

BURT, BOULTON & HAYWOOD LIMITED

**DIRECTORS' REPORT AND FINANCIAL
STATEMENTS**

31 DECEMBER 2005

Registered number 3540326



BURT BOULTON & HAYWOOD LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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BURT BOULTON & HAYWOOD LIMITED

COMPANY INFORMATION

Directors

W Clason
R Allan

Secretary

D J Clason

Registered Office

Alexandra Dock
Newport
South Wales
NP20 2WA

Auditors

PricewaterhouseCoopers LLP
One Kingsway
Cardiff
CF10 3PW

Bankers

Nordea Bank
5th Floor
City Place House
55 Basinghall Street
London
EC2V 5NB

BURT BOULTON & HAYWOOD LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

Principal activity

The principal activity of the company is the manufacture of telegraph and transmission poles and related timber preservation. The results for the year are satisfactory.

Business Review and Future Developments

Sales volumes increased marginally in spite of very competitive trading conditions experienced during the year. Similar conditions are expected for 2006 but the Company will aim to maintain its position as market leader in the manufacture of wooden telegraph and transmission poles and continue to develop its other timber preservation markets.

Results and Dividends

The loss for the year, after tax, amounted to £409,141 (2004 restated: £164,431 loss). The directors do not recommend payment of a dividend (2004: £nil). The retained loss for the year has been transferred to reserves.

Directors and directors' interests

The following directors served during the year:

R Allan
J Vesterinen (resigned 21 October 2005)
W Clason

None of the directors had any interest in the share capital of the company or any company within the Finnforest Group at 31 December 2005 or at any time during the financial year.

Creditor Payment Policy

It is company policy to pay trade creditors on contractual terms as agreed with each individual creditor.

Financial Risk Management

The company's operations expose it to a variety of financial risks that include the effects of changes in exchange rates, credit risk and interest rates. The company has in place a risk management programme that seeks to limit the adverse effects on financial performance of the company by monitoring the levels of debt finance and related finance cost. The Company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated the responsibility of monitoring the financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

BURT BOULTON & HAYWOOD LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

Credit risk

The Company has implemented policies that require appropriate checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a periodic basis.

Liquidity risk

The Company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the Company has sufficient available funds for operations.

Interest rate and cash flow risk

The Company reviews the appropriateness of interest rates risk on an annual basis, considering the treasury policies of the group that it is a member of. Interest bearing assets and liabilities are primarily bank balances.

Exchange rate risk

The Company is exposed to exchange risk as a result of its operations. However, given the size of the company's operations, the cost of managing exposure to commodity price risk exceed any potential benefit. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

Auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappoint will be proposed at the Annual General Meeting.

On behalf of the Board.

W. Clason . 2nd August 2006

W Clason
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BURT BOULTON & HAYWOOD LIMITED

We have audited the financial statements of Burt Boulton & Haywood Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

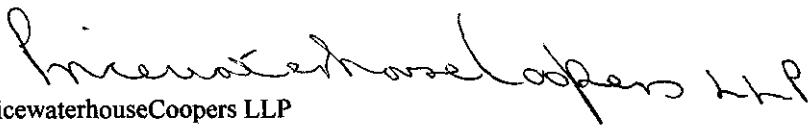
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the 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 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 financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cardiff

1 August 2006

BURT BOULTON & HAYWOOD LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	Restated 2004 £
Turnover	2	9,173,630	9,002,337
Cost of sales		(7,138,800)	(6,798,939)
Gross profit		2,034,830	2,203,398
Distribution costs		(703,918)	(596,255)
Administrative costs		(1,502,742)	(1,520,040)
Operating (loss)/profit	3	(171,830)	87,103
Interest payable	6	(187,292)	(108,221)
Interest receivable	7	-	471
Loss on ordinary activities before taxation		(359,122)	(20,647)
Tax on loss on ordinary activities	8	(50,019)	(142,284)
Retained loss for the year	18	(409,141)	(162,931)

Turnover, gross profit and operating loss relate entirely to continuing operations.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year as stated above, and their historical cost equivalents.

The notes on pages 8 to 19 form part of these financial statements.

