Remploy 2006 Accounts



Remploy

Directors and Advisers

as at 22 September 2006

Alan Pedder CBE Chairman (aged 68) *

Alan was appointed Non-Executive Chairman in January 2000. His current directorships include Chairman of the South African Chemical Corporation AECI Ltd and a Non-Executive Director of both SANS Ltd Cape Town and Baronsmead VCT plc. He joined Remploy after a long career in ICI plc serving as Chief Executive of a number of International Companies and finally Director of Technology for the Group.

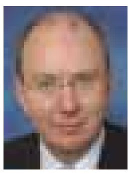
Bob Warner Chief Executive (aged 55)

Bob joined the company as Finance Director in April 2002. His previous posts have included President of Operations at mmO2, President of Europe Operations, BTwireless and Deputy Finance Director of British Coal. In his last post at BT, he managed the demerger and flotation of mm02. Previous directorships include British Interactive Broadcasting, BT Cellnet Ltd and Epeopleserve (Jersey) Ltd.

Jill Hill Chief Operating Officer (aged 55)

Jill joined the Company in August 2001. Previously Managing Director of Rolls-Royce Materials Handling Ltd, Clarke Chapman Ltd and Chairman of Caillard SA. Other current directorships include Northern Defence Industries Ltd.

Nigel Hopkins Executive Director, Finance (aged 48)



Nigel joined the Company in May 2004. Formerly Director of Administration with Comau Estil, Nigel has held previous posts with Laporte, United Technologies, Coopers & Lybrand and Ernst & Young.

Anne Jessopp Executive Director, HR (aged 42)

Anne Jessopp joined Remploy in July 2004 as Executive Director – HR. Prior to this appointment Anne was HR Director for Lex Industrial Solutions. She has held previous posts with the RAC, Thorn Electronics, Proctor and Gamble and Rolls-Royce.

Graham Corbett CBE Non-Executive (aged 71) *

Graham was appointed to the Board in June 2004. Previous positions include Chairman of Postcomm and Deputy Chairman of the Competition Commission, Board member and Chief Financial Officer of Eurotunnel and Senior Partner of Peat Marwick's Continental European Firm. He is currently Chairman of Trustees for RICAbility.

Ian Harley Non-Executive (aged 56) ** ***

Ian was appointed to the Board in June 2004. He is a former Chief Executive of Abbey National having previously worked for Touche Ross & Co. Ian is a Non-Executive Director of Rentokil Initial plc and British Energy plc, Governor of the Court of the Whitgift Foundation and Vice President of the National Deaf Children's Society.

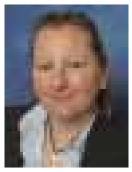
Joe Mann MBE Non-Executive (aged 54)

Joe was appointed to the Board in May 2006. He was General Secretary of the National League of The Blind and Disabled from 1995-2000, during which time he was appointed to the Government's Disability Rights Task Force. Since 1997, he has been a member of the Labour Party National Policy Forum, and since 2003 a member of the Labour Party National Executive Committee. Joe is also a member of the Executive Committee of the General Federation of Trade Unions.

Sally Smedley Non-Executive (aged 57) *

Sally was appointed to the Board in January 2001. She is HR Director at British Energy plc and Chair of the Remunerations and Nominations Committee. Previous positions were Director of East Midlands Electricity and Non-Executive Director of Cornwell Park plc.

Lisa Stone Non-Executive (aged 44) **



Lisa was appointed to the Board in January 2001. She is Chief Operating Officer of HgCapital, Non-Executive Director of Newchurch Ltd, Sporting Index, Iris Group Ltd and Addison (Germany).

Ian Thornley Non-Executive (aged 47) *

Ian was appointed to the Board in May 2006. A Chartered Accountant, Ian joined Northwest Airlines in 1992, holding a number of senior management posts with responsibility for operations in Europe, the Middle East and Africa. He joined a US quoted support services business in 1998 as Corporate Development Director before being appointed Managing Director of Right4Staff Ltd, one of its UK subsidiaries. Ian led a management buy-out of Right4Staff in 2002, serving as its CEO until October 2005.

Guy Phillips Secretary (aged 44)

A solicitor, Guy joined the Company in 1994 as Legal Adviser. Previously, he held positions with John Mowlem, American Express and the Investment Management Regulatory Organisation.

Bankers

The Royal Bank of Scotland Group plc
Corporate & Institutional Banking
135 Bishopsgate London EC2M 3UR

Auditors

Deloitte & Touche LLP
London

Registered office

Stonecourt Siskin Drive Coventry CV3 4FJ
Telephone 02476 515 800
Facsimile 02476 515 860

Remploy Ltd is a private company as defined by the Companies Act 1985, ltd by guarantee, without share capital.

Registered number: 394532 (England and Wales)

*Member of the Remuneration Committee

**Member of the Audit Committee

***Senior Independent Non-Executive Director

Contents

Chairman's Statement

Last year I spoke of the changing nature of Remploy, as it used its unique knowledge of employing disabled people and its training and development resources to find mainstream employment for unemployed disabled people, and moved into more service orientated businesses as UK manufacturing continued to shrink. All this is very much in line with Government policy and social views in favour of employing disabled people in an open and inclusive environment.

I am pleased to report that our employment services activities are finding employment for around 5,000 unemployed disabled people in mainstream employment each year, approximately the same number that are employed within Remploy factories. This should be compared to the 536 placed in 2000. Remploy has now opened recruitment branches providing assessment, basic skills, vocational training and job placement facilities in Glasgow, Leicester, Birmingham, Leeds, Plymouth and Nottingham with plans to expand this to provide national coverage.

I am also pleased to report that our new, more service focused business streams, have made very satisfactory progress with commendable performances in high performance protective clothing, electronic and white-goods recycling, digital data storage, automotive, institutional furniture, building products, small batch electronics and the managed services stream where Remploy employees work in external enterprises such as CCTV. There is also much renewed emphasis on the public sector. However it has not proved possible to grow these higher quality more niche sectors sufficiently to both replace the ongoing loss of manufacturing to low labour cost countries and to displace that element of low margin work which has been retained to provide work for all of the factories around the country. Despite best efforts and the importation of the appropriate business skills there is little prospect of growing the quality businesses sufficiently to displace this high loss making work.

The recent National Audit Office Report drew attention to this and recommended that Remploy should reduce the emphasis on these poor quality businesses and that the money saved should be used to accelerate the build up of our employment services operations around the country. This would be a major component of the Government's policy of finding employment for one million people on incapacity benefit, where Remploy is the expert in supporting those people with more complex needs. This conclusion was very much in line with Remploy Board thinking.

The Minister for Disabled People, Anne McGuire, responded to the report by setting up an independent assessment using PricewaterhouseCoopers, who have carried out an intensive review and taken input from all interested and related parties. They in turn came up with a number of options, ranging from doing nothing to closing the whole of

Remploy is the largest provider of the Workstep programme and a key deliverer of NDDP the factory network. The Government have rejected both extremes and concluded that there must be change and that Remploy must rebalance its activities much more in favour of developing our employment services to provide the highest level of employment opportunities for disabled people within the taxpayer's funds available.

The Remploy Board have been asked to produce a detailed proposal agreed with the trades unions involved and other interested parties in the New Year. This would provide the basis of a five year business plan to be put into effect from 2007/8. The plan must significantly increase the number of disabled people supported into work and contain expenditure within £555m over the five year period. There may be additional funds available to fund the modernisation.

2006/7 is a year of transition and funding is being made available to bridge from the end of the last three year programme, which ended in April 2006.

We have reassured all of Remploy's disabled employees that where factories are affected by business closures there would be no compulsory redundancies, each employee affected would be provided with individual support and Remploy would maintain a presence in that community.

The ongoing businesses will operate on the basis of maintaining a minimum performance standard and the simplification of the business streams will allow a more compact management organisation to develop.

It is anticipated that the change in the balance of Remploy in devoting more of the Government's grant to the very cost effective employment services operation will increase the number of unemployed placements from today's level of 5,000 to 20,000 in the fifth year of the programme. In respect of the Government's long-term target to find employment for one million people on incapacity benefit over the next ten years, Remploy will help to find 250,000 jobs.

These changes are directed at providing the maximum number of jobs for disabled people within the funds available. Change is always a challenge, but our current employees will be fully supported and the communities in which Remploy currently operates and the new recruitment branches that will be opened will create a nationwide network of routes to employment, working in close harmony with the ongoing business sites.

I would like to give my personal thanks to our employees, to the trades unions who are cooperating in creating this drive to support more unemployed disabled people, to DWP and to my colleagues on the Board for their support and guidance. I would again give particular thanks to all the external employers who have worked with us to provide real job opportunities for disabled people.

Alan Pedder

Alan Pedder CBE
Chairman

Chief Executive's Review

We helped to find 4,285 jobs for disabled people in 2005/6. This was a 20% increase on 2004/5 and was a new record for Remploy

The past year has set the foundationsfor a major acceleration in Remploy's strategy for increasing the number of disabled people it supports into work. We have had two major reviews of Remploy; one by the National Audit Office and another by PricewaterhouseCoopers, management consultants, followed by a confirmation of the strategic direction of Remploy by the Minister for Disabled People.

