

INTERIM STATEMENT 2006

St Ives

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CHAIRMAN'S STATEMENT

- Results** The results for the twenty six weeks ended 27 January 2006 show revenue of £205.2 million (2005 – £210.8 million) and profit before taxation of £15.6 million (2005 – £20.6 million). Profit before taxation and restructuring costs and provision releases was £12.8 million (2005 – £18.9 million). Restructuring costs and provision releases (before taxation) amounted in total to a credit of £2.8 million, representing the profit on sale of surplus assets and the release of provisions no longer required for previous business consolidations. Basic earnings per share were 10.24p (2005 – 13.75p). Earnings per share before provision releases and restructuring costs were 8.36p (2005 – 12.13p).
- For the first time our results are reported in accordance with International Financial Reporting Standards and the prior year's figures have been restated accordingly. In compliance with IFRS, segmental analysis is provided by reference to the three market segments which we supply – Media Products, Commercial Products and USA.
- Dividend** An interim dividend of 5.00p per share (2005 – 5.00p per share) has been declared and will be paid on 19 May 2006 to shareholders on the register on 21 April 2006.
- Trading Conditions** Most of our markets continued to experience over-capacity and intense downward pressure on pricing, especially in the case of longer-run and less time-sensitive products, both in the UK and the USA. Those parts of our businesses supplying customers with particularly demanding service requirements and complex distribution and fulfilment needs experienced more stable conditions. Our businesses in South Florida were disrupted for significant periods by power outages and telecommunications failures as a result of hurricanes in the autumn of 2005.
- Media Products** Total revenue from Media Products was £99.2 million, 7.0 per cent below the previous year. The reduced revenues reflected the transfer of the Crayford point-of-sale business to SP Group at Redditch (included amongst Commercial Products below), lower sales of music and multimedia products from our facility in Holland and reduced sales of magazines and supplements. Profit before interest, restructuring costs and provision releases from this sector was £13.9 million, 4.0 per cent below the prior year.
- Books** Book revenue was ahead of that achieved in the first half of last year; sales of cased books to the UK trade market, for which we again produced a high proportion of best-selling titles, were particularly strong. Some downward pressure on price was offset by increased volume, which enabled us to improve utilisation.
- Magazines** Up to mid-December, magazine volumes were maintained at levels similar to those experienced in the same period in the previous year, although pricing pressure continued. We retained all the magazine work previously produced at St Ives Caerphilly, which closed towards the end of our last financial year. Shortly before Christmas magazine paginations reduced significantly and the resulting lower level of activity and unsatisfactory utilisation continued into January. The benefits of the cost reductions implemented last year were offset by price erosion and, more recently, weakening demand. Returns were below those achieved in the prior year.
- Music and Multimedia** Revenue from special packaging mainly for DVD products grew, as music publishers and motion picture companies sought to exploit their back catalogues more effectively. This increase offset declining demand for standard music packaging. We also experienced a sharp reduction in demand, especially for computer games-related products, shortly before Christmas. Lower sales in Holland resulted from the decision of a major customer to produce more of its work in-house. Improved returns in the UK reflected the transfer of point-of-sale work to Redditch and the benefit of the cost reductions of the prior year which helped to improve utilisation, while returns in Holland fell as a result of lower levels of activity.
- Commercial Products** Total revenue from Commercial Products was £72.7 million, 2.7 per cent above the prior year, which included revenue of £9.7 million from Jöhler Druck (disposed of in April 2005). The increase in sales reflected strong growth in our point-of-sale business (as well as the transfer of the business previously carried out at Crayford) and some growth in commercial and direct response sales, partly offset by a further reduction in financial printing activity, particularly for corporate financial markets. Profit before interest, restructuring costs and provision releases from this sector was £1.4 million, as compared with £1.9 million in the prior year, reflecting further severe price pressure in our less specialist markets and unsatisfactory utilisation.

Revenue from direct response and commercial markets increased but mainly in longer-run, more commoditised products and in the face of continuing fierce pricing pressure. Demand for direct mail and other more specialist products, especially from the financial services sector, was weak. As a result of the change in the mix of business, returns deteriorated.

Direct Response
and Commercial

In both the UK and USA corporate financial print activity levels remained subdued and pricing reached unsustainable levels, especially for the few larger, high profile deals that did occur. In the face of lower sales brought about by continuing weakness in volumes and pricing, losses continued despite the reductions in our cost base achieved in prior years.

