

ANNUAL REPORT  
2003



CHARTER plc

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## FINANCIAL HIGHLIGHTS

year ended 31 December 2003

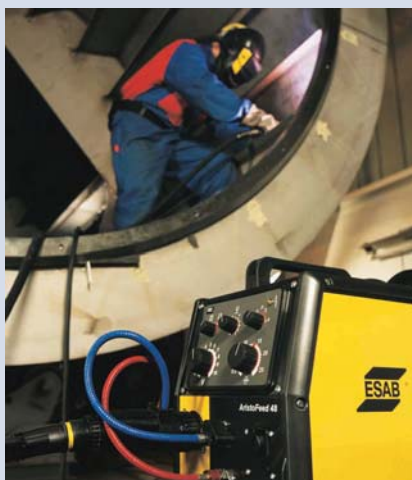
	Year ended 31 December	
	2003	2002
	£m	£m
<b>Turnover</b>		
Continuing operations	842.4	867.6
Discontinued operations	28.8	32.9
	<u>871.2</u>	<u>900.5</u>
<b>Operating profit</b>		
Continuing operations		
Adjusted operating profit <sup>(i)</sup>	33.5	29.8
Goodwill amortisation	(1.2)	(1.2)
Operating exceptional items	(10.8)	(25.3)
	<u>21.5</u>	<u>3.3</u>
Discontinued operations	6.6	6.2
<b>Operating profit</b>	<u>28.1</u>	<u>9.5</u>
Non-operating exceptional items	(1.0)	21.8
<b>Profit before interest</b>	<u>27.1</u>	<u>31.3</u>
Interest	(16.8)	(19.3)
Exceptional financing costs	(6.5)	-
<b>Profit before tax</b>	<u>3.8</u>	<u>12.0</u>
<b>Net debt</b>	<u>136.8</u>	<u>194.0</u>
<b>Earnings/(loss) per share (basic and fully diluted)</b>		
Headline	(7.9)p	5.1p
Adjusted <sup>(i)</sup>	12.5p	8.6p

<sup>(i)</sup> before exceptional items and amortisation of goodwill

- Encouraging trading performance in 2003, with better than expected second half and full year results
- Adjusted operating profit on continuing operations increased by 12% to £33.5 million
- Adjusted earnings per share increased 45% to 12.5p
- Net debt reduced by £57.2 million to £136.8 million



## GROUP OVERVIEW



MAG welding on a stainless fibreflow installation for the paper pulp industry.

### WELDING AND CUTTING PRODUCTS

Sales	£577.1m
Adjusted operating profit <sup>(i)</sup>	£35.3m
Operating margin	6.1%
Employees	6,575

Esab has a leading position in technologies such as cored wire welding, aluminium welding, friction stir welding, inverter-based welding equipment and advanced cutting systems.

#### Overview

Esab is the world leader in welding products and advanced cutting systems. Esab has a product and geographical spread that is unrivalled and occupies a leading position in the majority of the world's major markets.

#### Major markets

Esab serves customers across a broad range of industries including shipbuilding, transport and off-road, offshore, power, process and construction.

#### Key products

Welding consumables	65.0%
Welding standard equipment	19.3%
Automation systems	5.8%
Cutting systems	9.9%

#### Manufacturing

Europe:	Sweden; Germany; Netherlands; Italy; Czech Republic; Poland; Hungary
North America:	USA; Mexico
South America:	Argentina; Brazil
Rest of World:	South Korea; Russia; Indonesia; China; India



Centrifugal ventilation fans being installed at the Mont Blanc Tunnel.

### AIR AND GAS HANDLING

Sales	£256.9m
Adjusted operating profit <sup>(i)</sup>	£6.3m
Operating margin	2.5%
Employees	2,829

Ancillary equipment includes gas cleaning equipment, electronic controls and instrumentation and pumps.

#### Overview

Howden is the world's largest and longest established manufacturer of air and gas handling equipment. Howden has wide ranging experience of air and gas handling technology, a comprehensive product portfolio and operates globally.

#### Major markets

Howden serves a broad range of industries, including power generation, steel, cement, mining, construction, petrochemical, process and transportation.

#### Key products

Howden is a world leader in fan, heat exchanger and compressor technology.

#### Manufacturing

Europe:	UK; Germany; Netherlands; France; Spain
North America:	USA; Mexico
Rest of World:	China; South Africa

### SPECIALISED ENGINEERING - Continuing operations

Sales	£8.4m
Adjusted operating (loss) <sup>(i)</sup>	£(1.3)m
Operating margin	(15.5)%
Employees	121

#### Food equipment

Demaco is a US manufacturer of food processing equipment, having developed from its origins as a manufacturer of pasta making machinery.

#### Drilling

Hong Kong based HD Engineering is a manufacturer of geotechnical engineering crawler drills and other equipment including grout pumps and tools for pile boring.

<sup>(i)</sup> before exceptional items and amortisation of goodwill



**David Gawler**

Chairman and Chief Executive

## Summary of results

	Year ended 31 December	
	2003	2002
	£m	£m
<b>Turnover</b>		
Continuing operations	842.4	867.6
Discontinued operations	28.8	32.9
	<u>871.2</u>	<u>900.5</u>
<b>Operating profit</b>		
Continuing operations		
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Goodwill amortisation	(1.2)	(1.2)
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	<u>21.5</u>	<u>3.3</u>
Discontinued operations	6.6	6.2
<b>Operating profit</b>	<u>28.1</u>	<u>9.5</u>
<b>Non-operating exceptional items</b>		
	(1.0)	21.8
<b>Profit before interest</b>	<u>27.1</u>	<u>31.3</u>
<b>Interest</b>		
	(16.8)	(19.3)
Exceptional financing costs	(6.5)	-
<b>Profit before tax</b>	<u>3.8</u>	<u>12.0</u>
<b>Net debt</b>	<u>136.8</u>	<u>194.0</u>
<b>Earnings/(loss) per share (basic and fully diluted)</b>		
Headline	(7.9)p	5.1p
Adjusted <sup>(j)</sup>	12.5p	8.6p

<sup>(j)</sup> before exceptional items and amortisation of goodwill

## Overview of results

I am pleased to report improved results for 2003, resulting from the benefits of the restructuring initiatives implemented since 2001 and some recovery in key markets in which the group operates. The improvement was especially marked in the second half of the year in both of the principal businesses.

The adjusted operating profit in respect of continuing operations, before exceptional items and amortisation of goodwill, increased by 12 per cent. to £33.5 million in 2003 from £29.8 million in 2002. Adjusted earnings per share was 12.5 pence in 2003 compared with 8.6 pence in 2002, an increase of 45 per cent.

The results for the second half of 2003 for the welding and cutting business ("Esab") were encouraging with adjusted operating profits of £19.5 million, an increase of £3.7 million over the first half. For the year as a whole Esab generated adjusted operating profits of £35.3 million compared with £36.0 million for 2002.

The adjusted operating profits of the air and gas handling business ("Howden") for the second half of 2003 were £5.9 million, an increase of £5.5 million over the £0.4 million achieved in the first half. Howden's adjusted operating profit for the year as a whole was £6.3 million compared with £1.5 million for 2002.

The sale of the group's US Defence businesses was completed in December 2003 and consequently their turnover for 2003 of £28.8 million (2002: £32.9 million) and operating profits of £6.6 million (2002: £6.2 million) are shown as discontinued operations. In 2003 the continuing specialised engineering businesses comprised two small non-core businesses that generated turnover of £8.4 million (2002: £18.3 million) and recorded operating losses of £1.3 million (2002: losses of £0.8 million).

During the year, net exceptional charges totalled £18.3 million before taxation and minority interests (2002: £3.5 million), principally in connection with restructuring initiatives, profits and losses on the disposal of assets and non-recurring financing costs.

The charge for operating exceptional items in 2003 was £10.8 million compared with £25.3 million in the previous year. Most of the operating exceptional items related to restructuring costs. Non-operating exceptional costs were £1.0 million (2002: exceptional gain of £21.8 million), in respect of the profits or losses arising on the

disposal of certain properties and non-core businesses in 2003, including the associated goodwill. Exceptional financing costs of £6.5 million were incurred mainly in connection with the renewal in July 2003 of the syndicated bank facility.

Net debt reduced by £57.2 million in 2003 from £194.0 million at the end of 2002 to £136.8 million at 31 December 2003. This improvement was achieved through disposals of non-core assets, improved profitability, tighter management of working capital and constraints imposed on restructuring and capital expenditure.

In the light of the recent settlement of the dispute with certain of the US loan note holders, the improved trading results and reduced indebtedness, the Company reached a stage where it was appropriate to raise new equity. Accordingly, a Rights Issue was announced on 20 February 2004 which will generate net proceeds of approximately £44.6 million.

## Group results

In the year ended 31 December 2003 turnover from continuing businesses was £842.4 million (2002: £867.6 million). The adjusted operating profit of the continuing businesses, before exceptional items and amortisation of goodwill, for the year was £33.5 million (2002: £29.8 million). The sale of the group's US Defence businesses was completed in December 2003 and consequently the operating profits of £6.6 million (2002: £6.2 million) are shown as discontinued operations.

Amortisation of goodwill amounted to £1.2 million (2002: £1.2 million) and the ordinary interest charge for the year was £16.8 million (2002: £19.3 million).

After net exceptional costs of £18.3 million (2002: £3.5 million), the group's profit on ordinary activities before tax amounted to £3.8 million (2002: £12.0 million).

The group had an ordinary tax charge of £7.1 million (2002: £5.1 million) and an exceptional tax credit of £0.2 million (2002: £1.4 million). The loss for the financial year, after charging minority interests of £4.3 million (2002: £3.5 million), was £7.4 million (2002: profit for the financial year of £4.8 million).

Adjusted earnings per share amounted to 12.5 pence (2002: 8.6 pence) and the headline loss per share amounted to 7.9 pence (2002: earnings per share of 5.1 pence).

### Cash flow and borrowings

The cash inflow from operating activities for the year improved to £54.9 million (2002: £32.2 million). Capital expenditure declined to £7.1 million compared with £16.6 million in 2002. The depreciation and amortisation charge for 2003 was £19.9 million (2002: £21.8 million). Net proceeds from the sale of fixed assets amounted to £16.6 million (2002: £25.8 million) and from the disposal of subsidiary undertakings was £26.5 million (2002: £1.9 million).

The group's net debt, which was £194.0 million at 31 December 2002, had reduced to £136.8 million at 31 December 2003, reflecting a net cash inflow of £62.0 million offset in part by exchange rate adjustments of £4.8 million.

Net debt in 2003 averaged some £27.1 million less than in the previous year and the £16.8 million net interest charge (excluding the exceptional financing costs) was £2.5 million lower than that incurred in 2002.

### Settlement of US loan note dispute

On 22 April 2003 certain holders of the loan notes due in 2007 and 2009 initiated legal proceedings in New York against the Company and its subsidiary, Charter Central Finance Limited, seeking a declaratory judgement that a default had arisen under their loan notes. On 3 February 2004 the Company announced that this dispute had been settled. The Company and its legal advisers consistently maintained that no such breach had occurred and, as part of this settlement agreement, no admission of default was made. However, the directors considered that removing the uncertainties created by this legal dispute was in shareholders' best interests.

The terms of the settlement agreement provided that the litigating loan note holders discontinue the proceedings and release the Company from and waive any and all claims arising out of the lawsuit. Under the settlement, the Company agreed, effective from 3 February 2004, to increase the annual coupon rate payable on all of the 2007 and 2009 loan notes by 0.5 per cent. and to make a contribution, up to a maximum amount of £600,000, towards the note holders' litigation costs. The terms of the loan note agreement remain unchanged in all other respects.

The 2007 loan notes of US\$85 million and the 2009 loan notes of US\$35 million are scheduled for repayment on 21 October 2007 and 21 October 2009 respectively and, prior to the settlement, the respective

coupon rates payable were 6.88 per cent. and 6.96 per cent.

### Financing and disposal programme

During the year ended 31 December 2003, the group met its day-to-day working capital requirements principally through cash flows from operations and a syndicated revolving credit facility. As at 31 December 2003, £75.6 million of the syndicated revolving credit facility was drawn. In addition the group has in issue US loan notes totalling £113.6 million (US\$203.3 million). As at 31 December 2003, net debt stood at £136.8 million (2002: £194.0 million).

In July 2003, the group renewed and extended the term to 31 March 2005 of its syndicated revolving credit facility in an initial amount of £120 million. As announced at the time, the facility under its revised terms was required to be reduced by £20 million on 30 November 2003 and this reduction was made as scheduled. The terms of the facility also require a further reduction of £26 million to be made by 10 March 2004, which coincides with the date on which the group is due to repay certain US loan notes totalling US\$72.3 million (£40.4 million). Therefore, by 10 March 2004, the group will need to have generated sufficient funds to cover both of these commitments. At the time of the renewal of the facility, the group confirmed that these commitments would be met by means of disposals of non-core assets, cash flows from the group's operations and alternative sources of finance.

Between July and the end of December 2003 the group generated net proceeds of some £40 million through the sale of the US Defence businesses and of three properties. On 4 February 2004, the group exchanged contracts for the sale of its 50 per cent. interest in GCE Gas Control Equipment AB ("GCE") for a cash consideration of approximately £14 million. This sale was completed based on estimated completion accounts, with the initial cash proceeds being received on 26 February 2004. Cash flows from the group's operating activities in the year ended 31 December 2003 amounted to £54.9 million.

As announced on 3 February 2004, the dispute with certain of the holders of the US loan notes has been settled.

In order to generate sufficient additional funds to cover the group's commitments and to strengthen the group's balance sheet, which will enable it to resume its restructuring programme, make targeted

capital expenditures, and take other initiatives, the Company concluded that it was appropriate to raise equity by means of a Rights Issue which was announced on 20 February 2004. Details of the Rights Issue were set out in a circular sent to shareholders and following approval at the Extraordinary General Meeting held on 8 March 2004, dealings commenced in the nil paid rights on the 9 March 2004. The net proceeds of the proposed Rights Issue of approximately £44.6 million will be applied initially to reduce borrowings. As a consequence of the Rights Issue, the term of the syndicated revolving credit facility has been extended for a period of six months to 30 September 2005.

### Rights Issue

Under the Rights Issue, up to 56,489,400 new Ordinary Shares at 85 pence per new Ordinary Share will be issued which will raise approximately £44.6 million after expenses. An Extraordinary General Meeting of the Company was held on 8 March 2004, at which an ordinary resolution was approved which increased the Company's authorised share capital and authorised the directors to allot such shares under the Rights Issue.

Qualifying shareholders have been offered new Ordinary Shares under the Rights Issue at a price of 85 pence per new Ordinary Share on the basis of 3 new Ordinary Shares for every 5 existing Ordinary Shares held at close of business on 4 March 2004. The issue price represents a discount of 44.3 per cent. to the closing middle market price of 152.5 pence per Ordinary Share on 19 February 2004, the last business day prior to the announcement of the Rights Issue.

In recent years, the group's negative or minimal levels of shareholders' funds combined with the group's high level of borrowings have, together with other factors, resulted in the banking syndicate progressively imposing increasingly onerous pricing, structural constraints and ongoing requirements for loan facility reductions. Whilst the Company has generated funds through the disposal of non-core assets and the other measures, the majority of these funds have necessarily been applied in repaying borrowings. Funds available for capital expenditure and other initiatives have been severely limited, despite the opportunities that they offer for the generation of shareholder value. The Rights Issue will put the Company on a sounder financial footing which will enable it to pursue these opportunities, and also allow

its core businesses to operate within a less uncertain funding environment.

The net proceeds of the Rights Issue initially will be used to repay borrowings. This, coupled with the increase in shareholders' funds, will provide the group with a sounder financial base which should enable the Company to rearrange its ongoing banking facilities on a more conventional basis and on less onerous terms. Subsequently, it is anticipated that a proportion of the borrowings repaid from the proceeds of the Rights Issue will be readvanced and used by the group to resume its planned restructuring programme, undertake targeted capital expenditures and, should the opportunity arise, increase its interests in associates and partly owned subsidiaries.

In 2004 the Board intends to spend an amount of up to half of the net proceeds from the Rights Issue on specific restructuring initiatives focused on achieving rapid paybacks. These initiatives will include expenditure of approximately £14.0 million on a cost elimination project involving a number of the group's key operating businesses which also will improve operational and manufacturing efficiencies. This project is targeted to generate cost savings equivalent to at least 75 per cent. of such expenditure for the year ending 31 December 2005. The other significant restructuring expenditure is in connection with the previously announced project concerning the phased closures of two flux cored wire plants in Western Europe and the transfer and the reinstallation of such plant and equipment in existing Esab plants located in Eastern Europe. The latter project is on schedule for completion by the end of 2004.

At 31 December 2003, the group's shareholders' funds amounted to £4.4 million (31 December 2002: £5.5 million deficit) against net borrowings of £136.8 million (31 December 2002: £194.0 million). The Rights Issue will strengthen the group's balance sheet and will result in pro forma shareholders' funds of £49.0 million as at 31 December 2003, against pro forma net borrowings of £92.2 million based on expected net proceeds of £44.6 million.

### Operating review

The group's operating profit was £28.1 million (2002: £9.5 million) and the group's adjusted operating profit for the year was £40.1 million (2002: £36.0 million).

### Welding and cutting products:

Esab's turnover in 2003 amounted to £577.1 million (2002: £581.9 million) and adjusted operating profit was £35.3 million (2002: £36.0 million). Performance in the second half of 2003 showed a marked improvement over the corresponding period last year and the first half of 2003.

