29 June 2005

SAVILLS PLC
(Savills or 'The Group')

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Introduction

From 1 January 2005, the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU") and applicable to all listed companies for financial reporting periods beginning on or after 1 January 2005.

The Group's first results to be published under IFRS will be for the six months to 30 June 2005. The Comparative information in those financial statements must be restated to IFRS. This report is to inform shareholders of the impact on the Group's financial position and results for 2004 due to the change from reporting under UK General Accepted Accounting Principles (UK GAAP) to IFRS.

The information presented in this document sets out the adjustments between the audited UK GAAP prepared financial statements for 2004 and unaudited restated IFRS results for the same period.

The IFRS standards that principally affect adjustments between UK GAAP and IFRS are:

- IAS 19 Employee Benefits
- IFRS 2 Share Based Payment
- IAS 38 Intangible Assets
- IAS 12 Income Taxes
- IAS 10 Events After the Balance Sheet Date - covering dividends

Highlights, unaudited restated IFRS results and net assets

- 2004 Group turnover unchanged
- 2004 Group profit before tax £58.3m (UK GAAP - £50.2m)
- Basic earnings per share 74.0p (UK GAAP - 62.2p)
- Adjusted basic earnings per share* 57.4p (UK GAAP - 55.7p)
- Net assets of the Group £94.7m (UK GAAP - £102.9m)

* After excluding sale of trading & investment properties, impairments and amortisation of goodwill and the one-off impact of the IFRS adjustment relating to share based payments (see section 5 (b))

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1. Basis of Preparation

The numbers set out under IFRS in this document have been prepared on the basis of current interpretation and application of IFRS Standards as at May 2005, subject to the exemptions set out below. However if the International Accounting Standards Board makes changes to the standards and interpretations before 31 December 2005, the figures may be amended in the first full IFRS accounts to be published in March 2006.

IFRS 1, First Time Adoption of International Financial Reporting Standards, outlines how to apply IFRS to the consolidated financial statements for the first time. The Group's transition date is 1 January 2004 and the standard permits certain exemptions from the full requirements of IFRS as at that date.

The Group has taken the following key exemptions or options as at transition:

a) Business combinations

IFRS 3, Business Combinations: The Group has taken the option not to restate any business combinations that were recorded by the Group before the date of transition.

b) Employee benefits

IAS 19, Employee Benefits: From the date of transition, the Group has opted to recognise all cumulative actuarial gains and losses in full.

c) Cumulative translation differences

IAS 21, The Effects of Changes in Foreign Exchange Rates: The exemption taken by the Group allows these cumulative translation differences to be set to zero at the date of transition.

d) Financial instruments

IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement will be applied prospectively from 1 January 2005 and consequently the restated figures for 2004 do not reflect the impact of these standards.

e) Share-based payments

In accordance with IFRS 2, Share-based Payments the Group has applied the standard only to equity instruments that were granted after 7 November 2002 that had not vested before 1 January 2005.

f) Fair value or revaluation at deemed cost

The Group has decided that property, plant and equipment are to remain recorded at their historical cost and has not restated these items at their fair value.

g) Joint Ventures

The Group has chosen to equity account for all investments in Joint Ventures.

2. Transition Explanations

Adjustments to Shareholders Funds on transition to IFRS as at 1 January 2004

	UK GAAP	Share Based Payment	Employee Benefits	Deferred Tax	Dividend	Unaudited IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Notes (see section 2 (a-d))		(a)	(b)	(c)	(d)	
As at 1 January 2004	96,277	142	(17,870)	(6)	5,563	84,106

a) IFRS 2 Share Based Payment

This standard is applied by the Company to equity settled share based payments that have not vested as at 1 January 2005 and that were granted after 7 November 2002.

Further information regarding the operation of the Group's employee share schemes can be found on Page 33 of the 2004 Annual Report & Accounts. Information regarding the calculation and allocation of the Group's bonus pool can be found on pages 30 and 31. The Group policy under IFRS continues to be for the DSBP accounting expense to be deducted from the total bonus pool before arriving at cash bonus payments to be made to the employees concerned.

