institutions have been made to equal cash and cash equivalents as defined in the cash flow statements.
- Balances specific to financial institutions, eg customer accounts, share accounts, deposits have where possible been identified and analysed by maturity and presented accordingly in current/non-current categories identified in the financial information as amounts relating to financial institutions.

## Disclaimer

The financial information in this report has been compiled exclusively from publicly available information under the key assumptions and limitations outlined above. It has been designed solely for illustrative purposes to highlight trends in the financial performance of a representative sample of companies in the region.

BDO Stoy Hayward has made a number of judgments in aggregating the information into a consistent format BDO Stoy Hayward does not, and cannot, warrant the completeness or accuracy of such adjustments. Furthermore in adjusting the presentation adopted in published accounts to meet the specific requirements of this report, BDO Stoy Hayward is not making any judgement nor giving any opinion on the presentation adopted in those published accounts.

BDO Stoy Hayward has not carried out any verification work on the financial information in this report and give no opinion on the financial information. The financial information was not compiled with the intention that it should be used for any purpose save for that described above. We do not accept responsibility for the financial information to any person or for any purpose other than that for which it was prepared.

# Financial information

## Summarised consolidated income statement

	Note	Current period £m	Prior period £m
<b>Revenue</b>	1	<b>70,937</b>	<b>63,267</b>
Cost of sales		(54,206)	(45,408)
<b>Gross profit</b>		<b>16,731</b>	<b>17,859</b>
Distribution costs		(1,157)	(2,766)
Administrative expenses		(10,109)	(8,993)
Other expenses		(962)	(2,034)
<b>Operating profit</b>	2	<b>4,503</b>	<b>4,066</b>
Share of profits of Associates and joint ventures		123	(152)
Non-operating items		145	(22)
<b>Profit before finance costs</b>		<b>4,771</b>	<b>3,892</b>
Finance costs	5	(2,382)	(1,490)
Finance income	5	1,016	445
<b>Profit before tax</b>		<b>3,405</b>	<b>2,847</b>
Tax expense	6	(791)	(974)
<b>Profit for the year from continuing operations</b>		<b>2,614</b>	<b>1,873</b>
<b>Discontinued operations</b>			
Profit from the year from discontinued operations		134	73
<b>Profit for the year</b>		<b>2,748</b>	<b>1,946</b>
<b>Attributable to:</b>			
Equity holders of the parent		2,726	1,917
Minority interest		22	29
		2,748	1,946
<b>Earnings per share:</b>	7		
Basic (pence)		5.28	23.26
Diluted (pence)		5.13	22.86

### Summarised consolidated statement of recognised income and expense

	Current period £m	Prior period £m
<b>Profit for the year</b>	<b>2,748</b>	<b>1,946</b>
Foreign exchange losses on retranslation of overseas operations	(58)	(69)
Actuarial gains on pension schemes	694	691
Other items reflected directly in equity	6	(15)
Tax effect of gains and losses recognised directly in equity	(163)	(105)
Revaluation of fixed assets	90	-
Movement on Available for Sale assets	(8)	
<b>Total recognised income and expense for the year</b>	<b>3,309</b>	<b>2,448</b>
Effect of prior year adjustments	48	(123)
	3,357	2,325

### Summarised consolidated balance sheet at the period end

	Note	Current period		Prior period	
		£m	£m	£m	£m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	15,169		12,128	
Intangible assets	10	14,301		9,871	
Financial institution non-current assets		35,507		43,239	
Investments		2,075		2,330	
Deferred tax assets		916		740	
Other non-current assets		990		1,010	
<b>Total non-current assets</b>			<b>68,958</b>		<b>69,318</b>
<b>Current assets</b>					
Inventories		6,415		5,411	
Trade and other receivables	11	28,521		17,433	
Other financial assets		6,819		1,862	
Cash and cash equivalents		5,666		19,699	
<b>Total current assets</b>			<b>47,421</b>		<b>44,405</b>
<b>Assets held for sale</b>			<b>35</b>		<b>11</b>
<b>Total assets</b>			<b>116,414</b>		<b>113,734</b>

