1 Principal group accounting policies

Basis of accounting
The accounts are prepared in accordance with the historical cost convention and with applicable accounting standards in the United Kingdom.

FRS 18 Accounting Policies became mandatory for years ending on or after 22 June 2001. The directors have reviewed the group's existing policies and consider they are already consistent with this new standard.

Basis of consolidation
The consolidated accounts include the Company and all its subsidiary and associated undertakings to the extent of the group's interest in those undertakings. The group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet.

The results of subsidiary or associated undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. The premium or discount between the purchase consideration and the fair value of the separable net assets acquired is included in the balance sheet as a fixed asset and is amortised on a straight line basis over its useful economic life, a period not exceeding twenty years. The amounts in respect of acquisitions in periods prior to 1 January 1998 remain written off against reserves (see note 24 (iii)).

Treasury policies
Foreign currencies
Foreign currency assets and liabilities are translated into Sterling at the rates of exchange on the balance sheet date or at the forward contract rate. Profit and loss items are translated into Sterling at the average rates of exchange during the year.

Translation differences on intra-group currency loans and on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against group equity investments, are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. All other translation differences are taken to the profit and loss account.

Interest rate transactions
Interest rate swaps and option agreements are used to manage the interest basis of borrowings. Interest receipts and payments under these agreements are accrued so as to match the net income or cost with the related finance expenses. No amounts are recognised in respect of future periods. Where such instruments are terminated the crystalised gain or loss is recognised in the year of termination.

Turnover
Turnover comprises the invoiced value of sales and the value of work executed during the year for long term contracting. Turnover excludes sales taxes.

Fixed asset investments
Fixed asset investments are included at cost less provision for any permanent diminution in value.

Depreciation
Fixed assets are written off evenly over their expected useful lives.

Depreciation is normally provided as follows:

Freehold buildings	- 2 per cent per annum
Leasehold buildings	- the period of the lease or 2 per cent per annum for leases in excess of 50 years
Plant, motor vehicles, furniture and fittings	- 10 to 33 per cent per annum

Technical development expenditure
Expenditure on research and development, patents, and trademarks is written off when incurred.

Deferred taxation
On 7 December 2000 the Accounting Standards Board issued FRS 19 Deferred Tax. In accordance with FRS 19 deferred taxation is provided on the incremental liability approach in respect of timing differences giving rise to a liability. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. No changes to prior year numbers were necessary as a result of adopting FRS 19.

1 Principal group accounting policies (continued)

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes expenditure which is incurred in the normal course of business in bringing the product or service to its present location and condition. Net realisable value is the estimated selling price less all costs to be incurred. Contract work in progress is valued at cost, less foreseeable losses and progress payments received and receivable.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Post retirement benefits

The cost of providing pensions and other post retirement benefits is charged against profits. Pension surpluses and deficits are allocated on a straight line basis over the expected remaining service lives of current employees.

In those instances where an accounting surplus is not expected to be used in the foreseeable future, the profit and loss account credit arising from interest or variations is restricted to the amount of the regular cost.

Differences between the amounts included in the profit and loss account and payments made to the pension schemes are treated as assets or liabilities in the balance sheet. The post retirement medical costs liability is included in provisions in the balance sheet.

FRS 17 Retirement benefits

On 30 November 2000 the Accounting Standards Board issued FRS 17 Retirement Benefits. FRS 17 will not be mandatory for the group until the year ended 31 December 2003. The FRS has an extended transitional period during which certain disclosures will be required in the notes to the financial statements. The group has included these phased transitional disclosures for the year ended 31 December 2001 in note 9.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares (whether conditional or otherwise) is recognised on a straight line basis over the period to which the employee's performance relates. The amount recognised is the difference between:

(i) either the fair value of the shares at the date the award is made to participants in the scheme; or where purchases of shares have been made by an ESOP trust at fair value and reflected in the Company's balance sheet in accordance with UITF Abstract 13 or have been revalued, the book value of the shares that are available for the award; and
(ii) the amount of consideration, if any, that the participant may be required to pay for the shares.

Where the award is subject to performance criteria, the amount recognised is based on a reasonable expectation of the extent that the performance criteria will be met. Where there are no performance criteria, the cost of the award is recognised over the period to the date when the employee becomes unconditionally entitled to the shares. The credit entry of this charge is taken to shareholders' funds.

2 Turnover, profit and operating assets

Classes of business	Turnover 2001 £m	Profit 2001 £m	Operating assets 2001 £m	Turnover 2000 £m	Profit 2000 £m	Operating assets 2000 £m
Welding and cutting products	**621.5**	**35.7**	**179.2**	632.4	43.9	196.1
Air and gas handling	**283.8**	**7.2**	**77.7**	256.7	13.1	78.2
Specialised engineering	**56.5**	**2.9**	**15.0**	44.9	(1.6)	19.2
	961.8	**45.8**	**271.9**	934.0	55.4	293.5
Goodwill - Welding and cutting products	**-**	**(1.1)**	**19.8**	-	(1.0)	20.9
Other assets and central operations	**-**	**(8.6)**	**(61.8)**	-	(7.6)	(49.5)
	961.8	**36.1**	**229.9**	934.0	46.8	264.9
Operating exceptional items						
Welding and cutting products						
– restructuring costs	**-**	**(24.8)**	**-**	-	-	-
Air and gas handling						
– restructuring costs	**-**	**(4.7)**	**-**	-	-	-
– litigation and warranty costs	**-**	**(2.6)**	**-**	-	-	-
Central restructuring costs	**-**	**(2.6)**	**-**	-	-	-
Bid costs	**-**	**-**	**-**	-	(2.8)	-
Continuing operations	**961.8**	**1.4**	**229.9**	934.0	44.0	264.9