Under IFRS 2 the expense relating to an equity-based share based payment is calculated with reference to the fair value of the option at the date of grant. The expense is then spread equally over the period between the grant date or date of commencement of services and the vesting date. As the options under the Group's schemes are all equity settled, the fair value is not re-measured but the yearly expense is adjusted for the estimated number of options expected to vest. For any options that vest early, the remaining charge not expensed to date is charged in full on the date the early vest occurs.

The following adjustments have been made on transition:

£000's	UK GAAP	IFRS 2	Total adjustment
Deferred Share Bonus Plan	(229)	(243)	14
Executive Share Option Scheme	-	(30)	30
Sharesave Scheme	-	(98)	98
Impact on Shareholders funds	(229)	(371)	142

Deferred Share Bonus Plan (DSBP)

Previously, awards granted under the DSBP Scheme were measured at the market value at 31 December each year in determining the expense for awards granted. This expense was recorded in full in the year the employee provided the services to which the award related. For example the expense for the March 2005 allocation was recorded in 2004. Under IFRS, the expense is spread over the period from the date of commencement of services to the date that the employees take title to the shares. This is typically six years and three months.

Executive Share Option Scheme (ESOS)

Under UK GAAP, no expense was recorded for the ESOS in accordance with UITF 17 ' Employee Share Schemes'.

Under IFRS 2, amounts charged to the profit and loss account for ESOS awards begin on the date of grant and are spread over the vesting period of 3 years.

Under the ESOS if the performance criteria, which are based on internal measures, are not met, the options do not vest. The total expense relating to the grant is reversed if the Company expects that the performance criteria will not be met.

Sharesave scheme

Under UK GAAP, no expense was recorded for the Sharesave scheme under the exemption permitted by UITF 17 'Employee Share Schemes'. Under IFRS, the expense of the Sharesave scheme is spread over 3 years. Under the terms of the Sharesave scheme, employees have the option, at the vesting date, to take shares or have their contributions refunded. The full charge remains regardless of which option is taken.

While the share based payment expense does not impact shareholders funds, these adjustments reflect the consequences of accounting for National Insurance payable on exercise of the options and deferred tax.

A deferred tax liability arises on the IFRS adjustments due to the timing difference between the recognition of the share based payment expense for tax and accounting purposes. The accounting charge for share based payments are not deductible for UK taxation. A deduction is given on the exercise date equal to the market price less exercise price. Therefore deferred tax balances are carried forward until the options are exercised.

b) IAS 19 Employee Benefits

The approach under IFRS for Defined Benefit Pension Schemes is similar to the requirements of FRS 17. As disclosed in the 2004 Report & Accounts, FRS 17 was due to take effect from 1 January 2005. The liability at 1 January 2004 was £25,528,000 with an offsetting deferred tax asset of £7,658,000. The actuary of the scheme has confirmed there is no material difference in the net pension liability under IAS 19 compared to FRS 17.

c) IAS 12 Deferred Tax

Under IFRS deferred tax should be recognised on the basis of taxable temporary differences (subject to certain exceptions), which represents the difference between the carrying value of an asset or liability and the amount used for taxation purposes.

Deferred tax arises on undistributed profits within non-UK equity accounted investments, unless there is an agreement covering the distribution of reserves. For such investments, the Group does not exercise control in determining the timing of dividend payments and for this reason a deferred tax liability arises on undistributed reserves. As at transition a liability of £6,000 is created.

d) IAS 10 Events After the Balance Sheet Date

Under IFRS, dividends are included in the accounts in the period in which they are approved whereas under UK GAAP dividends are included in the period to which they relate. The final dividend and provision for 2003 of £5,563,000 are therefore reversed.