**Summarised consolidated balance sheet at the period end (continued)**

	Note	Current period		Prior period	
		£m	£m	£m	£m
<b>Liabilities</b>					
<b>Current liabilities</b>					
Loans and bank overdrafts	12	(1,962)		(6,119)	
Trade and other payables	13	(68,872)		(61,972)	
Current tax liabilities		(965)		(141)	
Provisions	16	(175)		-	
Total current liabilities			(71,974)		(68,232)
<b>Non-current liabilities</b>					
Loans and bank overdrafts	14	(13,020)		(9,875)	
Trade and other payables	15	(7,013)		(8,539)	
Employee benefits		(562)		(1,540)	
Deferred tax liability		(2,020)		(1,064)	
Provisions	16	(1,295)		(8,388)	
Total non-current liabilities			(23,910)		(29,406)
<b>Total liabilities</b>			<b>(95,884)</b>		<b>(97,638)</b>
<b>TOTAL NET ASSETS</b>			<b>20,530</b>		<b>16,096</b>
<b>Capital and reserves attributable to equity holders</b>					
Share capital	17	5,323		3,596	
Share premium		3,882		4,178	
Merger reserve		100		104	
Other reserves		3,343		2,965	
Retained earnings		7,707		5,135	
	18		20,355		15,978
<b>Minority interest</b>			<b>175</b>		<b>118</b>
<b>TOTAL EQUITY</b>			<b>20,530</b>		<b>16,096</b>

### Illustrative consolidated cash flow statement for the period

	Current period		Prior period	
	£m	£m	£m	£m
<b>Operating activities</b>				
Profit for the year	2,748		1,946	
Adjustments for:				
Depreciation and amortisation	2,548		2,063	
Interest paid	2,382		1,490	
Interest received	(1,016)		(445)	
Income tax expense	791		974	
Other adjustments	1,480		(1,531)	
<b>Operating profit before changes in working capital and provisions</b>	<b>8,933</b>		<b>4,497</b>	
Changes in working capital and provisions	(11,842)		(1,650)	
Income taxes paid	813		(843)	
<b>Cash flows from operating activities</b>		<b>(2,096)</b>		<b>2,004</b>
<b>Investing activities</b>				
Purchase of subsidiaries and investments	(8,444)		(4,973)	
Disposal of subsidiaries and investments	123		2,465	
Purchases of PPE	(1,817)		(1,993)	
Sale of PPE	956		766	
Development costs capitalised	-		(36)	
		<b>(9,182)</b>		<b>(3,771)</b>

**Illustrative consolidated cash flow statement for the period (continued)**

	Current period		Prior period	
	£m	£m	£m	£m
<b>Financing activities</b>				
Issue of ordinary shares	1,060		1,543	
Purchase of own shares	(111)		(126)	
Net movement on debt and other financing	(1,012)		3,652	
Interest paid	(1,366)		(1,935)	
Dividends paid	(2,044)		(513)	
		(3,473)		2,621
Change in cash and cash equivalents		(14,751)		854
Cash and cash equivalent brought forward		19,699		18,845
Opening adjustments		718		-
<b>Cash and cash equivalents carried forward</b>		<b>5,666</b>		<b>19,699</b>

## Notes forming part of the financial statements for the period

I Revenue	Revenue by destination	
	Current period £m	Prior period £m
<b>Geographical analysis:</b>		
United Kingdom	33,514	33,000
Continental Europe	21,814	17,976
North America	8,833	7,329
Asia	3,252	1,126
Africa	235	101
Rest of the world	3,289	3,735
	70,937	63,267
	<b>Current period £m</b>	<b>Prior period £m</b>
<b>Sector analysis:</b>		
Chemical Manufacturing - Including Ineos Group	20,546	19,954
Business Services	3,823	5,120
Retail (Home Improvement)	3,912	3,818
Computer Hardware	4,302	3,743
Aerospace and Defence	6,907	3,172
Retail (Other)	3,166	3,090
Misc. Financial Services	4,318	5,027
Biotechnology and Pharmaceuticals	3,014	1,685
Others	20,949	17,658
	70,937	63,267

### Notes forming part of the financial statements for the period (continued)

2 Operating profit	Current period £m	Prior period £m
This has been arrived at after charging/(crediting):		
Depreciation and impairment charges of property, plant and equipment	1,847	1,544
Amortisation and impairment charges of intangible fixed assets	701	498
Operating lease expense		
- Plant and machinery	429	486
- Property	579	564
Auditors remuneration - audit	26	26
Auditors remuneration - non-audit services	23	27
Research and Development	590	858
<b>3 Staff costs</b>	<b>Current period £m</b>	<b>Prior period £m</b>
Staff costs (including directors) comprise:		
Wages and salaries	9,246	8,427
Profit related pay		
Social security costs	942	831
Share option cost	97	56
Other staff costs	27	17
Other pension costs	822	545
	11,134	9,876
Average number of employees	324,031	318,154
Average pay per employee (£000)	34	31

