PricewaterhouseCoopers

Survey of 2,800 European financial statements

Presentation of income under IFRS: flexibility and consistency explored*

*connectedthinking

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Executive summary

Introduction

Additional measures can benefit the market by giving investors greater insight into companies and how they are managed

This research looks at the additional income measures companies include in their financial statements beyond the minimum required by International Financial Reporting Standards (IFRS). It also examines the way companies present these non-GAAP measures in their income statements. See scope page 4 and 5.

PricewaterhouseCoopers has sponsored PwC senior manager Arjan Brouwer in this significant review of 2,800 companies' financial statements for his PhD at the University of Amsterdam. This report of Mr Brouwer's findings is intended to be a useful starting point for management and finance departments as they re-evaluate the effectiveness of their communications strategy in an IFRS world.

Why additional income measures are included in financial statements

Additional measures can benefit the market by giving investors greater insight into companies and how they are managed. During previous PricewaterhouseCoopers' research in Canada, the US and the UK, investors told us that they find additional income measures useful and take them into account when making investment decisions. In particular, they are looking for non-GAAP measures that management use to run the business, as well as consistency of information over time, and comparability of information among companies (particularly in the same industry).

The European Commission (EC) was working to improve comparability of financial information – and create pan-European capital markets – when it decided to require all listed companies in the EU to report using a single set of international accounting standards. The move to IFRS has certainly seen a big improvement in comparability across Europe and investors indicated that they were positive about this change in our 2006 survey – *IFRS: the European investors' view.*

But what about reporting of additional income measures? Is this meeting investors' needs for comparability, consistency and insight?

What the regulators and standard setters say

There is some flexibility around what non-GAAP measures companies can present as IFRS does not prohibit additional measures in the financial statements. Indeed that IASB acknowledges that additional earnings measures may be useful and, when included in the financial statements, it wants them to be explained and reconciled to GAAP numbers in the notes, as required for example by IAS 33, Earnings Per Share.

National regulators' views vary about exactly how to approach the inclusion of non-GAAP measures

The Committee of European Securities Regulators (CESR) has acknowledged the widespread use of non-GAAP measures and has issued recommendations highlighting the need for clarity between GAAP requirements and additional non-GAAP measures.

National regulators' views vary about how to approach the inclusion of non-GAAP measures in the financial statements and this influences presentation in different territories.

- The US Securities and Exchange Commission (SEC), for example, generally discourages or prohibits non-GAAP measures on the face of the income statement.
- In the Netherlands, both the stock exchange regulator (AFM) and the Institute for Public Auditors (NIVRA) have opposed the use of measures like EBITDA.
- By comparison in France, the local standard setter has recommended separate reporting of exceptional items in the income statements.

- The Financial Reporting Review Panel (FRRP) in the UK said that non-GAAP measures should not be given undue prominence. It has called for the narrative sections of the annual report to include income measures that are consistent with the income statement and for clear definitions and reconciliation of non-GAAP measures with the required GAAP measures.

All of this suggests that the international debate on the use of non-GAAP measures is just beginning. The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) are currently considering financial statement presentation in a joint-project that could have a significant influence on this area. However, the timing of a final standard has not yet been determined.

What the findings show

No evidence of cherry-picking

It is a positive sign that companies do not appear to have cherry-picked additional income measures to show their results in a more positive light. This is indicated by the fact that the overall trends (rise or fall) for the alternative income measures reported were very similar to the trends for the required IFRS measure – net profit.

We also found that companies generally met the IFRS presentation requirements for the income statement. This is a significant achievement in the first year of widespread IFRS implementation.

A bridge from old reporting to IFRS

In the first year of IFRS reporting, management had to decide how best to communicate their new data – not just the new IFRS numbers but also the non-GAAP measures that they had traditionally prepared and shared with the market.

Management opted for a consistent choice and presentation of non-GAAP measures between 2004 and 2005 so that they did not add to the burden of change

The research found that companies have aligned their choice and presentation of non-GAAP measures as much as possible with what was used in the past, offering the reader consistency of presentation over time. However, these non-GAAP measures are now calculated using IFRS (instead of national GAAP) recognition and measurement principles. This means that there are still a range of different non-GAAP measures and presentations being reported but significant country and industry trends have been sustained during the change to IFRS, for example:

- **EBITDA and similar measures.** Use of these headings on a country by country basis was consistent between 2004 and 2005 reporting periods – for example, in the UK 31% of companies reported these measures in 2004 under national GAAP and 32% in 2005 under IFRS. See pages 6-8.
- **Results excluding non-recurring items.** Overall, the number of companies reporting these results was fairly consistent – so countries that have traditionally reported these measures continued to do so and those that had never used certain terms, such as ‘current operating income’, did not start to do so. However, in the area of reporting results excluding non-recurring items we do see some interesting developments in the use of specific measures between 2004 and 2005. See pages 9-10.
- **Income statement.** Similarly, former national practices for including and presenting information on the face of the income statement – such as using additional columns and boxes – have been retained. This consistent look and feel with previous practice may well have been a helpful management strategy to make investors feel comfortable with the new IFRS reporting, even though the underlying numbers had changed. See pages 11-14.