3.1 Effect of the change to IFRS on the Income Statement for the year ended 31 December 2004 (unaudited)

	UK GAAP	Intangibles	Share Based payment	Employee Benefits	Joint Ventures	Associates	Deferred Tax	Reallocations	IFRS
	Impact of move to IFRS								
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Notes (see section 3.3)		(a)	(b)	(c)	(d)	(e)	(f)	(g)	
Total Group Turnover	327,975								327,975
Group operating profit	38,951	3,385	3,901	926	(3)	0	0	9,011	56,171
Share of joint ventures	55				41				96
Share of associates	274	6				(12)			268
Disposals	9,011							(9,011)	0
Profit before interest	48,291	3,391	3,901	926	38	(12)	0	0	56,535
Net finance income	1,902				(97)	(28)			1,777
Profit before tax	50,193	3,391	3,901	926	(59)	(40)	0	0	58,312
Income tax expense	(15,168)	(143)	(1,167)	(278)	59	40	6		(16,651)
Profit for the period	35,025	3,248	2,734	648	0	0	6	0	41,661
Attributable to:									
Equity holders of the parent	34,775	3,216	2,734	648	0	0	6	0	41,379
Minority interests	250	32							282
	35,025	3,248	2,734	648	0	0	6	0	41,661
Basic earnings per share	62.2p	5.7p	4.9p	1.2p	0.0p	0.0p	0.0p	0.0p	74.0p
Diluted earnings per share	56.5p	5.2p	4.4p	1.1p	0.0p	0.0p	0.0p	0.0p	67.2p

3.2 Effect of the change to IFRS on the Balance Sheet as at 31 December 2004 (unaudited)

	UK GAAP	Intangibles	Share Based Payment	Employee Benefits	Joint Ventures	Dividend	IFRS
	Impact of move to IFRS						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Notes (see section 3.3)		(a)	(b)	(c)	(d)	(h)	
Assets	261,797	3,248	(615)	(7,663)	(5)	0	256,762
Liabilities	(158,888)	0	457	(21,592)	5	17,995	(162,023)
NET ASSETS	102,909	3,248	(158)	(29,255)	0	17,995	94,739
EQUITY							
Shareholder's funds	102,751	3,216	(158)	(29,255)	0	17,995	94,549
Minority interest	158	32	0	0	0	0	190
	102,909	3,248	(158)	(29,255)	0	17,995	94,739

3.3 Explanation of Adjustments for the year ended December 2004

a) IAS 38 Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical

substance. Intangibles are contractual or legal rights or assets that are separable from the business and can include brands, trade names, contacts and websites.

IAS 38 requires an intangible asset with a finite useful life to be amortised over its expected life and tested for impairment whenever there is an indication that the intangible asset may be impaired (such as if losses are made). Goodwill represents the remaining unidentifiable intangible assets of an acquisition after deducting the identifiable intangibles. Goodwill is not amortised from transition and is subject to annual impairment testing. Goodwill impairment of £639,000 made in 2004 under UK GAAP, remains as an impairment under IFRS.

Goodwill amortisation under UK GAAP of £2,915,000 for the year has been reversed. In accordance with the transitional provisions within IFRS 1, an assessment was made regarding the fair value of identifiable intangible assets acquired for all business combinations from 1 January 2004. A value of £1,262,000 has been placed on these intangibles which were all purchased in the final few months of 2004.

The adjustments further capitalise an intangible asset of £476,000 which is associated with the set-up of Europa Immobiliare No. 1 fund by CordeaSavills. This amount was expensed under UK GAAP. A deferred tax asset of £143,000 arising under UK GAAP is not recognised under IFRS.

Under IAS 38, software that is not an integral part of the operating hardware is treated as an intangible asset and is amortised over its useful life. Software with a book value of £810,000 has been reclassified to intangibles and depreciation expense of £663,000 has been reclassified as amortisation.

b) IFRS 2 Share Based Payment

The following adjustments have been made for the year to 31 December 2004:

	UK GAAP	IFRS 2	Total adjustment
Deferred Share Bonus Plan	5,390	(1,241)	4,149
Executive Share Option Scheme	-	(140)	(140)
Sharesave Scheme	-	(108)	(108)
Impact on profit before tax	5,390	(1,489)	3,901
Tax	(1,617)	450	(1,167)
Impact on profit after tax	3,773	(1,039)	2,734

This profit and loss adjustment increases profit before tax by £3,901,000 is mainly due to the impact of the deferred share bonus plan. The share based payment charge for the DSBP during 2004 was £5,390,000, which represented the market value of the deferred share bonus plan grants made in 2004 and 2005. These grants related to the performance periods of 2003 and 2004. There are two reasons for this adjustment; firstly the change in the basis of valuation of the option, and secondly the change to spreading the charge over the vesting period. For the DSBP, the charge is amortised over the period between the first date services were provided by employees relating to the grant and the date that the employees take ownership of the shares.

