Company No: 164945

FKI plc

Annual Report and Financial Statements

31 March 2008

Index

Directors' report

The directors submit their report and the audited financial statements of FKI plc for the year ended 31 March 2008

Acquisition of the Company by Melrose PLC

The acquisition of the Company by Melrose PLC was completed on 1 July 2008 The acquisition of the entire issued share capital of the Company was effected by means of a Scheme of Arrangement that was approved by the Company's shareholders on 28 May 2008 and was sanctioned by the Court on 27 June 2008

Principal activities

The principal activities and the development of the Group are given in the Operating and financial review on pages 4 to 6

Financial instruments

The Group's financial risk management objectives and policies are discussed in the Operating and financial review on pages 4 to 6 The exposure of the Group to foreign currency risk, interest rate risk and liquidity risk are set out in note 28 to the financial statements

Dividends

The directors recommend a final dividend on ordinary shares in respect of the year ended 31 March 2008 of 3 0p per share, payable on 15 July 2008 to shareholders on the register on 27 June 2008, which with the interim dividend paid on 22 February 2008 distributes a total of £26 4 million of retained earnings

Directors

The names of the directors who have served during the year are

Gordon Page – resigned 1 July 2008

Paul Heiden

Neil Bamford

Reg Gott – resigned 1 July 2008

Sir Michael Hodgkinson – resigned 1 July 2008

Charles Matthews – resigned 1 July 2008

David Pearl – resigned 1 July 2008

Richard Case – resigned 1 July 2008

Directors' interests

The interests of the directors (including their family interests) all of which are beneficial, in the share capital, share options and the Long-Term Incentive Plan of the Company appear in the Remuneration report on pages 7 to 18

Powers of the directors

The directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Memorandum of Association.

At the 2007 Annual General Meeting the directors were given the power to buy back a maximum number of 29,000,000 ordinary shares at a minimum price of 10 0p each The maximum price was an amount equal to 105% of the average middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary shares are contracted to be purchased This power will expire at the earlier of the conclusion of the 2008 AGM or 9 August 2008

The Board

The Company during the year had a Chairman and a Chief Executive each having their own separate responsibilities Essentially, the Chairman is responsible for the effective working of the Board and the Chief Executive is responsible for all operational matters

The directors may at any time appoint an additional director A formal selection process is carried out, making use of external agencies in the selection of suitable candidates where it appears necessary or appropriate Upon the appointment of a new director, relevant training is provided as required

Any director so appointed shall hold office until the next Annual General Meeting and shall be eligible for reappointment at that meeting Following such appointment, the Articles of Association require each director to retire by rotation and seek re-election at least every three years

Political and charitable donations

During the year ended 31 March 2008 the Group contributed £0 1 million (2007 £0 1 million) in the UK for charitable purposes There were no political donations during the year (2007 £nil)

Research and development

Product development and innovation is a continuing process The Group's businesses commit resources to research and development to assist them in securing their competitive positions in their chosen markets

Employment policies

Companies within the Group have developed a wide range of voluntary practices and procedures for employee involvement appropriate to their own circumstances and needs The Group encourages this approach to providing information and consultation and believes that this promotes a better understanding of the issues facing the individual business in which the employee works It is the policy of the Group to give full and fair consideration to applications made by disabled persons for job vacancies and promotions, where particular job requirements are within their ability and, where possible, arrangements are made for the continuing employment of employees who have become disabled

Amendment of the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders

Employee involvement and consultation

The directors attach great importance to good labour relations and employee involvement and development The results for the half year and financial year are discussed with senior management and the opportunity is taken where possible to inform them of Group developments The nature of the Group's activities places the responsibility for employee consultation with local management in a manner appropriate to the particular circumstances of each business Several of the businesses operate works councils for the purposes of consultation and dissemination of information Newsletters are also used as a means of communicating with employees

Payments to suppliers

Operating businesses are responsible for agreeing the terms and conditions of their transactions with suppliers Payment is made on those terms subject to the terms and conditions being met by the supplier FKI plc, as a holding company, did not have any amounts owing to trade creditors at 31 March 2008

Significant agreements – change of control

There are no agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, that are considered to be significant in terms of their potential impact on the business of the Group as a whole on 1 July 2008

Share capital

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK Law

At 31 March 2008, the Company's issued share capital comprised

	Number million	Value £m
Ordinary shares of 10 0p	588 3	58 8

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights

Significant shareholdings

On 27 June 2008 the Scheme of Arrangement was approved by the court and from 1 July 2008, the Company's entire share capital is held by Melrose PLC

Auditors

A resolution to reappoint Ernst & Young LLP as the Group's auditors will be proposed at the Annual General Meeting

Directors' statement as to disclosure of information to auditors

The directors who were members of the Board at the time of approving the Directors' report are listed above Each of these directors confirms that

- to the best of each director's knowledge and belief there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

Directors' indemnities

During the financial year the directors have enjoyed the benefit of indemnity insurance In accordance with the Company's Articles of Association directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office The indemnity extends to legal costs incurred in proceedings in which judgement is given in their favour

Directors' responsibilities

The directors are responsible for preparing the Annual Report and Group and parent Company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare Group and parent Company financial statements for each financial year Under that law the directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union ("EU") and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the parent Company

In preparing each of the Group and parent Company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the Group financial statements state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- for the parent Company financial statements state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements

The directors are also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group, and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Under applicable law and regulation the directors are also responsible for preparing a Directors' report and Remuneration report that comply with that law and those regulations

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Events after the balance sheet date

On 22 April 2008 the boards of Melrose PLC and FKI plc announced that they had agreed the terms of a recommended proposal whereby Melrose PLC would acquire the entire issued and to be issued share capital of FKI plc On 28 May 2008 FKI shareholders at an extraordinary general meeting approved the proposed takeover of the Company by Melrose PLC and also approved the Scheme of Arrangement On 27 May 2008 Melrose PLC shareholders also approved the proposed takeover

The Court Meeting to sanction the Scheme of Arrangement was held on 27 June 2008 The acquisition of FKI plc by Melrose PLC was completed on 1 July 2008 and as a consequence the Group was de-listed from the London Stock Exchange

On 1 July 2008 the ultimate parent undertaking of the Group became Melrose PLC, registered in the United Kingdom at Precision House, Arden Road, Alcester, B49 6HN

Directors' responsibility statement

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company and the undertakings included in the consolidation taken as a whole, and
- the operating and financial review includes a fair view of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face

By order of the Board

Neil Bamford Director

1 July 2008

Operating and financial review

Group turnover from continuing activities during the period was £1,047 9 million (2007 £958 3 million) The increase in turnover comprised a sales increase from trading of £96 9 million offset by an unfavourable currency translation effect of £7 3 million

Operating profit before special items from continuing activities increased to £112 9 million (2007 £86 4 million) After adjusting for an unfavourable foreign exchange impact of £0 8 million operating profit before special items grew by 31 6%

Special items amounted to a loss of £20 5 million (2007 loss of £3 2 million) and included £10 1 million of costs in connection with the Melrose takeover and a further £3 5 million costs relating to the strategic review, abortive sale and approach costs incurred in the first half of the year In addition, costs of £7 2 million relating to the closure and rationalisation of certain continuing operations within Energy Technology (£4 0 million), Hardware (£2 7 million) and Lifting Products and Services (£0 5 million) were incurred Also, losses of £1 2 million on the sale of a number of small operations have been incurred which have been offset by a £1 5 million profit before taxation on the sale of a number of surplus property assets

Net finance costs of continuing operations were £34 8 million (2007 £26 8 million) and included losses of £2 9 million (2007 gains of £5 1 million) arising on fair value adjustments to financial instruments

Net interest costs were £31 9 million (2007 £28 5 million), the increase reflecting a combination of higher net debt levels, higher European interest rates and increased borrowing costs following the re-negotiation of Group borrowing facilities These increases have been offset by lower net finance costs on pension schemes and other post-retirement benefit schemes which have reduced to £nil (2007 £3 4 million) as a result of the much lower pension deficit

The Group's effective tax charge on profits from continuing operations before special items after net finance costs was 25 4% (2007 31 4%) A reconciliation of the actual total tax charge to the standard rate of corporation tax in the UK of 30% is set out in note 13 to the financial statements

For comparative purposes underlying operating profit based on operating profit before special items after adjusting for the operating profit before special items of discontinued operations rose by 20 8% from £100 2 million to £121 0 million

The loss attributable to the equity holders of the Company amounted to £266 5 million (2007 profit of £46 4 million) and basic loss per share was 45 4p (2007 earnings 7 9p) The decline in performance was a result of an impairment loss recorded on the FKI Logistex group of £314 1 million which contributed a loss of 53 5p per share Adjusted earnings per share of 11 3p (2007 8 7p) improved by 29 9% and was calculated by dividing the operating profit/(loss) for the year before special items, (profit/(loss) on sale of businesses, reorganisations, closures and impairments, profit/(loss) for the year on property sales, strategic review and approach costs and Melrose takeover costs), profit/(loss) on disposal of discontinued operations, fair value gains/(losses) on financial instruments and exchange gains/(losses) included within finance costs and income and taxation related to those items by the weighted average number of shares in issue during the year

Financial risk management

FKI's financial risk management is based upon sound economic objectives and good corporate practice Derivative and other financial instruments are used to manage trading exposures, liabilities and assets under parameters laid down by the Board The Group's major hedging activities are to mitigate the following risks

(i) Currency transaction risks for trading exposures denominated in other currencies

(ii) Fair value and cash flow interest rate risks associated with the Eurobond

(iii) Currency translation risks of net assets in overseas subsidiaries

The Group has not used derivative financial instruments for purposes other than for hedging its exposures

The Group adopted accounting standard IAS 39 on 1 April 2005, resulting in the recognition at fair value of all derivative financial instruments previously held off balance sheet under UK GAAP To avoid income statement volatility, and where such benefits outweigh the costs of compliance, the Group has designated many of its economic hedges as hedging instruments under IAS 39 However, for certain effective economic hedging relationships, such hedge accounting treatment is not permitted under IFRS Where hedge accounting is not achieved, fair value movements on derivatives are recorded in the consolidated income statement, which could give rise to earnings volatility

It is the Group's policy to maintain a range of maturity dates for its borrowings and to refinance them at the appropriate time so as to reduce refinancing risk. In May 2008, the Company entered into an agreement to extend the maturity of its £120 million revolving credit facility from 1 April 2009 to 2 December 2009 All other terms and conditions remain unchanged except that the interest margin rises from 175bps to 200bps for the period 1 October 2008 to 1 April 2009 and 225bps thereafter

The treasury function provides the Group with cash and risk management services by investing surplus funds and managing and reducing financial risks purely in relation to underlying trading transactions It does not operate as a profit centre and no speculative transactions are permitted

Counterparty credit limits are established for all banks used by the Group, taking account of the credit standing of each bank. The Group does not hold or issue derivative financial instruments for trading purposes

A large proportion of the Group's trading is carried out within the domestic territory of each business unit Consequently, foreign exchange transaction exposures, which arise when sales and purchases are made by a business unit in a currency other than its own functional currency, are generally not significant The Group's policy is to hedge forward foreign exchange exposures as soon as commitment has been given to the underlying transactions

The results of foreign subsidiaries are translated into sterling at the average rates of exchange for the period concerned As this conversion has no impact on the cash flow of the Group, the Group chooses not to hedge its foreign subsidiaries' earnings, other than any dividends which are dealt with as transaction exposures

The balance sheets of foreign subsidiaries are translated into Sterling at the closing exchange rates Any gains or losses on the translation of these balance sheets into Sterling are recorded in reserves against the gains and losses arising on foreign currency borrowings that are effective net investment hedges

Pensions

The Group's IAS 19 aggregate pensions deficit in respect of all pensions and post-retirement plans decreased to £22 9 million as at 31 March 2008 from £108 8 million a year earlier The deficit reduction is primarily the result of increased discount rates reducing liability valuations and UK scheme contributions which continue to anticipate a ten year deficit funding period The most significant element of this deficit relates to the Group's main UK Scheme which has decreased from £72 0 million to £3 8 million as of 31 March 2008 The valuation of this deficit is based on the full actuarial valuations of 31 December 2005 updated at 31 March 2008 by independent actuaries

During the year a further 10% of the assets of this scheme were transferred into bonds to more closely match the maturing liability profile

FKI continues to take action to manage its exposure to North American retiree medical liabilities and the liability at 31 March 2008 had reduced by £12 0 million to £ 21 2 million from £ 33 2 million at 31 March 2007

Principal risks and uncertainties

The Group has adopted a standard process for the identification, assessment, treatment, monitoring and reporting of risk. This process helps support business objectives by linking into business strategy, identifying and reacting to emerging risks and developing cost effective solutions to risk exposures

Some 46 6% of sales are to customers in North America and the Group is therefore particularly affected by economic conditions in North America However, the diverse nature of the Group's products, services and customers help mitigate the effects of changes in political and economic risk on the demand that the Group experiences

The Group's products and manufacturing processes require a variety of raw materials including steel, copper and zinc Any increase or volatility in the price of these commodities and energy together with shortages in supply can affect the Group's performance The diversity of operations both in terms of product area and geography reduces the dependence on any single item and supplier Purchasing policies and practices take into account and seek to mitigate such risks where practicable

The Group operates a number of pension schemes as detailed in note 33 to the accounts, the most significant of which is the main UK scheme which had a pre-tax deficit of £3 8 million at 31 March 2008 The funding of that scheme is 75% by long dated bonds and 25% by equities The Group is exposed to various funding risks principally increased longevity of members and poor performance of equity investments which could result in increased cash contributions by the Group to the schemes

In addition to the above, the Group's involvement and operating in global markets creates an exposure to other risk factors that are both external and internal to the Group These risks include but are not limited to failure to comply with legislative and regulatory requirements including environmental and litigation risk, equipment failures, business continuity and the actions of customers and competitors The Group has, as previously described, implemented risk controls and loss mitigation plans but cannot give absolute assurance that such procedures will be effective in identifying or controlling each of the operational risks faced by the Group

Lifting Products and Services

Turnover increased by £17 9 million to £452 1 million (2007 £434 2 million) as a result of a £25 4 million increase in trading, representing a 5 8% increase offset by an unfavourable £7 5 million currency translation effect Operating profit before special items rose to £67 5 million (2007 £57 7 million) as a result of the combination of higher output and continuing improvements in manufacturing productivity, offset by an unfavourable currency translation effect of £1 5 million

Market conditions in the primary markets served by the group remain favourable with oil, gas, mining and recycling and industrial construction activity buoyant in the majority of global markets, although some softening in Canada has been evident with a reaction to high rig rental rates and decreases in the price of natural gas

To ensure improved product availability in line with customer expectation, additional capacity is being installed which will increase output capability, improve productivity and support long term growth trends in major markets The major improvements in manufacturing performance evident in the second half of the last financial year have been maintained and continued investment in lean manufacturing initiatives will continue to increase the manufacturing output capability required to support demand patterns

The group continues to pursue its strategy of geographical expansion and during the period Crosby has invested in additional resources to develop its markets in the Middle East, Russia and North and South Africa Furthermore, plans for establishing machining and assembly centres for blocks and sheaves in China and Europe are well advanced with start up expected early in the next financial year

Sustained high scrap paper and steel scrap prices along with high levels of activity continue to drive excellent performance at Harris, the group's manufacturer of scrap compaction, shearing and shredder equipment, with forecast demand trends for recycled product continuing to be positive

Energy Technology

Turnover increased by £84 8 million to £429 2 million (2007 £344 4 million) as a result of a £77 8 million increase in trading, representing a 22 6% increase and a favourable £7 0 million currency translation effect. Operating profit before special items rose 93% to £46 7 million (2007 £24 2 million) as a result of the higher activity levels

Demand for turbogenerators continues to be driven by the strength of global demand for power generator equipment from utilities, industrial companies and the oil and gas sector Additionally, two significant orders totalling circa £37 1 million have been secured for refurbishment of nuclear power station generators in Eastern Europe

The group's manufacturer of smaller sized generators, Marelli Motori, continues to follow its strategy of focusing on the supply of three core products, alternators, large motors and explosion-proof motors into the key market sectors of marine, hydroelectric, cogeneration and petrochemical Demand continues to respond and order intake rose by 14% compared to the same period last year

The group's specialist Traction refurbishment business has had an outstanding year and successfully completed the delivery of the largest of the two major contracts it secured last year On 12 November the Group acquired the business and assets of Hunslet-Barclay for £2 3 million Hunslet-Barclay specialises in multiple unit and coach refurbishment and the acquisition will allow Brush Traction to offer its customers solutions for both locomotive and coach work whilst providing a strategically important site in Scotland to better serve the Scottish rail industry

Hardware

Turnover for the Hardware group decreased by 7 3% to £166 6 million (2007 £179 7 million) The reduction comprises a £6 3 million trading decrease and £6 8 million adverse exchange translation effect Operating profit before special items decreased sharply to £6 4 million (2007 £16 7 million)

The US housing market, which generates circa 70% of Truth's window hardware sales, continues to decline and official figures indicate that there was a decline of 24% in the financial year compared to the previous year However, the impact of these reductions has been partially offset by continued market share gains which are a result of the combination of design investment, technical excellence, production flexibility, product quality and JIT delivery During the year Truth's revenue per housing start increased by 13%

The group's Hickory operations have had an extremely difficult year, with more disruptions caused by lengthy delays in the integration of business systems which has resulted in significantly higher operating costs in the period These higher operating costs combined with margin pressures as a result of raw material costs increases have resulted in significantly higher losses being incurred in the business

Discontinued Operations

The trading results for FKI Logistex have been disclosed within discontinued operations following the Board's decision to dispose of the Logistex businesses Turnover in the year reduced from £372 6 million to £315 2 million The reduction comprises a £55 8 million trading reduction and £1 6 million adverse exchange translation impact Operating profit before special items of £8 1 million (2007 £14 2 million) was substantially reduced from last year as a consequence of the 15 0% reduction in trading activity

In the year ended 31 March 2007, discontinued operations included Certex SpA Turnover in the year ended 31 March 2007 for Certex SpA amounted to £3 0 million and operating loss before special items was £0 4 million

Special items of £0 5 million (2007 £6 3 million) were incurred in the year, net finance income amounted to £1 4 million (2007 £0 8 million) and taxation charges were £2 4 million (2007 credit £0 2 million) Following the decision to dispose of the Logistex businesses an impairment loss of £314 1 million was recorded as a consequence of writing down the net assets to fair value less costs to sell and in accordance with IFRS has been applied against goodwill Post tax gains on the disposal and closure of businesses of £2 9 million (2007 loss £1 2 million) have been recorded which represent net additional proceeds from prior years' disposals which had previously been anticipated to be irrecoverable

Remuneration report

Composition and Role of the Remuneration Committee

The Remuneration Committee is responsible for formulating executive remuneration policy and for determining the remuneration of the executive directors and certain senior executives

Its members are the non-executive directors as shown in Table 1, together with their attendance at meetings of the Remuneration Committee during 2007/08

Table 1. Remuneration Committee membership and attendance in 2007/08

Committee member	23 May 2007	5 June 2007	22 November 2007	26 March 2008
Mr R I Case (Chairman)	Attended	Attended	Attended	Attended
Sir Michael Hodgkinson	Attended	–	Attended	Attended
Mr C L Matthews	Attended	Attended	Attended	Attended
Mr D J Pearl	Attended	Attended	Attended	Attended

All of the above served on the Remuneration Committee throughout the year, as indicated, in Table 1 All of the non-executive directors including the Company Chairman are considered by the Company to be independent

The Company Chairman attended the Committee by invitation

Mr Heiden is normally invited to attend meetings as an adviser to the Committee He was not present when his own remuneration was being determined During 2007/08 the Committee received information from Mercer Human Resources (TSR monitoring), and Hewitt Associates (remuneration policy and market data) Hewitt also provided administration services to the Group Pension Scheme and Plan Mr Heiden appointed Hewitt Associates as advisers in 2004/05 Mercer Human Resources was appointed by the Remuneration Committee in 1998 During 2006/07 Hewitt Associates was formally appointed as adviser to the Committee Hewitt Associates continued to act as advisers to the Chief Executive Should conflict of interest arise for Hewitt in this dual advisory role, the Chief Executive will appoint his own alternative adviser

Slaughter & May also advised the Committee in the year in relation to the consequences for share-based incentive plans and severance arrangements in the event of a change in control of the Company

Executive remuneration policy

The Remuneration Committee's objectives are to ensure that the Company is able to

- attract, retain and motivate high calibre people, and
- align the interests of the executive directors and senior executives with those of shareholders by rewarding executive directors and certain senior executives according to the overall performance of the individual businesses and Group The Group reviewed its remuneration policy in 2004/05 and introduced many best practices, particularly with regard to annual and long-term incentives

The Group's remuneration policy is

- setting base salaries at the appropriate market median,
- 50% of total remuneration to be variable, for on target performance,
- a balance between short and long term variable remuneration,
- one third of annual incentives paid as deferred shares that can be matched if a ROIC[1] target is achieved,
- long term incentives are a combination of option grants and/or performance shares

Under this policy, on target performance is capable of delivering around 50% of total remuneration in the form of variable remuneration This is achieved through the annual performance related bonus scheme and long-term incentives

(1) ROIC is defined as operating profit adjusted for exceptional items divided by total capital invested in the business

Basic salary and benefits

Basic salary is reviewed annually having regard to market practices for similar executive positions in a comparable group of companies mainly in the engineering sector and supported by information and advice from independent external consultants

A median based salary policy was adopted in 2005 when it was considered that the former "lower-quartile" policy impaired the Company's ability to attract and retain high calibre executives

For most roles the comparator group was the engineering and machinery sector However, for the roles of Chief Executive and Group Finance Director a broader range of comparators, including some outside of the engineering and machinery sector, are used to help determine competitive base salaries Comparative data and information was provided by Hewitt Associates Executive directors also receive additional taxable benefits, namely the provision of a fully expensed company car (or an allowance in lieu thereof), medical insurance and disability insurance and additional life assurance cover where not provided by the pension scheme or plan

Performance appraisal

The Company has a structured performance appraisal process for its executive directors and executive management The outcome from appraisal influences decisions on salary progression and helps to identify individual and collective training and development needs

Annual performance-related bonus schemes

The Company operates an annual performance-related bonus scheme for executive directors and other schemes for certain senior executives

Executive Directors' Bonus Scheme

The Chief Executive and Group Finance Director participate in a bonus scheme based upon budgeted pre-tax profits of the Group Mr Gott, Group Engineering Director/MD FKI Logistex participated in a scheme based partly upon budgeted pre-tax profit of the Group and partly on the profit and operating cash flow of FKI Logistex For 2008/09 Mr Gott's bonus will be based upon pre-tax profits of the Group, as for other executive directors

Mr Gott will receive a transaction incentive if the sale of FKI Logistex is achieved in accordance with the terms agreed by the Board

Management Incentive Compensation Plan

Other senior executives participated in a bonus scheme based upon business unit profit, operating cash flow and achievement of personal objectives For 2008/09 these senior executives will participate in a similar scheme but with the addition of capital employed expressed as a function of sales This change is to incentivise generation and conservation of cash

Executive Management Bonus Scheme

A small group of senior executives in Headquarter roles participate in a bonus scheme based upon Group profit and personal objectives

For executive directors a performance related bonus of 25% of salary is payable for achieving a trigger point of Target profit less 10% budgeted operating profit, after interest but before special items, amortisation and tax The bonus increases on a straight line pro rata basis from 25% to 50% for achieving between the trigger point and 100% of Target profit The bonus may increase further on a straight line pro rata basis from 50% to 100% for achieving 100% of Target profit plus 10% of budgeted operating profit

Following Board approval of reasonable adjustments to Target profit, the Company's external auditors check that the calculation of bonuses for the executive directors adheres to the scheme rules governing such calculations

The rules of the bonus scheme were reviewed in 2007/08 to take account of the ABI's updated guidelines on executive remuneration – policy and practice The rules now make provision for the "claw-back" of bonus if performance is subsequently found to have been significantly mis-stated Participation in the Deferred Bonus Plan was suspended at the time that bonuses were paid in 2007 because an informal offer for the Group created a "closed period" during which shares could not be purchased for executive directors and other senior executives

When the informal offer was withdrawn, executives were invited to participate in the Plan on a voluntary basis for 2007/08

For those taking part in 2007/08, one-third of post-tax cash bonus for executive directors was exchanged for deferred shares If the Company's level of ROIC reaches an average of 10% over the following three years the deferred shares will be matched one-for-one Dividends are paid on deferred shares. This plan is designed to align executive directors' interests more closely with the long-term interests of shareholders and provides a mechanism that encourages executive directors to grow their personal shareholding in the Company A similar scheme exists for a small number of senior executives but with reduced levels of matching Executive directors are now encouraged to accumulate a shareholding of at least one times basic salary over a four year period

The Remuneration Committee has the discretion to consider corporate performance on environmental, social and governance (ESG) issues when setting the remuneration of executive directors The Committee has satisfied itself that ESG risks are not raised by the incentive structure for senior management.