Demand in North America and Europe was weak in the first half of the year, as industrial production fell and customers continued to postpone capital goods projects. However, demand strengthened in North America towards the end of the year and there were also encouraging signs in Europe.

Customers in these two important markets are beginning to place orders for substantial steel scarfing machines, heavy duty cutting equipment and other capital goods items. Esab continues to experience growth in emerging markets and in South America. Steel prices rose significantly towards the end of the year with heavy demand driven by the needs of Chinese industry.

The project to transfer flux cored wire production from Western Europe to Eastern Europe is progressing well and is on schedule to be completed by the end of 2004.

During the year, headcount was reduced by some 340, partly offset by the acquisition of the remaining 50 per cent. of a cutting joint venture in Shanghai, which added some 100 workers. The benefits of the restructuring programmes are beginning to be reflected in the results and Esab maintained gross margins despite competitive pressures.

Esab made significant product introductions in each major product category during the year. New, modular based standard equipment was introduced that is now widely perceived as a class leader. New consumables product introductions included copper free wire and upgraded stainless steel wire incorporating improvements in surface technologies. New consumables for mechanised plasma cutting applications have also been launched, as well as a new series of cutting gantries. In September, Esab announced the introduction of its new SuperPulse™ technology. This enables precision welding of ultra thin plate without distortion and has particular application in the automotive industry.

Welding markets in Europe, which account for just over half of Esab's turnover, were mixed in 2003. The businesses in Eastern and Southern Europe continued to experience good growth, whilst the traditional markets in Western and Northern Europe were more subdued.

The welding and cutting businesses in North America, which generate some 30 per cent. of Esab's sales, suffered from weaker demand in the first half of the year, as distributors reduced stocks. However, increased industrial demand, several large capital goods orders and a renewed focus on customers produced significantly better results towards the end of the year. Alcotec, Esab's aluminium welding business, continued to perform well and maintained its market leadership position. Whilst Esab's overall North American turnover declined year on year, operating profit significantly improved.

Esab operates through partly-owned subsidiaries in South America, principally in Brazil and Argentina, where sales and profits for the year were higher in both local currency and US dollar terms than in the previous year.

Esab's businesses in Asia, the Middle East and Russia continued to grow in significance and more resources are being targeted on these markets. The Russian market continued to expand, whilst demand in the Middle East proved to be resilient in spite of the Iraq war. Business confidence in Asia suffered from the impact of the SARS crisis and the war during the first half of the year, but the beginning of a recovery in demand and the continuing growth of the Chinese economy led to a stronger performance in the second half. The Korean domestic economy was weaker for much of the year. As a consequence, the operating profits of Esab's South Korean associate, ESAB SeAH, were lower than they were in the previous year. For the Asian region as a whole, turnover, operating profits and operating margins improved.

### Air and gas handling:

Howden's 2003 turnover was £256.9 million (2002: £267.4 million) and adjusted operating profits improved substantially to £6.3 million (2002: £1.5 million).

The profit improvement was due to a significant reduction in the losses in the North American operations and from growth and enhanced profitability in Howden's operations in China and South Africa. During the year operational cash flow benefited from tighter working capital management.

In general, markets were subdued except in China and South Africa. Towards the end of the year, there were signs of recovery in Howden's US markets and in the petrochemical market worldwide.

## CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Continued

Howden finished the year with an overall order book of £119 million, an increase of £11 million over last year.

The restructuring initiatives and other cost control measures have resulted in a headcount reduction in Howden of just over 450 employees in 2003, offset in part by recruitment of some 70 employees, mainly in China and Mexico.

In the Power Division, profits were marginally lower in part due to reduced activity in North America. Projects to replace obsolete generating capacity in Europe are beginning to move ahead and latterly there has been some upturn in the US markets. There has been dramatic growth in China in 2003, where Howden Hua's sales and orders increased by around 30 per cent. and 95 per cent. respectively. In addition, Howden's European Power operating companies increased sales into this market. Howden Hua is planning to increase its capacity in 2004 in order to be able to meet market opportunities. Howden's Australian company has also seen significant sales growth in new project business.

For the Industrial Division, overall sales were 20 per cent. lower than in 2002 primarily due to the completion of the Mont Blanc tunnel project and a weakening in the German domestic market in 2003, but overall profitability was maintained. However, the general economic and business outlook appears to be improving, with some recovery in most markets in which this division operates. During the year the French compressor operation was downsized and integrated into the Industrial Division, primarily to exploit synergies in the recovering petrochemical market segment.

Given the decline in profitability in North America in 2002, a major strategic and operational review was carried out of all Howden's operations in North America. As a result, the manufacturing plant in Springfield, Illinois, together with two smaller facilities in Canada were closed. Following these closures together with the closure of the factory at Camden, South Carolina, announced last year, Howden's only remaining manufacturing facility in the United States is at New Philadelphia, Ohio. Howden also continues to have a manufacturing facility in Mexico.

Compared to 2002, sales in North America were lower due to the exit from the commercial heating ventilating and air-conditioning (HVAC) market, completion of the Boston Artery tunnel project and market contractions. The North American business, excluding Power, substantially improved its performance in 2003 recording a small loss. Following the closures in 2003 and the subsequent reorganisation, the North American business is positioned to improve in 2004.

There was a strong performance from Howden's South African subsidiaries, which benefited from buoyant markets and this group of subsidiaries reported increased sales and profitability in 2003. During the year a number of loss making entities were closed and Howden's pump manufacturing subsidiary was merged with a major South African competitor.

### Exceptional items

In total, the exceptional items resulted in an overall charge of £18.3 million (2002: £3.5 million) before tax and minority interests and comprised:

	2003 £m	2002 £m
Operating exceptional items: Continuing operations		
Restructuring - Welding & cutting	(5.9)	(12.2)
- Air & gas handling	(4.1)	(7.7)
- Specialised engineering	(0.4)	-
	(10.4)	(19.9)
Accounting correction	-	(3.9)
Litigation and warranty costs	(0.4)	(1.5)
<b>Operating exceptional items</b>	<b>(10.8)</b>	<b>(25.3)</b>
Non-operating exceptional items: Continuing operations		
Loss on sale or termination of operations	(0.3)	(2.1)
Associated goodwill thereon <sup>(i)</sup>	-	(3.8)
	(0.3)	(5.9)
Net profit on sale of fixed assets	4.7	12.5
Goodwill provision on discontinuing operation <sup>(i)</sup>	(4.0)	-
	0.4	6.6
Non-operating exceptional items: Discontinued operations		
Profit on sale of US Defence	18.8	-
Associated goodwill thereon <sup>(i)</sup>	(20.2)	-
	(1.4)	-
Release of Wirth provision	-	15.2
	(1.4)	15.2
<b>Non-operating exceptional items</b>	<b>(1.0)</b>	<b>21.8</b>
<b>Other exceptional items: Financing costs</b>	<b>(6.5)</b>	<b>-</b>
<b>Net exceptional items (before tax &amp; minority interests)</b>	<b>(18.3)</b>	<b>(3.5)</b>

<sup>(i)</sup> The charge to the profit and loss account in respect of goodwill associated with the sale or termination of operations has no overall effect on shareholders' funds, as such goodwill was written off against reserves in prior years and has been reinstated by way of a credit to reserves in the current year.

## Operating exceptional items

### Welding and cutting products:

The restructuring of the Esab business and the rationalisation of manufacturing capacity has continued during 2003. During this period exceptional restructuring costs totalled £5.9 million (2002: £12.2 million).

Actions taken during the period included:

- The continued restructuring and reorganisation of the European business, including the consolidation of warehouse facilities.
- The reorganisation and streamlining of the North American businesses.
- The ongoing transfer of flux-cored wire production from Waltham Cross in the United Kingdom and Utrecht in Holland to Katowice in Poland and Vamberk in the Czech Republic. This project is on schedule for completion by the end of 2004.
- The transfer of certain equipment production from Sweden to Poland has been completed.

### Air and gas handling:

In 2003 the exceptional costs of restructuring Howden totalled £4.1 million (2002: £7.7 million). During the year the following restructuring initiatives were completed:

- The closure of Howden's manufacturing plant located in Camden, South Carolina, completed on schedule in the first quarter of 2003.
- The closure of the industrial fan manufacturing plant in Springfield, Illinois, together with two smaller facilities in Canada.
- The downsizing of Burton Corblin, the compressors business in France.
- The closure of Calidair, a non-core dampers business in Gloucestershire in the United Kingdom.

### Specialised engineering:

Restructuring costs of £0.4 million (2002: nil) result from a provision for the closure, in the first quarter of 2004, of a manufacturing plant of Howden Food Equipment Inc., located in New York.

### Non-operating exceptional items

A non-operating exceptional loss of £0.3 million arose on the disposal of the loss making electrical motors business, Hertz Technologies, in South Africa.

The exceptional profit on sale of fixed assets, amounting to £4.7 million (2002: £12.5 million), arose from the disposals of

properties. The three major property disposals completed during the year were:

- The sale of the Company's leasehold head office in Central London, which generated net proceeds of £3.8 million and a profit on disposal of £0.9 million. The head office relocated to smaller premises in the same area.
- The sale of Esab's factory in Utrecht, Holland, which generated net proceeds of £6.5 million and a profit on disposal of £1.6 million.
- The sale of part of a site at Gothenburg, Sweden, which generated net proceeds of £2.5 million and a profit on sale of £1.9 million.

The sale of the group's 50 per cent. interest in GCE was completed based on estimated completion accounts, with cash proceeds of £14 million being received on 26 February 2004. Given that the group's share of the net tangible assets of GCE was £8 million and the goodwill on acquisition previously written off to reserves was £10 million, a provision has been made of £4.0 million in respect of the diminution in value of goodwill on acquisition. However, this charge to the profit and loss account has no overall effect on shareholders' funds. The consideration is subject to adjustment based on the audited net asset value of GCE as at 31 December 2003.

The sale of the group's US Defence businesses was completed in December 2003. The initial cash proceeds amounted to US\$45 million (£26 million) and the profit on sale amounted to £18.8 million. In addition, there was an exceptional charge of £20.2 million in respect of the write back of acquisition goodwill in respect of these businesses. This latter element of the charge to the profit and loss account has no overall effect on shareholders' funds.

### Exceptional financing costs

The exceptional financing costs amounted to £6.5 million of which some £4 million were incurred in connection with the renewal, in July 2003, of the syndicated bank facility. The balance is in respect of the legal costs associated with the settlement of the US loan note dispute.

### Retirement benefits

At 31 December 2003, the group's balance sheet reflected net provisions of £31.4 million (2002: £36.1 million) in respect of unfunded pension liabilities and £26.7 million (2002: £30.0 million) in respect of estimated future overseas medical costs.

If the provision, calculated in accordance with FRS17, in respect of the net pension

liability of £96.8 million (2002: £102.7 million) had been incorporated in the consolidated balance sheet at 31 December 2003, net assets would have been reduced by £65.4 million (2002: £66.6 million).

### Dividends

In view of the policy adopted in March 2001 to set dividends in the light of earnings and cash flows, the Board has decided not to declare a dividend for the year ended 31 December 2003.

### Prospects

The restructuring programmes implemented since 2001 in Esab and Howden have reduced the group's ongoing cost base and improved the competitive position of their operating businesses. This improvement, together with some recovery in key markets in which the group operates, has begun to show through as evidenced by the stronger operating margins achieved in the second half of 2003. The directors believe the prospects for the group's core businesses are encouraging and view 2004 with confidence.

The group significantly reduced its debt during 2003 through asset disposals and cash flows from operations and, subsequent to the year-end, resolved the dispute with certain of the US loan note holders. As a result, the Company is now in a position to be able to raise new equity to strengthen its balance sheet through the Rights Issue announced on 20 February 2004. This new funding should enable the Company to rearrange its ongoing bank facilities on a more conventional basis and on less onerous terms. It is anticipated that a proportion of the proceeds of the Rights Issue will be used by the group to resume the restructuring programme and undertake targeted capital expenditure. These measures are expected to reduce further the cost base and enhance the operating margins and competitive position of the operating businesses.

**David Gawler**  
Chairman and Chief Executive  
9 March 2004



WELDING AND CUTTING PRODUCTS



Welding of stainless steel bus frames at Van Hool bus and trailer plant in Belgium



One of two ESAB TXB fully automatic cutting machines for steel panels up to 30 mm thick ordered by Spain's largest shipyard in September

**Market overview**

During the year Esab generated solid operating profits, improved cash flow and maintained gross margins despite experiencing challenging trading conditions in certain of its major markets during the first half of 2003. Performance in the second half showed a marked improvement over the corresponding period last year and over the first half of 2003.

Demand in North America and Europe was weak during the first half of the year, as industrial production fell and customers postponed capital goods orders. However, demand for welding equipment, cutting equipment and welding supplies did begin to strengthen in North America towards the

end of the year and there were also encouraging signs in Europe. Customers in these two important markets are beginning to place orders for substantial steel scarfing machines, heavy-duty cutting equipment and other capital goods items

Steel prices began to increase significantly towards the end of the year with heavy demand driven by the needs of Chinese industry. This trend is continuing and clearly has implications for the welding industry, and its customer base. Notwithstanding this, demand for Esab products has continued to strengthen in North America, South America and parts of Asia.

The transfer of Esab's manufacturing centres closer to customers in developing markets is on schedule to be completed by the end of the year. During the year, headcount was reduced by 340, partly offset by the acquisition of the remaining 50 per cent of a cutting joint venture in Shanghai, which added some 100 workers.

In 2003, Esab saw the largest number of new product introductions for some years. New, modular based standard equipment was introduced that is now widely perceived as a class leader. New consumables product introductions included copper free wire and upgraded stainless steel wire incorporating improvements in surface technologies. New consumables for mechanised plasma applications have also been launched.

Further product introductions included new automated welding and cutting solutions, laser-hybrid technologies and SuperPulse™ technology. This enables the precision welding of ultra thin plate without distortion and has particular application to the automotive industry. Esab continues to work closely with its customers on the development and application of technologies.

**Results overview**

Despite the challenging conditions, and a particularly poor first half, sales for the full year were almost in line with prior year levels at £577.1 million (2002: £581.9 million). Adjusted operating profit was £35.3 million (2002: £36.0 million). Profit margins were maintained at above 6.1 per cent. The performance in the second half of 2003 showed a marked improvement over the corresponding period last year and the first half of 2003.

In Europe, Esab's largest market that represents just over half of its turnover, sales were ahead of, and operating profit was maintained at, last year's levels. The UK and Southern regions continued to hold up well, although demand in the Nordic and Western European regions was more subdued. Good growth was achieved in Poland and the Czech Republic, as the economies began to recover and the transfer of production to these countries continued.

Esab's businesses in Asia, the Middle East and Russia continued to grow in significance and more resources are being targeted on these markets. Business confidence in Asia suffered from the impact of the SARS crisis and the war in Iraq during the first half of the year, but the beginning of a recovery in demand and the continuing growth of the Chinese economy led to a stronger performance in the second half. The Russian and Chinese markets continued to expand, whilst demand in the Middle East proved to be resilient in spite of the Iraq war. The rest of Asia saw some recovery, although operating profits from Esab's South Korean associate, ESAB SeAH, were lower than the previous year as a consequence of the weaker South Korean domestic economy. For the Asian region as a whole, turnover, operating profits and operating margins improved.

The welding and cutting businesses in North America, which generate some 30 per cent. of Esab's sales, suffered from weaker demand in the first half of the year. However, increased industrial production, several large capital goods orders and a renewed focus on customers produced significantly better results towards the end of the year. Alcotec, Esab's specialised aluminium consumables business, continued to perform well and maintained its market leadership position. Esab's overall North American turnover declined year on year, although operating profit significantly improved.

Esab operates through partly owned subsidiaries in South America, principally in Brazil and Argentina, where sales and profits for the year were higher in both local currency and US dollar terms than in the previous year.

## Restructuring

The restructuring of the Esab business has continued during 2003. Exceptional charges for restructuring the business during the year amounted to £5.9 million (2002: £12.2 million). Actions taken during the period included:

- The continued restructuring and reorganisation of the European business. Progress has been made in consolidating warehouse facilities. Further restructuring is now in process, which should lead to improved operational efficiency, more efficient manufacturing and the reallocation of resources to growing markets.
- The North American business was restructured during the year. The business has been streamlined and reorganised into smaller units with tighter market focus.

- The ongoing transfer of flux-cored wire production from Waltham Cross in the United Kingdom and Utrecht in Holland to Katowice in Poland and Vamberk in the Czech Republic. This project is on schedule for completion by the end of 2004.
- The transfer of certain standard equipment lines from Laxå in Sweden to Opole in Poland was completed during the year.

## Outlook

Esab should emerge at the end of this year from a period of radical restructuring over several years. The benefits of these initiatives and a renewed focus on customers, the Esab brand name and Esab's positioning as a truly global supplier, should provide a strong foundation for the future and its management view the prospects for the business with confidence.



ESAB laser-hybrid welding head for robot applications. This technology is finding growing potential within the automotive sector.



## AIR AND GAS HANDLING



Axial flow fan hubs in Howden Power's Belfast machine shop.

## Market overview

In the Power Division, Howden's largest business, both sales and order intake increased largely due to growth in the businesses supplying the Chinese and Australian markets which more than offset reduced activity in North America and the effects of the weakening US dollar. The North American power market remained depressed for much of the year but there were some signs of improving confidence and activity towards the year-end. In Europe, where markets have been relatively flat for several years, there are indications that projects to replace obsolete generating capacity are beginning to move ahead, particularly in countries such as Italy, Germany and Spain.