Despite the inevitable distraction created by the reviews, we have continued to develop our activities. We helped to find 4,285 jobs for disabled people in 2005/6. This was a 20% increase on 2004/5 and was a new record for Remploy. After the success of our first high street branches in Leicester, Glasgow and Motherwell, we have opened further branches in Birmingham, Plymouth, Leeds and Nottingham in 2006. These branches provide an opportunity for disabled people to look at vacancies, take part in training and development, and experience the type of work available locally. The branches should help us towards our target of finding 20,000 jobs per annum in five years' time.

We continue to be the largest provider of support to disabled people under the Government's Workstep programme, which is focused on those people with more complex needs. However we also increased the number of disabled people that we placed into work under New Deal for Disabled People by 23% and, for the first time, found jobs for disabled people using European Social Fund finance.

The environment for manufacturing businesses in the UK remained tough in 2005/6, but the efforts that we have made to increase our service sector businesses have allowed us to resist the downturn for the fourth successive year. Sales in our businesses increased only slightly. By good cost control we managed to contain the increase in loss in our manufacturing and services businesses to less than one percent.

We made further cost savings elsewhere in our organisation and as a result we were able to limit the increase in the loss before grant for Remploy as a whole to just £0.7m.

From 2002/3 to 2004/5, despite the difficult trading conditions, we had managed to contain our grant and borrowings within the limits set by the Department of Work and Pensions. However in 2005/6 the grant limit was reduced by £5m and we continued to experience difficult trading conditions. We therefore had to seek an additional grant of £8.3m to meet our funding needs, resulting in a total grant for the year of £119.3m.

The continuing success and value for money of our employment services business, which finds jobs for disabled people, was recognised by the National Audit Office, PricewaterhouseCoopers and the Minister for Disabled People.

The Minister has asked the Board of Remploy to work with the trades unions and other stakeholders to come up with a modernisation plan for Remploy which meets the growth and expenditure objectives. Importantly, the Minister said that the plan must avoid compulsory redundancy of disabled people. We arecurrently working on this plan, which we hope to give to ministers early in the New Year.

We are eager to take the opportunity for growth and to improve Remploy's value for money for the taxpayer, while ensuring that none of our disabled employees are made compulsorily redundant.

This is a time of considerable uncertainty for our employees. We are consulting with them and keeping them informed as far as we are able and providing support to them where necessary. We hope that we can have definitive clarity on the way forward early in 2007, so that we can bring this period of uncertainty to an end.

Bob Warner
Chief Executive

There are 6.8 million disabled people of working age in Britain, one fifth of the total working population

Directors' Report

The Directors present their 61st annual review, together with the audited accounts for the year ended 31 March 2006.

Remploy Ltd is a private company as defined by the Companies Act 1985, limited by guarantee, without share capital.

Registered number: 394532 (England and Wales)

Appointment and retirement of Directors

I Thornley and J Mann MBE, Non-Executive Directors joined the Board in May 2006. P N C Cooke, Non-Executive Director left the Board in October 2005. A M Vinton, Non-Executive Director left the Board in December 2005. A D Tuffin CBE, Non-Executive Director left the Board in May 2006. S Knowles, Executive Director, Interwork Services, left the company in July 2006.

Business review and future developments

The Company was incorporated in 1945 with the principal objective of providing training and employment for registered severely disabled persons under special conditions. Its principal activities are shown in note 4 to the accounts. A review of the business and future developments, including principal risks and uncertainties, is included in the Chairman's Statement and the Chief Executive's Review.

Results and dividends

In line with the Company's commitment to best practice in financial reporting, the Directors have chosen to adopt International Financial Reporting Standards this year. The impact of this, including the restatement of the comparative figures, is set out in note 19.

The Company's revenue for the year was £165.6m (2005: £165.3m).

The result for the year amounted to a loss of £16.9m (2005: £19.5m).

Further review of the performance of the Company, including relevant key performance indicators, is included within the Chairman's Statement, the Chief Executive's Review and the Health and Safety report.

The Company is limited by guarantee and has no share capital and therefore does not pay dividends.

Financial risk management

The most significant risk in respect of financial assets and liabilities relates to credit risk on trade debtors. This is addressed via normal credit control processes and adequate debt provisioning.

Employees and employment of disabled people

The aim of the company is to maximise the number of disabled people in employment in three main ways:

- through supporting people to gain employment with other employers
- in our manufacturing businesses
- in our service sector businesses.

At the end of the year 5,798 disabled people were employed in Remploy's own businesses.

Progressions

The number of people who progressed to open unsupported employment during the year was 1,720.

Employee involvement

Openness in communications and involving all people in Remploy is an important value.

Through a structured communication plan, Remploy is able to ensure that employees have the opportunity to hear about, understand and discuss issues which affect their role and the area in which they work.

A variety of methods are used to communicate and listen to employees. These include team and site briefings, newsletters, the intranet and conference calls. Each business also has a communication plan to complement the national plan.

During the year, more channels have been provided to facilitate two-way communication – including an email helpline, increased site visits by senior managers and 'road-show' events for the management population.

Communication is seen as an important part of any manager's role and training takes place to ensure everyone has the required skills. This year, a new communications training course was introduced as part of the Gateways development programme.

Senior managers attend functional team meetings and key training courses, which supports the formal feedback process.

Involving employees in people focused business improvements is a key initiative. In 2005/6 this meant that 118 people attended continuous improvement training and 34 sites are now able to facilitate change through people improvement. This resulted in improvements of between 10% and 100% productivity. The company wide continuous improvement score has increased by 13% during the year.

Involvement of the recognised trade unions takes place through a working together partnership, which includes openly sharing information and joint working at a national level on learning, health and safety and the organisational challenges that face Remploy. Local and business level consultation takes place as appropriate.

Pension fund

The assets of the pension fund, established for the benefit of the Scheme's members, are held in trust separately from the assets of the Company. The Board of Trustees is independently chaired by Mr Alan Herbert and comprises four Trustees appointed by the Company and four Trustees elected by the members. A Trustee Report was made available to all members during the year. Funds are managed independently by UBS Global Asset Management (UK) Ltd, Schroder Investment Management Ltd, Legal and General Investment Management Ltd, Gartmore, Alliance Bernstein, Newton and Royal London Asset Management on behalf of the Trustees to whom they formally report each quarter.

The Scheme Actuary confirmed at the last formal actuarial valuation on 31 March 2004 that the Scheme showed a funding level of 77% on an ongoing basis (i.e. a deficit of £76m with assets of £250m and liabilities of £326m).

The Trustees and the Company have agreed to spread the deficit over a fifteen-year period through the payment of an additional annual contribution of £6.4m plus RPI at the start of each year.

The Company made an additional contribution of £6.6m in April 2006.

The Employer's standard contribution rate required to cover future benefits on an ongoing basis was calculated as 8.6% of pensionable earnings per annum (excluding the cost of providing the death-in-service lump sum benefits). The Company has agreed to pay, for 15 years commencing 2005, a combined rate of at least 16.3% of pensionable salaries to cover the deficit and the ongoing contribution rate.

The employee contribution rate remains at 7%.

Fixed assets

The total net expenditure in investing activities was £1.6m (2005: £6.4m). The majority of the expenditure was on replacing and improving properties for productive processes and training environments.

Auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

In accordance with Section 385 of the Companies Act 1985, Deloitte & Touche LLP are deemed to be reappointed as Auditors of the Company.

This year we have opened four new High Street Recruitment Branches to help us towards our target of finding 20,000 jobs per annum in five years' time

Corporate Governance

Compliance

In accordance with Treasury guidelines, the Company is subject to the revised Combined Code on corporate governance and has complied throughout the year with the provisions of the Combined Code, in so far as they are appropriate to Remploy under Government objectives for Non-Departmental Public bodies, except as noted below. The Company offers a five year service contract, although terminable on twelve months' notice, to its Chief Executive. The Company feels this departure is appropriate given that the Chief Executive is appointed by the Secretary of State for the Department for Work and Pensions. The Company also acknowledges that it does not comply with clause B.2.1 of the revised Code as the Chairman is a member of the Remuneration Committee. The Company feels this departure is appropriate given that the Chairman and Chief Executive are appointed by the Secretary of State for the Department for Work and Pensions.

Directors

The Board of Directors and their membership of Board Committees is shown below and comprise, a Chairman, a Chief Executive plus three Executives and six independent Non-Executive Directors. One of the Non-Executive Directors has been appointed to act as a Senior Independent Director. Appointments to the Board are advertised; the Chairman and Chief Executive and Non-Executive Directors are appointed by the Secretary of State for the Department for Work and Pensions in consultation with the Chairman. Other Executive Directors are appointed by the Chairman. In all cases a committee comprising Executive and Non-Executive Directors is constituted for each appointment. Details of the terms and conditions of appointment of the Non Executive Directors are available upon written request from the Company Secretary at the Company's registered office.