BURT BOULTON & HAYWOOD LIMITED

STATEMENT OF TOTAL RECONISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	Restated 2004 £
Loss for the financial year		(409,141)	(164,431)
Actuarial loss on pension scheme	20	(117,000)	(71,000)
Movement on deferred tax relating to pension liability	15	35,100	21,300
Total recognised losses relating to year		(491,041)	(212,631)
Prior year adjustment – FRS 17	17	(224,167)	
Total losses recognised since last report		(715,208)	

BURT BOULTON & HAYWOOD LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £	Restated 2004 £
Fixed assets			
Fixed asset investment	9	500,000	500,000
Intangible assets	10	1,247,348	1,746,285
Tangible assets	11	982,535	963,080
		<u>2,729,883</u>	<u>3,209,365</u>
Current assets			
Stocks	12	3,465,981	4,454,667
Debtors	13	1,553,982	1,585,137
Cash at bank and in hand		278	671
		<u>5,020,241</u>	<u>6,040,475</u>
Creditors: amounts falling due within one year	14	<u>(3,189,019)</u>	<u>(4,279,976)</u>
Net current assets		<u>1,831,222</u>	<u>1,760,499</u>
Total assets less current liabilities		<u>4,561,105</u>	<u>4,969,864</u>
Provision for liabilities and charges	15	<u>(3,182)</u>	-
Net assets – excluding pension liability		<u>4,557,923</u>	<u>4,969,864</u>
Net pension liability	20	<u>(302,400)</u>	<u>(223,300)</u>
Net assets		<u>4,255,523</u>	<u>4,746,564</u>
Capital and reserves			
Called up share capital	16	8,000,000	8,000,000
Profit and loss account	17	(3,744,477)	(3,253,436)
Equity shareholders' funds	18	<u>4,255,523</u>	<u>4,746,564</u>

These financial statements were approved by the board of directors and signed on its behalf by:

W. Clason

2nd August 2006

W Clason
Director

The notes on pages 8 to 19 are an integral part of these financial statements.

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of Accounting

The company prepares its accounts on the historical cost basis and in accordance with applicable accounting standards in the United Kingdom and with the Companies Act 1985.

Change in accounting policy

The group has adopted FRS 17 "post retirement benefits" in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect are given in note 17.

The company has also adopted FRS 21 "Events after the balance sheet date", FRS 25 "Financial Instruments: Disclosure and presentation" and FRS 28 "Corresponding amounts". These changes in accounting policies have had no effect on the company such that a restatement of the prior year has not been required.

Turnover

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied to third parties in the United Kingdom. Turnover is recognised on dispatch of the goods by the Company.

Stocks

Stocks have been valued at the lower of cost, including overheads where appropriate, and net realisable value.

Fixed Assets

Depreciation is provided on fixed assets on a straight line basis, so as to write them off over their estimated useful lives.

The annual rates of depreciation are as follows:

Freehold land	-nil
Buildings	-between 4% and 10%
Plant and Machinery	-between 5% and 25%

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

1 ACCOUNTING POLICIES (CONTINUED)

Goodwill

Purchased goodwill is amortised on a straight line basis over its useful economic life, which in relation to the goodwill included in these financial statements has been assessed as a period of 10 years from acquisition.

Deferred Tax

Deferred taxation is recognised in full as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is only recognised to the extent that the transfer of economic benefits in future is considered probable. Deferred tax assets and liabilities recognised have not been discounted.

Pensions

Payments to defined contribution pension schemes are charged as an expense to the profit and loss account as they fall due.

For defined benefit pension schemes, the obligation is calculated by independent actuaries. Actuarial gains and losses, which represent differences between the expected and actual return on the plan assets and the effect of changes in the actuarial assumptions, are recognised in full in the period in which they occur in the Statement of Total Recognised Gains and Losses. All other gains and losses are taken to the profit and loss account.

The defined retirement benefit obligation recognised in the Balance Sheet comprises the total for each plan of the present value of the benefit obligation using a discount rate determined by market yields on high quality corporate bonds, less the fair values of the scheme assets at the balance sheet date. This obligation is offset, where applicable, by the related deferred tax asset

Foreign currency translation

Monetary foreign currency assets and liabilities held at the balance sheet date are translated into sterling at the rates ruling on the balance sheet date. Normal trading transactions denominated into foreign currency are recorded in sterling at the exchange rate on the date of the transaction. All exchange differences on monetary assets and liabilities are dealt with through the profit and loss account.

Cash flow statements

The company is exempt from the requirement of Financial Reporting Standard No 1 (revised) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking whose consolidated financial statements are publicly available.

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

2 ANALYSIS OF TURNOVER

All turnover arises in the UK and relates to the one principal activity.

