A perspective of the group is given on pages 1 to 9 and the activities of the company's principal subsidiary, associated and joint venture companies are indicated on page 57. Analyses of turnover, operating profit and net assets are shown in note 3 on page 46. Reviews of the operating and financial performance of the group for the year, of any important events after the year end, and of likely future developments, are given on pages 12 to 24 and, together with the Chairman's statement on pages 10 and 11, and the safety, ethics & environment report on pages 25 to 27, form part of this report.

The corporate governance report on pages 32 and 33 is submitted by the Board, and the remuneration report to shareholders on pages 34 to 40 is submitted by the management remuneration and development committee on behalf of the Board. A statement of directors' responsibilities for the preparation of financial statements for the year to 31 March 2003 is given on page 41.

Dividends

The Board recommends a final dividend of 8.9p per share *(2002 8.6p)* making a total for the year of 13.55p *(2002 13.1p)*. If approved, the final dividend will be paid on 22 August 2003 to shareholders on the register on 25 July 2003; the interim dividend of 4.65p was paid on 24 January 2003.

Share capital

Full details of changes in the company's share capital which occurred during the year are shown in note 24 on page 54.

No shares were purchased during the year under the limited authority granted at the 2002 annual general meeting to make market purchases of up to 10% of the company's shares.

At 31 March 2003 there were 492.8 million ordinary shares in issue held by 8,881 shareholders. These shareholdings are analysed in the tables below by category of shareholder and size of shareholding.

As at 7 May 2003, the company had been notified of the following interests of 3% or more in its issued ordinary share capital: Prudential plc 7.0%; Sprucegrove Investment Management Ltd 7.0%; Standard Life Investments 4.9%; Scottish Widows Investment Partnership Ltd 4.0%; Legal & General Investment Management 3.2%; Zurich Financial Services Group 3.0%; in addition Chase Nominees Ltd holds 4.7% as a bare trustee.

Annual general meeting

The company's annual general meeting will be held at 12 noon on Wednesday 23 July 2003 at the Millennium Hotel Mayfair, London W1.

After considering the ordinary business, which includes for the first time a resolution to approve the remuneration committee's report as set out on pages 34 to 40, shareholders will be asked to consider, as special business, a proposal to renew the directors' limited authority to make market purchases of the company's shares.

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

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

Electronic shareholder services

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

Directors and their interests

The directors of the company during the year were as shown on pages 28 and 29, together with Peter Sydney-Smith who left the group on 30 June 2002 and Sir John Whitehead who retired on 24 July 2002.

The interests of the directors holding office at the year end in the company's ordinary shares as at 31 March 2003, and movements during the year in their share option and share matching plan interests, were as shown in the

Category of shareholder	Number of accounts	% of total accounts	% of ordinary share capital
Individuals	5,834	65.69	3.32
Banks and nominees	2,394	26.96	93.49
Companies	649	7.31	2.07
Insurance companies and pension trusts	4	0.04	1.12
	8,881	100.00	100.00

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

Size of shareholding	Number of accounts	% of total accounts	% of ordinary share capital
1–1,000	2,783	31.34	0.31
1,001–10,000	4,973	56.00	3.25
10,001–100,000	749	8.43	4.82
100,001–500,000	230	2.59	10.80
500,001–1,000,000	66	0.74	9.89
over 1,000,000	80	0.90	70.93
	8,881	100.00	100.00

remuneration committee's report on pages 38 and 39; the weighted average prices of directors' share options, together with the pre-tax gain in value of exercisable options at 31 March 2003 are shown on page 39.

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

Gerry Acher, who will retire having been appointed since the last annual general meeting, together with Lady Balfour of Burleigh, Jean-Pierre Clavel, Richard Cousins, Mark Higson and Paul Withers, who retire by rotation, offer themselves for re-election at the forthcoming annual general meeting. Michael Beckett and Martin Clark will be retiring as directors at the conclusion of that meeting but will not seek re-election.

As explained in the service agreements paragraph on page 36, Richard Cousins, Mark Higson and Paul Withers have contracts subject to termination on twelve months' notice and Jean-Pierre Clavel has a contract terminable on six months' notice. Lady Balfour of Burleigh and Gerry Acher do not have service contracts.

Employment policies

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

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

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

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

Employees in the UK have the opportunity to participate in the company's SAYE share option scheme over a three or five year period, and further details of these arrangements are given in note 24 on page 54. Approximately 75% of eligible employees (those with a minimum of one year's service) now participate in the scheme, each holding on average options over nearly 4,750 shares and saving in excess of £150 per month. In addition, employees are able to participate in the BPB UK Employee Share Ownership Plan providing a further opportunity to increase their shareholding in BPB by enabling them to buy shares on a monthly basis out of pre-tax salary. Over 11% of eligible employees (those with a minimum of 18 months' service) participate in the plan, investing on average almost £70 per month in BPB shares.

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

BPB is committed to providing equal opportunity in recruitment, promotion, career development, training and reward for all employees without discrimination and continues to be supportive of the employment and advancement of disabled persons in accordance with their abilities and aptitudes, provided that they can be employed in a safe working environment. If employees become disabled every effort is made to ensure their employment continues, with appropriate training where necessary.

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

Research and development

The group's research and development programme plays a key role in supporting BPB's activities. During the year, the group spent £4.6 million *(2002 £4.3 million)* on increasing manufacturing efficiency, improving product quality and introducing new products. BPB's acoustic, fire, systems-development and structural testing facilities are accredited to international standards through UKAS for assessment of BS, ISO, ASTM, NF and EN standards; such accreditation is also recognised by a variety of international standards authorities.

Charitable and political contributions

Details of payments for charitable purposes made during the year are given on page 27. The company did not make donations to or incur expenses to benefit any UK or other EU political parties or organisations *(2002 nil)*.

Auditors

A resolution proposing the re-appointment of Ernst & Young LLP as auditors to the company will be put to the annual general meeting on 23 July 2003.

On behalf of the Board
RM Heard
Director and group secretary
21 May 2003

The Board is committed to high standards of corporate governance in its management of the affairs of the group.

The group's policy guidelines on corporate direction and control have ensured that the company has applied all of the principles of good governance contained in the Combined Code in the organisational structure it has adopted to conduct its business, the means by which directors are remunerated, the manner of contact with shareholders, and the procedures adhered to in its financial reporting, internal control and assurance process. Other than in connection with the disclosures elsewhere in this report relating to executive director service contracts (which will be fully compliant by 1 August 2003 – see page 36) and nomination of a senior independent director (below), the company has also complied in full throughout the financial year with the detailed best practice governance provisions set out in the Combined Code.

The Board and its committees

Effective management and good stewardship are led by the Board of directors, which meets at least seven times each year and currently comprises six executive directors, six non-executive directors and the chairman. This balance ensures that no individual director or small group of directors dominates the decision making process.

Although all directors are equally accountable under the law for the proper stewardship of the company's affairs, the non-executive directors fulfil a vital role in corporate accountability. They have a particular responsibility to examine critically the strategies proposed by the executive directors and play a leading role in the functioning of the main Board committees. They are all considered by the Board to be fully independent, including Martin Clark and Michael Beckett, whose contributions remain as robustly challenging as ever in their (respective) eleventh and twelfth years of office; both will, however, be retiring at this year's AGM as part of the Board's succession planning.

The Board has again considered the appointment of a senior independent director, but has concluded that, given BPB's governance structure and processes, such an appointment is not necessary, all the more so in light of the proposals in the Higgs Review to expand the responsibilities of the appointment at the expense of diminishing the role of the chairman and creating potential for Board division without any demonstrable commensurate benefit. Accordingly, the Board has unanimously decided that if any person wishes to convey a concern they should contact the group chairman or any other director.

There are procedures to provide directors with appropriate and timely information, and all directors have access to the advice of the group secretary; independent professional advice is also available to directors in appropriate circumstances at the company's expense.

Following the appointment of new directors to the Board an induction programme is arranged, including visits to the group's businesses and meetings with senior management as appropriate, to facilitate their understanding of the group.

New directors appointed by the Board must submit themselves for re-election by shareholders at the AGM following their appointment. Thereafter, in accordance with the Combined Code, the articles of association require that all directors stand for re-election at least every three years.

The Board as a whole determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors the performance of the executive, but has five principal committees to deal with specific aspects of the group's affairs.

The *group executive committee* consists of all the executive directors together with three senior group executives, meets seven times a year and is chaired by the group chief executive; its principal tasks are to ensure the proper management of the group's operations, to act as a forum for consultation and co-ordination, and to make recommendations to the Board.

The *audit committee* meets at least three times each year to review and discuss the intended publication of results, the efficacy and reliability of internal control, any changes to financial reporting requirements and matters arising from the annual group audit; it also keeps under review the overall financial relationship with, and independence and objectivity of, the external auditors. Its current members comprise the group chairman and four non-executive directors, one of whom acts as chairman of the committee.

The *management remuneration and development committee* meets at least four times a year and currently consists of the group chairman and three non-executive directors, one of whom acts as chairman of the committee. Details of the committee's main functions, and its current remuneration policies for parent company directors and senior executives, are given in the remuneration committee's report commencing on page 34.

The *nomination committee* meets at least twice every year to review the Board structure, size and composition, and to supervise succession plans for the posts of group chairman and group chief executive. When appropriate, the committee nominates for consideration by the Board candidates for parent company directorship. Current members comprise the group chairman and four non-executive directors, one of whom acts as chairman of the committee.

The *safety, ethics & environment committee* meets at least three times a year and consists of the group chairman and three non-executive directors, one of whom acts as chairman of the committee; its principal tasks are to facilitate throughout the group the promotion by management of a culture of responsible corporate behaviour and for assessing the adequacy of management reporting of such behaviour in compliance with embedded procedures and policies. It also assists in promoting a culture of safe working practices and care and sensitivity towards the environment, and overviews the group's charitable donations policy.

Current chairmanships and memberships of all these committees are shown on page 28. In addition, the group secretary has a specific responsibility to the group as a whole for its sound governance and for the guidance of the Board in the responsible and effective execution of its tasks.

Attendance at Board and committee meetings was almost 100% during the year; of the 27 meetings held there were only six occasions on which one director was absent, and only one director missed two meetings.

Internal control

The Combined Code requires listed companies to maintain a sound system of internal control to safeguard shareholders' investments and the company's assets. The Turnbull Report, adopted by the Financial Services Authority, provides guidance for compliance with that part of the Combined Code. In addition, the Association of British Insurers has issued disclosure guidelines on socially responsible investment which require listed companies to report to shareholders and give assurance that the company is managing its risks on social, ethical and environmental matters.

Set out below is the group statement on internal control in accordance with the guidance provided by the Turnbull Report and the Association of British Insurers.

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

The Board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the group and that it has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts.

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

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

- a clearly defined organisation structure with established responsibilities
- a simple and focused business strategy, thus restricting potential risk exposures
- group financial, business conduct, operating and administrative policies and procedures which incorporate statements of required behaviour
- continuous review of operating performance
- monitoring by the Board of a comprehensive reporting system, including monthly results, annual budgets, and periodic forecasts
- approval by the Board of all major investments, with proposals being subject to rigorous strategic and commercial examination, and with post-investment appraisals of all significant projects
- regular review by the Board of the activities and performance of key risks that may impede meeting business objectives
- completion by business unit management of an annual finance compliance statement detailing controls in operation and listing any weaknesses
- an audit committee for each region which meets at least annually
- assurance activities covering the key business risks summarised and reported annually to the audit committee or, where appropriate, the safety, ethics & environment committee
- regional businesses reviewing their significant risks and controls and updating the regional risk profiles produced from the profiling exercises and workshops for identifying, monitoring and managing risks conducted last year. The updated regional risk profiles are presented to the audit committee and/or Board
- consideration by the Board of a key, group-wide risk and control schedule

During the year BPB introduced a centrally co-ordinated internal audit programme which uses both internal and external resource to support the Board in its role of ensuring a sound control environment.

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

The Board has completed its annual review of the effectiveness of the system of internal control for the period since 1 April 2002 and is satisfied that it is in accordance with the Turnbull Report. The assessment included consideration of the effectiveness of the Board's on-going process for identifying, evaluating and managing the risks facing the group, and a review of the work of the group internal control manager in preparing regional and group-wide risk and control profiles.

Further information on the company's system of internal controls is set out in the operational and financial review on page 24 and the safety, ethics & environment report on page 25.

Going concern

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

Shareholder communications and voting pattern

The Board recognises the importance of good communication with shareholders. In addition to the interim and annual reports which are sent to all shareholders, there is a regular dialogue with individual institutional shareholders, who also from time to time visit the group's operations. There are also general stockbroker/institutional analyst presentations each half year, trading update announcements with associated conference calls each spring and autumn, and there is an opportunity for individual shareholders to question the chairman at the AGM. The company responds as necessary to letters from individual shareholders on a wide range of issues. The Company's website, www.bpb.com, includes a section focusing specifically upon investors, and contains details of all parent company press releases.

The Board noted in 2002 a welcome return to the recent trend of a growing level of voting participation at BPB annual general meetings, with the total number of shares voted by proxy (as a proportion of the company's issued share capital) increasing from 62% to 69%. Details of the proxy votes cast for use at the 2003 AGM will be available at the meeting and will be displayed on the company's website as soon as possible thereafter.

The Committee and its remit

BPB's management remuneration and development committee is primarily responsible for determining and recommending, to the Board, the framework for executive remuneration and determining, on behalf of the Board and shareholders, the entire remuneration package of the executive directors. It also monitors salaries paid to other senior executives, decides on the grant of senior executive share option and share matching plan entitlements and supervises management development and succession plans; when appropriate, the Committee also recommends candidates for executive directorship for consideration by the Board nomination committee.

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

Committee members are Michael Beckett (chairman to 23 July 2003), Sir Ian Gibson (chairman from that date) and Franz Leibenfrost (all of whom are considered by the Board to be independent non-executive directors) together with Allan Gormly (group chairman); they all bring a wide range of experience from other organisations and their biographies are shown on pages 28 and 29. They have no personal financial interest other than as shareholders in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. The group secretary acts as secretary to the Committee and the chief executive and director of group human resources normally attend meetings, at the invitation of the Committee, to provide information and advice. The Committee also has access to professional advice from the Hay Group, New Bridge Street Consultants, Watson Wyatt and the Monks Partnership, all leading independent remuneration consultants who have been appointed by the Committee. The first three also provide advice to the company on salary matters, share schemes and pensions respectively, including implementation of policies agreed by the Committee.

Compliance

In August 2002, the Directors' Remuneration Report Regulations came into force. The regulations, which have been incorporated into the Companies Act 1985, introduced a new statutory disclosure regime on directors' remuneration which is to apply alongside the requirements of the Combined Code on corporate governance annexed to the listing rules of the Financial Services Authority.

The regulations also introduced a new requirement that a resolution be put to shareholders each year to approve the remuneration committee's report. A resolution putting this report to such a vote is set out in the notice of annual general meeting which accompanies this annual report and accounts. This will be an advisory vote on the report as a whole.