The Board is responsible for setting Company strategy, acquisition policy, approval of major capital expenditure, for senior management appointments and the establishment and monitoring of internal controls. It reviews the strategic direction of the Company and the operating results in line with targets set by Jobcentre Plus in the Annual Performance Agreement. It monitors the progress of the Company towards the achievement of budgets and targets.

Board performance evaluation

A process of performance evaluation of the Board, its Committees and Directors was undertaken in 2006. This process consisted of:

- one-to-one meetings between the Chairman and each of the Non-Executive Directors to assess Non-Executive Director performance and to allow any other issues to be raised;
- the senior Non-Executive Director led a collective assessment of the Chairman's performance by the Non-Executive Directors and feedback to the Chairman;
- a collective assessment of Board performance by all Non-Executive Directors and the Chief Executive who also presented input from the Executive Directors.

The areas for assessment are identified well in advance to give all Directors sufficient time to consider and develop their response. Broadly, the areas considered were:

- Board role and agenda setting
- monitoring performance and strategic planning
- size, composition and independence of the Board
- Directors' roles, training and development
- Board leadership, teamwork and management relations
- quality of meetings
- Director and Board evaluation, compensation and ownership
- succession planning
- ethics
- constituencies
- input from the Executive Directors.

Issues arising from the self-assessment evaluation were presented to the Board by the Chairman and an action plan was developed to ensure continuous improvement in the operation of the Board and its Committees.

Board Committees

The Board has had for many years a supporting committee structure in line with the proposals of the Cadbury Committee on the Financial Aspects of Corporate Governance. Membership of the committees is given in the Directors and advisers section.

Remuneration Committee

The Remuneration Committee is chaired by Mrs S Smedley and includes two other Non-Executive Directors and the Chairman. The Committee reviews salaries and targets for performance pay for Executive Directors and senior managers and makes recommendations to the Secretary of State for the Department for Work and Pensions with regard to the Chief Executive. Details of the terms of reference of the Committee are available upon written request from the Company Secretary at the Company's registered office.

Nominations Committee

The work of the Nominations Committee is undertaken by the Remuneration Committee.

Open advertising was used for the appointments of Non-Executive Directors during the year.

Appointments to the Board are advertised; the Chairman and Chief Executive and Non-Executive Directors are appointed by the Secretary of State for Work and Pensions in consultation with the Chairman. Other Executive Directors are appointed by the Chairman. In all cases a committee comprising Executive and Non-Executive Directors is constituted for each appointment. Details of the terms of reference of the Committee are available upon written request from the Company Secretary at the Company's registered office.

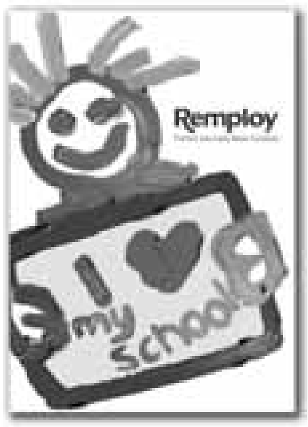
Attendance at meetings during the year

	Board meetings	Audit Committee meetings	Remuneration/ Nomination Committee meetings
Number of meetings	10	2	5
A E Pedder CBE	10	-	5
R Warner	10	-	5
J V Hill	9	-	-
N Hopkins	10	2	-
S Knowles	8	-	-
A Jessopp	9	-	5
P N C Cooke *	5	-	-
S Smedley	8	-	5
L Stone	7	2	-
A D Tuffin CBE	7	-	2
A M Vinton **	6	-	-
I Harley ***	9	2	-
G Corbett CBE	9	-	4

* Left the Board after the September 2005 Board meeting and therefore could only attend a maximum of five Board meetings.

** Left the Board after the December 2005 Board meeting and therefore could only attend a maximum of eight Board meetings.

*** Senior Independent Director



Remploy is the country's leading supplier of school furniture and makes chemical, biological and nuclear protection suits for police and military in Britain and overseas

Corporate Governance continued

We partner with some of the country's biggest companies, including BT, Asda, Christian Salvesen, Tesco and B&Q

Remploy Executive

The management of the business within the Annual Operational Plan and the three year Strategic Plan is delegated to the Executive Directors.

Accounting Officer

The Chief Executive, Mr Warner, is designated in the Agreement with the Secretary of State as the Accounting Officer. His role is to advise the Board and he is responsible for the duties set out in the Non-Departmental Public Bodies Accounting Officer memorandum. He is responsible for assuring Parliament that:

- there is due propriety and regularity in the use of resources provided to the Company by the Secretary of State;
- adequate accounting, audit and information systems exist to achieve proper financial management and control, performance information and value for money and efficiency improvements;
- appropriate standards are maintained and financial considerations are taken fully into account by the Board at all stages in framing and reaching decisions, and their execution.

Internal controls

The Directors acknowledge that they have overall responsibility for the Company's system of internal control including suitable monitoring procedures and for reviewing its effectiveness. The system of control is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against misstatement or loss. The Directors make commercial decisions on risk within a managed framework and against a formal procedures and ethics policy.

The Board has implemented in full the Turnbull guidance, Internal Control; Guidance for Directors on The Combined Code. A review of the risk management process for significant risks was undertaken and is set out in the Risk Management Policy Document which comprises procedures, strategies and review processes. Procedures and implementation are set around an extensive Strategic Risk Framework which has been in place all year and is reviewed regularly by the Executive and a subcommittee of the Board. In addition, the Board and management are keeping under active review the need to enhance continuously the system of control. The Board can confirm that from 1 April 2005 to the date of approval of the Annual Report and Financial Statements that there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This is reviewed regularly by the Board and accords with the Turnbull guidance.

The Company's internal financial control and monitoring procedures include:

- clear responsibilities on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- the control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties;

- detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budgets;
- reporting on internal financial controls and procedures by Internal Audit and, for the year end, by external auditors.

Remploy has an Internal Audit Department which operates to standards defined in the Government Internal Audit Manual. The work of the Internal Audit Department is informed by an analysis of the risk to which the Company is exposed and the annual internal audit plans are based on this analysis. The audit approach is endorsed by the Audit Committee and internal audit plans are approved by the Executive Directors. An annual report is issued by the Internal Audit Manager on internal audit activity which includes an independent opinion on the adequacy and effectiveness of the system of internal financial control.

The Board has reviewed the effectiveness of the system of internal controls for the period covered by the accounts. This review is informed by the work of the Internal Audit Department, the Executive Directors who have responsibility for the development and maintenance of the control framework, and the comments of the external auditors in their management letter and other reports. All recommendations to improve controls are considered and followed up as appropriate.

Business ethics

As an executive Non-Departmental Public Body (NDPB) Remploy complies with the central Government requirement to have in place a code of best practice for employees. The Code of Business Ethics draws heavily on the Government's Model Code and its underlying principles and it covers key business issues which are appropriate for a commercial company.

Related party transactions

Remploy Ltd is a Non-Departmental Public Body sponsored by Jobcentre Plus, which is regarded as a related party. During the year Remploy Ltd had no material transactions with Jobcentre Plus, other than normal arm's length contractor relationships for New Deal for Disabled People and other programmes, or any other entities for which Jobcentre Plus is regarded as the parent Department.

Remploy Ltd has had a number of material transactions with other Government Departments and other central government bodies which arose in the normal course of trading. Most of these transactions have been with the Ministry of Defence.

Going concern

In accordance with their responsibilities as Directors, the Directors have considered the appropriateness of the going concern basis for the preparation of the financial statements and they continue to adopt the going concern basis in preparing the financial statements.

The Secretary of State has committed to funding Remploy's activities for the next two years up to 31 March 2008. (Refer to note 1 of the accounts relating to the undertaking in the main agreement.)

Payment policy

Trade creditor days for the year ended 31 March 2006 were 41 days (2005: 61 days), calculated in accordance with the requirements set down in the Companies Act 1985.

By order of the Board:

G J G Phillips

Secretary

22 September 2006

Audit Committee Report

Summary of the role of the Audit Committee

Disabled people with mental health problems have the lowest employment rates at less than 20%

The Audit Committee is appointed by the board. The Audit Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is responsible for:

- monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the Company's internal financial controls and unless expressly addressed by the board itself, the Company's internal control and risk management systems;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- making recommendations to the board, in relation to the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm; and
- review the effectiveness of the company Whistleblowing procedures particularly communication processes and follow up procedures.

The Audit Committee is required to report its findings to the board, identify any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

Composition of the Audit Committee

The members of the Audit Committee are:

Name	Date of appointment
I Harley (Chairman)	June 2004
L Stone	January 2001

Membership of the Committee is reviewed by the Chairman of the Committee and the Company Chairman who is not a member of the Audit Committee, at regular intervals and they recommend new appointments to the Nominations Committee for onward recommendation to the Board. Appointments are for a period of three years and are extendable by no more than two additional three year periods. The Committee is normally comprised of three independent non-executive Directors with a minimum of two members at any time. Two members constitute a quorum.

The Audit Committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently the Audit Committee Chairman fulfils this requirement. All Audit Committee members are expected to be financially literate.