In China, the Power Division continued to experience dramatic growth and Howden Hua, where the group has a 70 per cent. interest, almost doubled its order intake year on year and increased sales by some 30 per cent. Howden's European-based businesses also benefited from demand from the Chinese market.

The Industrial Division experienced flat booking rates, however there were signs towards the end of the year of increased bidding activity and a recovery in the petrochemical market. The petrochemical segment is Howden's second most important market.

Following the closure of the Camden manufacturing facility and the exit from the commercial heating ventilating and air-conditioning (HVAC) market, Howden's North American activities are now focused primarily on industrial sectors such as steel, petrochemical, mining and tunnels.

Howden's South African subsidiary benefited from strong local markets and increased sales and profitability in 2003.

Howden finished the year with an overall order book of £119 million, an increase of £11 million over last year.

## Results overview

Howden's 2003 turnover was £256.9 million (2002: £267.4 million) and adjusted operating profits improved substantially to £6.3 million (2002: £1.5 million).

The profit improvement was due to a significant reduction in the losses in the North American operations, and from growth and enhanced profitability in Howden's operations in China and South Africa. During the year operational cash flow benefited from tighter working capital management.

In general, markets were subdued except in China, where Howden is well-positioned with its Howden Hua joint venture, and in South Africa. Towards the end of the year, there were signs of recovery in Howden's US markets and in the petrochemical market worldwide.

The restructuring initiatives and other cost control measures have resulted in a headcount reduction in Howden of just over 450 employees in 2003, offset in part by recruitment of some 70 employees, mainly in China and Mexico.

In the Power Division, profits were marginally lower in part due to reduced activity in North America. Projects to replace obsolete generating capacity in Europe are beginning to move ahead and latterly there has been some upturn in the US markets. There has been dramatic growth in China in 2003, where Howden Hua's sales and orders increased by around 30 per cent. and 95 per cent. respectively. In addition, Howden's European Power operating companies increased sales into this market. Howden Hua is planning to increase its capacity in 2004 in order to be able to meet the market opportunities. Howden's Australian company has also seen significant sales growth in new project business.

## OPERATING REVIEW

Continued

### AIR AND GAS HANDLING - continued

For the Industrial Division, overall sales were 20 per cent. lower than in 2002 primarily due to the completion of the Mont Blanc tunnel project and a weakening in the German domestic market in 2003, but overall profitability was maintained. However the general economic and business outlook appears to be improving, with some recovery in most markets in which this division operates. During the year the French compressor operation was downsized and integrated into the Industrial Division, primarily to exploit synergies in the recovering petrochemical market segment.



Induced draught fan for Tuoketuo power station on test in Howden Hua's factory in China.



Howden Buffalo centrifugal ventilation fans supplied to the Boston Central Artery Tunnel.

Given the decline in profitability in North America, a major strategic and operational review was carried out of all Howden's operations in North America. As a result the manufacturing plant in Springfield, Illinois, together with two smaller facilities in Canada were closed. Following these closures together with the closure of the factory at Camden, South Carolina, announced last year, Howden's only remaining facility in the United States is at New Philadelphia, Ohio. Howden also continues to have a manufacturing facility in Mexico.

Compared to 2002, sales in North America were lower due to the exit from the commercial HVAC market, completion of the Boston Artery tunnel project and market contractions. The North American business, excluding Power, substantially improved its performance in 2003 recording a small loss. Following the closures in 2003 and the subsequent reorganisation, the North American business is positioned to improve in 2004. Howden has now, except for South Africa, exited the low-margin commercial HVAC market segment worldwide.

There was a strong performance from Howden's South African subsidiaries, which benefited from buoyant local markets and this group of subsidiaries reported increased sales and profitability in 2003. However in the second half of the year the strong rand slowed expenditure and orders particularly from those customers who are resource-based and export market dependent. During the year the loss-making electric motor company, Hertz Technologies, was sold for a nominal consideration, a number of other loss making entities were closed and Howden's pump manufacturing subsidiary was merged with a major South African competitor.

### Restructuring

In 2003 the exceptional costs of restructuring Howden totalled £4.1 million (2002: £7.7million). During the year the following restructuring initiatives were completed:

- The closure of Howden's manufacturing plant located in Camden, South Carolina, completed on schedule in the first quarter of 2003.
- The closure of the industrial fan manufacturing plant in Springfield, Illinois, together with two smaller facilities in Canada.
- The downsizing of Burton Corblin, the compressors business in France.
- The closure of Calidair a non-core dampers business, in Gloucestershire in the United Kingdom.

### Outlook

The recovery in profits in Howden in 2003, together with the lower cost base arising from the restructuring programme, should place the business in a good position to benefit from growth in the market sectors in which it operates, particularly in China.

### SPECIALISED ENGINEERING

#### Market overview

The sale of the group's US Defence businesses was completed in December 2003 and consequently their turnover for 2003 of £28.8 million (2002: £32.9 million) and adjusted operating profits of £6.6 million (2002: £6.2 million) are shown as discontinued operations.

In 2003 the continuing operations comprised two small businesses, HD Engineering Limited, the Hong Kong drilling equipment business and Howden Food Equipment Inc., a US manufacturer of industrial food processing equipment based in Florida, trading as Demaco.

HD Engineering continues to face weak local market conditions with many governmental and private sector capital projects being delayed or cancelled. In the light of this HD Engineering has reduced its cost base in line with demand and managed to generate a small operating profit in the year.

In 2003 Demaco recorded a decline in turnover and made an operating loss. The company's long-standing contingent pension liability was resolved at the year-end and as a result, the closure of the company's costly New York operation was

announced. The site will be vacated by the end of March 2004 and this, plus ongoing diversification into complementary product lines, means that Demaco is targeted to break even in 2004.

#### Results overview

The continuing businesses had turnover in 2003 of £8.4 million (2002: £18.3 million), and recorded adjusted operating losses of £1.3 million (2002: £0.8 million). The comparative figures include turnover of £2.8 million and an adjusted operating loss of £0.6 million in respect of Bauer, the aviation test stand business sold in 2002.

## FINANCIAL REVIEW



**David Eilbeck**  
Finance Director

### Results

Adjusted operating profits, before amortisation of goodwill and operating exceptional items, increased by 11.4 per cent. from £36.0 million to £40.1 million, despite a marginal 3.3 per cent. decrease in total group sales to £871.2 million from £900.5 million. Goodwill amortisation was £1.2 million (2002: £1.2 million) and operating exceptional losses totalled £10.8 million (2002: £25.3 million). Operating profits after goodwill amortisation and operating exceptional items increased from £9.5 million to £28.1 million.

A net non-operating exceptional loss arose in the year of £1.0 million (2002: £21.8 million net gain). The background and nature of all the exceptional items is provided in the Chairman and Chief Executive's statement on pages 3 to 7.

Net adjusted interest payable of £16.8 million (2002: £19.3 million) was covered 2.4 times (2002: 1.9 times) by profit before interest, goodwill amortisation and exceptional items. Exceptional financing costs of £6.5 million (2002: nil) arose in respect of the renewal of the group's revolving credit facility and legal costs associated with the US loan note dispute.

The profit before tax was £3.8 million (2002: £12.0 million). The effective adjusted tax rate on profit before the amortisation of goodwill and exceptional items was 30.5 per cent. (2002: 30.5 per cent.). This rate is not expected to increase in 2004. An exceptional tax credit was taken in 2003 of £0.2 million (2002: £1.4 million).

The net minority interest was £4.3 million (2002: £3.5 million).

Adjusted earnings per share before goodwill amortisation and exceptional items increased from 8.6 pence to 12.5 pence. Headline earnings per share were a loss of 7.9 pence (2002: 5.1 pence profit).

### FRS17 Retirement benefits

The 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 £65.4 million (2002: £66.6 million).

### Dividends

As explained by the Chairman and Chief Executive, in his statement on pages 3 to 7, the board has not declared a dividend for the year (2002: nil).

### Shareholders' funds

Shareholders' funds increased by £9.9 million from a negative £5.5 million to a positive £4.4 million. The retained loss for the year was £7.4 million (2002: £4.8 million profit). However this was after accounting for £24.2 million (2002: £3.8 million) of goodwill associated with the sale and termination of operations that had previously been written off to reserves.

The balance on shareholders' funds of £4.4 million in the consolidated balance sheet is after a cumulative goodwill write-off of £606.4 million that remains written off. The parent company has substantial net assets with shareholders' funds of £204.3 million.

### Cash flow

Operating cash flow was £54.9 million (2002: £32.2 million). Net debt, which has reduced by £57.2 million since 31 December 2002, can be summarised as follows:

	2003 £m	2002 £m
Cash and deposits	59.9	32.2
Short term debt	(71.2)	(94.6)
Long term debt	<u>(125.5)</u>	<u>(131.6)</u>
	<u>(136.8)</u>	<u>(194.0)</u>

### 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 managed directly by operating subsidiaries within strict guidelines and controls established by their divisional management. It is the group's policy not to hedge profit and loss account translation exposure.

During the year this process has been constrained by the onerous terms and conditions imposed by the group's principal providers of finance, further exasperated by the US loan note dispute. Further details of these constraints are provided by the Chairman and Chief Executive in his statement on pages 3 to 7.

### 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 previously 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 2003, no such interest rate derivative financial instruments were in place.

As at 31 December 2003, the group had net debt of £136.8 million of which £116.9 million (85.5 per cent.) was fixed (2002: 68.6 per cent.). The remaining £19.9 million (14.5 per cent.) remained floating (2002: 31.4 per cent.). The principal reason for the increase in the proportion of fixed rate debt is as a result of the cash generated in the year being applied to reduce the balance of the group's floating rate debt. The split of fixed and floating rate debt as at 31 December 2003 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 through borrowing and transacting forward foreign exchange contracts in the major functional currencies of its main operating units. The implementation of this policy has had to have been conducted within the constraints imposed upon the group through the restricted facilities available. Looking forward the group's policy is to hedge only its US dollar and euro balance sheet currency exposures.

### 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. This was particularly affected during the year by the constraints referred to under Treasury management above. As at 31 December 2003, the long-term finance available to the group included £71.6 million of US loan notes. The group also had a £99.7 million revolving credit facility from its banks that is due to expire on 30 September 2005. This will reduce to £74 million on 10 March 2004.

Further details of the group's treasury management are given in note 27 to the accounts on pages 45 to 47.

**David Eilbeck**  
Finance Director  
9 March 2004

## FINANCIAL RECORD

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
<b>● CONSOLIDATED PROFIT AND LOSS ACCOUNT</b>					
Turnover - Continuing operations	842.4	867.6	931.9	909.6	875.4
- Discontinued operations	28.8	32.9	29.9	24.4	211.0
	<u>871.2</u>	<u>900.5</u>	<u>961.8</u>	<u>934.0</u>	<u>1,086.4</u>
Operating profit - Continuing operations	21.5	3.3	(1.4)	44.8	60.5
- Discontinued operations	6.6	6.2	2.8	(0.8)	22.9
<b>Operating profit</b>	<u>28.1</u>	<u>9.5</u>	<u>1.4</u>	<u>44.0</u>	<u>83.4</u>
Non-operating exceptional items - Continuing operations	0.4	6.6	(4.1)	10.7	-
- Discontinued operations	(1.4)	15.2	(3.7)	(4.1)	40.0
	<u>27.1</u>	<u>31.3</u>	<u>(6.4)</u>	<u>50.6</u>	<u>123.4</u>
<b>Net interest<sup>(i)</sup></b>	<u>(23.3)</u>	<u>(19.3)</u>	<u>(13.9)</u>	<u>(16.4)</u>	<u>(25.3)</u>
Pre-taxation profit/(loss) on ordinary activities	3.8	12.0	(20.3)	34.2	98.1
Taxation on ordinary activities	(6.9)	(3.7)	(11.1)	(7.9)	(13.9)
<b>Post-taxation profit/(loss) on ordinary activities</b>	<u>(3.1)</u>	<u>8.3</u>	<u>(31.4)</u>	<u>26.3</u>	<u>84.2</u>
Minority interests	(4.3)	(3.5)	(1.4)	(5.7)	(4.5)
<b>Profit/(loss) for the year</b>	<u>(7.4)</u>	<u>4.8</u>	<u>(32.8)</u>	<u>20.6</u>	<u>79.7</u>
Dividends	-	-	-	(7.5)	(18.8)
<b>Retained profit/(loss) for the year</b>	<u>(7.4)</u>	<u>4.8</u>	<u>(32.8)</u>	<u>13.1</u>	<u>60.9</u>
<b>● CONSOLIDATED BALANCE SHEETS</b>					
Goodwill	17.3	18.5	19.8	20.9	21.4
Tangible fixed assets	105.7	133.1	154.5	167.2	171.5
Investments in associated undertakings	27.9	24.2	24.6	22.6	19.4
<b>Fixed assets</b>	<u>150.9</u>	<u>175.8</u>	<u>198.9</u>	<u>210.7</u>	<u>212.3</u>
Stocks	102.0	112.4	129.5	135.4	132.0
Debtors - trade	165.1	182.0	209.9	203.6	191.0
- other	37.5	43.7	44.6	57.4	57.8
Creditors - trade	(71.8)	(79.3)	(97.2)	(106.5)	(98.0)
- other	(109.4)	(103.3)	(118.0)	(113.4)	(132.7)
<b>Net current assets (excluding net debt)</b>	<u>123.4</u>	<u>155.5</u>	<u>168.8</u>	<u>176.5</u>	<u>150.1</u>
Long term liabilities and provisions	(112.6)	(124.3)	(137.8)	(122.3)	(128.2)
	<u>161.7</u>	<u>207.0</u>	<u>229.9</u>	<u>264.9</u>	<u>234.2</u>
Financed by:					
<b>Equity interests - shareholders</b>	4.4	(5.5)	(8.3)	24.6	13.8
- minority interests	20.5	18.5	24.1	30.5	26.9
	<u>24.9</u>	<u>13.0</u>	<u>15.8</u>	<u>55.1</u>	<u>40.7</u>
Bank borrowings	78.8	92.4	110.1	100.8	126.9
US dollar loan notes	113.7	128.2	144.7	163.7	154.0
Other indebtedness (including finance leases)	4.2	5.6	6.9	8.4	9.2
<b>Gross debt</b>	<u>196.7</u>	<u>226.2</u>	<u>261.7</u>	<u>272.9</u>	<u>290.1</u>
<b>Cash</b>	<u>(59.9)</u>	<u>(32.2)</u>	<u>(47.6)</u>	<u>(63.1)</u>	<u>(96.6)</u>
<b>Net debt</b>	<u>136.8</u>	<u>194.0</u>	<u>214.1</u>	<u>209.8</u>	<u>193.5</u>
	<u>161.7</u>	<u>207.0</u>	<u>229.9</u>	<u>264.9</u>	<u>234.2</u>
<b>● Basic earnings per share (expressed in pence per share)</b>					
- Adjusted <sup>(i)</sup>	12.5	8.6	12.3	18.9	43.1
- Headline	(7.9)	5.1	(34.8)	21.9	84.6
<b>● Dividends per share (expressed in pence per share)</b>					
	-	-	-	8.0	20.0

(i) Before exceptional items and amortisation of goodwill.

(ii) Net interest in 2003 and 2001 includes exceptional costs of £6.5 million and an exceptional gain of £4.4 million respectively.

(iii) Figures have been restated to include the US Defence businesses' results under discontinued operations.

## BOARD OF DIRECTORS



**David Gawler**

Chairman and Chief Executive (64)

He joined Charter as a non-executive director in December 2000, became an executive director on 15 March 2001 and Chairman and Chief Executive on 25 April 2001. He was formerly Chief Executive of Semara Holdings.



**David Eilbeck**

Finance Director (46)

He joined Charter in 1992 as Group Chief Accountant, became a director on 25 April 2001 and Finance Director on 30 June 2001.



**Homi Mullan**

Independent Non-executive Deputy Chairman, Chairman of Audit, Remuneration and Nominations Committees and Senior Independent Non-executive Director (56)

He joined Charter as a director in December 2001. He was formerly Vice Chairman, Investment Banking, at J P Morgan. He is a non-executive director of Ascot Underwriting Limited and Chairman of Esab India Limited.



**The Hon. James Bruce**

Independent Non-executive Director, Audit, Remuneration and Nominations Committees (55)

He joined Charter as a director in December 2001. He is a non-executive director of Yes Television and Cadogan Group.



**Michael Foster**

Independent Non-executive Director, Audit, Remuneration and Nominations Committees (51)

He joined Charter as a director in December 2001. He is Executive Director, responsible for UK, USA and Ireland at RMC Group.



**John Neill CBE**

Independent Non-executive Director, Audit, Remuneration and Nominations Committees (56)

He joined Charter as a director in 1994. He is Group Chief Executive of the Unipart Group of companies and a non-executive director of Royal Mail Group. He was formerly a director of the Bank of England.

## CORPORATE GOVERNANCE

This statement outlines how the Company continues to apply the principles of corporate governance to its activities.

### The board and its committees

The board conducts itself in such a way as to give an appropriate lead to the whole group. The board's lead focuses on integrity and personal responsibility with the aim of creating shareholder value.

The board currently comprises six directors, two of whom are executive and four of whom are independent and non-executive. In choosing directors the Company looks for individuals who provide a wealth of business experience, strong personal skills and independence of thought and perspective.