For example, the grant made in March 2005 related to services provided from the beginning of the 2004 financial year, with employees taking ownership of the shares five years after the date of grant provided that they are still employed by the Group. Under UK GAAP the market value of the options awarded would have been expensed during 2004 as they were considered to relate to past service. Under IFRS, the fair value of the shares awarded would be expensed over the 6 year and 3 month period from January 2004 to the date that the shares vest in March 2010.

Under the transitional provisions of IFRS 2, share based payment, companies are only required to restate their results for equity instruments granted after 7 November 2002. Only three grants relating to the DSBP are restated under IFRS. As these grants vest over a 6 year and three month period, the expense under IFRS is less than that under UK GAAP.

The method of bonus calculations for the Group means that this adjustment is purely a transitional difference and will not impact the levels of profit in the future. This is explained further in section 5 (a).

The only impact on equity is that relating to National Insurance payable on exercise of the options, and deferred tax.

c) IAS 19 Employee Benefits

Under IFRS, the charge to the profit and loss account includes:

- the current service cost which represents the increase in the pension liability in the current period as a result of the employee's employment over that period.
- interest cost on the schemes liabilities.
- expected return on plan assets.
- past service cost and
- the impact of any settlements or curtailments.

The UK GAAP charge of £4,194,000 has been reversed and replaced by a charge for current service cost of £2,673,000 plus an interest charge of £3,565,000 less £2,970,000 expected income from the return on plan assets. A deferred tax liability arises on this adjustment.

The Group has opted to recognise immediately, in full, all actuarial gains or losses directly in equity as they arise, in accordance with the amendment to IAS 19 issued by the IASB on 16 December 2004.

The pension deficit as at 31 December 2004 was £20,334,000 (2003 - £25,528,000) with an offsetting deferred tax asset of £6,100,000 (2003 - £7,658,000). The movement in the pre-tax deficit is represented by increases due to charges to the income statement of £3,268,000 and an actuarial loss of £9,494,000. This was reduced by cash contributions in 2004 of £17,956,000.

d) IAS 31 Joint Ventures

IFRS allows the option for joint ventures to be accounted for on a proportional consolidation or equity accounted basis. The Group has chosen to equity account all joint ventures.

The equity method requires an interest in a jointly controlled entity to be initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the entity. The Group is required to include its share of the profit or loss in the income statement as a single line and disclose the value of the investment separately on the balance sheet.

Under UK GAAP, various property joint ventures were required to be proportionally consolidated and these have been restated to equity accounted investments under IFRS. The balance sheets of these entities substantially consist of cash, intercompany loans and outstanding corporation tax liabilities.

This change does not impact group profit but reclassifies operating profit, interest and tax to the line share of results of Joint Ventures.

e) IAS 28 Associates

Associated undertakings are equity accounted under IAS 28. The only difference between the treatment of associates under IFRS compared to UK GAAP relate to disclosures in the income statement. The Group's share of post-tax results of associates under IAS 1 must be shown on a single line in the income statement. The UK GAAP numbers therefore are adjusted to reduce interest income by £28,000 and income tax expense is reduced by £40,000.

f) IAS 12 Deferred Tax

The deferred tax liability on undistributed reserves in non-UK equity accounted investments has reversed at year end as these investments were liquidated in the year.

g) IAS 1 Presentation of financial statements

Under IAS 1, items of income and expense may not be presented as extraordinary items on the face of the income statement. Under UK GAAP, profit on disposal of investment property of £8,094,000, profit of disposal of interests in subsidiary undertakings of £763,000 and profit on disposal of interest in associates of £154,000 were classified as exceptionals. These have been reclassified as operating items under IFRS.

h) IAS 10 Events After the Balance Sheet Date

The final and special dividends in respect of 2004 of £17,995,000 is not recognised at the balance sheet date under IFRS.