The constitution and operation of the Committee complied throughout the year with the requirements of the Companies Act 1985 and the Combined Code. Any changes to the latter as a result of the Higgs Review of the role and effectiveness of non-executive directors, which was published in January 2003, will be taken into account once they have been finalised.

Decisions and recommendations of the Committee are reported to the Board, and this report is submitted to shareholders by the Committee on behalf of the Board to describe the company's arrangements for directors' remuneration in the context of the Companies Act 1985, the principles of Section 1 of the Combined Code and the provisions of the code of best practice.

Remuneration policy

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

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

The strategy for executive director remuneration, in general terms, is to provide a balanced package which includes base pay and benefits in kind at around the median market level for comparable industrial companies and performance-based incentives in the form of an annual bonus opportunity, long-term share option arrangements and a share matching plan which links a shorter term commitment by key managers to the longer term involvement inherent in share ownership. The performance-based incentives are capable of delivering upper quartile rewards for excellent and sustained performance. Remuneration arrangements and performance targets are reviewed on a regular basis to achieve this strategy.

The Committee believes that share options remain the most suitable form of primary long-term incentive for the company; their relative simplicity remains attractive bearing in mind BPB's growing international spread of managers and, along with the UK SAYE share option schemes and share ownership plan, they have in the past generally proved to be successful motivators in aligning the interests of employees and shareholders and in enabling employees to share in the long-term success of the group, without delivering excessive benefits.

Elements of remuneration

Executive directors are entitled to:

- *base salary and benefits in kind* which are generally reviewed with effect from 1 April each year. Individual salaries and any increases are dependent upon a number of factors: the size and nature of the job, individual performance and experience, comparator group relativities, BPB's performance and the policies adopted for other groups of staff within the company. Benefits include a company car or equivalent cash allowance, pension, health insurance and, where appropriate, relocation assistance, all in line with entitlements provided for executives in similar positions in comparable industrial companies;

- *annual bonus opportunity* based upon specific and challenging targets which are objective and measurable, agreed at the start of each financial year and weighted to reflect each participant's role within the group; the Committee may, in exceptional circumstances, also award discretionary bonuses, but none were awarded during the year.

  The annual bonus opportunity generally comprises four elements: a regional component, a group of key performance indicator measures, a corporate component and personal objectives. Payments for regional performance are related to relevant operational results (typically operating profit and cash flow), with awards made in return for achievement above target. The key performance indicators measure performance related to factors such as safety records, production, overhead and customer service levels, with payments being made for achievement of stretching targets. The corporate component (usually the largest single element of bonus) remains geared to group underlying earnings per share, with bonuses only being generated above a demanding threshold level; 2002/03 targets were based on the earnings per share figure calculated before goodwill amortisation, the European Commission fine, impairment charges and other exceptional items. An element of each director's maximum entitlement is geared towards achievement of clearly defined personal objectives, including

annual bonus opportunity continued
cost reduction targets. Apart from this, the bonuses of Richard Cousins, Paul Hollingworth and Bob Heard are related only to the earnings per share and key performance indicator measures, while all other directors also have a regional element. Specific targets are not disclosed as they would give a clear indication of the group's budgetary targets, which are price sensitive.

Bonuses, which are all payable in cash, are disclosed for the year in which they are earned although they are not due and payable until June in the following year (except that Paul Hollingworth received £75,000 of his 2002/03 bonus on 31 July 2002), and they are not pensionable. Maximum performance-related bonus targets are set at 60% of base salary for executive directors and 70% for the chief executive, with generally lower limits being applicable to other senior executives. Bonuses actually earned by executive directors in 2002/03 averaged 43.9% *(2002 49.6%)*;

- *share matching plan allocations* awarded under a BPB plan whereby each year eligible directors and selected senior executives are invited to invest up to half of their actual cash bonus (net of deductions) in the company's shares. In return, participants are granted a matching award over a number of shares equal in value to the amount of bonus invested (before deductions). Provided the executive remains in employment, the matching awards are normally exercisable after three years, but only if the shares purchased with the bonus have not been sold; any such exercise will give rise to an income tax and national insurance liability based upon their value at that time.

  In this way each executive is invited to commit part of his earned performance-tested bonus for a three year period in return for additional shares in the group. Vesting of the matching award will (unless it amounts to less than 20% of base salary when granted) depend upon BPB's relative Total Shareholder Return (TSR) performance. TSR measures the change in value of a share and reinvested dividends over the period of measurement.

  BPB's TSR performance will be compared to that of a group of 19 major UK and international building materials companies over a three year period and matching awards will only vest if BPB ranks above the median performance. Measuring the company's performance against the comparator companies recognises the importance for shareholders that the company outperforms its peers and seeks to align executives' interests with those of shareholders. The preparation and calculation of such comparison will be determined by the Committee with the assistance of independent remuneration consultants.

  The composition of the comparator group is reviewed annually by the Committee. The current group of comparator companies (applicable for 2003/04 awards) comprises:

Aggregate Industries plc	Boral Ltd
Cemex SA de CV	Centex Corporation
Compagnie de Saint-Gobain SA	CRH plc
CSR Ltd	Hanson plc
Heidelberger Cement AG	Holcim Ltd
James Hardie Industries Ltd	Kingspan Group plc
Lafarge SA	Novar plc
Pilkington plc	RMC Group plc
SIG plc	Travis Perkins plc
Wolseley plc	

  The Committee continues to believe that the vesting of awards at the more modest levels of less than 20% of base salary at date of grant should not be subject to performance conditions as the investment of the bonus payment on which the awards are based has itself already been performance tested. The scheme has attracted a high take-up rate amongst the relatively small group of executive directors and other senior executives invited to participate, thereby encouraging participants to focus on long-term share price performance in addition to shorter-term bonus targets;

- *share option allocations* under the company's various equity participation schemes. BPB policy is generally to grant options over shares under the senior executive scheme approved by shareholders in 2001 (the 2001 plan) with a value up to two times earnings in any year, although grants of options in excess of this limit may be made where the executive agrees to satisfy the employer's National Insurance Contribution liability arising on the exercise of options, or if the Committee and Board decide that this is justified in the circumstances of recruitment, or in other exceptional circumstances. While the Committee believes that the individual annual limit of two times earnings is appropriate and in line with market practice, only the most senior participants in the 2001 plan are likely to receive rewards at this level, with less senior executives receiving lower levels of grant commensurate with seniority and performance. Exercise of all options will be subject to the achievement of a performance condition. To focus executive directors on generating real cash flow and earnings growth, BPB's earnings per share (EPS) must grow by at least an annual average of three percentage points over the growth in the UK RPI for a period of at least three years measured from a fixed base beginning at the end of the financial year last preceding the date of grant, and any grants with a value greater than one-times earnings in a year, in respect of the excess, require EPS growth to exceed the UK RPI by at least an annual average of four percentage points over the same period. If either test is not met within six years of the date of grant the relevant option will lapse. EPS is determined in accordance with FRS14 adjusted to exclude goodwill amortisation and exceptional items as disclosed in the group's annual accounts for the relevant period. The Committee believes this approach constitutes a stretching target given the cyclical nature of the building materials industry and BPB's EPS performance history; while options granted under the 2001 plan have not reached their first potential exercise date, those granted in 1998, 1999 and 2000 have not yet met the 2% performance target contained in the previous senior executive scheme. The 2001 plan also affords beneficial tax and social security charge treatment for share options granted to participants who are resident in France, including Jean-Pierre Clavel, provided certain criteria are met as to the setting of the price at which options are granted and the exercise period during which such options are exercisable (normally only exercisable from the fourth anniversary of the date of grant).

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

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

  The Company complies with the ABI's dilution limits restricting the number of new shares which can be issued in pursuance of awards granted under all of the company's employee share schemes in a 10-year period to 10% of the company's ordinary share capital in issue from time to time, and with the 5% in 10 years limit for executive schemes;

- *pension provision* (except in the case of Jean-Pierre Clavel - see note (iv) on page 37) of up to two-thirds of their final year's base salary at the normal retirement age of 60 (less than two-thirds where service to age 60 is below 20 years) under the BPB senior executive pension

Directors' emoluments	Salary/ fees £000	Bonus £000	Other emoluments £000	2003 Total £000	2002 Total £000	2003 Pensions £000	2002 Pensions £000
			Year to 31 March	2003	2002	2003	2002
Chairman							
AG Gormly	160	–	–	160	148	–	–
Deputy chairman (from 21.5.03)							
Sir Ian Gibson	30	–	–	30	16	–	–
Chief executive							
RJ Cousins	475	207	25	707	657	33	34
Executive directors							
J-P Clavel	235	93	16	344	295	19	16
RM Heard	200	79	12	291	272	68	61
MV Higson	245	98	13	356	296	33	34
PR Hollingworth (from 1.7.02)	210	140	84	434	–	25	–
PE Sydney-Smith (to 30.6.02)	66	25	3	94	389	22	91
PN Withers	245	94	21	360	301	83	69
Non-executive directors							
G Acher (from 1.8.02)	21	–	–	21	–	–	–
Lady Balfour of Burleigh	35	–	–	35	28	–	–
ME Beckett	35	–	–	35	32	–	–
M Clark	35	–	–	35	35	–	–
FJ Leibenfrost	30	–	–	30	28	–	–
Sir John Whitehead (to 24.7.02)	10	–	–	10	32	–	–
Former directors	43	–	–	43	117	–	–
Total emoluments	2,075	736	174	2,985	2,646	283	305
2002 analysis	1,861	707	78				

(i) The table above contains the total emoluments of the directors for the year to 31 March 2003; the figure for other emoluments has more than doubled principally due to the inclusion of the one-off payment referred to in note (ii), and the total for bonuses paid is higher than last year only because of the guaranteed minimum payment also referred to in note (ii)

(ii) Paul Hollingworth's emoluments include a one-off payment of £75,000 in recompense for the loss suffered when joining BPB on gains on share options under his previous employer's executive share option scheme (which will be repayable on a pro rata basis in the event of cessation before 31 July 2003) and a guaranteed minimum bonus payment of 50% of his base salary of £280,000 for 2002/03

(iii) With the exception of Jean-Pierre Clavel (see note (iv) on page 37), the pension benefits represent the contributions paid by the company on the basis of the full service cost, as advised by actuaries of 33% of salary for the period up to 3 October 2002 and (following a review of contribution arrangements) 35% of salary from 4 October 2002, for the funded entitlements explained in the notes on pension provision set out on pages 35 and 36

(iv) John Goodall, who retired on 31 October 2000, had a two year consultancy agreement up to 31 October 2002 under which he was paid an annual retainer of £56,250 and David Leonard had an agreement providing strategic consultancy fees of £1,000 per month for 18 months up to 31 January 2003; payments made under these arrangements are disclosed under former directors

(v) On leaving the company on 30 June 2002, Peter Sydney-Smith received a lump sum of £364,000 and is entitled to receive a further payment of £89,536 in September 2003 although this will be reduced or extinguished to take account of any earnings actually received since the date of his leaving. He also received £54,000 in respect of a consultancy agreement which terminated in December 2002. His 2002/03 bonus of £25,073 was earned for the period up to 30 June 2002

(vi) The interest-free housing loan granted to Bob Heard prior to his appointment as a director was repaid in full by him in March 2003; the amount of £7,411 outstanding at 1 April 2002 represented the maximum amount outstanding during the year to 31 March 2003

pension provision continued

scheme, a tax approved, defined benefit, fully-funded scheme, subject to an independent trust under which contributions are payable by the company. Directors may retire and draw their pensions earlier than age 60, in which case the pensions payable will be reduced by approximately 4% for each year early. On death before retirement a lump sum of four times the annual rate of base salary is provided together with a spouse's/financial dependants' pension of two-thirds of the director's prospective pension at age 60; a pension of two-thirds of the director's pre-commutation pension is payable on death after retirement. Child allowances of up to one-third of the director's prospective or actual pension at age 60 are payable on death both before and after retirement. Once in payment, pensions are guaranteed to increase in line with inflation up to a maximum of 5% per annum (or higher if the Board agrees).

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

Service agreements

In accordance with the Combined Code, the Committee decided in 1999 that, notwithstanding the possible necessity to offer a longer initial period immediately following appointment, new executive directors will be employed on a contract that can be terminated by the company on giving one year's notice, with the director required to give not less than six months notice of termination. Contracts on this basis (some with longer initial notice periods) were granted to Richard Cousins, Mark Higson and Paul Withers on 31 March 2001 and Paul Hollingworth on 1 July 2002, each of which is now terminable by the company on one year's notice. Bob Heard, who was appointed prior to the adoption of this policy, has a contract granted on 1 June 1995 which is terminable on 18 months' notice, with six months' notice of termination required from him. His company notice period has previously been reduced from three years

Executive directors' pension benefits	Age at 31 March 2003	Total accrued pension as at 1 April 2002 £	Total accrued pension as at 31 March 2003 £	Gross increase in accrued pension during the year £	Increase in accrued pension during the year net of inflation of 1.7% £	Transfer value of total accrued pension as at 1 April 2002 £	Transfer value of total accrued pension as at 31 March 2003 £	Increase/ (decrease) in transfer value for the year to 31 March 2003 £
J-P Clavel	55	–	–	–	–	–	–	–
RJ Cousins	44	107,602	138,889	31,287	29,458	1,045,631	1,017,969	(27,662)
RM Heard	50	83,210	101,380	18,170	16,755	1,114,531	1,051,674	(62,857)
MV Higson	46	55,792	78,264	22,472	21,523	621,821	657,952	36,131
PR Hollingworth (appointed 1.7.02)	42	–	7,000	7,000	7,000	–	48,728	48,728
PN Withers	46	70,108	93,396	23,288	22,096	778,662	782,529	3,867

(i) Transfer values have been calculated on the basis of actuarial advice in accordance with actuarial guidance note GN11. They represent a liability of the pension scheme to the extent they are funded and otherwise they are a liability of the company, rather than any remuneration due to the executive director, and cannot meaningfully be aggregated with annual remuneration, and do not represent money the executive director is entitled to receive

(ii) No contributions were made to the pension scheme by directors during the year

(iii) The accumulated unfunded pension provision as at 31 March 2003 is £7,135,000 *(2002 £6,261,000)* including provision in respect of three *(2002 three)* former directors; payments are disclosed as pensions paid to past directors when they are made. During the year, £286,259 was paid in respect of three former directors *(2002 £284,269 for three former directors)*

(iv) Jean-Pierre Clavel is a member of the French complementary pension system (known as AGIRC) for his French earnings, to which the group contributed £18,543 in 2002/03 *(2002 £15,576)*. For that part of his basic salary paid in the UK (£27,500 in 2002/03), no pension is being accrued

(v) Peter Sydney-Smith left the company on 30 June 2002 at which time he received two years of additional pensionable service at a total cost of £164,000. He had an accrued pension of £118,502 per annum as at 1 April 2002, which had a transfer value at that date of £1,557,788. On reaching age 50 in November 2002 he drew a reduced pension amounting to £74,203 per annum, after exchanging £14,570 per annum of pension for a lump sum. The transfer value of his pension (including the lump sum) as at 31 March 2003 was £1,923,474 (an increase of £365,686), allowing for market conditions at that date. A large part of this increase results from the significantly lower rate at which pension payments must be discounted under actuarial guidance note GN11 once a pension is put into payment. As stated in note (i) above, these transfer values do not constitute remuneration due to Peter Sydney-Smith

Service agreements continued

and will now be further reduced to one year on 1 August 2003. This reflects the company's policy over recent years of negotiating reductions in executive director notice periods from three years to two years and then progressively from two years to one year, without compensation. In addition, with effect from 31 March 2003, the entitlement in all 12 month agreements to an extra six months' notice in the event of termination within 12 months of a change of control of the company was removed, again without compensation.