The board met for twelve meetings during the year, with ten regular meetings scheduled for 2004, and operates under agreed terms of reference which delegate certain powers to board committees. The terms of reference for both the board and the committees are updated as and when new situations, requirements or practices emerge. The members and Chairman of the committees are shown on page 13. The committees are composed of non-executive directors only, although the executive directors are invited to attend parts of the Audit Committee meetings.

The Nominations Committee meets as and when required to consider proposals for the appointment of new directors. The suitability of candidates is assessed and a formal proposal then put to the board. Before a nomination is formally made, each director would have an opportunity to meet the candidate. One third of the directors submit themselves for re-election each year.

The Remuneration Committee is responsible for ensuring the remuneration packages of the executive directors are appropriate to attract, motivate and retain high calibre individuals. Executive directors' remuneration packages are set having reviewed competitors' levels and industry norms, collected by independent parties. The Remuneration Report on pages 19 to 21 contains more detailed information on the remuneration of directors.

The Audit Committee's terms of reference include the duties set out in the Combined Code. The committee monitors the adequacy and effectiveness of the internal financial controls and reviews the interim and annual financial statements before submission to the board to ensure they present a balanced and understandable

assessment of the group's position and prospects. The committee also makes recommendations to the board regarding the auditors and their terms of appointment. This committee meets at least three times a year and reports to the board.

The Company's auditors attend all meetings of the Audit Committee and have direct access to the members at any time. The non-executive directors may take independent professional advice on any matter relating to the Company at the Company's expense. In advance of both board and committee meetings all directors receive detailed papers on the matters to be considered, enabling them to request further clarification or additional information.

### Relations with shareholders

The Company has a policy of maintaining an active dialogue with institutional shareholders through individual meetings. Communications with private shareholders are conducted through the annual report, presentations at the annual general meeting and the Company's internet site that inter alia gives a full description of the group's business operations.

### Compliance with the Combined Code

Throughout the year ended 31 December 2003 the Company has been in compliance with the provisions set out in Section 1 of the Combined Code issued in June 1998 on Corporate Governance appended to the Financial Services Authority Listing Rules except for:

- A.2.1 The posts of Chairman and Chief Executive are held by Mr Gawler. This position was ratified by shareholders at the annual general meeting held in 2003. In addition there is a strong and independent non-executive element on the board with a recognised senior member other than the Chairman and Chief Executive to whom concerns can be conveyed.
- B.1.7 At the start of the year the period of notice from the employer for executive directors was 24 months. During the year this notice period reduced to 12 months.
- B.1.10 The executive directors' service contracts contain predetermined liquidated damages provisions as noted in the Remuneration Report on page 19.

A revised Combined Code was issued in 2003 effective for reporting years beginning on or after 1 November 2003. Charter is in

the process of reviewing its corporate governance procedures in the light of the new code and the related guidance and best practice suggestions including those from the Smith and Higgs reports also issued in 2003.

### Internal control

The board of directors has overall responsibility for the group's system of internal control and the Audit Committee has been delegated formal responsibility for reviewing the effectiveness of the system of internal control.

The processes to manage the key risks to the success of the group are reviewed and improved as necessary. The group has an organisational structure with clearly defined lines of responsibility and delegation of authority and there are also established procedures for monitoring the group's businesses. While the operational control of the group is decentralised and responsibility is delegated, the operations are subject to the overall group internal control framework. This, by its nature, can provide only reasonable but not absolute assurance against material misstatement or loss.

The key procedures that have been established and that are designed to provide effective internal control are:

### Assessment of business risk

A system of risk assessment and identification and evaluation of controls is embedded within the management processes throughout the group. Strategic risks and opportunities arising from changes in the group's business environment are regularly reviewed by the executive directors and discussed by the board. Risks relating to key activities within the operating units and at head office are assessed on a continuous basis. Summary reports are made to the operating businesses and head office as appropriate.

### Control environment

The board sets overall policy for the group and delegates the authority to implement that policy to its operating businesses and operating units. A well defined organisational structure with clear operating procedures, lines of responsibility and delegated authority has been established within the group. In terms of the group approval framework, there are procedures for appraisal, review and authorisation of investments and capital expenditure.

### Information and communication

The group's operating procedures include a comprehensive system for reporting financial and non-financial information to the board, including:

- The preparation and review of annual budgets which are approved by the board.
- A review of the businesses at each board meeting, focusing on any new risks arising (for example, those relating to proposed major investments and key changes in the markets).
- Regular meetings of the executive directors with operational management.

### Control procedures

Detailed operational procedures are developed for each of the group's key activities that embody key controls. The implications of changes in law and regulations are taken into account within these procedures. Procedures are established to safeguard the group's assets and to ensure that all financial transactions are properly recorded. Accounting policies and practices are widely disseminated throughout the group.

### Monitoring process

There are clear procedures for monitoring the system of internal controls. The significant components of these are:

- Each year, the managing director and finance director and other key members of the management team of each operating unit and operating business are required to review internal controls and to return a self certification internal control questionnaire to the group certifying compliance with group policies and procedures and confirming the effectiveness of internal control systems.
- The management of each operating business regularly reviews the risk assessments and controls over these risks for its business. Head office reviews the work of operational management and in turn reports to the Audit Committee.
- The Audit Committee has specific responsibility for assessing the effectiveness of internal controls and monitors the process of assessing the internal controls across the group on behalf of the board.

- The Audit Committee reviews the process by which risks are identified and assessed and the effectiveness of controls over these risks are assessed by operating units, operational management and head office.
- The Audit Committee reviews the effectiveness of internal controls. This involves the review of the comprehensive planning and budgeting system, with the annual budget being considered by the board. Monthly results are reported against budget and revised forecasts for the full accounting period are prepared regularly as necessary. The results of the annual self-certification internal control questionnaire process are reviewed by the Audit Committee and, where potential problems are identified, appropriate actions are taken. Any reports by the external auditors are also considered.

The board confirms it has carried out a review of the effectiveness of the group's system of internal controls described above for the financial year and up to the date of this report in accordance with the guidance set out in Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance). The review encompassed operational, financial and compliance controls as well as risk management. The process used included the following elements:

- As part of their ongoing reviews of the businesses the executive directors and head office reviewed the effectiveness of strategic, operational and compliance internal controls and risk management. As appropriate this involved considering any reports on key risk areas (concentrating on significant changes in the risk profile) and controls, formulation of actions, policies and procedures to control risks and reviewing the actions being taken on problem areas identified.
- The board considered reports from the Audit Committee and the executive directors on these areas during the year and, at the time of approving the annual report and accounts, considered a summary of the assessments of the effectiveness of the key risks and controls identified that was prepared on behalf of the executive directors.

### Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group 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 the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have reviewed the effectiveness of the system of internal controls over the maintenance and integrity of the Charter plc website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Going concern and current liquidity

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

## AUDITORS' REPORT

### Independent auditors' report to the members of Charter plc

We have audited the financial statements which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related Notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Report ('the auditable part').

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read 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. The other information comprises only the Directors' report, the Chairman and Chief Executive's Statement, the Operating Reviews, the Financial Review, the Corporate Governance Statement and the unaudited part of the Remuneration Report.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, 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 to form an opinion on the effectiveness of the Company's or group's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 and the auditable part of the Remuneration Report 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 of the state of affairs of the Company and the group at 31 December 2003 and of the loss and cash flows of the group for the year then ended.
- The financial statements have been properly prepared in accordance with the Companies Act 1985.
- Those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**

London, 9 March 2004

## DIRECTORS' REPORT

### Activities and review of operations

The Chairman and Chief Executive's statement on pages 3 to 7, the Operating reviews on pages 8 to 10 and Financial review on page 11 outline the activities and operations of the group.

### Rights Issue

Following approval by the Company's shareholders at the Extraordinary General Meeting held on 8 March 2004 the Company's authorised share capital was increased to £3,319,788 and 56,487,752 shares were provisionally allotted in connection with the Rights Issue that was announced on 20 February 2004. The net proceeds of the Rights Issue amount to approximately £44.6 million.

### Dividends

The directors have not declared a dividend for the year. No dividend was declared in the previous year.

### Directors

A list of the directors appears on page 13 and their interests in the shares of the Company are shown on page 21.

Mr Mullan, Mr Neill, Mr Foster and The Hon. James Bruce retire and offer themselves for re-election.

No director had any interest in any contract with the companies in the group at any time during the period, other than service contracts. Information covering directors' remuneration, interests in shares and interests in share options is included in the Remuneration Report on pages 19 to 21. Resolution 4 asks shareholders to approve the Remuneration Report.

### Increase in authorised share capital

In order to give the Company greater flexibility regarding future funding your directors wish to increase the Company's authorised share capital from £3,319,788 (being the authorised share capital of the Company following the passing of the resolution at the extraordinary general meeting of the Company held on 8 March 2004) to £4,300,000 and resolution 5 in the notice of meeting seeks to do this. Such an increase would represent an increase in the Company's authorised share capital of approximately 30 per cent.

### Authority to allot shares and disapplication of pre-emption rights

The articles of association of the Company place unissued shares generally at the disposal of the directors but, under the provisions of the Companies Act 1985, directors cannot allot any new shares until they have shareholders' authority to do so. Whilst they have no present intention of utilising such authority (other than with respect to the issue of shares upon the exercise of share options), your directors wish to renew, for a further year subject to the passing of resolution 5, the general authority granted to them on 22 July 2003. Approval of shareholders will be sought at the annual general meeting by the passing of an Ordinary Resolution (resolution 6) whereby your directors will be authorised to allot authorised but unissued ordinary shares of the Company, up to a total of 50,212,250 shares representing approximately one third of the issued share capital. This new authority will expire at the 2005 annual general meeting.

Shareholders are being invited, subject to the aforementioned resolutions 5 and 6 being approved, to authorise the directors to allot equity securities in respect of rights issues or otherwise for cash other than to existing shareholders up to an amount equal to 5 per cent. of the issued share capital of the Company following the issue of the shares provisionally allotted in respect of the Rights Issue (namely in respect of 7,531,800 shares), the level permitted by the current guidelines of the investment committees of the Association of British Insurers and the National Association of Pension Funds. A resolution to this effect (resolution 7), which will be proposed as a Special Resolution, is set out in the notice of meeting. This authority will expire at the 2005 annual general meeting or, if earlier, 24 September 2005.

### Employees

The group's policy is to encourage effective communication and consultation between employees and management. Subsidiary undertakings develop their own consultative and communication procedures as part of their employment practices.

The Company and its subsidiary undertakings give full consideration to applications for employment made by disabled people, having regard to their aptitudes and abilities. Should employees become disabled during employment they would be considered for any necessary retraining and available work within their capabilities. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees.

## DIRECTORS' REPORT

Continued

### Creditor payment policy

The group's creditor payment policy observes the local practice in the countries in which it operates – standard payment terms in each country may also be varied by negotiation with individual suppliers. It is the group's policy to settle in accordance with agreed terms. The Company had no trade creditors at the year end.

### Charitable and political contributions

During the year the group made charitable contributions of £0.1 million (2002: £0.1 million). No political contributions were made during the year (2002: nil).

### Research and development

The companies in the group continue to place strong emphasis on research and development to meet the changing needs of the markets they serve. Research and development expenditure totalled £14.2 million (2002: £13.7 million) for the year and has been charged to the profit and loss account for the year.

### Substantial shareholdings

As at 9 March 2004, the Company has been notified of the following interests in its ordinary shares: Guinness Peat Group plc 19.26 per cent; Sterling Investment Group Limited 16.39 per cent; UBS Global Asset Management (UK) Limited and UBS Global Asset Management Life Limited 10.64 per cent; Hermes Pensions Management Limited 3.22 per cent; and Legal & General Group PLC 3.19 per cent. An update will be given in the notice of the annual general meeting.

### The Environment

Group companies are encouraged to adopt a responsible approach to environmental management. Esab and Howden have issued environmental policy statements.

Esab has a strong commitment to sustainable development and has therefore had a global environmental management system in place since 1997. Examples of global targets include significant reductions in energy and water use, waste generation and greenhouse gas emissions. Another global target aims to implement certifiable ISO 14001 systems at every plant before the end of 2005. During 2003, Esab has taken many steps towards achieving these targets.

### Auditors

A resolution (resolution 3) to reappoint PricewaterhouseCoopers LLP as auditors to the Company and authorise the board to fix their remuneration will be proposed at the annual general meeting.

### By order of the board

A R Yapp Secretary  
9 March 2004

### Registered office

52 Grosvenor Gardens  
London SW1W 0AU

Registered in England Number 2794949

## REMUNERATION REPORT

The Company aims to attract, motivate and retain high calibre executives by ensuring their rewards are competitive and linked to both individual and business performance. Directors' remuneration is reviewed each year to ensure it is supportive of the Company's business objectives and the creation of shareholder value. The Company complies fully with Section 12.43A of the Financial Services Authority's Listing Rules.

### Members of the Remuneration Committee

The members of the Remuneration Committee during the year were:

H P R Mullan (Chairman)  
J H M Bruce  
M G Foster  
J M Neill

During the year the following parties provided advice that materially assisted the committee:

Hewitt Bacon & Woodrow  
Slaughter and May  
P C White (Internal Human Resources)

### Directors' remuneration

#### Salary and Fees

Two executive directors have waived their directors' fees from a subsidiary undertaking. Fees waived by these directors during the year amounted to £1,200 (2002: £1,200).

#### Directors' service contracts

	<u>Contract date</u>	<u>Unexpired term</u>	<u>Notice period</u>	<u>Contractual termination payments</u>
D Gawler	24/04/01	06/06/04 (to 65th birthday)	12 months (Company) 12 months (Executive)	12 months salary plus payment in lieu of pension benefits
D M Eilbeck	29/06/01	No fixed term (normal retirement date 07/04/17 being 60th birthday)	12 months (Company) 6 months (Executive)	12 months salary plus payment in lieu of pension benefits
J H M Bruce	14/12/01	5 months	-	nil
M G Foster	14/12/01	5 months	-	nil
H P R Mullan	14/12/01	5 months	-	nil
J M Neill	28/02/94	5 months	-	nil

Discussions are under way to extend the term of Mr Gawler's service agreement by a further period of up to two years.

#### Benefits

Benefits comprise tax assessable benefits arising from employment. These include car and petrol allowances, medical insurance for the director and his immediate dependants and life assurance.

#### Pensions

Mr Gawler is not a member of the Company's pension scheme. Since becoming an executive director a contribution of £125,000 per annum is paid to him in lieu of a pension entitlement and is included in his emoluments on page 20. This contribution level is reviewable annually.

Mr Eilbeck is a member of the Company's Inland Revenue approved pension scheme providing pension benefits of one-thirtieth of salary for each year of service. He is subject to the cap on pensionable earnings and, to the extent that the approved scheme is unable to provide pension on his earnings in excess of the Inland Revenue earnings cap, a funded unapproved scheme has been established to make good the shortfall. Because of the tax rules which apply to the unapproved scheme, he is entitled to receive an additional pension related payment being compensation in relation to tax payable on any contribution to that scheme. The aggregate of benefit from the approved scheme, benefit from the unapproved scheme and the pension related payment is equivalent to a pension of one-thirtieth of uncapped salary for each year of service. The accrued entitlement given below includes entitlements earned as an employee, prior to becoming a director as well as those earned for qualifying services after becoming a director.

## REMUNERATION REPORT

Continued

### Director's pension

	D M Eilbeck £
Accumulated total accrued pension at year end	58,900
Increase in accrued pension during the year excluding inflation	5,600
Increase in accrued pension during the year including inflation	6,500
Transfer value of benefit accrued during the year	63,700
Transfer value accrued at end of year	620,800
Transfer value at start of year	517,500
Increase in transfer value over year	103,300

- (i) The pension entitlement shown in the first row is the aggregate amount which would be paid annually on normal retirement based on service to the end of the year 2003 under the approved and unapproved schemes.
- (ii) The transfer value of the benefit accrued during the year excludes any increase for inflation.
- (iii) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- (iv) The transfer value of the accrued entitlement represents the value of assets that the pension schemes would need to transfer to another pension provider on transferring the schemes' liability in respect of the director's pension benefits. It does not represent sums payable to the individual director and, therefore, cannot be added meaningfully to annual remuneration.
- (v) The transfer value of the increase in accrued benefits, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the director has earned in the period, whereas the change in his transfer value, required by the Companies Act, discloses the absolute increase or decrease in his transfer value and includes the change in value of the accrued benefits that results from market volatility affecting the transfer value at the beginning of the period, as well as the additional value earned in the year.

### Directors' emoluments

	Salary & Fees £000	Benefits £000	Payment in lieu of pension £000	Pension related payment £000	Total 2003 £000	Total 2002 (restated) £000
<b>Executive</b>						
D Gawler (Chairman)	500	53	125	-	678	674
D M Eilbeck	238	16	-	-	254	318
	<u>738</u>	<u>69</u>	<u>125</u>	<u>-</u>	<u>932</u>	<u>992</u>
<b>Non-executive</b>						
J H M Bruce	39	-	-	-	39	39
M G Foster	39	-	-	-	39	39
N A Johnson (resigned 24 April 2002)	-	-	-	-	-	10
H P R Mullan	65	-	-	-	65	56
J M Neill	39	-	-	-	39	39
M G Taylor (resigned 24 April 2002)	-	-	-	-	-	23
	<u>182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182</u>	<u>206</u>
<b>Total</b>	<u>920</u>	<u>69</u>	<u>125</u>	<u>-</u>	<u>1,114</u>	<u>1,198</u>

The contribution of nil (2002: £102,000) made to Mr Eilbeck's funded unapproved pension scheme is not included in the benefits column of the directors' emoluments table, but is incorporated in the director's pension table relating to Mr Eilbeck above.