Financial

Point-of-sale revenue has grown significantly, partly as a result of our winning a contract to supply Marks & Spencer with all its point-of-sale requirements with effect from the beginning of August, but we have also increased levels of business undertaken for existing customers. The results reflect a full six months' contribution from SP Group (only twenty weeks in the first half of the previous year). Profit has grown, albeit more slowly than revenue, as we operated at less than optimal efficiency while assimilating the business transferred from Crayford, taking on Marks & Spencer's printing plant at Burnley and establishing our new logistics facility at Redditch. In addition, in the run-up to the Christmas period a number of customers made significant last minute changes to their specifications which made utilisation a challenge.

Point-of-Sale

Total revenue from our US businesses serving commercial, point-of-sale and magazine markets reduced in real terms by 5.0 per cent, reflecting the extremely competitive environment, but at £34.7 million was in line with last year when converted into sterling. Pricing pressure for non-recurring work was especially intense. As previously announced, our businesses in South Florida experienced significant disruption as a result of hurricanes in the autumn of 2005, which made it necessary to place a considerable volume of work out at significant cost in order to meet customers' needs. As a consequence we incurred a loss of £0.5 million before interest, restructuring costs and provision releases, as compared with a profit of £2.4 million in the first half of the previous year.

USA

We continued to invest throughout our business to lower our cost of production. Capital expenditure, together with the cost of the acquisition of the premises and plant comprising Marks & Spencer's printing facility at Burnley, amounted to approximately £23 million in the half year under review.

Balance Sheet,
Cash Flow and
Investment

Nonetheless our operating cash flow and balance sheet remain strong. Net debt at the end of the half year amounted to £20.8 million, reduced from £23.5 million at the start of the year, after dividend payments and despite significant capital expenditure, helped by proceeds from asset disposals.

Over-capacity and fierce price competition continue to characterise most of our markets on both sides of the Atlantic, especially for longer-run and less time-sensitive products. Against this background, we continue to invest in our business to reduce the cost of production and to develop additional services which will enable us to reduce our customers' overall costs while providing us with improved returns. Wherever possible, we are providing bespoke added value services, usually involving complex distribution, logistics or fulfilment solutions for our customers. Examples of investment to this end include the new logistics facility at Redditch and our new mailing operation at Roche, both of which started operations during the half year under review. Since the period end, we have launched St Ives Group Sales which will enable customers who so wish to access all the Group's facilities and services through a single portal. This initiative is fully supported by on-line systems which enable customers to manage their pre-press workflow and to access asset management, artwork creation, order processing, inventory control and other applications in real-time.

Outlook

Amongst Media Products, the outlook for book markets is steady and our own market position remains unequalled. We expect the magazine market to remain extremely competitive and since the half year end as a result of our unwillingness to agree to prices which we do not consider to be sustainable certain contracts have not been renewed. In this market we are increasing our focus on shorter-run, more specialist titles for customers for whom consistent quality and reliable service are important. As always, there is limited forward visibility in the market for music and multimedia products, although we have recently increased the proportion of our revenues from these products which are under long-term agreements.

CHAIRMAN'S STATEMENT *continued*

Amongst Commercial Products, there is no sign of any improvement in the market for commercial, mail order and personalised products, although this is the area where we expect St Ives Group Sales to begin to make the most impact. Corporate financial markets in both the UK and USA continue to see low levels of activity and extremely competitive pricing. We are increasing our share of the market for company Annual Reports. The demand for point-of-sale products is steady and we expect to grow our business further and improve our returns on the strength of the range and responsiveness of our service.

In the USA, the markets served by our commercial businesses remain intensely competitive.

Our record of investment is unrivalled in our industry, our financial strength is second to none and our commitment to service is paramount. On the basis of these solid foundations, we expect to weather the current challenging conditions more successfully than our competitors and, in due course, to generate improving returns for our shareholders.