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

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

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

Policy on external appointments

Although there are none at present, the Committee believes that the company can benefit from executive directors holding one approved non-group directorship, offering directors the opportunity to broaden their experience and knowledge. Company policy is to allow directors to retain fees paid from any such appointment.

Non-executive directors

Non-executive directors are normally appointed for an initial period of three years; re-appointment is not automatic, they do not have service contracts with the company and they receive no benefits other than their fees. The basic fee rate, which had remained unchanged for two years, was increased on 1 October 2002 from £27,500 to £33,000. No additional fees are paid to reflect time spent working on Board committees.

The group chairman receives remuneration at the rate of £130,000 per annum in addition to his non-executive director fees. The remuneration payable to the deputy chairman from 21 May 2003 will be disclosed in next year's annual report.

The chairmen of the management remuneration and development committee, the audit committee, the safety, ethics & environment committee and the nomination committee each receive additional remuneration; this is payable at the rate of £5,000 per annum for the first three committees and £2,500 per annum for the other one, the higher rates for the former recognising the additional burdens now placed on the respective chairmen.

The role played by non-executive directors in improving company performance and accountability, and the fees and remuneration paid to them, will be further reviewed in 2003/04 in light of the changes actually made to the Combined Code as a result of the recommendations of the Higgs Review.

Directors' interests in ordinary shares and share matching awards	1 April 2002* Shares	1 April 2002* Share matching awards	Share matching award movements Granted	Share matching award movements Exercised	Share matching award movements Lapsed	31 March 2003 Share matching awards	31 March 2003 Shares
G Acher (appointed 1.8.02)	5,000	–	–	–	–	–	5,000
Lady Balfour of Burleigh	1,500	–	–	–	–	–	3,400
ME Beckett	35,000	–	–	–	–	–	41,500
M Clark	5,000	–	–	–	–	–	5,000
J-P Clavel	16,601	21,029	11,328	8,911	–	23,446	29,448
RJ Cousins	32,605	12,844	28,955	2,840	–	38,959	53,231
Sir Ian Gibson	3,470	–	–	–	–	–	5,630
AG Gormly	89,021	–	–	–	–	–	89,021
RM Heard	42,130	16,063	12,191	4,655	–	23,599	43,716
MV Higson	11,626	19,008	13,575	9,766	–	22,817	26,099
PR Hollingworth (appointed 1.7.02)	20,000	–	–	–	–	–	20,000
FJ Leibenfrost	5,000	–	–	–	–	–	5,000
PN Withers	90,488	12,746	13,954	3,345	–	23,355	102,680
	357,441	81,690	80,003	29,517	–	132,176	429,725

*or date of appointment, if later

(i) Share matching awards exercised by RJ Cousins, RM Heard and PN Withers were awarded on 12.7.99 when the prevailing market price was 388p. These awards first became exercisable on 12.7.02 when the total market value of each award was £8,690, £14,244 and £10,236 respectively. Those awards exercised by J-P Clavel were awarded on 6.8.98 (5,145 shares) and 12.7.99 (3,766 shares) at prevailing market prices of 330p and 388p respectively. The awards first became exercisable on 6.8.01 and 12.7.02 respectively, when the total market value of each award was £13,248 and £11,524 respectively

(ii) Share matching awards exercised by MV Higson were awarded on 6.8.97 (2,590 shares), 6.8.98 (4,150 shares) and 12.7.99 (3,026 shares) when the prevailing market price was 343p, 330p and 388p respectively. These awards first became exercisable on the third anniversary of the date of grant being 6.8.00, 6.8.01 and 12.7.02 respectively, when the total market value of each award was £6,993, £10,686 and £9,260 respectively

(iii) On leaving the company on 30 June 2002, Peter Sydney-Smith held 33,021 share matching awards *(1 April 2002: 33,021 awards)*. No awards were made to or exercised by him in the three month period prior to his leaving the company

Ordinary shares and share matching awards

The interests of the directors who held office on 31 March 2003 in the company's ordinary shares (including shares acquired during the year under the UK employee share ownership plan) as at that date and 1 April 2002 (or their date of appointment, if later), together with movements in the matched shares awarded under the share matching plan, were as shown in the table above.

No changes in those interests occurred in the period between 1 April 2003 and 7 May 2003, except for monthly purchases of shares under the company's UK employee share ownership plan which resulted in each of the executive directors (excluding Jean-Pierre Clavel and Paul Hollingworth) acquiring an additional 45 shares each during that period.

All of those interests were held beneficially, except 25,000 shares held by Allan Gormly under a trust fund. During the year none of the directors had any interest in the company's 6.5% euro denominated bonds due 2010.

At the year end, executive directors held an average of 51,035 shares, an increase of 32% on the 38,690 shares they held on 1 April 2002, with the exception of Paul Hollingworth who only joined the company on 1 July 2002. Over the last three years their shareholding figure has increased on average by over one-third per annum.

Executive directors are entitled to participate in the company's share matching plan, under which they purchased for cash during the year a total of 44,852 shares in their own names at 327.9p per share. Directors were then granted matched awards for a nil consideration over a total of 80,003 shares which are held in the name of the BPB Employee Trust and which are normally accessible only from 4 July 2005.

At the year end directors held matched shares awarded under the share matching plan over a total of 132,176 shares *(2002 114,711)* which are normally exercisable between the third and seventh anniversaries of the date of grant. The executive directors, as potential beneficiaries of the BPB Employee Trust, are also deemed to have an interest in all 391,272 BPB ordinary shares held by the Trust at 31 March 2003 *(2002 328,620)*; similarly, they are also deemed to have an interest in all 2,556,348 ordinary shares held by the BPB QUEST (see note 24 on page 54) at 31 March 2003 *(2002 67,826)*.

Pre-tax gains in value on the exercise of matched awards granted under the company's share matching plan during the year were made as follows: Jean-Pierre Clavel made pre-tax gains of £8,897 and £11,846 at a market price on the date of exercise of 236.3p and 230.25p respectively; Richard Cousins made a pre-tax gain of £8,520 at a market price of 300p; Bob Heard made a pre-tax gain of £13,129 at a market price of 282.1p; Mark Higson made a pre-tax gain of £27,149 at a market price of 278p and Paul Withers made a pre-tax gain of £10,503 at a market price of 314p. Apart from sales of some shares to meet associated tax liabilities, all shares acquired on the exercise of maturing awards were retained by each director.

Share options

Executive directors are entitled to participate in the company's SAYE and senior executive share option schemes, and the interests of those who held office on 31 March 2003 are set out in the table on page 39; details of the total number of options granted and shares outstanding under these schemes are given in note 24 on page 54.

During the year, executive share options over 910,700 shares at an option price of 327p per share were granted to executive directors under the 2001 plan as follows: Richard Cousins 331,900 shares, Bob Heard 138,700 shares, Mark Higson 171,700 shares, Paul Hollingworth 96,700 shares and Paul Withers 171,700 shares; in addition, Jean-Pierre Clavel received

Directors' interests in share options	1 April 2002*	Option movements: Granted	Exercised	Lapsed	31 March 2003	Earliest date from which any option is exercisable	Latest expiry date
J-P Clavel	357,200	133,900	–	–	491,100	11 July 1997	4 July 2012
RJ Cousins	694,559	331,900	–	–	1,026,459	15 July 2000	4 July 2012
RM Heard	303,133	138,700	–	–	441,833	25 July 1999	4 July 2012
MV Higson	390,668	171,700	–	–	562,368	15 July 2000	4 July 2012
PR Hollingworth	–	96,700	–	–	96,700	5 July 2005	4 July 2012
PN Withers	366,068	171,700	–	–	537,768	11 July 1997	4 July 2012
	2,111,628	1,044,600	–	–	3,156,228		

*or date of appointment, if later

(i) Options over shares granted under the SAYE scheme are normally exercisable for six months after the third or fifth anniversary of the commencement of the related savings contract
(ii) Options over shares granted under the UK senior executive schemes are normally exercisable between the third and tenth anniversaries of the date of grant, apart from options granted in 1996 and 1997 which are normally exercisable between the third and seventh such anniversaries
(iii) Options granted under the French schedule of the 2001 plan are normally exercisable between the fourth and tenth anniversaries of the date of grant
(iv) Exercise of options granted under the company's senior executive share schemes since 1995 are subject to the achievement of a performance condition, which may impact the earliest date from which an option is exercisable
(v) On leaving the company on 30 June 2002, the total number of shares under option held by Peter Sydney-Smith was reduced from 497,268 to 415,656 at option prices ranging from 171p to 395p per share. The remaining share options became exercisable between 1.7.02 and 26.9.05. No share options were granted to or exercised by him in the three month period prior to his leaving the company

Share options continued
options over 133,900 shares at an option price of 336p per share granted under the French schedule of the 2001 plan. Of these options, 7,300 granted to Richard Cousins, 9,100 granted to Bob Heard and 9,100 granted to Paul Hollingworth were approved options, with the remainder being unapproved options; all unapproved options (apart from Jean-Pierre Clavel's) include a proportionate allowance to compensate directors for assuming the company's National Insurance Contribution liability on the gain arising on the exercise of each option. No options over shares were exercised by executive directors during the year.

At the year end directors held options over a total of 35,528 shares under the SAYE scheme and 3,120,700 shares under the UK senior executive schemes. The weighted average prices of directors' share options, together with the pre-tax gain in value of those which could have been exercised to produce a surplus at the year end share price of 269.5p, were as shown below.

The market value of the company's shares during the year was in the range 230.25p to 440p per share.

The register of directors' interests, which is open to inspection, contains

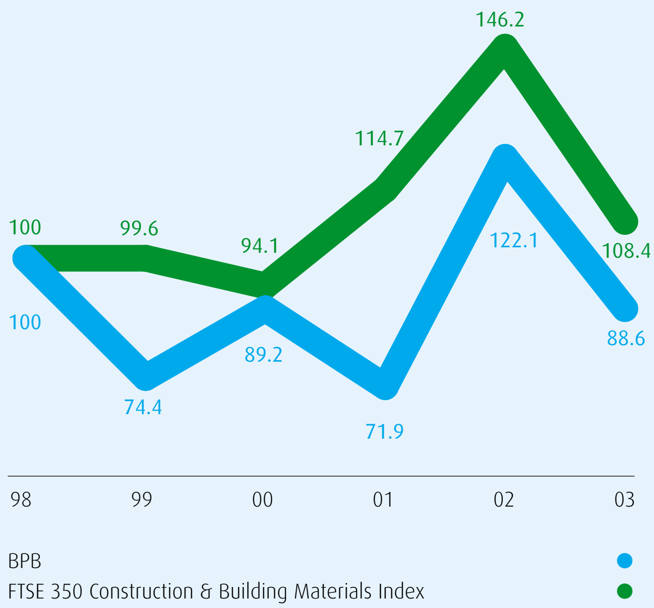
Directors' share options outstanding	Weighted average option prices (in pence per share) at 31 March 2003 — Granted at prices of 269.5p or above: Number	Price	Granted at prices below 269.5p — Exercisable: Number	Price	Not yet exercisable: Number	Price	Pre-tax gain in value of exercisable options at 31 March 2003 £000
J-P Clavel	326,700	344	–	–	164,400	256	–
RJ Cousins	664,361	339	–	–	362,098	255	–
RM Heard	284,100	334	–	–	157,733	255	–
MV Higson	379,700	339	–	–	182,668	251	–
PR Hollingworth	96,700	327	–	–	–	–	–
PN Withers	355,000	332	–	–	182,768	251	–

(i) Executive options granted since 2000 may only be exercised if they meet the performance conditions set out on page 35
(ii) Executive options granted between 1995 and 2000 may only be exercised if the growth in BPB's earnings per share exceeds the growth in the UK Retail Prices Index by at least six per cent over any three year period following each relevant date of grant; this condition has not yet been met in respect of options granted in August 1998, July 1999 and June 2000
(iii) Executive options granted prior to 1995 did not contain any performance condition
(iv) At the year end, Peter Sydney-Smith (who left the company on 30 June 2002) held 261,400 shares under option granted at prices of 269.5p or above at a weighted average option price of 333p and 144,388 share options granted at prices below 269.5p at a weighted average option price of 256p

Share options continued
full details of directors' shareholdings, share options, share ownership plan holdings and share matching plan awards.

In accordance with the Companies Act, the graph below shows the total shareholder return performance of the company and that of the FTSE 350 Construction & Building Materials Index over the five year period to 31 March 2003. This index has been selected as it is a broad equity index of which BPB is a constituent member.

Total shareholder return
indexed change in year end share price plus dividend;
source – Datastream



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

On behalf of the Board
ME Beckett
Chairman of the Management Remuneration and Development Committee
21 May 2003

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BPB PLC

We have audited the group's financial statements for the year ended 31 March 2003 which comprise the group profit and loss account, balance sheets, group cash flow statement, group statement of total recognised gains and losses and the related notes 1 to 30. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the remuneration committee report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the remuneration committee report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities above.