Mr Gawler's total emoluments for 2002 have been restated to include a life assurance payment of £32,000.

## Equity Partnership Plan

The Equity Partnership Plan was approved by shareholders in 1997. Its objective was to strengthen the link between executive rewards and the creation of value for shareholders. Under the Equity Partnership Plan, selected executives received two types of incentive awards ("Bonus Shares" and "Performance Shares") which, respectively, reflected the focus on medium and long term performance.

No new awards have been made under the Equity Partnership Plan since 1999. Details of the options granted in prior years in respect of the Equity Partnership Plan awards are included in the table of options shown below. As none of the performance targets associated with any of the awards has been met, the awards would only be of value in the event of a change in control of the Company.

## Share options and interests in shares

Prior to his appointment as a director Mr Eilbeck was granted the options and awards under the Equity Partnership Plan disclosed in the table below. Options were granted at the current market price and are normally exercisable between three and ten years after the grant. The exercise of options is subject to the achievement of a performance target. The target is that the growth in earnings per share must exceed the increase in the retail price index by 1½ per cent. over a consecutive period of three years.

The interests of directors in shares and share options of the Company as at 31 December 2003, all of which are beneficial interests, are as follows:

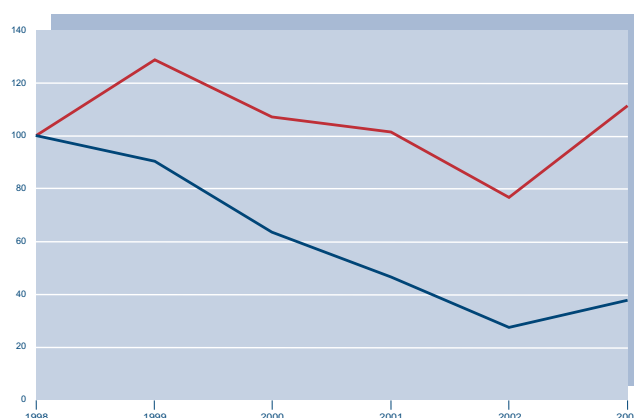
	Shares		Number of share options		Options exercise price per share	Options exercisable between	
	01.01.03	31.12.03 **	01.01.03	31.12.03			
D M Eilbeck	-	-	7,909	7,909	828p	15.05.98	14.05.05
			3,052	3,052	Nil p*	01.01.00	02.11.04
			5,245	5,245	Nil p*	24.03.01	23.03.05
			7,646	7,646	Nil p*	30.03.02	29.03.06
			<u>23,852</u>	<u>23,852</u>			
J H M Bruce	-	-					
M G Foster	-	-					
D Gawler	-	-					
H P R Mullan	-	-					
J M Neill	2,732	2,732					
J W Herbert - former director			53,265	53,265	Nil p*	01.01.00	02.11.04
			80,787	80,787	Nil p*	24.03.01	23.03.05
			<u>134,052</u>	<u>134,052</u>			

\* The exercise prices of these awards made under the Equity Partnership Plan are 831.2p, 710.5p and 376.0p. They would if exercised however, be funded by a cash bonus payable at the date of exercise of the options and therefore the effective cost to the director is nil. The share price on 31 December 2002 was 75.0p and on 31 December 2003 was 102.5p. The high price for the year was 105.0p and the low 34.5p.

\*\* Mr Gawler purchased 25,000 ordinary shares of 2p each in the Company on 8 March 2004. There was no change in the interests of the other current directors between 31 December 2003 and 9 March 2004. An update will be given in the notice of the annual general meeting.

## Total Shareholder Return

— Charter (total return) rebased to 100  
 — FTSE Engineering & Machinery Sector (total return) rebased to 100



In the opinion of the directors, the FTSE Engineering and Machinery Sector Index is the most appropriate index against which the total shareholder return of Charter plc should be measured because it is an index of companies in similar businesses.

By order of the board

A R Yapp Secretary  
 9 March 2004

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
year ended 31 December 2003

Note	2003			2002		
	Pre-exceptionals 2003 £m	Exceptionals 2003 £m	Total 2003 £m	Pre-exceptionals 2002 £m	Exceptionals 2002 £m	Total 2002 £m
<b>2&amp;3 Turnover</b>						
Continuing operations	842.4	-	842.4	867.6	-	867.6
Discontinued operations	28.8	-	28.8	32.9	-	32.9
	<u>871.2</u>	<u>-</u>	<u>871.2</u>	<u>900.5</u>	<u>-</u>	<u>900.5</u>
<b>Total operating profit/(loss)</b>						
Continuing operations						
Operating profit excluding operating exceptional items and share of associated undertakings' operating profit/(loss)	25.5	-	25.5	23.3	-	23.3
Operating exceptional items	-	(9.9)	(9.9)	-	(24.6)	(24.6)
Group operating profit/(loss)	25.5	(9.9)	15.6	23.3	(24.6)	(1.3)
Share of associated undertakings' operating profit/(loss)	6.8	(0.9)	5.9	5.3	(0.7)	4.6
	<u>32.3</u>	<u>(10.8)</u>	<u>21.5</u>	<u>28.6</u>	<u>(25.3)</u>	<u>3.3</u>
Discontinued operations	6.6	-	6.6	6.2	-	6.2
<b>3</b>	<u>32.1</u>	<u>(9.9)</u>	<u>22.2</u>	<u>29.5</u>	<u>(24.6)</u>	<u>4.9</u>
<i>Share of associated undertakings' operating profit/(loss)</i>	<u>6.8</u>	<u>(0.9)</u>	<u>5.9</u>	<u>5.3</u>	<u>(0.7)</u>	<u>4.6</u>
	<u>38.9</u>	<u>(10.8)</u>	<u>28.1</u>	<u>34.8</u>	<u>(25.3)</u>	<u>9.5</u>
<b>4 Non-operating exceptional items</b>						
Continuing operations						
Losses on sale and termination of operations		(0.3)	(0.3)		(5.9)	(5.9)
Net profit on fixed asset disposals		4.7	4.7		12.5	12.5
Goodwill provision on discontinuing operation		(4.0)	(4.0)		-	-
		<u>0.4</u>	<u>0.4</u>		<u>6.6</u>	<u>6.6</u>
Discontinued operations						
Loss on sale of operations		(1.4)	(1.4)		-	-
Profit on release of guarantee provision		-	-		15.2	15.2
		<u>(1.4)</u>	<u>(1.4)</u>		<u>15.2</u>	<u>15.2</u>
<b>Profit/(loss) on ordinary activities before interest</b>	<u>38.9</u>	<u>(11.8)</u>	<u>27.1</u>	<u>34.8</u>	<u>(3.5)</u>	<u>31.3</u>
<b>5 Net interest and financing costs</b>						
Excluding associated undertakings and exceptional financing costs	(16.4)	-	(16.4)	(18.9)	-	(18.9)
Share of associated undertakings' interest	(0.4)	-	(0.4)	(0.4)	-	(0.4)
Exceptional financing costs	-	(6.5)	(6.5)	-	-	-
	<u>(16.8)</u>	<u>(6.5)</u>	<u>(23.3)</u>	<u>(19.3)</u>	<u>-</u>	<u>(19.3)</u>
<b>2 Profit/(loss) on ordinary activities before taxation</b>	<u>22.1</u>	<u>(18.3)</u>	<u>3.8</u>	<u>15.5</u>	<u>(3.5)</u>	<u>12.0</u>
<b>6 Tax on profit/(loss) on ordinary activities</b>	<u>(7.1)</u>	<u>0.2</u>	<u>(6.9)</u>	<u>(5.1)</u>	<u>1.4</u>	<u>(3.7)</u>
<b>Profit/(loss) on ordinary activities after taxation</b>	<u>15.0</u>	<u>(18.1)</u>	<u>(3.1)</u>	<u>10.4</u>	<u>(2.1)</u>	<u>8.3</u>
<b>25 Minority interests - equity</b>	<u>(4.4)</u>	<u>0.1</u>	<u>(4.3)</u>	<u>(3.5)</u>	<u>-</u>	<u>(3.5)</u>
<b>Profit/(loss) for the financial year</b>	<u>10.6</u>	<u>(18.0)</u>	<u>(7.4)</u>	<u>6.9</u>	<u>(2.1)</u>	<u>4.8</u>
<b>10 Dividends - equity</b>			-			-
<b>24 Retained profit/(loss) for the financial year</b>	<u>10.6</u>	<u>(18.0)</u>	<u>(7.4)</u>	<u>6.9</u>	<u>(2.1)</u>	<u>4.8</u>
<b>11 Earnings/(loss) per share - basic and fully diluted</b>						
Headline			(7.9)p			5.1p
Adjusted			12.5p			8.6p

The notes on pages 27 to 47 form part of these accounts.

**CONSOLIDATED BALANCE SHEET**  
year ended 31 December 2003

Note		2003 £m	2002 £m
	<b>Fixed assets</b>		
12	Intangible fixed assets - goodwill	17.3	18.5
13	Tangible fixed assets	105.7	133.1
14	Fixed asset investments - associated undertakings	27.9	24.2
		<u>150.9</u>	<u>175.8</u>
	<b>Current assets</b>		
15	Stocks	102.0	112.4
16	Debtors	202.6	225.7
17	Cash at bank and in hand	59.9	32.2
		<u>364.5</u>	<u>370.3</u>
	<b>Creditors: amounts falling due within one year</b>		
18	Creditors	(181.2)	(182.6)
19	Short term borrowings	(71.2)	(94.6)
		<u>(252.4)</u>	<u>(277.2)</u>
	<b>Net current assets</b>	112.1	93.1
	Total assets less current liabilities	<u>263.0</u>	<u>268.9</u>
	<b>Creditors: amounts falling due after more than one year</b>		
	Other long term creditors	(1.0)	(1.0)
19	Long term borrowings	(125.5)	(131.6)
20	Provisions for liabilities and charges	(111.6)	(123.3)
		<u>24.9</u>	<u>13.0</u>
	<b>Capital and reserves</b>		
23	Called up share capital	1.9	1.9
24	Share premium account	5.9	5.9
24	Profit and loss account	(3.4)	(13.3)
	<b>Shareholders' funds - equity interests</b>	4.4	(5.5)
25	Minority interests - equity interests	20.5	18.5
		<u>24.9</u>	<u>13.0</u>

Approved by the board of directors on 9 March 2004  
D Gawler Director D M Eilbeck Director

The notes on pages 27 to 47 form part of these accounts.

**CONSOLIDATED CASH FLOW STATEMENT**  
year ended 31 December 2003

Note	2003 £m	2002 £m
<b>26(i) Cash flow from operating activities</b>	<b>54.9</b>	<b>32.2</b>
Dividends received from associated undertakings	3.4	3.3
<b>Returns on investments and servicing of finance</b>		
Exceptional financing costs paid	(5.3)	-
Interest received	5.8	3.8
Interest paid	(22.1)	(24.4)
Interest element of finance lease rental payments	(0.5)	(0.6)
Dividends paid to minority interests	(1.7)	(0.7)
	(23.8)	(21.9)
<b>Taxation paid</b>	<b>(7.0)</b>	<b>(8.0)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(7.1)	(16.6)
Sale of tangible fixed assets	16.6	25.8
Associated company loans	(1.5)	-
	8.0	9.2
<b>Acquisitions and disposals</b>		
Sale of subsidiary undertakings - net proceeds	26.5	1.9
Purchase of subsidiary undertakings	-	(0.6)
	26.5	1.3
Cash inflow before management of liquid resources and financing	62.0	16.1
<b>Management of liquid resources</b>		
(Increase)/decrease in other cash at bank and in hand not included above	(23.0)	15.9
<b>Financing</b>		
Decrease in short term borrowings other than those repayable on demand	(1.8)	(3.3)
Capital element of finance lease rental payments	(1.1)	(1.9)
	(2.9)	(5.2)
Increase in cash in the financial year	<u>36.1</u>	<u>26.8</u>

The notes on pages 27 to 47 form part of these accounts.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
year ended 31 December 2003

	2003 £m	2002 £m
Profit/(loss) for the financial year - excluding associated undertakings	(10.6)	1.6
- associated undertakings	3.2	3.2
	<u>(7.4)</u>	<u>4.8</u>
Net effect of translation of currencies	(6.3)	(4.4)
Net effect of translation of currencies - taxation	(0.6)	(1.4)
Total recognised gains and losses	<u>(14.3)</u>	<u>(1.0)</u>

**RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**  
year ended 31 December 2003

	2003 £m	2002 £m
Profit/(loss) for the financial year	(7.4)	4.8
Other recognised gains and losses	(6.9)	(5.8)
Goodwill associated with the sale and termination of operations	24.2	3.8
Net addition to shareholders' funds	9.9	2.8
Opening shareholders' funds	(5.5)	(8.3)
Closing shareholders' funds	<u>4.4</u>	<u>(5.5)</u>

The notes on pages 27 to 47 form part of these accounts.

**COMPANY BALANCE SHEET**  
31 December 2003

Note		<u>2003</u> £m	<u>2002</u> £m
	<b>Fixed assets</b>		
14	Investment in subsidiary undertakings	1,009.1	1,009.1
	<b>Current assets</b>		
	Corporation tax recoverable	28.9	28.0
	Cash at bank and in hand	0.9	0.9
		29.8	28.9
	<b>Creditors: amounts falling due within one year</b>		
19 (iv)	Amounts due to subsidiary undertakings	(834.6)	(832.4)
	<b>Net current liabilities</b>	(804.8)	(803.5)
		204.3	205.6
	<b>Capital and reserves</b>		
23	Called up share capital	1.9	1.9
24	Share premium account	5.9	5.9
24	Profit and loss account	196.5	197.8
	Shareholders' funds - equity interests	204.3	205.6

Approved by the board of directors on 9 March 2004  
D Gawler Director D M Eilbeck Director

The notes on pages 27 to 47 form part of these accounts.

## 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. The accounting policies have been consistently applied throughout the period.

### 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)). Such amounts will be charged to the profit and loss account on subsequent disposals of the businesses to which they relate.

### Treasury policies

#### Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward foreign exchange contracts have been taken out, at the contractual rates. 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.

On consolidation, the results of overseas operations are translated into Sterling at the average rates of exchange for the financial year. Their balance sheets are translated into Sterling at the rates of exchange on the balance sheet date. Exchange differences arising from the translation of the opening net assets of overseas companies are taken directly to reserves. Similarly, the difference between the profits of overseas companies translated at average rates and year end rates is taken directly to reserves.

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 net 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 cost 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 crystallised 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 impairment 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

Deferred taxation is provided on the incremental liability approach in respect of timing differences giving rise to an asset or liability. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred taxation assets and liabilities are not discounted.

### 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.

## NOTES TO THE ACCOUNTS

continued

### 1 Principal group accounting policies (continued)

#### 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 is not mandatory for the group at present. 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 2003 in note 9.