Geographical area by country of operation	Turnover 2001 £m	Profit 2001 £m	Operating assets 2001 £m	Turnover 2000 £m	Profit 2000 £m	Operating assets 2000 £m
United Kingdom	**99.9**	**(8.3)**	**(7.3)**	94.9	(6.6)	(4.3)
Rest of Europe	**398.0**	**31.3**	**76.8**	375.6	29.4	83.6
North America	**363.8**	**4.5**	**73.3**	378.2	15.9	87.6
Rest of World	**172.5**	**9.7**	**67.3**	167.1	9.1	77.1
	1,034.2	**37.2**	**210.1**	1,015.8	47.8	244.0
Goodwill	**-**	**(1.1)**	**19.8**	-	(1.0)	20.9
Inter-area eliminations	**(72.4)**	**-**	**-**	(81.8)	-	-
Operating exceptional items						
United Kingdom	**-**	**(10.3)**	**-**	-	(2.8)	-
Rest of Europe	**-**	**(17.7)**	**-**	-	-	-
North America	**-**	**(2.2)**	**-**	-	-	-
Rest of World	**-**	**(4.5)**	**-**	-	-	-
Continuing operations	**961.8**	**1.4**	**229.9**	934.0	44.0	264.9
Non-operating exceptional items		**(7.8)**	**-**		6.6	-
Net interest and net debt		**(13.9)**	**(214.1)**		(16.4)	(209.8)
(Loss)/profit on ordinary activities before taxation		**(20.3)**			34.2	
Net assets			**15.8**			55.1

Geographical area by country of destination	Turnover 2001 £m	Turnover 2000 £m
United Kingdom	**56.0**	58.4
Rest of Europe	**339.1**	323.3
North America	**349.7**	336.7
Rest of World	**217.0**	215.6
Continuing operations	**961.8**	934.0

3 Group operating profit/(loss)

	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	2000 £m
Turnover	961.8	-	961.8	934.0
Cost of sales	(700.3)	(19.5)	(719.8)	(673.1)
Gross profit	261.5	(19.5)	242.0	260.9
Net operating expenses				
Selling and distribution costs	(131.8)	(1.8)	(133.6)	(129.4)
Research and development expenditure	(12.7)	-	(12.7)	(7.6)
Administration costs	(87.1)	(13.4)	(100.5)	(84.2)
Exceptional bid costs	-	-	-	(2.8)
	(231.6)	(15.2)	(246.8)	(224.0)
Dividends and other income	-	-	-	0.6
	(231.6)	(15.2)	(246.8)	(223.4)
Group operating profit/(loss)	29.9	(34.7)	(4.8)	37.5

Fees in respect of services provided by the auditors were: statutory audit of the group £1.4 million (2000: £1.4 million) and other services to the Company and its United Kingdom subsidiaries £0.7 million (2000: £0.3 million). Included above are operating lease rentals for plant and machinery of £1.8 million (2000: £2.5 million) and for other leases of £2.9 million (2000: £2.2 million), depreciation of £21.5 million (2000: £21.2 million) and amortisation of goodwill of £1.1 million (2000: £1.0 million). Amounts invoiced to associated undertakings for the year were £2.9 million (2000: £3.5 million) and amounts invoiced from them were £7.1 million (2000: £9.3 million). At the year end amounts due from associated undertakings were £1.2 million (2000: £0.9 million) and due to them were £1.0 million (2000: £1.6 million).

4 Non-operating exceptional items

	2001 £m	2000 £m
Continuing operations		
Goodwill provision on discontinuing operation (note (i))	(4.1)	-
Profit on sale of property	-	16.3
Provision for loss on disposal of property	-	(1.6)
Provision relating to a discontinuing business	-	(4.0)
Discontinued operations		
Losses on termination of operations in prior years	(3.7)	(4.1)
	(7.8)	6.6

(i) On 21 February 2002 the Company completed the sale of Solbern, its US can and jar filling machinery operation, to its management. The initial consideration of $2.7 million was satisfied wholly in cash on completion. Based on the agreed net assets at the date of sale, there will be an adjustment to the initial consideration and this is not expected to be material. The net assets sold are estimated to have been $2.1 million. Goodwill previously written off directly to reserves on the acquisition of this business amounted to £4.5 million. Taking this into account the directors were of the opinion that a provision for diminution in value of goodwill of £4.1 million should be made. This debit to the profit and loss account for the period has no overall effect on shareholders' funds. Solbern's turnover for 2001 was £4.2 million (2000: £2.9 million) and operating profits were £0.7 million (2000: £0.1 million).

(ii) There is expected to be no tax attributable to and there is no minority interest in the non-operating exceptional items of either period.

5 Net interest - excluding associated undertakings

	2001 £m	2000 £m
Receivable	5.4	5.8
Bank loans and overdrafts	(22.6)	(20.8)
Finance leases	(0.8)	(0.9)
	(18.0)	(15.9)

During November 2001 following a review of the general market level of interest rates relative to those of the group, a number of interest rate swaps were terminated generating an exceptional gain of £4.4 million.

6 Tax on profit on ordinary activities

	2001 £m	2000 £m
United Kingdom:		
Corporation tax at 30 per cent (2000: 30 per cent)	**9.6**	3.2
Adjustments in respect of previous years	**7.9**	4.6
	17.5	7.8
Double taxation relief	**(9.0)**	(3.1)
	8.5	4.7
Deferred taxation	**0.1**	1.4
	8.6	6.1
Overseas:		
Taxation	**6.5**	5.8
Adjustments in respect of previous years	**(4.5)**	(5.3)
Deferred taxation	**(0.7)**	(0.5)
	9.9	6.1
Associated undertakings	**1.2**	1.8
	11.1	7.9

The exceptional tax charge of £6.1 million (2000: £nil) includes an amount in respect of prior year transactions currently under discussion with local tax authorities.

Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2001 £m	2000 £m
(Loss)/profit on ordinary activities before taxation	**(20.3)**	34.2
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**(6.1)**	10.3
Effects of:		
Expenses not deductible for tax purposes (primarily exceptional items)	**15.2**	6.0
Non-taxable income	-	(8.3)
Other taxes (primarily US State taxes)	**4.3**	2.0
Double taxation relief	**(9.0)**	(3.1)
Movement on deferred tax not recognised	**20.3**	17.0
Effect of lower overseas tax rates	**(17.0)**	(15.3)
Adjustments to tax charge in respect of previous periods	**3.4**	(0.7)
Current tax charge for the year	**11.1**	7.9

7 Employees - including executive directors

	2001 £m	2000 £m
Aggregate amounts payable:		
Wages and salaries	**227.8**	216.4
Social security costs	**30.2**	32.2
Other pension costs (see note 9)	**12.3**	11.7
	270.3	260.3

7 Employees - including executive directors (continued)

	Number	Restated Number
Average number of persons employed by the group:		
Welding and cutting products	**7,306**	7,553
Air and gas handling (note (i))	**3,240**	3,191
Specialised engineering	**367**	334
Corporate	**25**	32
	10,938	11,110

(i) In last year's annual report the average number of persons employed by Air and gas handling was incorrectly stated as being 2,886. This has been corrected in the table above.

(ii) At the year end the number of employees was 10,745 (2000: 11,119).

8 Directors' remuneration

Information covering directors' remuneration, interests in shares and interests in share options is included in the Remuneration Report on pages 21 to 23.

9 Post retirement benefits

(i) SSAP 24 Accounting for pension costs

The major pension schemes operated by the group are in the United Kingdom and are of the defined benefit type, the assets of which are held in trustee administered funds. With the exception of fair value provisions established on acquisitions and included in note 20, pension costs for employees of overseas subsidiaries are provided for in accordance with local requirements and practices.

	2001 £m	2000 £m
United Kingdom pension charge:		
Regular charge	**4.0**	4.0
Variation credit	**-**	-
Interest	**(0.8)**	(0.7)
Net charge	**3.2**	3.3
Overseas pension charge	**9.1**	8.4
Group pension charge	**12.3**	11.7
Post retirement medical costs - United States	**0.4**	0.9

The valuation for the United Kingdom pension schemes and the balance sheet provision for United States post retirement medical costs liabilities are assessed by professionally qualified independent actuaries using the projected unit actuarial method. The results of the most recent valuations were:

	Pension schemes	Overseas medical costs liabilities
Dates of last valuations or review	April 2000 and March 2001	December 2001
Market value of investments	£433.4 million	
Market value of assets as a percentage of accrued service liabilities, allowing for expected future increases in earnings	110%	
Main assumptions:		
Return on investments above general earnings inflation	1.0%	
Return on investments above annual pension increases		
– post retirement benefits	1.3% - 3.3%	
– pre-retirement benefits	1.3% - 4.3%	
Medical costs liabilities - inflation rate		4.6%

9 Post retirement benefits (continued)

(ii) FRS 17 Retirement Benefits

UK schemes

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations at 31 March 2001 and updated by qualified independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

Overseas schemes

The group operates a number of defined benefit schemes for employees of its overseas businesses. Full actuarial valuations of these schemes have been carried out within the last three years and results have been updated to 31 December 2001 by qualified independent actuaries.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	UK	Overseas
Valuation method	Projected unit	Projected unit
Discount rate	5.8%	7.0%
Inflation rate	2.5%	3.1%
Increase to deferred benefits during deferment	2.7%	2.0%
Increases to pensions in payment	2.7%	2.0%
Salary increases	4.1%	3.8%
Medical costs liabilities - inflation rate	-	4.6%

The assets in the schemes and the expected rates of return (weighted averages) were:

	Long-term rate of return expected at 31 December 2001		Value at 31 December 2001					
	UK	Overseas	UK schemes in surplus £m	UK scheme in deficit £m	Overseas schemes £m	Total pension schemes £m	Overseas medical costs liabilities £m	Total schemes £m
Equities	8.0%	9.0%	194.8	53.7	49.7	298.2	-	298.2
Bonds	5.1%	6.5%	121.1	19.9	35.2	176.2	-	176.2
Other	4.5%	6.2%	7.2	2.5	4.9	14.6	-	14.6
Total market value of assets			323.1	76.1	89.8	489.0	-	489.0
Present value of liabilities			(291.2)	(93.7)	(126.6)	(511.5)	(32.9)	(544.4)
Surplus / (deficit)			31.9	(17.6)	(36.8)	(22.5)	(32.9)	(55.4)
Related deferred tax liability			-	-	-	-	-	-
Net pension asset/(liability)			31.9	(17.6)	(36.8)	(22.5)	(32.9)	(55.4)
Provision already carried on the consolidated balance sheet			-	-	33.7	33.7	32.9	66.6
Net pension asset/(liability) not reflected on the consolidated balance sheet			31.9	(17.6)	(3.1)	11.2	-	11.2

If the above amounts had been recognised in the accounts, the group's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	2001 Group £m
Net assets	
Net assets excluding pension assets/(liabilities)	**82.4**
Pension assets	**31.9**
Pension liabilities	**(87.3)**
Net assets including net pension liability	**27.0**
Reserves	
Profit and loss reserve excluding net pension liability	**50.5**
Net pension liability	**(55.4)**
Profit and loss reserve	**(4.9)**

10 Dividends paid and proposed

	2001 £m	2000 £m
Interim dividend of nil p (2000: 7.0p) per share	**-**	6.6
Final dividend of nil p (2000: 1.0p) per share	**-**	0.9
	-	7.5

11 Earnings per share

Basic headline earnings per share is calculated on losses of £32.8 million (2000 earnings: £20.6 million) and on an average of 94,149,000 (2000: 94,142,000) shares.