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2003 and of the group's loss for the year to that date; and
- the financial statements and the part of the remuneration committee report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London 21 May 2003

Year to 31 March	Note	2003 £m	2002 £m
Turnover			
Group and share of joint ventures and associates		**2,009.4**	1,732.9
Less: share of joint ventures' turnover		**(19.6)**	(17.8)
share of associates' turnover		**(58.6)**	(53.3)
Continuing operations			
On-going		**1,740.5**	1,661.8
Acquisitions		**190.7**	–
Group turnover	3	**1,931.2**	1,661.8
Cost of sales	4	**(1,296.8)**	(1,096.5)
Gross profit		**634.4**	565.3
Net operating expenses	4	**(563.2)**	(395.0)
Operating profit			
On-going before exceptional charges		**192.2**	170.3
Acquisitions		**12.1**	–
Before exceptional charges		**204.3**	170.3
Exceptional charges – on-going operations: EC fine	8	**(89.2)**	–
Impairment	8	**(43.9)**	–
Group operating profit	3	**71.2**	170.3
Share of operating profit in:			
Joint ventures		**1.1**	1.5
Associates before exceptional charge		**0.6**	1.9
Before exceptional charge		**1.7**	3.4
Exceptional charge – associates: EC fine	8	**(1.3)**	–
		0.4	3.4
Non-operating exceptional items:	8		
Disposals of fixed assets		**4.3**	3.0
Sale and termination of operations		**3.1**	–
Profit on ordinary activities before interest		**79.0**	176.7
Net interest payable	9	**(30.6)**	(30.4)
Profit on ordinary activities before tax		**48.4**	146.3
Tax on profit on ordinary activities	10	**(49.1)**	(57.5)
(Loss)/profit on ordinary activities after tax		**(0.7)**	88.8
Minority interests		**(4.0)**	(0.4)
(Loss)/profit attributable to BPB plc		**(4.7)**	88.4
Dividends	11	**(66.5)**	(62.7)
(Transfer from reserves)/retained profit for the year		**(71.2)**	25.7
Basic (loss)/earnings per share	12	**(1.0p)**	19.3p
Diluted (loss)/earnings per share	12	**(1.0p)**	19.2p
Dividends per share	11	**13.55p**	13.1p
Underlying results			
Before goodwill amortisation of £16.2 million *(2002 £9.7 million)*, exceptional operating charges – EC fines of £90.5 million *(2002 £nil)* and impairment charge of £43.9 million *(2002 £nil)* – and net non-operating income of £7.4 million *(2002 £3.0 million)*	13, 8		
Profit on ordinary activities before tax (£m)		**191.6**	153.0
Earnings per share	12	**25.8p**	21.0p

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year to 31 March	Note	2003 £m	2002 £m
(Loss)/profit attributable to BPB plc		**(4.7)**	88.4
Share of associate's revaluation	25, 26	**7.0**	–
Currency translation differences		**12.2**	(13.1)
Total recognised gains and losses for the year		**14.5**	75.3

Movements in reserves are shown in note 25

As at 31 March	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	13	**304.9**	181.3	–	–
Tangible assets	14	**1,195.0**	1,052.5	–	–
Investments in joint ventures:	15				
Share of gross assets		**21.1**	22.9	–	–
Share of gross liabilities		**(13.7)**	(15.7)	–	–
		7.4	7.2	–	–
Investments in associates	15	**19.0**	46.9	–	–
Other investments	15	**2.5**	2.8	**1,058.6**	932.5
		1,528.8	1,290.7	**1,058.6**	932.5
Current assets					
Stocks	16	**152.2**	119.6	–	–
Debtors due within one year	17	**466.2**	390.4	**31.9**	75.7
Debtors due after more than one year	17	**14.1**	7.0	**1,285.0**	419.8
Cash and short-term deposits	18	**57.2**	65.6	**20.8**	30.9
		689.7	582.6	**1,337.7**	526.4
Creditors due within one year					
Loans and overdrafts	18	**(176.0)**	(40.7)	**(186.1)**	(56.5)
Other creditors	19	**(495.0)**	(403.2)	**(1,259.4)**	(513.7)
Net current assets/(liabilities)		**18.7**	138.7	**(107.8)**	(43.8)
Total assets less current liabilities		**1,547.5**	1,429.4	**950.8**	888.7
Creditors due after more than one year					
Loans and finance leases	18	**(544.7)**	(396.0)	**(330.4)**	(328.7)
Other creditors	19	**(32.9)**	(27.8)	–	–
Provisions for liabilities and charges	20	**(164.2)**	(148.8)	**(9.5)**	(8.0)
		805.7	856.8	**610.9**	552.0
Capital and reserves					
Called up share capital	24	**246.4**	244.9	**246.4**	244.9
Share premium account	25	**227.5**	221.8	**227.5**	221.8
Capital redemption reserve	25	**32.7**	32.7	**32.7**	32.7
Profit and loss account	25	**273.7**	331.7	**104.3**	52.6
Shareholders' funds		**780.3**	831.1	**610.9**	552.0
Minority interests		**25.4**	25.7	–	–
		805.7	856.8	**610.9**	552.0

Approved by the Board on 21 May 2003

RJ Cousins Chief executive

PR Hollingworth Finance director

Year to 31 March	Note		2003 £m		2002 £m
Cash flow from operating activities	27		226.9		264.4
Dividends received from joint ventures and associates					
Dividends from joint ventures		0.6		0.5	
Dividends from associates		0.6		2.0	
			1.2		2.5
Returns on investments and servicing of finance					
Interest received		3.4		5.1	
Interest paid		(33.4)		(33.7)	
Interest element of finance lease payments		(0.1)		(0.1)	
Dividends paid to minority shareholders of subsidiaries		(2.6)		(1.2)	
			(32.7)		(29.9)
Tax					
United Kingdom corporation tax paid		(17.0)		(23.3)	
Overseas tax paid		(32.8)		(34.4)	
Overseas tax received		6.0		–	
			(43.8)		(57.7)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(96.5)		(84.5)	
Sale of tangible fixed assets		12.2		3.7	
Repayment of loans by joint ventures	30	1.2		0.5	
			(83.1)		(80.3)
Acquisitions and disposals					
Purchase of subsidiaries	26	(315.0)		(22.3)	
Net cash acquired with subsidiaries	26	(0.7)		3.2	
Sale of shares in a subsidiary	30	5.4		–	
Sale of businesses	26	34.6		–	
Advance payment on forward contract		–		(12.0)	
Sale of associated company		–		1.4	
			(275.7)		(29.7)
Dividends paid to shareholders of BPB plc			(64.9)		(59.1)
Cash (outflow)/inflow before use of liquid resources and financing			(272.1)		10.2
Management of liquid resources			6.3		(9.9)
Financing					
Issue of share capital	24	1.2		111.7	
Contribution from minority shareholders		–		0.5	
Loan from associated company	30	0.3		1.2	
Increase/(decrease) in borrowings	28, 29	215.0		(79.6)	
			216.5		33.8
(Decrease)/increase in cash	28, 29		(49.3)		34.1

1 PRINCIPAL ACCOUNTING POLICIES

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

The accounts of all subsidiaries have been prepared for the year to 31 March 2003. The group's share of associated companies' and joint ventures' profits is based, for the principal companies, on the latest audited accounts, which cover in all cases the year to 31 December 2002. Shareholders' funds, minority interests and dividends referred to in these financial statements are wholly attributable to equity interests.

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

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

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

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

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

Tangible fixed assets
Depreciation is provided to write off the cost, less residual value, of tangible fixed assets on the straight line basis over the expected future lives in their current location. No depreciation is provided on freehold land where the cost is separately identifiable, and major projects are not depreciated whilst in the course of construction. Typical asset lives used are:

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

Mineral deposits are depleted in the proportion that extraction for the year bears to the latest estimate of the usable tonnage. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

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

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost is arrived at mainly on a first-in first-out basis and includes all the expenditure incurred in bringing stocks to their present location and condition.

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

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

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

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

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

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

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

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

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

2 EXCHANGE RATES

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

Rates to sterling	Average 2003	Average 2002	At 31 March 2003	At 31 March 2002
Euro	**1.56**	1.63	**1.45**	1.63
US dollar	**1.54**	1.43	**1.58**	1.42
Canadian dollar	**2.39**	2.24	**2.33**	2.27
South African rand	**14.89**	13.63	**12.44**	16.18
Swedish kroner	**14.26**	15.12	**13.40**	14.75

3 SEGMENTAL ANALYSIS

The principal national groupings that form the geographical segments shown below are as follows:
North & Western Europe: UK, Ireland, Sweden, Denmark, Finland, Norway, Russia, Latvia, Lithuania and Estonia.
Southern Europe: France, Spain, Italy, Belgium and Holland.
Central & Eastern Europe: Germany, Austria, Poland, Switzerland, Czech Republic, Hungary, Romania, Bulgaria, Greece, Turkey and Slovakia.
North America: USA and Canada.
Rest of the World: South Africa, Thailand, India, Egypt, Brazil and China.

	Group turnover by origin 2003 £m	Group turnover by origin 2002 £m	Operating net assets 2003 £m	Operating net assets 2002 £m
North & Western Europe	**566.7**	545.7	**330.0**	330.1
Southern Europe	**594.9**	520.1	**565.8**	427.4
Central & Eastern Europe	**289.7**	270.2	**281.8**	284.1
Europe	**1,451.3**	1,336.0	**1,177.6**	1,041.6
North America	**458.5**	293.2	**447.8**	274.5
Rest of the World	**92.4**	97.1	**114.2**	126.5
	2,002.2	1,726.3	**1,739.6**	1,442.6
Less inter-area	**(71.0)**	(64.5)	**–**	–
	1,931.2	1,661.8	**1,739.6**	1,442.6
Associates and joint ventures	**78.2**	71.1	**51.2**	78.9
	2,009.4	1,732.9	**1,790.8**	1,521.5

	Underlying operating profit 2003 £m	Underlying operating profit 2002 £m	Operating profit 2003 £m	Operating profit 2002 £m
North & Western Europe	**95.8**	98.3	**91.1**	94.5
Southern Europe	**79.3**	75.3	**78.1**	74.8
Central & Eastern Europe	**6.9**	10.7	**(17.3)**	10.3
Europe	**182.0**	184.3	**151.9**	179.6
North America	**29.4**	(11.8)	**–**	(16.5)
Rest of the World	**9.1**	7.5	**8.5**	7.2
	220.5	180.0	**160.4**	170.3
Operating exceptional items:				
EC fine	**(89.2)**	–	**(89.2)**	–
Impairment charge	**(43.9)**	–		
Goodwill amortisation	**(16.2)**	(9.7)		
Group operating profit	**71.2**	170.3	**71.2**	170.3
Associates and joint ventures	**1.7**	3.4	**0.4**	3.4

Return on sales (underlying)	%	%
North & Western Europe	**16.9**	18.0
Southern Europe	**13.3**	14.5
Central & Eastern Europe	**2.4**	4.0
Europe	**12.5**	13.8
North America	**6.4**	(4.0)
Rest of the World	**9.8**	7.7
Group	**11.4**	10.8

3 SEGMENTAL ANALYSIS CONTINUED

Turnover is not disclosed by destination as it is materially the same as that by origin. As described in note 8, operating profit includes exceptional charges against the results of: Central & Eastern Europe – £23.8 million; and North America – £20.1 million. The EC fine has not been allocated to a geographical segment as it is not possible to do so.

James Hardie Gypsum (see note 26) contributed £160.0 million in turnover, £16.5 million in underlying operating profit and £11.4 million in operating profit to North America's results for the period. Included within Southern Europe's results for the year is post-acquisition turnover and operating profit of £26.0 million and £0.8 million, respectively. Central & Eastern Europe's results for the year include post-acquisition turnover of £4.7 million and an operating loss of £0.1 million.

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

	2003 £m	2002 £m
Operating net assets	**1,790.8**	1,521.5
Cumulative goodwill amortised and written off to reserves	**(277.9)**	(251.5)
Net borrowings	**(663.5)**	(371.1)
Dividends payable	**(43.7)**	(42.1)
Net assets	**805.7**	856.8

4 COST OF SALES AND NET OPERATING EXPENSES

	Continuing operations: Acquisitions £m	Continuing operations: On-going £m	2003 £m	2002 £m
Cost of sales	109.1	1,187.7	**1,296.8**	1,096.5
Distribution costs	40.2	246.6	**286.8**	241.7
Administrative expenses	29.3	162.9	**192.2**	160.2
EC fine	–	89.2	**89.2**	–
Other operating income	–	(5.0)	**(5.0)**	(6.9)
Net operating expenses	69.5	493.7	**563.2**	395.0

The impairment charge of £43.9 million *(2002 £nil)* detailed in note 8 has been posted as follows: cost of sales – £33.7 million; and administrative expenses – £10.2 million. Administrative expenses include goodwill amortisation of £16.2 million *(2002 £9.7 million)*.

Operating profit is stated after charging:	2003 £m	2002 £m
Auditors' remuneration		
Audit	**1.2**	0.9
Non-audit UK	**0.8**	1.0
Non-audit overseas	**0.9**	0.4
	2.9	2.3
Depreciation		
Owned assets	**106.2**	84.7
Leased assets	**0.4**	0.4
Capital grants transferred from deferred credits	**(1.0)**	(0.9)
	105.6	84.2
Operating lease rentals		
Plant and machinery	**6.2**	6.6
Other	**5.9**	4.6
	12.1	11.2
Goodwill amortisation	**16.2**	9.7
Research and development expenditure	**4.6**	4.3
Restructuring (including redundancy)	**19.6**	14.4
Impairment charges (see note 8)	**43.9**	–

Non-audit services of Ernst & Young relate predominantly to advice on taxation (acquisitions, disposals, reorganisations and general compliance), due diligence work and other investigations. Not charged to operating profit

4 COST OF SALES AND NET OPERATING EXPENSES CONTINUED

are additional fees of £0.4 million *(2002 £0.4 million)* paid to Ernst & Young and capitalised in connection with acquisitions. All payments for audit and non-audit services are approved by the audit committee.

Administrative expenses include a sum of £1.8 million paid in total to PricewaterhouseCoopers and Deloitte & Touche mainly for advice on information technology, and to KPMG to provide support to the group's internal control programme.

5 EMPLOYEES

Segmental analysis	2003 Average number	2002 Average number
North & Western Europe	**3,228**	3,243
Southern Europe	**3,475**	3,274
Central & Eastern Europe	**2,152**	2,169
Europe	**8,855**	8,686
North America	**2,109**	1,712
Rest of the World	**1,803**	1,922
	12,767	12,320

Employee costs	2003 £m	2002 £m
Wages and salaries	**267.6**	244.7
Social security costs	**50.5**	46.4
Other pension costs	**13.9**	4.6
	332.0	295.7

6 PENSIONS AND POST RETIREMENT BENEFITS

The group operates pension and other post retirement benefit schemes throughout the world. Funded, self-administered, defined benefit schemes are operated in the UK, US, Canada, Ireland and South Africa. These schemes, together covering approximately 37% of group employees, are valued at regular intervals by independent actuaries.

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

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

The group currently accounts for pension and post retirement costs in accordance with SSAP24 and the pensions disclosures below are those required by that standard. The transitional disclosure requirements of FRS17 are also given, but this standard will not be fully adopted until the year to 31 March 2006. The liability for unfunded retirement benefits is included in provisions for liabilities and charges as disclosed in note 20.

SSAP24 pension disclosures

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

	UK	US	Canada	Ireland	South Africa
Date of valuation	31 March 2002	31 July 2000	31 July 2000	1 April 2002	31 Dec 2000
	£m	£m	£m	£m	£m
Market value of assets	544.3	23.3	59.6	47.8	11.8
	%	%	%	%	%
Level of funding	114	119	248	113	144

The valuation of the principal UK scheme was based on the following assumptions: return on existing investments 6.0%; earnings increases 4.0%; pension increases 2.5%. Following the 31 March 2002 valuation the actuarial

6 PENSIONS AND POST RETIREMENT BENEFITS CONTINUED

surplus, when spread over the remaining service lives of employees, no longer fully offsets the regular cost of the scheme and hence a charge of £6.2 million *(2002 £nil)* has been recorded for the year and a provision for retirement benefits established (see note 20). Included within prepayments and accrued income, disclosed in note 17, is a pension prepayment of £6.2 million *(2002 £5.6 million)*.