Too much diversity in presentation may create a perception of differences where they don't actually exist

These findings suggest that in their first IFRS financial statements, management opted for a consistent choice and presentation of non-GAAP measures between 2004 and 2005 so that they did not add to the burden of change when there was already a very significant shift in the recognition and measurement of many of the underlying IFRS numbers. This has made the look and feel of reports familiar to investors and built a bridge between the old national GAAP and the new IFRS financial statements.

International comparability of non-GAAP reporting in this first year of application was unlikely to arise spontaneously as management had little opportunity to compare reporting practices with their peers and they were unable to respond to past experience of IFRS-related discussions with investors, regulators and other parties. In addition, many conferences and industry sessions focused on recognition and measurement with less attention on format requirements and options for additional line items in the income statement, so there was no platform for development of market norms.

In the longer term, this variety of non-GAAP measures and presentation will be reassessed by the market as the usefulness of the information is lessened when investors cannot make direct comparisons internationally among companies in the same industry sector. Too much diversity in presentation may also create a perception of differences where they don't actually exist, and contribute to inefficient pricing of debt or equity by the capital markets to the detriment of both companies and investors.

Expected developments

We should not be aiming for wholesale uniformity of presentation or a prohibition on additional, non-GAAP measures

Investors tell us that non-GAAP measures are useful where they provide additional perspectives and companies will therefore continue to report them. We should not be aiming for wholesale uniformity of presentation or a prohibition on additional, non-GAAP measures that the markets find useful. The best improvements are likely to come from a continued level of experimentation. Regulators therefore need to work together to avoid enforcing different national preferences (see page 1) as this makes it difficult for market forces to influence convergence around similar measures for particular industries.

There is an opportunity now for management to look at what their peers are doing and consider whether the current diversity of non-GAAP income measures and presentations hold any clues for better ways of communicating with investors in the IFRS environment in future.

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The scope of our research

We set out to discover whether the implementation of IFRS had changed practices

This research was conceived and conducted by Arjan Brouwer, PricewaterhouseCoopers senior manager, as part of his doctorate with the university of Amsterdam in the Netherlands. His research is sponsored by PricewaterhouseCoopers.

What we set out to investigate

The use of non-GAAP income measures in company financial statements is widespread under national GAAP. We therefore set out to discover whether the implementation of IFRS has changed these practices. In particular, we examined:

1. What kind of additional non-GAAP information do companies choose to include in their IFRS financial statements that are not specifically required by the standards?
2. How pervasive is the use of these non-GAAP measures throughout the financial statements?
3. Is there consistency in the use of these measures over time (2004 to 2005 year-end reports); and between national GAAP and new IFRS?
4. How comparable is the use of these measures amoung companies internationally and at the country and industry levels?
5. How often do companies present these measures on the face of the income statement? And is there reasonable comparability between companies?
6. How do companies present the non-GAAP measures in their income statements? Does this make different companies' income statements easy to compare internationally?

Our approach

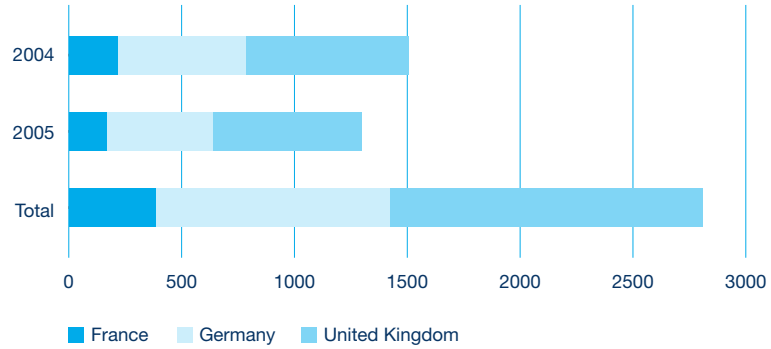
Looking across the whole of the financial statements

To answer the first four questions above, we first reviewed the use of non-GAAP additional income measures in the 2004 and 2005 financial statements (including the notes to the accounts) of a wide range of companies from the three largest European capital markets: the UK, France and Germany. The research covered approximately 2,800 financial statements – 1,300 from 2005 and 1,500 from 2004.