3 OPERATING LOSS

	2005 £	2004 £
Operating loss is stated after charging/(crediting):		
Depreciation	171,570	207,468
Amortisation of goodwill	498,937	498,940
Auditors' remuneration:		
Audit	13,000	12,466
Non-Audit (Tax)	4,480	2,000
Profit on sale of fixed assets	(2,011)	(700)
	<u> </u>	<u> </u>

4 DIRECTORS AND EMPLOYEES

	2005 £	2004 £
Employee costs including directors		
Wages and salaries	868,995	878,516
Social Security costs	83,997	85,184
Pension costs	45,376	49,373
	<u>998,368</u>	<u>1,013,073</u>

The average number of employees including directors was:

	2005 Number	2004 Number
Production	28	30
Management and administration	13	13
	<u>41</u>	<u>43</u>

5 DIRECTORS' EMOLUMENTS

	2005 £	2004 £
Aggregate directors' emoluments	71,243	79,323
	<u> </u>	<u> </u>

Retirement benefits are accruing for Mr W. Clason under the Finnforest UK Limited group's defined benefit pension scheme. Aggregate pension contributions paid by the company in respect of the services of this director were £12,800 (2004 £12,582).

The emoluments of R. Allan and J Vesterinen are paid by the parent company. The emoluments are deemed to be wholly attributable to their services to the parent company, and no recharge is made to Burt Boulton and Haywood Limited for these services. Accordingly, the above details include no emoluments in respect of these directors. No pension contributions were paid by the Company in respect of Mr Allan.

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £	2004 £
Interest on loans	-	102,221
Interest on overdraft	179,292	-
Other financing costs	8,000	6,000
	<u>187,292</u>	<u>108,221</u>

7 INTEREST RECEIVABLE

	2005 £	2004 £
Interest receivable	Nil	471
	<u>Nil</u>	<u>471</u>

8 TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2005 £	Restated 2004 £
Current tax:		
UK corporation tax at 30% (2004: 30%) on loss of the year	45,000	155,000
Adjustments in respect of prior year	(1,911)	(2,098)
Total current tax	<u>43,089</u>	<u>152,902</u>
Deferred tax:		
Origination and reversal of timing differences	5,730	(10,618)
Pension cost relief in excess of pension charge	1,200	1,500
	<u>50,019</u>	<u>143,784</u>

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

8 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

(b) Factors affecting current tax charge for the year

The tax assessed for the year varies from the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £	Restated 2004 £
Loss on ordinary activities before tax	(359,122)	(20,647)
Loss on ordinary activities multiplied by rate of corporation tax of 30% (2004: 30%)	(107,737)	(6,194)
Expenses not deductible for tax purposes	159,617	162,694
Accelerated capital allowances and other timing differences	(5,680)	-
Pension cost relief	(1,200)	(1,500)
Adjustment in respect of prior year	(1,911)	(2,098)
Current tax charge for the year	43,089	152,902

9 FIXED ASSET INVESTMENT

	2005 £	2004 £
Investment in subsidiary	500,000	500,000

The investment relates to the shares held in Timbera Limited, Company Number 441153, registered in England and Wales.

Burt Boulton and Haywood Limited owns 100% of the share capital of Timbera which is a dormant company.

10 INTANGIBLE ASSETS

	Goodwill £
Cost	
At 1 January 2005 and 31 December 2005	4,989,393
Amortisation	
At 1 January 2005	3,243,108
Charge for the year	498,937
At 31 December 2005	3,742,045
Net Book Value	
At 31 December 2005	1,247,348
At 31 December 2004	1,746,285

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

11 TANGIBLE ASSETS

	Freehold land and buildings £	Short leasehold property £	Plant and equipment £	Total £
Cost				
At 1 January 2005	368,700	461,354	2,528,390	3,358,444
Additions	-	-	191,025	191,025
Disposals	-	-	(133,171)	(133,171)
As at 31 December 2005	368,700	461,354	2,586,244	3,416,298
Depreciation				
At 1 January 2005	97,500	293,993	2,003,871	2,395,364
Charged in year	-	28,589	142,981	171,570
Disposals	-	-	(133,171)	(133,171)
As at 31 December 2005	97,500	322,582	2,013,681	2,433,763
Net book value				
At 31 December 2005	271,200	138,772	572,563	982,535
At 31 December 2004	271,200	167,361	524,519	963,080

12 STOCKS

	2005 £	2004 £
Raw materials and consumable stores	2,073,047	2,585,944
Finished goods	1,392,934	1,868,723
	3,465,981	4,454,667

13 DEBTORS

	2005 £	Restated 2004 £
Trade debtors	1,502,152	1,523,404
Other debtors	33,065	16,309
Amounts owed by Group companies	-	10,459
Deferred tax asset	-	2,548
Prepayments and accrued income	16,765	32,417
	1,553,982	1,585,137

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

14 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £	2004 £
Bank overdraft	1,708,466	2,009,355
CPO creditor	49,745	337,060
Trade creditors	504,248	843,499
Amounts owed to Group companies	578,821	513,301
Other creditors	9,237	8,811
Social security, PAYE and VAT	175,852	259,144
Accruals and deferred income	160,934	235,909
Corporation tax	2,916	72,897
	<u>3,190,219</u>	<u>4,279,976</u>

The CPO creditor refers to a payment in advance of £49,745 (2004: £337,060) from Newport County Borough Council. The payment is in respect of a reimbursement of costs for partial site relocation following a compulsory purchase order being brought on the land at the Newport site in 2001.