Long-term incentive plan

Long-term incentives were provided through a combination of executive share options and performance shares Each element of the long-term incentive may vest independently of the other Executive directors can be awarded the equivalent of up to two times annual salary in options and up to one times annual salary in performance shares, determined on an individual basis by the Remuneration Committee Details of actual grants can be found in tables on pages 15 to 17

Share options

The practice is to grant options within a period of six weeks following the announcement of the Company's preliminary and/or interim results

The share option element is granted at the average price of FKI plc ordinary shares over five dealing days before the grant date and are normally required to be held for a minimum of three years before they are capable of exercise If options fail to vest at the third anniversary they lapse Options that vest at the third anniversary remain live until the tenth anniversary of granting Options vest against a level of Earnings per Share (EPS) For grants made in 2007 no options vest for an EPS less than RPI + 12% over the three year measurement period For EPS at or greater than RPI + 12%, options vest on a straight-line basis as illustrated in the table below

Earnings per share growth is considered to be an appropriate measure of the Company's underlying performance, as it requires that there should be a demanding improvement in the Company's performance before scheme participants can benefit from an increase in the share price The assessment as to whether performance conditions have been met is calculated by the Secretary to the Remuneration Committee and independently verified by the Remuneration Committee, and, where appropriate, advice is obtained from an external independent firm of Chartered Accountants

Earnings per share is defined as the Company's headline earnings per share, as calculated in accordance with the principles set out in the Statement of Investment Practice No 1 "The Definition of IIMR Headline Earnings" issued by the Institute of Investment Management and Research IIMR Headline earnings are calculated by excluding from the reported results any income statement items of a non-trading or capital nature

Option grants made in 2007/08

RPI + EPS growth over a three year period	Percentage of the option grant that vests
Below RPI + 12%	Nil
RPI + 12%	25
RPI + 15%	50
RPI + 18%	75
RPI + 21%	100

Performance shares

If ordinary shares are acquired by the Company to ultimately satisfy grants that vest, these shares are held in trust. There are two performance conditions for each grant of performance shares Fifty per cent of a grant may vest against Total Shareholder Return (TSR) and the remaining 50% may vest against return on invested capital (ROIC) Performance shares that fail to vest at the third anniversary of grant automatically lapse Accrued dividends are paid on any performance shares that vest.

For performance shares linked to TSR, no shares vest for a TSR performance below the 50th percentile For a TSR performance at or above the 50th percentile performance shares vest on a straight-line basis as illustrated in the table below

FKI plc TSR performance	Percentage of the TSR-related performance shares that vest
Below median	Nil
Equal to the median	30
Equal to or above the 80th percentile	100

For performance shares linked to ROIC, no shares vest for a three-year average ROIC of less than 8% For a three-year average ROIC performance above 8%, performance shares vest on a straight-line basis as illustrated in the table below

Averaged ROIC over a three year performance period	Percentage of the ROIC-related performance shares that vest
Below 8%	Nil
At 8%	40
At 9%	60
At 10%	80
At 11% and above	100

Former long-term incentive plan

All executive options granted from July 1996 onwards may only be exercised subject to a performance condition that the Group's growth in earnings per share, as defined above, must exceed the UK retail price index by 9% or more over a three year period, subject to retesting in subsequent years from a rolling base Retesting was removed from the former executive option scheme for options granted after April 2004

The level of vesting of awards under the former LTIP is determined by performance of the Company's Total Shareholder Return (TSR) against a comparator group of all companies which on the date of grant are constituent companies of the former Engineering and Machinery sector as determined by the FTSE Actuaries Industry Classification Committee The graph below shows the Company's TSR performance compared with that of the comparator group

No awards vest for below median performance and 50% of an award will vest for median performance Full vesting occurs only at upper quartile performance, and 75% of an award will vest for performance above the median but below upper quartile Accrued dividends on vested awards are paid to the executives pending transfer of the shares into the name of the respective participant The performance condition is Total Shareholder Return, as illustrated in the graph below, as this was considered to be the best means of aligning the interests of directors with shareholders by requiring superior total shareholder return

A table giving full details of the directors' options, LTIP shares and performances shares granted under the new and former plans and exercised during the year under review is shown on pages 15 to 17

Total Shareholder Return

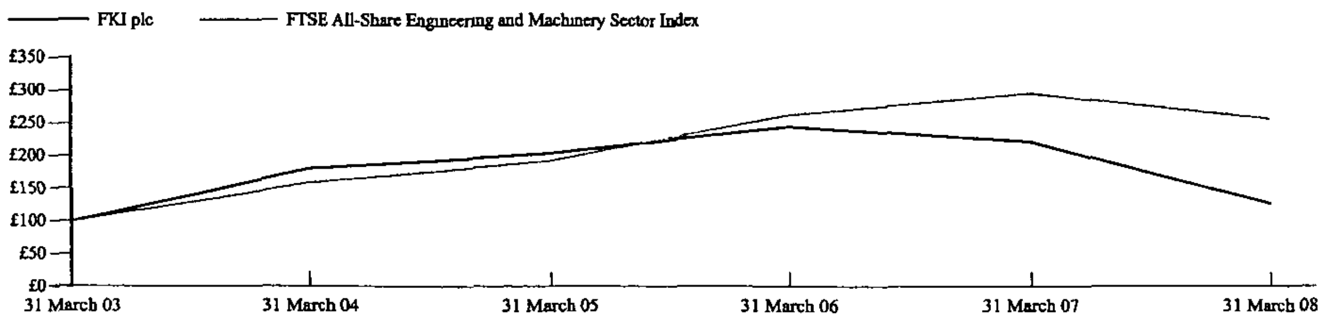

Table 2. TSR monitoring awards peer group 2004/08

AGA Foodservice[6]	Halma[6]	Rotork
Bodycote International	Henlys Group[3]	Senior
Castings	Hill and Smith[2]	Severfield-Rowen
Charter	IMI	Spirax-Sarco
Cookson Group[6]	Kidde[4]	Stanelco[7,9]
Domnick Hunter[5]	Melrose[7]	Tomkins[6]
Enodis	Manganese Bronze Holding[8]	Vitec Group
Fenner	Metalrax Group	Weir Group
FKI	Molins[1]	
Foseco[7,10]	Morgan Crucible[6]	

Notes

(1) Molins dropped out of the Index in December 2004 and has not been included in subsequent peer groups

(2) Hill and Smith entered the peer group in 2004

(3) Henlys Group delisted in July 2004 and have been excluded from the peer groups

(4) Kidde was acquired by United Technologies Corporation in May 2005 and has been excluded from the peer groups

(5) Domnick Hunter was acquired by Parker Hannifin Corporation. Trading ceased in December 2005 Domnick Hunter has been excluded from the peer groups

(6) After the reclassification to the FTSE indices in January 2006 the following companies were reclassified out of the FTSE engineering and machinery index Aga Foodservice Cookson Group Halma Morgan Crucible and Tomkins

(7) Foseco, Melrose and Stanelco were added to the FTSE engineering and machinery index in 2006 so entered the peer group in 2006

(8) Manganese Bronze Holding was added to the FTSE engineering and machinery index in 2007 so entered the peer group in 2007

(9) Stanelco was reclassified out of the FTSE engineering and machinery index during 2007 and was excluded from the peer group in 2007

(10) Foseco was taken over by Cookson Group and delisted on 4 April 2008 Foseco will be excluded from the peer groups going forward.

Inland Revenue Approved Save-As-You-Earn share option scheme

This scheme was approved by shareholders in 1997 and was open to all UK employees who had completed six months' service and who entered into an approved savings contract for a term of three or five years The maximum amount that could be saved was £250 per month, and the total savings (including interest) at the end of the term are available to purchase shares at 80% of their market value shortly before the start of the savings contract Executive directors could participate in this scheme on the same terms as all other employees

No grants of SAYE options were made under the scheme during 2007/08

Recruitment of new directors

Executive directors

The Nominations Committee review and approve a recruitment specification. The Director of Group HR advises the Committee on availability of internal candidates If no internal candidate exists, a recruitment consultant or head-hunter may be engaged depending on the nature of the assignment The Chief Executive selects a shortlist of candidates from those presented by the recruitment consultant A member of the Nominations Committee joins with the Chief Executive to select from the shortlist of candidates The Nominations Committee recommend an appointment and the Remuneration Committee recommends an appropriate remuneration package The Board ratifies the appointment The recruitment process is concluded by the Chief Executive

Non-executive directors

The Nominations Committee agree a recruitment specification The Company Chairman leads the recruitment process that may involve an external search firm The Company Chairman selects a shortlist of candidates for interview with the Chief Executive and Nominations Committee The Nominations Committee then make a recommendation for appointment to the Board

Non-executive Chairman

The Nominations Committee agree a recruitment specification They appoint one of their members to lead the recruitment process A search firm may be engaged to assist with the recruitment process A shortlist of candidates is presented to the Chief Executive who interviews potential candidates, and refines the shortlist The Nominations Committee make the final selection and recommendation to the Board

Service contracts

It is the Company's policy that all executive directors have one-year rolling service contracts with a one-year notice period However, in order to attract high calibre recruits, the Remuneration Committee may exercise its discretion to offer newly recruited executive directors an initial two-year notice period which reduces to one year Save as listed below, there are no express provisions for compensation payable upon early termination of the executive directors' contracts and at the date of termination, other than payments due during the notice period

The standard terms within service agreements were reviewed to ensure they were compliant with ABI revised guidelines published in December 2006 This review has resulted in mitigation being applied with any new service agreements on appointment

In the case of Mr Heiden, in the event of termination of his service contract by an acquiring company after a change of control, there is provision in his service contract for a payment of liquidated damages equivalent to one year's pay and contractual benefits without deduction for mitigation and/or accelerated receipt

The contract dates and notice periods for the executive directors during the year were as follows

Name of director	Date of contract	Notice period
P Heiden	16 December 2002	One year
R L Gott	7 April 2005	One year
N Bamford	2 June 2004	One year

The non-executive directors do not have service contracts The dates of the current non-executive directors' appointments are as follows

Non-executive director	Appointment date	Date of last re-election
Sir Michael Hodgkinson	1 April 2000	1 August 2006
Mr C L Matthews	11 September 2003	24 July 2007
Mr G F Page CBE	1 August 2004	20 July 2005
Mr D J Pearl	27 September 2005	1 August 2006
Mr R I Case CBE	7 February 2006	1 August 2006

Succession planning

In 2004, the Company introduced a succession planning process for its executive directors and senior executive management as part of its risk management process The Remuneration Committee reviewed the 2006 executive succession plan at its meeting in November 2007 and recommended actions to address succession issues in a small number of Group businesses The Executive Committee has continued to manage the development of potential successors The executive development programme continued in 2007 with the help of Ashridge in the UK and Babson College, Boston MA, in the USA A Leadership Development Programme, talent management process and 360 degree appraisal were all introduced in the year to underpin effective succession

Pensions

With the exception of Mr Heiden, executive directors are members of the FKI Group Pension Scheme, a defined benefit scheme with a normal retirement age for directors of 60 years Mr Gott is also a special member of the FKI Group Pension Plan into which four instalments of £45,000 have been paid in lieu of his former Unfunded Unapproved Retirement Benefits Scheme ("UURBS")

The Scheme's main features, in respect of executive directors, are

(a) a cash benefit on death in service of four times annual rate of the highest average basic salary (restricted to the earnings cap where it applies) during any three consecutive years within the ten years before the member's date of death Additional life assurance cover is purchased where necessary to provide death in service benefits relating to salary above the notional earnings cap,

(b) pensions payable in the event of ill health,

(c) pensions for dependants on a member's death generally equal to half the member's prospective retirement pension at 60 on death in service, or half the member's pension entitlement on death in retirement,

(d) member contributions are 7% of basic salary (restricted to the notional earnings cap where it applies)

There are funded unapproved pension arrangements to increase pension benefits where, because of pension scheme limitations (including those resulting from the notional earnings cap), these cannot be paid in total from the FKI Group Pension Scheme Such arrangements apply to Mr Gott.

In lieu of participation in the FKI Group Pension Scheme, Mr Heiden received contributions into a funded unapproved retirement benefit scheme equivalent to 50% of his basic salary Details of this are shown in the table headed "Directors' emoluments" on page 14

Details of the directors' pension benefits during the year under review are shown on page 15

Non-executive directorships

The Company believes that there are significant benefits to the individual and the Company from executive directors accepting non-executive directorships in other organisations

Each executive director may normally accept one non-executive directorship provided that it does not conflict with the Company's interests and is approved by the Board Fees from any external directorship may be retained by the director concerned

Mr Heiden held one non-executive position with United Utilities plc Details of fees received by him in 2007/08 in respect of this position are shown below

United Utilities plc	£52,000	Appointed 5 October 2005

During the year Mr Gott was appointed non-executive director of Filtronic plc Details of fees received by him in 2007/08 in respect of this position are shown below

Filtronic plc	£30,000	Appointed 13 July 2006

Directors' emoluments

Name of director	Basic salary/fees 2008 £000	Basic salary/fees 2007 £000	Taxable benefits[a] 2008 £000	Taxable benefits[a] 2007 £000	Bonus 2008 £000	Bonus 2007 £000	Total 2008 £000	Total 2007 £000	Pension contributions[b] 2008 £000	Pension contributions[b] 2007 £000
Executive directors										
Mr P Heiden	**550**	530	**24**	23	**480**	174	**1,054**	727	**275**	265
Mr N Bamford	**285**	270	**19**	19	**249**	89	**553**	378	–	–
Mr R L Gott	**285**	273	**26**	24	**124**	45	**435**	342	**105**	101
Non-executive directors										
Mr G F Page CBE	**135**	135	–	–	–	–	**135**	135	–	–
Sir Michael Hodgkinson	**38**	37	–	–	–	–	**38**	37	–	–
Mr C L Matthews	**35**	35	–	–	–	–	**35**	35	–	–
Mr D J Pearl	**40**	38	–	–	–	–	**40**	38	–	–
Mr R I Case CBE	**40**	40	–	–	–	–	**40**	40	–	–
Aggregate emoluments	**1,408**	1,358	**69**	66	**853**	308	**2,330**	1,732	**380**	366

(a) Taxable non-cash benefits consist of permanent health insurance company car or car allowances life assurance and private medical insurance

Also Mr Heiden chose to receive a taxable car allowance of £15,000 pa as an alternative to a company car

(b) Company contributions paid in respect of unapproved retirement benefit schemes

Non-executive directors' fees

The fees paid to non-executive directors and the Chairman are determined by the Board after reviewing fee payments for comparable positions within similar organisations, and are normally reviewed every two years The fee structure for non-executive directors includes a basic fee of £35,000 and an additional fee of £5,000 for a committee chairmanship The basic fee for the senior non-executive director is £38,000 The last review was in March 2006

Fees for Mr R I Case are paid to Melchester Associates Ltd at his request

Directors' pension benefits

The under noted directors were members of a defined benefit scheme provided by the Group during the year Mr P Heiden is responsible for his own pension provision Pension entitlements and corresponding transfer values were as follows during the year

Name of director	Increase in accrued pension (excluding inflation) £000	Transfer value of increase in accrued benefit (excluding inflation) less contributions made by directors £000	**Accrued pension at 31 March 2008 £000**	Accrued pension at 31 March 2007 £000	**Transfer value of pension at 31 March 2008 £000**	Transfer value of pension at 31 March 2007 £000	Increase in transfer value less contributions made by directors £000
Mr R L Gott	1 9	26 0	**26.6**	23 8	**347.2**	284 6	54 9
Mr N Bamford	10 4	142 5	**85.9**	72 6	**1,019.7**	796 9	203 7

Note In addition to the accrued pension shown in the table, Mr Gott will receive a fixed pension of £24 400 from age 65 in respect of a transfer value paid into the Scheme The value of this pension is excluded from the transfer values shown.

(1) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year

(2) The increase in accrued pension during the year excludes any increase for inflation.

(3) The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, although no adjustment has been made for any under funding of the Scheme The calculation of each transfer value includes an allowance for the cost of death before retirement benefits

(4) The change in the amount of the transfer value over the year is impacted by the following elements

a the transfer value of the increase in accrued pension (net of inflation),

b the transfer value of the increase in accrued pension (due to inflation),

c the increase in the transfer value of accrued pension at the beginning of the year due to ageing;

d the change to the transfer value basis methodology,

e the impact of any change in the economic or mortality assumptions underlying the transfer value basis,

f the effect of a to e less the director's own contributions over the year

The change in the amount of the transfer value over the year includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stock market movements which are reflected in e and the change in method in d above

(5) Directors have the option to pay Additional Voluntary Contributions However neither the contributions nor the resulting benefits are included in the table

(6) Mr Gott s UK pension scheme benefits are subject to an earnings cap (formerly the Inland Revenue's earnings cap) In addition, Mr Gott is being paid a supplement of 37% pa of salary (plus an extra £45,000 pa until April 2008) to provide further pension benefits on a defined contribution basis

Directors' share options

	Date of grant	At 1 April 2007	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2008	Exercise price per share Pence	Date exercisable from	Expiry date
P Heiden									
Executive share option	06/01/03	1,022,727	–	–	–	**1,022,727**	88 00	06/01/06	06/01/13
Executive share option	02/02/04	772,532	–	–	–	**772,532**	116 50	02/02/07	02/02/14
Executive share option	26/08/05	850,024	–	–	–	**850,024**	103 35	26/08/08	26/08/15
Executive share option	02/08/06	944,982	–	–	–	**944,982**	98 15	02/08/09	02/08/16
Executive share option	14/08/07	–	1,007,326	–	–	**1,007,326**	95 55	14/08/10	14/08/17
Savings related option	01/11/04	9,592	–	–	–	**9,592**	98 25	n/a	n/a

Directors' share options (continued)

	Date of grant	At 1 April 2007	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2008	Exercise price per share Pence	Date exercisable from	Expiry date
N Bamford									
Executive share option	04/12/01	36,140	–	–	–	**36,140**	186 75	04/12/04	04/12/11
Executive share option	08/07/02	48,214	–	–	–	**48,214**	140 00	08/07/05	08/07/12
Executive share option	06/06/03	141,234	–	–	–	**141,234**	77 00	06/06/06	06/06/13
Executive share option	11/06/04	250,000	–	–	(250,000)	–	115 75	11/06/07	11/06/14
Executive share option	26/08/05	333,817	–	–	–	**333,817**	103 35	26/08/08	26/08/15
Executive share option	02/08/06	412,633	–	–	–	**412,633**	98 15	02/08/09	02/08/16
Executive share option	14/08/07	–	447,410	–	–	**447,410**	95 55	14/08/10	14/08/17
Savings related option	23/07/03	26,541	–	–	–	**26,541**	60 00	n/a	n/a
R L Gott									
Executive share option	22/07/97	50,000	–	–	(50,000)	–	166 00	22/07/00	22/07/07
Executive share option	09/12/97	50,000	–	–	(50,000)	–	182 50	09/12/00	09/12/07
Executive share option	09/08/99	30,000	–	–	–	**30,000**	218 00	09/08/02	09/08/09
Executive share option	04/12/01	35,340	–	–	–	**35,340**	186 75	04/12/04	04/12/11
Executive share option	08/07/02	125,000	–	–	–	**125,000**	140 00	08/07/05	08/07/12
Executive share option	06/06/03	409,091	–	–	–	**409,091**	77 00	06/06/06	06/06/13
Executive share option	11/06/04	300,000	–	–	(300,000)	–	115 75	11/06/07	11/06/14
Executive share option	26/08/05	373,004	–	–	–	**373,004**	103 35	26/08/08	26/08/15
Executive share option	02/08/06	417,218	–	–	–	**417,218**	98 15	02/08/09	02/08/16
Executive share option	14/08/07	–	447,410	–	–	**447,410**	95 55	14/08/10	14/08/17

Notes

(1) All executive share options granted in 2007 were granted under the rules of the 2005 LTIP approved by shareholders in July 2005 and were at nil cost to the director concerned

(2) The market price of an ordinary share on 31 March 2008 was 69 75p (2007 116 25p) and the range during the year was 47p to 140p

(3) All executive share options granted in 1997 and subsequent years are exercisable from the dates stated above, subject to them satisfying the performance conditions stated in the policy section.

(4) Executive Share Options granted in June 2004 under the former scheme were not subject to retesting.