FRS17 retirement benefits

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

Assumptions At 31 March 2003	UK %	US %	Canada %	Euro zone %	South Africa %
Inflation rate	2.25	2.75	2.75	2.0	5.75
Rate of increase in salaries	3.75	4.75	3.75	4.0	7.25
Rate of increase for pensions:					
In payment	2.25	n/a	2.75	2.0	5.75
Deferred	2.25	n/a	2.75	2.0	n/a
Discount rate	5.4	6.25	6.25	5.25	10.75
At 31 March 2002	%	%	%	%	%
Inflation rate	2.5	3.0	3.0	2.0	7.75
Rate of increase in salaries	4.0	5.0	4.0	4.0	9.25
Rate of increase for pensions:					
In payment	2.5	n/a	3.0	2.0	7.75
Deferred	2.5	n/a	3.0	2.0	n/a
Discount rate	5.75	7.25	6.5	6.0	12.75

n/a = not applicable

Long-term healthcare cost increases for post retirement benefits offered in the UK, United States and South Africa were assumed to be 4.0%, 5.25%, and 9.0% respectively *(2002 4.25%, 5.5% and 9.0%)*.

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

Expected rate of return At 31 March 2003	UK %	US %	Canada %	Euro zone %	South Africa %
Equities	8.0	8.25	8.5	7.5	12.75
Bonds	5.0	6.25	6.0	4.9	10.0
Cash	3.4	3.5	3.0	4.0	8.0
Other	n/a	n/a	n/a	6.2	n/a
At 31 March 2002	%	%	%	%	%
Equities	7.5	9.0	9.0	7.75	14.75
Bonds	5.25	7.25	6.5	5.5	12.75
Cash	4.5	3.5	3.0	4.5	10.75
Other	n/a	n/a	n/a	7.15	n/a

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

6 PENSIONS AND POST RETIREMENT BENEFITS CONTINUED

Cash contributions of £1.9 million were made in the year to schemes in the UK, US and Ireland. Based on the 31 March 2002 actuarial valuation of the principal UK scheme it was estimated that the company was able to defer contributions for 6 years, but it is expected that contributions will resume at a level consistent with the annual SSAP24 charge with effect from 1 April 2003. For the remaining schemes contribution rates for future years remain subject to agreement with scheme trustees.

Market value of assets at 31 March 2002	UK £m	US £m	Canada £m	Euro zone £m	South Africa £m	Group £m
Equities	467.7	13.4	12.6	31.0	5.1	529.8
Bonds	86.6	8.9	12.3	9.7	1.9	119.4
Cash	24.9	0.4	36.4	1.8	1.3	64.8
Other	–	–	–	3.3	–	3.3
	579.2	22.7	61.3	45.8	8.3	717.3
Present value of scheme liabilities	(499.0)	(25.6)	(38.3)	(25.6)	(5.4)	(593.9)
Surplus/(deficit)	80.2	(2.9)	23.0	20.2	2.9	123.4
Restriction on surplus	–	–	–	(1.6)	(2.9)	(4.5)
Surplus/(deficit) recognised	80.2	(2.9)	23.0	18.6	–	118.9
Related deferred tax (liability)/asset	(24.1)	1.1	(9.5)	(2.8)	–	(35.3)
Net pension asset/(liability)	56.1	(1.8)	13.5	15.8	–	83.6

Movement in surplus/(deficit)	Funded retirement benefits UK £m	North America £m	Euro zone £m	South Africa £m	Unfunded retirement benefits £m	Group £m
Surplus/(deficit) at 1 April 2002	80.2	20.1	20.2	2.9	(43.2)	80.2
Operating charges:						
Current service cost	(13.7)	(1.9)	(0.7)	(0.1)	(2.2)	(18.6)
Past service cost	–	(0.6)	–	–	–	(0.6)
Other finance income/(expense):						
Expected return on assets	40.0	4.5	3.2	0.8	–	48.5
Interest on liabilities	(28.0)	(3.9)	(1.6)	(0.7)	(2.2)	(36.4)
Recognised in STRGL						
Actuarial loss	(229.5)	(9.9)	(16.5)	(2.3)	(0.3)	(258.5)
Currency (loss)/gain	–	(0.2)	1.5	0.4	(2.4)	(0.7)
Unfunded payments	–	–	–	–	2.5	2.5
Contributions	1.2	0.2	0.5	–	–	1.9
(Deficit)/surplus at 31 March 2003	(149.8)	8.3	6.6	1.0	(47.8)	(181.7)

History of experience gains and losses	2003 £m	%
Actual return less expected return on scheme assets	(189.2)	
Percentage of scheme assets		34.1
Experience gains and losses arising on liabilities	(4.1)	
Percentage of scheme liabilities		0.6
Changes in assumptions underlying present value of liabilities	(65.2)	
Actuarial loss	(258.5)	
Percentage of the present value of the plan liabilities		37.5

6 PENSIONS AND POST RETIREMENT BENEFITS CONTINUED

The liability for unfunded retirement benefits under FRS17 would be £4.1 million *(2002 £4.6 million)* greater than the £43.7 million *(2002 £38.6 million)* currently provided (see note 20). The additional liability net of deferred tax would have been £2.5 million *(2002 £3.0 million)*.

If FRS17 had been adopted in the financial statements, the group's net assets would have been £101.2 million lower *(2002 £80.6 million greater)* after including the £98.7 million net liability in respect of funded schemes and the £2.5 million additional liability in respect of unfunded schemes. The group's net assets at 31 March 2003 excluding SSAP24 pension and post-retirement benefit assets and liabilities were £838.3 million *(2002 £880.1 million)*.

7 DIRECTORS' EMOLUMENTS

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

	2003 £000	2002 £000
Base salaries	1,806	1,545
Fees	226	208
Annual bonuses	736	707
Other emoluments	174	78
	2,942	2,538

More detailed information concerning directors' emoluments, pension entitlements, compensation benefits, loans, shareholdings, share option, share purchase plan and share matching plan interests, together with details of aggregate gains of £nil *(2002 £318,599)* made on the exercise of share options, is shown in the remuneration committee's report on pages 34 to 40.

8 EXCEPTIONAL ITEMS

	2003 £m	2002 £m
Operating exceptional items		
Impairment charge: Complementary products		
Plasters, gypsum fibreboard and insulation assets in Germany	(23.8)	–
Ceiling tile assets in the United States	(20.1)	–
	(43.9)	–
EC fine – BPB plc	(89.2)	–
	(133.1)	–
Share of associate's operating exceptional charge: EC fine	(1.3)	–
	(134.4)	–
Non-operating exceptional items		
Disposals of fixed assets	4.3	3.0
Sale and termination of operations	3.1	–
	7.4	3.0
	(127.0)	3.0

Where indicators of impairment were identified the carrying value of the fixed assets and goodwill of the income generating units concerned were compared to their recoverable amounts, as evidenced by their value in use to the group. Cash flow projections contained in the group's Board approved three year plan, and thereafter based on long-term growth rates for the markets in which the businesses operate, were discounted, on a pre-tax basis, using an average rate of 14%.

Of the total impairment charge of £43.9 million, £10.2 million has been allocated to goodwill and £33.7 million allocated to tangible fixed assets.

On 27 November 2002 the European Commission announced that it had decided to fine BPB plc €138.6 million (£89.2 million) for alleged breaches of competition law under Article 81 of the Treaty of Rome. Although an appeal against the decision was lodged with the European Court of Justice in February 2003 the company decided, in view of the punitive interest that would accrue during the appeal process, to pay the fine in full in March 2003.

8 EXCEPTIONAL ITEMS CONTINUED

In connection with the same investigation into the European gypsum industry, the Commission also announced that it had decided to fine the group's 46% associate, Gyproc Benelux NV, €4.3 million. The group has equity accounted for its €2.0 million (£1.3 million) share of that fine in these financial statements. Gyproc Benelux NV also lodged an appeal and paid the fine in February 2003 prior to BPB taking management control through increased equity participation.

The gain on disposal of fixed assets in the year predominantly arose from the sale of property in the United Kingdom. Most of the gain on sale and termination of operations was in respect of the disposal of a non-core business in Thailand.

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

9 NET INTEREST PAYABLE

	2003 £m	2002 £m
Interest receivable	**2.7**	5.6
Interest payable		
Bank loans and overdrafts	**(28.5)**	(31.9)
Other loans and finance leases	**(3.5)**	(3.2)
	(29.3)	(29.5)
Share of joint ventures' interest	**(0.3)**	(0.2)
Share of associates' interest	**(1.0)**	(0.7)
	(30.6)	(30.4)

Interest payable includes £0.2 million *(2002 £0.2 million)* relating to discounted bills of exchange and £0.1 million *(2002 £0.1 million)* relating to finance leases.

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge in the year	2003 £m	2002 £m
UK corporation tax:		
Charge for the period	**28.6**	22.4
(Over)/underprovision in prior years	**(1.5)**	1.1
	27.1	23.5
Double tax relief	**(3.4)**	–
	23.7	23.5
Overseas tax:		
Charge for the period	**45.8**	41.5
Overprovision in prior years	**(7.7)**	(2.3)
	38.1	39.2
Share of joint ventures' tax	**0.4**	0.4
Share of associates' tax	**1.4**	0.5
Total current tax	**63.6**	63.6
Origination and reversal of timing differences	**(14.5)**	(6.5)
Changes in tax rates and laws	**–**	0.4
Total deferred tax	**(14.5)**	(6.1)
Tax on profit on ordinary activities	**49.1**	57.5

Exceptional tax credit and tax effect of exceptional items

Included within the current tax charge for the year is an exceptional credit of £6.0 million following settlement of an old tax dispute and refund of £6.0 million from the tax authority concerned.

The EC fine of £89.2 million charged against group operating profit has not been treated as a deductible for tax purposes but an exceptional tax credit of £7.4 million is included within deferred tax in respect of the £43.9 million impairment charge. The tax effect of non-operating exceptional income of £7.4 million is a charge of £1.2 million *(2002 £1.1 million)*.

10 TAX ON PROFIT ON ORDINARY ACTIVITIES CONTINUED

Factors affecting tax charge for the period

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

	2003 £m	2002 £m
Expected tax charge	**10.7**	42.6
EC fines	**27.2**	–
Expenses not deductible for tax purposes	**3.5**	6.7
Goodwill amortisation not deductible	**4.9**	1.5
Income not subject to tax	**(4.8)**	(4.5)
Accounting depreciation in excess of tax depreciation	**4.6**	(1.9)
Movement on other timing differences	**14.8**	(0.7)
Current tax losses not utilised	**13.9**	26.7
Utilisation of tax losses	**(2.0)**	(2.3)
Adjustments relating to prior years corporation tax	**(9.2)**	(1.2)
Other	**–**	(3.3)
Current tax charge	**63.6**	63.6

Factors that may affect future tax charges

Unrelieved tax losses and other timing differences of £102.6 million *(2002 £67.1 million)* can be recovered against future taxable profits. Based on current plans the impact of any change in the amount of capital allowances claimed compared to depreciation incurred is unlikely to be significant.
No provision has been made for £8.5 million *(2002 £4.5 million)* of deferred tax on gains on disposal of fixed assets that have been rolled over into replacement assets as there was no commitment at the balance sheet date to dispose of the replacement assets. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures as the group does not expect to pay tax on them in the foreseeable future.

11 DIVIDENDS

	2003 £m	2002 £m
Interim 4.65p per share *(2002 4.5p)*	**22.8**	20.6
Proposed final 8.9p per share *(2002 8.6p)*	**43.7**	42.1
	66.5	62.7

12 EARNINGS PER SHARE

The basic earnings per share figure is calculated on loss after tax and minority interests of £4.7 million *(2002 profit £88.4 million)* and on the weighted average of 490.1 million *(2002 458.1 million)* ordinary shares in issue during the year, after excluding the investment in the company's own shares.

The diluted earnings per share figure is based on the same (loss)/profit as the basic earnings per share figure and on the total diluted number of shares calculated as shown in the table below. Share options over 3.1 million shares were excluded from the calculation of the total diluted number of shares in the year to 31 March 2003 because to include them would have been anti-dilutive. The underlying earnings per share figure is based on (loss)/profit adjusted for goodwill amortisation and exceptional items and on the same weighted average number of shares used in the basic earnings per share calculation above. The directors consider that this measure provides an additional indicator of underlying performance of the group.

	2003 m	2002 m
Basic weighted average number of shares	**490.1**	458.1
Dilutive potential ordinary shares arising from share options	**–**	2.3
Total	**490.1**	460.4

12 EARNINGS PER SHARE CONTINUED

	2003 £m	2003 Effect on EPS p	2002 £m	2002 Effect on EPS p
(Loss)/profit after tax and minority interests	**(4.7)**	**(1.0)**	88.4	19.3
Goodwill amortisation	**16.2**	**3.3**	9.7	2.1
Exceptional items:				
EC fines	**90.5**	**18.5**	–	–
Impairment charge	**43.9**	**9.0**	–	–
Disposals of fixed assets	**(4.3)**	**(0.9)**	(3.0)	(0.6)
Sale and termination of operations	**(3.1)**	**(0.6)**	–	–
Tax refund	**(6.0)**	**(1.2)**	–	–
Tax effect of exceptional items	**(6.2)**	**(1.3)**	1.1	0.2
Underlying earnings and EPS	**126.3**	**25.8**	96.2	21.0

The tax effect on goodwill amortisation is not material.

13 INTANGIBLE FIXED ASSETS

Balance sheet movements	Goodwill £m
Cost	
At 1 April 2002	202.3
Currency adjustments	(9.7)
Acquisitions	159.8
At 31 March 2003	**352.4**
Amortisation	
At 1 April 2002	21.0
Currency adjustments	0.1
Amortisation charge for the year	16.2
Impairment charge for the year	10.2
At 31 March 2003	**47.5**
Net book value	
At 31 March 2003	**304.9**
At 1 April 2002	181.3

Goodwill is being amortised evenly over 20 years from the date of each acquisition unless it is considered impaired in which case a charge is taken immediately.

14 TANGIBLE FIXED ASSETS

Balance sheet movements	Total £m	Land and buildings £m	Plant and machinery £m
Cost			
At 1 April 2002	1,977.0	670.3	1,306.7
Currency adjustments	75.3	23.6	51.7
Acquisitions	176.2	33.2	143.0
Additions	94.5	11.2	83.3
Disposals	(43.9)	(9.2)	(34.7)
At 31 March 2003	**2,279.1**	**729.1**	**1,550.0**
Depreciation			
At 1 April 2002	924.5	207.9	716.6
Currency adjustments	54.5	13.4	41.1
Depreciation charge for the year	106.6	22.3	84.3
Impairment charge for the year	33.7	–	33.7
Disposals	(35.2)	(4.3)	(30.9)
At 31 March 2003	**1,084.1**	**239.3**	**844.8**
Net book value			
At 31 March 2003	**1,195.0**	**489.8**	**705.2**
At 1 April 2002	1,052.5	462.4	590.1

14 TANGIBLE FIXED ASSETS CONTINUED

The net book value of land and buildings comprises £23.3 million *(2002 £21.2 million)* of long-leasehold property, £0.1 million *(2002 £4.3 million)* of short-leasehold property, mineral reserves of £126.2 million *(2002 £125.4 million)* and other freehold property of £340.2 million *(2002 £311.5 million)*. The net book value of assets held under finance leases was £4.6 million *(2002 £2.8 million)*.