4. Adoption of IAS 32 and 39 financial assets and liabilities

The Group's policy is for each business to borrow in local currencies where possible. The Group does not actively seek to hedge risks arising from foreign currency transactions due to the high cost associated with such hedging. Therefore this standard is not expected to have a significant impact on the Group.

This standard will be adopted prospectively in 2005.

5. Earnings Per Share

a) Basic and diluted earnings per share as at 31 December 2004:

	Earnings £'000	Shares '000	Diluted EPS Pence	Diluted Shares '000	EPS Pence
UK GAAP	34,775	55,938	62.2	61,585	56.5
IFRS adjustments:					
Intangibles	3,216	-	5.7	-	5.2
Share based payment	2,734	-	4.9	-	4.4
Employee benefits	648	-	1.2	-	1.1
Deferred tax	6	-	-	-	-
IFRS	41,379	55,938	74.0	61,585	67.2

b) Adjusted basic earnings per share as at 31 December 2004 :

	Shares '000	UK GAAP Earnings £'000	UK GAAP EPS Pence	IFRS Earnings '000	IFRS EPS Pence
Basic earnings per share	55,938	34,775	62.2	41,373	74.0
Amortisation of goodwill	-	2,915	5.2	-	-
Impairment of goodwill	-	639	1.1	639	1.1

Less IFRS Share based payment charge	-	-	-	(2,734)	(4.9)
Less sale of trading properties after tax	-	(1,525)	(2.7)	(1,525)	(2.7)
Less sale of investment property after tax	-	(5,666)	(10.1)	(5,666)	(10.1)
Adjusted basic earnings per share	-	31,138	55.7	32,087	57.4

The Directors consider the disclosure of the supplementary earnings per share necessary in order for the impact of, impairment of goodwill and amortisation of goodwill to be fully appreciated, as well as eliminating the sale of trading and investment property results which are not always of a comparable nature.

The IFRS share based payment charge is removed to present an indication of the impact of IFRS changes on the Group going forward. The method of bonus calculation means that the adjustment will not impact profit levels in the future.

The Group operates a number of deferred share bonus and options schemes, the largest of which is the Deferred Share Bonus Plan (DSBP). Under this non-pensionable annual bonus scheme for Directors and senior executives, a part of the annual bonus, at the discretion of the Remuneration Committee, may be awarded in the form of deferred conditional rights to ordinary shares in the Company, with the additional part of the bonus being paid out in cash. Annual bonuses are subject to the attainment of challenging performance targets which are specific to each individual and either relate to Group thresholds, subsidiary company targets or a combination of both for a period not exceeding the relevant financial year of the Company. The annual bonus pool for the Group is fixed, based on pre-bonus profit based calculations. The element of the bonus pool which is paid out in cash is determined by deducting share based payment charges made against income in the performance period from the bonus pool.

During 2004, the amount which was charged against the bonus pool for share based payments was the UK GAAP charge, and the balance of the bonus pool was paid out as cash bonus. The latter amount is not impacted in 2004 by the restatement of the share based payment charge to IFRS, but in the future it will be. The adjusted EPS takes account of this one-off adjustment in 2004.

6. Accounting Policies to be adopted from 1 January 2005

Basis of Accounting

The Group accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The 2005 financial statements will be the Group's first consolidated financial statements prepared under IFRS, with a transition date of 1 January 2004. Consequently, the comparative figures for 2004 and the Group's balance sheet as at 1 January 2004 have been restated to comply with IFRS, with the exception of IAS32 and IAS39 on financial instruments, which have been applied prospectively from 1 January 2005. In addition, IFRS1, First time adoption of International Financial Reporting Standards allows certain exemptions from retrospective application of IFRS in the opening balance sheet for 2004 and where these have been used they are explained in the accounting policies below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ

from those estimates.

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of investment properties and financial assets.

Consolidation

The consolidated Accounts include the Accounts of the Company and its subsidiary undertakings, together with the Group's share of results of its associates and joint ventures.

A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity, so as to obtain benefit from its activities.

The results of subsidiary undertakings acquired during the period are included from the date of acquisition of a controlling interest at which date, for the purpose of consolidation, the purchase consideration is allocated between the underlying net assets acquired, including intangible assets other than goodwill, on the basis of their fair value.