Directors' LTIPs

Date of award	Shares allocated at 1 April 2007	Shares allocated during year	Shares vested during year	Shares lapsed during year (Note 1)	Shares transferred during year	Value of award at date of grant £	Shares allocated at 31 March 2008	Performance period end date	Earliest date for transfer	Market value (Note 2) £	Cash awarded in lieu of dividends £
P Heiden											
11/06/04	292,095	–	–	(292,095)	–	338,100	–	n/a	n/a	n/a	–
26/08/05	485,728	–	–	–	–	510,014	**485,728**	26/08/08	26/08/08	338,795	–
02/08/06	539,989	–	–	–	–	529,999	**539,989**	02/08/09	02/08/09	376,642	–
14/08/07	–	575,614	–	–	–	550,000	**575,614**	14/08/10	14/08/10	401,490	–
N Bamford											
11/06/04	120,950	–	–	(120,950)	–	140,000	–	n/a	n/a	n/a	–
26/08/05	222,545	–	–	–	–	233,672	**222,545**	26/08/08	26/08/08	155,225	–
02/08/06	275,089	–	–	–	–	270,000	**275,089**	02/08/09	02/08/09	191,875	–
14/08/07	–	298,272	–	–	–	285,000	**298,272**	14/08/10	14/08/10	208,044	–
R L Gott											
11/06/04	151,188	–	–	(151,188)	–	175,000	–	n/a	n/a	n/a	–
26/08/05	248,670	–	–	–	–	261,102	**248,670**	26/08/08	26/08/08	173,447	–
02/08/06	278,145	–	–	–	–	272,999	**278,145**	02/08/09	02/08/09	194,006	–
14/08/07	–	298,272	–	–	–	285,000	**298,272**	14/08/10	14/08/10	208,044	–

The price of an ordinary share on 14 August 2007, being the date that awards were made during the year was 98 00p The awards are subject to the performance conditions for LTIP awards, as outlined in the policy section

Notes

(1) The Company's Total Shareholder Return performance for the three-year performance period that ended in March 2008 ranked below median compared against its comparator group Under the terms of the rules applicable to the 2004 awards 100% of the awards lapsed

(2) The market value of shares as yet unvested is stated at 69 75p per share, being the closing mid-market price on 31 March 2008 If the ranking position of the award made in 2005 were to be maintained until the end of the respective performance period, the awards granted in 2005 would lapse

Directors' beneficial interests in ordinary shares of FKI plc

Name of director	As at 31 March 2008 Ordinary shares	As at 1 April 2007 or subsequent date of appointment Ordinary shares
G F Page	**60,000**	60,000
N Bamford[1]	**134,474**	115,440
R L Gott[1]	**92,383**	67,016
P Heiden[1]	**347,209**	297,209
Sir Michael Hodgkinson	**5,370**	5,370
C L Matthews	**16,338**	–
D J Pearl	**–**	–
R I Case	**10,000**	10,000

(1) The beneficial interests for executive directors includes invested shares purchased from their deferred bonus in 2007 which are being held in trust

Any ordinary shares required to fulfil entitlements under the current or former LTIP are provided by the FKI Employee Benefit Trusts As beneficiaries under the Employee Benefit Trusts, the directors are deemed to be interested in the some of the shares held by the Employee Benefit Trusts which, at 31 March 2008, amounted to 1,860,779 FKI plc ordinary shares

Auditable information

The information in the Remuneration report subject to audit is that included in the tables and related notes in the section on directors' emoluments, directors' LTIPs, directors' share options and directors' pension benefits

By order of the Board

Antonio Ventrella

ANTONIO VENTRELLA Secretary

30 June 2008

Independent auditors' report to the members of FKI plc

We have audited the Group financial statements of FKI plc for the year ended 31 March 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes 1 to 43 These financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent Company financial statements of FKI plc for the year ended 31 March 2008

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements The information given in the Directors' report includes that specific information presented in the Operating and financial review that is cross referred from the Business review section of the Directors' report

In addition we report to you if, in our opinion, the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited Group financial statements This other information comprises only the Directors' report, the Directors' remuneration report and the Operating and financial review We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed

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

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the Group financial statements

Ernst & Young LLP Registered auditor
London

Ernst & Young LLP.

1 July 2008

Consolidated income statement

For the year ended 31 March 2008

	Note	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
CONTINUING OPERATIONS			
Revenue	4	1,047.9	958 3
Cost of sales		(785.3)	(716 9)
Gross profit		262.6	241 4
Operating expenses	6	(149.7)	(155 0)
Operating profit before special items	5	112.9	86 4
Loss on sale of operations	10	(1.2)	(2 7)
Reorganisation, closures and impairments	11	(7.2)	(5 8)
Profit on sale of property		1.5	5 3
Strategic review and approach costs		(3.5)	–
Melrose takeover costs		(10.1)	–
Profit from continuing operations before taxation and finance costs		92 4	83 2
Share of post tax results of associates and joint ventures		0.1	0 2
Finance costs	12	(38.7)	(36 1)
Finance income	12	3.9	9 3
Profit before taxation from continuing operations		57 7	56 6
Taxation	13		
– UK		–	0 4
– Overseas		(19.2)	(17 7)
		(19.2)	(17 3)
Profit for the year from continuing operations		38 5	39 3
DISCONTINUED OPERATIONS			
(Loss)/profit for the year from discontinued operations	14	(304.6)	7 3
(Loss)/profit for the year	7	(266.1)	46 6
Attributable to			
Equity holders of the parent		(266 5)	46 4
Minority interest		0.4	0 2
		(266 1)	46 6
Earnings per share	16	Pence	Pence
Basic earnings per ordinary share			
– continuing operations		6.5	6 7
– discontinued operations		(51.9)	1 2
		(45.4)	7 9
Diluted earnings per ordinary share			
– continuing operations		6.5	6 7
– discontinued operations		(51.8)	1 2
		(45.3)	7 9

Consolidated balance sheet

As at 31 March 2008

	Note	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Assets			
Non-current assets			
Property, plant and equipment	17	**210.5**	226 1
Goodwill	18	**30.8**	375 1
Intangible assets	19	**2.8**	1 6
Investments in associates and joint ventures	20	**1.1**	0 7
Other receivables	23	**0.4**	5 0
Deferred tax assets	31	**9.7**	46 6
Pension and other post-retirement benefit assets	33	**12.0**	9 6
Derivative financial assets	28	**74.7**	48 4
		342.0	713 1
Current assets			
Inventories	21	**190.9**	191 8
Trade and other receivables	23	**249.9**	326 0
Cash and short-term deposits	24	**129.2**	125 5
Current tax recoverable		**2.0**	0 3
Derivative financial assets	28	**3.7**	3 2
		575.7	646 8
Assets classified as held for sale	30	**232.2**	–
Total assets		**1,149.9**	1,359 9
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	27	**(552.3)**	(462 5)
Trade and other payables	26	**(4.6)**	(5 7)
Provisions	29	**(19.5)**	(21 0)
Deferred tax liabilities	31	**(34.1)**	(35 1)
Pension and other post-retirement benefit obligations	33	**(31.2)**	(118 4)
Derivative financial liabilities	28	**(34.4)**	(19 6)
		(676 1)	(662 3)
Current liabilities			
Interest bearing loans and borrowings	27	**(1.1)**	(23 4)
Trade and other payables	25	**(277.9)**	(350 4)
Provisions	29	**(5.7)**	(7 0)
Corporation tax and overseas tax		**(39.2)**	(35 4)
Derivative financial liabilities	28	**(1.7)**	(1 5)
		(325 6)	(417 7)
Liabilities directly associated with assets classified as held for sale	30	**(103.6)**	–
Total liabilities		**(1,105.3)**	(1,080 0)
Net assets		**44.6**	279 9

Consolidated balance sheet (continued)

As at 31 March 2008

	Note	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Equity			
Share capital	34,36	**58.8**	58 8
Share premium account	36	**159.2**	159 1
Capital redemption reserve	36	**2.0**	2 0
Own shares	36	**(2.4)**	(2 4)
Share-based payments accrual	36	**3.5**	3 6
Exchange reserve	36	**15.8**	(9 7)
Hedging reserve	36	**1.0**	1 0
Retained earnings	36	**(194 9)**	66 3
Equity attributable to equity holders of the parent		**43.0**	278 7
Minority interest	36	**1.6**	1 2
Total equity	36	**44.6**	279 9

These financial statements were approved by the Board of Directors on 1 July 2008 and signed on its behalf by

P Heiden – Director

N Bamford – Director

Consolidated cash flow statement

For the year ended 31 March 2008

	Note	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Operating activities			
Cash flow from operating activities	38	**68 8**	38 6
Interest paid		**(43 2)**	(41 1)
Interest received		**4.0**	4 6
Taxation paid		**(15.5)**	(16.2)
Net cash inflow/(outflow) from operating activities		**14.1**	(14 1)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(36.1)**	(33 6)
Purchase of intangible assets		**(1 9)**	(0 7)
Proceeds from sale of property, plant and equipment		**15.3**	20 3
Acquisition of businesses net of cash acquired		**(2.3)**	(6 0)
Taxation paid relating to disposal of businesses in prior years'		**–**	(19 6)
Proceeds from disposal of businesses		**13 7**	8 4
Net cash disposed with businesses		**(0.3)**	–
Payment of deferred purchase consideration		**–**	(0 4)
Investment in joint venture		**(0.5)**	–
Net cash (outflow)/inflow from investing activities		**(12.1)**	(31 6)
Cash flows from financing activities			
Received from cross-currency swaps		**35.8**	–
Dividends paid		**(26.4)**	(26 3)
Repayment of loans		**(77.5)**	(43 2)
New loans		**81.2**	16 9
Proceeds from issue of share capital		**0.1**	3 1
Net cash inflow/(outflow) from financing activities		13.2	(49 5)
Net increase/(decrease) in cash and cash equivalents		15.2	(95 2)
Cash and cash equivalents at beginning of the year		125.3	235 7
		140.5	140 5
Effect of foreign exchange rate changes		**7.9**	(15 2)
Cash and cash equivalents at the end of the year	24	**148.4**	125 3

Consolidated statement of recognised income and expense

For the year ended 31 March 2008

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
(Loss)/profit for the year	**(266 1)**	46 6
(Expenses)/income not recognised in the income statement		
Actuarial gain/(loss) on defined benefit pensions and other post-retirement benefits	**55.5**	21 8
Taxation on actuarial gain/(loss) on defined benefit pensions and other post-retirement benefits	**(24.8)**	(13 5)
Currency translation differences arising in the year	**25.5**	(16 3)
Net gains/(losses) on cash flow hedges	**–**	1 6
Taxation on net gains/(losses) on cash flow hedges	–	(0 4)
Total recognised income and expense for the year	**(209.9)**	39 8
Attributable to		
Equity holders of the parent	**(210.3)**	39 6
Minority interest	**0.4**	0 2
	(209.9)	39 8

Notes to the consolidated financial statements

1) General information

FKI plc is a public limited company incorporated and domiciled in England and Wales The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group")

The financial statements are presented in sterling and all values are rounded to the nearest hundred thousand pounds except where otherwise indicated

2) Statement of compliance

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union and applied in accordance with the provisions of the Companies Act 1985

The Group has adopted IFRS 7 "Financial instruments Disclosure" and the amendment to IAS 1 "Presentation of financial statements" which are mandatory for years ending on or after 31 December 2007 This has resulted in additional disclosures but no impact on reported profit or net assets

The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP and these are presented in a separate section of this report on pages 81 to 98

3) Significant accounting policies

(a) Basis of preparation

The policies set out below have been consistently applied

The financial statements for the year ended 31 March 2008 have been prepared on the historic cost basis except for derivative financial instruments, financial instruments held for trading and available for sale financial assets which have been measured at fair value The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less estimated costs to sell

The disclosures of continuing operations and discontinued operations for the comparative year have been restated in these financial statements to reflect the disposal group held for sale as discontinued operations This is in accordance with IFRS 5

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of FKI plc and its subsidiaries as at 31 March each year, together with the Group's share of the results of associates and joint ventures using consistent accounting policies

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

The results of companies acquired or disposed of during the year are included from or up to the date on which control is transferred to or out of the Group respectively

(c) Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures on an equity accounted basis, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate or joint venture

3) Significant accounting policies (continued)

(d) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair values were determined

Exchange gains and losses arising on foreign currency borrowings that provide a hedge against a net investment in a foreign entity are taken directly to reserves to the extent that they can be offset against the exchange differences arising on the equity investments

On consolidation, the assets and liabilities, including goodwill and fair value adjustments, of overseas subsidiary and associated undertakings and joint ventures are translated into Sterling at the rates of exchange ruling at the balance sheet date The income and cash flows of overseas subsidiary and associated undertakings and joint ventures are translated into Sterling at average rates of exchange prevailing during the year, with the year end adjustment to closing rates being taken to equity Differences on exchange arising from the re-translation at year end rates of the net investment in overseas subsidiary and associated undertakings and joint ventures at the beginning of the year are taken to equity All other exchange differences are dealt with in the determination of profit for the financial year

Exchange adjustments arising from the translation of the net investment in foreign operations and of related hedges are taken to translation reserves in equity On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of the profit or loss on disposal The Group has adopted the exemption allowing these cumulative translation differences to be reset to zero at the transition date (1 April 2004) to IFRS

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for any impairment in value Depreciation is calculated on all assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their estimated useful lives as follows

Freehold buildings	50 years
Long leasehold property	50 years
Short leasehold property	over the lease term
Plant and machinery – heavy production	15 years
– other	10 years
Office equipment	5 to 10 years
Motor vehicles	3 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds, less costs of disposal, and the carrying amount of the asset and is recognised in the income statement

3) Significant accounting policies (continued)

(f) Goodwill

Goodwill on business acquisitions is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities Following initial recognition, goodwill is measured at cost less any accumulated impairment losses

Goodwill on acquisitions after 31 March 2004 is not amortised and goodwill arising on acquisition before the date of transition to IFRS (which is 1 April 2004), is not amortised after that date Goodwill existing at the date of transition to IFRS has been retained at the previous UK GAAP amounts as the Group has elected not to restate business combinations that occurred before the date of transition to IFRS

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired

Negative goodwill arising on any acquisition is recognised directly in the income statement

(g) Intangible assets

(i) Research and development costs

Research costs are expensed as incurred Development expenditure incurred on an individual project is capitalised when its future recoverability can reasonably be regarded as assured Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses Any expenditure capitalised is amortised over the lesser of the useful life of the project or three years

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses

Intangible assets including those arising from a business combination are amortised over their remaining useful lives

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset, unless such lives are indefinite The estimated useful lives are as follows

Computer software – 3 years

(h) Non-current assets and disposal groups held for sale

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

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

(i) Leases

Assets obtained under leases and hire purchase contracts which result in the transfer to the Group of substantially all the risks and rewards of ownership (finance leases) are capitalised at the estimated present value of underlying lease payments and are depreciated over their expected useful lives The capital elements of future lease obligations are recorded as liabilities whilst the finance elements of the rental payments are charged to the income statement over the period of the lease or hire purchase contract so as to produce a constant rate of charge on the outstanding balance of the net obligation in each period

Rentals paid under other leases (operating leases) are charged to the income statement on a straight-line basis over the lease term

3) Significant accounting policies (continued)

(j) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired

Recoverable amount is the higher of fair value, less costs to sell, and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money, and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which cash the reversal of the impairment loss is treated as a revaluation increase

An impairment loss in respect of goodwill is not reversed

(k) Inventories

Inventories are stated at the lower of cost, on a first-in first-out basis, and net realisable value after making due allowance for any obsolete or slow moving inventory Cost comprises direct materials and labour and an appropriate proportion of manufacturing overheads, based on normal levels of activity

Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale

(l) Construction contracts

Revenue and costs are recognised by reference to the stage of completion of the contract Stage of completion is determined by the costs incurred to date to the extent that such costs represent progress made on the project Cost comprises direct materials and labour and an appropriate proportion of manufacturing overheads based on normal levels of activity

The Group presents as an asset the gross amount due from construction contract customers, for all contracts in progress for which costs incurred plus recognised profits less provisions for foreseeable losses exceeds progress billings Progress billings not yet paid by customers and retentions are included within trade and other receivables

The Group presents as a liability the gross amount due to construction contract customers for all contracts in progress for which progress billings exceed costs incurred plus recognised profits, less recognised foreseeable losses

(m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

3) Significant accounting policies (continued)

(n) Pensions and other post-retirement benefits

(i) Defined contribution pension schemes

Pension costs for the Group's defined contribution pension schemes are recognised within operating profit at an amount equal to the contributions payable to the scheme for the period Any prepaid or outstanding contributions at the balance sheet date are recognised respectively as assets or liabilities within prepayments or accruals

(ii) Defined benefit pension schemes and other post-retirement benefits

Pension liabilities are measured at their present value in accordance with actuarial assumptions that are updated at each balance sheet date Pension assets are measured at fair value The pension liability or asset is recognised in the balance sheet

Pension costs for the Group's defined benefit pension schemes and other post-retirement benefits are recognised as follows

(a) Within operating profit

- The current service cost arising from employee service in the current period,
- The prior service cost related to employee service in prior periods arising in the current period as a result of improvements to benefits,
- Gains and losses arising on unanticipated settlements or curtailments where the item that gave rise to the settlement or curtailment is recognised within operating profit

(b) Within other finance cost or income

- The interest cost on the liabilities, calculated by reference to the scheme liabilities and discount rate at the beginning of the period,
- The expected return on assets, calculated by reference to the assets and their long-term expected rate of return at the beginning of the period,

(c) Within the statement of recognised income and expense

- On the scheme assets – the difference between the expected and actual return on assets,
- On the scheme liabilities – (a) the differences between the actuarial assumptions and actual experience, and (b) the effect of changes in actuarial assumptions

(o) Share-based payment transactions

Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions")

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted The fair value is determined by an external valuation In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of FKI plc ("market conditions")

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date") The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards at that date based on the best available estimate of the number of equity instruments that will ultimately vest

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification

3) Significant accounting policies (continued)

(o) Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share

The Group has an employee share incentive plan and an employee share trust for the granting of non-transferable options to executives and senior employees Shares in the Group held by the employee share trust are presented in the balance sheet as a deduction from equity

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004

(p) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes

Sales of goods are recognised when the significant risks and rewards of ownership have passed to the buyer

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts

Revenue from services rendered is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided Revenue from services provided on a short-term basis is recognised when the service is complete

Interest income is recognised as the interest accrues, (using the effective interest method that discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established

(q) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financial and investment activities The Group does not use derivative financial instruments for speculative purposes

Derivative financial instruments are recognised initially at cost Subsequent to initial recognition they are stated at fair value The gain or loss on remeasurement to fair value is recognised immediately in profit or loss However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged

The fair value of forward foreign exchange contracts is determined by reference to current forward exchange rates for contracts with similar maturity profiles The fair value of interest rate and cross currency swap contracts is determined by reference to the present value of the estimated future cash flows

For the purpose of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction

In relation to fair value hedges (eg interest rate swaps) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement Any gain or loss on the hedged item attributable to the hedged risk is recognised as an adjustment to the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity

3) Significant accounting policies (continued)

(q) Derivative financial instruments and hedge accounting (continued)

In relation to cash flow hedges to hedge the exposure to variability in cash flows and which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly to equity and the ineffective portion is recognised in net profit or loss

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability For cash flow hedges that do not result in the recognition of an asset or a liability, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year

(r) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid, or recovered, using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised, using the liability method, on all temporary differences, subject to the exceptions noted below, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred tax in respect of taxable or deductible temporary differences associated with investments in subsidiaries is not recognised where the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future or in the case of assets, taxable profit will be unavailable against which the temporary differences, can be utilised

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carried forward unused tax assets and unused tax losses can be utilised

Deferred tax is measured at the tax rates that are expected to apply in the periods in which it is anticipated that the asset will be realised or the liability will be settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

(s) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and the costs of acquisition

After initial recognition, investments which are classified as held for trading or available for sale, are measured at fair value Gains or losses on investments held for trading are recognised in income Gains or losses on available for sale investments are recognised as a separate component of equity until the investment is sold or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement

Investments classified as held to maturity are subsequently measured at amortised cost using the effective interest method Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired

The fair values of quoted investments are determined by reference to current bid prices For investments for which there is no quoted market price, fair value is determined by reference either to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment

3) Significant accounting policies (continued)

(t) Interest bearing loans and borrowings

All loans and borrowing are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a major qualifying asset, are capitalised as part of the cost of the asset if the costs are significant and a significant period of time is required to complete the asset Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation

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

(v) Standards and interpretations not yet applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements which are mandatory for the Group's accounting periods beginning on or after 1 April 2008 or later periods but which the Group has not early adopted The effective date quoted below relates to the annual period beginning on or after·

International Accounting Standards (IAS/IFRSs)

	Effective date
IFRS 8 Operating segments	1 January 2009
Amendment to IAS 23 Borrowing costs	1 January 2009
Amendment to IAS 1 Presentation of financial statements	1 January 2009
Amendment to IFRS 2 Share-based payments – vesting conditions and cancellations	1 January 2009
Amendment to IAS 32 and IAS 1 Financial instruments presentation and puttable financial instruments	1 January 2009
IFRS 3 (revised 2008) Business combinations	1 July 2009
IAS 27 (revised 2008) Consolidated and separate financial statements	1 July 2009
IAS 28 (revised 2008) Investments in associates	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)

	Effective date
IFRIC 12 Service concession arrangements	1 January 2008
IFRIC 13 Customer loyalty programmes	1 July 2008
IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the periods of initial application commencing on or after 1 April 2008 except for IFRS 3 should the Group undertake material acquisitions in the future One of the key features of the revised IFRS 3 is a requirement for acquisition related costs to be expensed to the income statement and not be included in the purchase price

3) Significant accounting policies (continued)

(w) Key sources of estimation uncertainty

In applying the above accounting policies, management has made appropriate estimates and judgements in a number of areas The key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are

Post-retirement benefits

The determination of the pension and other post-retirement benefits cost and obligation is based on assumptions determined with independent actuarial advice The assumptions include discount rate, inflation, pension and salary increases, expected return on scheme assets, mortality and other demographic assumptions

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated The value in use calculation requires an estimate of the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value

Deferred income tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised In particular, significant judgement is used when assessing the extent to which deferred tax assets should be recognised which is dependent on the generation of sufficient future taxable profits The Group recognises deferred tax assets where it is more likely than not that the benefit will be realised

4) Revenue

Revenue of continuing operations disclosed in the income statement is analysed as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Sale of goods	**969.2**	881 5
Rendering of services	**31.3**	23 7
Construction contracts	**47.4**	53 1
	1,047.9	958 3

5) Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided Secondary segment information is reported geographically

For management purposes the Group is organised into three continuing business segments

Lifting Products and Services has a capability in design, manufacture, distribution and servicing of lifting and other equipment for customers in the industrial, mining, energy, construction, marine and fishing markets

Energy Technology is a supplier of electrical plant and systems to a wide variety of customers in industry, power generation and oil and gas supply

Hardware has extensive capability in the design, manufacture and distribution of window and door hardware, furniture hardware, ergonomic equipment and castors for original equipment manufacturers, distributors and retailers

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties Segment revenue and operating profit includes trading between business segments which are eliminated on consolidation Inter segment sales are not material in relation to total Group revenue

Business segments

An analysis of revenue, operating profit before special items from continuing operations and certain assets and liabilities information by business segment is given below

The contribution from acquisitions for the year ended 31 March 2008 was revenue of £1 8 million and operating loss of £(0 7) million The acquisition related to Energy Technology For the year ended 31 March 2007 the contribution from acquisitions which related to Energy Technology was revenue of £14 5 million and operating profit of £2 6 million

(a) Revenue

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Lifting Products and Services	**452.1**	434 2
Energy Technology	**429.2**	344 4
Hardware	**166.6**	179 7
Continuing operations	**1,047.9**	958 3
Discontinued operations	**315.2**	375 6
Total operations	**1,363.1**	1,333 9

5) Segment information (continued)

(b) Operating profit before special items

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Lifting Products and Services	**67.5**	57 7
Energy Technology	**46.7**	24 2
Hardware	**6.4**	16 7
Unallocated corporate costs	**(7.7)**	(12 2)
Operating profit before special items from continuing operations	**112.9**	86 4
Loss on sale of operations	**(1.2)**	(2 7)
Reorganisation, closures and impairments	**(7.2)**	(5 8)
Profit on sale of property	**1.5**	5 3
Strategic review and approach costs	**(3.5)**	–
Melrose takeover costs	**(10.1)**	–
Profit from continuing operations before taxation and finance costs	**92.4**	83 2
Share of post tax results of associates and joint ventures	**0.1**	0 2
Net finance (costs)/income	**(34.8)**	(26 8)
Taxation	**(19.2)**	(17 3)
Discontinued operations	**(304.6)**	7 3
(Loss)/profit for the year	**(266.1)**	46 6

The share of post-tax results of associates and joint ventures in both the years ended 31 March 2008 and 31 March 2007 relate to Energy Technology

In the year ended 31 March 2008 reorganisation, closures and impairments of continuing operations were incurred in Energy Technology of £4 0 million, Hardware of £2 7 million and Lifting Products and Services of £0 5 million In the year ended 31 March 2007 such costs were incurred in Hardware of £5 8 million