	2003 £m	2002 £m
Capital and other commitments		
Capital expenditure contracted for	**4.9**	8.7

Commitments under operating leases are not material.

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

15 INVESTMENTS

	Total £m	Associated companies £m	Joint ventures £m	Other £m
Group				
At 1 April 2002	56.9	46.9	7.2	2.8
Currency adjustments	1.0	0.5	0.4	0.1
Additions	0.1	–	–	0.1
Disposals	(0.2)	–	–	(0.2)
Charge for the year	(0.3)	–	–	(0.3)
Transfer to subsidiary	(31.7)	(31.7)	–	–
Share of retained losses	(3.9)	(3.7)	(0.2)	–
Share of net assets	7.0	7.0	–	–
At 31 March 2003	**28.9**	**19.0**	**7.4**	**2.5**

	2003 £m	2002 £m
Investments comprise		
Listed	**14.3**	17.3
Unlisted	**14.6**	39.6
	28.9	56.9

Investments in associated companies and joint ventures represent the group's share of their net assets. Other investments are shown at net book value. Included in other investments are investments in BPB shares held by the BPB Employee Trust of £0.7 million *(2002 £1.0 million)*. The market value of listed investments was £10.8 million *(2002 £13.9 million)*, of which £1.0 million *(2002 £1.3 million)* related to the company's own shares.

The shares in the company held by the BPB Employee Trust relate to the share matching plan described on page 35. At 31 March 2003, 391,272 shares were held by the Trust, all of which were nil cost options for the benefit of the participants *(2002 328,620 shares)*. The dividends relating to these shares have not been waived. The shares subscribed for by the qualifying employee share ownership trust (QUEST), referred to in note 24, have been included at zero cost.

During the year Gyproc Benelux NV transferred from an associate to a subsidiary after BPB increased its equity participation from 46.1% to 99%; on 18 April 2003 BPB increased its interest to 100%. More details are given in note 26.

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

The group's principal subsidiary and associated companies and joint ventures are listed on page 57.

15 INVESTMENTS CONTINUED

	Shares at cost and net book value	
	2003 £m	2002 £m
Company		
Investments in subsidiary companies	1,057.9	931.5
Own shares	0.7	1.0
	1,058.6	932.5

The increase in investments in subsidiary companies during the year of £126.4 million arose principally from the subscription for ordinary shares in a subsidiary holding company.

16 STOCKS

	2003 £m	2002 £m
Raw materials	64.9	52.9
Work-in-progress	3.0	2.8
Finished goods	84.3	63.9
	152.2	119.6

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

17 DEBTORS

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Due within one year:				
Trade debtors	361.7	295.4	–	–
Bills of exchange receivable	51.1	43.2	–	–
Amounts due from subsidiary companies	–	–	20.1	54.1
Amounts due from associated companies and joint ventures	1.6	8.5	–	–
Corporation tax repayable	–	0.8	–	–
Other debtors	27.6	14.1	4.1	2.7
Prepayments and accrued income	22.4	28.4	6.6	17.8
Deferred tax asset	1.8	–	1.1	1.1
	466.2	390.4	31.9	75.7
Due after more than one year:				
Amounts due from subsidiary companies	–	–	1,284.6	419.2
Amounts due from associated companies and joint ventures	8.1	–	–	–
Other debtors	4.2	7.0	0.4	0.6
Deferred tax asset	1.8	–	–	–
	14.1	7.0	1,285.0	419.8

18 NET BORROWINGS

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Loans and overdrafts due within one year:				
Instalments due on secured loans	0.3	2.3	–	–
Bank loans: unsecured	111.7	20.9	104.8	3.5
Obligations under finance leases	1.0	0.8	–	–
Other unsecured loans and overdrafts	63.0	16.7	81.3	53.0
	176.0	40.7	186.1	56.5
Loans and finance leases due after more than one year:				
Bank loans: secured	1.1	1.8	–	–
unsecured	268.4	149.4	56.5	85.9
Finance leases	1.3	2.0	–	–
€400 million 6.5% bond 2010	273.9	242.8	273.9	242.8
	544.7	396.0	330.4	328.7
Total borrowings	720.7	436.7	516.5	385.2
Cash and short-term deposits	(57.2)	(65.6)	(20.8)	(30.9)
Net borrowings	663.5	371.1	495.7	354.3

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Aggregate amount of repayments due:				
In one year or less, or on demand	176.0	40.7	186.1	56.5
In more than one year but not more than two	7.2	83.3	–	–
In more than two years but not more than five	243.3	47.9	56.5	85.9
In more than five years	294.2	264.8	273.9	242.8
Total borrowings	720.7	436.7	516.5	385.2

Borrowing powers

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

Undrawn borrowing facilities

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

	2003 £m	2002 £m
Expiring in one year or less	76.7	10.7
Expiring in more than one year but not more than two	–	–
Expiring in more than two years	201.9	487.4
	278.6	498.1

19 OTHER CREDITORS

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Due within one year:				
Trade creditors	**145.5**	117.8	**1.6**	–
Bills of exchange payable	**26.5**	21.8	**–**	–
Amounts due to subsidiary companies	**–**	–	**1,204.2**	459.5
Amounts due to associated companies and joint ventures	**1.5**	1.2	**–**	–
Corporation tax	**47.5**	31.1	**–**	–
Other taxes and social security costs	**46.6**	28.2	**3.1**	2.6
Accruals	**77.1**	79.5	**3.4**	6.0
Acquisition consideration	**4.5**	0.5	**–**	–
Dividends payable	**43.7**	42.1	**43.7**	42.1
Other creditors	**102.1**	81.0	**3.4**	3.5
	495.0	403.2	**1,259.4**	513.7
Due after more than one year:				
Acquisition consideration	**2.3**	–	**–**	–
Deferred credits for capital grants	**20.0**	18.7	**–**	–
Other creditors	**10.6**	9.1	**–**	–
	32.9	27.8	**–**	–

20 PROVISIONS FOR LIABILITIES AND CHARGES

	Total £m	Deferred tax £m	Retirement benefits £m	Recultiva-tion £m	Restructur-ing £m	Other provisions £m
At 1 April 2002	148.8	72.3	38.6	16.8	7.2	13.9
Currency adjustments	7.3	2.7	2.3	1.8	0.2	0.3
Acquisitions	6.5	2.5	1.4	0.1	1.0	1.5
Charge for the year	36.3	–	11.6	4.0	19.9	0.8
Utilised in the year	(21.0)	–	(2.5)	(1.2)	(15.4)	(1.9)
Released in the year	(13.5)	(10.8)	(0.4)	(0.6)	(0.3)	(1.4)
Transfer from current tax	(0.2)	(0.2)	–	–	–	–
At 31 March 2003	**164.2**	**66.5**	**51.0**	**20.9**	**12.6**	**13.2**

The provision for retirement benefits includes an amount in respect of unfunded pension liabilities of £29.6 million *(2002 £25.9 million)*. If retirement benefits were recorded in accordance with FRS17 (see note 6) the provision would have been £4.1 million greater *(2002 £4.6 million)*.

Recultivation provisions are made when the group has either a legal or constructive obligation to rectify the effects of its mining or quarrying activities. The amounts provided are the liabilities at the balance sheet date to restore mineral workings to an agreed condition. The provisions have been discounted to present values using an average discount rate of 4%, after adjusting for the effects of inflation. The effect of the unwinding of the discount applied to provisions at 31 March 2002 on the interest charge in this year's profit and loss account is immaterial.

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

The company's provisions mainly arise in respect of unfunded retirement benefits of £9.0 million *(2002 £8.0 million)*, which if recorded in accordance with FRS17 would be £0.9 million *(2002 £1.3 million)* greater.

21 DEFERRED TAX

	2003 £m	2002 £m
Year end analysis		
Accelerated capital allowances	**105.7**	95.1
Other timing differences	**(4.1)**	1.9
Unrelieved losses	**(35.1)**	(24.7)
Deferred tax liabilities	**66.5**	72.3

21 DEFERRED TAX CONTINUED

A deferred tax asset of £3.6 million *(2002 £nil)* has been recognised in respect of unrelieved losses as there is sufficient evidence that the asset will be recoverable from future taxable profits. Note 17 includes £1.8 million within debtors due within one year and £1.8 million within debtors due after more than one year. Insufficient evidence exists to record other unrelieved losses and other timing differences of £67.5 million *(2002 £42.4 million)* as deferred tax assets.

At 31 March 2003 the company had a deferred tax asset of £1.1 million *(2002 £1.1 million)*, which has been included within debtors due within one year. For group purposes this asset is offset with deferred tax liabilities of other UK companies against which it is expected to reverse.

22 CONTINGENT LIABILITIES

The company has guaranteed the liabilities of its Irish subsidiary companies so that these companies are exempt from the requirement to file their accounts. The company has also guaranteed the banking facilities of overseas subsidiary and associated companies, the principal amounts being in the US, Chile and Italy. At 31 March the total facilities guaranteed were £48.5 million *(2002 £51.3 million)*, of which £36.1 million *(2002 £36.5 million)* had been drawn. The company is also a cross-guarantor of a wholly owned UK holding company's £410 million syndicated facility. In April 2003, the £159.7 million drawn under the facility was repaid in full.

23 TREASURY POLICIES, FINANCIAL INSTRUMENTS AND DERIVATIVES

Treasury policy overview

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

(a) Treasury policies relating to specific risks

Interest rate risk

Group policy is to keep between 50% and 80% of its borrowings at fixed rates of interest. The group borrows in a number of currencies and then uses interest rate swaps to generate the desired interest profile and to manage its sensitivity to interest rate fluctuations. At the year end, 65% *(2002 79%)* of borrowings and interest rate swaps were at fixed rates. The longest term of any significant fixed rate debt was 7 years *(2002 8 years)*, with the average maturity of fixed rate gross borrowings at 3.6 years *(2002 3.7 years)*.

A 1% and 5% rise in average interest rates for the year ended 31 March 2003 from market levels seen at March 2003 would reduce group profit before tax by £2.5 million and £12.7 million *(2002 £0.9 million and £4.5 million)* respectively. This has been calculated on debt only and has not taken account of changes in exchange rates following such an interest rate move, nor the increased interest earned on cash balances.

Finance and liquidity risk

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

The group has a range of both syndicated and bilateral multicurrency bank facilities with maturities from one to four years, and a eurobond with a maturity of seven years.

Total committed facilities at the year end were £934 million *(2002 £930 million)* against a drawn debt requirement of £656 million *(2002 £432 million)*. The group also has access to overdraft and uncommitted facilities to provide short-term liquidity.

Foreign currency risk

The group's objectives are to manage its structural currency exposures to provide a partial hedge against currency depreciation whilst keeping the cost of borrowing as low as possible: as a result of substantial investment in overseas operations, the consolidated balance sheet can be affected significantly by movements in exchange rates. The group seeks to minimise possible adverse movements by holding a proportion of its debt requirements in local currency – at the year end the percentage of overseas capital employed matched by non-sterling borrowings was 49% *(2002 41%)*.

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

The group also has transactional currency exposures arising from sales or purchases by subsidiaries in foreign currencies. They may use forward currency contracts to eliminate exposures on balances that are not expected to mature within 30 days.

Credit risk

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

(b) Borrowing covenants

With the exception of some small overseas facilities, all borrowings are either in the name of BPB plc, or are guaranteed by BPB plc. The group's key financial covenants can be summarised as follows:

- borrowings not to exceed 3 times underlying earnings before interest, tax, depreciation and amortisation,
- interest to be covered at least 3 times by underlying earnings before interest, tax and amortisation.

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

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

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

2003 Net financial assets and liabilities	Total £m	Sterling £m	Euro zone £m	US dollar £m	Other £m
Fixed rate borrowings	(466.3)	(21.4)	(315.2)	(129.7)	–
Floating rate borrowings	(253.5)	(7.3)	(57.1)	(163.5)	(25.6)
Nil interest borrowings	(0.9)	–	–	(0.5)	(0.4)
Total borrowings	(720.7)	(28.7)	(372.3)	(293.7)	(26.0)
Cash and short-term deposits	57.2	5.4	22.2	8.5	21.1
Net borrowings	(663.5)	(23.3)	(350.1)	(285.2)	(4.9)
Loans to joint ventures					
Floating	8.5	7.3	1.2	–	–
Non interest	0.8	–	–	–	0.8
Loan from associate					
Floating	(1.3)	–	–	(1.3)	–
Employee profit share scheme	(10.1)	–	(10.1)	–	–
Fixed asset investments					
Non interest	1.8	–	1.5	–	0.3
At 31 March 2003	**(663.8)**	**(16.0)**	**(357.5)**	**(286.5)**	**(3.8)**

	Total	Sterling	Euro zone	US dollar	Other
Fixed rate financial liabilities					
Weighted average interest rate (%)	4.5	5.3	4.5	4.4	–
Weighted average period for which rate is fixed (years)	3.6	2.5	4.0	2.6	–

2002 Net financial assets and liabilities	Total £m	Sterling £m	Euro zone £m	US dollar £m	Other £m
Fixed rate borrowings	(344.4)	–	(226.4)	(118.0)	–
Floating rate borrowings	(91.9)	(8.2)	(25.8)	(23.2)	(34.7)
Nil interest borrowings	(0.4)	–	–	(0.2)	(0.2)
Total borrowings	(436.7)	(8.2)	(252.2)	(141.4)	(34.9)
Cash and short-term deposits	65.6	18.2	17.9	12.9	16.6
Net borrowings	(371.1)	10.0	(234.3)	(128.5)	(18.3)
Loans to joint ventures					
Floating	5.0	4.0	1.0	–	–
Non interest	5.3	4.5	–	–	0.8
Loan from associate					
Floating	(1.2)	–	–	(1.2)	–
Employee profit share scheme	(8.6)	–	(8.6)	–	–
Fixed asset investments					
Non interest	1.8	–	1.5	–	0.3
QUEST cash	(6.0)	(6.0)	–	–	–
At 31 March 2002	(374.8)	12.5	(240.4)	(129.7)	(17.2)
Fixed rate financial liabilities					
Weighted average interest rate (%)	4.7	–	4.4	5.2	–
Weighted average period for which rate is fixed (years)	3.7	–	4.1	2.8	–

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

Maturity profile of financial assets and liabilities

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

	2003 £m	2002 £m
Within one year or on demand	–	–
Between one and two years	2.2	1.9
Between two and five years	7.9	6.7
	10.1	8.6

The loan from associate represents a rolling facility of less than one year and non-interest bearing loans and investments do not have a maturity date. The £7.3 million floating rate loan to a joint venture is repayable on 31 December 2008.

(d) Currency exposures

Translation exposures

As explained on page 52, the group manages its structural currency exposures arising from its net asset investments in overseas companies. Gains and losses arising from these currency exposures are recognised as movements in reserves.