We looked at two distinct groups of additional income measures: results excluding depreciation and/or amortisation (EBITDA and similar measures); and results excluding certain non-recurring items. We examined territory and industry comparability for these areas (the most interesting results are included in this report).

We reviewed 2,800 sets of financial statements and...

Number of financial statements per country



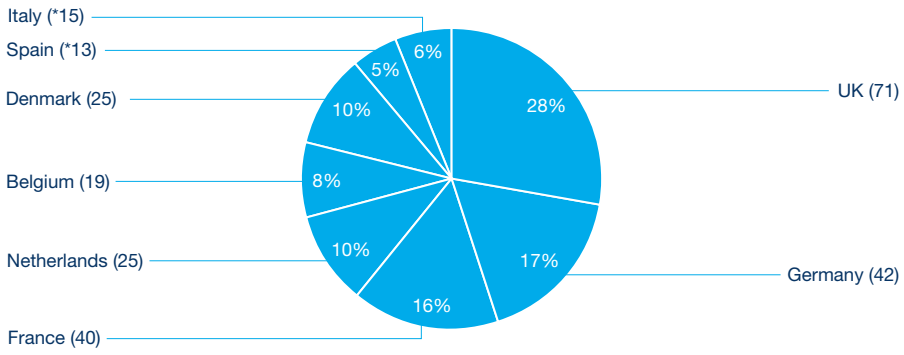
Base: 2,800 financial statements

...focused in detail on 250 income statements

Focusing on the income statement

To find out how much companies use these non-GAAP measures on the face of the income statement (rather than the rest of the financial statements) and whether the presentation of the information was comparable between companies (questions five and six above), we examined the 2005/2006 income statements of 250 companies from eight European countries. In addition, we reviewed the income statements for the use of operating profit and EBIT.

Income statements reviewed per country



Base: 250 companies income statements *small sample size

Main findings of the research

The use and presentation of non-GAAP income measures in company financial statements is widespread and has become the subject of intense debate over the past few years. The first year of required IFRS reporting in Europe precipitated a small but significant number of enquiries from regulators about the use and relevance of these measures, particularly when they appear on the face of the income statement.

We looked first at results excluding depreciation and/or amortisation (EBITDA and similar measures); and results excluding certain non-recurring items. Finally, we focused closely on the use and presentation of these measures on the face of the income statement, and examined how many companies report operating profit or EBIT on the face of the income statement.

Non-GAAP income measures reported in IFRS financial statements

	Income measures examined	% of companies reporting in 2005 **financial statements** (sample size 1,300)	% of companies reporting in 2005 **income statement** (sample size 250)
1	EBITDA and similar measures	44%	10%
2	Profit excluding non-recurring items	34%	26%
3	Operating profit/ EBIT	Not investigated	96%

Use of EBITDA and similar measures

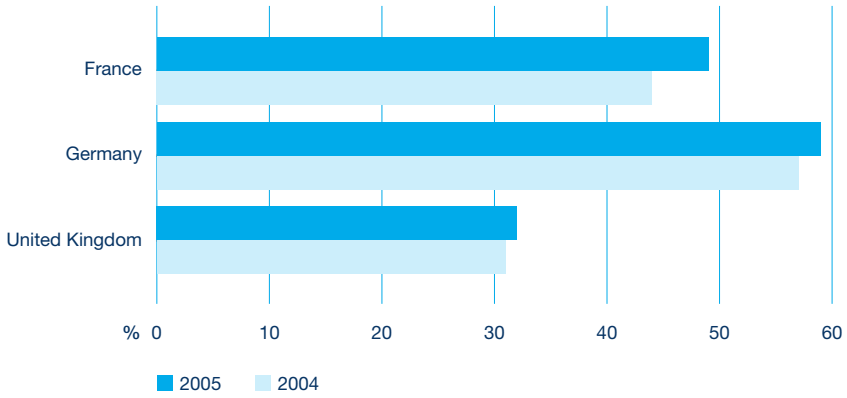
Significant national differences

This group of non-GAAP income measures excludes depreciation and/or amortisation, such as EBITA, EBITDA, EBITAE and EBITDAE and similar measures (EBITDAE is earnings before interest, tax, depreciation, amortisation and exceptionals). We examined the use of these measures in companies' financial statements in the largest European capital markets (France, Germany and the UK).

Companies maintained a consistent pattern of reporting on EBITDA and similar measures under IFRS compared to their previous national GAAP reporting

The research showed that companies generally maintained a consistent pattern of reporting on these measures under IFRS compared to their previous national GAAP reporting, with only a slight overall increase in the use of these measures between 2004 and 2005 (see first chart on page 7). The move to IFRS did not result in territory convergence of the use of these measures. The biggest difference was between Germany – where 59% of companies reported on these measures – and the UK, where only 32% of companies did so.