### Notes forming part of the financial statements for the period (continued)

4 Directors' emoluments	Current period £m	Prior period £m
Emoluments:		
Salaries and fees	99	106
Benefits	2	2
Bonuses	11	13
Compensation for loss of office	2	2
Pension contributions	5	7
Other	2	3
	121	133
	<b>Current period</b>	<b>Prior period</b>
Number of executive directors	692	795
Number of non executive directors	122	131
	814	926
Average emoluments per executive director (£000)	175	167
Average emoluments per highest paid director (£000)	461	363
<i>Age range of executive directors</i>	31-82	30-82
<i>Average age of executive directors</i>	51	51
<i>Age range of non executive directors</i>	41-80	35-85
<i>Average age of non executive directors</i>	59	58
<i>Male/female analysis – executive directors</i>	638/54	752/43
<i>Male/female analysis – non executive directors</i>	112/10	118/13

**Notes forming part of the financial statements for the period (continued)**

5 Finance income and expense	Current period		Prior period	
	£m		£m	
<i>Finance costs</i>				
Interest payable		1,884		1,490
Other finance expense		498		-
		2,382		1,490
<i>Finance income</i>				
Interest receivable		(809)		(379)
Other finance income		(207)		(66)
		(1,016)		(445)
Net finance costs		1,366		1,045
6 Tax expense	Current period		Prior period	
	£m		£m	
<i>Current tax expense:</i>				
UK corporation tax and income tax of overseas operations on profits for the year		778		809
<i>Deferred tax expense</i>				
Current period		(10)		167
Adjustment for under/(over) provision in prior periods		23		(2)
		13		165
<b>Total tax charge</b>		791		974

## Notes forming part of the financial statements for the period (continued)

### 6 Tax expense (continued)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	Current period £m	Prior period £m
Profit before tax	3,405	2,847
Expected tax charge based on the standard rate of corporation tax in the UK of 30%	1,022	854
Expenses not deductible for tax purposes	174	87
Utilisation of previously unrecognised tax losses/losses not utilised	31	(9)
Tax exempt income	(173)	-
Other (net)	(263)	42
Total tax charge	791	974

### 7 Earnings per share

	Current period P	Prior period P
Basic (pence)	5.28	23.26
Diluted (pence)	5.13	22.86

The above illustrative earnings per share figures have been calculated by taking the average earnings per share figures in each period of those companies publishing earnings per share figures

### 8 Dividends

	Current period £m	Prior period £m
Dividends paid in the period	2,044	546

## Notes forming part of the financial statements for the period (continued)

### 9 Property, plant and equipment

	Land and buildings £m	Plant, machinery, and motor vehicles £m	Fixtures and fittings £m	Total £m
<i>Cost or valuation:</i>				
At start of period	5,005	12,355	2,449	19,809
Exchange differences	76	(271)	8	(187)
Additions at cost	515	1,049	253	1,817
Acquisitions	498	1,571	12	2,081
Disposals and transfers	(191)	(1,333)	(242)	(1,766)
Revaluations	41	-	-	41
Opening adjustment	730	2,085	(500)	2,315
At end of period	6,674	15,456	1,980	24,110
<i>Depreciation:</i>				
At start of period	1,053	5,503	1,125	7,681
Disposals and transfers	(59)	(562)	(190)	(811)
Acquisitions	14	15	14	43
Charge for the period	189	1,401	189	1,779
Impairment charges	15	50	3	68
Exchange differences	6	(68)	6	(56)
Opening adjustment	(83)	312	8	237
At end of period	1,135	6,651	1,155	8,941
Net book value				
<b>At end of period</b>	<b>5,539</b>	<b>8,805</b>	<b>825</b>	<b>15,169</b>
At beginning of period	3,952	6,852	1,324	12,128

## Notes forming part of the financial statements for the period (continued)

10 Intangible assets	Goodwill £m	Development costs £m	Other £m	Total £m
Cost or valuation:				
At start of period	8,370	194	2,501	11,065
Additions	2,546	98	226	2,870
Business combinations	1,108	86	2,642	3,836
Disposals	(103)	(3)	(72)	(178)
Other adjustments	(52)	3	23	(26)
Opening adjustments	(20)	45	(77)	(52)
At end of period	11,849	423	5,243	17,515
Amortisation:				
At start of period	714	82	398	1,194
Disposals	(15)	(1)	(38)	(54)
Charge for the period	218	23	254	495
Impairment charges	78	-	128	206
Other adjustments	8	1	10	19
Opening adjustments	1,207	17	130	1,354
At end of period	2,210	122	882	3,214
Net book value				
<b>At end of period</b>	<b>9,639</b>	<b>301</b>	<b>4,361</b>	<b>14,301</b>
At beginning of period	7,656	112	2,103	9,871