The board expects the Audit Committee members to have an understanding of:

- the principles of, contents of, and developments in financial reporting including the applicable accounting standards and statements of recommended practice;

- key aspects of the Company's operations including corporate policies, Company financing, products and systems and internal control;
- matters that influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management; and
- the regulatory framework for the Company's businesses.

Meetings

The Audit Committee is required to meet two times per year and has an agenda linked to events in the Company's financial calendar. The agenda is predominantly cyclical and is therefore approved by the Audit Committee Chairman on behalf of his or her fellow members. Each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee invites the Chief Executive, Finance Director, Internal Audit and Risk Manager, and senior representatives of the external auditors to attend all of its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior management are invited to present such reports as are required for the Committee to discharge its duties.

Overview of the actions taken by the Audit Committee to discharge its duties

Since the 1 April 2005 the Audit Committee has:

- reviewed the 2006 report and accounts. As part of this review the Committee received a report from the external auditors on their audit of the annual report and accounts;
- considered the output from the Company-wide process used to identify, evaluate and mitigate risks;
- reviewed the effectiveness of the Company's internal controls and disclosures made in the annual reports and accounts on this matter;
- reviewed and agreed the scope of the audit works to be undertaken by the auditors;
- monitored the work being undertaken by the Company in preparation for the introduction of International Financial Reporting Standards;
- agreed the fees to be paid to the external auditors for the audit of the 2006 accounts;
- undertaken an evaluation of the performance of the Internal Audit function;
- agreed a programme of work for the company's Internal Audit function;
- undertaken an evaluation of the performance of the external auditors;
- received reports from the Internal Audit and Risk Manager on the work undertaken by Internal Audit and management responses to proposals made in the audit reports issued by the function during the year; and
- reviewed whistle blowing procedures and actions taken.

A report published by the RADAR/Remploy Taskforce; Barriers and Solutions in the Workplace, Raising employment rates for people with learning disabilities and mental health problems, was welcomed by the Minister and key influencers

Audit Committee Report continued

In 2006 we are celebrating the 10th anniversary of the Remploy Leading the Way Awards, the UK's leading, and longest running, disability employment award

External auditors

The Audit Committee is responsible for the development, implementation and monitoring of the Company's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee and day-to-day responsibility to the Company Finance Director. The policy states that the external auditors are jointly responsible to the Board and the Audit Committee and that the Audit Committee is the primary contact.

The Company's policy on external audit sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Company, subject to de minimis levels and Audit Committee Chairman approval in emergency situations.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee reviewed:

- the changes in key external audit staff in the external auditors' plan for the current year;
- the arrangements for day to day management of the audit relationship;
- a report identifying the number of external audit staff now employed by the Company and their positions within the Company;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and
- the overall extent of non-audit services provided by the external auditors, in addition to their case by case approval of the position of non-audit services by the external auditors.

To assess the effectiveness of the external auditors, the Audit Committee reviewed:

- the external auditors' fulfilment of the agreed audit plan and variations from the plan;
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements; and
- the content of the external auditor's Internal Control Report.

As a consequence of its satisfaction with the results of the activities outlined above, the Audit Committee has recommended to the Board that the external auditors are re-appointed.

Internal Audit function

The Audit Committee is required to assist the Board to fulfil its responsibilities relating to the adequacy of the resourcing and plans of the Internal Audit department. To fulfil these duties, the Committee reviewed:

- Internal Audit's terms of reference, reporting lines and access to the Audit Committee and all members of the Board;
- Internal Audit's plans and its achievement of the planned activity;
- the results of key audits and other significant findings, the adequacy of management's response and the timeliness of resolution;
- the statistics on staff numbers, qualifications and experience and timeliness of reporting; and
- the level and nature of non-audit activity performed by Internal Audit.

The Company Whistleblowing Policy contains arrangements for the Company Internal Audit Manager to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate.

Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the committee.

Approval

This report was approved by the Audit Committee and signed on its behalf by:

Ian Harley
Chairman of the Audit Committee
22 September 2006

Remploy is lead partner for the Healthy Minds at Work project in Wales, where organisations are working with support from ESF funding to find the best ways to help people who are experiencing stress, anxiety or depression to retain their job and stay healthy

Health and Safety

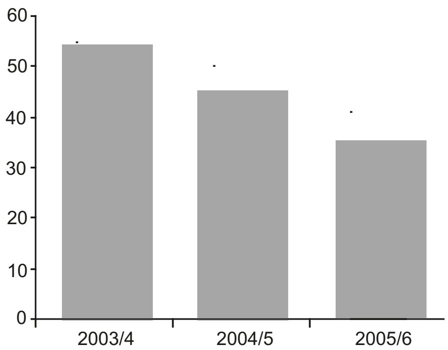
Site accident statistics have improved by 15% on last year

Remploy continues the drive to improve safety – reducing the number of accidents for the fifth consecutive year.

- Site accident statistics have improved by 15% on last year.
- No HSE prosecutions or prohibitions for the third consecutive year.
- 50% reduction in the number of Employer's Liability claims from last year. This represents a year on year reduction for the last four years.

Reportable accidents in our sites have continued to decline year on year. There were 35 reportable accidents this year (six less than last year).

Reportable accidents



This year we have extended the reporting of accident statistics to include: Managed Services, Employment Services and all office locations, in addition to our sites.

The Safety Management System (SMS) audit process remains the focal point in driving our Health and Safety agenda. Continuing the process of ongoing improvement next year several enhancements have been made to this process, including technical updates as well as adding core elements of Environmental Management Systems.

The SMS scores are helping us to prioritise attention and focus the resources of the Joint Management and Union teams on developing action plans for the lower scoring sites. At the end of this financial year all sites had been re-audited to a minimum of 76%.

Training has continued throughout the company with a strong focus on behavioural safety and Health and Safety awareness for all our employees. Last year's work on management education has now resulted in all site managers being qualified to a minimum of IOSH standard in Health and Safety.

Remuneration Report of the Board

Composition

The Company has a Remuneration Committee chaired by Mrs S Smedley and includes the Chairman, Mr A Pedder CBE, and two Non-Executive Directors Mr G Corbett CBE and Mr I Thornley. Other attendees have been Mr R Warner Chief Executive and Mrs A Jessopp, Executive Director Human Resources. The Company acknowledges that it does not comply with clause B.2.1 of the revised Code as the Chairman is a member of the Remuneration Committee.

The Company feels this departure is appropriate given that the Chairman and Chief Executive are appointed by the Secretary of State Work and Pensions.

Remuneration policy

The Committee aims to ensure that Remuneration Packages offered are competitive and designed to attract, retain and motivate Executive Directors and Business Managers. The Committee works within the Government policy guidelines. The main components of remuneration are:

Basic salaries

The Chairman, Chief Executive and all Non-Executive Directors are appointments by the Secretary of State for Work and Pensions and their salaries are reviewed annually by the Secretary of State. Basic salaries for Executive Directors are considered by the Committee taking into account the performance of the individual.

Bonuses

The Chairman and Non-Executive Directors do not receive a bonus. A performance related bonus is payable to Executive Directors, based on the Annual Performance Agreement, which is agreed with the Secretary of State in consultation with the Chairman. The Chief Executive's maximum bonus is currently 35% and based on the same criteria as applied to Executive Directors. No bonus is payable in respect of 2005/6.

Pensions

The Company operates defined benefit and defined contributions pension schemes and the Chief Executive and Executive Directors are ordinary members of the defined benefit scheme. The defined benefit scheme, retirement benefits are based on final remuneration and length of service and are funded through a separate trustee administered scheme. The scheme is contributory with members paying 7% of salary. The Company pays contributions to the scheme based on the recommendations of the independent actuary who carries out a valuation of the scheme every three years.

Service contracts

The current Chief Executive is appointed for a fixed period of five years which is terminable on twelve months notice by the Secretary of State. This contract can be renewed subject to the agreement of the Secretary of State. Executive Directors are appointed by the Chairman of Remploy Ltd. Their contracts have no fixed period and are terminable on six months notice by the Company. Non-Executive Directors are usually appointed for a fixed period of three years. The Chairman and Non-Executive Directors are appointed for a period of three years which is terminable by the Secretary of State for Work and Pensions with no notice period.

In 2004/5 there were 641,000 learners in England over the age of 16 with a self declared disability, costing £1.47 billion. 71% were over the age of 19

Remuneration Report of the Board continued

The status of appointments is as follows:

	Date of service contract	Unexpired term	Notice period	Compensation if early termination
A E Pedder CBE	January 2003	3 months	None	None
R Warner	November 2003	42 months	12 months	None
J V Hill	August 2001	None	6 months	None
N Hopkins	May 2004	None	6 months	None
A Jessopp	July 2004	None	6 months	None
S Smedley	January 2004	3 months	None	None
L Stone	January 2004	3 months	None	None
I Harley	July 2004	9 months	None	None
G Corbett CBE	July 2004	9 months	None	None
I Thornley	May 2006	32 months	None	None
J Mann MBE	May 2006	32 months	None	None

As at September 2006

Directors' emoluments

Total emoluments in the year were:

	2006 £000	2005 £000
Remuneration excluding costs of pension and life assurance schemes	**624**	630
Costs of pensions and life assurance scheme contributions	**57**	50
Supplementation of pensions paid to former Directors in the year	**58**	57

All emoluments paid to present and past Directors are in connection with the management of the affairs of the Company. The bonus payable is that earned in the year although paid in the following year, and is based on performance targets set by the Secretary of State for the Department for Work and Pensions.

