



David Eilbeck
Finance Director

Results

Total group sales for the year fell by 6.4% from £961.8 million to £900.5 million and adjusted operating profits, before amortisation of goodwill and operating exceptional items, fell by 3.2% from £37.2 million to £36.0 million. Goodwill amortisation was £1.2 million (2001: £1.1 million) and operating exceptional losses totalled £25.3 million (2001: £34.7 million). Operating profits after goodwill amortisation and operating exceptional items increased from £1.4 million to £9.5 million.

A net non-operating exceptional gain arose in the year of £21.8 million (2001: £7.8 million loss). The background and nature of all the exceptional items is provided in the Chairman and Chief Executive's statement on pages 4 to 7.

Net adjusted interest payable of £19.3 million (2001: £18.3 million) was covered 1.9 times (2001: 2.0 times) by profit before interest, goodwill amortisation and exceptional items. In 2001, an exceptional interest gain arose on the termination of swaps contracts amounting to £4.4 million.

The profit before tax was £12.0 million (2001: £20.3 million loss). The effective adjusted tax rate on profit before the amortisation of goodwill and exceptional items was 30.5% (2001: 26.5%). The increase in tax rate over the year was due to lower profitability in territories in which the group has tax losses. This rate is not expected to increase from this level in 2003. An exceptional tax credit was taken in 2002 of £1.4 million (2001: £6.1 million charge).

The net minority interest was £3.5 million (2001: £1.4 million).

Adjusted earnings per share before goodwill amortisation and exceptional items fell from 12.3 pence to 8.6 pence. Headline earnings per share were 5.1 pence (2001: 34.8 pence loss).

New accounting standard

The phased transitional disclosures required by FRS 17 Retirement Benefits are included in Note 9 (ii) to the accounts. Had the new accounting standard been adopted in full this year, shareholders' funds in the consolidated balance sheet would have been reduced by £66.6 million (2001: £11.2 million increase).

Dividends

As explained by the Chairman and Chief Executive, in his statement on pages 4 to 7, the board has not declared a dividend for the year (2001: nil).

Shareholders' funds

Shareholders' funds increased by £2.8 million from a negative £8.3 million to a negative £5.5 million. The retained profit for the year was £4.8 million (2001: £32.8 million loss).

The negative balance on shareholders' funds of £5.5 million in the consolidated balance sheet is after a cumulative goodwill write-off of £630.6 million that remains written off. The parent company has substantial net assets with shareholders' funds of £205.6 million.

Cash flow

Operating cash flow was £32.2 million (2001: £31.6 million). Net debt, which has reduced by £20.1 million since 31 December 2001, can be summarised as follows:

	2002 £m	2001 £m
Cash and deposits	32.2	47.6
Short term debt	(94.6)	(113.3)
Long term debt	(131.6)	(148.4)
	(194.0)	(214.1)

Treasury management

Charter's central treasury department is responsible for ensuring the availability and flexibility of funding arrangements in order to meet the ongoing requirements of the group. In addition, it is responsible for managing the interest rate risks, liquidity risks and balance sheet foreign exchange translation risks of the group. Foreign exchange transaction exposures are generally managed directly by operating subsidiaries within strict guidelines and controls established by their divisional management and overseen by group treasury. It is the group's policy not to hedge profit and loss account translation exposure.

Interest rate risk

The group finances its operations through a mix of equity and borrowings. Borrowings are made in the desired currencies at both fixed and floating rates of interest. It is the group's objective to minimise the cost of borrowings whilst retaining the flexibility of funding opportunities. The group has used a combination of interest rate swaps, interest rate caps and collars and forward rate agreements to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. However, as at 31 December 2002, no such interest rate derivative financial instruments were in place.

As at 31 December 2002, the group had net debt of £194.0 million of which £133.0 million (68.6%) was fixed (2001: 70.7%). The remaining £61.0 million (31.4%) remained floating (2001: 29.3%). During the year, three interest rate caps and two interest rate collars expired which were set at between 3 to 4% above the rates prevailing at the time they were entered into. Throughout the tenure of these instruments, including throughout 2001, the maximum interest rate protection provided was far in excess of the prevailing rates and therefore the debt was effectively considered to be at floating rates. The split of fixed and floating rate debt as at 31 December 2002 is still in line with the group's objectives.

Currency risks

The group has significant investments in overseas operations. As a result, movements in exchange rates can significantly affect the group's balance sheet. The group seeks to mitigate the effects of structural currency exposures by borrowing in the functional currencies of its main operating units and by using forward foreign exchange contracts to match the currency of some of its other borrowings to functional currencies. Generally speaking, between 60-70% of the balance sheet is hedged. In managing its currency exposures, the group aims to maintain a low cost of borrowings while substantially hedging against currency depreciation.

Liquidity management

Together with the management of interest rate and balance sheet translation risks, the group's objective is to achieve a balance between continuity and flexibility of funding by maintaining a range of maturities on its borrowings and deposits. As at 31 December 2002, the long-term finance available to the group included £126.3 million of Private Placement Loan Notes. As explained by the Chairman and Chief Executive, in his statement on pages 4 to 7, discussions are still continuing with the group's banks with regard to the renewal of its £127 million revolving credit facility which is due to expire on 31 July 2003.

Further details of the group's treasury management are given in note 27 to the accounts on pages 49 to 51.

David Eilbeck
Finance Director
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