EBITDA and similar measures disclosed in the financial statements as a whole – by country

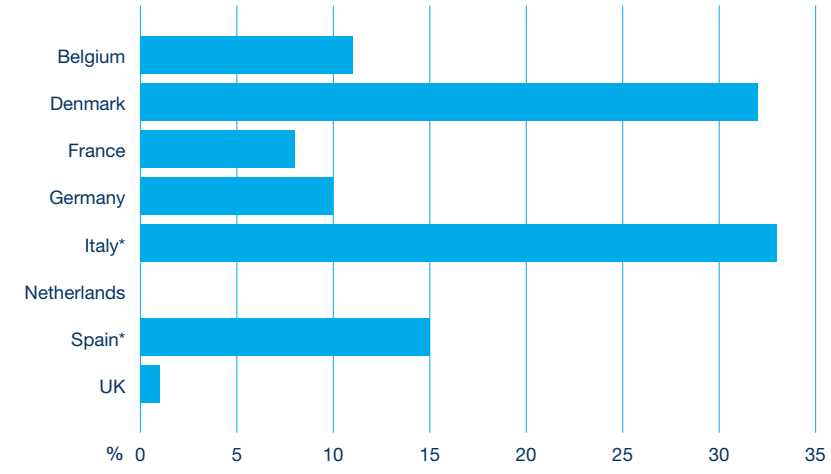


Base: 2,800 companies (1,500 in 2004; 1,300 in 2005)

To gain more insight into these differences, we took a closer look at the income statement for 250 companies across eight countries. Overall, approximately 10% of the companies in our sample reported EBITDA or similar measures as a subtotal on the face of the income statement, indicating that most companies who report these measures do so elsewhere in the financial statements. The range of national trends was even stronger here. There were no companies in the Netherlands that reported these measures in the income statement, and very few in the UK, but a third of companies in Italy and Denmark did so.

10% of companies report EBITDA in a single column on the face of the income statement

EBITDA and similar measures disclosed on the face of the income statement – by country

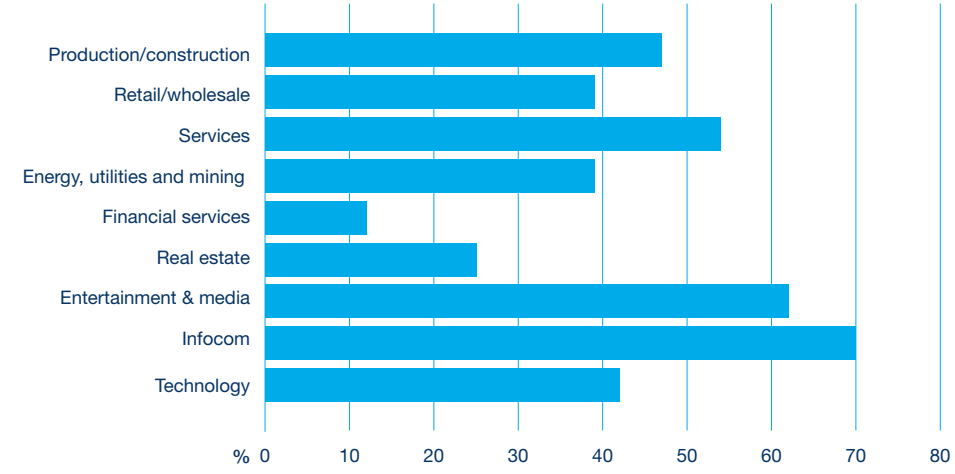


Base: 250 companies *Small sample size

Industry variations

70% of information/ communications companies report EBITDA or similar measures in their financial statements

EBITDA and similar measures in the financial statements as a whole – by industry



Base: 1,300 companies in 2005

An analysis of the use of EBITDA and similar measures across industries in the larger capital markets, also found significant differences between industries. Entertainment, media and information/communications companies are most likely to report these measures, followed by companies operating in the industrial and consumer services sectors, whereas financial services and real estate companies rarely report such additional measures. However, the proportion of each industry reporting these measures was almost the same under IFRS as it was in 2004 under national GAAP, which is consistent with the territory analysis.

This consistency in the use of non-GAAP measures overtime will have helped stakeholders to adjust to the major change in underlying data that has come with the move to IFRS. Even though the foundations of the measures are different – for example, earnings are measured in a different way – investors can compare and contrast the old measures with the new because companies are providing familiar captions for them.

Results excluding certain non-recurring items

Companies used a variety of ways to present income measures that exclude certain non-recurring items in the financial statements. We therefore investigated some of the different terms companies are using and the pattern of use in the largest capital markets.