The accrued pensions benefits are based on the number of years of pensionable service and the basic pensionable salary.

The Company supplements the pensions of past Directors and other past employees on an annual basis as covered in note 17 to the accounts. The amount payable in the year in respect of past Directors was £58k (2005: £57k).

The transfer values disclosed below do not represent a sum paid or payable to the individual Director, they represent a potential liability of the pension scheme.

Details of emoluments and pensions are as follows:

	Salary		Bonus		Benefits		Total		Pension Contributions		Years of service	Accrued pension	Increase in accrued pension	Transfer value of increase
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000		2006 £000	2006 £000	2006 £000
A Pedder CBE	**38.6**	43.3	-	-	**3.9**	-	**42.5**	43.3	-	-	-	-	-	-
R Warner	**127.9**	120.0	-	8.4	**15.4**	10.9	**143.3**	139.3	**13.1**	11.6	4.0	**6.9**	**1.8**	**26.1**
J V Hill	**95.5**	88.3	-	6.1	**7.3**	6.9	**102.8**	101.3	**11.8**	10.0	5.0	**8.8**	**2.3**	**34.2**
N Hopkins	**93.5**	82.2	-	5.7	**10.2**	8.7	**103.7**	96.6	**11.6**	9.3	2.0	**3.4**	**1.9**	**12.5**
S Knowles ****	**77.8**	75.5	-	5.2	**10.4**	9.5	**88.2**	90.2	**9.6**	8.6	22.0	**32.3**	**1.8**	**10.7**
A Jessopp	**86.0**	57.3	-	3.8	**10.2**	6.7	**96.2**	67.8	**10.7**	6.5	2.0	**2.9**	**1.7**	**8.8**
P N C Cooke *	**3.8**	7.5	-	-	-	-	**3.8**	7.5	-	-	-	-	-	-
S Smedley	**7.5**	7.5	-	-	-	-	**7.5**	7.5	-	-	-	-	-	-
L Stone	**7.5**	7.5	-	-	-	-	**7.5**	7.5	-	-	-	-	-	-
A D Tuffin CBE ***	**7.5**	7.5	-	-	-	-	**7.5**	7.5	-	-	-	-	-	-
A M Vinton **	**5.6**	7.5	-	-	-	-	**5.6**	7.5	-	-	-	-	-	-
I Harley	**7.5**	5.8	-	-	-	-	**7.5**	5.8						
G Corbett CBE	**7.5**	5.8	-	-	-	-	**7.5**	5.8	-	-	-	-	-	-
B Johnson	-	38.0	-	-	-	4.6	-	42.6		4.3				
Total	**566.2**	553.7	**-**	29.2	**57.4**	47.3	**623.6**	630.2	**56.8**	50.3	**-**	**54.3**	**9.5**	**92.3**

* Left the Board October 2005
** Left the Board December 2005
*** Left the Board May 2006
**** Left the Board July 2006

The Remuneration Report is signed by Mrs S Smedley, Chair of the Remuneration Committee.

Directors' Responsibilities

There are 1.2 million disabled people without a job in the UK, who want to work

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the financial results of the Company for that period. In preparing those financial statements, the Directors are required to:

- adopt suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

To the Members of Remploy Ltd

We have audited the financial statements of Remploy Ltd for the year ended 31 March 2006 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with those provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority in so far as they are appropriate to Remploy under Government objectives for Non-Departmental Public Bodies, 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 the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence

Independent Auditors' Report continued

relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with those IFRSs as adopted for use in the European Union, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in Note 1, the company, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
London

22 September 2006

Income Statement

for the year ended 31 March 2006

	Notes	Year ended 2006 £000	Year ended 2005 £000 (restated)*
Continuing operations			
Revenue	4	**165,619**	165,307
Other operating income: funding from Secretary of State	20	**119,300**	116,000
Total revenue		**284,919**	281,307
Materials		**(99,450)**	(98,191)
Staff costs	6	**(146,433)**	(142,888)
Operating charges	5	**(49,428)**	(54,394)
Depreciation	4	**(6,073)**	(6,306)
Profit on sale of fixed assets		**515**	1,615
Operating loss	4	**(15,950)**	(18,857)
Finance income	7	**116**	133
Finance costs	7	**(1,058)**	(786)
Result for the year before and after tax from continuing operations		**(16,892)**	(19,510)

* The comparative figures have been restated for the impact of the adoption of International Financial Reporting Standards as set out in note 19.

Statement of Recognised Income and Expense

for the year ended 31 March 2006

	Notes	Year ended 2006 £000	Year ended 2005 £000
Actuarial losses on defined benefit pension scheme	17	**(4,903)**	(8,707)
Net income recognised directly in equity		**(4,903)**	(8,707)
Result for the year		**(16,892)**	(19,510)
Total recognised income and expense for the period		**(21,795)**	(28,217)

Balance Sheet

as at 31 March 2006

	Notes	**2006 £000**	2005 £000 (restated)*
Non-current assets			
Property, plant and equipment	9	**62,991**	66,822
		62,991	66,822
Current assets			
Inventories	10	**10,250**	14,512
Trade and other receivables	11	**24,659**	28,802
Cash and cash equivalents		**-**	36,504
		34,909	79,818
Total assets		**97,900**	146,640
Current liabilities			
Trade and other payables	14	**(27,131)**	(31,310)
Obligations under finance leases	13	**(3,759)**	(2,931)
Bank overdraft	12	**(14,295)**	-
Accruals and deferred income	15	**(11,113)**	(9,998)
Advance receipt of funding from the Department for Work and Pensions		**-**	(51,000)
		(56,298)	(95,239)
Net current liabilities		**(21,389)**	(15,421)
Non-current liabilities			
Retirement benefit obligation	17	**(189,305)**	(179,848)
Obligations under finance leases	13	**(14,481)**	(11,942)
		(203,786)	(191,790)
Total liabilities		**(260,084)**	(287,029)
Net liabilities		**(162,184)**	(140,389)
Reserves			
Funded by the Secretary of State for the Department for Work and Pensions	20	**(162,184)**	(140,389)

* The comparative figures have been restated for the impact of the adoption of International Financial Reporting Standards as set out in note 19.

The financial statements were approved by the Board of Directors and authorised for issue on 22 September 2006. They were signed on its behalf by:

A E Pedder CBE
Chairman

B Warner
Chief Executive
(Accounting Officer)

N Hopkins
Executive Finance Director

22 September 2006

Cash Flow Statement

	Notes	Year ended 2006 £000's	Year ended 2005 £000's
Net cash from operating activities		**(52,492)**	47,626
Investing activities			
Interest received	7	**116**	133
Proceeds on disposal of property, plant and equipment		**576**	2,681
Purchase of property, plant and equipment	9	**(2,302)**	(9,171)
Net cash used in investing activities		**(1,610)**	(6,357)
Financing activities			
Repayments of obligations under finance leases		**(2,931)**	(2,531)
Receipts from sale and leaseback of plant and machinery		**6,234**	3,788
Net cash used in financing activities		**3,303**	1,257
Net (decrease)/increase in cash and cash equivalents		**(50,799)**	42,526
Cash and cash equivalents at 1 April 2005		**36,504**	(6,022)
Cash and cash equivalents at 31 March 2006		**(14,295)**	36,504

Notes to the Cash Flow Statement

	Year ended 2006 £000's	Year ended 2005 £000's
Operating loss from continuing operations	**(15,950)**	(18,857)
Adjustments for :		
Depreciation on property, plant and equipment	**6,073**	6,306
Gain on disposal of property, plant and equipment	**(515)**	(1,615)
Non-cash element of retirement benefit charge	**4,577**	5,000
Operating cash flows before movements in working capital	**(5,815)**	(9,166)
Decrease in inventories	**4,262**	1,239
Decrease in receivables	**4,143**	4,734
(Decrease)/increase in payables	**(3,024)**	605
(Decrease)/increase in Grant advance from the Department for Work and Pensions	**(51,000)**	51,000
Cash (utilised)/generated by operations	**(51,434)**	48,412
Interest paid	**(1,058)**	(786)
Net cash from operating activities	**(52,492)**	47,626

Notes to the Financial Statements

for the year ended 31 March 2006

1. General information

Remploy Ltd is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given in the Directors and Advisers section.

The nature of the company's operations and its principal activities are set out in note 4.

Liability of members

The Company is limited by guarantee and has no share capital. The members of the Company are the Directors who have each undertaken to contribute to the assets of the Company in the event of the same being wound up during the time he or she is a member or within one year after he or she ceases to be a member, such amount as may be required not to exceed one pound.