Profits on sale of property arose in the year ended 31 March 2008 in Corporate of £3 2 million offset by losses on sale in Hardware of £1 7 million In the year ended 31 March 2007 profits on the sale of property arose in Corporate of £5 3 million

The loss on sale of operations in the year ended 31 March 2008 was incurred in Energy Technology of £2 0 million and Lifting Products and Services of £0 1 million offset by a credit of £0 9 million in Corporate relating to prior years' disposals In the year ended 31 March 2007 the loss on sale of operations was incurred in Lifting Products and Services of £2 4 million and Hardware of £1 4 million offset by a credit of £1 1 million in Corporate relating to prior years' disposals

Strategic review and approach costs and Melrose takeover costs arose in Corporate in the year ended 31 March 2008

5) Segment information (continued)

(c) Segment assets and liabilities

	Year ended 31 March 2008 Assets £m	Year ended 31 March 2008 Liabilities £m	Year ended 31 March 2007 Assets £m	Year ended 31 March 2007 Liabilities £m
Lifting Products and Services	**226.3**	**(78.7)**	229 4	(78 7)
Energy Technology	**335.4**	**(138.0)**	266 9	(105 1)
Hardware	**121.3**	**(21.8)**	111 6	(26 2)
Reporting continuing segments	**683.0**	**(238.5)**	607 9	(210 0)
Corporate	**1.5**	**(55.9)**	6 8	(52 0)
Discontinued including held for sale	**202.0**	**(101.8)**	510 4	(116 5)
	886.5	**(396.2)**	1,125 1	(378 5)

The investment in associates and joint ventures in both the years ended 31 March 2008 and 31 March 2007 related to Energy Technology

(d) Other segment information

An analysis of total additions to tangible fixed assets and intangible fixed assets ("capital expenditure") and depreciation of tangible fixed assets and amortisation of intangible assets ("depreciation") is provided below

	Year ended 31 March 2008 Capital expenditure £m	Year ended 31 March 2008 Depreciation £m	Year ended 31 March 2007 Capital expenditure £m	Year ended 31 March 2007 Depreciation £m
Lifting Products and Services	**10.6**	**9.0**	11 8	9 7
Energy Technology	**15.4**	**6.2**	8 2	6 0
Hardware	**7.0**	**5.3**	7 8	5 5
Reporting continuing segments	**33 0**	**20.5**	27 8	21 2
Corporate	**1.4**	**0 6**	0 5	0 7
Discontinued operations	**3.4**	**3.9**	4 3	4 0
	37.8	**25 0**	32 6	25 9

5) Segment information (continued)

Geographical segments

The following tables present revenue, segment assets and capital expenditure on tangible fixed assets and intangible assets by geographical segment

Sales to external customers are based on the geographical location of customers Segment assets and capital expenditure are determined by the location of the Group's assets

Geographical analysis of revenue, assets and capital expenditure includes amounts classified as discontinued/held for sale

(a) Revenue by geographical location of customer

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
United Kingdom	**216.2**	183 7
Rest of Europe	**290.7**	311 4
North America	**634.8**	683 6
Rest of the World	**221.4**	155 2
	1,363.1	1,333 9

(b) Segment assets and total capital expenditure on tangible and intangible fixed assets

	Year ended 31 March 2008 Segment Assets £m	Year ended 31 March 2008 Capital expenditure £m	Year ended 31 March 2007 Segment Assets £m	Year ended 31 March 2007 Capital expenditure £m
United Kingdom	**220.9**	**6 7**	246 4	6 8
Rest of Europe	**314.2**	**17.0**	306 4	8 3
North America	**310.4**	**13.3**	538 9	15 0
Rest of the World	**41.0**	**0.8**	33 4	2 5
	886.5	**37.8**	1,125 1	32 6

Reconciliation of segment operating assets to total assets and segment operating liabilities to total liabilities

	Year ended 31 March 2008 Assets £m	Year ended 31 March 2008 Liabilities £m	Year ended 31 March 2007 Assets £m	Year ended 31 March 2007 Liabilities £m
Segment assets/(liabilities)	**886.5**	**(396.2)**	1,125 1	(378 5)
Investments in associates and joint ventures	**1.1**	**–**	0 7	–
Non operating deferred income	**–**	**(0.5)**	–	(0 1)
Corporation tax and overseas tax	**2.1**	**(40.6)**	0 3	(35 4)
Deferred tax	**16.7**	**(34 1)**	46 6	(35 1)
Interest receivable/(payable)	**0 9**	**(5.6)**	0 5	(5 5)
Pension and other post-retirement benefits	**12.0**	**(34 9)**	9 6	(118 4)
Cash and short-term deposits	**148.4**	**–**	125 5	–
Derivative financial assets/(liabilities)	**82.2**	**(36.4)**	51 6	(21 1)
Interest bearing loans and borrowings	**–**	**(557.0)**	–	(485 9)
Total assets/(liabilities)	**1,149.9**	**(1,105.3)**	1,359 9	(1,080 0)

The investment in associates and joint ventures in both years ended 31 March 2008 and 31 March 2007 related to segment assets in Energy Technology

6) Operating expenses – continuing operations

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Distribution and sales costs	**81.6**	82.9
Administrative costs	**68.1**	72.1
	149.7	155.0

7) (Loss)/profit for the year

This is stated after charging

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Research and development expense	**4.1**	4.7
Depreciation of property, plant and equipment	**24.3**	25.0
Amortisation of intangible assets	**0.7**	0.9
Operating lease rentals	**11.3**	12.1

8) Auditors' remuneration

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Audit of the Company annual financial statements	**0.4**	0.5
Audit of the Company's subsidiaries – pursuant to legislation	**1.1**	1.3
	1.5	1.8
Other services – audit of the Group pension schemes	**0.1**	0.1
– taxation services	**0.1**	0.1
– other	**0.4**	0.3
	0.6	0.5

All fees payable to the Company's auditors have been charged to the income statement, except for those in relation to associated pension schemes which are borne by the respective schemes

9) Staff costs

The average number of persons (including directors) employed by the Group in each of the following categories during the year was

	Year ended 31 March 2008 Number	Year ended 31 March 2007 Number
Production	**9,885**	9,558
Distribution and sales	**1,189**	1,179
Administration and management	**1,292**	1,398
	12,366	12,135

Their aggregate remuneration comprised

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Wages and salaries	**303.8**	299 0
Social security and other allied costs	**36.0**	34.7
Pensions costs – defined benefit	**10.2**	10 5
– defined contribution	**8.2**	8 3
Other post-retirement benefits	**(3.4)**	–
	354.8	352 5

Further information relating to pensions and other post-retirement benefits are included in note 33

The remuneration of the Directors is disclosed in the Remuneration report

10) Loss on sale of operations – continuing

The pre-tax loss on sale of operations can be analysed as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Loss before tax	**1.9**	3 2
Exchange previously written off against reserves	**0.2**	0 6
Relating to prior years' disposals	**(0 9)**	(1 1)
	1.2	2 7

The operations sold in the year ended 31 March 2008 were Froude Hofmann of Energy Technology and Bridon Stocksbridge of Lifting Products and Services In the year ended 31 March 2007 the operations sold comprised the chain manufacturing businesses in the US and UK and the distribution activities of Certex Equatorial Guinea which were part of Lifting Products and Services In addition, part of Wright Products was sold which was a part of Hardware

11) Reorganisation, closures and impairments – continuing operations

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Reorganisation and closure costs	**7.2**	5 8

The reorganisation costs in the year ended 31 March 2008 relate to the closure and rationalisation of certain continuing operations within Energy Technology of £4 0 million, Hardware of £2 7 million and Lifting Products and Services of £0 5 million The £5 8 million costs in the year ended 31 March 2007 relate to the closure and rationalisation of certain continuing operations within Hardware

12) Finance (costs)/income – continuing operations

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Interest payable on		
– bank loans and overdrafts	**(5.4)**	(3 3)
– other loans	**(29.7)**	(28 0)
– finance lease charges	**(0.4)**	(0 2)
Net finance costs on pension schemes and other post-retirement benefits	**–**	(3 4)
Foreign exchange losses	**(0.3)**	(1 2)
Fair value losses on financial instruments	**(2.9)**	–
Total finance costs	**(38.7)**	(36 1)
Interest receivable	**3.9**	4 2
Fair value gains on financial instruments	**–**	5 1
Total finance income	**3.9**	9 3

13) Taxation

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Current tax – UK	**6.4**	5 1
Double taxation relief	**(6.4)**	(5 1)
Current tax – overseas	**17 2**	13 5
Adjustments in respect of prior years		
– UK	**–**	(0 4)
– overseas	**(0.2)**	(0 6)
Total current taxation	**17 0**	12 5
Deferred tax – overseas	**2.2**	4 8
Total taxation on continuing operations	**19.2**	17 3

13) Taxation (continued)

The tax charge above includes the following with regard to reorganisations, closures and impairments and profit/(loss) on sale of properties and loss on sale of operations classified as special items within continuing profit.

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
(Credit)/charge	(0.6)	(1 4)

In addition to the amounts charged to the income statement, deferred tax on actuarial gains and losses on defined benefit pensions and other post-retirement benefits of £24 8 million (2007 charge of £13 5 million) and copper commodity and foreign currency hedging of £nil million (2007 charge of £0 4 million) have been charged to equity

Translation differences on long-term foreign currency loans have been taken to reserves together with a tax credit thereon of £nil (2007 £nil)

The tax expense in the income statement for the year is higher (2007 lower) than the standard rate of corporation tax in the UK of 30% (2007 30%) as explained below·

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Profit from continuing operations before taxation	57.7	56 6
Profit/(loss) before taxation from discontinued operations	9.0	8 3
Profit/(loss) before taxation on disposal of discontinued operations	(311.2)	(1 2)
	(244.5)	63 7
Taxation on above at the UK corporation tax rate of 30% (2007 30%)	(73.4)	19 1
Effects of		
– non deductible expenses – impairment loss on disposal group held for sale	94.2	–
– non deductible expenses – other	2.4	1 3
– (lower)/higher tax rates on overseas earnings	(1.5)	(2 1)
– adjustment to tax charge in respect of prior years	(0.1)	(1 2)
Total tax charge for the year	21.6	17 1

The total tax charge for the year is analysed as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Taxation on continuing operations	19.2	17 3
Taxation on results of discontinued operations in the current year	2.4	(0 2)
Taxation on the gain/(loss) on disposal and closure of businesses included in discontinued operations	–	–
Taxation on impairment loss on disposal group held for sale	–	–
	21.6	17 1

14) Discontinued operations

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Post tax profits/(losses) of discontinued operations	6.6	8 5
Impairment loss on disposal group held for sale	(314.1)	–
Post tax gain/(loss) on disposal of discontinued operations	2.9	(1 2)
	(304.6)	7 3

The post tax gain on disposal in the year ended 31 March 2008 relates to prior years' disposals

In March 2008 the Board decided to dispose of the Group's Logistex businesses and negotiations have taken place with an interested party These operations, which are expected to be sold within 12 months, have been classified as a disposal group held for sale and are presented separately in the balance sheet. The trading results are included in discontinued operations The impairment loss relates to the write down of the net assets to fair value less costs to sell and in accordance with IFRS has been applied against goodwill

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

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Revenue	315.2	375 6
Cost of sales	(261.0)	(310 4)
Operating expenses	(46.1)	(51 4)
Operating profit before special items	8.1	13 8
Reorganisation, closures and impairments	(0.5)	(6 2)
(Loss)/profit on sale of property	–	(0 1)
Profit before taxation and finance costs	7.6	7 5
Finance costs	(1 1)	(0 7)
Finance income	2.5	1 5
Profit before taxation	9 0	8 3
Taxation – overseas	(2 4)	0 2
Profit after taxation	6.6	8 5

Finance income includes fair value gains on financial instruments in the year ended 31 March 2008 of £2 0 million (2007 £0 9 million)

The post tax gain/(loss) on the disposal and closure of businesses can be analysed as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Gain/(loss) before taxation	2.9	(1 2)
Taxation	–	–
Exchange previously written off against reserves	–	–
	2.9	(1 2)

14) Discontinued operations (continued)

The net cash flows attributable to the trading activities of discontinued operations are as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Operating cash inflow/(outflow)	**6.7**	(2 7)
Investing cash inflow/(outflow)	**(3.5)**	(3 6)
Financing cash inflow/(outflow)	-	-
Net cash inflow/(outflow)	**3.2**	(6 3)

An analysis by classes of assets and liabilities comprising the businesses classified as held for sale are as follows

Assets

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Property, plant and equipment	**31.1**	–
Goodwill	**356.3**	–
Other intangibles	**0.1**	–
Inventories	**19.6**	–
Trade and other receivables	**109.1**	–
Cash and short-term deposits	**19.2**	–
Derivative financial assets	**3.8**	–
Current tax recoverable	**0.1**	–
Deferred tax	**7.0**	–
	546.3	–
Write down of net assets to fair value which will be applied against goodwill in accordance with IFRS	**(314.1)**	–
Assets classified as held for sale	**232.2**	–

Liabilities

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Non-current		
Interest bearing loans and borrowings	**0.9**	–
Pension and other post-retirement benefit obligations	**3.7**	–
Current		
Interest bearing loans and borrowings	**2.7**	–
Trade and other payables	**94.6**	–
Corporation tax and overseas tax	**1.4**	–
Derivative financial liabilities	**0.3**	–
Liabilities directly associated with assets classified as held for sale	**103.6**	–

15) Dividends

The amounts recognised as distributions to equity holders in the period were

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Final dividend for the year ended 31 March 2007 of 3p (2006 3p) per ordinary share	**17.6**	17 5
Interim dividend for the year ended 31 March 2008 of 1 5p (2007 1 5p) per ordinary share	**8 8**	8 8
	26.4	26 3

The proposed final dividend is subject to approval of the Scheme of Arrangement by the court and in accordance with IFRS has not been included as a liability as at 31 March 2008 This proposed final dividend will be paid on or before 15 July 2008 to ordinary shareholders on the register at 27 June 2008

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Proposed final dividend for the year ended 31 March 2008 of 3p (2007 3p) per ordinary share	**17.6**	17 6

16) Earnings per share

The basic, diluted and adjusted earnings per share are set out below

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Basic earnings per ordinary share		
– continuing operations	**6.5**	6 7
– discontinued operations	**(51.9)**	1 2
	(45.4)	7 9
Diluted earnings per ordinary share		
– continuing operations	**6.5**	6 7
– discontinued operations	**(51.8)**	1 2
	(45.3)	7 9
Adjusted earnings per ordinary share	**11.3**	8 7
Diluted adjusted earnings per ordinary share	**11.3**	8 7

Basic earnings per ordinary share and diluted earnings per ordinary share are calculated by dividing the profit attributable to the equity holders of the Company for the year by respectively the basic weighted ordinary shares in issue during the year or diluted weighted average ordinary shares in issue during the year

Adjusted earnings per share, which provides a better understanding of the underlying performance of the Group, is calculated by dividing the operating profit/(loss) for the year before special items (profit/(loss) on sale of businesses, reorganisations, closures and impairments, profit/(loss) for the year on property sales, strategic review and approach costs and Melrose takeover costs), profit/(loss) on disposal of discontinued operations, fair value gains/(losses) on financial instruments and exchange gains/(losses) included within finance costs and income and taxation related to those items by the weighted average number of shares in issue during the year The profit/(loss) for the year until disposal, or classification as group held for sale, of discontinued operations is included as part of the profit for the year Profit attributable to minority interest is excluded from this calculation

16) Earnings per share (continued)

The calculation of the basic, diluted and adjusted earnings per share is based on the following

(a) Earnings

	Year ended 31 March 2008 £m	Year ended 31 March 2008 pence	Year ended 31 March 2007 £m	Year ended 31 March 2007 Pence
(Loss)/profit attributable to the equity holders of the Company for the year				
– continuing operations	**38.1**	**6.5**	39 1	6 7
– discontinued operations	**(304 6)**	**(51.9)**	7 3	1 2
– Total operations	**(266.5)**	**(45.4)**	46 4	7 9
Adjustments				
– Fair value gains/(losses) on financial instruments included in net finance costs				
– continuing	**2.9**	**0.5**	(5 1)	(0 9)
– discontinued	**(2 0)**	**(0.3)**	(0 9)	(0 2)
– Foreign exchange losses included in net finance costs	**0.3**	**0.1**	1 2	0 2
Add back special items				
– continuing – loss on sale of businesses	**1.2**	**0.2**	2 7	0 5
– continuing – reorganisations, closures and impairments	**7.2**	**1.2**	5 8	1 0
– continuing – profit on sale of property	**(1.5)**	**(0.3)**	(5 3)	(0 9)
– continuing – strategic review and approach costs	**3.5**	**0.6**	–	–
– continuing – Melrose takeover costs	**10.1**	**1.7**	–	–
– discontinued – reorganisations, closures and impairments	**0.5**	**0.1**	6 2	1 1
– discontinued – (profit)/loss on sale of property	**–**	**–**	0 1	–
– tax on special items	**(0.6)**	**(0.1)**	(1 4)	(0 2)
Discontinued loss/(profit) on disposal of businesses including tax	**(2 9)**	**(0.5)**	1 2	0 2
Discontinued impairment loss on disposal group held for sale	**314.1**	**53.5**	–	–
Adjusted earnings for the year	**66.3**	**11.3**	50 9	8 7

(b) Number of shares

	Year ended 31 March 2008 Number 000s	Year ended 31 March 2007 Number 000s
Weighted average number of ordinary shares for the purposes of basic and adjusted earnings per share	**586,721**	583,559
Effect of dilution on exercise of outstanding share options	**1,447**	2,045
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**588,168**	585,604

The weighted average number of shares in issue excludes shares held in trust under the Long Term Incentive Plan until such time as they vest unconditionally

17) Property, plant and equipment

	Freehold property £m	Long leasehold property £m	Short leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost:					
At 1 April 2006	195 9	11 7	5 5	512 9	726 0
Exchange adjustments	(12 2)	(0 3)	(0 1)	(32 2)	(44 8)
Acquisition of subsidiaries	–	–	–	0 2	0 2
Disposal of subsidiaries	(1 9)	–	–	(25 9)	(27 8)
Additions	3 5	0 3	–	28 1	31 9
Disposals	(9 6)	(1 4)	(0 2)	(31 7)	(42 9)
At 31 March 2007	175 7	10 3	5 2	451 4	642 6
Exchange adjustments	9 8	1 5	0 1	18 4	29 8
Acquisition of subsidiaries	1 5	–	–	0 3	1 8
Disposal of subsidiaries	–	–	–	(11 6)	(11 6)
Transferred to assets held for sale	(26 5)	–	–	(44 0)	(70 5)
Additions	5 6	0 2	–	30 1	35 9
Disposals	(29 2)	(0 2)	(0 3)	(39 1)	(68 8)
At 31 March 2008	**136.9**	**11.8**	**5.0**	**405.5**	**559.2**
Depreciation and impairment					
At 1 April 2006	(67 0)	(1 3)	(3 8)	(406 5)	(478 6)
Exchange adjustments	5 7	–	0 1	26 1	31 9
Disposal of subsidiaries	0 6	–	–	23 1	23 7
Charge for the year	(3 6)	(0 2)	(0 1)	(21 1)	(25 0)
Disposals	2 3	0 3	0 1	30 9	33 6
Impairment	(0 6)	–	–	(1 5)	(2 1)
At 31 March 2007	(62 6)	(1 2)	(3 7)	(349 0)	(416 5)
Exchange adjustments	(1 9)	(0 1)	–	(10 2)	(12 2)
Disposal of subsidiaries	–	–	–	10 4	10 4
Transferred to assets held for sale	6 7	–	–	32 7	39 4
Charge for the year	(3 3)	(0 2)	(0 1)	(20 7)	(24 3)
Disposals	17 6	–	0 3	36 9	54 8
Impairment	–	–	–	(0 3)	(0 3)
At 31 March 2008	**(43.5)**	**(1.5)**	**(3.5)**	**(300.2)**	**(348.7)**
Net book value at 31 March 2008	**93.4**	**10.3**	**1.5**	**105.3**	**210.5**
Net book value at 31 March 2007	113 1	9 1	1 5	102 4	226 1

The impairment in the year ended 31 March 2008 and in the year ended 31 March 2007 relates to the closure and restructuring of certain continuing operations and the associated write down of certain property, plant and equipment This charge is included in special items as part of the £7 2 million reorganisation and closure costs

The net book value of the Group's property, plant and equipment includes £8 7 million (2007 £7 6 million) in respect of assets held under finance leases and hire purchase contracts

17) Property, plant and equipment (continued)

An analysis of the cost of freehold property between land and buildings is shown below

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Land	**33.4**	35 4
Buildings	**103.5**	140 3
Cost	**136.9**	175 7

18) Goodwill

	Total £m
Cost	
At 1 April 2006	407 5
Exchange adjustments	(37 3)
Acquisition of subsidiaries	4 9
At 31 March 2007	375 1
Exchange adjustments	11 4
Acquisition of subsidiaries	0 6
Transferred to assets held for sale	(356 3)
At 31 March 2008	**30 8**
Impairment losses	
At 1 April 2007, 31 March 2008 and 31 March 2007	–
Net book value at 31 March 2008	**30.8**
Net book value at 31 March 2007	375 1

Goodwill acquired in a business combination is allocated to cash-generating units A summary of the net book value of goodwill by business segment is as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Lifting Products and Services	**4.4**	3 9
Energy Technology	**6.9**	6 0
Hardware	**19.5**	19 5
Continuing operations	**30.8**	29 4
FKI Logistex – classified as a disposal group held for sale in the year ended 31 March 2008	–	345 7
	30.8	375 1

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired In assessing whether goodwill has been impaired, the Group compares the carrying value (net assets plus goodwill) of the cash-generating units ("CGU") with their recoverable amounts In all cases the recoverable amounts have been determined to be the CGUs' value in use and not their fair value, less costs to sell Value in use is derived from the most recent financial plans for the next three years approved by the Board and extrapolated cash flows thereafter The key assumptions are the risk adjusted discount rate, the long-term growth rate and expected changes to selling prices and direct costs which are based on past experience, expectations of future changes in the market, inflation and the benefits of identified productivity and cost saving initiatives The applied pre-tax discount rate, based on a risk adjusted Group weighted average cost of capital (WACC), is 10 8% for all CGUs (2007 8 9% except for FKI Logistex where 11% was applied) The applied long-term growth rates of 1 25% – 2 5% (2007 1 5% – 3%) are within the range of external industry growth rates

19) Intangible assets

	Computer Software £m
Cost	
At 1 April 2006	13.2
Exchange adjustments	(0.5)
Additions	0.7
Disposals	(1.0)
At 31 March 2007	12.4
Exchange adjustments	0.9
Additions	1.9
Transferred to assets held for sale	(3.7)
Disposals	(0.2)
Disposal of subsidiaries	(0.6)
At 31 March 2008	**10.7**
Amortisation	
At 1 April 2006	(11.1)
Exchange adjustments	0.4
Disposals	0.8
Amortisation for the year	(0.9)
At 31 March 2007	(10.8)
Exchange adjustments	(0.7)
Transferred to assets held for sale	3.6
Disposals	0.1
Amortisation for the year	(0.7)
Disposal of subsidiaries	0.6
At 31 March 2008	**(7.9)**
Net book value at 31 March 2008	**2.8**
Net book value at 31 March 2007	1.6

20) Investment in associates and joint ventures

The Group has a 26% interest in Mediterranean Power Electric Company Limited which manufactures electrical distribution switchgear in Malta