Miles Emley
Chairman
11 April 2006

CONSOLIDATED INCOME STATEMENT

	26 weeks to 27 January 2006			26 weeks to 28 January 2005	52 weeks to 29 July 2005
	Before restructuring costs and provision releases	Restructuring costs and provision releases (note 6)	Total		
	£'000	£'000	£'000	£'000	£'000
Revenue (note 2)					
Existing activities	201,019	–	201,019	210,815	419,477
Acquired activities	4,132	–	4,132	–	–
	205,151	–	205,151	210,815	419,477
Cost of sales	(152,901)	(113)	(153,014)	(155,431)	(315,661)
Gross profit	52,250	(113)	52,137	55,384	103,816
Sales and distribution costs	(14,557)	8	(14,549)	(14,160)	(29,337)
Administrative expenses	(23,404)	300	(23,104)	(20,585)	(44,921)
Other operating income					
Profit on disposal of fixed assets	–	2,084	2,084	626	626
Other income	316	481	797	366	648
	316	2,565	2,881	992	1,274
Profit from operations (note 2)					
Existing activities	14,167	2,760	16,927	21,631	30,832
Acquired activities	438	–	438	–	–
	14,605	2,760	17,365	21,631	30,832
Loss on disposal of subsidiary	–	–	–	–	(8,135)
Investment income	4,627	–	4,627	4,189	8,336
Finance costs	(6,409)	–	(6,409)	(5,254)	(10,794)
Profit before taxation	12,823	2,760	15,583	20,566	20,239
Income tax expense (note 3)	(4,206)	(828)	(5,034)	(6,426)	(8,775)
Profit for the period	8,617	1,932	10,549	14,140	11,464
Basic earnings per share (note 5)			10.24p	13.75p	11.14p
Diluted earnings per share (note 5)			10.24p	13.74p	11.13p

Comparative figures for the twenty six weeks to 28 January 2005 and fifty two weeks to 29 July 2005 include restructuring costs and provision releases as detailed in note 6.

All transactions are derived from continuing activities.

CONSOLIDATED BALANCE SHEET

	27 January 2006	28 January 2005	29 July 2005
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment	163,144	160,375	158,908
Goodwill	54,135	53,704	53,946
Other intangible assets	586	715	649
Deferred tax assets	17,340	14,556	16,173
Other non-current assets	139	234	140
	<u>235,344</u>	<u>229,584</u>	<u>229,816</u>
Current assets			
Inventories	13,739	15,514	13,344
Trade and other receivables	77,501	77,251	77,762
Derivative financial instruments	11	–	–
Cash and cash equivalents	7,577	10,242	5,594
	<u>98,828</u>	<u>103,007</u>	<u>96,700</u>
Total assets	<u>334,172</u>	<u>332,591</u>	<u>326,516</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	10,355	10,344	10,349
Other reserves	46,951	46,383	46,723
Retained earnings	101,395	120,919	107,265
Total equity	<u>158,701</u>	<u>177,646</u>	<u>164,337</u>
Non-current liabilities			
Retirement benefit obligations	73,590	58,515	66,584
Deferred tax liabilities	49	41	46
Deferred income	155	258	206
Other non-current liabilities	789	729	947
Long-term provisions	1,006	1,897	1,518
	<u>75,589</u>	<u>61,440</u>	<u>69,301</u>
Current liabilities			
Trade and other payables	62,943	58,748	54,408
Short-term borrowings	28,388	24,259	29,086
Current tax payable	6,238	7,968	5,623
Deferred income	102	248	102
Short-term provisions	2,121	2,282	3,659
Derivative financial instruments	90	–	–
	<u>99,882</u>	<u>93,505</u>	<u>92,878</u>
Total liabilities	<u>175,471</u>	<u>154,945</u>	<u>162,179</u>
Total equity and liabilities	<u>334,172</u>	<u>332,591</u>	<u>326,516</u>

This interim statement was approved by the board of directors on 11 April 2006.

CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Operating activities			
Cash generated from operations (note 7)	35,958	17,935	41,788
Interest paid	(757)	(388)	(711)
Income taxes paid	(3,716)	(4,703)	(8,882)
Net cash from operating activities	<u>31,485</u>	<u>12,844</u>	<u>32,195</u>
Investing activities			
Acquisition of business	(2,901)	–	–
Acquisition of subsidiary	–	(29,742)	(31,099)
Purchase of property, plant and equipment	(19,788)	(12,547)	(33,192)
Purchase of other intangibles	(214)	(240)	(379)
Proceeds on disposal of property, plant and equipment	6,221	4,352	5,374
Disposal of subsidiary	–	–	685
Interest received	115	374	574
Net cash used in investing activities	<u>(16,567)</u>	<u>(37,803)</u>	<u>(58,037)</u>
Financing activities			
Proceeds from issue of share capital	198	429	606
Loan notes redeemed	(2,194)	–	(3,449)
Dividends paid	(12,520)	(12,499)	(17,648)
Increase in bank overdrafts	1,613	–	4,344
Net cash used in financing activities	<u>(12,903)</u>	<u>(12,070)</u>	<u>(16,147)</u>
Net increase/(decrease) in cash and cash equivalents	2,015	(37,029)	(41,989)
Cash and cash equivalents at beginning of period	5,594	47,455	47,455
Effect of foreign exchange rate changes	(32)	(184)	128
Cash and cash equivalents at end of period (note 8)	<u>7,577</u>	<u>10,242</u>	<u>5,594</u>

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	£'000	£'000	£'000
Exchange differences on translating foreign operations	(109)	101	1,081
Losses on cash flow hedges taken to equity	(191)	–	–
Actuarial losses on defined benefit pension schemes	(5,518)	(12,752)	(21,078)
Tax on items taken directly to equity	1,779	3,800	5,913
Net expense recognised directly in equity	(4,039)	(8,851)	(14,084)
Transfer to profit and loss from equity of exchange differences on disposal of foreign operation	–	–	(101)
Transfer to initial carrying amount of non-financial hedged items on cash flow hedges	75	–	–
Tax on items transferred from equity	(22)	–	–
Profit for the period	10,549	14,140	11,464
Total recognised income and expense	6,563	5,289	(2,721)
Transition adjustment on adoption of IAS 32 and IAS 39 (notes 1, 11)	24		
Total recognised income and expense for the period	6,587		

1. Basis of preparation

St Ives plc previously reported under UK Generally Accepted Accounting Principles ('UK GAAP') for periods up to and including the fifty two weeks to 29 July 2005. In June 2002 the Council of the European Union announced that listed companies in Europe would be required to adopt International Financial Reporting Standards ('IFRS') for accounting periods beginning on or after 1 January 2005. These interim statements have therefore been prepared in accordance with IFRS.

The accounting policies adopted and the restated comparative information for the twenty six weeks to 28 January 2005 and fifty two weeks to 29 July 2005 are set out in a separate document, "Restated Financial Information for International Financial Reporting Standards", published on 31 January 2006. The same accounting policies have been consistently applied to the financial information in these interim statements except where the Group has taken advantage of the exemption in International Financial Reporting Standard 1: "First-time Adoption of International Financial Reporting Standards" ('IFRS 1') from the requirement to restate comparative information for International Accounting Standard 32: "Financial Instruments: Disclosure and Presentation" ('IAS 32') and International Accounting Standard 39: "Financial Instruments: Recognition and Measurement" ('IAS 39'). These standards have been adopted from 30 July 2005 and the restated opening balance sheet is set out in note 11.

The interim statements are neither audited nor reviewed. The financial information in these statements does not comprise statutory accounts for the purposes of Section 240 of the Companies Act 1985. The abridged information for the fifty two weeks to 29 July 2005 has been prepared from the Group's statutory accounts for that period, restated for IFRS, which have been filed with the Registrar of Companies. The auditors' report on the accounts of the Group for that period was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

NOTES TO THE FINANCIAL STATEMENTS *continued***2. Segment reporting****(a) Business segments**

	26 weeks to 27 January 2006				
	Media Products	Commercial Products	USA	Elimination	Total
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	98,800	71,715	34,636	–	205,151
Inter-segment sales	411	1,025	51	(1,487)	–
Total revenue	99,211	72,740	34,687	(1,487)	205,151
Result					
Segment result	14,228	1,452	(546)	–	15,134
Add back restructuring costs and provision releases	(350)	(26)	–	–	(376)
Segment result before restructuring costs and provision releases	13,878	1,426	(546)	–	14,758
Unallocated corporate expenses (net)					(153)
Profit from operations before restructuring costs and provision releases					14,605
Restructuring costs and provision releases					2,760
Profit from operations					17,365
Investment income					4,627
Finance costs					(6,409)
Income tax expense					(5,034)
Profit for the period					10,549