The overdraft is not secured against the Company's assets.

15 DEFERRED TAX

	Accelerated capital allowances £'000	Pension scheme deficit £'000	Total £'000
Asset at 1 January 2005 (as restated)	(2,548)	(95,700)	(98,248)
Charge to profit and loss account	5,730	1,200	6,930
Movement due to movement in pension deficit	-	(35,100)	(35,100)
Liability/(asset) at 31 December 2005	<u>3,182</u>	<u>(129,600)</u>	<u>(126,418)</u>

The deferred tax has been restated following the adoption of FRS 17 in these financial statements. This impact has been to recognise a deferred tax asset on the pension scheme deficit as noted in the table above.

16 SHARE CAPITAL

The share capital comprises:

	2005 £	2004 £
Authorised: 25,000,000 preference shares of £1	<u>25,000,000</u>	<u>25,000,000</u>
Issued: 8,000,000 preference shares of £1 each	<u>8,000,000</u>	<u>8,000,000</u>

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

17 PROFIT AND LOSS ACCOUNT

	2005 £
At 1 January 2005	(3,029,269)
Prior year adjustment – FRS 17	(224,167)
	<hr/>
Retained loss for the year	(3,253,436)
Actuarial loss on pension scheme	(409,141)
Movement on deferred tax relating to pension deficit	(117,000)
	35,100
	<hr/>
At 31 December 2005	3,744,477
	<hr/>

Prior year adjustment

The prior year adjustment relates to the adoption of FRS 17.

FRS 17 requires the assets of defined benefit scheme to be measured at market value at each balance sheet date and the liabilities to be measured using a specific valuation method and is to be discounted using a corporate bond rate, with any resulting pension scheme surplus or deficit to be recognised immediately on the balance sheet with the corresponding gain or loss immediately recognised in the statement of recognised gains and losses. The current service cost, interest on the defined benefit liability, the expected return on assets and any other gains and losses are recognised in the profit and loss account.

The adoption of FRS 17 has resulted in the following impact on the profit and loss account and statements of recognised gains and losses for the year ended 31 December.

	2005 £'000	2004 £'000
Operating profit	12,000	11,000
Interest payable	(8,000)	(6,000)
Taxation	(2,344)	(1,500)
	<hr/>	<hr/>
	1,656	3,500
	<hr/>	<hr/>

Analysis of prior year adjustment

Adjustment to reserves at 1 January 2004	(177,967)
Adjustment to P&L account for year ended 31 December 2004	3,500
Adjustment to statement of total recognised gains and losses for year ended 31 December 2004	(49,700)
	<hr/>
	(224,167)
	<hr/>

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	Restated 2004 £
Loss for the year	(409,141)	(164,431)
Actuarial gain on pension scheme	(117,000)	(71,000)
Movement on tax relating to actuarial loss on pension scheme	35,100	21,300
	<hr/>	<hr/>
Net reduction in shareholders funds	(491,041)	(214,131)
Opening shareholders' funds as previously reported	4,970,731	5,138,662
Prior year adjustment – FRS 17	(224,167)	(177,967)
	<hr/>	<hr/>
Opening shareholders' funds as restated	4,746,564	4,960,695
	<hr/>	<hr/>
Closing shareholders' funds	4,255,523	4,746,564
	<hr/>	<hr/>

19 IMMEDIATE AND ULTIMATE PARENT UNDERTAKING AND RELATED PARTIES

The immediate and ultimate holding company is Finnforest Oyj, registered in Finland which owns 100% of the ordinary share capital of the Company. The company has taken advantage of the exemption not to disclose transactions or balances with entities that are part of the group or are investees of the group. Copies of consolidated financial statements are available from: Finnforest Oyj, Revontulentie 8 C, FIN-02100 ESPOO, Finland.

20 PENSIONS

The company participates in the Finnforest UK Pension Plan which is an occupational pension scheme containing a defined benefit section. The last full actuarial valuation of the scheme was carried out by a qualified independent actuary as at 6 April 2005 (this is the effective date at which accurate liability figures have been calculated for FRS17 purposes). This has been updated on an approximate basis to 31 December 2005.