## 2 Turnover, Profit and Net assets

	2003			2002		
	Turnover £m	Profit £m	Net assets £m	Turnover £m	Profit £m	Net assets £m
<b>● Analysis by classes of business</b>						
Continuing operations						
Welding and cutting	577.1	35.3	134.0	581.9	36.0	152.9
Air and gas handling	256.9	6.3	40.0	267.4	1.5	52.4
Specialised engineering	8.4	(1.3)	2.8	18.3	(0.8)	6.8
	<u>842.4</u>	<u>40.3</u>	<u>176.8</u>	<u>867.6</u>	<u>36.7</u>	<u>212.1</u>
Goodwill : Welding and cutting		(1.2)	17.3		(1.2)	18.5
Central operations	-	(6.8)	(32.4)	-	(6.9)	(29.6)
	<u>842.4</u>	<u>32.3</u>	<u>161.7</u>	<u>867.6</u>	<u>28.6</u>	<u>201.0</u>
Discontinued operations : Specialised engineering	28.8	6.6	-	32.9	6.2	6.0
Continuing operations : operating exceptional items						
Air and gas handling - accounting correction		-			(3.9)	
- litigation and warranty costs		(0.4)			(1.5)	
- restructuring costs		(4.1)			(7.7)	
Welding and cutting - restructuring costs		(5.9)			(12.2)	
Specialised engineering - restructuring costs		(0.4)			-	
<b>Turnover/Operating profit/Operating assets</b>	<u><u>871.2</u></u>	<u><u>28.1</u></u>	<u><u>161.7</u></u>	<u><u>900.5</u></u>	<u><u>9.5</u></u>	<u><u>207.0</u></u>

<i>Continuing operations</i>						
<i>Welding and cutting</i>		<b>28.2</b>	<b>151.3</b>		22.6	171.4
<i>Air and gas handling</i>		<b>1.8</b>	<b>40.0</b>		(11.6)	52.4
<i>Specialised engineering</i>		<b>(1.7)</b>	<b>2.8</b>		(0.8)	6.8
<i>Central operations</i>		<b>(6.8)</b>	<b>(32.4)</b>		(6.9)	(29.6)
		<u>21.5</u>	<u>161.7</u>		<u>3.3</u>	<u>201.0</u>
<i>Discontinued operations: Specialised engineering</i>		<b>6.6</b>	<b>-</b>		6.2	6.0
<b>Operating profit/Operating assets</b>		<u><u>28.1</u></u>	<u><u>161.7</u></u>		<u><u>9.5</u></u>	<u><u>207.0</u></u>
Non-operating exceptional items		(1.0)			21.8	
Net interest and financing costs		(23.3)			(19.3)	
Net debt			(136.8)			(194.0)
<b>Profit on ordinary activities before taxation/Net assets</b>		<u><u>3.8</u></u>	<u><u>24.9</u></u>		<u><u>12.0</u></u>	<u><u>13.0</u></u>

### ● Analysis by geographical area of destination

Continuing operations		
United Kingdom	52.1	55.8
Rest of Europe	332.2	320.3
North America	219.7	285.6
Rest of World	238.4	205.9
	<u>842.4</u>	<u>867.6</u>
Discontinued operations	28.8	32.9
	<u><u>871.2</u></u>	<u><u>900.5</u></u>

## NOTES TO THE ACCOUNTS

continued

### 2 Turnover, profit and net assets (continued)

	2003			2002		
	Turnover £m	Profit £m	Net assets £m	Turnover £m	Profit £m	Net assets £m
<b>● Analysis by geographical area of origin</b>						
Continuing operations						
United Kingdom	97.2	(19.8)	(13.0)	101.4	(7.2)	(14.9)
Rest of Europe	393.7	32.0	88.0	384.6	25.5	97.5
North America	237.2	1.4	25.6	291.5	(3.6)	47.7
Rest of World	181.8	19.9	43.8	157.2	15.1	52.2
Inter-area eliminations	(67.5)			(67.1)		
	<u>842.4</u>	<u>33.5</u>	<u>144.4</u>	<u>867.6</u>	<u>29.8</u>	<u>182.5</u>
Goodwill : Rest of Europe		(0.4)	5.7		(0.4)	6.1
: North America		(0.7)	10.4		(0.7)	11.1
: Rest of World		(0.1)	1.2		(0.1)	1.3
	<u>842.4</u>	<u>32.3</u>	<u>161.7</u>	<u>867.6</u>	<u>28.6</u>	<u>201.0</u>
Discontinued operations - North America	28.8	6.6	-	32.9	6.2	6.0
Continuing operations - operating exceptional items						
United Kingdom		(2.2)			(5.0)	
Rest of Europe		(2.6)			(13.0)	
North America		(5.6)			(7.3)	
Rest of World		(0.4)			-	
<b>Turnover/Operating profit/Operating assets</b>	<u><u>871.2</u></u>	<u><u>28.1</u></u>	<u><u>161.7</u></u>	<u><u>900.5</u></u>	<u><u>9.5</u></u>	<u><u>207.0</u></u>

<i>Continuing operations</i>						
<i>United Kingdom</i>		<b>(22.0)</b>	<b>(13.0)</b>		<i>(12.2)</i>	<i>(14.9)</i>
<i>Rest of Europe</i>		<b>29.0</b>	<b>93.7</b>		<i>12.1</i>	<i>103.6</i>
<i>North America</i>		<b>(4.9)</b>	<b>36.0</b>		<i>(11.6)</i>	<i>58.8</i>
<i>Rest of World</i>		<b>19.4</b>	<b>45.0</b>		<i>15.0</i>	<i>53.5</i>
		<u><b>21.5</b></u>	<u><b>161.7</b></u>		<u><i>3.3</i></u>	<u><i>201.0</i></u>
<i>Discontinued operations - North America</i>		<b>6.6</b>	-		<i>6.2</i>	<i>6.0</i>
<b>Operating profit/Operating assets</b>		<u><u><b>28.1</b></u></u>	<u><u><b>161.7</b></u></u>		<u><u><i>9.5</i></u></u>	<u><u><i>207.0</i></u></u>

Non-operating exceptional items		(1.0)			21.8	
Net interest and financing costs		(23.3)			(19.3)	
Net debt			(136.8)			(194.0)
<b>Profit on ordinary activities before taxation/Net assets</b>		<u><u>3.8</u></u>	<u><u>24.9</u></u>		<u><u>12.0</u></u>	<u><u>13.0</u></u>

### 3 Analysis of group operating profit/(loss)

	2003				2002		
	Continuing		Discontinued	Total Group £m	Continuing		Total Group £m
	Pre exceptionals £m	Exceptionals £m			£m	£m	
Turnover	842.4	-	28.8	871.2	867.6	32.9	900.5
Cost of sales	(617.5)	(1.5)	(18.6)	(637.6)	(654.6)	(22.5)	(677.1)
Gross profit	224.9	(1.5)	10.2	233.6	213.0	10.4	223.4
Selling and distribution costs	(118.3)	(0.9)	(1.2)	(120.4)	(126.4)	(1.4)	(127.8)
Administration costs	(81.1)	(7.5)	(2.4)	(91.0)	(87.9)	(2.8)	(90.7)
<b>Group operating profit/(loss)</b>	<u><u>25.5</u></u>	<u><u>(9.9)</u></u>	<u><u>6.6</u></u>	<u><u>22.2</u></u>	<u><u>(1.3)</u></u>	<u><u>6.2</u></u>	<u><u>4.9</u></u>

Fees in respect of services provided by the auditors were: statutory audit of the group £1.5 million (2002: £1.5 million) and other services to the Company and its subsidiaries £1.7 million (2002: £0.7 million). Other services principally comprise further assurance services related to the disposal of the US Defence businesses and tax services. Included above are operating lease rentals for plant and machinery of £2.2 million (2002: £1.8 million) and for other leases of £4.7 million (2002: £3.2 million), depreciation of £18.7 million (2002: £20.6 million) and amortisation of goodwill of £1.2 million (2002: £1.2 million). Profits on disposal of fixed assets amounted to £0.3 million (2002: £0.4 million). Amounts invoiced to associated undertakings for the year were £2.0 million (2002: £2.5 million) and amounts invoiced from them were £8.3 million (2002: £7.2 million). At the year end amounts due from associated undertakings were £2.2 million (2002: £0.5 million) and due to them were £1.7 million (2002: £1.2 million).

#### 4 Non-operating exceptional items

	2003 £m	2002 £m
<b>Continuing operations</b>		
Losses on sale and termination of operations before reinstatement of goodwill (ii)	(0.3)	(2.1)
Associated goodwill thereon (iii)	-	(3.8)
Losses on sale and termination of operations	(0.3)	(5.9)
Profit on fixed asset disposals (iii)	5.1	14.2
Losses on fixed asset disposals (iv)	(0.4)	(1.7)
Net profit on fixed asset disposals	4.7	12.5
Goodwill provision on discontinuing operation (v)	(4.0)	-
	0.4	6.6
<b>Discontinued operations</b>		
Profit on release of guarantee provision (vi)	-	15.2
Profit on sale of operations before reinstatement of goodwill (vii)	18.8	-
Associated goodwill thereon (vii)	(20.2)	-
Loss on sale of operations	(1.4)	-
	(1.4)	15.2
	(1.0)	21.8

- (i) A tax credit of £0.2 million (2002: £0.2 million debit) is attributable to the non-operating exceptional items. There is no minority interest in the non-operating exceptional items of either period.
- (ii) The losses on termination of operations and associated goodwill of £0.3 million (2002: £5.9 million) comprise Air and gas handling £0.3 million (2002: £2.0 million) and Specialised engineering £nil (2002: £3.9 million).
- (iii) The profits on fixed asset disposals of £5.1 million comprise Welding and cutting £3.6 million (2002: £14.2 million), Air and gas handling £0.6 million (2002: nil) and Central operations £0.9 million (2002: nil).
- (iv) The losses on fixed asset disposals of £0.4 million (2002: £1.7 million) relate to Air and gas handling.
- (v) On 26 February 2004 the Company completed the sale of GCE Gas Control Equipment AB, an associated undertaking included within Welding and cutting, for a cash consideration of approximately £14 million. Taking into account goodwill previously written off directly to reserves on the acquisition of this business the directors were of the opinion that a provision for diminution in value of goodwill of £4.0 million should be made in the 2003 accounts.
- (vi) In 2002 a non-operating profit of £15.2 million arose on the release, on satisfactory terms, of guarantees which had been given in 1999 on the sale of Wirth.
- (vii) The profit on sale of operations and associated goodwill relates to the sale of US Defence included within Specialised engineering.

#### 5 Net interest and financing costs - excluding associated undertakings

	2003 £m	2002 £m
Receivable	5.6	3.5
Bank loans, overdrafts and loan notes	(21.5)	(21.8)
Finance leases	(0.5)	(0.6)
	(16.4)	(18.9)

The bulk of the exceptional financing costs charged in 2003 of £6.5 million were incurred in connection with the renewal, in July 2003, of the syndicated bank facility. The balance is in respect of the legal costs associated with the settlement of the US loan note dispute.

#### 6 Tax on profit/(loss) on ordinary activities

	2003 £m	2002 £m
<b>Current taxation</b>		
United Kingdom:		
Corporation tax at 30 per cent. (2002: 30 per cent.)	-	0.1
Adjustments in respect of previous years	(2.0)	(3.6)
	(2.0)	(3.5)
Overseas:		
Current year	8.8	6.3
Adjustments in respect of previous years	(1.4)	(3.5)
	5.4	(0.7)
Associated undertakings	2.3	1.0
Total current taxation	7.7	0.3

NOTES TO THE ACCOUNTS  
continued

**6 Tax on profit/(loss) on ordinary activities (continued)**

	2003 £m	2002 £m
Deferred taxation		
United Kingdom:		
Current year	0.1	0.2
Overseas:		
Current year	(1.7)	0.2
Adjustments in respect of previous years	0.8	3.0
	(0.9)	3.2
Total deferred taxation	(0.8)	3.4
Total tax charge:		
Current taxation	7.7	0.3
Deferred taxation	(0.8)	3.4
Total tax charge	6.9	3.7

**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 of 30 per cent. The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	3.8	12.0
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent.	1.1	3.6
Effects of:		
Movement on deferred tax recognised	0.8	(3.4)
Expenses not deductible for tax purposes	0.8	1.8
Book profit in excess of capital gain	-	(8.2)
Other taxes (primarily US State taxes)	1.4	0.9
Tax incentives	(1.0)	-
Movement on deferred tax not recognised	8.2	11.4
Effect of lower overseas tax rates	(1.0)	(1.7)
Adjustments to tax charge in respect of previous periods	(2.6)	(4.1)
Current tax charge for the year	7.7	0.3

**7 Employees - including executive directors**

	2003 £m	2002 £m
Aggregate amounts payable:		
Wages and salaries	191.3	207.0
Social security costs	31.6	33.4
Other pension costs (see note 9)	13.6	11.5
	236.5	251.9

## 7 Employees - including executive directors (continued)

	<u>2003</u>	<u>2002</u>
Average number of persons employed by the group:		
Welding and cutting	6,575	6,900
Air and gas handling	2,829	3,228
Specialised engineering	280	320
Corporate	21	21
	<u>9,705</u>	<u>10,469</u>

At the year end the number of employees was 9,274 (2002: 10,065).

## 8 Directors' remuneration

Information covering directors' remuneration, interests in shares and interests in share options is included in the Remuneration report on pages 19 to 21.

## 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, pension costs for employees of overseas subsidiaries are provided for in accordance with local requirements and practices.

	<u>2003</u> £m	<u>2002</u> £m
United Kingdom pension charge:		
Regular charge	3.8	3.6
Interest	(0.4)	(0.6)
Net charge	<u>3.4</u>	<u>3.0</u>
Overseas pension charge	10.2	8.5
Group pension charge	<u>13.6</u>	<u>11.5</u>
Post retirement medical costs - United States	<u>0.7</u>	<u>0.2</u>

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:

	<u>Pension schemes</u>	<u>Overseas medical costs liabilities</u>
Dates of last valuations or review	March 2001, April 2002 and April 2003	December 2003
Market value of investments	£416.1 million	
Market value of assets as a percentage of accrued service liabilities, allowing for expected future increases in earnings	99%	
Main assumptions:		
Return on investments above general earnings inflation	1.0% to 2.5%	
Return on investments above annual pension increases		
– post retirement benefits	2.3% to 4.3%	
– pre-retirement benefits	2.3% to 3.3%	
Medical costs liabilities - inflation rate		5.0%

### (ii) FRS 17 Retirement Benefits

#### UK Schemes

The valuations used for FRS 17 disclosures have been based on the most recent actuarial valuations carried out within the last three years 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 2003. Scheme assets are stated at their market value at 31 December 2003.

#### 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 2003 by qualified independent actuaries.

**NOTES TO THE ACCOUNTS**  
continued

**9 Post retirement benefits (continued)**

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

	2003		2002		2001	
	UK	Overseas	UK	Overseas	UK	Overseas
Valuation method	Projected unit	Projected unit	Projected unit	Projected unit	Projected unit	Projected unit
Discount rate	5.4%	6.1%	5.5%	6.6%	5.8%	7.0%
Inflation rate	2.8%	2.5%	2.3%	2.5%	2.5%	3.1%
Increase to deferred benefits during deferment	3.3%	2.0%	2.7%	2.5%	2.7%	2.0%
Increase to pensions in payment	2.9%	2.3%	2.7%	2.4%	2.7%	2.0%
Salary increases	2.8%	3.4%	3.6%	3.5%	4.1%	3.8%
Medical costs liabilities – inflation rate	-	5.0%	-	5.0%	-	4.6%

The amounts required to be disclosed by FRS 17 in respect of the group's performance statements were:

Analysis of amounts that would have been charged to operating profit in respect of defined benefit schemes and overseas medical costs

	2003 £m	2002 £m
Current service	(7.2)	(7.1)
Past service credit	11.7	-
Loss on settlements and curtailments	(0.5)	-
Total operating credit/(charge)	<u>4.0</u>	<u>(7.1)</u>

Analysis of amounts that would have been credited to other finance income

	2003 £m	2002 £m
Expected return on schemes' assets	26.9	34.4
Interest on schemes' liabilities	(31.3)	(33.2)
Net return	<u>(4.4)</u>	<u>1.2</u>

Analysis of amounts that would have been recognised in the statement of total recognised gains and losses

	2003 £m	2002 £m
Actual return less expected return on schemes' assets	28.6	(73.2)
Experience gains and losses arising on schemes' liabilities	(13.9)	18.9
Changes in the assumptions underlying the present value of schemes' liabilities	(26.0)	(30.7)
Currency translation adjustment	3.0	3.2
Actuarial loss recognised in statement of total recognised gains and losses	<u>(8.3)</u>	<u>(81.8)</u>

History of experience gains and losses

	2003	2002
Difference between the actual and expected return on schemes' assets:		
Amount (£m)	28.6	(73.2)
Percentage of schemes' assets	6%	17%
Experience gains and losses on schemes' liabilities:		
Amount (£m)	(13.9)	18.9
Percentage of schemes' liabilities	2%	3%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£m)	(8.3)	(81.8)
Percentage of schemes' liabilities	1%	14%

## 9 Post retirement benefits (continued)

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

	Long-term rate of return expected at		Value at 31 December 2003					
	31 December 2003		UK scheme in surplus £m	UK schemes in deficit £m	Overseas schemes £m	Total pension schemes £m	Overseas medical costs liabilities £m	Total schemes £m
	UK	Overseas						
Equities	7.7%	9.5%	83.5	100.7	43.2	227.4	-	227.4
Bonds	4.8%	6.5%	128.7	52.2	36.5	217.4	-	217.4
Other	4.3%	7.6%	3.0	11.3	3.1	17.4	-	17.4
Total market value of assets			215.2	164.2	82.8	462.2	-	462.2
Present value of liabilities			(207.6)	(211.0)	(140.5)	(559.1)	(26.7)	(585.8)
Surplus/(deficit)			7.6	(46.8)	(57.7)	(96.9)	(26.7)	(123.6)
Related deferred tax asset			-	-	0.1	0.1	-	0.1
Net pension asset/(liability)			7.6	(46.8)	(57.6)	(96.8)	(26.7)	(123.5)
(Asset)/provision already carried on the consolidated balance sheet			-	(2.5)	33.9	31.4	26.7	58.1
Net pension asset/(liability) not reflected on the consolidated balance sheet			7.6	(49.3)	(23.7)	(65.4)	-	(65.4)

	Long-term rate of return expected at		Value at 31 December 2002					
	31 December 2002		UK scheme in surplus £m	UK schemes in deficit £m	Overseas schemes (i) £m	Total pension schemes £m	Overseas medical costs liabilities £m	Total schemes £m
	UK	Overseas						
Equities	7.5%	9.4%	84.9	88.0	46.6	219.5	-	219.5
Bonds	4.6%	6.5%	108.9	47.9	28.4	185.2	-	185.2
Other	4.0%	6.9%	13.0	9.5	4.2	26.7	-	26.7
Total market value of assets			206.8	145.4	79.2	431.4	-	431.4
Present value of liabilities			(195.2)	(201.7)	(137.9)	(534.8)	(30.0)	(564.8)
Surplus/(deficit)			11.6	(56.3)	(58.7)	(103.4)	(30.0)	(133.4)
Related deferred tax asset			-	-	0.7	0.7	-	0.7
Net pension asset/(liability)			11.6	(56.3)	(58.0)	(102.7)	(30.0)	(132.7)
(Asset)/provision already carried on the consolidated balance sheet			-	(1.3)	37.4	36.1	30.0	66.1
Net pension asset/(liability) not reflected on the consolidated balance sheet			11.6	(57.6)	(20.6)	(66.6)	-	(66.6)

(i) The net pension liability of £58.0 million attributable to overseas schemes is after deducting £2.5 million in relation to schemes in surplus.