The main agreement between the Company and the Secretary of State for the Department for Work and Pensions provides the following in paragraph 12.3;

> "Upon a winding-up of the Company following termination of this Agreement, the Company will use its best endeavours to ensure that the Secretary of State is consulted on an orderly winding-up of the Company. Provided that the Secretary of State's proposals for an orderly winding-up are implemented by the Company (to the extent that it is able to do so), the Secretary of State shall pay to the Company by way of a grant a sum equal to the net deficit (being the excess of liabilities over the proceeds of realisation of assets) incurred by the Company."

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 19. The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. Under the transitional arrangements of IFRS 1 First-time Adoption of International Financial Reporting Standards certain properties have been measured at the date of transition to IFRS at their fair value, and this fair value has been used as their deemed cost from that date.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

The principal accounting policies adopted are set out below.

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

If a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in the income statement over the lease term. If a sale and leaseback transaction results in an operating lease, any profit or loss is recognised in the income statement immediately.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Notes to the Financial Statements continued

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of the Company transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs are recognised as income in the period in which it becomes receivable. Other grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probably that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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

Under the transitional arrangements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* certain properties have been measured at the date of transition to IFRS (1 April 2004) at their fair value, and this fair value has been used as their deemed cost from that date. The depreciation of these assets has been based on that deemed cost with effect from 1 April 2004.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

	Years
Buildings Freehold	50
Leasehold Land and Buildings	Period of lease or 50 years whichever shorter
Fixtures and Equipment	Up to 10

Notes to the Financial Statements continued

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment of tangible and intangible assets

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedge accounting

The company does not generally make use of derivative financial instruments. Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in reserves, and the ineffective portion is recognised immediately in the income statement. Amounts deferred in reserves are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Retirement benefits

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

For the defined benefit scheme, actuarial updates of the scheme's liabilities are performed at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in the Statement of Recognised Income and Expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of the scheme assets.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies.

In the process of applying the Company's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

The company has chosen to adopt International Financial Reporting Standards (IFRS) for the first time this year. The main impacts of the adoption of IFRS for Remploy are:

Revaluation of properties – the company has taken the transitional option to perform a one-off revaluation of specified properties, with this value being adopted as the 'deemed cost' of the assets with effect from the IFRS transition date of 1 April 2004. This revaluation is resulted in an uplift of property values of £24.3m at that date.

Pension accounting – the accounting for the defined benefit pension scheme in accordance with IAS 19 has resulted in the recognition of the pension deficit of £189.3m on the balance sheet at 31 March 2006. The pension charge for 2006 in accordance with IFRS is £20.0m, compared with the charge of £15.5m recorded in 2005 under UK GAAP. The increase in the charge is predominantly due to the recognition of an interest charge in respect of the unwinding of the discount of the scheme's liabilities.

Holiday pay accruals – IAS 19 Employee benefits requires that a full holiday pay accrual is recognised, in respect of holiday entitlement earned but not yet taken at the year-end. This has resulted in an additional accrual of £3.6m being recognised as at 31 March 2006.

Lease accounting – The company has performed a detailed review of significant leases and contracts, in order to determine whether there are any leases which may require different classification under IFRS (i.e. whether as operating or finance leases) and whether there are any contracts containing embedded derivatives requiring separate valuation and recognition within the accounts. This review found that no such reclassifications or adjustments were required.

Where appropriate the opening balances as at 1 April 2004, and the comparative figures for the year ended 31 March 2005, have been restated to reflect the above changes. The cumulative impact of the above changes on the balance sheet at 31 March 2006 results in the recognition of additional net liabilities of £168.9m. The net assets of the company at 31 March 2005 in accordance with UK GAAP were £18.0m. After taking account of the impact of these IFRS adjustments, and the loss for the year, the net liability position of the company at 31 March 2006 is £162.2m.

Notes to the Financial Statements continued

4. Business segments

For management purposes the Company is organised into business segments. These are the basis on which the Company reports it primary segment information. The Company operates in a single geographical segment, being the UK.

	2006 £000's		2005 £000's	
	External sales	**Inter-segment sales**	External sales	Inter-segment sales
Furniture	**20,724**	**9**	19,842	-26
Healthcare	**6,397**	**-**	7,427	-
Textiles	**24,777**	**5**	20,435	-
Offiscope	**2,505**	**974**	2,509	1,150
Household and Toiletries	**11,202**	**-**	10,530	-
Packaging and Print	**10,953**	**1,293**	11,505	959
Automotive	**50,649**	**73**	53,799	1
Workscope	**18,721**	**181**	21,567	58
Ecycle	**3,314**	**-**	1,945	4
Contract Activities	**2,640**	**-**	2,471	9
Community Enterprise	**171**	**-**	299	-
Interwork	**5,172**	**8**	6,388	-
Managed Services	**8,378**	**633**	6,589	660
Corporate	**17**	**-**	1	-
	165,619	**3,175**	165,307	2,815

The comparative figures have been restated to reflect the transfer of some sites from one trading group to another.

Revenue comprises sales of:

Products £92,791k (2005: £91,307k), Services £67,657k (2005: £67,611k) and Interwork £5,172k (2005: £6,388k)

The inter segment sales are internal sales between business segments, which eliminate at an overall company level.

	2006 £000's	2005 £000's
Net assets/(liabilities)		
Furniture	**4,638**	7,004
Healthcare	**1,361**	1,816
Textiles	**2,087**	5,334
Offiscope	**550**	543
Household and Toiletries	**2,885**	3,702
Packaging and Print	**4,549**	4,820
Automotive	**8,085**	9,027
Workscope	**5,984**	7,310
Ecycle	**(328)**	499
Contract Activities	**693**	620
Community Enterprise	**(29)**	42
Interwork	**(1,135)**	(1,326)
Managed Services	**937**	994
Corporate	**(192,459)**	(180,774)
	(162,184)	(140,389)

	2006 £000's	2005 £000's
Operating loss		
Furniture	**15,295**	15,403
Healthcare	**7,054**	7,591
Textiles	**3,786**	4,948
Offiscope	**4,860**	5,978
Household and Toiletries	**7,922**	5,786
Packaging and Print	**5,218**	4,420
Automotive	**8,304**	11,822
Workscope	**27,303**	25,158
Ecycle	**5,669**	5,315
Contract Activities	**9,777**	8,304
Community Enterprise	**705**	1,686
Interwork	**15,466**	18,258
Managed Services	**5,464**	4,173
Corporate	**18,427**	16,015
Other operating income: funding from Secretary of State	**(119,300)**	(116,000)
	15,950	18,857

Notes to the Financial Statements continued

	2006 £000's	2005 £000's
Capital expenditure		
Furniture	**465**	749
Healthcare	**77**	33
Textiles	**55**	113
Offiscope	**69**	53
Household and Toiletries	**530**	4,039
Packaging and Print	**104**	1,142
Automotive	**73**	389
Workscope	**152**	144
Ecycle	**80**	148
Contract Activities	**-**	-
Community Enterprise	**3**	4
Interwork	**122**	351
Managed Services	**-**	-
Corporate (including all properties)	**572**	3,280
	2,302	10,445

	2006 £000's	2005 £000's
Depreciation		
Furniture	**405**	514
Healthcare	**123**	184
Textiles	**142**	267
Offiscope	**106**	124
Household and Toiletries	**252**	284
Packaging and Print	**495**	692
Automotive	**141**	170
Workscope	**562**	665
Ecycle	**122**	91
Contract Activities	**86**	121
Community Enterprise	**3**	9
Interwork	**105**	43
Managed Services	**6**	11
Corporate (including all properties)	**3,525**	3,131
	6,073	6,306

Geographical segments

Exports included in turnover amounted to £7.953m (2005: £8.555m). A geographical analysis of turnover by destination is as follows:

	2006 £000's	2005 £000's
Europe	**7,305**	7,378
USA	**508**	563
Other	**140**	614
	7,953	8,555

5. Loss for the year

Loss for the year has been arrived at after charging the following:

	2006 £000's	2005 £000's
Net foreign exchange losses	**106**	270
Research and development costs	**107**	243
Depreciation of property, plant and equipment	**6,073**	6,306
Cost of inventories recognised as an expense	**99,450**	98,191
Staff costs	**146,433**	142,888
Auditors' remuneration, as auditors	**142**	103
Auditors' remuneration, non audit services	**25**	-

Notes to the Financial Statements continued

6. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2006	2005
Furniture	**803**	813
Healthcare	**400**	424
Textiles	**668**	883
Offiscope	**288**	312
Household and Toiletries	**232**	337
Packaging and Print	**356**	360
Automotive	**624**	536
Workscope	**1,591**	1,583
Ecycle	**272**	196
Contract Activities	**574**	517
Community Enterprise	**35**	102
Interwork	**554**	773
Managed Services	**840**	580
Corporate	**200**	207
	7,437	7,623

In addition Remploy supported 3,873 (2005: 3,296) disabled people into work with other employers.