Transactional exposures

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

23 TREASURY POLICIES, FINANCIAL INSTRUMENTS AND DERIVATIVES CONT.

Net foreign currency monetary assets/(liabilities)	Total £m	Sterling £m	Euro zone £m	US dollar £m	Other £m
Functional currency of operation					
Sterling	8.8	–	8.3	0.4	0.1
Euro	1.2	0.6	–	1.0	(0.4)
US dollar	2.3	–	1.4	–	0.9
Other	(2.1)	(0.1)	(2.8)	0.7	0.1
At 31 March 2003	**10.2**	**0.5**	**6.9**	**2.1**	**0.7**
Functional currency of operation					
Sterling	12.6	–	10.1	0.6	1.9
Euro	2.9	0.8	–	1.6	0.5
US dollar	–	–	–	–	–
Other	(10.5)	(1.2)	(1.7)	(7.9)	0.3
At 31 March 2002	5.0	(0.4)	8.4	(5.7)	2.7

(e) Fair value of financial assets and financial liabilities

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

Primary financial instruments	Total £m	Total borrowings £m	Cash and short-term deposits £m	Other £m
At 31 March 2003				
Book value	**(663.8)**	(720.7)	57.2	(0.3)
Fair value	**(689.4)**	(746.3)	57.2	(0.3)
At 31 March 2002				
Book value	(374.8)	(436.7)	65.6	(3.7)
Fair value	(370.6)	(432.5)	65.6	(3.7)

The fair value of total borrowings includes the group's €400 million 6.5% bond at £299.5 million *(2002 £238.6 million)* compared to a book value of £273.9 million *(2002 £242.8 million)*. The difference between book and fair value is not a liability of the group.

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

The fair value of the group's forward currency contracts is calculated by comparing, for equivalent maturity profiles, the rate at which currency contracts with the same principal amounts could be acquired at the balance sheet date with the actual contract rate. This fair value will only be realised in the profit and loss account in the period to 31 March 2004 if forward foreign exchange rates at that date remain unchanged.

Derivative financial instruments (hedges)	Total £m	Interest rate swaps £m	Forward foreign currency contracts £m
At 31 March 2003			
Book value	(0.6)	(0.6)	–
Fair value	3.7	3.1	0.6
Unrecognised gains and losses	**4.3**	**3.7**	**0.6**
At 31 March 2002			
Book value	(0.1)	0.2	(0.3)
Fair value	0.7	1.1	(0.4)
Unrecognised gains and losses	0.8	0.9	(0.1)

23 TREASURY POLICIES, FINANCIAL INSTRUMENTS AND DERIVATIVES CONT.

(f) Use of derivatives

The group uses derivatives to manage interest rate and foreign currency risks as described in the treasury policies section on page 52. The tables in the previous column show where the group has unrecognised gains and losses (those not reflected in the 'book value' row in the table on derivative instruments in place at the year end).

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

Reconciliation of movement in unrecognised gains and losses	Derivative Total £m	Gains £m	Losses £m
Unrecognised gains and losses			
At 31 March 2002	0.8	9.6	(8.8)
Recognised in the year	0.2	(8.6)	8.8
Arising in the year	3.3	22.3	(19.0)
At 31 March 2003	**4.3**	**23.3**	**(19.0)**
Expected to be recognised:			
In the year to 31 March 2004	(0.5)	10.3	(10.8)
In the year to 31 March 2005 or after	4.8	13.0	(8.2)
Unrecognised gains and losses			
At 31 March 2001	4.1	8.3	(4.2)
Recognised in the year	(0.5)	(4.7)	4.2
Arising in the year	(2.8)	6.0	(8.8)
At 31 March 2002	0.8	9.6	(8.8)
Expected to be recognised:			
In the year to 31 March 2003	(1.2)	7.6	(8.8)
In the year to 31 March 2004 or after	2.0	2.0	–

24 SHARE CAPITAL

	Number 2003 m	Number 2002 m	Nominal value 2003 £m	Nominal value 2002 £m
Ordinary shares of 50p each				
Authorised	**680.0**	680.0	**340.0**	340.0
Allotted, called up and fully paid	**492.8**	489.8	**246.4**	244.9

At the 2002 annual general meeting shareholders authorised the company to buy-back up to 10% of its allotted share capital, although no such purchases were made during the year to 31 March 2003.

Option schemes

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

	Allotments Shares	Allotments Consideration	Options granted Number	Options granted Shares	Exercise period	Price
SAYE:	347,304	£0.8m	622	711,359	1.3.06-31.8.06	221p
			279	435,628	1.3.08-31.8.08	221p
Senior executive:	148,900	£0.4m	108	2,710,500	5.7.05-4.7.12	327p
			14	336,500	5.7.06-4.7.12	336p

At 31 March 2003, 4,141 options over 8,152,611 shares were outstanding under the company's SAYE share option schemes, exercisable during various periods up to 31 August 2008 at prices between 171p and 272p per share. A further 403 options over 10,139,600 shares were outstanding under the senior executive schemes, exercisable during various periods up to 4 July 2012 at prices between 214p and 395p per share.

24 SHARE CAPITAL CONTINUED

The company has established a qualifying employee share ownership trust (QUEST) to subscribe for BPB ordinary shares for transfer to employees exercising options under BPB's two UK SAYE share option schemes. The trustee of the QUEST is BPB QUEST Trustees Ltd, a wholly owned subsidiary of the company. During the year, the QUEST transferred a total of 155,192 shares to employees on the exercise of options for a consideration of £0.35 million (excluded from the figures for shares allotted under the company's SAYE share option schemes given in the table above). A total of 2,643,714 shares were acquired by the QUEST during the year using funds previously received from employees on the exercise of options. All employees of UK group subsidiary companies, including executive directors of the company, are potential beneficiaries under the QUEST. The QUEST has waived the dividends payable on all the 2,556,348 *(2002 67,826)* shares that it owned at 31 March 2003.

25 RESERVES

Movements in reserves	Total £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m
Group				
At 1 April 2002	586.2	221.8	32.7	331.7
Currency adjustments				
Overseas net assets	16.2	–	–	16.2
Borrowings	(4.0)	–	–	(4.0)
Share of associate's revaluation	7.0	–	–	7.0
Premium on shares issued	5.7	5.7	–	–
Movements relating to the QUEST	(6.0)	–	–	(6.0)
Transfer from reserves	(71.2)	–	–	(71.2)
At 31 March 2003	**533.9**	**227.5**	**32.7**	**273.7**
Company				
At 1 April 2002	307.1	221.8	32.7	52.6
Premium on shares issued	5.7	5.7	–	–
Profit retained	51.7	–	–	51.7
At 31 March 2003	**364.5**	**227.5**	**32.7**	**104.3**

The group's £7.0 million share of associate's revaluation was initially recorded in a revaluation reserve before being transferred to the profit and loss account reserve on realisation of the gain by Gyproc Benelux NV.

At 31 March 2003 and 2002 the cumulative amount of goodwill written off to reserves, net of amounts attributed to disposals, in respect of acquisitions prior to the adoption of FRS10 on 1 April 1998 was £237.8 million. At 31 March 2003 and 2002 negative goodwill added to reserves was £7.4 million.

The movement in reserves relating to the qualifying employee share ownership trust (QUEST) represents payments made by the QUEST to subscribe for shares in BPB plc for the purpose of satisfying SAYE options on exercise, less amounts received by the QUEST from option holders.

Movements in shareholders' funds	**2003 £m**	2002 £m
At 1 April	**831.1**	706.7
Total recognised gains and losses for the year	**14.5**	75.3
Dividends	**(66.5)**	(62.7)
Movements relating to the QUEST	**(6.0)**	2.7
New shares issued	**7.2**	109.1
At 31 March	**780.3**	831.1

26 ACQUISITIONS

Acquisition of James Hardie Gypsum

On 13 March 2002 BPB reached agreement for the acquisition of all of the issued share capital of James Hardie Gypsum, Inc and Western Mining and Minerals, Inc (together "James Hardie Gypsum"). On 25 April 2002 the purchase consideration of $345 million was paid in cash and completion achieved following regulatory clearance and the satisfaction of other technical conditions.

26 ACQUISITIONS CONTINUED

The book value of the net assets acquired and the adjustments made to reflect their fair values to the group are shown in the table below:

	Book value £m	Revaluation £m	Fair value to the group £m
Tangible fixed assets	137.7	(13.3)	124.4
Stocks	9.6	(2.6)	7.0
Debtors	23.1	(0.1)	23.0
Overdraft	(4.0)	–	(4.0)
Other creditors due within one year	(11.2)	(5.1)	(16.3)
Provisions	(0.1)	(0.3)	(0.4)
Net assets acquired	155.1	(21.4)	133.7
Goodwill			111.5
Cost of acquisition			245.2
Satisfied by:			
Cash (including acquisition costs)			233.2
Advance payment on forward contract made last year			12.0
Cost of acquisition			245.2

Tangible fixed assets have been revalued by independent experts using the open market existing use or depreciated replacement cost basis as appropriate. The adjustment to stock reflects the write down of spare part inventories. Accruals have increased following recognition of liabilities under onerous contracts not previously recorded in the books of James Hardie Gypsum.

For the 25 day period prior to acquisition the unaudited accounting records of James Hardie Gypsum showed a profit after tax and minority interests of £1.1 million (£1.3 million for the year to 31 March 2002). The post-acquisition operating results of James Hardie Gypsum are disclosed in note 3.

Included within the restructuring charge for the year of £19.6 million, disclosed in note 4, is a charge of £2.6 million incurred as a result of the reorganisation of James Hardie Gypsum and integration into BPB's existing North American business. Most of the charge relates to redundancy payments, re-branding costs and expenses incurred as part of the back office integration into BPB's North American service centre.

Acquisition of Gyproc Benelux NV

On 28 February 2003 BPB took management control of its former associate, Gyproc Benelux NV ("Gyproc"), by increasing its equity participation from 46.1% to 99% through the purchase of a further 52.9% for a cash consideration of £54.6 million, including acquisition costs. In a related and co-terminous transaction Gyproc's German and Polish plasterboard businesses were sold to Lafarge SA for cash proceeds of £34.6 million.

The book value of the net assets acquired and disposed of together with the provisional adjustments made to reflect their fair values to the group are shown in the table below:

	Book value £m	Revaluation £m	Provisional fair value to the group £m
Tangible fixed assets	49.1	–	49.1
Assets held for re-sale	19.4	15.2	34.6
Stocks	4.4	–	4.4
Debtors	12.6	–	12.6
Cash	2.5	–	2.5
Loans	(19.1)	–	(19.1)
Other creditors due within one year	(12.1)	–	(12.1)
Deferred tax liability	(2.6)	–	(2.6)
Provisions	(3.7)	–	(3.7)
	50.5	15.2	65.7
Minority interest			(0.7)
Share of net assets previously held as investment in associated company			(31.7)
Net assets acquired			33.3
Goodwill			21.3
Cost of acquisition			54.6

26 ACQUISITIONS CONTINUED

The group has accounted for the purchase of Gyproc as a piecemeal acquisition in accordance with FRS2. This represents a departure from the statutory method which requires goodwill to be the difference between cost and fair value at the date that Gyproc became a subsidiary. Under the statutory method the goodwill on acquisition would be £29.9 million lower, representing the group's share of Gyproc's retained profits.

Whilst an associate of the group, the results and position of Gyproc were reported in accordance with the group's accounting policies. The group's pre-acquisition share of the £15.2 million revaluation of assets held for re-sale to the fair value realised on disposal has been recorded as a reserves movement and reported in the statement of recognised gains and losses. Due to the proximity of the acquisition to the year-end the fair value table remains provisional.

Other acquisitions

Consideration for other group acquisitions including purchase costs was £33.3 million, of which, £27.2 million was paid in the period, with the balance due in later years. Goodwill arising on these acquisitions was £27.0 million.

27 NET CASH INFLOW FROM OPERATING ACTIVITIES

		2003 £m		2002 £m
Operating profit		**71.2**		170.3
Depreciation less transfers from deferred credits		**105.6**		84.2
Impairment charge		**43.9**		–
Goodwill amortisation		**16.2**		9.7
EBITDA		**236.9**		264.2
Changes in working capital:				
Stocks and work-in-progress	**(12.5)**		2.9	
Debtors	**(25.4)**		(1.1)	
Creditors and provisions	**27.9**		(1.6)	
		(10.0)		0.2
Net cash inflow from operating activities		**226.9**		264.4

Net cash inflow from operating activities is after the £89.2 million payment of the EC fine which has been recognised as an exceptional charge against operating profit.

28 RECONCILIATION OF NET CASH FLOW TO NET BORROWINGS

	2003 £m	2002 £m
(Decrease)/increase in cash	**(49.3)**	34.1
(Increase)/decrease in borrowings	**(215.0)**	79.6
Management of liquid resources	**(6.3)**	9.9
Change in borrowings resulting from cash flows	**(270.6)**	123.6
Subsidiaries acquired	**(20.0)**	–
Subsidiaries sold	**2.2**	–
Currency adjustments	**(4.0)**	3.1
Movement in net borrowings	**(292.4)**	126.7
Net borrowings at 1 April	**(371.1)**	(497.8)
Net borrowings at 31 March	**(663.5)**	(371.1)

29 CHANGES IN NET BORROWINGS

	At 1 April 2002 £m	Cash flow £m	Acquisitions/ disposals £m	Currency movement £m	At 31 March 2003 £m
Cash at bank and in hand	47.6	(3.5)	–	1.5	**45.6**
Overdrafts	(16.7)	(45.8)	–	(0.5)	**(63.0)**
	30.9	(49.3)	–	1.0	**(17.4)**
Loans and finance leases:					
Due within one year	(24.0)	(84.7)	(3.4)	(0.9)	**(113.0)**
Due after more than one year	(396.0)	(130.3)	(14.4)	(4.0)	**(544.7)**
	(420.0)	(215.0)	(17.8)	(4.9)	**(657.7)**
Short-term deposits	18.0	(6.3)	–	(0.1)	**11.6**
Net borrowings	(371.1)	(270.6)	(17.8)	(4.0)	**(663.5)**
Cash at bank and in hand	47.6				**45.6**
Short-term deposits	18.0				**11.6**
Cash and short-term deposits	65.6				**57.2**

30 RELATED PARTY TRANSACTIONS

During the year the group purchased goods from, and sold goods to, its associated companies and joint ventures for £2.1 million and £1.4 million respectively *(2002 £2.5 million and £2.2 million)*. The amounts outstanding at the year end on these purchases and sales were £0.2 million and £0.3 million respectively *(2002 £0.5 million and £0.3 million)*.

The group received royalties from associated companies of £0.1 million *(2002 £0.2 million)*. In addition, the group recharged £0.4 million *(2002 £1.1 million)* to its associated companies in respect of administrative costs incurred on their behalf; the amount outstanding at the year end was £0.1 million *(2002 £0.1 million)*.