Terms companies use for income measures excluding certain non-recurring items

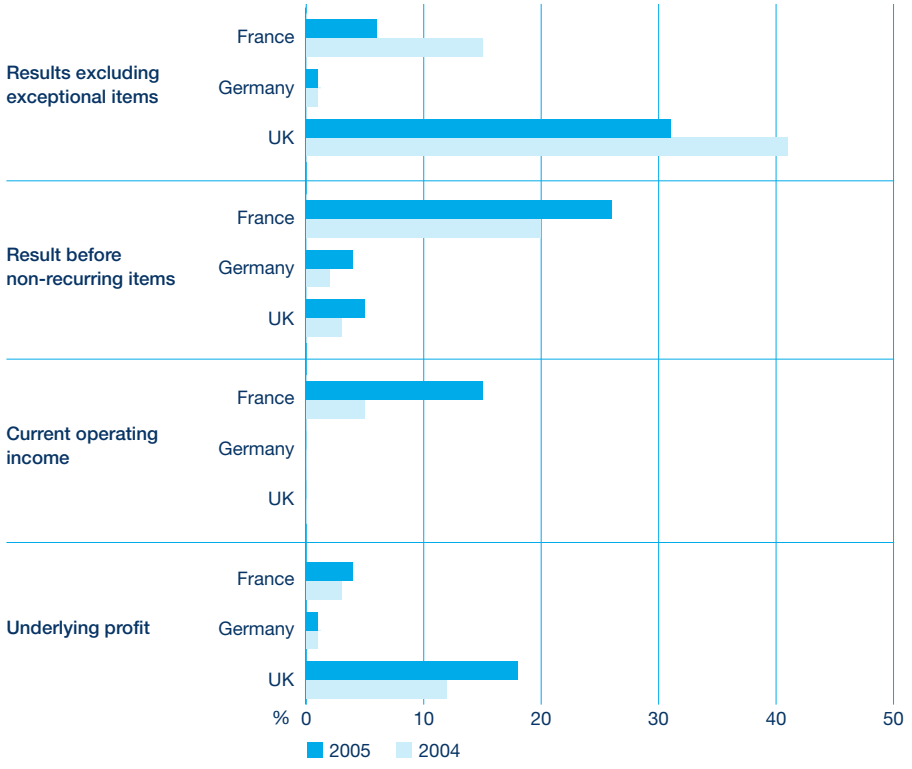
1. Result excluding exceptional items
2. Result before non-recurring items
3. Result before significant items
4. Result before special items
5. Result before specific items
6. Normalised result
7. Underlying result
8. Current operating result

We found differences in the way that income measures excluding non-recurring items are identified and presented between countries. Overall in 2005, only 12% of German companies reported one or more of the alternative measures excluding non-recurring items, while almost four times as many companies reported one or more of these measures in France (45%) and the UK (47%).

Overall use of these measures was almost four times higher in France and the UK than in Germany

There was also a shift in the popularity of certain terms between 2004 and 2005, but overall use of these measures increased only slightly from 32% of our total sample reporting one or more of these alternative performance measures in 2004, to 34% in 2005.

Use of income measures excluding certain non-recurring items by territory



Base: 2,800 companies (1,500 in 2004; 1,300 in 2005)

There is an inverse relationship between companies reporting EBITDA and similar measures and those reporting results excluding non-recurring items

These results per country indicate an inverse relationship between companies reporting results that exclude depreciation and amortisation (EBITDA and similar measures see pages 6-8), and those reporting results that exclude non-recurring items (see chart on page 9). For example, a large percentage of German companies and a low percentage of UK companies report EBITDA and similar measures, but it is the other way round for results excluding non-recurring items.

Exceptional items. The chart (previous page) shows a decrease in the use of the expression 'exceptional item' – one of the terms used to identify non-recurring items – between 2004 and 2005. In France instances fell from 15% to 6%; and in the UK from 41% to 31%.

Result before non-recurring items. A growing number of companies use the term 'result before non-recurring items' or 'recurring result', especially in France. Over a quarter of French companies used this terminology last year – practices have undoubtedly been influenced by the French national standard setter's recommendation to separately report certain items.

Current operating profit or income. In addition to 'results before non-recurring items', we found a significant increase (from 5% to 15%) in the use of 'current operating profit or income' in France. This is in line with a recommendation by the French standard setter, the Conseil National de la Comptabilité (CNC), which called for a subtotal 'Résultat opérationnel courant' (often translated as current operating income) in the income statement under IFRS.

This performance measure is not used (or is very rarely used) in Germany and the UK.

Underlying earnings/profit. In the UK, this measure gained ground as an indicator of recurring income (up from 12% in 2004 to 18% in 2005). This offsets the decrease in the use of 'results excluding exceptional items'. French and German companies use this terminology much less often.