Underlying earnings per share is also shown calculated by reference to earnings before the amortisation of goodwill and exceptional items, as adjusted for attributable tax and minority interests. The directors consider that this gives a useful additional indication of underlying performance.

Fully diluted earnings per share adjusts the average number of shares in the basic calculation for nil (2000: nil) dilutive potential shares deriving from share options.

	Basic 2001 Pence	Basic 2000 Pence	**Fully diluted 2001 Pence**	Fully diluted 2000 Pence
Earnings per share - headline	**(34.8)**	21.9	**(34.8)**	21.9
Amortisation of goodwill	**1.1**	1.1	**1.1**	1.1
Exceptional items	**46.0**	(4.1)	**46.0**	(4.1)
Earnings per share - underlying	**12.3**	18.9	**12.3**	18.9

12 Intangible fixed assets - goodwill

	Cost £m	Amortisation £m	Net book value £m
At 31 December 2000	23.0	(2.1)	20.9
Amortisation for the year	-	(1.1)	(1.1)
At 31 December 2001	23.0	(3.2)	19.8

13 Tangible fixed assets

	Land and buildings £m	Plant furniture and fittings £m	Total tangible fixed assets £m
Cost:			
At 31 December 2000	100.5	168.1	268.6
Currency realignment	(2.4)	(3.7)	(6.1)
Additions	1.7	15.8	17.5
Disposals	(6.1)	(6.9)	(13.0)
At 31 December 2001	93.7	173.3	267.0
Depreciation:			
At 31 December 2000	17.7	83.7	101.4
Currency realignment	(0.1)	(1.7)	(1.8)
Charge to profit and loss account	2.8	18.7	21.5
Disposals	(2.6)	(6.0)	(8.6)
At 31 December 2001	17.8	94.7	112.5
Net book value:			
At 31 December 2001	75.9	78.6	154.5
At 31 December 2000	82.8	84.4	167.2

(i) Fixed assets include the following in respect of assets held under finance leases:	Land and buildings **2001** **£m**	Land and buildings 2000 £m	Plant, furniture and fittings **2001** **£m**	Plant, furniture and fittings 2000 £m
Net book value at the year end	**0.7**	0.9	**0.3**	0.6
Depreciation charge for the year	**0.2**	0.2	**0.2**	0.3

(ii) The net book value of the group's land and buildings includes £3.6 million (2000: £3.6 million) for long leasehold properties and £8.0 million (2000: £8.0 million) for short leasehold properties.

(iii) Committed capital expenditure of subsidiary undertakings at the year end was £1.0 million (2000: £3.5 million).

14 Fixed asset investments

	Group investment in associated undertakings - unlisted £m	Company investment in subsidiary undertakings £m
At 31 December 2000	22.6	1,009.1
Currency realignment	(0.9)	-
Group's share of net profits retained	2.9	-
At 31 December 2001	24.6	1,009.1

(i) There is no goodwill included in the carrying value of associated undertakings.

(ii) Principal interests in group undertakings are shown on pages 49 and 50.

(iii) Loans due by the Company to subsidiary undertakings, which are interest free, amounted to £861 million.

15 Stocks

At cost:	2001 £m	2000 £m
Short term contract work in progress	**10.0**	7.3
Deduct: Progress payments received and receivable	**(4.5)**	(3.7)
Short term contract balances	**5.5**	3.6
Long term contract work in progress	**4.9**	0.7
Deduct: Progress payments received and receivable	**(3.9)**	(0.4)
Long term contract balances	**1.0**	0.3
Contract balances	**6.5**	3.9
Raw materials, components and consumable stores	**39.2**	39.5
Work in progress	**19.1**	19.7
Finished goods	**64.7**	72.3
	129.5	135.4

16 Debtors

	2001 £m	2000 £m
Amounts falling due within one year:		
Trade debtors	**209.5**	203.3
Long term contracts	**9.4**	12.5
Other debtors	**20.1**	26.4
Prepayments and accrued income	**8.3**	7.1
	247.3	249.3
Amounts falling due after more than one year:		
Trade debtors	**0.4**	0.3
Long term contracts	**-**	0.5
Other debtors (note 20(v))	**4.1**	4.6
Prepayments and accrued income including ACT recoverable	**2.7**	6.3
	7.2	11.7
	254.5	261.0

17 Cash at bank and in hand

Cash at bank and in hand includes deposits of £17.0 million (2000: £6.7 million) that are not repayable on demand as defined by FRS 1 Cash Flow Statements (Revised).