During the year the Group set up Brush Transformers Gulf LLC as a joint venture At 31 March 2008 the Group owned 49% of Brush Transformers Gulf LLC

	Associate £m	Joint venture £m	Total £m
At 1 April 2007	0 7	–	0 7
Investment in year	–	0 5	0 5
Share of post tax profits/(losses)	0 4	(0 3)	0 1
Dividends	(0 2)	–	(0 2)
At 31 March 2008	**0.9**	**0.2**	**1.1**
At 1 April 2006	0 7	–	0 7
Share of post tax profits	0 2	–	0 2
Dividends	(0 2)	–	(0 2)
At 31 March 2007	0 7	–	0 7

21) Inventories

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Raw materials and consumables	**53.3**	57 2
Work in progress	**58.9**	75 7
Finished goods	**88.6**	81 8
	200.8	214 7
Payments on account	**(9.9)**	(22 9)
	190.9	191 8
Write down of inventories	**3.6**	2 4
Reversal of write down of inventories	–	(0 2)

22) Construction contracts

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses to date	**75.4**	641 7
Less progress billings	**(27.5)**	(583 3)
	47.9	58 4
Amounts due from construction contract customers included in trade and other receivables	**53.3**	84 2
Amounts due to construction contract customers included in trade and other payables	**(5 4)**	(25 8)
	47.9	58 4

23) Trade and other receivables

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Current assets		
Trade receivables	**177 9**	214 4
Due from construction contract customers (note 22)	**53.3**	84 2
Other receivables	**5.7**	14 3
Prepayments and accrued income	**13.0**	13 1
	249 9	326 0
Non current assets		
Other receivables	**0.4**	5 0

Set out below is an ageing analysis of trade receivables and the impairment provision The figures for March 2008 include net receivables of £53 0 million classified as held for sale and £177 9 million classified as current assets on the face of the balance sheet

	Year ended 31 March 2008 Gross £m	Year ended 31 March 2008 Impairment £m	Year ended 31 March 2007 Gross £m	Year ended 31 March 2007 Impairment £m
Not past due	**171.0**	**–**	161 6	–
Up to 90 days past due	**53.3**	**(0.4)**	47 6	(0 8)
Over 90 days past due	**14.3**	**(7.3)**	12 0	(6 0)
	238.6	**(7.7)**	221 2	(6 8)

Movements in the provision for the impairment of trade receivables were as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Balance at beginning of year	**6.8**	7 3
Exchange adjustments	**0.2**	(0 4)
Additional provision in the year – income statement	**2.1**	1 0
Provision reversed – income statement	**(0.4)**	(0 3)
Provision utilised	**(0.9)**	(0 8)
Disposal of subsidiaries	**(0.1)**	–
Balance at end of year	**7.7**	6 8

24) Cash and short-term deposits

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Cash at bank and in hand	**123.7**	73 3
Short-term deposits	**5.5**	52 2
	129.2	125 5

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Cash at bank and in hand	**123 7**	73 3
Short-term deposits	**5.5**	52 2
Bank overdrafts	**–**	(0 2)
	129 2	125 3
Cash and short-term deposits net of overdrafts included within assets and liabilities held for sale	**19.2**	–
	148 4	125 3

The Group's Guernsey based captive insurance company is required to maintain a level of assets in support of the insurance business underwritten on behalf of the Group At 31 March 2008 this amounted to £26 3 million (2007 £30 0 million) of cash and short-term deposits Until such time as alternative arrangements are in place the £26 3 million remains assigned to the captive insurance company

25) Trade and other payables – current

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Trade payables	**157.4**	211 3
Payments received on account	**11.5**	4 8
Amounts due to construction contract customers (note 22)	**5.4**	25 8
Other payables	**41 5**	37 0
Other taxes and social security	**5.9**	11 8
Accruals and deferred income	**56.2**	59.7
	277.9	350 4

26) Trade and other payables – non-current

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Other payables	**2 4**	3 0
Accruals and deferred income	**2.2**	2 7
	4.6	5 7

27) Interest bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings Details of the Group's exposure to interest rate, foreign currency liquidity risk are included in note 28

	Non-current		Current		Total	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Euro 600 million guaranteed Eurobond	**485 8**	417 2	–	–	**485.8**	417 2
Guaranteed bank borrowings	**24 5**	–	–	12 7	**24.5**	12 7
Guaranteed US private placement loan notes	**40.2**	40 8	–	8 9	**40.2**	49 7
Bank loans and overdrafts	**0.8**	0 5	**1.2**	1 0	**2.0**	1 5
Other borrowings	**0 9**	0 9	–	–	**0.9**	0 9
Obligations under finance leases	**1.0**	3 1	**2.6**	0 8	**3.6**	3 9
	553.2	462 5	**3 8**	23 4	**557.0**	485 9

The above table includes interest bearing loans and borrowings classified as held for sale as follows

	Non-current		Current		Total	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Liabilities on the face of the balance sheet	**552.3**	462 5	**1.1**	23 4	**553.4**	485 9
Liabilities classified as held for sale	**0.9**	–	**2.7**	–	**3.6**	–
	553.2	462 5	**3.8**	23 4	**557.0**	485 9

The Euro 600 million guaranteed Eurobond matures on 22 February 2010 and bears interest at 6 625% Costs incurred in issuing these bonds are amortised over the 10 year life of the bond The remaining unamortised issue costs at 31 March 2008 are £1 3 million (2007 £1 7 million) The Company has transacted a number of cross-currency swaps and interest rate swaps to synthetically alter the currency and interest rate obligations of Euro 576 million out of the Euro 600 million obligation These cross-currency and interest rate swaps are reported as derivative financial instruments

The Eurobond issue is guaranteed by FKI Engineering Limited (formerly named FKI Engineering PLC) and FKI Industries Inc At 31 March 2008 FKI Engineering Limited, whose accounts have been prepared under UK GAAP, had gross assets of £1,859 5 million (2007 £1,684 2 million), net assets of £1,146 4 million (2007 £1,207 0 million) and a profit after tax of £139 4 million for the year then ended (2007 £68 9 million) At 31 March 2008 FKI Industries Inc , whose unaudited special purpose financial statements had been prepared under US GAAP, had gross assets of US Dollar 381 1 million (2007 US Dollar 447 5 million), net liabilities of US Dollar 173 2 million (2007 US Dollar 166 0 million) and net profit of US Dollar 11 2 million for the year then ended (2007 US Dollar 23 7 million) FKI plc has represented that it will continue to provide any necessary funding and liquidity to enable FKI Industries Inc to satisfy its obligations, including repayment of third party borrowings

At 31 March 2008 the guaranteed bank borrowings of US Dollar 50 0 million (2007 US Dollar 25 0 million) were drawn under the Company's £120 0 million multi-currency revolving credit facility In May 2008 the maturity on this facility was extended from 1 April 2009 to 2 December 2009 The Company's subsidiaries, FKI Engineering Limited and FKI Industries Inc , act as guarantors to this facility Drawdowns under this new facility bear interest at LIBOR plus a margin of 1 5% rising to 1 75% with effect from 19 June 2008, 2 00% with effect from 1 October 2008 and 2 25% with effect from 2 April 2009

27) Interest bearing loans and borrowings (continued)

The US Dollar 80 0 million (2007 US Dollar 97 5 million) guaranteed US private placement loan notes are issued by the Company's subsidiary FKI Industries Inc and are guaranteed by the Company and its subsidiary FKI Engineering Limited The interest rates and maturities on these loan notes are shown below None of this outstanding US Dollar debt has been swapped (2007 US Dollar 17 5 million swapped into fixed rate Euro)

	2008 £m	2007 £m
US Dollar 17 5 million 7 1% loan notes maturing 10 October 2007	–	8 9
US Dollar 25 million 7 37% loan notes maturing 1 April 2011	**12.6**	12 7
US Dollar 55 million 7 75% loan notes maturing 1 April 2016	**27.6**	28 1
As at 31 March	**40.2**	49 7

Bank loans and overdrafts are at floating interest rates Certain of the Company's bank overdrafts are netted off against cash for Group purposes in accordance with the right of set-off contained in the banking agreements Other loans amounting to £1 7 million (2007 £1 3 million) are secured by fixed and floating charges on a subsidiary Company's assets

	2008			2007		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
The borrowings are repayable as follows:						
On demand or within one year	–	**(3.8)**	**(3.8)**	(8 9)	(14 5)	(23 4)
In the second year	**(42.9)**	**(467.3)**	**(510 2)**	–	(2 3)	(2 3)
In the third year	**(1.0)**	**(0.1)**	**(1.1)**	(44 4)	(373 7)	(418 1)
In the fourth year	**(12.6)**	**(0.7)**	**(13.3)**	–	(0 1)	(0 1)
In the fifth year	–	–	–	(12 8)	(0 1)	(12 9)
After five years	**(28.6)**	–	**(28.6)**	(28 9)	(0 2)	(29 1)
	(85.1)	**(471.9)**	**(557.0)**	(95 0)	(390 9)	(485 9)
Less repayable within one year	–	**3.8**	**3.8**	8 9	14 5	23 4
Amount repayable in more than one year	**(85.1)**	**(468.1)**	**(553.2)**	(86 1)	(376 4)	(462 5)

28) Derivative financial instruments

	31 March 2008			31 March 2007		
	Derivative financial assets £m	Derivative financial liabilities £m	Net derivative financial instruments £m	Derivative financial assets £m	Derivative financial liabilities £m	Net derivative financial instruments £m
Derivative financial instruments – non-current						
Cash flow hedges	3.2	(0.1)	3.1	–	(0 4)	(0 4)
Fair value hedges	52 2	(2.9)	49.3	–	(13 9)	(13 9)
Net investment hedges	19.1	(31.4)	(12.3)	47 2	(5 3)	41 9
Other hedges	0.2	–	0.2	1 2	–	1 2
	74.7	(34 4)	40.3	48 4	(19 6)	28 8
Derivative financial instruments – current						
Cash flow hedges	4.7	(0.5)	4.2	1 7	–	1 7
Net investment hedges	–	–	–	0 2	–	0 2
Other hedges	2.8	(1 5)	1.3	1 3	(1 5)	(0 2)
	7.5	(2.0)	5.5	3 2	(1 5)	1 7
	82.2	(36.4)	45.8	51 6	(21 1)	30 5

The above table includes derivative financial instruments classified as assets and liabilities held for sale as follows

	31 March 2008			31 March 2007		
	Derivative financial assets £m	Derivative financial liabilities £m	Net derivative financial instruments £m	Derivative financial assets £m	Derivative financial liabilities £m	Net derivative financial instruments £m
Non-current assets/(liabilities) on the face of the balance sheet	74.7	(34.4)	40.3	48 4	(19 6)	28 8
Current assets/(liabilities) on the face of the balance sheet	3 7	(1.7)	2.0	3 2	(1 5)	1 7
Assets/(liabilities) classified as held for sale	3.8	(0.3)	3.5	–	–	–
	82.2	(36.4)	45.8	51 6	(21 1)	30 5

Cash flow hedges

At 31 March 2008 the Company held two cross-currency swaps that were designated as cash flow hedges These swaps hedge the cash flow variability arising on movements in the Euro Sterling exchange rate and protect Euro 30 million of the Euro 600 million Eurobond The terms of the contracts are

	Currency	Principal	Maturity	Interest rate
Cross-currency swaps				
FKI pays	Sterling	20 7 million	22 February 2010	8% fixed, payable semi-annually
FKI receives	Euro	30 0 million	22 February 2010	6 625% fixed, receivable annually

There have been no changes in the above swaps during the course of the year

28) Derivative financial instruments (continued)

At 31 March 2008 the Company held a number of copper swap contracts that were designated as cash flow hedges These swap contracts lock the Company into fixed copper prices to protect against fluctuations in the market price of copper The terms of these contracts are

	Commodity	Total quantity	Maturity	Pricing
Commodity swaps				
FKI pays	Copper	3,200 tonnes	April 2008 to March 2009	Month-end settlements at fixed price of US Dollar 6,680 per tonne
FKI receives	Copper	3,200 tonnes	April 2008 to March 2009	Month-end settlements at the average LME price for each month

During the course of the year the Company took out the above contracts to replenish maturing hedge contracts which, at 31 March 2007, stood at 2,550 tonnes purchased at fixed prices averaging US Dollar 5,773 per tonne

At 31 March 2008 the Company held a number of forward foreign exchange contracts to hedge against the risk of exchange rate fluctuations Those foreign exchange forward contracts that were accounted for as cash flow hedges are set out below

	Currency	Principal	Maturity	Exchange rate
Forward foreign exchange contracts				
FKI pays FKI receives	US Dollar Sterling	43 0 million 21 9 million	Various dates between April 2008 and April 2009	Various US Dollar Sterling exchange rates ranging from 1 93 to 2 01
FKI pays FKI receives	Canadian Dollar Sterling	3 5 million 1 7 million	June 2008	Canadian Dollar Sterling exchange rate of 2 02
FKI pays FKI receives	Sterling Czech Koruna	15 3 million 502 3 million	Various dates between August 2008 and November 2008	Various Czech Koruna Sterling exchange rates ranging from 31 58 to 34 39
FKI pays FKI receives	Euro Sterling	9.0 million 6 2 million	Various dates between May 2008 and August 2008	Various Sterling Euro exchange rates ranging from 0 6859 to 0 6885
FKI pays FKI receives	US Dollar Danish Krone	41 5 million 218 0 million	Various dates between April 2008 and April 2009	Various US Dollar Danish Krone exchange rates ranging from 4 71 to 5 43

During the course of the year the Company took out a number of new forward foreign exchange contracts and settled maturing contracts used to hedge foreign currency denominated transactions

The Company also holds a number of other forward foreign exchange contracts which are not designated as cash flow hedges These contracts are used to hedge foreign currency denominated transactions Changes in the fair value of these contracts are booked to profit or loss

28) Derivative financial instruments (continued)

Fair value hedges

At 31 March 2008 the Company held a number of cross-currency swaps and interest rate swaps that were designated as fair value hedges These swaps hedge against changes in interest rates affecting the fair value of Euro 544 million of the Euro 600 million fixed rate Eurobond The terms of the contracts are

	Currency	Principal	Maturity	Interest rate
Cross-currency swaps				
FKI pays	Sterling	41 4 million	22 February 2010	3 month LIBOR plus 3%, payable quarterly
FKI receives	Euro	60 0 million	22 February 2010	6 625% fixed, receivable annually
FKI pays	Sterling	293 9 million	22 February 2010	6 month LIBOR plus 3%, payable semi-annually
FKI receives	Euro	426 0 million	22 February 2010	6 625% fixed, receivable annually
Interest rate swaps				
FKI pays	Euro	58 0 million	22 February 2010	3 month EURIBOR plus 3 46%, payable quarterly
FKI receives	Euro	58 0 million	22 February 2010	6 625% fixed, receivable annually

The above interest rate swaps leave a residual Euro 58 million exposure which the Company has designated as an effective net investment hedge of its investments in the Eurozone

There have been no changes in the above swaps during the course of the year

Net investment hedges

At 31 March 2008 the Company held a number of cross-currency swaps that were designated as net investment hedges of investments in non-Sterling subsidiary companies These swaps protect against changes in exchange rates affecting the Sterling value of subsidiaries that are located in the United States, Canada, Denmark and the Eurozone The terms of the contracts are

	Currency	Principal	Maturity	Interest rate
Cross-currency swaps – US Dollars				
FKI pays	US Dollar	435 7 million	22 February 2010	3–6 months LIBOR plus 2 55% to 4 49%
FKI receives	Sterling	224 9 million	22 February 2010	3–6 months LIBOR plus 3%
FKI pays	US Dollar	29 4 million	22 February 2010	8 51% fixed, payable semi-annually
FKI receives	Sterling	20 7 million	22 February 2010	8% fixed, receivable semi-annually
Cross-currency swaps – Canadian Dollars				
FKI pays	Canadian Dollar	45 1 million	22 February 2010	3 month CAD BA rate plus 3 65%
FKI receives	Sterling	19 3 million	22 February 2010	3 month LIBOR plus 3%
Cross-currency swaps – Danish Krone				
FKI pays	Danish Krone	981 4 million	22 February 2010	6 month CIBOR plus 3 54%
FKI receives	Sterling	91 1 million	22 February 2010	6 month LIBOR plus 3%

There have been no changes in the above swaps during the course of the year, other than i) the maturity of a cross currency swap under which the Company paid 7 21% fixed on Euro 15 0 million and received Sterling 8% fixed on Sterling 10 4 million and ii) an increase of US Dollar 72 5 million in swap principal

28) Derivative financial instruments (continued)

The Company also holds a number of other interest rate swaps that do not qualify for hedge accounting under IAS 39 These LIBOR-in-arrears swaps reduce the Company's exposure to floating US Dollar interest rates, on a total of US Dollar 133 7 million principal, through a combination of interest rate caps and spreading of reference dates for interest rate resets Changes in the fair value of these swaps are booked to profit or loss There have been no changes in these swaps during the year

Financial risk management

(a) Fair value of financial instruments

Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's-length transaction between informed and willing parties and is calculated by reference to market prices discounted to current value Where market values are not available, fair values have been calculated by discounting cash flows at prevailing rates translated at year end exchange rates

	2008		2007	
	Book value £m	Market value £m	Book value £m	Market value £m
Short-term borrowings and current portion of long-term borrowings	**(3.8)**	**(3.8)**	(23 4)	(23 4)
Long-term portion of long-term borrowings	**(553.2)**	**(514.4)**	(462 5)	(474 2)
Cash and short-term deposits	**148.4**	**148.4**	125 5	125 5
	(408.6)	**(369.8)**	(360 4)	(372 1)
Derivative financial instruments				
Cross-currency swaps	**50.4**	**50.4**	39 4	39 4
Interest rate swaps	**(10.0)**	**(10.0)**	(11 9)	(11 9)
Commodity swaps	**2.6**	**2.6**	1 3	1 3
Forward foreign exchange contracts	**2.8**	**2.8**	1 7	1 7
	45.8	**45.8**	30 5	30 5
Net financial liabilities	**(362.8)**	**(324.0)**	(329 9)	(341 6)

The 2008 book value in the above table includes net financial liabilities classified as assets/(liabilities) held for sale as follows

	2008 Book value £m	2007 Book value £m
Net financial liabilities shown as assets/(liabilities) on the face of the balance sheet	**(381.9)**	(329 9)
Net financial liabilities classified as assets/(liabilities) held for sale	**19.1**	–
	(362.8)	(329 9)

Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices that arise in the normal course of business

(b) Currency risk management

The Group publishes its consolidated financial statements in Sterling and conducts business in many foreign currencies As a result, the Group is subject to foreign currency exchange risk due to exchange rate movements, which affect the Group's transaction costs, and the translation of results and net assets of foreign operations

The Group operates globally with the majority of its profits outside the UK It has significant investments in foreign operations, particularly in North America and the rest of Europe In order to protect the Group's balance sheet and reduce cash flow risk, the Group has financed most of its investments in the USA, Canada and Europe by borrowing in US dollars, Canadian dollars, Euros and Danish Krone Some of this funding is achieved by directly borrowing the relevant currency whilst most is achieved through cross-currency swaps, which are often a more cost-effective means of generating borrowings in a foreign currency The Group's policy is to hedge between 50% and 100% of its foreign operations' net assets with matching currency debt and cross-currency swaps

28) Derivative financial instruments (continued)

The policy leaves the remainder of the Group's investment in foreign operations before net borrowings subject to currency movements The effective portion of the exchange differences arising on re-translation of foreign currency debt and cross-currency swaps is recognised in the consolidated statement of recognised income and expense to match the corresponding exchange differences on the net equity of foreign operations Any ineffectiveness is taken to the income statement in accordance with IAS 39 Hedge documentation is prepared for all net investment hedges at inception and effectiveness testing is carried out semi-annually

The Group uses forward foreign exchange contracts, for up to a maximum of 24 months forward, to hedge foreign currency exposures on committed and, occasionally highly probable forecast, receipts and payments denominated in foreign currencies Hedge accounting is adopted for large transactions that meet criteria imposed by IAS 39, such that gains or losses on the forward foreign exchange contracts are recognised in the statement of recognised income and expense to the extent it is effective and recycled into the income statement as the underlying hedged transaction affects the income statement. Any ineffectiveness is taken to the income statement Where hedge accounting is not adopted, any gains or losses on forward foreign exchange contracts are immediately taken to the income statement.