The aggregate payroll costs of these persons were as follows:

	2006 £000's	2005 £000's
Wages and salaries	**118,364**	115,800
Social security costs	**8,032**	7,458
Pension costs	**20,037**	19,630
	146,433	142,888

Pension costs (See note 17)

Pension costs charged to the Income Statement for the year amounted to £20.0m (2005: £19.6m) including:

a) an additional contribution of £6.4m (2005: £6.0m)

b) £1.1m (2005: £1.0m) in respect of ex-gratia increases to pensions in payment.

The average monthly number of supported employees in our businesses was:

	2006	2005
Furniture	**690**	705
Healthcare	**344**	356
Textiles	**535**	716
Offiscope	**221**	232
Household and Toiletries	**159**	193
Packaging and Print	**260**	262
Automotive	**499**	384
Workscope	**1,376**	1,377
Ecycle	**233**	195
Contract Activities	**526**	522
Community Enterprise	**29**	90
Site based businesses total	**4,872**	5,032

The operating loss per supported employee in our businesses was:

	2006 £000's	2005 £000's
Furniture	**22.2**	21.8
Healthcare	**20.5**	21.3
Textiles	**7.1**	6.9
Offiscope	**22.0**	25.8
Household and Toiletries	**49.8**	30.0
Packaging and Print	**20.1**	16.9
Automotive	**16.6**	30.8
Workscope	**19.8**	18.3
Ecycle	**24.3**	27.3
Contract Activities	**18.6**	15.9
Community Enterprise	**24.3**	18.7
Site based businesses	**19.7**	19.1

Notes to the Financial Statements continued

7. Finance income and costs

	2006 £000's	2005 £000's
Interest received	**116**	133

	2006 £000's	2005 £000's
Interest on bank overdraft	**380**	175
Interest on obligations under finance leases	**678**	611
	1,058	786

8. Tax

Tax on loss on ordinary activities

The company has incurred losses for tax purposes which have not been recognised as a deferred tax item due to the uncertainty of its future utilisation. There is no current tax charge or credit.

Reconciliation of tax credit

There is no tax credit recognised in the financial statements. Based on a tax rate of 30%, a tax credit of £5,077k would be expected based on a loss before tax for the year of £16,892k. The difference between the actual tax credit of zero and expected credit of £5,077k is principally due to the non-recognition of tax losses arising in the accounting period.

Deferred taxation

The company has a significant un-provided deferred tax asset in connection with tax losses and accelerated capital allowances. The amount of the un-provided deferred tax asset has not been disclosed as it is subject to agreement with HM Revenue & Customs.

9. Property, plant and equipment

	Land and buildings £000's	Plant and machinery £000's	Other equipment £000's	Total £000's
Cost or valuation				
At 1 April 2004	73,212	56,543	18,534	148,289
Additions	5,095	3,202	2,148	10,445
Disposals	(5,240)	(14,925)	(6,089)	(26,254)
At 1 April 2005	73,067	44,820	14,593	132,480
Additions	935	418	949	2,302
Disposals	(1,021)	(2,610)	(2,959)	(6,590)
At 31 March 2006	**72,981**	**42,628**	**12,583**	**128,192**
Accumulated depreciation and impairment				
At 1 April 2004	23,379	46,602	14,559	84,540
Charge for the year	1,647	2,945	1,714	6,306
Eliminated on disposals	(4,329)	(14,825)	(6,034)	(25,188)
At 1 April 2005	20,697	34,722	10,239	65,658
Charge for the year	1,810	2,279	1,984	6,073
Eliminated on disposals	(980)	(2,597)	(2,953)	(6,530)
At 31 March 2006	**21,527**	**34,404**	**9,270**	**65,201**
Carrying amount				
At 31 March 2006	51,454	8,224	3,313	62,991
At 31 March 2005	**52,370**	**10,098**	**4,354**	**66,822**

The carrying value of assets held under finance leases is £12.7m (2005: £12.0m) within plant and machinery and £0.7m (2005: £0.9m) within other equipment.

Under the transitional arrangements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* certain properties have been measured at the date of transition to IFRS (1 April 2004) at their fair value, and this fair value has been used as their deemed cost from that date.

The valuation was performed by independent external valuers, on the basis of market value. The valuation was performed in accordance with the Practice Statements in the Appraisal and Valuation Standards ('The Red Book') published by The Royal Institution of Chartered Surveyors.

Notes to the Financial Statements continued

The aggregate fair value of these properties was £40,724k, which resulted in a increase in their book value as at 1 April 2004 of £24,258k. The depreciation of these assets has been based on this deemed cost with effect from 1 April 2004.

10. Inventories

	2006 £000's	2005 £000's
Raw materials	**5,796**	8,458
Work-in-progress	**1,328**	1,405
Finished goods	**3,126**	4,649
	10,250	14,512

11. Trade and other receivables

	2006 £000's	2005 £000's
Trade debtors	**23,046**	27,755
Credit note provisions	**(491)**	(689)
Doubtful debt provisions	**(457)**	(1,178)
Other debtors	**408**	1,104
Prepayments	**2,153**	1,810
	24,659	28,802

The average credit period taken on sales of goods is 41 days.

An allowance has been made for the estimated irrecoverable amounts from the sale of goods of £457k (2005: £1178k). This allowance has been determined by past default experience. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

12. Bank overdraft

	2006 £000's	2005 £000's
Bank overdraft	**(14,295)**	**-**

The borrowings are repayable on demand within one year.

13. Obligations under finance leases

	Minimum lease payments 2006 £000's	Minimum lease payments 2005 £000's	Present value of minimum lease payments 2006 £000's	Present value of minimum lease payments 2005 £000's
Amounts payable under finance leases:				
Within one year	**4,411**	3,531	**4,022**	3,249
In the second to fifth years inclusive	**13,485**	12,631	**12,297**	11,624
After five years	**2,106**	-	**1,920**	-
	20,002	16,162	**18,240**	14,873
Less: future finance charges	**(1,762)**	(1,289)		
Present value of lease obligations	**18,240**	14,873		
Less: Amount due for settlement within 12 months (shown under current liabilities)	(3,759)	(2,931)		
Amount due for settlement after 12 months	**14,481**	11,942		

14. Other financial liabilities

	2006 £000's	2005 £000's
Trade and other payables		
Trade creditors	**12,629**	20,112
Social security payable	**2,444**	1,928
Employment creditors	**9,550**	8,829
Other creditors	**2,508**	441
	27,131	31,310

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 41 days.

The Directors consider that the carrying amount of trade payables approximates their fair value.

Notes to the Financial Statements continued

15. Accruals and deferred income

	2006 £000's	2005 £000's
Accruals	**8,652**	9,998
Deferred income	**2,461**	-
	11,113	9,998

16. Operating leases

	2006 £000's	2005 £000's
Lease payments under operating leases recognised in income for the year	**8,014**	7,480

	2006 £000's	2005 £000's
Commitments expiring		
Within one year	**1,766**	1,985
Between one and five years	**10,033**	11,719
More than five years	**50,653**	53,660
	62,452	67,364

The majority of the operating lease commitments relate to property.

Other lease arrangements relate to vehicles and plant and equipment.

17. Retirement benefits

The Company operates defined benefit and defined contribution pension schemes. The schemes funds are administered by trustees and are independent of the Company's finances. Contributions are paid to the scheme in accordance with the recommendations of independent actuaries.

The Company made contributions of £514,000 (2005: £111,000) to the defined contribution scheme.

The most recent full actuarial valuation of the defined benefit scheme was carried out at 31 March 2004 by Barnett Waddingham LLP.

The Company regularly makes ex-gratia payments to increase pensions in payment for the effects of inflation in accordance with the pension provisions generally applying to public service employees. These additional payments are not separately funded. A liability in respect of the present value of these unfunded obligations has been recognised within the pension scheme liabilities as shown below.

The company recognises all actuarial gains and losses in full, in the Statement of recognised income and expense.

The balances in respect of the schemes are set out below.

	2006	2005
Assumptions		
Discount rate	**4.90%**	5.30%
Salary increase	**4.10%**	4.00%
Inflation	**3.10%**	3.00%
Expected return on scheme assets at start of the year *	**7.40%**	7.41%

Pre retirement mortality table **	A55M for males, A55F for females
Post retirement mortality table **	PA(90)M-1 for males, PA(90)F-1 for females

* The assumption for the expected return on the Scheme's assets is derived as a weighted average of the expected returns on each asset class, recognising the proportions of the assets invested in each. The expected returns on each class are based on market conditions at the start of the relevant accounting period, allowing for risk premiums expected on assets where appropriate. The long term rate of return expected at 31 March 2006 is 6.88%.