At the year end loans outstanding from, and to, associated companies totalled £1.2 million *(2002 £1.0 million)* and £1.3 million *(2002 £1.2 million)*, respectively. A loan from BPB United Kingdom Ltd to a joint venture, British Gypsum-Isover Ltd, of £7.3 million was outstanding *(2002 £8.5 million)*.

As part of the acquisition of Thai Gypsum Products pcl ('TGP') in December 1999, TGP's managing director and former principal shareholder, Mr Krisada Kampanatsanyakorn, was granted a three-year option to acquire up to 20% of TGP's equity from BPB at the original subscription price paid by BPB on acquisition. During the year Mr Kampanatsanyakorn exercised his option in full and purchased, for a cash consideration of £5.4 million, 20% of TGP's equity from BPB. Subsequently BPB acquired from Mr Kampanatsanyakorn 14% of TGP's equity, at the prevailing market price of £7.5 million. In February 2003 Mr Kampanatsanyakorn purchased TGP's fibre cement business for a nominal consideration assuming £4.2 million of debt and accrued interest from the group. Also in connection with the original acquisition an agreement was signed between Mr Kampanatsanyakorn and TGP stipulating that a number of companies controlled by him and his family would operate TGP's mines and provide transportation services. During the year TGP was charged £2.1 million *(2002 £1.8 million)* of which £0.1 million *(2002 £0.2 million)* remained due at the year end.

Internal linings and complementary products	Notes	% Interest in equity capital		Business and country of operation
Artex Rawlplug Ltd	b	100	2	United Kingdom
Binje Ackermans SA		100	2	Belgium
BPB America Inc		100	1, 2	USA
BPB Canada Inc		100	1	Canada
BPB Formula GmbH	c	100	2	Germany
BPB Gypsum, Inc		100	1	USA
BPB Gypsum Production & Trading Ltd		100	2	Turkey
BPB Gypsum (Pty) Ltd		100	1, 2	South Africa
BPB Hellas ABEE		100	1	Greece
BPB Iberplaco SA		100	1, 2	Spain
BPB Italia SpA	d	100	1, 2	Italy
BPB LLC		100	1	Russian Federation
BPB Marco Inc		100	2	USA
BPB Paperboard Ltd	e	100	2	United Kingdom
BPB Placo SA		100	1, 2	France
British Gypsum Ltd		100	1, 2	United Kingdom
British Gypsum-Isover Ltd (joint venture)	f	50	2	United Kingdom
Commatone Ltd	b	100	1, 2	United Kingdom
Compania Industrial El Volcan SA (associate)	g	26.1	1, 2	Chile
Distriplac SA		100	2	Spain
Donn Products (Pty) Ltd		66.7	2	South Africa
Egyptian Gypsum Company SAE	h, i	50	2	Egypt
Gypco Shanghai Company Ltd	h	85.5	1	China
Gyproc AB		100	1, 2	Sweden
Gyproc A/S		100	1, 2	Denmark
Gyproc as		100	1, 2	Norway
Gyproc Benelux NV	j	100	1, 2	Belgium
Gyproc Nederland BV	j	100	1, 2	Holland
Gyproc Oy		100	1, 2	Finland
Gypsum Industries Ltd		100	1, 2	Republic of Ireland
Gypsum Industries (Pte) Ltd		100	1, 2	Zimbabwe
India Gypsum Ltd	h	80	1	India
Isogips NV		99.7	1, 2	Belgium
Moy-Isover Ltd (joint venture)	k	50	2	Republic of Ireland
Placo do Brasil Ltda		66.7	1	Brazil
Placoplatre SA		99.7	1, 2	France
Rigips AG		100	1, 2	Switzerland
Rigips as		100	1	Czech Republic
Rigips GmbH		100	1, 2	Germany
Rigips Austria GesmbH	l, m	100	1, 2	Austria
Rigips Benelux BV		100	1	Holland
Rigips Bulgaria EOOD	m	100	2	Bulgaria
Rigips Hungaria Gipszkarton Kft		100	1, 2	Hungary
Rigips Polska-Stawiany Sp zoo	l	100	1, 2	Poland
Rigips Romania Srl		100	1	Romania
Rigips Slovakia sro		100	1	Slovakia
Sogeco SA		100	2	France
Tecnokarton GmbH & Co KG (associate)	h, n	29	2	Germany
Thai Gypsum Products pcl	h	64.8	1, 2	Thailand
Unigyp France SA	j	100	1	France

NOTES

a) Business activities for each company are indicated as follows:
   1 Internal linings, comprising plasterboard and accessories;
   2 Complementary products, comprising plasters, ceiling tiles, insulation, other building materials and paperboard, and distribution.

b) Each subsidiary, associated and joint venture company is incorporated in its main country of operation as shown; companies operating in the United Kingdom are subsidiaries of, and (except for Artex Rawlplug Ltd and Commatone Ltd) authorised agents acting for and on behalf of, BPB United Kingdom Ltd (a company operating mainly in the United Kingdom).

c) BPB Formula also operates through branches in France, Romania, Spain, Thailand, the UK and the USA, and trades worldwide.

d) BPB United Kingdom Ltd (note b) and BPB Italia SpA are the only companies in which BPB plc has a direct interest.

e) BPB Paperboard Ltd, a subsidiary of and authorised agent of BPB United Kingdom Ltd (note b), operates through units manufacturing plasterboard liner and paper sacks, and recycling waste paper.

f) The BPB group is interested in 50% of the issued equity share capital of £22.6 million.

g) The BPB group is interested in 26.1% of the issued equity share capital of CH$75 billion.

h) Not audited by the auditors of BPB plc or by their associates.

i) The BPB group has control of the Board of Egyptian Gypsum Company SAE.

j) On 18 April 2003 the BPB group's interests in Gyproc Benelux NV, Gyproc Nederland BV and Unigyp France SA were increased from 99.04% to 100%.

k) The BPB group is interested in 50% of the issued equity share capital of €5.3 million.

l) Rigips Austria GesmbH also operates through branches in Bosnia, Croatia, Macedonia, Serbia and Slovenia, and Rigips Polska-Stawiany Sp zoo also operates through a branch in Ukraine.

m) Rigips Bulgaria EOOD was formed on 22 April 2003; prior to that date the business was operated as a branch of Rigips Austria GesmbH.

n) The BPB group is interested in 29% of the issued capital of €4.1 million.

o) A complete list of subsidiary, associated and joint venture companies will be annexed to the company's next annual return to the Registrar of Companies.

Year to 31 March		2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Profit and loss account summary						
Turnover						
North & Western Europe		**566.7**	545.7	547.6	543.1	472.5
Southern Europe		**594.9**	520.1	504.7	512.5	503.8
Central & Eastern Europe		**289.7**	270.2	281.7	240.5	228.5
Europe		**1,451.3**	1,336.0	1,334.0	1,296.1	1,204.8
North America		**458.5**	293.2	231.3	157.0	119.0
Rest of the World		**92.4**	97.1	88.9	57.6	48.6
		2,002.2	1,726.3	1,654.2	1,510.7	1,372.4
Less inter-area		**(71.0)**	(64.5)	(67.1)	(83.9)	(57.1)
Group turnover		**1,931.2**	1,661.8	1,587.1	1,426.8	1,315.3
Growth	*%*	***16.2***	*4.7*	*11.2*	*8.5*	*1.2*
Underlying operating profit (note a)						
North & Western Europe		**95.8**	98.3	95.9	101.3	74.1
Southern Europe		**79.3**	75.3	75.9	76.6	69.1
Central & Eastern Europe		**6.9**	10.7	10.6	16.6	10.8
Europe		**182.0**	184.3	182.4	194.5	154.0
North America		**29.4**	(11.8)	(1.9)	35.4	18.5
Rest of the World		**9.1**	7.5	4.5	3.8	2.3
Group underlying operating profit		**220.5**	180.0	185.0	233.7	174.8
Growth	*%*	***22.5***	*(2.7)*	*(20.8)*	*33.7*	*6.8*
Operating exceptional charges		**(133.1)**	–	(18.0)	–	–
Goodwill amortisation		**(16.2)**	(9.7)	(7.2)	(3.3)	(0.9)
Group operating profit		**71.2**	170.3	159.8	230.4	173.9
Disposals of fixed assets and businesses		**7.4**	3.0	(0.3)	1.5	(17.8)
Share of profits of associated companies and joint ventures		**0.4**	3.4	5.8	6.2	13.0
Profit on ordinary activities before interest		**79.0**	176.7	165.3	238.1	169.1
Exceptional interest charge on bond buy-back		**–**	–	–	–	(2.1)
Other net interest payable		**(30.6)**	(30.4)	(27.4)	(12.5)	(4.7)
Profit on ordinary activities before tax		**48.4**	146.3	137.9	225.6	162.3
Tax on profit on ordinary activities		**(49.1)**	(57.5)	(46.1)	(77.0)	(59.1)
Minority interests		**(4.0)**	(0.4)	0.4	0.2	0.5
(Loss)/profit attributable to BPB plc		**(4.7)**	88.4	92.2	148.8	103.7
Return on sales (underlying)						
North & Western Europe	%	**16.9**	18.0	17.5	18.7	15.7
Southern Europe	%	**13.3**	14.5	15.0	14.9	13.7
Central & Eastern Europe	%	**2.4**	4.0	3.8	6.9	4.7
Europe	%	**12.5**	13.8	13.7	15.0	12.8
North America	%	**6.4**	(4.0)	(0.8)	22.5	15.5
Rest of the World	%	**9.8**	7.7	5.1	6.6	4.7
Group	%	**11.4**	10.8	11.7	16.4	13.3
Underlying pre-tax profit (note a)	£m	**191.6**	153.0	163.4	227.4	183.1
Growth	*%*	***25.2***	*(6.4)*	*(28.1)*	*24.2*	*5.8*
Underlying tax rate (note a)	%	**32.0**	36.9	33.0	33.6	33.8

		2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Balance sheet summary						
Shareholders' funds		**780.3**	831.1	706.7	736.5	748.5
Minority interests		**25.4**	25.7	23.0	23.1	24.0
Net borrowings		**663.5**	371.1	497.8	253.6	270.6
Dividends payable		**43.7**	42.1	38.5	37.8	56.8
Cumulative goodwill amortised and written off		**277.9**	251.5	241.8	238.1	234.8
Capital invested		**1,790.8**	1,521.5	1,507.8	1,289.1	1,334.7
Growth	%	***17.7***	*0.9*	*17.0*	*(3.4)*	*16.8*
Return on capital invested (note b)	%	**8.8**	7.6	9.1	12.1	10.2
Return on shareholders' funds (note c)	%	**11.5**	9.5	11.4	15.4	12.2
Gearing (note d)	%	**82.4**	43.3	68.2	33.4	35.0
Group interest cover (note e)	times	**7.5**	6.1	6.9	18.5	37.2
Cash flow summary						
EBITDA (note f)		**326.1**	264.2	268.0	313.5	244.9
Net movement in working capital		**(10.0)**	0.2	31.1	(23.0)	(0.3)
Capital expenditure		**(96.5)**	(84.5)	(90.6)	(83.4)	(124.5)
Fixed asset disposals		**12.2**	3.7	13.1	8.3	8.8
Taxation		**(43.8)**	(57.7)	(76.1)	(18.1)	(66.4)
Other		**(0.2)**	1.8	2.7	1.3	2.4
Interest		**(30.1)**	(28.7)	(28.4)	(11.0)	(3.7)
Dividends		**(64.9)**	(59.1)	(57.7)	(76.1)	(37.3)
Free cash flow		**92.8**	39.9	62.1	111.5	23.9
Acquisitions		**(315.7)**	(31.1)	(276.7)	(52.4)	(119.4)
Disposals		**40.0**	1.4	6.4	(1.4)	(8.0)
Share issues		**1.2**	111.7	2.1	7.5	2.8
EC fine/share buy-backs/exceptional interest		**(89.2)**	–	(0.2)	(69.9)	(86.5)
Contributions from minority shareholders		**–**	0.5	0.9	1.3	6.2
Cash (outflow)/inflow (note g)		**(270.9)**	122.4	(205.4)	(3.4)	(181.0)
Other statistics						
Shares in issue (average)	m	**490.1**	458.1	456.3	469.5	506.1
Basic (loss)/earnings per share	p	**(1.0)**	19.3	20.2	31.7	20.5
Growth	%	***n/a***	*(4.5)*	*(36.3)*	*54.6*	*25.8*
Underlying earnings per share (note a)	p	**25.8**	21.0	24.1	32.2	24.0
Growth	%	***22.9***	*(12.9)*	*(25.2)*	*34.2*	*7.6*
Dividends per share	p	**13.55**	13.1	12.8	12.5	11.55
Growth	%	***3.4***	*2.3*	*2.4*	*8.2*	*5.0*
Dividends	£m	**66.5**	62.7	58.4	57.1	56.8
Share price: high	p	**440**	391	374	415	446
low	p	**230**	217	206	247	183
Year end market capitalisation	£m	**1,328**	1,910	1,104	1,434	1,282
Number of shares in issue at 31 March	m	**492.8**	489.8	458.3	458.2	474.7
Ordinary shareholdings	000	**8.8**	8.4	8.9	8.3	8.9

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

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

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

Share dealing service
A low-cost service for existing and potential shareholders for dealing in BPB shares is available through Cazenove, one of the company's stockbrokers. Full details are contained in a brochure available from Cazenove's share schemes department: telephone (020) 7606 1768.

Taxation of capital gains
For the purposes of capital gains tax calculations, the London Stock Exchange prices of the company's 50p ordinary shares at 6 April 1965 and 31 March 1982 were 129$\frac{1}{16}$p and 395p respectively. These prices should be adjusted (as appropriate) for relevant capital issues since 6 April 1965: 1 for 4 rights issue at 68p (September 1975), 1 for 1 capitalisation issues (August 1979, August 1983 and July 1987) and 1 for 5 rights issue at 155p (June 1991).

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

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

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

Overseas shareholders for whom this new service is available will be sent full details of how to register for this facility in June 2003.

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

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

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

Electronic proxy appointments
For the annual general meeting to be held on 23 July 2003, shareholders may if they so wish register the appointment of a proxy electronically by logging on to the Lloyds TSB Registrars proxy appointment website at www.sharevote.co.uk where full details of the procedure are given. You will need your voting reference numbers (the three 8 digit numbers shown on your proxy form). Similarly, if you are a member of CREST you may use the CREST electronic proxy appointment service.

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

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

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

Financial calendar

Ex dividend date for 2002/03 final dividend	23.07.03
Annual general meeting	23.07.03
Record date for 2002/03 final dividend	25.07.03
Payment date for 2002/03 final dividend	22.08.03
Announcement of trading update	18.09.03
Announcement of 2003/04 interim results and dividend	21.11.03
Interim report posted	01.12.03
Ex dividend date for 2003/04 interim dividend	17.12.03
Record date for 2003/04 interim dividend	19.12.03
Payment date for 2003/04 interim dividend	23.01.04
Payment date for 2003/04 6.5% bond interest	17.03.04
Announcement of trading update	25.03.04
Announcement of 2003/04 final results and dividend	20.05.04

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