The Group is mainly exposed to US Dollars, Euros, Danish Krone and Canadian Dollars

The following tables detail the Group's sensitivity to a 10% increase and decrease in Sterling against the foreign currencies detailed above The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates A positive number below indicates an increase in profit and other equity where Sterling strengthens 10% against the relevant currency For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative

	Year ended 31 March 2008		Year ended 31 March 2007	
	Profit or loss	Equity	Profit or loss	Equity
US Dollar	7.3	30 0	6 9	20 2
Euro	(4 7)	6.0	0 7	6 4
Danish Krone	(1.8)	11.2	(0 3)	9 8
Canadian Dollar	(0.8)	1.5	(0 4)	1 4
Increase	–	48.7	6 9	37 8

The increase in profit is mainly attributable to the exposure outstanding on the Group's receivables and payables at the year end

The increase in equity is as a result of the changes in fair value of derivative instruments designated as cash flow hedges, fair value hedges, net investment hedges and other hedges

(c) Commodity price risk

The Group uses commodity swaps to hedge against the price risk of certain base metal commodities These commodity swaps hedge the price of projected future purchases of base metals by creating a financial settlement obligation on the Group to purchase the base metal at a fixed price and sell at the outturn market rate As physical supplies of base metals are then separately purchased at the market rate, the Group is left with a fixed price Commodity swaps are shown on the balance sheet at fair value To the extent that they are considered an effective hedge under IAS 39, the fair value movements are recognised in the statement of recognised income and expense and recycled into the income statement at the same time as the underlying hedged transaction affects the income statement

28) Derivative financial instruments (continued)

(d) Interest rate risk

The interest rate and currency profile of the Group's borrowings are set out below These gross borrowings figures are shown after taking into account the effect of forward foreign exchange contracts and swaps which are used to manage the Group's borrowings and which are shown separately from borrowings in the Group balance sheet

	Financial liabilities (gross borrowings)			Financial assets	
	Fixed rate £m	Floating rate £m	Total £m	Cash and short-term deposits £m	Net financial assets/ (liabilities) £m
Sterling	–	–	–	**28.3**	**28.3**
US Dollars	**(55.1)**	**(243.7)**	**(298.8)**	**47.1**	**(251.7)**
Euro	**(29.1)**	**(52 1)**	**(81.2)**	**37.2**	**(44.0)**
Danish Krone	**(0.9)**	**(106.9)**	**(107.8)**	**1.2**	**(106 6)**
Canadian Dollars	–	**(22.6)**	**(22.6)**	**11.1**	**(11.5)**
Other	–	**(0.8)**	**(0.8)**	**23.5**	**22.7**
As at 31 March 2008	**(85.1)**	**(426.1)**	**(511.2)**	**148.4**	**(362.8)**

	Financial liabilities (gross borrowings)			Financial assets	
	Fixed rate £m	Floating rate £m	Total £m	Cash and short-term deposits £m	Net financial assets/ (liabilities) £m
Sterling	–	–	–	35 4	35 4
US Dollars	(55 8)	(197 9)	(253 7)	45 4	(208 3)
Euro	(38 3)	(48 6)	(86 9)	20 4	(66 5)
Danish Krone	(0 9)	(92 5)	(93 4)	1 8	(91 6)
Canadian Dollars	–	(20 4)	(20 4)	8 1	(12 3)
Other	–	(1 0)	(1 0)	14 4	13 4
As at 31 March 2007	(95 0)	(360 4)	(455 4)	125 5	(329 9)

The financial assets shown in the tables above attract floating rate interest at the Interbank bid rate of the appropriate currency less a margin The floating rate financial liabilities bear interest at the Interbank offered rate of the appropriate currency plus a margin The interest rate profile of the fixed rate financial liabilities is shown below

	2008			2007		
	Total fixed rate financial liabilities £m	Average interest rate of fixed rate financial liabilities %	Weighted average period for which rate is fixed Years	Total fixed rate financial liabilities £m	Average interest rate of fixed rate financial liabilities %	Weighted average period for which rate is fixed Years
US Dollars	**(55.1)**	**7.9**	**5.2**	(55 8)	7 9	6 2
Euro	**(29.1)**	**6.6**	**2.0**	(38 3)	6 8	2 1
Danish Krone	**(0.9)**	–	**5.0**	(0 9)	–	5 0
As at 31 March	**(85.1)**	**7.4**	**4.1**	(95 0)	7 4	4 9

28) Derivative financial instruments (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings)

	2008 Increase in basis points of +50 £m	2007 Increase in basis points of +50 £m
Profit or loss	(0.2)	0 2
Equity	–	–

A decrease of 50 basis points would result in an equal and opposite impact on the profit or loss or equity

(e) Liquidity risk

The Group's policy on funding capacity is to ensure sufficient long-term funding and committed borrowing facilities are in place to meet foreseeable peak borrowing requirements The Group's borrowings exhibit some seasonal variations during the year and for that reason the Board requires long-term funding and committed borrowing facilities to always exceed actual and projected debt figures by at least 10% At the year end 85 2% (2007 78%) of the Group's committed facilities were drawn

Of the £646 1 million (2007 £616 9 million) committed borrowing facilities available to the Group, the undrawn committed facilities were as follows

	2008 £m	2007 £m
Expiring in less than one year	–	137 3
Expiring in more than one year but no more than two years	95.9	–
As at 31 March	95 9	137 3

The Group also has a number of committed loan and overdraft facilities at its disposal These facilities are lightly used

There are financial covenants under certain of the Group's borrowing agreements These agreements also contain cross default protection and negative pledges Any non-compliance with covenants could, if not waived, constitute an event of default and, in particular circumstances, lead to an acceleration of maturity on the borrowings and the inability to access committed facilities The Group was in full compliance with its financial covenants throughout the year

28) Derivative financial instruments (continued)

Maturity of financial liabilities

The table below summarises the Group's remaining contractual maturities (including liabilities held for sale) at 31 March 2008 and 31 March 2007 The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay The table includes both interest and principal cash flows

31 March 2008

	On demand or within one year £m	In the second year £m	In the third year £m	In the fourth year £m	In the fifth year £m	After five years £m	Total £m
Trade payables	(211.5)	–	–	–	–	–	(211.5)
Obligations under finance leases	(2.6)	–	(1.0)	–	–	–	(3.6)
Interest bearing loans and borrowings	(1.2)	(510.2)	(0.1)	(13.3)	–	(28.6)	(553 4)
Cash flow hedges	(0.5)	(0.1)	–	–	–	–	(0 6)
Fair value hedges	–	(2.9)	–	–	–	–	(2.9)
Net investment hedges	–	(31.4)	–	–	–	–	(31.4)
Other hedges	(1.5)	–	–	–	–	–	(1.5)
	(217.3)	(544.6)	(1.1)	(13.3)	–	(28.6)	(804.9)

31 March 2007

	On demand or within one year £m	In the second year £m	In the third year £m	In the fourth year £m	In the fifth year £m	After five years £m	Total £m
Trade payables	(211 3)	–	–	–	–	–	(211 3)
Obligations under finance leases	(0 8)	(2 2)	(0 9)	–	–	–	(3 9)
Interest bearing loans and borrowings	(22 6)	(0 1)	(417 2)	(0 1)	(12 9)	(29 1)	(482 0)
Cash flow hedges	–	–	(0 4)	–	–	–	(0 4)
Fair value hedges	–	–	(13 9)	–	–	–	(13 9)
Net investment hedges	–	–	(5 3)	–	–	–	(5 3)
Other hedges	(1 5)	–	–	–	–	–	(1 5)
	(236 2)	(2 3)	(437 7)	(0 1)	(12 9)	(29 1)	(718 3)

(f) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers Credit limits are set for each customer with reference to trading history and reports from credit rating agencies These limits are reviewed at regular intervals Overdue accounts are monitored on an ongoing basis and where appropriate a provision for impairment is made The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet

29) Provisions

	Business restructuring £m	Insurance and litigation £m	Total £m
Cost:			
At 1 April 2007	8 2	19 8	28 0
Exchange adjustments	–	–	–
Utilised	(7 2)	(1 2)	(8 4)
Arising in the year	5 7	–	5 7
Unused amounts reversed	(0 1)	–	(0 1)
At 31 March 2008	**6.6**	**18.6**	**25 2**

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Analysed as		
Current liabilities	**5.7**	7 0
Non-current liabilities	**19.5**	21 0
	25.2	28 0

The costs associated with the restructuring provisions for various reorganisations within the Group are supported by detailed plans and based on previous experience as well as other known factors With the exception of amounts related to vacant leasehold properties the provisions are generally incurred within one to two years The vacant leasehold property provisions will be utilised in between one and eight years

The insurance and litigation provisions represents management's best estimate of the likely outcome Due to the inherent uncertainty of the nature of such liabilities it is difficult to give an indication of the timing of their settlement but generally this would be between one and ten years

30) Assets and (liabilities) classified as held for sale

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Assets held for sale		
Assets of businesses held for sale	**232.2**	–
Total assets held for sale	**232.2**	–
(Liabilities) directly associated with assets held for sale	**(103 6)**	–

Further details of the businesses held for sale, including an analysis of the assets and liabilities, is provided in note 14 to the financial statements

31) Deferred tax assets and liabilities

Deferred tax included in the balance sheet is as follows

	Asset £m	Liability £m
At 1 April 2006	62 5	(34 2)
Exchange adjustments	(2 4)	2 3
Amount (charged)/credited to income statement	–	(2 8)
Amount (charged)/credited to the statement of recognised income and expense/direct to equity	(13 5)	(0 4)
At 1 April 2007	46 6	(35 1)
Exchange adjustments	(0 1)	(1 4)
Amount (charged)/credited to income statement	(1 4)	(1 2)
Amount (charged)/credited to the statement of recognised income and expense/direct to equity	(28 4)	3 6
Transferred to assets/liabilities held for sale (note 14)	(7 0)	–
At 31 March 2008	**9.7**	**(34.1)**

Deferred tax liability

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Goodwill	**(16.3)**	(15 3)
Pensions and other post-retirement benefits	**(1.9)**	(5 3)
Accelerated capital allowances	**(9.8)**	(9 2)
Short-term timing differences	**(5.5)**	(4 9)
Cash flow hedges	**(0.6)**	(0 4)
	(34 1)	(35 1)

Deferred tax assets

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Pensions and other post-retirement benefits	**9.5**	38 7
Accelerated capital allowances	–	1 9
Short-term timing differences	–	(1 1)
Losses	**0.1**	7 1
Cash flow hedges	**0.1**	–
	9.7	46 6

At the balance sheet date no deferred tax asset has been recognised in respect of certain trading and capital losses as based on currently available evidence it is considered unlikely that sufficient taxable profits or gains will be generated The unrecognised deferred tax asset is £45 1 million (2007 £34 9 million)

Deferred taxation is not provided in respect of liabilities that might arise on the distribution of available overseas reserves of subsidiary undertakings, except to the extent that the decision to remit such profits has been taken.

Where a liability has not been recognised, it is because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future At the balance sheet date the aggregate amount of such temporary differences for which deferred tax has not been recognised was £17 3 million (2007 £22 4 million)

32) Finance and operating leases

Obligations under finance leases and hire purchase contracts

The Group leases certain of its property, plant and equipment under finance leases These leases have an average duration of between three and ten years The majority of the leases are on a fixed repayment basis and where escalation clauses exist they are linked to LIBOR. No arrangements have been entered into for contingent rental payments

Future minimum lease payments under finance leases and hire purchase contracts are as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Not later than one year	**2.7**	0 8
After one year but not more than five years	**1.0**	3 2
	3.7	4 0
Less finance charges allocated to future periods	**(0.1)**	(0 1)
Present value of minimum lease payments	**3.6**	3 9

The present value of minimum lease payments is as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Not later than one year	**2.6**	0 8
After one year but not more than five years	**1.0**	3 1
	3.6	3 9

Commitments under operating leases

The total future minimum rental payable under non-cancellable operating leases are as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Not later than one year	**10.7**	10 3
After one year but not more than five years	**24.9**	27 0
After five years	**16.7**	19 8
	52.3	57 1

33) Pensions and other post-retirement benefits

(a) Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes, the assets of which are held externally to the Group in separate trustee administered funds Contributions to these defined contribution pension schemes in the year, which were the same as the amount charged to the income statement, amounted to £8 2 million (2007 £8 3 million)

(b) Defined benefit and other post-retirement benefits

The main pension schemes operated by the Group are in the United Kingdom and North America and are defined benefit in type These are funded schemes, where the future liabilities for benefits are provided for by the accumulation of assets held externally to the Group in separate trustee administered funds

The cost of these schemes is determined in accordance with IAS 19 with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method In line with normal practice, these valuations are undertaken triennially in the United Kingdom and annually in the United States

The valuations are based on the UK full actuarial valuation as of 31 December 2005 updated at 31 March 2008 by independent actuaries and United States full actuarial valuations as of 31 December 2007 updated at 31 March 2008 by independent actuaries

The Group also operates a number of unfunded post-retirement medical and welfare benefit schemes, principally in the United States

The details for defined benefit and post-retirement benefits include liabilities classified as held for sale at 31 March 2008 as follows

	UK & ROW schemes £m	North American schemes £m	US Medical £m	Group Total £m
Non-current assets/(liabilities) on the face of the balance sheet	(10 0)	12 0	(21 2)	(19 2)
Liabilities classified as held for sale	(1 9)	(1 8)	–	(3 7)
	(11 9)	10 2	(21 2)	(22 9)

The assets and liabilities of the schemes at 31 March 2008 are

Year ended 31 March 2008

	UK & ROW Schemes £m	North American Schemes £m	US Medical £m	Group Total £m
Schemes assets at fair value				
Equities	**120.1**	**87.7**	–	**207.8**
Bonds	**378.7**	**82.7**	–	**461.4**
Other	**18 4**	**0.7**	–	**19 1**
Fair value of scheme assets	**517.2**	**171.1**	–	**688.3**
Present value of scheme liabilities	**(529.1)**	**(157.8)**	**(21.2)**	**(708 1)**
	(11.9)	**13.3**	**(21 2)**	**(19.8)**
Limit on recognition of surplus	–	**(3.1)**	–	**(3.1)**
Net pension(liability)/asset	**(11.9)**	**10.2**	**(21 2)**	**(22.9)**

33) Pensions and other post-retirement benefits (contınued)

Year ended 31 March 2007

	UK & ROW schemes £m	North Amencan schemes £m	US Medıcal £m	Group Total £m
Schemes assets at fair value				
Equıtıes	175 0	93 5	–	268 5
Bonds	309 8	87 9	–	397 7
Other	15 9	0 7	–	16 6
Faır value of scheme assets	500 7	182 1	–	682 8
Present value of scheme lıabılıtıes	(585 9)	(169 2)	(33 2)	(788 3)
	(85 2)	12 9	(33 2)	(105 5)
Lımıt on recognıtıon of surplus	–	(3 3)	–	(3 3)
Net pensıon(lıabılıty)/asset	(85 2)	9 6	(33 2)	(108 8)

Durıng the year the Group sold property valued at £4 0 mıllıon (2007 £12 5 mıllıon) on the basıs of professıonal ındependent valuatıons to the fund wıth a correspondıng reductıon ın the defıcıt Thıs resulted ın a profit on sale of £2 4 mıllıon (2007 £5 3 mıllıon) whıch has been dısclosed as part of specıal ıtems (profit on sale of property) ın the ıncome statement

The amounts recognısed ın the Group ıncome statement and ın the Group statement of recognısed ıncome and expense for the year are analysed as follows

Year ended 31 March 2008

	UK & ROW schemes £m	North Amencan schemes £m	US Medıcal £m	Group Total £m
Recognısed ın the income statement				
Current servıce cost	**8.4**	**2.7**	**(0 1)**	**11.0**
Past servıce cost	–	**0.1**	–	**0.1**
Gaın on settlement	**(1.0)**	–	**(3.3)**	**(4.3)**
Recognısed ın arrıvıng at operatıng profit	**7.4**	**2.8**	**(3.4)**	**6.8**
Expected return on scheme assets	**(29.7)**	**(12.3)**	–	**(42.0)**
Interest cost on scheme lıabılıtıes	**30 8**	**9.6**	**1 6**	**42 0**
Other finance costs	**1 1**	**(2.7)**	**1.6**	–
Taken to the statement of recognised ıncome and expense				
Actual return on scheme assets	**13.5**	**2.3**	–	**15 8**
Expected return on scheme assets	**(29.7)**	**(12.3)**	–	**(42 0)**
	(16.2)	**(10.0)**	–	**(26.2)**
Other actuarıal gaıns and (losses)	**69.2**	**10.2**	**2.3**	**81.7**
Actuarıal gaıns and (losses) recognısed ın the statement of recognısed ıncome and expense	**53.0**	**0.2**	**2.3**	**55.5**

33) Pensions and other post-retirement benefits (continued)

Year ended 31 March 2007

	UK & ROW schemes £m	North American schemes £m	US Medical £m	Group Total £m
Recognised in the income statement				
Current service cost	7 7	3 4	–	11 1
Past service cost	–	–	–	–
Gain on settlement	(0.6)	–	–	(0 6)
Recognised in arriving at operating profit	7 1	3 4	–	10 5
Expected return on scheme assets	(25 3)	(12 3)	–	(37 6)
Interest cost on scheme liabilities	29 2	10 0	2 0	41 2
Other finance costs	3 9	(2 3)	2 0	3 6
Taken to the statement of recognised income and expense				
Actual return on scheme assets	17 0	16 2	–	33 2
Expected return on scheme assets	(25 3)	(12 3)	–	(37 6)
	(8 3)	3 9	–	(4 4)
Other actuarial gains and (losses)	24.2	0 3	1 7	26 2
Actuarial gains and (losses) recognised in the statement of recognised income and expense	15 9	4 2	1 7	21 8

Pensions

The cost of these schemes is determined in accordance with IAS 19 with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations, using the projected unit credit method In line with normal business practice, these valuations are undertaken triennially in the United Kingdom and annually in the United States

Both the FKI Group Pension Scheme and the main FKI Industries Inc Group Pension Plan are now closed to new members and therefore under the projected unit credit method the current service costs would be expected to increase as the members of the scheme approach retirement

Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers forecasts to each category of scheme

33) Pensions and other post-retirement benefits (continued)

	Group UK & ROW		Group North America	
	2008 %	2007 %	2008 %	2007 %
Main assumptions:				
Rate of salary increases	**4.7**	4 2	**3.5**	3 5
Rate of increase in pensions in payment	**3.6**	2 5	–	–
Discount rate	**6.7**	5 4	**6.0**	6 0
Expected rates of return on scheme assets				
Equities	**7.5**	7 7	**9.0**	9 1
Bonds	**4.9**	4 9	**5.3**	5 6
Other	**6.4**	6 4	**4.4**	4 8
Inflation assumption	**3.7**	3 2	**2.8**	2 8

	2008 Years	2007 Years	2008 Years	2007 Years
Post-retirement mortality				
Current pensioners at 65 – male	**19.8**	19 1	**18.3**	17 9
Current pensioners at 65 – female	**21.4**	20 7	**21.5**	21 3
Future pensioners at 65 – male	**20.5**	19 8	**18.3**	17 9
Future pensioners at 65 – female	**22.1**	21 4	**21.5**	21 3
Rate of increase in healthcare costs	**n/a**	n/a	**10 0**[1]	10 0[2]

1 Decreasing to 5% in 2014 and thereafter
2 Decreasing to 5% in 2012 and thereafter

The post-retirement mortality assumptions allow for expected increases in longevity The "current" disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects

	Increase £000	Decrease £000
Effect on aggregate service cost and interest cost	50	(44)
Effect on defined benefit obligation	201	(175)

33) Pensions and other post-retirement benefits (continued)

Changes in the present value of the defined benefit pension obligations are analysed as follows

	UK & ROW schemes £m	North American schemes £m	US Medical £m	Group Total £m
As at 1 April 2006	595 6	190 2	40 1	825 9
Current service cost	7 7	3 4	–	11 1
Past service cost	–	–	–	–
Curtailment	(0 6)	–	–	(0 6)
Interest cost	29 2	10 0	2 0	41 2
Contributions by plan participants	2 5	–	–	2 5
Benefits paid	(24 0)	(11 9)	(2 5)	(38 4)
Actuarial (gains) and losses	(24 2)	(0 3)	(1 7)	(26 2)
Foreign currency differences	(0 3)	(22 2)	(4 7)	(27 2)
As at 31 March 2007	585 9	169 2	33 2	788 3
Current service cost	8 4	2 7	(0 1)	11 0
Past service cost	–	0 1	–	0 1
Settlement/curtailment	(1 0)	–	(3 3)	(4 3)
Interest cost	30 8	9 6	1 6	42 0
Contributions by plan participants	2 3	–	–	2 3
Benefits paid	(29 1)	(12 6)	(7 2)	(48 9)
Actuarial (gains) and losses	(69 2)	(10 2)	(2 3)	(81 7)
Foreign currency differences	1 0	(1 0)	(0 7)	(0 7)
As at 31 March 2008	**529.1**	**157.8**	**21.2**	**708 1**

The defined benefit obligation comprises £708 1 million (2007 £788 3 million) arising from plans that are wholly or partly funded

33) Pensions and other post-retirement benefits (continued)

Changes in the fair value of plan assets are analysed as follows

	UK & ROW schemes £m	North American schemes £m	Group Total £m
As at 1 April 2006	472 3	200 7	673 0
Expected return on plan assets	25 3	12 3	37 6
Employer contributions	32 9	0 3	33 2
Contributions by plan participants	2 5	–	2 5
Benefits paid	(24 0)	(11 9)	(35 9)
Actuarial gains/(losses)	(8 3)	3 9	(4 4)
Foreign currency differences	–	(23 2)	(23 2)
As at 31 March 2007	500 7	182 1	682 8
Expected return on plan assets	29 7	12 3	42 0
Employer contributions	29 8	0 2	30 0
Contributions by plan participants	2 3	–	2 3
Benefits paid	(29 1)	(12 6)	(41 7)
Actuarial gains/(losses)	(16.2)	(10 0)	(26 2)
Foreign currency differences	–	(0 9)	(0 9)
As at 31 March 2008	**517.2**	**171.1**	**688.3**

History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m
UK Pensions				
Fair value of scheme assets	**517.2**	500 7	472 3	395 4
Present value of defined benefit obligation	**(529.0)**	(585 9)	(595 6)	(538 8)
Deficit in the scheme	**(11.8)**	(85 2)	(123 3)	(143 4)
Experience adjustments arising on plan liabilities	**69.2**	24 2	(41 9)	(8 8)
Experience adjustments arising on plan assets	**(16.2)**	(8 3)	51 7	(12 3)
North American Pensions				
Fair value of scheme assets	**171.1**	182 1	200 7	189 8
Present value of defined benefit obligation	**(157.8)**	(169 2)	(190 2)	(179 8)
Surplus in the scheme	**13.3**	12 9	10 5	10 0
Experience adjustments arising on plan liabilities	**10.2**	0 3	(0 9)	1 0
Experience adjustments arising on plan assets	**(10.0)**	3 9	1 1	(6 8)
US Medical				
Present value of defined benefit obligation	**(21.2)**	(33 2)	(40 1)	(39 9)
Experience adjustments arising on plan liabilities	**2.3**	1 7	(1 2)	(3 7)

In accordance with the transitional provisions for the amendments to IAS 19 – Employee Benefits, the disclosures above are determined prospectively from 2006

An agreement was also reached with the Scheme Trustees for the continuation of existing funding levels

34) Authorised and issued share capital

	Ordinary shares of 10p each	
	Number million	Amount £m
Authorised		
1 April 2007 and 31 March 2008	**745.0**	**74.5**

	Ordinary shares of 10p each	
	Number million	Amount £m
Allotted, called up and fully paid		
1 April 2007	588 1	58 8
Issued under share option schemes	0 2	–
31 March 2008	**588.3**	**58.8**

Executive share option scheme

At 31 March 2008, the total number of options outstanding was 18,411,341 exercisable between 2008 and 2017 at subscription prices between 77 0p and 233 0p 25,000 options were exercised during the year and options over 2,966,397 lapsed Options over 3,058,321 were granted during the year as shown below

Date of grant	Granted during the year Number	Exercise price per share Pence	Date exercisable from	Expiry date
August 2007	3,058,321	95 55	August 2010	August 2017

FKI share save scheme

At 31 March 2008, the total number of options outstanding was 4,029,882 exercisable between 2008 and 2010 at subscription prices between 60 0p and 98 25p No options over shares were granted during the year 457,230 shares were exercised during the year and options over 1,270,005 lapsed

Long term incentive plan (LTIP)

At 31 March 2008, the total number of options outstanding was 4,977,140 exercisable between 2008 and 2017 A total of 508,668 options lapsed during the year and 1,743,099 were granted during the year as shown below

Date of grant	Granted during the year Number	Exercise price per share Pence	Date exercisable from	Expiry date
August 2007	1,743,099	–	August 2010	August 2017

35) Acquisitions

On 12 November 2007 the Group acquired the business and assets of Hunslet-Barclay Ltd for a total consideration of £2 3 million inclusive of costs of £0 2 million The fair value of net assets acquired was £1 7 million and goodwill arising was £0 6 million The Company's principal activity is multiple unit and coach refurbishment in the rail industry From the date of acquisition, Hunslet-Barclay Ltd has contributed £1 8 million revenue and £(0 7) million to the Group's profit before taxation and finance costs/income

The aggregate book and fair values of the net assets of the acquisitions at the relevant date of acquisition were as follows

	Book values £m	Fair value adjustments £m	Fair value to Group £m
Property, plant and equipment	2 8	(1 0)	1 8
Inventories	0 3	–	0 3
Payables	(0 2)	(0 2)	(0 4)
Net assets acquired at fair value	2 9	(1 2)	1 7
Goodwill arising on acquisition			0 6
Total consideration			2 3

Satisfied by·

Cash paid net of costs	2 3

The fair value adjustments relate to the valuation of property by external valuers and the recognition of certain warranty costs

Goodwill arose on the acquisition as the criteria for the recognition of intangible assets were not met at the date of acquisition and goodwill represents the anticipated future operating synergies from the combinations