The results of the subsidiary undertakings that have been sold during the year are included up to date of disposal. The profit or loss is calculated by reference to the net asset value at the date of disposal, adjusted for purchased goodwill previously included on the balance sheet.

Inter company balances and transactions, and any unrealised gains arising from inter company transactions, are eliminated in preparing the consolidated financial statements.

Associates

Associates comprise investments in undertakings, which are not subsidiary undertakings, where the Group's interest in the equity capital is long term and over whose operating and financial policies the Group exercises a significant influence. They are accounted using the equity method.

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, which exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturer's. The Group's joint ventures are accounted for using the equity method.

Goodwill

Goodwill arising on acquisition is capitalised and subject to annual impairment reviews. Goodwill represents the excess of the cost of acquisition of a subsidiary or associate over the Group's share of the fair value of identifiable net assets acquired. Goodwill is stated at cost less accumulated impairment losses.

The Group's policy up to and including the year ended 30 April 1998 was to eliminate goodwill against reserves. Goodwill acquired from 1 May 1998 to 31 December 2003 was capitalised and amortised over its useful economic life. As permitted under IFRS1, in respect of acquisitions prior to 1 January 2004, the classification and accounting treatment of business combinations has not been amended on transition to IFRS. Goodwill previously written off direct to reserves under UK GAAP is not recycled to the income statement on the disposal of the subsidiary or associate to which it relates.

Goodwill in respect of subsidiaries is included in intangible assets. In respect of associates, goodwill is included in the carrying value of the investment in the associated company.

Turnover

Turnover in respect of property consultancy represents commissions and fees receivable excluding VAT. On traditional agency work in progress, no value is attributable until contracts on the underlying transactions have been exchanged. On complex multi-unit developments, revenue is recognised on a staged basis, commencing when the underlying contracts are exchanged. No value is generally attributed to commercial agency work in progress until completion. However, if exchange of contracts on the underlying transaction is unconditional, income is recognised on a phased basis in accordance with the contractual terms.

Sales of properties held by the Group as trading assets are included in turnover.

Share-Based Payments

Equity-settled share-based payments granted after 7 November 2002 that had not vested as of 1 January 2005 are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. For cash-settled share-based payments, which have not vested at 1 January 2005, a liability equal to the portion of the service received is recognised at the current fair value determined at each balance sheet date.

The fair value of equity-settled share based payments is measured by the use of Actuarial Binomial option pricing model. The fair value of cash-settled share based payments is measured using the method considered to be most appropriate.

Employee Benefit Trust

The Company has established The Savills plc 1992 Employee Benefit Trust (the EBT), the purposes of which are to grant awards to employees to acquire shares in the Company pursuant to the Savills plc 1992 Executive Share Option Schemes and the Deferred Share Bonus Plan and to hold shares in the company subsequent to transfer to employees on exercise or vesting of the awards granted under the schemes. The assets and liabilities of the EBT are included in the balance sheets of the Group and the Company. Investments in the Group's own shares are shown as a deduction from shareholders funds.

Qualifying Employee Share Trust

The Company has established a Qualifying Employee Share Trust (QUEST), which acquires shares of the Company. These are transferred to employees on the exercise of options granted under the Savills Sharesave Scheme.

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Provision for depreciation is made at rates calculated on a straight-line basis to write-off the assets over their estimated useful lives as follows:

	Years
Freehold property	50
Leasehold property (less than 50 years)	over unexpired term of lease
Furniture & office equipment	6

Motor vehicles	5
Computer equipment	Between 3 & 5

Intangible Assets other than Goodwill

Intangible assets acquired as part of business combinations are valued at fair value on acquisition and amortised over the useful life. The useful lives of these assets are determined on a case by case basis. The useful life of such intangible assets currently ranges from 2 to 5 years. Amortisation charges are spread over the period of the assets useful life.

Computer software is carried at cost less accumulated amortisation and is amortised on a straight-line basis over a period ranging from three to five years.

Accounting for Leases

Assets financed by leasing agreements which give rights approximating to ownership (finance leases) are capitalised in property, plant and equipment. Finance lease assets are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, then depreciated over their estimated useful lives. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet. Leasing payments comprise capital and finance elements and the finance element is charged to the income statement.