	26 weeks to 28 January 2005				
	Media Products	Commercial Products	USA	Elimination	Total
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	106,314	69,765	34,736	–	210,815
Inter-segment sales	351	1,035	105	(1,491)	–
Total revenue	<u>106,665</u>	<u>70,800</u>	<u>34,841</u>	<u>(1,491)</u>	<u>210,815</u>
Result					
Segment result	14,434	1,923	3,486	–	19,843
Add back restructuring costs and provision releases	21	18	(1,062)	–	(1,023)
Segment result before restructuring costs and provision releases	<u>14,455</u>	<u>1,941</u>	<u>2,424</u>	<u>–</u>	<u>18,820</u>
Unallocated corporate income (net)					<u>1,162</u>
Profit from operations before restructuring costs and provision releases					19,982
Restructuring costs and provision releases					<u>1,649</u>
Profit from operations					21,631
Investment income					4,189
Finance costs					(5,254)
Income tax expense					<u>(6,426)</u>
Profit for the period					<u>14,140</u>

NOTES TO THE FINANCIAL STATEMENTS *continued***2. Segment reporting** *continued***(a) Business segments** *continued*

	52 weeks to 29 July 2005				
	Media Products	Commercial Products	USA	Elimination	Total
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	204,598	147,870	67,009	–	419,477
Inter-segment sales	821	2,346	198	(3,365)	–
Total revenue	<u>205,419</u>	<u>150,216</u>	<u>67,207</u>	<u>(3,365)</u>	<u>419,477</u>
Result					
Segment result	21,432	3,612	5,158	–	30,202
Add back restructuring costs and provision releases	7,238	3,067	(1,674)	–	8,631
Segment result before restructuring costs and provision releases	<u>28,670</u>	<u>6,679</u>	<u>3,484</u>	<u>–</u>	<u>38,833</u>
Unallocated corporate income (net)					1,844
Profit from operations before restructuring costs and provision releases					40,677
Restructuring costs and provision releases					(9,845)
Profit from operations					30,832
Disposal of subsidiary					(8,135)
Investment income					8,336
Finance costs					(10,794)
Income tax expense					(8,775)
Profit for the period					<u>11,464</u>

(b) Geographical segments

	26 weeks to 27 January 2006			
	United Kingdom	*United States of America	Rest of the World	Total
	£'000	£'000	£'000	£'000
Revenue	156,561	41,773	6,817	205,151
Result				
Segment result	17,733	(872)	504	17,365
Add back restructuring costs and provision releases	(2,760)	–	–	(2,760)
Segment result before restructuring costs and provision releases	14,973	(872)	504	14,605
	26 weeks to 28 January 2005			
	United Kingdom	*United States of America	Rest of the World	Total
	£'000	£'000	£'000	£'000
Revenue	149,039	43,207	18,569	210,815
Result				
Segment result	17,714	3,251	666	21,631
Add back restructuring costs and provision releases	(587)	(1,062)	–	(1,649)
Segment result before restructuring costs and provision releases	17,127	2,189	666	19,982
	52 weeks to 29 July 2005			
	United Kingdom	*United States of America	Rest of the World	Total
	£'000	£'000	£'000	£'000
Revenue	307,421	84,282	27,774	419,477
Result				
Segment result	24,211	5,492	1,129	30,832
Add back restructuring costs and provision releases	11,803	(1,958)	–	9,845
Segment result before restructuring costs and provision releases	36,014	3,534	1,129	40,677

*The geographical segment United States of America includes St Ives Financial Inc, which is included in Commercial Products, and the USA business segment.

NOTES TO THE FINANCIAL STATEMENTS *continued***3. Income taxes**

The income tax charge is analysed below:

	26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	£'000	£'000	£'000
United Kingdom income tax	4,831	5,223	8,561
Overseas income tax	203	1,203	214
	<u>5,034</u>	<u>6,426</u>	<u>8,775</u>

The income tax charge for the twenty six weeks to 27 January 2006 is based on the estimated annual charge for the fifty two weeks to 28 July 2006.