	Long-term rate of return expected at		Value at 31 December 2001					
	31 December 2001		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
	UK	Overseas						
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 asset			-	-	-	-	-	-
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

## NOTES TO THE ACCOUNTS

continued

### 9 Post retirement benefits (continued)

If the above amounts had been recognised in the accounts, the group's net assets/(liabilities) and profit and loss reserve at 31 December would have been as follows:

	2003 £m	2002 £m
<b>Net assets/(liabilities)</b>		
Net assets excluding pension assets/(liabilities)	83.0	79.1
Pension surplus	7.6	14.1
Pension deficit	(131.2)	(147.5)
Related deferred tax asset	0.1	0.7
Net liabilities including net pension liability	<u>(40.5)</u>	<u>(53.6)</u>
<b>Reserves</b>		
Profit and loss reserve excluding net pension liability	54.7	52.8
Net pension liability	(123.5)	(132.7)
Profit and loss reserve	<u>(68.8)</u>	<u>(79.9)</u>
<b>Movement in deficit during year</b>		
Deficit in the schemes at the beginning of the year	(133.4)	(55.4)
Current service cost	(7.2)	(7.1)
Contributions	18.5	9.7
Past service credit	11.7	-
Loss on settlements and curtailments	(0.5)	-
Other finance income	(4.4)	1.2
Actuarial loss	(8.3)	(81.8)
Deficit in the schemes at the end of the year	<u>(123.6)</u>	<u>(133.4)</u>

### 10 Dividends paid and proposed

There were no dividends paid or proposed in the year (2002: nil).

### 11 Earnings/(loss) per share

Basic headline earnings per share is calculated on losses of £7.4 million (2002 profits: £4.8 million) and on an average of 94,149,000 (2002: 94,149,000) shares.

Adjusted 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 (2002: nil) dilutive potential shares deriving from share options.

	Basic and fully diluted 2003 Pence	Basic and fully diluted 2002 Pence
Earnings/(loss) per share - headline	(7.9)	5.1
Amortisation of goodwill	1.3	1.3
Exceptional items	19.1	2.2
Earnings per share - adjusted	<u>12.5</u>	<u>8.6</u>

### 12 Intangible fixed assets - goodwill

	Cost £m	Amortisation £m	Net book value £m
At 31 December 2002	22.9	(4.4)	18.5
Amortisation for the year	-	(1.2)	(1.2)
At 31 December 2003	<u>22.9</u>	<u>(5.6)</u>	<u>17.3</u>

### 13 Tangible fixed assets

	Land and buildings £m	Plant furniture and fittings £m	Total tangible fixed assets £m
Cost:			
At 31 December 2002	85.1	166.8	251.9
Currency realignment	1.1	(0.9)	0.2
Additions	1.8	5.4	7.2
Disposals	(13.8)	(12.1)	(25.9)
Business disposals	(0.8)	(4.2)	(5.0)
At 31 December 2003	<u>73.4</u>	<u>155.0</u>	<u>228.4</u>
Depreciation:			
At 31 December 2002	19.2	99.6	118.8
Currency realignment	0.2	(0.5)	(0.3)
Charge to profit and loss account	2.8	15.9	18.7
Disposals	(3.8)	(10.3)	(14.1)
Impairment	2.7	0.5	3.2
Business disposals	(0.5)	(3.1)	(3.6)
At 31 December 2003	<u>20.6</u>	<u>102.1</u>	<u>122.7</u>
Net book value:			
At 31 December 2003	<u>52.8</u>	<u>52.9</u>	<u>105.7</u>
At 31 December 2002	<u>65.9</u>	<u>67.2</u>	<u>133.1</u>

	Land and buildings		Plant, furniture and fittings	
	2003 £m	2002 Restated £m	2003 £m	2002 £m
(i) Fixed assets include the following in respect of assets held under finance leases:				
Net book value at the year end	<u>1.7</u>	<u>2.4</u>	<u>0.4</u>	<u>0.2</u>
Depreciation charge for the year	<u>0.6</u>	<u>0.5</u>	<u>0.1</u>	<u>0.1</u>

(ii) The net book value of the group's land and buildings includes £0.5 million (2002: £3.5 million) for long leasehold properties and £6.2 million (2002: £7.6 million) for short leasehold properties.

(iii) Committed capital expenditure of subsidiary undertakings at the year end was £0.1 million (2002: £1.0 million).

(iv) In last year's annual report the net book value of land and buildings held under finance leases and the related depreciation charge were incorrectly stated as being £0.5 million and £0.2 million respectively. This has been corrected in the table above.

### 14 Fixed asset investments

	Group investment in associated undertakings - unlisted £m	Company investment in subsidiary undertakings £m
At 31 December 2002	24.2	1,009.1
Currency realignment	(0.2)	-
Business acquisitions	2.7	-
Loans made	1.4	-
Group's share of net losses retained	(0.2)	-
At 31 December 2003	<u>27.9</u>	<u>1,009.1</u>

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

(ii) Included in the carrying value of associated undertakings are loans of £1.4 million (2002: nil).

(iii) Principal interests in group undertakings are shown on pages 48 and 49.

(iv) Loans due by the Company to subsidiary undertakings, which are interest free, amounted to £834.6 million (2002: £832.4 million).

NOTES TO THE ACCOUNTS  
continued

14 Fixed asset investments (continued)

(v) The Group's share in the net assets of associated undertakings comprises:

	2003 £m	2002 £m
Fixed assets	15.2	16.6
Current assets	31.5	27.4
Liabilities due within 1 year	(16.2)	(10.9)
Liabilities due after 1 year	(4.0)	(8.9)
Share of net assets	<u>26.5</u>	<u>24.2</u>

(vi) The Group's share of turnover, profit and net assets of associated undertakings

	Turnover 2003 £m	Profit 2003 £m	Net assets 2003 £m	Turnover 2002 £m	Profit 2002 £m	Net assets 2002 £m
<b>Classes of business</b>						
Welding and cutting	55.2	5.6	19.2	54.5	4.4	18.2
Welding and cutting - operating exceptional items	-	(0.9)	-	-	-	-
Air and gas handling	7.6	1.2	8.7	5.5	0.9	6.0
Air and gas handling - operating exceptional items	-	-	-	-	(0.7)	-
Net interest	-	(0.4)	-	-	(0.4)	-
Continuing operations	<u>62.8</u>	<u>5.5</u>	<u>27.9</u>	<u>60.0</u>	<u>4.2</u>	<u>24.2</u>
<b>Geographical area by country of operation</b>						
United Kingdom	5.7	1.1	5.5	3.8	0.7	4.1
Rest of Europe	31.1	3.7	9.1	28.4	2.6	8.7
Rest of Europe - operating exceptional items	-	(0.9)	-	-	(0.7)	-
North America	1.7	-	0.8	1.5	0.2	0.8
Rest of World	24.3	2.0	12.5	26.3	1.8	10.6
Net interest	-	(0.4)	-	-	(0.4)	-
Continuing operations	<u>62.8</u>	<u>5.5</u>	<u>27.9</u>	<u>60.0</u>	<u>4.2</u>	<u>24.2</u>

15 Stocks

	2003 £m	2002 £m
At cost:		
Short term contract work in progress	14.5	20.4
Deduct: Progress payments received and receivable	(7.4)	(16.6)
Short term contract balances	<u>7.1</u>	<u>3.8</u>
Long term contract work in progress	0.6	0.5
Deduct: Progress payments received and receivable	(0.3)	-
Long term contract balances	<u>0.3</u>	<u>0.5</u>
Contract balances	7.4	4.3
Raw materials, components and consumable stores	28.3	33.6
Work in progress	12.4	11.9
Finished goods	53.9	62.6
	<u>102.0</u>	<u>112.4</u>

## 16 Debtors

	2003 £m	2002 £m
Amounts falling due within one year:		
Trade debtors	164.7	181.8
Long term contracts	4.4	9.8
Other debtors	21.7	23.6
Prepayments and accrued income	8.3	6.7
	<u>199.1</u>	<u>221.9</u>
Amounts falling due after more than one year:		
Trade debtors	0.4	0.2
Other debtors	1.0	1.0
Prepayments and accrued income including ACT recoverable	2.1	2.6
	<u>3.5</u>	<u>3.8</u>
	<u>202.6</u>	<u>225.7</u>

## 17 Cash at bank and in hand

Cash at bank and in hand includes deposits of £22.8 million (2002: £0.8 million) that are not repayable on demand as defined by FRS 1 Cash Flow Statements (Revised 1996).

## 18 Creditors: amounts falling due within one year

	2003 £m	2002 £m
Trade creditors	71.8	79.3
Payments received on account	12.8	3.5
Other creditors	35.2	32.0
Corporation tax	20.1	20.2
Social security and other taxation	8.8	8.5
Accruals and deferred income	32.5	39.1
	<u>181.2</u>	<u>182.6</u>

NOTES TO THE ACCOUNTS  
continued

19 Borrowings

	2003 £m	2002 £m
Short term		
US\$3.0 million 7.24% loan notes due 01.07.03	-	1.9
US\$72.3 million 6.78% loan notes due 10.03.04	40.4	-
US\$3.0 million 7.24% loan notes due 01.07.04	1.7	-
Obligations under finance leases	0.2	0.3
Syndicated bank facility - unsecured	25.7	87.2
Other bank loans and overdrafts - secured <sup>(i)</sup>	0.2	0.3
- unsecured	3.0	4.9
	<u>71.2</u>	<u>94.6</u>
Long term		
US\$72.3 million 6.78% loan notes due 10.03.04	-	44.9
US\$3.0 million 7.24% loan notes due 01.07.04	-	1.9
US\$3.0 million 7.24% loan notes due 01.07.05	1.7	1.9
US\$5.0 million 7.33% loan notes due 01.07.05	2.8	3.1
US\$85.0 million 6.88% loan notes due 21.10.07 <sup>(iii)</sup>	47.5	52.8
US\$35.0 million 6.96% loan notes due 21.10.09 <sup>(iii)</sup>	19.6	21.7
Obligations under finance leases	3.2	4.5
Syndicated bank facility - secured <sup>(i)</sup>	2.2	-
- unsecured	47.7	-
Other loans - unsecured	0.8	0.8
	<u>125.5</u>	<u>131.6</u>
<b>TOTAL BORROWINGS</b>	<u><u>196.7</u></u>	<u><u>226.2</u></u>

<sup>(i)</sup> Security given principally relates to land and buildings owned by subsidiary undertakings.

<sup>(ii)</sup> Long term borrowings are scheduled for repayment, as follows:

	Syndicated Bank Facility £m	Loan Notes £m	Finance leases £m	Other Loans £m	Total 2003 £m	Total 2002 £m
Between one and two years	49.9	4.5	0.5	-	54.9	47.0
Between two and five years	-	47.5	2.3	-	49.8	58.6
Over five years	-	19.6	0.4	0.8	20.8	26.0
	<u>49.9</u>	<u>71.6</u>	<u>3.2</u>	<u>0.8</u>	<u>125.5</u>	<u>131.6</u>

<sup>(iii)</sup> Effective 3 February 2004 the coupon rate payable on the 2007 and 2009 loan notes was increased by 0.5 per cent. to 7.38 per cent. and 7.46 per cent., respectively.

<sup>(iv)</sup> Parent company balance sheet:

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

## 20 Provisions for liabilities and charges

	Deferred taxation	Disposal and restructuring costs	Post retirement benefits	Other	Total
	£m	£m	£m	£m	£m
At 31 December 2002	0.7	30.4	70.8	21.4	123.3
Utilised	-	(18.0)	(12.2)	(5.1)	(35.3)
Provided	1.2	8.4	6.7	12.2	28.5
Released	(1.7)	(1.1)	(0.3)	(2.2)	(5.3)
Currency realignment	(0.2)	0.2	0.5	(0.1)	0.4
At 31 December 2003	-	19.9	65.5	26.2	111.6

Deferred taxation amounts are set out below:

	Provision made 2003 £m	Full potential 2003 £m	Provision made 2002 £m	Full potential 2002 £m
Excess of the book value of assets, including finance leases qualifying for taxation allowances, over their written down value for taxation purposes		9.7	8.7	8.7
Held over capital gains		13.3	10.0	10.0
Relief for future costs		(2.1)	(1.2)	(18.7)
Losses carried forward		(20.9)	(16.8)	(146.6)
		-	0.7	(146.6)

- Disposal and restructuring costs include in both 2003 and 2002 restructuring costs relating to continuing operations. The majority of the restructuring costs will be utilised over the next twelve to twenty four months.
- 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.
- Other provisions include amounts in respect of legal costs and claims, 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.
- The unrecognised deferred tax assets are not expected to become recoverable in the foreseeable future.

## 21 Acquisitions and disposals

On 10 December 2003 the disposal of the US Defence Businesses was completed for a cash consideration of approximately US\$45.0 million. The consideration is subject to adjustment by reference to the net asset values shown in the Completion Accounts once these have been determined. (note 26).

On 31 December 2003 the disposal of the Howden Pumps business in South Africa was completed in exchange for the acquisition of a 50 per cent. holding in Pump Brands (Pty) Limited. (note 26).

## 22 Commitments and contingencies

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

	Land and buildings 2003 £m	Other 2003 £m	Land and buildings 2002 £m	Other 2002 £m
Within one year	1.3	0.9	1.4	1.0
Between two and five years	3.7	1.7	2.4	1.5
After five years	0.3	0.1	1.2	0.1
	5.3	2.7	5.0	2.6

Guarantees given by the Company in connection with subsidiary undertakings' borrowings were £196.3 million (2002: £273.9 million). In addition the group and the Company have contingent liabilities entered into in the normal course of business from which no liability is expected to arise.

## NOTES TO THE ACCOUNTS

continued

### 22 Commitments and contingencies (continued)

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, Illinois 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.

Howden Buffalo, Inc. ("Howden"), a subsidiary of Charter, has been named as a defendant in a number of asbestos-related actions in the United States. Upon advice of counsel, Howden is vigorously defending all of the cases that have been filed against it. Over the past few years, Howden has sought and received dismissals in 421 cases and has, upon advice of counsel, settled 32 cases. The 32 cases were all settled for nuisance value amounts, much less than the cost of defending the cases at trial. Howden has received legal advice indicating that it should be able to continue to defend successfully the actions that are brought. At this time, it is not practical to estimate the amount of any potential damages or to provide details of the current stage of proceedings in particular cases, as the majority of cases do not specify the amount of damages sought and the cases are at varying stages in the litigation process. However, legal fees associated with the defence of these claims have been covered by applicable insurance. The situation is reviewed regularly and based on the most recent review and legal advice obtained by Howden, the directors believe that the aggregate of any potential liability is unlikely to have a material effect on Charter's financial position.

In November 2003, Howden filed a lawsuit in the US District Court in Pittsburgh, Pennsylvania, USA, against three insurance companies that provided general liability coverage to a predecessor of Howden known as Buffalo Forge Company ("Buffalo Forge"). The lawsuit seeks a declaratory judgement that Howden is entitled to coverage under the Buffalo Forge policies for legal defence costs, liabilities and expenses incurred by Howden in underlying lawsuits alleging that Howden is liable as a successor to Buffalo Forge for asbestos-related injuries allegedly sustained by the claimants as a result of exposure to asbestos in products manufactured by Buffalo Forge. The Pennsylvania coverage action is in its early stages. However, the directors believe, based on legal advice, that the majority of asbestos-related lawsuits against Howden resulting from the historical operations of Buffalo Forge should be covered, in whole or in part, under the historical insurance policies issued to Buffalo Forge.

The Esab Group Inc, ("Esab"), a subsidiary of Charter, has been named as a defendant in a number of lawsuits in state and federal courts in the United States alleging personal injuries from exposure to manganese in the fumes of welding consumables. Other current and former manufacturers of welding consumables have also been named as defendants as well as various trade associations, including the American Welding Society, the National Electrical Manufacturers Association, the Ferroalloys Association, and others. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts. A multi-district litigation proceeding has been established to consolidate and coordinate pre-trial proceedings in the federal court cases. The state court cases are at varying stages in the litigation process; however, several cases are scheduled for trial later this year. Upon the advice of counsel, Esab and the other welding consumable manufacturers are vigorously contesting the existence of any liability and are vigorously defending these cases. The directors believe, based on legal advice, that most of the claims should be covered in whole or in part by Esab's historical insurance carriers.

Esab has also been named as a defendant in a small number of lawsuits in Massachusetts and Pennsylvania, United States, in which claimants allege asbestos-induced personal injuries. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts. The Massachusetts cases (six cases) have been placed on the June 2004 trial list. Upon the advice of counsel, the directors believe that Esab has meritorious defences to these claims and Esab intends vigorously to defend these lawsuits. In addition, the majority of defence costs are being borne by Esab's insurers.

### 23 Share capital

	2003 Number of Ordinary shares of 2p each	2003 £	2002 Number of Ordinary shares of 2p each	2002 £
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 no share options were granted. At 31 December 2003 39 participants held options over 1,631,170 shares; these options are exercisable during various periods up to 19 May 2012 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. This plan has not operated since 1999. At 31 December 2003 7 participants held rights over 203,898 shares. As none of the performance targets associated with any of the awards has been met, the awards would only be of value in the event of a change in control of the Company. The exercise price of these awards would be funded by a cash bonus payable at the date of exercise and therefore the effective cost to the allottee would be nil.