18 Creditors: amounts falling due within one year

	2001 £m	2000 £m
Trade creditors	**97.2**	106.5
Payments received on account	**7.5**	3.6
Other creditors	**36.8**	35.8
Corporation tax	**27.7**	26.8
Social security and other taxation	**9.2**	9.4
Accruals and deferred income	**36.8**	36.9
Dividends payable	**-**	0.9
	215.2	219.9

19 Borrowings

	2001 £m	2000 £m
Short term:		
Loan notes	**3.4**	21.9
Bank loans and overdrafts - secured	**0.8**	0.4
Bank loans and overdrafts - unsecured	**108.5**	100.4
Obligations under finance leases	**0.6**	1.4
	113.3	124.1
Long term:		
6.73% 2002 loan notes of US$2.0 million	**-**	1.4
6.78% 2004 loan notes of US$72.3 million	**49.5**	48.5
7.24% 2005 loan notes of US$9.0 million (2000: US$12.0 million)	**6.2**	8.0
7.33% 2005 loan notes of US$5.0 million	**3.4**	3.4
6.88% 2007 loan notes of US$85.0 million	**58.2**	57.0
6.96% 2009 loan notes of US$35.0 million	**24.0**	23.5
Bank loans - unsecured	**0.8**	-
Obligations under finance leases	**6.3**	7.0
	148.4	148.8
Total borrowings	**261.7**	272.9

(i) Subsequent to 31 December 2001 multi-currency syndicated bank facilities with six banks totalling £150 million were arranged and are available up to July 2003.

(ii) Repayments of long term borrowings are due as follows:

	Other borrowings £m	Finance leases £m	Total £m
Between one and two years	2.1	-	2.1
Between two and five years	57.0	0.9	57.9
Over five years otherwise than by instalments	83.0	5.4	88.4
	142.1	6.3	148.4

(iii) Parent company balance sheet:

Loans due by the Company to subsidiary undertakings are interest free and are repayable on demand.

20 Provisions for liabilities and charges

	Deferred taxation £m	Disposal and reorganisation costs £m	Post retirement benefits £m	Other £m	Total £m
At 31 December 2000	-	27.9	72.2	21.0	121.1
Utilised	-	(6.9)	(5.3)	(7.6)	(19.8)
Provided	-	23.7	6.5	8.5	38.7
Released	-	-	-	(0.2)	(0.2)
Currency realignment	-	(0.5)	(2.3)	0.1	(2.7)
At 31 December 2001	-	44.2	71.1	21.8	137.1

Deferred taxation amounts are set out below:

	Provision made 2001 £m	**Full potential 2001 £m**	Provision made 2000 £m	Full potential 2000 £m
Excess of the book value of assets, including finance leases qualifying for taxation allowances, over their written down value for taxation purposes	**2.5**	**2.0**	2.3	1.3
Held over capital gains	**-**	**10.0**	-	-
Relief for future costs	**(2.9)**	**(16.0)**	(2.5)	(35.2)
Losses carried forward	**-**	**(98.8)**	-	(49.6)
Other timing differences	**0.4**	**0.5**	0.2	0.7
	-	**(102.3)**	-	(82.8)

(i) Disposal and reorganisation costs include a £20.3 million fair value provision in respect of a guarantee given for a disposed business and reorganisation costs relating to continuing operations. The guarantee relates to financing facilities that are due to expire in June 2002. The majority of the reorganisation costs will be utilised over the next twelve to twenty four months.

(ii) Post retirement benefits include obligations for both pensions and medical costs. These are expected to be utilised over a period of not less than ten years and are expected to be replaced by comparable amounts as they are utilised.

(iii) Other provisions include amounts in respect of legal costs and claims, deferred acquisition payments, warranty liabilities and environmental costs. Due to their nature it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that this will be over the short to medium term.

(iv) At the year end £27.8 million (2000: £28.4 million) of fair value provisions remained unutilised, of which £20.3 million is as noted in (i) above.

(v) Other debtors (note 16) includes £3.2 million (2000: £2.6 million) of deferred taxation losses carried forward.

21 Acquisitions

The consideration in respect of acquisitions of the year was £0.1 million and the fair value of net assets acquired was £0.1 million resulting in goodwill of £nil million.

22 Commitments and contingencies

The group had annual commitments under operating leases expiring as follows:

	Land and buildings 2001 £m	**Other 2001 £m**	Land and buildings 2000 £m	Other 2000 £m
Within one year	**1.0**	**0.9**	2.4	1.1
Two to five years	**1.5**	**1.0**	5.5	1.2
After five years	**0.9**	**0.1**	5.3	-
	3.4	**2.0**	13.2	2.3

	Group 2001 £m	Group 2000 £m	**Company 2001 £m**	Company 2000 £m
Guarantees and other obligations	**20.3**	1.0	**297.4**	314.1

In addition the group has contingent liabilities entered into in the normal course of business from which no liability is expected to arise.

The Company's guarantees primarily relate to subsidiary undertakings' borrowings.

Charter, together with certain of its wholly-owned subsidiaries, has been named as defendant in a number of asbestos-related actions in the United States on the basis that it is allegedly liable for the acts of a former subsidiary Cape PLC. Charter contests the existence of any such liability. The issue went to trial in three cases involving the Company's principal subsidiary, Charter Consolidated P.L.C., and other wholly-owned subsidiaries, between 1985 and 1987. In the first of these cases, tried in Pennsylvania, after an adverse lower court decision the appeal court gave judgement in the Charter defendants' favour. In the second case, in New Jersey, judgement was also given for the Charter defendants. The third case, in South Carolina, was dismissed for lack of subject matter jurisdiction, without a decision having been rendered on the issue. During recent years, Charter and/or certain of its subsidiaries have been served in a number of cases in Mississippi and a few other states. Charter is seeking dismissals in these pending cases. Upon advice of counsel, Charter has settled some of the cases brought in Mississippi and will continue to pursue dismissals in the remainder. The directors have received legal advice that Charter and its wholly-owned subsidiaries should be able to continue to defend successfully the actions brought against them, but that uncertainty must exist as to the eventual outcome of the trial of any particular action. It is not practicable to estimate in any particular case the amount of damages which might ensue if liability were imposed on Charter or any of its wholly-owned subsidiaries. The litigation is reviewed each year and, based on that review and legal advice, the directors believe that the aggregate of any such liability is unlikely to have a material effect on Charter's financial position. In these circumstances, the directors have concluded that it is not appropriate to make any provision in respect of such actions.