**Notes forming part of the financial statements for the period (continued)**

<b>11 Trade and other receivables</b>	<b>Current period £m</b>	<b>Prior period £m</b>
Trade debtors	8,165	6,089
Other debtors	2,293	4,560
Amounts owed by group undertakings	16,714	5,624
Prepayments and accrued income	1,349	1,160
	<u>28,521</u>	<u>17,433</u>
<b>12 Loans and bank overdrafts - current</b>	<b>Current period £m</b>	<b>Prior period £m</b>
Bank loans and overdrafts	878	1,788
Other loans	1,084	4,331
	<u>1,962</u>	<u>6,119</u>
<b>13 Trade and other payables - current</b>	<b>Current period £m</b>	<b>Prior period £m</b>
Trade creditors	37,035	41,558
Other taxes and social security	615	921
Other creditors	11,531	9,232
Obligations under finance leases	88	91
Amounts owed to group undertakings	14,229	6,136
Accruals and deferred income	5,374	4,034
	<u>68,872</u>	<u>61,972</u>

**Notes forming part of the financial statements for the period (continued)**

14 Loans and bank overdrafts - non current	Current period £m	Prior period £m
Bank loans	4,411	4,669
Other loans	8,609	5,206
	13,020	9,875
15 Trade and other payables - non current	Current period £m	Prior period £m
Trade creditors	78	12
Other creditors	3,348	5,739
Obligations under finance leases	315	555
Amounts owed to group undertakings	3,085	1,788
Accruals and deferred income	187	445
	7,013	8,539
16 Provisions	£m	
At start of period	8,388	
Opening adjustment	(7,050)	
Charged to profit and loss	287	
On acquisition	164	
Utilised in year	(368)	
Other movements	49	
At end of period	1,470	
<b>Included within this figure are:</b>	<b>£m</b>	
Long term provisions	1,295	
Current provisions	175	
	1,470	

**Notes forming part of the financial statements for the period (continued)**

17 Share capital	Current period £m	Prior period £m
Equity	5,323	3,596
<b>18 Reconciliation of movements in capital and reserves attributable to equity holders</b>		<b>£m</b>
Total recognised income and expense		3,309
Balancing adjustment		158
Prior year adjustments		48
Issue of equity shares		1,060
Redemption or cancellation of equity shares		(111)
Other movements		568
Equity dividends paid		(2,044)
		2,988
Capital and reserves attributable to equity holders at beginning of period		15,978
Opening adjustments		1,389
<b>Capital and reserves attributable to equity holders at end of period</b>		<b>20,355</b>

**Notes forming part of the financial statements for the period (continued)**

19 Net debt and gearing	Current period £m	Prior period £m
Loans and bank overdrafts due within one year	(1,962)	(6,119)
Loans and bank overdrafts due after more than one year	(13,020)	(9,875)
	(14,982)	(15,994)
Cash and cash equivalents	5,666	19,699
<b>Net (debt)/Net cash</b>	<b>(9,316)</b>	<b>3,705</b>
<b>Total equity</b>	<b>20,530</b>	<b>16,096</b>
<b>Debt/Equity</b>	<b>73%</b>	<b>99%</b>