4. Dividends

		26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	per share	£'000	£'000	£'000
Final dividend paid for the 52 weeks ended 30 July 2004	12.15p	–	12,499	12,499
Interim dividend paid for the 26 weeks to 28 January 2005	5.00p	–	–	5,149
Final dividend paid for the 52 weeks ended 29 July 2005	12.15p	12,520	–	–
Dividends paid during the period		<u>12,520</u>	<u>12,499</u>	<u>17,648</u>
Proposed interim dividend for the 26 weeks to 27 January 2006	5.00p	<u>5,178</u>		

5. Earnings per share

	26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	million	million	million
Basic weighted average number of shares	103.0	102.9	102.9
Dilutive potential ordinary shares from share options	—	—	0.1
Diluted weighted average number of shares	103.0	102.9	103.0

	26 weeks to 27 January 2006		26 weeks to 28 January 2005		52 weeks to 29 July 2005	
	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share
	£'000	pence	£'000	pence	£'000	pence
Earnings and basic earnings per share	10,549	10.24	14,140	13.75	11,464	11.14
Restructuring costs and provision releases	(1,932)	(1.88)	(1,665)	(1.62)	13,983	13.59
Adjusted earnings and adjusted earnings per share	8,617	8.36	12,475	12.13	25,447	24.73
Diluted earnings per share		10.24		13.74		11.13

Adjusted earnings is calculated by adding back restructuring costs and provision releases, as adjusted for tax, to the profit for the period.

6. Restructuring costs and provision releases

Restructuring costs and provision releases included within the income statement shown on page 5 are as follows:

	26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	£'000	£'000	£'000
Income/(costs)			
Cost of sales	(113)	354	(6,837)
Sales and distribution costs	8	—	(843)
Administrative expenses	300	613	(2,863)
Profit on disposal of fixed assets	2,084	626	626
Other income	481	56	72
Loss on disposal of subsidiary	—	—	(8,135)
	2,760	1,649	(17,980)

Profit on disposal of fixed assets relates to properties sold. Other income is profit on disposal of other fixed assets.

NOTES TO THE FINANCIAL STATEMENTS *continued***7. Reconciliation of cash generated from operations**

	26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	£'000	£'000	£'000
Profit from operations	17,365	21,631	30,832
Adjustments for:			
Depreciation of property, plant and equipment	13,453	14,989	29,701
Impairment of fixed assets	–	–	3,278
Gain on disposal of property, plant and equipment	(2,881)	(992)	(1,274)
Foreign exchange losses	–	86	84
Deferred income	(51)	(200)	(398)
Share-based payment charge/(credit)	99	(327)	(654)
Decrease in provisions	(2,044)	(3,886)	(3,839)
Operating cash flows before movements in working capital	25,941	31,301	57,730
Increase in inventories	(422)	(3,285)	(1,568)
Decrease/(increase) in receivables	184	(4,771)	(6,142)
Increase/(decrease) in payables	10,255	(5,310)	(8,232)
Cash generated from operations	35,958	17,935	41,788

8. Analysis of net debt

	29 July 2005	Cash flow	Exchange movements	27 January 2006
	£'000	£'000	£'000	£'000
Cash and cash equivalents	5,594	2,015	(32)	7,577
Bank overdrafts	(4,386)	(1,613)	–	(5,999)
Debt due within one year	(24,700)	2,194	117	(22,389)
	(23,492)	2,596	85	(20,811)

9. Movement in equity

	26 weeks to 27 January 2006	26 weeks to 28 January 2005	52 weeks to 29 July 2005
	£'000	£'000	£'000
Opening equity	164,337	184,754	184,754
Transition adjustment on adoption of IAS 32 and IAS 39	24	–	–
Opening equity (restated)	164,361	184,754	184,754
Foreign exchange adjustments	(42)	75	671
Losses on cash flow hedges	(81)	–	–
Profit for the period	10,549	14,140	11,464
New shares issued	198	429	606
Recognition of share-based payments	99	(327)	(654)
Actuarial losses on defined benefit pension schemes	(3,863)	(8,926)	(14,755)
Transfer to profit and loss from equity of exchange differences on disposal of foreign operation	–	–	(101)
Dividends	(12,520)	(12,499)	(17,648)
Closing equity	158,701	177,646	164,337

10. Retirement benefits

The Group's pension obligations under International Accounting Standard 19: "Employee Benefits" ('IAS 19') are recognised on the balance sheet for the first time. The liability of £73,590,000 (£51,513,000 net of deferred tax) is higher than at 30 July 2005 principally due to a fall in AA bond yields used to discount liabilities from 5.0% to 4.7%. All other assumptions remain in line with those at 30 July 2005.