The annual payments under all other lease agreements, known as operating leases, are charged to the income statement on a straight line basis over the lease term.

Investment Properties

An investment property is a property held to earn rentals and for capital appreciation and is initially measured at cost, including direct transaction costs. Subsequent to initial recognition, investment properties are measured at fair value annually. Fair value is considered to be the open market value with no allowance for disposal costs. Valuations are undertaken by independent qualified valuer's in accordance with Guidance Notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors.

Gains or losses arising from the changes in the fair value of investment properties are included in profit or loss for the period in which they arise. Investment properties are not depreciated.

Work in Progress

Work in progress is stated at the lower of cost and net realisable value. Cost includes an appropriate proportion of overheads. Long-term work in progress is assessed on a contract by contract basis; turnover and related costs are included in the income statement as contract activity progresses. Where the outcome of a long-term contract can be assessed with reasonable certainty, attributable profit is recognised. Long-term contracts are stated at cost net of amounts transferred to cost of sales, foreseeable losses and applicable payments on account.

Taxation

Taxation is that chargeable on the profits for the period, together with deferred taxation.

Deferred taxation is provided in full on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and

the amount used for taxation purposes. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that it will not reverse in the foreseeable future. A deferred tax asset is recognised only to the extent that is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Impairment of Assets

Assets that have indefinite useful lives are tested annually for impairment, while assets that are subject to amortisation are reviewed for impairment whenever events indicate that the carrying amount may not be recoverable. An impairments loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less cost to sell and its value in use.

Pension Costs

Retirement benefits for employees are provided by a defined benefit scheme which is funded by contributions from the Group and its employees. The Group contributions are determined by an independent qualified actuary.

The net deficit for the Group defined benefit pension scheme is calculated in accordance with IAS 19, based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. As permitted under IFRS1, all cumulative actuarial gains and losses at the date of transition were fully recognised.

The defined benefit scheme charge consists of current service costs, interest cost, expected return on plan assets, past service cost and the impact of any settlements or curtailments. All actuarial gains and losses are recognised immediately in the 'Statement of changes in equity' as they arise.

The Group also operates a defined contribution group personal pension plan for new entrants and a number of defined contribution individual pension plans. Contributions in respect of defined contribution pension schemes are charged to the income statement when they are payable.

Foreign Currency Translation

The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling at average rates of exchange in each year. Where the average rate is not a reasonable approximation the actual rate is used. Assets and liabilities of these undertakings are translated at rates of exchange at the end of each year.

The differences between retained profits of overseas subsidiary and associated undertakings translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year. Any differences that have arisen since 1 January 2004 are presented as a separate component of equity. As permitted under IFRS1, any differences prior to that date are not included in this separate component of equity.

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of exchange are recognised in the income statement.

Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, while interim dividend distributions are recognised in the period in which the dividends are declared.

Financial Instruments

Non-derivative financial assets are classified as either available-for-sale investments, accounts receivable or cash and cash equivalents.

Available-for-sale investments are stated at fair value, with changes in fair value being recognised directly in equity. When such investments are derecognised (e.g. through disposal) or become impaired, the accumulated gains and losses, previously recognised in equity, are recognised in the income statement.

Accounts receivable are valued at cost less estimated non-recoverable amounts. Accounts receivable are discounted where the time value of money is material.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short term highly liquid investments and working capital overdrafts.

Application of IAS32 and IAS39

As noted above, the Group has adopted IFRS for the first time in 2005. It has applied the financial instruments' standards IAS32 and IAS39 prospectively from 1 January 2005, as permitted by these two standards. The principal impact of the application of these standards reflects the change in the measurement and classification of other investments. These are measured at cost less permanent diminution in value under UK GAAP and are re-classified as available-for-sale financial assets, measured at fair value.

Segmental Analysis

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Repurchase of Share Capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a charge to equity. Repurchased shares which are not cancelled, or shares purchased for the Employee Share Ownership Trusts, are classified as treasury shares and presented as a deduction from total equity.

ENDS

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