When we focused on just the income statements of 250 companies in eight countries we confirmed that companies across Europe are using a range of different non-GAAP measures before non-recurring items and that there are territory rather than pan-European trends. From the Netherlands and Belgium, for example, no companies in our sample reported measures before non-recurring items as a subtotal in a row in the income statement, whereas Spain and Denmark were around the 10% mark.

The variety of terminology raises the question of whether the widespread use of different income measures improves users' understanding of the business

The move to IFRS, along with pronouncements from standard setters or regulators, have precipitated some changes in the reporting of these measures between 2004 and 2005, although in most cases the changes are not dramatic. This may be part of a shift in management strategy to strengthen communications to stakeholders at a time when the required GAAP information has changed.

Analysts and investors agree that they gain valuable insight from reporting of these measures. However, the variety of terminology raises the question of whether the widespread use of different performance measures that exclude non-recurring items improves users' understanding of the business, or whether the lack of consistency and comparability is confusing. Does underlying profit mean the same as profit before exceptional items or current operating income? Does underlying profit for one company even mean the same (conceptually) as underlying profit for another company?

By clarifying these points – perhaps together with industry peers – companies have an opportunity to further improve their dialogue with stakeholders.

Focus on the income statement

Having established that companies are using a variety of non-GAAP measures (EBITDA-type and results before non-recurring items) in their financial statements to communicate with investors, we had a closer look at the amount of information they are choosing to include on the face of the income statement, the presentation formats they use, and the level of comparability between companies.

How many line items do companies report?

We first looked at the number of line items management has chosen to include on the face of the income statement and found that this varied between eight and 48. The latter is a very considerable amount of information when you consider that IFRS requires only six line items and two of these may not be relevant to all companies (joint ventures and discontinued operations). See Appendix 1.

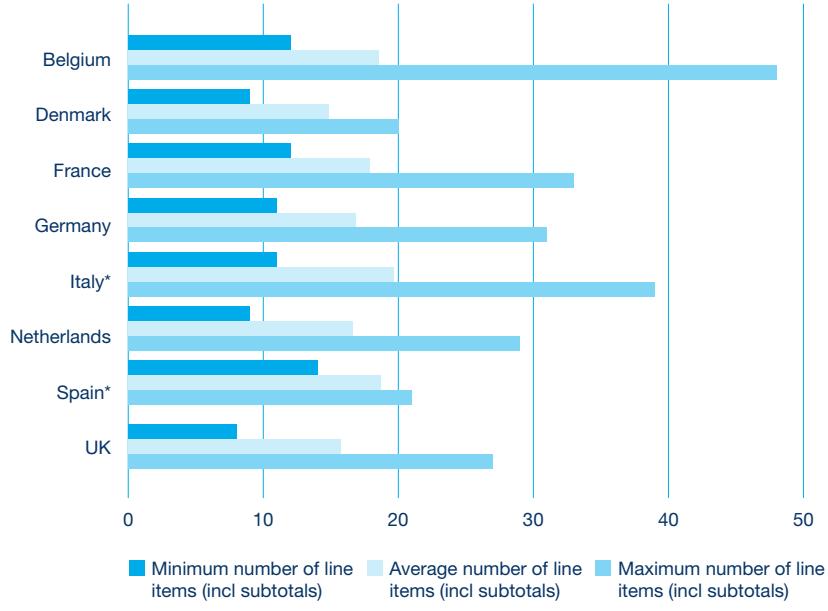
However, there was some agreement about the appropriate quantity of information – the majority (59%) of companies reported between 15 and 20 line items and only a minority reported less than 10 (2%) or more than 20 (14%) line items.

How does this vary by territory?

We also looked at how this varied by territory (see chart below) and found that the average number and of line items for each territory is quite similar, even though the maximum number varies considerably.

The number of line items on the face of the income statement varied between 8 and 48

Number of line items in the income statement



Base: 250 income statements * small sample size

How many income measures?

The number of performance measures varied between two and eight

Next we examined the number of income measures included in those line items. By income measures we mean the subtotals showing revenues plus or minus defined items. IFRS only requires separate presentation of one income measure – net profit or loss – but companies in our sample reported between two and eight. The most frequently used headings for these on the face of the income statement were:

- Net profit/loss
- Result before income taxes
- Operating profit
- Gross margin
- Result from continuing operations
- EBIT
- Operating profit before exceptional items
- EBITDA

There is no right or wrong about the amount of non-GAAP information that can be included on the face of the income statement, provided that the data is clear and does not mask the IFRS amounts. The considerable variations between companies indicate that management is making decisions based on the nature and complexity of their specific business as well as the need to be consistent with traditional practices during the change to IFRS.

Although some non-GAAP information on the face of the income statement will usually be appreciated by investors if it gives additional perspectives, the law of diminishing returns suggests that there is a point beyond which adding information makes reporting too complex and starts to obscure the business outcomes, rather than provide insight.