36) Reconciliation of movement in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Retained earnings £m	Exchange reserve £m	Share-based payments accrual £m	Hedging reserve £m	Minority interests £m	Total equity £m
As at 1 April 2007	58 8	159 1	2 0	(2 4)	66.3	(9 7)	3 6	1 0	1.2	279 9
Actuarial gain on defined benefit pensions and other post-retirement benefits	–	–	–	–	55 5	–	–	–	–	55 5
Taxation on actuarial gain on defined benefit pensions and other post-retirement benefits	–	–	–	–	(24 8)	–	–	–	–	(24 8)
Exchange differences on retranslation of net assets of subsidiaries and loans	–	–	–	–	–	25 3	–	–	–	25 3
Dividends	–	–	–	–	(26 4)	–	–	–	–	(26 4)
(Loss)/profit for the year	–	–	–	–	(266 5)	–	–	–	0 4	(266 1)
Share-based payments	–	–	–	–		–	0 9	–	–	0 9
Exchange differences transferred to income statement in respect of disposals	–	–	–	–	–	0.2	–	–	–	0.2
Premium on shares issued	–	0 1	–	–	–	–	–	–	–	0 1
Transfer between reserves re share-based options	–	–	–	–	1 0	–	(1 0)	–	–	–
As at 31 March 2008	**58.8**	**159 2**	**2 0**	**(2 4)**	**(194.9)**	**15.8**	**3.5**	**1 0**	**1 6**	**44 6**

36) Reconciliation of movement in equity (continued)

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Retained earnings £m	Exchange reserve £m	Share-based payments accrual £m	Hedging reserve £m	Minority interests £m	Total equity £m
As at 1 April 2006	58 4	156 4	2 0	(2 6)	35 8	6 6	4 5	(0.2)	1 1	262 0
Actuarial gain on defined benefit pensions and other post-retirement benefits	–	–	–	–	21 8	–	–	–	–	21 8
Taxation on actuarial gain on defined benefit pensions and other post-retirement benefits	–	–	–	–	(13 5)	–	–	–	–	(13 5)
Exchange differences on retranslation of net assets of subsidiaries and loans	–	–	–	–	–	(16 9)	–	–	–	(16 9)
Net gains/(losses) on cash flow hedges	–	–	–	–	–	–	–	1 6	–	1 6
Taxation on net gains/(losses) on cash flow hedges	–	–	–	–	–	–	–	(0 4)	–	(0 4)
Dividends	–	–	–	–	(26 3)	–	–	–	–	(26 3)
Profit for the year	–	–	–	–	46 4	–	–	–	0.2	46 6
Share-based payments	–	–	–	–	–	–	1 4	–	–	1 4
Exchange differences transferred to income statement in respect of disposals	–	–	–	–	–	0 6	–	–	–	0 6
Premium on shares issued	0 4	2 7	–	–	–	–	–	–	–	3 1
Own shares movement	–	–	–	0.2	(0.2)	–	–	–	–	–
Other movement	–	–	–	–	–	–	–	–	(0 1)	(0 1)
Transfer between reserves re share-based options	–	–	–	–	2.3	–	(2 3)	–	–	–
As at 31 March 2007	58 8	159 1	2 0	(2 4)	66 3	(9 7)	3 6	1 0	1.2	279 9

36) Reconciliation of movement in equity (continued)

Capital redemption reserve

The capital redemption reserve arose when the Company redeemed shares wholly out of distributable profits

Own shares

Own shares relate to shares of the Company held by the FKI plc Employee Benefit Trust which are transferred to employee option scheme holders on exercise of their options The costs of funding and administering the scheme are charged to the income statement of the Company

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of foreign operations It also includes the effect of translation of liabilities that hedge the Group's net investment in foreign subsidiaries

Share-based payments

IFRS 2 requires that an expense for share-based payments be recognised in the income statement based on the fair value at the date of grant This expense is recognised over the vesting period of the options A share-based payment accrual is recognised as part of equity

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge

37) Share-based payments

Disclosures of the share-based payments offered to employees are set out below In accordance with the transitional provisions of IFRS 2, the Group has recognised an expense in respect of all equity settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004

The charge to the income statement in respect of share-based payments for the year ended 31 March 2008 was £0 9 million

(a) Share option scheme

The Group operates an executive share option scheme All executive options granted up to and including 31 March 2008 may only be exercised subject to a performance condition that the Group's growth in earnings per share must exceed the UK retail price index by 9% or more over a three year period, subject to re-testing in subsequent years from a rolling base The re-testing condition was removed for options granted after April 2004 The contractual lifetime of the options is ten years

For options granted from 1 April 2006 none will vest for an earnings per share less than the retail price index plus 12% over the three years movement period For earnings per share at or greater than retail price index plus 12% awards will vest on a straight-line basis Details of the vesting levels are included in the Remuneration report.

The range of exercise prices for options outstanding at 31 March 2008 is 87p to 116 5p (2007 87p to 116 5p)

The options exercised during the year relate to options exercised by employees of disposed companies and employees made redundant

37) Share-based payments (continued)

(a) Share option scheme (continued)

The fair value is charged to the income statement over the vesting period and is estimated on the date of the grant by Hewitt Associates Limited using the binomial pricing model and the following weighted average assumptions Assumptions are made for each separate grant but weighted averages have been disclosed because share options were granted at different dates within certain years

	Years ended 31 March					
	2008 Weighted average	2007 Weighted average	2006 Weighted average	2005 Weighted average	2004 Weighted average	2003 Weighted average
Risk free interest rate	**5.31%**	4 70%	4 18%	5 24%	4 03%	4 45%
Expected volatility	**25.0%**	25 0%	25 0%	25 0%	25 0%	25 0%
Expected dividend yield	**4.0%**	4 0%	3 2%	3 2%	3 2%	3 2%
Expected option life (years)	**4**	4	6	6	6	6
Fair value (pence)	**17.9p**	19 2p	20 0p	26 0p	21 6p	19 5p

Details of the share options outstanding during the year are as follows

	Year ended 31 March 2008		Year ended 31 March 2007	
	Number of share options 000's	**Weighted average exercise price £**	Number of share options 000's	Weighted average exercise price £
Outstanding as at 1 April	**11,823**	**0 96**	10,837	0 93
Granted during the year	**3,058**	**0.96**	2,797	0 98
Forfeited during the year	**(628)**	**(0.90)**	(975)	(0 79)
Exercised during the year	**(25)**	**(0.77)**	(836)	(0 77)
Lapsed during the year	**(1,210)**	**(1 16)**	–	–
Outstanding as at 31 March	**13,018**	**0 95**	11,823	0 96
Options exercisable at end of year	**–**	**–**	–	–

The share options outstanding at 31 March 2008 had a weighted average remaining contractual life of 7 2 years (2007 7 5 years)

37) Share-based payments (continued)

(b) Long Term Incentive Plan (LTIP)

Participants receive annual conditional awards of shares in the Company which may vest only after the achievement of certain long-term performance conditions Participants may receive these shares, three years after the award, provided the performance conditions are met.

Details of the performance conditions of the award granted during the year and for awards granted prior to that date are provided in the Remuneration report

The fair value is charged to the income statement over the vesting period and is estimated on the date of the grant by Hewitt Associates Limited, using the Monte Carlo pricing model and the following weighted average assumptions Assumptions are made for each separate grant but weighted averages have been disclosed because options were granted at different dates within certain years

	2008 Weighted average	2007 Weighted average	2006 Weighted average	2005 Weighted average
Risk free interest rate	**5.37%**	4 78%	4 17%	5 16%
Expected volatility	**25.0%**	25 0%	25 0%	25 0%
Expected dividend yield	**4.0%**	4 0%	3 2%	3 2%
Expected option life (years)	**3**	3	3	3
Fair value (pence)	**73.1p**	76 4p	77 7p	68 0p

Details of the LTIP's outstanding during the year are as follows

	2008 Number of shares 000's	2007 Number of shares 000 s
Outstanding as at 1 April	**3,688**	3,681
Granted during the year	**1,743**	1,729
Forfeited during the year	**(83)**	(616)
Lapsed during the year	**(621)**	(1,106)
Outstanding as at 31 March	**4,727**	3,688
Options exercisable at end of year	–	–

37) Share-based payments (continued)

(c) Save As You Earn scheme

This scheme was open to all UK employees who have completed six months service and who enter into an approved savings contract for a term of three or five years The maximum amount which can be saved is £250 per month and the total savings (including interest) at the end of the term are available to purchase shares at 80% of their market value shortly before the start of the savings contract

The fair value is charged to the income statement over the vesting period and is estimated on the date of the grant by Hewitt Associates Limited, using the binomial pricing model and the following weighted average assumptions Assumptions are made for each separate grant but weighted averages have been disclosed because SAYE options were granted at different dates within certain years

No grants of SAYE options were made under the scheme during the years ended 31 March 2008 and 31 March 2007

	Years ended 31 March				
	2008 Weighted average	2007 Weighted average	2006 Weighted average	2005 Weighted average	2004 Weighted average
Risk free interest rate	–	–	4 30%	5 14%	3 86%
Expected volatility	–	–	25 0%	25 0%	25 0%
Expected dividend yield	–	–	3 2%	3 2%	3 2%
Expected option life (years)	–	–	3 8	3 9	4 1
Fair value (pence)	–	–	35 3p	32 9p	36 9p

Details of the SAYE options outstanding during the year are as follows

	Year ended 31 March 2008		Year ended 31 March 2007	
	Number of SAYE options 000's	**Weighted average exercise price £**	Number of SAYE options 000 s	Weighted average exercise price £
Outstanding as at 1 April	**5,538**	**0.74**	10,157	0 69
Granted during the year	–	–	–	–
Forfeited during the year	**(1,270)**	**(0.86)**	(538)	(0 80)
Exercised during the year	**(238)**	**(0.61)**	(4,081)	(0 60)
Outstanding as at 31 March	**4,030**	**0.71**	5,538	0 74
Options exercisable at end of year	–	–	130	0 60

The SAYE options outstanding at 31 March 2008 had a weighted average remaining contractual life of 0 8 years (2007 1 7 years)

The options exercised during the year include 130,000 relating to the maturing of a scheme and the remainder to options exercised by employees of disposed of subsidiaries and employees made redundant

The range of exercise prices for options outstanding at 31 March 2008 is 60p to 98 25p (2007 60p to 98 25p)

38) Reconciliation of cash flow from operating activities

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Operating profit before special items – continuing operations	112.9	86.4
Operating profit before special items – discontinued operations	8.1	13.8
Depreciation	24.3	25.0
Amortisation of intangible assets	0.7	0.9
Loss/(gain) on disposal of plant and equipment	0.2	–
Outflows relating to termination and closure of businesses	(8.0)	(6.9)
Outflows relating to strategic review and approach costs	(3.5)	–
Share-based payments	0.9	1.4
Pensions and other post-retirement benefits assets and liabilities	(21.4)	(21.1)
Increase in inventories	(25.1)	(22.5)
Increase in receivables	(35.4)	(46.5)
Increase in payables and provisions	14.9	7.9
Dividend received from associated company	0.2	0.2
Cash generated by operations	68.8	38.6

39) Net debt

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Cash and short-term deposits	129.2	125.5
Interest bearing loans and borrowings including finance leases and overdrafts		
– non-current	(552.3)	(462.5)
– current	(1.1)	(23.4)
Derivative financial instruments	42.3	30.5
Cash net of interest bearing loans included within assets and liabilities held for sale	15.6	–
Derivative financial instruments included within assets and liabilities held for sale	3.5	–
	(362.8)	(329.9)

40) Capital commitments

Amounts contracted for but not provided in the financial statements were as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Acquisition of property, plant and equipment	8.3	9.9
Acquisition of software costs defined as intangible assets	0.1	–
	8.4	9.9

The Group's joint venture had no capital commitments

41) Contingent liabilities

The Group has contingent liabilities amounting to £121 7 million (2007 £111 9 million), principally representing the guarantees given in the ordinary course of business on behalf of the trading subsidiaries on which no losses are anticipated In addition, there are contingent liabilities in the ordinary course of business in connection with the completion of contracts within specification, including responsibilities for maintenance

The Group is also the subject of various pending legal proceedings which have arisen in the normal course of business, including claims on contracts, product liability, environmental claims and others The claims giving rise to such proceedings are likely to be mitigated by legal defences, insurance and third party indemnities While the outcome of some of these matters cannot precisely be foreseen, the directors do not believe that these claims, after allowing for provisions already made, will have a material adverse effect upon the Group's financial results

42) Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

The Group's associate is Mediterranean Power Electric Company Limited and no transactions were made between the Group and its associate during the years ended 31 March 2008 and 31 March 2007

The Group's joint venture is Brush Transformers Gulf LLC and related party transactions for the year ended 31 March 2008 are as follows

	Transaction value £m	Balance outstanding at 31 March 2008 £m
Sales of goods and services	**0.7**	**0.1**
Sales of fixed assets	**0.1**	–
Materials purchased	**(0.8)**	–

In addition, during the year ended 31 March 2008 the Group loaned an amount of £0 3 million to BT Gulf Transformers LLC This amount was outstanding at 31 March 2008

All transactions with related parties are on an arm's length basis

The remuneration of the Directors, who are considered to be the key management personnel, is provided in the Remuneration report

43) Events after the balance sheet date

On 22 April 2008 the boards of Melrose PLC and FKI plc announced that they had agreed the terms of a recommended proposal whereby Melrose PLC would acquire the entire issued and to be issued share capital of FKI plc On 28 May 2008 FKI shareholders, at an extraordinary general meeting, approved the proposed takeover of the Company by Melrose PLC and also approved the Scheme of Arrangement On 27 May 2008 Melrose PLC shareholders also approved the proposed takeover

The Court Meeting to sanction the Scheme of Arrangement was held on 27 June 2008 The acquisition of FKI plc by Melrose PLC was completed on 1 July 2008 and as a consequence the Group was de-listed from the London Stock Exchange

On 1 July 2008 the ultimate parent undertaking of the Group became Melrose PLC, registered in the United Kingdom at Precision House, Arden Road, Alcester, B49 6HN

Independent auditors' report to the members of FKI plc

We have audited the parent company financial statements of FKI plc for the year ended 31 March 2008 which comprise the balance sheet and the related notes 1 to 18 These parent company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

We have reported separately on the Group financial statements of FKI plc for the year ended 31 March 2008

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the parent company directors' report is consistent with the financial statements The information given in the directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the directors' report

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited parent company financial statements This other information comprises only the Chairman's statement, the operating and financial review, the directors' report, and the audited part of the directors' remuneration report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

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

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2008,
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the parent company financial statements

Ernst & Young LLP Registered auditor
London

Ernst & Young LLP

1 July 2008

Company balance sheet

As at 31 March 2008

	Note	31 March 2008 £m	31 March 2007 £m
Fixed assets			
Tangible assets	2	**0.3**	0 3
Investments in subsidiaries	3	**2,372.0**	2,562 9
		2,372.3	2,563 2
Current assets			
Debtors due within one year	4	**1,775.8**	1,661 5
Derivative financial assets due within one year	6	**–**	0 2
Derivative financial assets due after more than one year	6	**74.7**	48 4
Cash and short-term deposits		**31.7**	14 5
		1,882 2	1,724 6
Creditors: amounts falling due within one year			
Bank and other borrowings	5	**(78.8)**	(44 1)
Derivative financial liabilities	6	**(0.1)**	(1 5)
Other creditors	7	**(3,163.4)**	(3,305 3)
		(3,242.3)	(3,350 9)
Net current liabilities		**(1,360 1)**	(1,626 3)
Total assets less current liabilities		**1,012.2**	936 9
Creditors: amounts falling due after more than one year			
Bank and other borrowings	5	**(510 2)**	(417 2)
Derivative financial liabilities	6	**(34.4)**	(19 6)
		467.6	500 1
Provisions for liabilities and charges	8	**(1.7)**	–
Net assets before pension liability		**465 9**	500 1
Pension liability	9	**(2.2)**	(51 3)
Net assets		**463.7**	448 8
Capital and reserves			
Called up share capital	10, 11	**58.8**	58 8
Share premium account	11	**159.2**	159 1
Capital redemption reserve	11	**2.0**	2 0
Own shares	11	**(2.4)**	(2 4)
Share-based payments accrual	11	**3.5**	3 6
Hedging reserve	11	**–**	–
Profit and loss account	11	**242.6**	227 7
Equity shareholders' funds		**463.7**	448 8

These financial statements were approved by the Board of Directors on 1 July 2008 and signed on its behalf by

P Heiden – Director

N Bamford – Director

Notes to the Company financial statements

1) Significant accounting policies

Basis of preparation

The financial statements of FKI plc are presented as required by the Companies Act 1985 As permitted by the Act, the separate financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Standards ("UK GAAP") using the historical cost convention except where certain financial instruments have been measured at fair value

The company has taken advantage of the exemption from adopting FRS 29 - (IFRS 7) Financial Instruments - Disclosures as the company is a wholly owned subsidiary of FKI plc and the consolidated financial statements of FKI plc, which are publicly available, have adopted IFRS 7 - Financial Instruments - Disclosures

As permitted by Section 230 of the Companies Act 1985, the profit and loss account is not presented Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the cash flows of the Company are included within the published consolidated financial statements

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements, except as noted below

Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date All profits and losses on exchange are credited or charged to the profit and loss account

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for any impairment in value Depreciation is calculated on all assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their estimated useful lives as follows

Plant and machinery – heavy production	15 years
– other	10 years
Office equipment	5 to 10 years
Motor vehicles	3 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds, less costs of disposal, and the carrying amount of the asset and is recognised in the income statement

Leases

Assets obtained under leases and hire purchase contracts which result in the transfer to the Company of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated over their expected useful lives The capital elements of future lease obligations are recorded as liabilities whilst the finance elements of the rental payments are charged to the income statement over the period of the lease or hire purchase contract so as to produce a constant rate of charge on the outstanding balance of the net obligation in each period

Rentals paid under other leases (operating leases) are charged to the income statement on a straight-line basis over the lease term

Investments

The Company's investment in shares in group companies are stated at cost less provision for impairment

1) Significant accounting policies (continued)

Taxation

Current tax is provided at amounts expected to be paid, or recovered, using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised, using the liability method, on all timing differences, subject to the exceptions noted below, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred tax in respect of taxable or deductible timing differences associated with investments in subsidiaries is not recognised where the timing differences can be controlled and it is probable that the timing differences will not reverse in the foreseeable future or in the case of assets, taxable profit will be unavailable against the timing differences, can be utilised

Deferred tax assets are recognised for all deductible timing differences, carried forward unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible timing differences, and carried forward unused tax assets and unused tax losses can be utilised

Deferred tax is measured at the tax rates that are expected to apply in the periods in which it is anticipated that the asset will be realised,or the liability will be settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Pensions and other post-retirement benefits

(i) Defined contribution pension schemes

Pension costs for the Company's defined contribution pension schemes are recognised within operating profit at an amount equal to the contributions payable to the scheme for the period Any prepaid or outstanding contributions at the balance sheet date are recognised respectively as assets or liabilities within prepayments or accruals

(ii) Defined benefit pension schemes and other post-retirement benefits

Pension liabilities are measured at their present value in accordance with actuarial assumptions that are updated at each balance sheet date Pension assets are measured at fair value The pension liability or asset is recognised in the balance sheet

Pension costs for the Company's defined benefit pension schemes and other post-retirement benefits are recognised as follows

(a) Within operating profit

- The current service cost arising from employee service in the current period,
- The prior service cost related to employee service in prior periods arising in the current period as a result of improvements to benefits,
- Gains and losses arising on unanticipated settlements or curtailments where the item that gave rise to the settlement or curtailment is recognised within operating profit.

(b) Within other finance cost or income

- The interest cost on the liabilities, calculated by reference to the scheme liabilities and discount rate at the beginning of the period,
- The expected return on assets, calculated by reference to the assets and their long-term expected rate of return at the beginning of the period

1) Significant accounting policies (continued)

(c) Within the statement of recognised income and expense

- On the scheme assets – the difference between the expected and actual return on assets,
- On the scheme liabilities – (a) the differences between the actuarial assumptions and actual experience, and (b) the effect of changes in actuarial assumptions

Derivative financial instruments of hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financial and investment activities The Company does not use derivative financial instruments for speculative purposes

As the Company accounts for its investments in subsidiaries and associates at cost in its separate books, certain derivative instruments could not be designated as the hedging instrument in a net investment hedge in the Company accounts

Derivative financial instruments are recognised initially at cost Subsequent to initial recognition they are stated at fair value The gain or loss on remeasurement to fair value is recognised immediately in profit or loss However, where derivatives qualify for hedge accounting recognition of any resultant gain or loss depends on the nature of the item being hedged

The fair value of forward foreign exchange contracts is determined by reference to current forward exchange rates for contracts with similar maturity profiles The fair value of interest rate swap contracts is determined by reference to the present value of the estimated future cash flows

For the purpose of hedge accounting, hedges are classified as either fair value hedges, where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction

In relation to fair value hedges (eg interest rate swaps) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement Any gain or loss on the hedged item attributable to the hedged risk is recognised as an adjustment to the carrying amount of the hedged item and recognised in the income statement Where the adjustment is to the carrying amount of a hedged interest bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity

In relation to cash flow hedges to hedge the exposure to variability in cash flows which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly to equity and the ineffective portion is recognised in net profit or loss

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability For cash flow hedges that do not result in the recognition of an asset or a liability, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year

1) Significant accounting policies (continued)

Share-based payments

Certain employees (including directors) receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions")

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted The fair value is determined by an external valuation. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of FKI plc ("market conditions")

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date") The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards at that date based on the best available estimate of the number of equity instruments that will ultimately vest

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph

The Company has an employee share incentive plan and an employee share trust for the granting of non-transferable options to executives and senior employees Shares in the Company held by the employee share trust are presented in the balance sheet as a deduction from equity

The Company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards and has applied FRS 20 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004

2) Tangible fixed assets

	Plant, equipment and vehicles £m	Total £m
Cost		
1 April 2007	1 2	1 2
Additions	0 2	0 2
Disposals	(0 1)	(0 1)
31 March 2008	**1.3**	**1.3**
Depreciation		
1 April 2007	(0 9)	(0 9)
Charge for the year	(0 2)	(0 2)
Disposals	0 1	0 1
31 March 2008	**(1 0)**	**(1.0)**
Net book value 31 March 2008	**0.3**	**0.3**
Net book value 31 March 2007	0 3	0 3

3) Investments in subsidiaries

	Subsidiary undertakings £m
Cost	
1 April 2007 and 31 March 2008	2,562 9
Provisions	
1 April 2007	–
Impairment recognised	(190 9)
31 March 2008	**(190.9)**
Net book value 31 March 2008	**2,372.0**
Net book value 31 March 2007	2,562 9

A list of principal subsidiary undertakings is give on page 99 of the Group consolidated financial statements

4) Debtors receivable within one year

	31 March 2008 £m	31 March 2007 £m
Amounts owed by subsidiary undertakings	**1,774.6**	1,660 4
Other prepayments and accrued income	**1.2**	1 1
	1,775.8	1,661 5

5) Bank and other borrowings

	31 March 2008 £m	31 March 2007 £m
Bank loans and overdrafts	**103.2**	44 1
Other loans	**485.8**	417 2
	589.0	461 3

The total borrowings of the Company are repayable as follows

	Bank loans and overdrafts		Other loans	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Within one year or on demand	**78.8**	44 1	–	–
Between one and two years	**24.4**	–	**485.8**	–
Between two and five years	–	–	–	417 2
In five years or more	–	–	–	–
	103.2	44 1	**485.8**	417 2

At 31 March 2008 the guaranteed bank borrowings of US Dollar 50 0 million (2007 US Dollar 25 0 million) were drawn under the Company's £120 0 million multi-currency revolving credit facility In May 2008 the maturity on this facility was extended from 1 April 2009 to 2 December 2009 The Company's subsidiaries, FKI Engineering Limited and FKI Industries Inc , act as guarantors to this facility Drawdowns under this new facility bear interest at LIBOR plus a margin of 1 5% rising to 1 75% with effect from 19 June 2008, 2 00% with effect from 1 October 2008 and 2 25% with effect from 2 April 2009