# This report has been produced by the BDO Stoy Hayward team in Southampton

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# The 150 Group companies

Adams Morey Ltd	Chemring Group Plc	Foray Holdings Ltd	Linde Heavy Truck Division Ltd	Ringmerit Ltd	Sunseeker Sales Holdings UK Ltd
Advanced Resource Managers Holdings Ltd	Cibavision (UK) Ltd	Fortis Insurance Ltd	Linde Material Handling (UK) Ltd	RO Defence Projects Ltd	TAG Aviation Group (UK) Ltd
AIM Group Plc	CLC Group Plc	Fyffes Group Ltd	Liverpool Victoria Friendly Society Ltd	Saftdwin Ltd	Taylor Made Golf Ltd
Alberto-Culver Group Ltd	Cobham Plc	Game Group Plc, (The)	Loders Motor Group Ltd	Scott Wilson Group Plc	TDL Infomedica Ltd
Alphabet (GB) Ltd	Cobra-UK (Holdings) Ltd	Garmin (Europe) Ltd	Lucite International Group Holdings Ltd	Scottish Widows Unit Trust Managers Ltd	Teachers Provident Society Ltd
AON Consulting Ltd	Cognis UK Ltd	Genus Plc	Lush Cosmetics Ltd	Selestia Life & Pensions Ltd	The Chitty Food Group Ltd
Aviation Training International Ltd	Colt Investments Ltd	Geoffrey Osborne Ltd	Macmillan Publishers Ltd	Serco Group Plc	The Draper Tool Group Ltd
B & Q Plc	Combined Independents (Holdings) Ltd	GKN Aerospace Services Ltd	Macquarie UK Broadcast Holdings Ltd	Seward (Bournemouth) Ltd	The Hampshire Motor Group Ltd
BAE Systems (Operations) Ltd	Computer 2000 Distribution Ltd	Grainfarmers Plc	MAHLE Filter Systems UK Ltd	Shire Biopharmaceuticals Holdings Ltd	The Innovation Group Plc
BAE Systems Integrated System Technologies Ltd	Condor Ltd	Gurit (UK) Ltd	Manitou UK Ltd	Sigma-Aldrich Company Ltd	Trant Holdings Ltd
BAE Systems Land Systems (Munitions & Ordnance) Ltd	Coopervision Ltd	Hall & Woodhouse Ltd	Matchtech Group Plc	Simplyhealth Group Ltd	TTP Communications Ltd
BAE Systems Land Systems (Weapons & Vehicles) Ltd	Coopervision Manufacturing Ltd	Hammer Plc	McCarthy & Stone Group Ltd	Skandia Life Assurance Company Ltd	Vestas Blades UK Ltd
BAE Systems Marine Ltd	CRI/Criterion Catalyst Company Ltd	Hamworthy Plc	Meggitt Plc	Skandia Life Business Services Ltd	Visiocrp Plc
Barclays Mercantile Business Finance Ltd	CSM Motor Company Ltd	Hendy Holdings Ltd	Motorola Ltd	Skandia MultiFUNDS Ltd	Vitacress Salads Ltd
Barons of Farnborough Ltd	David Cover & Son Ltd	Heritage Automotive Ltd	Nokia UK Ltd	Snows Motor Group Ltd	VT Group Plc
Bartholomews (Holdings) Ltd	De La Rue Plc	Hobbycraft Group Ltd	Pall Europe Ltd	Southampton Container Terminals Ltd	Warings Construction Group Holdings Ltd
Beale Plc	Dickens Ltd	Hogg Robinson Group Plc	Peveler Group Ltd	Southern Co-operatives Ltd	Wella (UK) Ltd
Bewley Group Ltd	DigiPoS Store Solutions Group Ltd	Holtzbrinck Publishers Holdings Ltd	Polimeri Europa UK Ltd	Stanbridge Group Ltd	Westover Holdings Ltd
Blackwell Publishing Ltd	Dyer & Butler Holdings Ltd	Huawei Technologies (UK) Co. Ltd	Prysmian Cables & Systems Ltd	Standard Life Healthcare Ltd	Wight Salads Group Ltd
BMW Financial Services (GB) Ltd	Eaton Electric Ltd	Huhtamaki (UK) Ltd	Prysmian Metals Ltd	Stannah Lifts Holdings Ltd	Wiley Europe Investment Holdings Ltd
Carte Blanche Group Ltd	Eaton Ltd	IBM United Kingdom Ltd	Purple Foodservice Solutions Ltd	Stent Foundations Ltd	Wilhelmsen Lines Car Carriers Ltd
CDI AndersElite Ltd	Eli Lilly and Company Ltd	Industrial Acoustics Company Ltd	RNLI (Trading) Ltd	Sumika Polymer Compounds (Europe) Ltd	Wood Group Ltd
Centerprise International Ltd	Euphony Holdings Ltd	Ineos Group Holdings Plc	Radian Group Ltd	Sun Life Assurance Company of Canada (UK) Ltd	World Flowers Ltd
	Fat Face Ltd	ITT Industries Ltd	Raymarine Plc	Sunseeker International (Holdings) Ltd	Xyratex Technology Ltd
	First Drinks Brands Ltd	Jacksons Bournemouth Ltd	Raymond Brown Ltd		Zurich UK General Services Ltd
	Fitness First Group Ltd	Kofax Plc	RIAS Plc		

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