Operating profit and EBIT in the income statement

96% of companies reported operating profit or EBIT on the face of the income statement

There is no requirement in IFRS to report an operating profit amount. But if one is given, the standards require all income and costs related to operations to be included. For companies that do not have associates or discontinued operations, operating profit is commonly put before interest and taxes so we have looked at these categories of supplementary data together.

In total 96% of the companies in our sample reported either operating profit (85%) or ‘earnings before interest and taxes’ (EBIT). Such consistent use of these measures across all European companies is clearly helpful for investors. However, the numbers may not be as comparable as they seem; we found that some companies use different definitions of operating profit.

Companies and investors agree that this is a useful measure to report. In interviews with analysts and other users held by the US Financial Accounting Standards Board (FASB), many analysts indicated that operating profit and EBIT are among the key metrics they use to assess a company’s performance. The FASB reported that many, if not most, analysts expressed a preference for classifying items as operating/non-operating but there was no clear consensus on the definition or underlying notion of ‘operating’.

Going forward, this is an area where a more comparable approach internationally would be appreciated by analysts and other users.

Visual presentation of results on the face of the income statement

We also investigated whether companies' visual presentation of non-GAAP performance measures on the face of the income statement was comparable under IFRS or whether companies have tended to stick to previous national trends.

Example of additional columns on the face of the income statement

Consolidated income statement x € million	result before exceptional items	2005 exceptional items (8)	total
net sales continuing operations	**8,012**	**–**	**8,012**
net sales discontinued operations	***183***	**–**	***183***
total net sales	**8,195**	**–**	**8,195**
other operating income (4)	**223**	**59**	**282**
own work capitalized	**8,418**	**59**	**8,477**
	47	**–**	**47**

We found clear national trends in the use of columns and boxes

Example of boxes on the face of the income statement

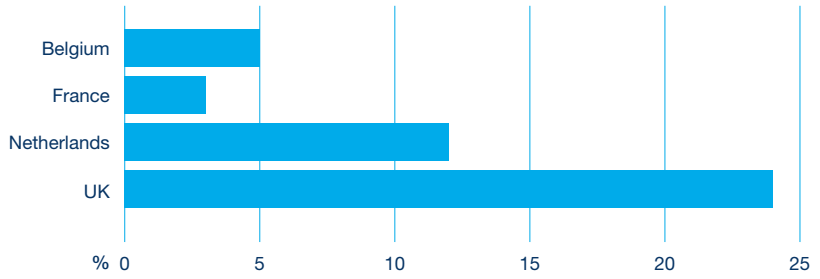
Operating profit		
Existing operations	**57.0**	54.2
Acquisitions	**3.3**	1.3
Share of results of associates	**0.7**	–
Operating profit – continuing operations	**61.0**	55.5
Operating profit prior to amortisation and impairment	**67.0**	55.5
Amortisation of acquired intangible fixed assets	**(0.2)**	–
Impairment of goodwill	**(5.8)**	–
Operating profit – continuing operations	**61.0**	55.5
Investment income	**5.2**	4.7
Finance costs (13.5)	**(13.5)**	
Profit before taxation	**52.7**	46.7

We found clear national trends in the use of columns and boxes – their use markedly higher in the UK than elsewhere. The UK national standard FRS 3, Reporting Financial Performance, required separate columns in limited circumstances (for discontinuing operations and continuing operations) and this seems to have encouraged UK companies to use additional columns or sub-analyses (including boxes) to present further analyses of their results. UK companies have carried over these presentation formats to IFRS reporting.

Use of columns

Almost 25% of the UK companies in our sample presented separate columns on the face of the income statement to highlight specific items (see first chart on the next page). This way of presenting items on the income statement is much less widespread in the other European countries and virtually non-existent in some. Most companies that used separate columns did so to separately present exceptional items (66%) and discontinued operations (26%).

Separate columns on the face of the income statement – by country



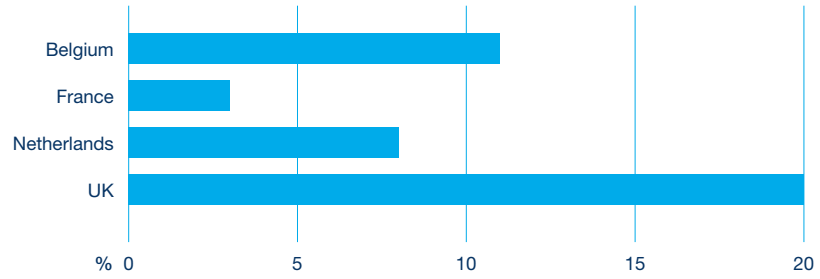
Note: No companies in Germany, Denmark, Spain and Italy used separate columns on the face of the income statement
Base: 250 companies

Use of boxes

The use of separate sub-analyses and boxes on the face of the income statement also varied by country, as you can see from the chart below. Again it is more common in the UK than any other country. This style of presentation was mainly used to separately present depreciation and amortisation (36%) and exceptional items (25%, of which 16% related to restructuring charges).