The contributions made by Burt Boulton & Haywood Limited over the financial year have been £41,000 (2004: 41,000) equivalent to 26.1% of pensionable pay to the defined benefit element of the scheme. This contribution rate was reviewed following the triennial valuation of the scheme as at 6 April 2005, and with effect from 1 January 2006, the employer contributions will be 15.6% of pensionable pay, together with an appropriate contribution towards the deficit in the scheme. As the scheme is closed to new entrants, the current service cost as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll. In addition contributions to the defined contribution element of the scheme was £16,373 (2004: £19,373).

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

20 PENSIONS (continued)

FRS 17 retirement benefits

Assumption

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	As at 31 December 2005	As at 31 December 2004	As at 31 December 2003
Inflation	2.50% p.a.	2.50% p.a.	2.50% p.a.
Salary increases	4.00% p.a.	4.00% p.a.	4.00% p.a.
Rates of discount	4.80% p.a.	5.30% p.a.	5.34% p.a.
Pension in payment increases	2.50% p.a.	2.50% p.a.	2.50% p.a.
Revaluation rate for deferred pensioners	2.50% p.a.	2.50% p.a.	2.50% p.a.

The assets of the scheme, on allocation of the assets based on the Company's share of the full scheme liabilities, and the expected rates of return were:

Assets

	As at 31 December 2005 £	As at 31 December 2004 £	As at 31 December 2003 £
Equities	801,000	660,000	539,000
Bonds	278,000	234,000	171,000
Property	-	26,000	19,000
Hedged funds	85,000	-	-
Cash	23,000	31,000	12,000
	<u>1,187,000</u>	<u>951,000</u>	<u>741,000</u>
Present value of scheme liabilities	(1,619,000)	(1,270,000)	(994,000)
	<u>(432,000)</u>	<u>(319,000)</u>	<u>(253,000)</u>
Pension deficit			
Deferred tax asset	129,600	95,700	75,900
	<u>(302,400)</u>	<u>(223,300)</u>	<u>(177,100)</u>

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

20 PENSIONS (continued)

Expected long term rate of return

	As at 31 December 2005	As at 31 December 2004	As at 31 December 2003
Equities	6.05% p.a.	6.55% p.a.	6.59% p.a.
Bonds	4.80% p.a.	5.30% p.a.	5.34% p.a.
Property	-	6.30% p.a.	6.34% p.a.
Hedged funds	6.05% p.a.	-	-
Cash	4.50% p.a.	4.75% p.a.	3.75% p.a.

Analysis of the amounts charged to operating profit:

	31 December 2005 £	31 December 2004 £
Current service cost	29,000	30,000

Analysis of the amounts credited to other finance income:

	31 December 2005 £	31 December 2004 £
Expected return on pension scheme assets	59,000	47,000
Interest on pension scheme liabilities	(67,000)	(53,000)
Net finance charge	(8,000)	(6,000)

BURT BOULTON & HAYWOOD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

20 PENSIONS (continued)

Movement in the deficit during the year

	As at 31 December 2005 £	As at 31 December 2004 £
Deficit in scheme at beginning of year	(319,000)	(253,000)
Movement in year:		
Current service cost	(29,000)	(30,000)
Net finance charge	(8,000)	(6,000)
Contributions	41,000	41,000
Actuarial loss	(117,000)	(71,000)
Deficit in scheme at end of year	<u>(432,000)</u>	<u>(319,000)</u>

History of experience gains and losses

A history of the amounts recognised in the statement of total recognised gains and losses for the previous four accounting years are as follows:

	Year ended 31 December 2005	Year ended 31 December 2004	Year ended 31 December 2003	Year ended 31 December 2002
Differences between expected and actual return of scheme assets				
Amount	£172,000	£139,000	£64,000	£(222,000)
Percentage of scheme assets	14%	15%	9%	31%
Experience gains and losses on scheme liabilities:				
Amount	£(135,000)	£(57,000)	£(75,000)	£24,00
Percentage of the present value of the scheme liabilities	30%	4%	8%	2%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:				
Amount	£(154,000)	£(153,000)	£14,000	£(46,000)
Percentage of the present value of the scheme liabilities	11%	12%	1%	4%
Total actuarial gain or loss				
Amount	£(117,000)	£(71,000)	£153,000	£(244,000)
Percentage of the present value of the scheme liabilities	35%	6%	15%	22%

21 Commitments and contingencies

The company leases its site from a third party. Under the terms of the lease and related environmental legislation the Company is required to make good any liabilities arising as a result of its operation and use of the site. A preliminary review is being undertaken to determine if liabilities may exist under these obligations, but as this stage it is not possible to determine what, if any, liabilities may exist.