23 Share capital

	2001 Ordinary shares of 2p each	**2001 £**	2000 Ordinary shares of 2p each	2000 £
Authorised:	**109,500,000**	**2,190,000**	109,500,000	2,190,000
Issued:				
Fully paid shares	**94,149,021**	**1,882,980**	94,149,021	1,882,980

No shares of 2p each were allotted during the year. During the year options were granted over 1,493,428 shares. At 31 December 2001 71 participants held options over 2,452,756 shares; these options are exercisable during various periods up to 29 March 2011 at prices ranging from 177p to 920.6p.

Included in the above, under the terms of the group's Equity Partnership Plan, approved by shareholders in 1997, are deferred rights to acquire shares. At 31 December 2001 9 participants held rights over 233,796 shares. The earliest dates of vesting for these awards will in normal circumstances be 31 December 2003 and then only on the achievement of specific targets and objectives. The exercise price of these awards will be funded by a cash bonus payable at the date of exercise and therefore the effective cost to the allottee will be nil.

Prior to its acquisition by the Company, Howden Group PLC operated share savings schemes for employees. These schemes allowed eligible employees to save limited fixed monthly amounts over a five year period and then to subscribe for shares at an option price. On the acquisition of Howden Group PLC by the Company, these pre-existing entitlements were transferred into options to purchase the Company's shares. At the year end there were entitlements over 48,341 shares. No further entitlements will be granted under these schemes.

24 Reserves

Group	Share premium account £m	Profit and loss account £m	Total £m
At 31 December 2000	5.9	16.8	22.7
Retained loss for the financial year	-	(32.8)	(32.8)
Net effect of translation of currencies	-	(4.2)	(4.2)
Goodwill provision on discontinuing operation	-	4.1	4.1
At 31 December 2001	5.9	(16.1)	(10.2)

Company	Share premium account £m	Profit and loss account £m	Total £m
At 31 December 2000	5.9	234.8	240.7
Retained loss for the financial year	-	(32.3)	(32.3)
At 31 December 2001	5.9	202.5	208.4

(i) In the event of certain overseas subsidiary and associated undertakings distributing reserves or profits, an additional liability to United Kingdom and overseas taxation would arise.

(ii) Included in the net effect of translation of currencies is a credit of £0.2 million (2000: debit £7.9 million) in relation to net foreign currency borrowings.

(iii) Acquisition goodwill of £634.4 million has been dealt with through reserves up to 31 December 2001 (2000: £638.5 million).

(iv) Under the provisions of the Companies Act 1985, a separate profit and loss account for the Company is not presented. The Company's reconciliation of movements in shareholders' funds was as follows:

	2001 £m	2000 £m
Loss for the financial year	**(32.3)**	(42.2)
Dividends for the financial year	**-**	(7.5)
	(32.3)	(49.7)
Opening shareholders' funds	**242.6**	292.3
Closing shareholders' funds	**210.3**	242.6

25 Minority interests - equity interests

	2001 £m	2000 £m
At 31 December 2000	**30.5**	26.9
Share of profit for the financial year	**1.4**	5.7
Dividends payable	**(2.2)**	(3.0)
Acquisitions and disposals	**-**	0.2
Net effect of translation of currencies	**(5.6)**	0.7
At 31 December 2001	**24.1**	30.5

26 Cash flow statement

(i) Cash flow from operating activities:

	2001 £m	2000 £m
Operating (loss)/profit - excluding associated undertakings	**(4.8)**	40.3
Depreciation	**21.5**	21.2
Goodwill amortisation	**1.1**	1.0
Profit on sale of fixed assets	**(0.3)**	-
Exceptional Items		
Current year charge - restructuring	**32.1**	-
Current year charge - litigation and warranty	**2.6**	-
Restructuring costs spend	**(12.4)**	-
Litigation costs spend	**(1.6)**	-
Change in stock	**1.0**	1.3
Change in debtors	**(4.5)**	(6.7)
Change in creditors	**0.9**	(0.2)
Other movement in provisions	**(4.0)**	(12.4)
	31.6	44.5

(ii) Reconciliation of net cash flow to movement in net debt:

	2001 £m	2000 £m
Decrease in cash in the year	**(33.5)**	(79.8)
Cash outflow from debt and lease financing	**18.9**	121.4
Cash outflow/(inflow) from liquid resources	**10.3**	(50.0)
Change in net debt resulting from cash flows	**(4.3)**	(8.4)
Loans and finance leases acquired/disposed of with disposals and acquisitions	**-**	0.1
New finance leases	**(0.2)**	(0.1)
Exchange adjustments	**0.2**	(7.9)
Movement in net debt in the year	**(4.3)**	(16.3)
Opening balance of net debt	**(209.8)**	(193.5)
Closing balance of net debt	**(214.1)**	(209.8)

26 Cash flow statement (continued)

(iii) Analysis of net debt movements:

	Opening balance £m	Cash flow £m	Disposals/ Acquisitions £m	Other non-cash changes £m	Exchange adjustment £m	Closing balance £m
Cash - gross	56.4	(22.1)	-	-	(3.7)	30.6
Short term borrowings	(100.8)	(11.4)	-	-	2.9	(109.3)
Cash - net	(44.4)	(33.5)	-	-	(0.8)	(78.7)
Other cash at bank and in hand	6.7	10.3	-	-	-	17.0
Other short term debt	(21.9)	17.6	-	-	0.9	(3.4)
Long term debt	(141.8)	(0.4)	-	-	0.1	(142.1)
Finance leases	(8.4)	1.7	-	(0.2)	-	(6.9)
Total	(209.8)	(4.3)	-	(0.2)	0.2	(214.1)

(iv) Acquisitions and disposals of subsidiary undertakings:

		2001 £m	2000 £m
Fixed assets including investments		**0.1**	1.6
Net debt		**-**	0.1
Minority interest		**-**	(0.2)
		0.1	1.5
Goodwill - on acquisitions		**-**	0.5
		0.1	2.0
Satisfied by:			
Net cash paid	- acquisitions of the year	**(0.1)**	(1.2)
Contribution of assets	- acquisitions of the year	**-**	(0.8)
		(0.1)	(2.0)

27 Financial instruments

The following disclosure forms part of the treasury management notes in the Financial review on page 13.

Interest rate risk profile of financial assets and liabilities

All short term debtors and creditors have been excluded from the disclosures. The interest rate risk profile of financial liabilities of the group as at 31 December 2001 was:

	Total		Floating rate financial liabilities		Semi-fixed rate hedged financial liabilities		Fixed rate hedged financial liabilities		Financial liabilities on which no interest is paid		Fixed rate analysis: Weighted average interest rate		Fixed rate analysis: Weighted average period for which rate is fixed	
Currencies	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 %**	2000 %	**2001 Years**	2000 Years
Euro	**(39.9)**	(66.0)	**1.8**	(22.8)	**(40.5)**	(41.6)	**(1.2)**	(1.6)	**-**	-	**4.85**	4.85	**8.01**	9.01
East European	**-**	(0.3)	**-**	(0.3)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Other European	**(1.5)**	(8.2)	**(1.5)**	(8.2)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
North American	**(152.3)**	(170.8)	**7.9**	(64.3)	**(10.6)**	(10.9)	**(149.6)**	(95.6)	**-**	-	**7.04**	7.08	**4.7**	4.16
South American	**(0.8)**	-	**(0.8)**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Asian	**(5.7)**	(26.6)	**(5.7)**	(26.6)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
South African	**(0.7)**	-	**(0.7)**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total currency	**(200.9)**	(271.9)	**1.0**	(122.2)	**(51.1)**	(52.5)	**(150.8)**	(97.2)	**-**	-			**4.72**	4.24
Sterling	**(60.8)**	(1.0)	**(60.2)**	-	**-**	-	**(0.6)**	(1.0)	**-**	-	**6.50**	8.08	**2.92**	1.07
Total group	**(261.7)**	(272.9)	**(59.2)**	(122.2)	**(51.1)**	(52.5)	**(151.4)**	(98.2)	**-**	-			**4.72**	4.20

The floating rate financial liabilities principally comprise bank borrowings bearing interest at rates fixed in advance for periods ranging from one month to six months by reference to the appropriate Libor equivalent.

The semi-fixed rate hedging principally comprises interest rate caps which were set at between 3-4 per cent above the rates prevailing at the time that the caps were entered into to provide an absolute ceiling for interest costs.

The fixed rate hedging principally comprises US Dollar Private Placement Loan Notes which the group had outstanding at the year end.

The following table shows the interest rate risk profile of financial assets held by the group at the year end. The financial assets shown principally comprise cash and short term deposits required for working capital purposes.

	Total		Floating rate financial assets	
Currencies	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Euro	**25.3**	15.6	**25.3**	15.6
East European	**2.8**	5.3	**2.8**	5.3
Other European	**1.2**	6.2	**1.2**	6.2
North American	**9.3**	15.8	**9.3**	15.8
South American	**1.7**	2.0	**1.7**	2.0
Asian	**3.2**	6.3	**3.2**	6.3
South African	**0.3**	3.2	**0.3**	3.2
Total currency	**43.8**	54.4	**43.8**	54.4
Sterling	**3.8**	8.7	**3.8**	8.7
Total group	**47.6**	63.1	**47.6**	63.1

27 Financial instruments (continued)

Currency exposures

The group's objectives in managing the currency exposures arising from its net investments overseas are to maintain a low cost of borrowings while substantially hedging against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the group's currency exposures at the year end:

Net foreign currency monetary assets/(liabilities)

Functional currency of group operation	Sterling 2001 £m	Sterling 2000 £m	Euro 2001 £m	Euro 2000 £m	East European 2001 £m	East European 2000 £m	Other European 2001 £m	Other European 2000 £m	North American 2001 £m	North American 2000 £m	South American 2001 £m	South American 2000 £m	Asian 2001 £m	Asian 2000 £m	South African 2001 £m	South African 2000 £m	Total 2001 £m	Total 2000 £m
Sterling	**-**	-	**2.6**	3.4	**-**	-	**-**	0.1	**0.5**	0.4	**-**	-	**0.1**	0.2	**-**	0.3	**3.2**	4.4
Euro	**0.1**	0.4	**-**	-	**-**	-	**0.1**	-	**0.9**	0.5	**-**	-	**-**	-	**-**	-	**1.1**	0.9
East European	**-**	0.2	**(0.4)**	0.7	**-**	-	**0.1**	0.2	**0.1**	-	**-**	-	**-**	-	**-**	-	**(0.2)**	1.1
Other European	**-**	-	**-**	0.3	**-**	0.1	**-**	-	**1.5**	0.8	**-**	-	**-**	-	**-**	-	**1.5**	1.2
North American	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
South American	**-**	-	**-**	-	**-**	-	**-**	-	**(0.3)**	1.4	**-**	-	**-**	-	**-**	-	**(0.3)**	1.4
Asian	**-**	0.1	**0.1**	0.3	**-**	-	**-**	0.3	**0.6**	1.4	**-**	-	**-**	-	**-**	-	**0.7**	2.1
South African	**0.2**	0.2	**0.3**	0.2	**-**	-	**-**	-	**0.2**	0.2	**-**	-	**-**	-	**-**	-	**0.7**	0.6
Total	**0.3**	0.9	**2.6**	4.9	**-**	0.1	**0.2**	0.6	**3.5**	4.7	**-**	-	**0.1**	0.2	**-**	0.3	**6.7**	11.7