11. Adoption of IAS 32 and IAS 39

Following the Group's adoption of IAS 32 and IAS 39 from 30 July 2005, we set out below the accounting policies under these standards and the impact on the financial information as at 30 July 2005.

Accounting policy

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses derivative financial instruments to hedge its exposure to foreign exchange for the purchase of capital equipment denominated in foreign currencies and the sale of goods similarly denominated.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not hold or issue derivative financial instruments for speculative purposes.

All derivatives are held at fair value in the balance sheet within 'derivative financial instruments' and are classified as current or non-current depending on the maturity of the derivative.

NOTES TO THE FINANCIAL STATEMENTS *continued***11. Adoption of IAS 32 and IAS 39** *continued***Accounting policy** *continued*

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of forecast transactions are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains and losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For the hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the net profit or loss.

The gain or loss on hedging instruments relating to the effective portion of a net investment hedge is recognised in equity and the ineffective portion is recognised immediately in the income statement. Gains or losses accumulated in equity are included in the income statement when the foreign operations are disposed of.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Impact of IAS 32 and IAS 39

At 30 July 2005 the fair values of forward contracts held at that date have been recorded on the balance sheet and directly in equity. The balance sheet includes derivative financial instruments within current assets of £62,000 and within current liabilities of £38,000.

	Closing balance sheet at 29 July 2005	IAS 32 and IAS 39 adjustments	Opening balance sheet at 30 July 2005
	£'000	£'000	£'000
Assets			
Non-current assets	229,816	–	229,816
Current assets	96,700	62	96,762
	<u>326,516</u>	<u>62</u>	<u>326,578</u>
Equity and liabilities			
Equity	164,337	24	164,361
Non-current liabilities	69,301	–	69,301
Current liabilities	92,878	38	92,916
	<u>326,516</u>	<u>62</u>	<u>326,578</u>

During the period to 27 January 2006 losses on cash flow hedges of £191,000 were taken to equity and £75,000 was transferred to the initial carrying amount of non-financial hedged items on cash flow hedges. The related deferred tax taken directly to equity totalled £35,000. The resulting fair values of forward contracts held at 27 January 2006 were £11,000 recorded in current assets and £90,000 recorded in current liabilities on the balance sheet.

12. Reconciliation between UK GAAP and IFRS

On 31 January 2006 the Group published its restated balance sheet for 30 July 2004 and restated financial information for the twenty six weeks to 28 January 2005 and fifty two weeks to 29 July 2005, as required by IFRS 1. This separate document is available on the Group's website, www.st-ives.co.uk, entitled "Restated Financial Information for International Financial Reporting Standards".

The document includes explanations of the significant UK GAAP to IFRS differences and detailed IFRS accounting policies. A summary of the financial information presented in this document is provided below:

Reconciliation of equity

	29 July 2005	28 January 2005	31 July 2004
	£'000	£'000	£'000
Total equity presented under UK GAAP	214,621	230,739	222,758
Proposed dividend adjustment	12,517	5,147	12,491
Employee benefits	(64,450)	(58,624)	(49,583)
Rolled over gains	(1,234)	(825)	(825)
Reversal of goodwill amortisation	2,773	1,289	–
Share-based payments	110	(80)	(87)
Total equity presented under IFRS	<u>164,337</u>	<u>177,646</u>	<u>184,754</u>

Reconciliation of profit for the period

	52 weeks to 29 July 2005	26 weeks to 28 January 2005
	£'000	£'000
Profit for the period under UK GAAP*	2,780	13,326
Rolled over gains	(409)	–
Employee benefits	(113)	(115)
Foreign exchange gains/(losses)	42	(60)
Reversal of goodwill amortisation	2,773	1,289
Reversal of goodwill previously written-off	6,806	–
Share-based payments	(415)	(300)
Profit for the period under IFRS	<u>11,464</u>	<u>14,140</u>

*In the twenty six weeks to 28 January 2005 certain costs totalling £1,505,000 have been reallocated from administrative expenses to sales and distribution costs in order to ensure consistency of presentation.

Reconciliation of cash flows

There was no material effect on the cash flows of the Group on adopting IFRS.

13. A copy of this interim statement has been sent to all shareholders.