There is an interesting distinction, however, between the use of boxes in the UK and in other countries. In the UK, boxes tends to be a line around items in the main part of the income statement. In Belgium, France and the Netherlands, however, the boxes or sub-analysis are almost always presented below the main part of the income statement, which is in line with the recommended practices outlined in Report Leadership (see Appendix 3).

Boxes and sub-analysis on the face of the income statement – by country



Note: No companies in Germany, Denmark, Spain and Italy used separate boxes on the face of the income statement
Base: 250 companies

The fact that income statement presentation under IFRS is similar to previous practices under national GAAP indicates that in the first year of IFRS reporting management was keen for the look and feel of their income statement to be consistent over time and therefore easily recognisable to investors. The findings also demonstrate the influence of national regulators, which currently have slightly different views on presentation (see page 1).

Appendix 1

Income statement requirements under IFRS

IFRS does not prescribe a detailed format for the presentation of the income statement, although many national standards that were previously applied did provide formats. IAS 1, Presentation of Financial Statements, only requires that the income statement contains the following line items:

(a) revenue

(b) finance costs

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method

(d) tax expense

(e) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation

(f) profit or loss

IFRS also states that additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance. This is supplemented with two example formats and one restriction: an entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes.

Appendix 2

Tips for the next reporting period

Our experience with clients and observations during this research have highlighted several items where continuing small improvements can be made to IFRS reports.

- **Minority interests:** Under many local GAAPs and a previous version of IAS 1, companies often presented minority interests as a charge in arriving at profit or loss for the period in the income statement. Watch out for today's IFRS requirements that require minorities to be dealt with as an allocation of profit or loss.
- **Gross margin/profit:** An entity can choose to present the analysis of expenses either by nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant. When you present the expenses by nature, there is a need to allocate all relevant expenses to cost of sales and not to use a mixture of the two presentation formats.
- **Operating income:** IFRS allows disclosure of operating activities, or similar line item, and many companies do so. However, if a company decides to present such a line item it is important to ensure that all operating items are included in this result.
- **Sub-total titles:** The inclusion of additional subtotals is allowed under IFRS. It is important, however, to make sure that the headings reliably explain the content.
- **Alternative earnings per share:** Some companies have traditionally reported alternative earnings per share on the face of the income statement without full disclosures in the notes. Remember that IAS 33, Earnings Per Share, requires alternative earnings per share to be presented and reconciled in the notes to the financial statements.

Appendix 3

Non-GAAP measures presented in the income statement

The example below illustrates a good way of reporting non-GAAP measures in the income statement, as recommended by Report Leadership – a multi-stakeholder group, including CIMA, PricewaterhouseCoopers, Radley Yeldar and Tomkins, which aims to challenge established thinking on corporate reporting. www.reportleadership.com

	Note	2007 £'000	2006 £'000	Percentage change
Revenue		**209,891**	173,843	*21%*
Cost of sales	**3**	**(115,433)**	(94,742)	
Gross profit		**94,458**	79,101	*19%*
Gross margin		***45%***	*46%*	
Administration and distribution expenses	**3**	**(67,405)**	(55,790)	
Operating profit		**27,053**	23,311	*16%*
Operating margin		***13%***	*13%*	
Finance costs	5	**(1,049)**	(1,404)	
Finance income	5	**1**	1	
Profit before tax		**26,005**	21,908	*19%*
Income tax expense	6	**(7,521)**	(6,333)	
Profit for the year		**18,484**	15,575	*19%*
After-tax profit percentage		***9%***	*9%*	
Attributable to:				
Equity holders of the parent		**18,484**	15,757	
Earnings per share				
– basic for profit for the year (pence/share)		**231.05**	210.47	
– diluted for profit for the year (pence/share)		**231.05**	210.47	
Proposed dividends (pence/share)		**75.00**	65.00	

For an analysis of what is driving revenue growth see page 42

EBITDA: NON-GAAP	Note	2007 £'000	2006 £'000
Operating profit		**27,053**	23,311
Add back: Depreciation and amortisation	8	**6,088**	5,489
EBITDA		**33,141**	28,800
Percentage change		***15%***	

Earnings per share (EPS) is calculated as follows:	2007	2006
Profit attributed to the equity holders (£)	**18,484,000**	15,575,000
Divided by: Average shares in issue in period	**8,000,000**	7,400,000
EPS (pence/share)	**231.05**	210.47

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