The table below shows the group's balance sheet hedging at the year end:

	Balance sheet exposures* 2001 £m	Balance sheet exposures* 2000 £m	Hedged** 2001 £m	Hedged** 2000 £m	Unhedged 2001 £m	Unhedged 2000 £m	Benefit/(cost) of covering unhedged per annum 2001 £m	Benefit/(cost) of covering unhedged per annum 2000 £m	Sensitivity*** 2001 £m	Sensitivity*** 2000 £m
Euro	**50.7**	57.0	**47.5**	49.6	**3.2**	7.4	**-**	(0.1)	**2.4**	2.5
East European	**37.4**	33.2	**-**	-	**37.4**	33.2	**(1.0)**	(1.5)	**(0.1)**	(0.2)
Other European	**14.7**	18.0	**17.0**	17.9	**(2.3)**	0.1	**-**	-	**0.9**	0.9
North American	**69.3**	76.9	**87.7**	79.3	**(18.4)**	(2.4)	**(0.5)**	(0.1)	**4.4**	4.5
South American	**30.3**	27.7	**0.3**	11.5	**30.0**	16.2	**(2.2)**	(1.2)	**(0.1)**	-
Asian	**32.9**	35.2	**11.3**	18.9	**21.6**	16.3	**(1.0)**	(0.6)	**0.5**	1.1
South African	**3.3**	5.4	**0.4**	-	**2.9**	5.4	**(0.2)**	(0.3)	**-**	(0.2)
Total currency	**238.6**	253.4	**164.2**	177.2	**74.4**	76.2	**(4.9)**	(3.8)	**8.0**	8.6

* Debt and equity employed, net of minority interests.

** Financed with local functional currency borrowings.

*** Sensitivity of total net debt to a 5 per cent exchange movement.

Borrowing facilities

The group has various borrowing facilities available to it, analysed as follows and excluding finance leases.

Total committed borrowing facilities	2001 £m	2000 £m
Expiring in one year or less	**176.6**	371.9
Expiring in more than one year but not more than two years	**2.1**	3.4
Expiring in more than two years	**139.2**	138.4
Total	**317.9**	513.7

Committed facility undrawn at the year end	2001 £m	2000 £m
Expiring in one year or less	**76.5**	259.8
Expiring in more than one year but not more than two years	**-**	-

27 Financial instruments (continued)

Fair values of financial assets and financial liabilities

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

Primary financial instruments held or issued to finance the group's operations	Book value 2001 £m	Book value 2000 £m	Fair value 2001 £m	Fair value 2000 £m
Short term borrowings and current portion of long term borrowings	**(113.3)**	(124.1)	**(113.3)**	(124.1)
Long term borrowings	**(148.4)**	(148.8)	**(154.9)**	(149.0)
Cash deposits	**47.6**	63.1	**47.6**	63.1
Other financial liabilities	**-**	-	**-**	-
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps and similar instruments	**-**	-	**-**	2.3
Interest rate caps and collars	**-**	-	**(0.1)**	(0.1)
Forward foreign currency contracts	**0.1**	-	**0.1**	0.8
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales				
Forward foreign currency contracts	**-**	-	**0.5**	(0.8)

The fair values of the interest rate caps and collars and foreign exchange contracts have been based on prices available from the markets on which the instruments involved are traded. All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates. The fair value of short term deposits and borrowings approximates to the carrying amount because of the short maturity of these instruments.

Hedges

As explained in the Financial review on page 13, the group's policy is to hedge the following exposures:

- Interest rate risk - using interest rate swaps, caps and collars and forward rate agreements.
- Balance sheet translation risk - using forward foreign exchange contracts and borrowings in functional currencies.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains 2001 £m	Gains 2000 £m	(Losses) 2001 £m	(Losses) 2000 £m	Total net gains/(losses) 2001 £m	Total net gains/(losses) 2000 £m
Gains and losses arising in and before the year that were not recognised in the year	**-**	2.3	**(6.7)**	(0.3)	**(6.7)**	2.0
Unrecognised gains and losses on hedges at the year end	**-**	2.3	**(6.7)**	(0.3)	**(6.7)**	2.0
Of which:						
Gains and losses expected to be recognised in the next year	**-**	0.3	**(0.1)**	-	**(0.1)**	0.3
Gains and losses expected to be recognised in subsequent years	**-**	2.0	**(6.6)**	(0.3)	**(6.6)**	1.7

Market price risk

The group monitors the interest rate risks to which it is exposed primarily through a process of sensitivity analysis. This involves estimating the effect on profit before tax of a range of possible changes in interest rates. On the basis of the group's analysis, it is estimated that a rise of one percentage point in the principal interest rates to which the group is exposed would reduce profit before tax by approximately £1.2 million (2000: £1.3 million) and the effect of a rise of three percentage points would reduce profit before tax by approximately £3.7 million (2000: £3.8 million).