6) Derivative financial instruments

	31 March 2008 £m	31 March 2007 £m
Debtors falling due within one year	–	0 2
Debtors falling due after more than one year	**74.7**	48 4
Creditors amounts falling due within one year	**(0.1)**	(1 5)
Creditors amounts falling due after one year	**(34.4)**	(19 6)
	40.2	27 5

	31 March 2008			31 March 2007		
	Derivative financial assets £m	**Derivative financial liabilities £m**	**Net derivative financial instruments £m**	Derivative financial assets £m	Derivative financial liabilities £m	Net derivative financial instruments £m
Derivative financial instruments – non-current						
Cash flow hedges	**3.2**	**(0.1)**	**3.1**	–	(0 4)	(0 4)
Fair value hedges	**52.2**	**(2.9)**	**49.3**	–	(13 9)	(13 9)
Net investment hedges	**19.1**	**(31.4)**	**(12.3)**	47 2	(5 3)	41 9
Other hedges	**0 2**	–	**0 2**	1 2	–	1 2
	74 7	**(34.4)**	**40.3**	48 4	(19 6)	28 8
Derivative financial instruments – current						
Other hedges	–	**(0 1)**	**(0.1)**	0 2	(1 5)	(1 3)
	–	**(0.1)**	**(0.1)**	0 2	(1 5)	(1 3)
	74.7	**(34.5)**	**40.2**	48 6	(21 1)	27 5

The Company adopted FRS 25 and FRS 26 with effect from 1 April 2005 On this date a number of derivative financial instruments held by the Company qualified as effective cash flow, fair value or net investment hedges

Cash flow hedges

At 31 March 2008 the Company held two cross-currency swaps that were designated as cash flow hedges These swaps hedge the cash flow variability arising on movements in the Euro Sterling exchange rate and protect Euro 30 0 million of the Euro 600 million Eurobond The terms of the contracts are

	Currency	Principal	Maturity	Interest rate
Cross-currency swaps				
Company pays	Sterling	20 7 million	22 February 2010	8% fixed, payable semi-annually
Company receives	Euro	30 0 million	22 February 2010	6 625% fixed, receivable annually

There have been no changes in the above swaps during the course of the year

6) Derivative financial instruments (continued)

At 31 March 2008 the Company held a number of copper swap contracts that were designated as cash flow hedges These swap contracts lock the Company into fixed copper prices to protect against fluctuations in the market price of copper The terms of these contracts are

	Commodity	Total quantity	Maturity	Pricing
Commodity swaps				
Company pays	Copper	3,200 tonnes	April 2008 to March 2009	Month-end settlements at fixed price of US Dollar 6,680 per tonne
Company receives	Copper	3,200 tonnes	April 2008 to March 2009	Month-end settlements at the average LME price for each month

At 31 March 2008 the Company held a number of forward foreign exchange contracts to hedge against the risk of exchange rate fluctuations Those forward foreign exchange contracts that were accounted for as cash flow hedges are set out below

	Currency	Principal	Maturity	Exchange rate
Forward foreign exchange contracts				
Company pays	US Dollar	43 0 million	Various dates between April 2008 and April 2009	Various US Dollar Sterling exchange rates ranging from $1 93 to $2 01
Company receives	Sterling	21 9 million		
Company pays	Canadian Dollar	3 5 million	June 2008	Canadian Dollar Sterling exchange rate of 2 02
Company receives	Sterling	1 7 million		
Company pays	Sterling	15 3 million	Various dates between August 2008 and November 2008	Various Czech Koruna Sterling exchange rates ranging from 31 58 to 34 39
Company receives	Czech Koruna	502 3 million		
Company pays	Euro	9 0 million	Various dates between May 2008 and August 2008	Various Sterling Euro exchange rates ranging from 0 6859 to 0 6885
Company receives	Sterling	6 2 million		
Company pays	US Dollar	41 5 million	Various dates between April 2008 and April 2009	Various US Dollar Danish Krone exchange rates ranging from 4 71 to 5 43
Company receives	Danish Krone	218 0 million		

The Company also holds a number of other forward foreign exchange contracts which are not designated as cash flow hedges These contracts are used to hedge foreign currency denominated transactions Changes in the fair value of these contracts are booked to profit and loss

6) Derivative financial instruments (continued)

Fair value hedges

At 31 March 2008 the Company held a number of cross-currency swaps and interest rate swaps that were designated as fair value hedges These swaps hedge against changes in interest rates affecting the fair value of Euro 544 million of the Euro 600 million fixed rate Eurobond The terms of the contracts are

	Currency	Principal	Maturity	Interest rate
Cross-currency swaps				
Company pays	Sterling	41 4 million	22 February 2010	3 month LIBOR plus 3%, payable quarterly
Company receives	Euro	60 0 million	22 February 2010	6 625% fixed, receivable annually
Company pays	Sterling	293 9 million	22 February 2010	6 month LIBOR plus 3%, payable semi-annually
Company receives	Euro	426 0 million	22 February 2010	6 625% fixed, receivable annually
Interest rate swaps				
Company pays	Euro	58 0 million	22 February 2010	3 month EURIBOR plus 3 46%, payable quarterly
Company receives	Euro	58 0 million	22 February 2010	6 625% fixed, receivable annually

The above interest rate swaps leave a residual Euro 58 million of Euro foreign exchange exposure which the Company has designated as an effective net investment hedge of its investments in the Eurozone

There have been no changes in the above swaps during the course of the year

6) Derivative financial instruments (continued)

Net investment hedges

At 31 March 2008 the Company held a number of cross-currency swaps that were designated as net investment hedges of investments in non-Sterling subsidiary companies These swaps protect against changes in exchange rates affecting the Sterling value of subsidiaries that are located in the United States, Canada, Denmark and the Eurozone The terms of the contracts are

	Currency	Principal	Maturity	Interest rate
Cross-currency swaps – US Dollars				
Company pays	US Dollar	435 7 million	22 February 2010	3 to 6 months LIBOR plus 2 55% to 4.49%
Company receives	Sterling	224 9 million	22 February 2010	3 to 6 month LIBOR plus 3%
Company pays	US Dollar	29 4 million	22 February 2010	8 51% fixed, payable semi-annually
Company receives	Sterling	20 7 million	22 February 2010	8% fixed, receivable semi-annually
Cross-currency swaps – Canadian Dollars				
Company pays	Canadian Dollar	45 1 million	22 February 2010	3 month CAD BA rate plus 3 65%
Company receives	Sterling	19 3 million	22 February 2010	3 month LIBOR plus 3%
Cross-currency swaps – Danish Krone				
Company pays	Danish Krone	981 4 million	22 February 2010	6 month CIBOR plus 3 54%
Company receives	Sterling	91 1 million	22 February 2010	6 month LIBOR plus 3%

There have been no changes in the above swaps during the course of the year, other than

(i) the maturity of a cross-currency swap under which the Company paid 7 21% fixed on Euro 15 0 million and received Sterling 8% fixed on Sterling 10 4 million, and

(ii) an increase of US Dollar 72 5 million in swap principal

The Company also holds a number of other interest swaps that do not qualify for hedge accounting under FRS 26 These LIBOR-in-arrears swaps reduce the Company's exposure to floating US Dollar interest rates, on a total of US Dollars 133 7 million principal through a combination of interest rate caps and spreading of reference dates for interest rate resets Changes in the fair value of these swaps are booked to profit or loss There have been no changes in these swaps during the year

7) Other creditors

	31 March 2008 £m	31 March 2007 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**3,126.8**	3,278.7
Other taxes and social security	**1.8**	0.3
Accruals and deferred income	**29.3**	21.6
Other creditors	**5.5**	4.7
	3,163.4	3,305.3

8) Provisions for liabilities and charges

	Deferred tax £m
At 1 April 2007	–
Amount charged to income statement	1.7
At 31 March 2008	**1.7**

Deferred taxation, provided in the financial statements, is in respect of

	2008 £m	2007 £m
Short-term timing differences	**1.7**	–

9) Pension liability

The Company is a participating member of the FKI Company Pension Scheme which is the main defined benefit scheme in the United Kingdom. The date of the most recent, full actuarial valuation was 31 December 2005.

The fair value of the Scheme's assets, the present value of its liabilities and the net pension liability are as follows

	31 March 2008 £m	31 March 2007 £m
Equities	**114.2**	168.6
Bonds	**370.5**	303.3
Other	**19.2**	15.8
Total fair value of Scheme assets	**503.9**	487.7
Present value of Scheme liabilities	**(506.9)**	(561.8)
Deficit in the Scheme	**(3.0)**	(74.1)
Related deferred tax asset	**0.8**	22.8
Net pension liability	**(2.2)**	(51.3)

9) Pension liability (continued)

The movement in the deficit in the Scheme during the year was as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
1 April	**(74.1)**	(110 3)
Charged within operating profit	**(5.1)**	(6 6)
Charged within other net finance charges	**(1.0)**	(3 7)
Recognised within the statement of total recognised gains and losses	**50.3**	15 2
Employer contributions	**26.9**	31 3
31 March	**(3.0)**	(74 1)

10) Called up share capital

	Ordinary shares of 10p each	
	Number million	Amount £m
Authorised		
1 April 2007 and 31 March 2008	**745.0**	**74.5**

	Ordinary shares of 10p each	
	Number million	Amount £m
Allotted, called up and fully paid		
1 April 2007	588 1	58 8
Issued under share option schemes	0 2	–
31 March 2008	**588.3**	**58.8**

Executive Share Option scheme

At 31 March 2008, the total number of options outstanding was 18,411,341 exercisable between 2008 and 2017 at subscription prices between 77 0p and 233 0p 25,000 options were exercised during the year and options over 2,966,397 lapsed Options over 3,058,321 were granted during the year as shown below

Date of grant	Granted during the year Number	Exercise price per share Pence	Date exercisable from	Expiry date
August 2007	3,058,321	95 55	August 2010	August 2017

FKI Share Save scheme

At 31 March 2008, the total number of options was 4,029,882 exercisable between 2008 and 2010 at subscription prices between 60 0p and 98 25p No options over shares were granted during the year 457,230 shares were exercised during the year and options over 1,270,005 lapsed

Long Term Inventive Plan (LTIP)

At 31 March 2008 the total number of options outstanding was 4,977,140 exercisable between 2008 and 2017 A total of 508,668 options lapsed during the year and 1,743,099 were granted during the year as shown below

Date of grant	Granted during the year Number	Exercise price per share Pence	Date exercisable from	Expiry date
August 2007	1,743,099	[illegible]	August 2010	August 2017

11) Share capital and reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Share-based payments accrual £m	Hedging reserve £m	Total equity £m
As at 1 April 2007	58 8	159 1	2 0	(2 4)	227 7	3 6	–	448 8
Actuarial gain on defined benefit pensions and other post-retirement benefits net of tax	–	–	–	–	28 8	–	–	28 8
Dividends	–	–	–	–	(26 4)	–	–	(26 4)
Profit for the year	–	–	–	–	11 5	–	–	11 5
Share-based payments	–	–	–	–	–	0 9	–	0 9
Premium on shares issued	–	0 1	–	–	–	–	–	0 1
Transfer between reserves re share-based options	–	–	–	–	1 0	(1 0)	–	–
As at 31 March 2008	**58.8**	**159.2**	**2.0**	**(2.4)**	**242.6**	**3.5**	**–**	**463.7**
As at 1 April 2006	58 4	156 4	2 0	(2 6)	134 9	4 5	–	353 6
Actuarial gain on defined benefit pensions and other post-retirement benefits net of tax	–	–	–	–	5 0	–	–	5 0
Net gains/(losses) on cash flow hedges	–	–	–	–	–	–	–	–
Dividends	–	–	–	–	(26 3)	–	–	(26 3)
Profit for the year	–	–	–	–	112 0	–	–	112 0
Share-based payments	–	–	–	–	–	1 4	–	1 4
Premium on shares issued	0 4	2 7	–	–	–	–	–	3 1
Own shares movement	–	–	–	0 2	(0 2)	–	–	–
Transfers between reserves re share-based options	–	–	–	–	2 3	(2 3)	–	–
As at 31 March 2007	58 8	159 1	2 0	(2 4)	227 7	3 6	–	448 8

12) Share-based payments

Disclosures of the share-based payments offered to employees are set out below In accordance with the transitional provisions of FRS 20, the Company has recognised an expense in respect of all equity settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004

The charge to the income statement in respect of share-based payments for the year ended 31 March 2008 was £0 6 million

(a) Long Term Incentive Plan (LTIP)

Participants receive annual conditional awards of shares in the Company which may vest only after the achievement of certain long term performance conditions Participants may receive these shares, three years after the award, provided the performance conditions are met.

Details of the performance conditions of the award granted during the year and for awards granted prior to that date are provided in the Remuneration report.

The fair value is charged to the income statement over the vesting period and is estimated on the date of the grant by Hewitt Associates Limited, using the Monte Carlo pricing model and the following weighted average assumptions Assumptions are made for each separate grant but weighted averages have been disclosed because options were granted at different dates within certain years

	2008 Weighted average	2007 Weighted Average	2006 Weighted average	2005 Weighted average
Risk free interest rate	**5.37%**	4 78%	4 17%	5 16%
Expected volatility	**25.0%**	25 0%	25 0%	25 0%
Expected dividend yield	**4.0%**	4 0%	3 2%	3 2%
Expected option life (years)	**3**	3	3	3
Fair value (pence)	**72.4p**	76 4p	77 7p	68 0p

Details of the LTIP's outstanding during the year are as follows

	2008 Number of shares 000's	2007 Number of shares 000's
Outstanding as at 1 April	**3,688**	3,681
Granted during the year	**1,743**	1,729
Forfeited during the year	**(83)**	(616)
Exercised during the year	**–**	–
Lapsed during the year	**(621)**	(1,106)
Outstanding as at 31 March	**4,727**	3,688
Options exercisable at end of year	**–**	–

(b) Save As You Earn scheme

This scheme was open to all UK employees who have completed six months service and who enter into an approved savings contract for a term of three or five years The maximum amount which can be saved is £250 per month and the total savings (including interest) at the end of the term are available to purchase shares at 80% of their market value shortly before the start of the savings contract.

The fair value is charged to the income statement over the vesting period and is estimated on the date of the grant by Hewitt Associates Limited, using the binomial pricing model and the following weighted average assumptions Assumptions are made for each separate grant but weighted averages have been disclosed because SAYE options were granted at different dates within certain years

No grants of SAYE options were made under the scheme during the years ended 31 March 2008 and 31 March 2007

12) Share-based payments (continued)

	Years ended 31 March				
	2008 Weighted average	2007 Weighted average	2006 Weighted average	2005 Weighted average	2004 Weighted average
Risk free interest rate	–	–	4 31%	5 13%	3 84%
Expected volatility	–	–	25 0%	25 0%	25 0%
Expected dividend yield	–	–	3 2%	3 2%	3 2%
Expected option life (years)	–	–	4 3	3 7	3 9
Fair value (pence)	–	–	35 3p	32 4p	36 5p

Details of the SAYE options outstanding during the year are as follows

	Year ended 31 March 2008		Year ended 31 March 2007	
	Number of SAYE options 000's	Weighted average exercise price £	Number of SAYE options 000's	Weighted average exercise price £
Outstanding as at 1 April	**256**	**0.73**	396	0 71
Granted during the year	–	–	–	–
Forfeited during the year	**(40)**	**(0.98)**	(36)	(0 80)
Exercised during the year	–	–	(104)	(0 60)
Outstanding as at 31 March	**216**	**0.68**	256	0 73
Options exercisable at end of year	–	–	–	–

The SAYE options outstanding at 31 March 2008 had a weighted average remaining contractual life of 1 0 years (2007 1 7 years)

The range of exercise prices for options outstanding at 31 March 2008 is 60p to 98 25p (2007 60p to 98 25p)

(c) Share option scheme

The Group operates an executive share option scheme All executive options granted up to and including 31 March 2008 may only be exercised subject to a performance condition that the Group's growth in earnings per share must exceed the UK retail price index by 9% or more over a three year period, subject to retesting in subsequent years from a rolling base The retesting condition was removed for options granted after April 2004 The contractual lifetime of the options is ten years

For options granted from 1 April 2006 none will vest for an earnings per share less than the retail price index plus 12% over the three years movement period For earnings per share at or greater than retail price index plus 12% awards will vest on a straight-line basis Details of the vesting levels are included in the Remuneration report.

The range of exercise prices for options outstanding at 31 March 2008 is 87p to 116 5p (2007 87p to 116 5p)

The options exercised during the year relate to options exercised by employees made redundant

The fair value is charged to the income statement over the vesting period and is estimated on the date of the grant by Hewitt Associates Limited using the binomial pricing model and the following weighted average assumptions Assumptions are made for each separate grant but weighted averages have been disclosed because share options were granted at different dates within certain years

12) Share-based payments (continued)

	Years ended 31 March					
	2008 Weighted average	2007 Weighted average	2006 Weighted average	2005 Weighted average	2004 Weighted average	2003 Weighted average
Risk free interest rate	**5.31%**	4.70%	4 18%	5 24%	4 03%	4 45%
Expected volatility	**25.0%**	25 0%	25 0%	25 0%	25 0%	25 0%
Expected dividend yield	**4.0%**	4 0%	3 2%	3 2%	3 2%	3 2%
Expected option life (years)	**4**	4	6	6	6	6
Fair value (pence)	**17.9p**	19 2p	20 0p	26 0p	21 6p	19 5p

Details of the share options outstanding during the year are as follows

	Year ended 31 March 2008		Year ended 31 March 2007	
	Number of share options 000's	Weighted average exercise price £	Number of share options 000 s	Weighted average exercise price £
Outstanding as at 1 April	**11,823**	**0.96**	10,837	0 93
Granted during the year	**3,058**	**0.96**	2,797	0 98
Forfeited during the year	**(628)**	**(0.90)**	(975)	(0 79)
Exercised during the year	**(25)**	**(0.77)**	(836)	(0 77)
Lapsed during the year	**(1,210)**	**(1.16)**	–	–
Outstanding as at 31 March	**13,018**	**0.95**	11,823	0 96
Options exercisable at end of year	–	–	–	–

The share options outstanding at 31 March 2008 had a weighted average remaining contractual life of 7 2 years (2007 7 5 years)

13) Dividends

The amounts recognised as distributions to equity holders in the year were

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Final dividend for the year ended 31 March 2007 of 3p (2006 3p) per ordinary share	**17.6**	17 5
Interim dividend for the year ended 31 March 2008 of 1 5p (2007 1 5p) per ordinary share	**8 8**	8 8
	26.4	26 3

The proposed final dividend is subject to approval of the Scheme of Arrangement by the court and in accordance with IFRS has not been included as a liability as at 31 March 2008 This proposed final dividend will be paid on or before 15 July 2008 to ordinary shareholders on the register at 27 June 2008

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Proposed final dividend for the year ended 31 March 2008 of 3p (2007 3p) per ordinary share	**17.6**	17 6

14) Directors' remuneration

The directors are remunerated by FKI plc for their services to the Company as a whole Information covering directors' remuneration is given in the Remuneration report of the Group

15) Contingent liabilities

The Company has contingent liabilities of £19 2 million (2007 £20 4 million) in respect of guarantees of subsidiary undertakings banking obligations In addition, the Company has guaranteed £40 5 million (2007 £49 7 million) of US Dollar fixed rate guaranteed senior notes issued on behalf of FKI Industries Inc

The Company is also the subject of various pending legal proceedings which have arisen in the normal course of business, including claims on contracts, product liability, environmental claims and others The claims giving rise to such proceedings are likely to be mitigated by legal defences, insurance and third-party indemnities While the outcome of some of these matters cannot precisely be foreseen, the directors do not believe that these claims, after allowing for provisions already made, will have a material adverse effect upon the Company's financial results

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payments under the guarantee

16) Leasing commitments

Annual commitments under non-cancellable operating leases are as follows

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Not later than one year	–	–
After one year but not more than five years	**0.2**	0 1
After five years	–	–
	0.2	0 1

17) Other information

(a) Auditors remuneration for the statutory audit is £0 4 million (2007 £0 5 million)

(b) Operating lease rentals charged to the profit and loss account is £0 2 million (2007 £0 1 million)

18) Events after the balance sheet date

On 22 April 2008 the boards of Melrose PLC and FKI plc announced that they had agreed the terms of a recommended proposal whereby Melrose PLC would acquire the entire issued and to be issued share capital of FKI plc On 28 May 2008 FKI shareholders at an extraordinary general meeting, approved the proposed takeover of the Company by Melrose PLC and also approved the Scheme of Arrangement On 27 May 2008 Melrose PLC shareholders also approved the proposed takeover

The Court Meeting to sanction the Scheme of Arrangement was held on 27 June 2008 The acquisition of FKI plc by Melrose PLC was completed on 1 July 2008 and as a consequence the Group was de-listed from the London Stock Exchange

On 1 July 2008 the ultimate parent undertaking of the Group became Melrose PLC, registered in the United Kingdom at Precision House, Arden Road, Alcester, B49 6HN

Principal subsidiary undertakings

Lifting Products and Services group

Acco Material Handling Solutions (USA)†
Bridon International Limited
Bridon New Zealand Limited (New Zealand)
Bridon American Corporation (USA)
BTS Drahtseile GmbH (Germany)
Crosby Canada (Canada)†
N V Crosby Europe (Belgium)
The Crosby Group Inc (USA)
The Harris Waste Management Group Inc (USA)
Welland Forge (Canada)†

Energy Technology group

Brush Electrical Machines Limited*
Brush HMA B V (Netherlands)
Brush SEM s r o (Czech Republic)
Brush Traction†
Brush Barclay
Brush Transformers Limited
Harrington Generators International Limited
Hawker Siddeley Switchgear Limited
Marelli Motori SpA (Italy)
Whipp & Bourne†

FKI Logistex group

FKI Logistex North America Inc (USA)
FKI Logistex A/S (Denmark)
FKI Logistex Limited
Industry General Corporation (USA)

Hardware group

Hickory Hardware, Inc (USA)
Rhombus Casters Malaysia Bhd (Malaysia)
Rhombus Rollen Holding GmbH (Germany)
Truth Hardware Corporation (USA)
Weber-Knapp Company (USA)

Other

FKI Engineering Limited*
FKI Industries Canada Limited (Canada)
FKI Industries Inc (USA)
West House Insurance Limited (Guernsey)*

All companies are wholly owned
Shares of companies marked * are held directly by FKI plc
† For statutory purposes these businesses operate as divisions of other FKI Group companies

All companies are incorporated and operate in Great Britain and are registered in England and Wales unless otherwise stated Companies located overseas operate principally in the country of incorporation

A full list of subsidiary companies incorporated in Great Britain and registered in England and Wales will be lodged with the Registrar of Companies

As permitted by Section 231 (5) of the Companies Act 1985, only principal operating subsidiary undertakings have been shown above

This Annual report has been prepared solely to provide additional information to shareholders as a body It should not be relied upon by any other party or for any other purpose

This Annual report contains forward looking statements based on current expectations of management at the time of approval of this report. Forward looking statements by their nature involve a number of risks uncertainties and assumptions and they should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward looking information.

The Group accepts no obligation to publicly revise or update these forward looking statements or adjust them to future events or developments whether as a result of new information, future events or otherwise except to the extent legally required.