** The same pre retirement and post retirement mortality assumptions have been used for both years.

	£000's	£000's
Pension cost		
Service cost	**17,459**	16,132
Interest cost	**23,405**	21,273
Expected return on scheme assets	**(20,827)**	(17,775)
Pension cost	**20,037**	19,630
Movement in balance sheet net liability		
Net liability at start of year	**(179,848)**	(166,141)
Pension cost	**(20,037)**	(19,630)
Employer contribution	**15,483**	14,630
Actuarial losses recognised in SORIE	**(4,903)**	(8,707)
Net liability at end of year	**(189,305)**	(179,848)
Amount recognised in the balance sheet		
Value of Scheme assets	**384,602**	312,211
Present value of funded obligations	**(513,076)**	(440,361)
Present value of unfunded obligations	**(60,831)**	(51,698)
Net liability at end of year	**(189,305)**	(179,848)
Statement of recognised income and expense (SORIE)		
Actuarial losses	**(4,903)**	(8,707)
Cumulative actuarial gains/(losses) recognised	**(13,610)**	(8,707)

Notes to the Financial Statements continued

	2006 £000's	2005 £000's
Scheme liabilities		
Beginning balance	**492,059**	436,109
Current service cost	**17,459**	16,132
Member contributions	**7,448**	7,545
Interest cost	**23,405**	21,273
Benefits paid	**(13,409)**	(11,254)
Actuarial (gains)/losses	**46,945**	22,254
Closing balance	**573,907**	492,059
Scheme assets		
Beginning balance	**312,211**	269,968
Expected return on scheme assets	**20,827**	17,775
Actuarial gains/(losses)	**42,042**	13,547
Benefits paid	**(13,409)**	(11,254)
Employer contribution	**15,483**	14,630
Member contributions	**7,448**	7,545
Closing balance	**384,602**	312,211
Assets		
Equities	**203,202**	209,210
Bonds	**98,658**	35,944
Property	**43,514**	20,924
Cash	**2,266**	10,728
Insurance policies	**20,585**	20,691
AVC investments	**15,245**	14,524
Money purchase section	**1,132**	190
Total	**384,602**	312,211
Actual return on scheme assets	**62,869**	31,322

18. Related parties

There were no transactions with related parties during the current or prior year.

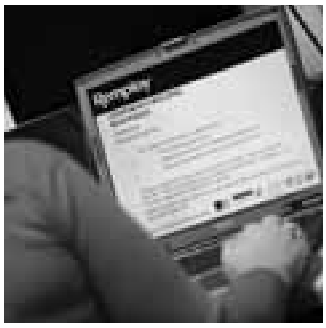
19. Explanation of transition to IFRSs

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition.

The last financial statements under UK GAAP were for the year ended 31 March 2005 and the date of transition to IFRSs was therefore 1 April 2004.

Reconciliation of balance sheet at 1 April 2004

	Note	UK GAAP 1 April 2004 £000	Property revaluation Effect of transition £000	Holiday pay accrual Effect of transition £000	pensions IAS19 Effect of transition £000	IFRS 1 April 2004 £000
Non-current assets						
Property plant and equipment	a	39,491	24,258			63,749
		39,491	24,258	-	-	63,749
Current assets						
Inventories		15,751				15,751
Trade and other receivables		33,536				33,536
Cash and cash equivalents		-				-
		49,287	-	-	-	49,287
Total assets		**88,778**	**24,258**	**-**	**-**	**113,036**
Current liabilities						
Trade and other payables	b	(38,058)		(2,645)		(40,703)
Obligations under finance leases		(2,221)				(2,221)
Bank overdraft		(6,022)				(6,022)
		(46,301)	-	(2,645)	-	(48,946)
Net current assets		**42,477**	**24,258**	**(2,645)**	**-**	**64,090**
Non-current liabilities						
Retirement benefit obligation	c	-			(166,141)	(166,141)
Obligations under finance leases		(10,121)				(10,121)
		(10,121)	-	-	(166,141)	(176,262)
Total liabilities		**(56,422)**	**-**	**(2,645)**	**(166,141)**	**(225,208)**
Net liabilities		**32,356**	**24,258**	**(2,645)**	**(166,141)**	**(112,172)**
Reserves						
Funded by the Secretary of State for the Department for Work and Pensions		**32,356**	**24,258**	**(2,645)**	**(166,141)**	**(112,172)**



Notes to the Financial Statements continued

Reconciliation of balance sheet at 31 March 2005

	Note	UK GAAP 31 March 2005 £000	Property revaluation Effect of transition £000	Holiday pay accrual Effect of transition £000	pensions IAS19 Effect of transition £000	IFRS 31 March 2005 £000
Non-current assets						
Property plant and equipment	a	42,821	24,001			66,822
		42,821	24,001	-	-	66,822
Current assets						
Inventories		14,512				14,512
Trade and other receivables		28,802				28,802
Cash and cash equivalents		36,504				36,504
		79,818	-	-	-	79,818
Total assets		**122,639**	**24,001**	**-**	**-**	**146,640**
Current liabilities						
Trade and other payables	b	(28,735)		(2,575)		(31,310)
Obligations under finance leases		(2,931)				(2,931)
Bank overdraft		-				-
Accruals		(9,998)				(9,998)
Advance receipt of funding from the Department for Work and Pensions		(51,000)				(51,000)
		(92,664)	-	(2,575)	-	(95,239)
Net current assets		**29,975**	**24,001**	**(2,575)**	**-**	**51,401**
Non-current liabilities						
Retirement benefit obligation	c	-			(179,848)	(179,848)
Obligations under finance leases		(11,942)				(11,942)
		(11,942)	-	-	(179,848)	(191,790)
Total liabilities		**(104,606)**	**-**	**(2,575)**	**(179,848)**	**(287,029)**
Net liabilities		**18,033**	**24,001**	**(2,575)**	**(179,848)**	**(140,389)**
Reserves						
Funded by the Secretary of State for the Department for Work and Pensions		**18,033**	**24,001**	**(2,575)**	**(179,848)**	**(140,389)**

Reconciliation of income statement for 2005

	Note	UK GAAP 2005 £000	Property revaluation Effect of transition £000	Holiday pay accrual Effect of transition £000	pensions IAS19 Effect of transition £000	IFRS 2005 £000
Continuing Operations						
Revenue		165,307				165,307
Other operating income: funding from Secretary of State		116,000				116,000
Total revenue		281,307	-	-	-	281,307
Materials		(98,191)				(98,191)
Staff costs	a b	(137,958)		70	(5,000)	(142,888)
Operating charges		(54,394)				(54,394)
Depreciation	c	(6,049)	(257)			(6,306)
Profit on sale of fixed assets		1,615				1,615
Operating loss		(13,670)	(257)	70	(5,000)	(18,857)
Finance income		133				133
Finance costs		(786)				(786)
Result for the year before and after tax from continuing operations		**(14,323)**	**(257)**	**70**	**(5,000)**	**(19,510)**

Notes

a) Under the transitional arrangements of IFRS 1 First-time Adoption of International Financial Reporting Standards certain properties have been measured at the date of transition to IFRS at their fair value, and this fair value has been used as their deemed cost from that date. The aggregate fair value of these properties was £40,724,000, which resulted in a increase in their book value as at 1 April 2004 of £24,258,000. The depreciation of these assets has been based on this deemed cost with effect from 1 April 2004, resulting in additional depreciation of £257,000 in the year ended 31 March 2005.

b) IAS19 Employee benefits requires a full holiday pay provision to be recorded at each reporting date, in respect of holiday entitlement accrued by not yet taken by employees at that date. This had resulted in an additional liability of £2,645,000 being recognised at 1 April 2004 and £2,575,000 at 31 March 2005, with a related income statement credit of £70,000 recognised in the year ended 31 March 2005.

c) IAS19 Employee benefits requires the net deficit in respect of the defined benefit pension scheme to be recognised in full on the balance sheet. This has resulted in a liability of £166,141,000 being recognised as at 1 April 2004 and £179,848,000 as at 31 March 2005, and an additional income statement charge of £5,602,000 in the year ended 31 March 2005.

Notes to the Financial Statements continued

20. Financial agreement with the Secretary of State for the Department for Work and Pensions

The Company has entered into agreements with the Secretary of State for the Department for Work and Pensions under which:

1. Grants-in-aid and loans have been received (secured by fixed and floating charges on Remploy's assets) to finance the purchase of fixed assets; and
2. Grants-in-aid which are not repayable have been received in respect of:
   (a) the excess of expenditure over income (other than depreciation and profit/loss on sales of fixed assets)
   (b) changes in working capital.

The Secretary of State has committed to funding Remploy's activities for the next two years up to 31 March 2008.

The balance of the revenue account with the Secretary of State represents amounts advanced in respect of working capital.

The loans become repayable only in the event of the Company being wound up.

The movements in the grant account during the year were as follows:

	2006 £000	**2006 £000**	2005 £000	2005 £000
Grant account				
Balance at 1 April	(140,389)		(112,172)	
Grants received in the year	119,300		116,000	
Transfer from income statement	(136,192)		(135,510)	
Transfer from SORIE	(4,903)		(8,707)	
Balance at 31 March representing total net assets		**(162,184)**		**(140,389)**

In line with Treasury guidelines, the Company is required to show the notional cost of capital. Calculated in accordance with the Treasury guidelines, the notional interest would have been (£9,077k) for the year (2005: (£7,577k)) at 6% based on an average capital employed.

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