## 24 Reserves

	Share premium account £m	Profit and loss account £m	Total £m
<b>Group</b>			
At 31 December 2002	5.9	(13.3)	(7.4)
Retained loss for the financial year	-	(7.4)	(7.4)
Net effect of translation of currencies	-	(6.3)	(6.3)
Net effect of translation of currencies – taxation	-	(0.6)	(0.6)
Goodwill associated with the sale and termination of operations	-	24.2	24.2
At 31 December 2003	5.9	(3.4)	2.5
	Share premium account £m	Profit and loss account £m	Total £m
<b>Company</b>			
At 31 December 2002	5.9	197.8	203.7
Retained loss for the financial year	-	(1.3)	(1.3)
At 31 December 2003	5.9	196.5	202.4

- (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) In the group reserves £4.1 million of exchange losses on foreign currency loans have been offset against exchange gains on the net investments in certain overseas subsidiaries and associated undertakings.
- (iii) Acquisition goodwill of £606.4 million has been dealt with through reserves up to 31 December 2003 (2002: £630.6 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 equity shareholders' funds was as follows:

	2003 £m	2002 £m
Loss for the financial year	(1.3)	(4.7)
Dividends for the financial year	-	-
	(1.3)	(4.7)
Opening shareholders' funds	205.6	210.3
Closing shareholders' funds	204.3	205.6

## 25 Minority interests - equity interests

	2003 £m	2002 £m
At 1 January	18.5	24.1
Share of profit for the financial year	4.3	3.5
Dividends payable	(1.7)	(0.7)
Acquisitions and disposals	-	(0.7)
Net effect of translation of currencies	(0.6)	(7.7)
At 31 December	20.5	18.5

NOTES TO THE ACCOUNTS  
continued

26 Cash flow statement

(i) Cash flow from operating activities

	2003 £m	2002 £m
Operating profit - excluding associated undertakings	22.2	4.9
Depreciation	18.7	20.6
Goodwill amortisation	1.2	1.2
Profit on sale of fixed assets	(0.3)	(0.4)
Exceptional items		
Current year charge - restructuring (excluding associated undertakings)	9.5	19.2
Current year charge - litigation and warranty	0.4	1.5
Restructuring costs spend	(19.2)	(20.5)
Litigation costs (spent)/recovered	(0.1)	0.3
Change in stock	4.8	8.3
Change in debtors	19.9	17.2
Change in creditors	(0.5)	(16.9)
Other movements in provisions	(1.7)	(3.2)
	<u>54.9</u>	<u>32.2</u>

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

	2003 £m	2002 £m
Increase in cash in the year	36.1	26.8
Cash outflow from debt and lease financing	2.9	5.2
Cash outflow/(inflow) from liquid resources	23.0	(15.9)
Change in net debt resulting from cash flows	62.0	16.1
New finance leases	-	(0.1)
Exchange adjustments	(4.8)	4.1
Movement in net debt in the year	57.2	20.1
Opening balance of net debt	(194.0)	(214.1)
Closing balance of net debt	<u>(136.8)</u>	<u>(194.0)</u>

(iii) Analysis of net debt movements

	Opening balance £m	Cash flow £m	Other non-cash changes £m	Exchange adjustment £m	Closing balance £m
Cash - gross	31.4	5.3	-	0.4	37.1
Short term borrowings	(92.4)	30.8	39.5	(6.8)	(28.9)
Cash - net	(61.0)	36.1	39.5	(6.4)	8.2
Other cash at bank and in hand	0.8	23.0	-	(1.0)	22.8
Other short term debt	(1.9)	1.8	(43.6)	1.6	(42.1)
Long term debt	(127.1)	-	4.1	0.7	(122.3)
Finance leases	(4.8)	1.1	-	0.3	(3.4)
Total	<u>(194.0)</u>	<u>62.0</u>	<u>-</u>	<u>(4.8)</u>	<u>(136.8)</u>

## 26 Cash flow statement (continued)

### (iv) Acquisitions and disposals

	Acquisitions		Disposals	
	2003 £m	2002 £m	2003 £m	2002 £m
Fixed assets including investments	2.7	-	1.4	0.4
Stocks	-	-	5.1	2.3
Debtors	-	-	6.3	1.0
Creditors	-	-	(3.9)	(0.7)
Minority interest	-	0.7	-	-
	<u>2.7</u>	<u>0.7</u>	<u>8.9</u>	<u>3.0</u>
Negative goodwill - on acquisitions	-	(0.1)	-	-
Net profit on disposal before writeback of goodwill (note 4)	-	-	18.5	(1.1)
	<u>2.7</u>	<u>0.6</u>	<u>27.4</u>	<u>1.9</u>
Satisfied by:				
Net cash consideration paid	-	0.6	-	1.9
Investment in associate acquired on disposal of subsidiary	2.7	-	2.7	-
Net cash consideration received	-	-	26.5	-
Consideration adjustment and costs to be paid in the following year	-	-	(1.3)	-
Exchange adjustment	-	-	(0.5)	-
	<u>2.7</u>	<u>0.6</u>	<u>27.4</u>	<u>1.9</u>

All acquisitions have been accounted for using acquisition accounting principles.

### (v) Acquisitions and disposals of subsidiary undertakings had the following net effects on the standard cash flow headings:

	2003 £m	2002 £m
Cash flow from operating activities	9.8	5.8
Returns on investments and servicing of finance	(0.1)	(0.1)
Taxation paid	-	-
Capital expenditure and financial investment	(0.6)	(0.5)
Increase in cash	<u>9.1</u>	<u>5.2</u>

## 27 Financial instruments

The following disclosure forms part of the treasury management notes in the Financial review on page 11.

### 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 2003 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				
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	Weighted average interest rate		Weighted average period for which rate is fixed		
											2003 %	2002 %	2003 Years	2002 Years	
Currencies															
Euro	(37.9)	(30.6)	(37.5)	(29.8)	-	-	(0.4)	(0.8)	-	-	4.85	4.85	5.67	7.01	
East European	(0.3)	-	(0.3)	-	-	-	-	-	-	-	-	-	-	-	
Other European	(15.5)	(16.2)	(15.5)	(16.2)	-	-	-	-	-	-	-	0.18	-	1.32	
North American	(119.9)	(133.2)	(3.6)	(1.5)	-	-	(116.3)	(131.7)	-	-	6.99	7.01	2.77	3.63	
South American	(0.1)	(0.4)	(0.1)	(0.3)	-	-	-	(0.1)	-	-	-	-	-	-	
Asian	(0.3)	(0.3)	(0.3)	(0.3)	-	-	-	-	-	-	-	-	-	-	
South African	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total currency	<u>(174.0)</u>	<u>(180.7)</u>	<u>(57.3)</u>	<u>(48.1)</u>	-	-	<u>(116.7)</u>	<u>(132.6)</u>	-	-				2.78 3.65	
Sterling	<u>(22.7)</u>	<u>(45.5)</u>	<u>(22.5)</u>	<u>(45.1)</u>	-	-	<u>(0.2)</u>	<u>(0.4)</u>	-	-	10.00	10.00	0.83	1.96	
Total group	<u>(196.7)</u>	<u>(226.2)</u>	<u>(79.8)</u>	<u>(93.2)</u>	-	-	<u>(116.9)</u>	<u>(133.0)</u>	-	-				2.78 3.65	

## NOTES TO THE ACCOUNTS

continued

### 27 Financial instruments (continued)

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 fixed rate hedging principally comprises US 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 and loans to associates.

	Total	
	2003 £m	2002 £m
Currencies		
Euro	14.9	12.4
East European	2.8	2.7
Other European	4.1	1.3
North American	18.7	4.3
South American	2.9	1.9
Asian	8.4	5.6
South African	5.7	1.7
Total currency	57.5	29.9
Sterling	3.8	2.3
Total group	61.3	32.2

The financial assets denominated in US Dollars include £1.4 million (2002: nil) in relation to a loan to an associated undertaking repayable in five bi-annual installments commencing 1 July 2006. The interest rate is fixed at 4.5 per cent. per annum. The interest receivable on the other financial assets is at floating rates based on relevant national LIBID equivalents or government bond rates.

### 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:

Functional currency of group operation	Net foreign currency monetary assets/(liabilities)																	
	Sterling		Euro		East European		Other European		North American		South American		Asian		South African		Total	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Sterling	-	-	1.4	5.7	0.3	-	-	-	1.4	2.2	-	-	0.2	0.1	-	-	3.3	8.0
Euro	-	0.5	-	-	-	0.1	-	-	0.1	0.7	-	-	-	-	-	-	0.1	1.3
East European	-	-	0.1	(0.6)	-	-	0.1	0.1	0.1	0.2	-	-	-	-	-	-	0.3	(0.3)
Other European	-	-	1.3	(0.4)	(0.3)	-	-	-	-	(0.1)	-	-	-	-	-	-	1.0	(0.5)
North American	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South American	-	-	-	-	-	-	-	-	0.4	0.1	-	-	-	-	-	-	0.4	0.1
Asian	-	-	0.2	0.2	-	-	-	-	1.1	0.7	-	-	-	-	-	-	1.3	0.9
South African	0.1	-	-	0.2	-	-	-	-	0.2	0.2	-	-	-	-	-	-	0.3	0.4
Total	0.1	0.5	3.0	5.1	-	0.1	0.1	0.1	3.3	4.0	-	-	0.2	0.1	-	-	6.7	9.9

### Borrowing facilities

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

	2003 £m	2002 £m
<b>Total committed borrowing facilities</b>		
Expiring in one year or less	67.8	130.9
Expiring in more than one year but not more than two years	78.5	46.8
Expiring in more than two years	67.0	79.5
Total	213.3	257.2
<b>Committed facility undrawn at the year end</b>		
Expiring in one year or less	-	41.8
Expiring in more than one year but not more than two years	24.1	-

## 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:

	Book value		Fair value	
	2003 £m	2002 £m	2003 £m	2002 £m
Primary financial instruments held or issued to finance the group's operations				
Short term borrowings and current portion of long term borrowings	(71.2)	(94.6)	(71.2)	(94.6)
Long term borrowings	(125.5)	(131.6)	(133.8)	(146.2)
Cash deposits	59.9	32.2	59.9	32.2
Loan to associated undertaking	1.4	-	1.4	-
Other financial liabilities	-	-	-	-
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps and similar instruments	-	-	-	-
Interest rate caps and collars	-	-	-	-
Forward foreign currency contracts	(0.6)	(1.2)	(0.6)	(1.2)
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales				
Forward foreign currency contracts	-	-	(0.7)	0.8

The fair values of foreign exchange contracts have been estimated by reference to the 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 11, the group's policy is to consider the appropriateness of hedges against 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		(Losses)		Total net gains/(losses)	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Gains and losses arising in and before the year that were not recognised in the year	-	0.8	(0.7)	-	(0.7)	0.8
Unrecognised gains and losses on hedges at the year end	-	0.8	(0.7)	-	(0.7)	0.8
Of which:						
Gains and losses expected to be recognised in the next year	-	0.8	(0.7)	-	(0.7)	0.8
Gains and losses expected to be recognised in subsequent years	-	-	-	-	-	-

### 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 (2002: £1.4 million) and the effect of a rise of three percentage points would reduce profit before tax by approximately £3.7 million (2002: £4.1 million).

## 28 Post balance sheet events

Following approval by the Company's shareholders at the Extraordinary General Meeting held on 8 March 2004 the Company's authorised share capital was increased to £3,319,788 and 56,487,752 shares were provisionally allotted in connection with the Rights Issue that was announced on 20 February 2004. The net proceeds of the Rights Issue will amount to approximately £44.6 million.

## PRINCIPAL INTERESTS IN GROUP UNDERTAKINGS

### Subsidiary undertakings

	Country of incorporation	Group interest in equity capital (per cent.)	Nature of business
<b>Welding and cutting products</b>			
<b>Europe</b>			
Esab AB	Sweden	100	Welding consumables and equipment
Esab Cutting Systems GmbH	Germany	100	Oxy-fuel, plasma, laser and water jet cutting
<b>North America</b>			
The Esab Group Inc.	USA	100	Welding consumables and equipment
<b>South America</b>			
Esab SA Industria e Comercio	Brazil	38	Welding consumables and equipment
Conarco Alambres y Soldaduras S.A.	Argentina	38	Welding consumables and equipment
<b>Asia Pacific</b>			
Esab Asia/Pacific Pte Limited	Singapore	100	Welding consumables and equipment
<b>Air and gas handling</b>			
<b>Europe</b>			
Howden Power Limited	Northern Ireland	100	Industrial and utility fans and heat exchangers
Howden Sirocco SA	France	100	Industrial fans
Burton Corblin SA	France	100	Compressors
Ventilatoren Sirocco Howden BV	Netherlands	100	Industrial fans and ventilation systems
Turbowerke Meissen Howden GmbH	Germany	100	Industrial fans
Voith Howden GmbH	Germany	100	Industrial and utility fans
Howden Power A/S	Denmark	100	Industrial and utility fans
Howden Power Spain SL	Spain	100	Heat exchangers
<b>North America</b>			
Howden Buffalo Inc.	USA	100	Industrial and utility fans
<b>Asia Pacific</b>			
Howden Hua Engineering Co Limited	China	70	Industrial and utility fans and heat exchangers
<b>South Africa</b>			
Howden Africa Holdings Limited	South Africa	58	Industrial and utility fans, heat exchangers, gas cleaning equipment, pumps and cooling systems

### Subsidiary undertakings (continued)

	Country of incorporation	Group interest in equity capital (per cent.)	Nature of business
<b>Specialised engineering</b>			
<b>North America</b>			
Howden Food Equipment Inc.	USA	100	Food processing equipment
<b>Asia Pacific</b>			
HD Engineering Limited	Hong Kong	100	Drilling machines, components and accessories

### Associated undertakings

Howden Compressors Limited	Scotland	49	Screw compressors
GCE Gas Control Equipment AB (v)	Sweden	50	Gas control equipment
ESAB SeAH Corporation	South Korea	50	Welding consumables
Esab India Limited	India	38	Welding consumables and equipment
I/S Susa	Denmark	50	Property partnership
Pump Brands (Pty) Limited	South Africa	50	Pumps and related products

#### Notes

- (i) The group's controlling interests in Esab SA Industria e Comercio and Conarco Alambres y Soldaduras S.A. are held by intermediate holding companies in which the group has voting control.
- (ii) Each of the associated undertakings has only one class of capital.
- (iii) The principal country of operation is the same as the country of incorporation.
- (iv) The group undertakings above are all held by subsidiary undertakings of the Company. A full list of group undertakings will be annexed to the Company's next annual return.
- (v) The group's interest in GCE Gas Control Equipment AB was sold on 26 February 2004.
- (vi) Howden Power Spain SL was formerly known as Howden Talleres Sanchez Luengo SA.

## NOTICE OF MEETING

Notice is hereby given that the eleventh annual general meeting of members of Charter plc will be held at the offices of ABN AMRO, 250 Bishopsgate, London EC2M 4AA on Friday 25 June 2004 at 12 noon for the following purposes:

- 1 To receive and consider the accounts and the report of the directors for the year ended 31 December 2003.
- 2 (a) To re-appoint each of the following as directors of the Company who retire and offer themselves for re-election:
  - (i) Mr H P R Mullan;
  - (ii) Mr J M Neill;
  - (iii) Mr M G Foster; and
  - (iv) The Hon. James H M Bruce.(b) To re-appoint Mr R A Careless as a director following his appointment on 22 April 2004.
- 3 To re-appoint PricewaterhouseCoopers LLP as auditors and authorise the board to fix their remuneration.
- 4 To approve the directors' remuneration report for the year ended 31 December 2003.
- 5 To consider the following resolution, which will be proposed as an Ordinary Resolution:

"THAT the authorised share capital of the Company be increased from £3,319,788 to £4,300,000 by the creation of 49,010,600 ordinary shares of 2p each to rank pari passu in all respects from the date of their allotment with the existing ordinary shares of 2p each in the share capital of the Company."
- 6 To consider the following resolution, which will be proposed as an Ordinary Resolution:

"THAT, subject to the passing of resolution 5 above, the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,004,245, PROVIDED THAT this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired."
- 7 To consider the following resolution, which will be proposed as a Special Resolution:

"THAT, subject to the passing of resolutions 5 and 6 above, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited:

  - (a) to the allotment of equity securities in connection with a rights issue in favour of shareholders where the equity securities respectively attributable to the interests of all shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever); and
  - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £150,636,

and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 24 September 2005 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired."
- 8 To consider the following resolution, which will be proposed as an Ordinary Resolution:

"THAT the Charter (DG-2004) Incentive Plan, a summary of the Rules of which is set out in the Appendix to the notice of meeting, be and is hereby approved and the directors be and they are hereby authorised to do all acts and things necessary to establish and carry it into effect."

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy accompanies this notice.

By order of the board  
A R Yapp Secretary  
21 May 2004

Registered office  
52 Grosvenor Gardens  
London SW1W 0AU

## Notes

- (i) To have the right to attend and vote at the annual general meeting you must hold ordinary shares in the Company and your name must be entered on the share register of the Company at least 48 hours before the meeting.
- (ii) Forms of proxy must reach the Company's registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 3ZZ, not less than 48 hours before the meeting. A form of proxy accompanies this notice.
- (iii) Holders of share warrants to bearer who wish to attend in person or by proxy or to vote at the meeting must comply with the relevant conditions governing share warrants to bearer.
- (iv) Mr R A Careless was appointed Finance Director of the Company on 22 April 2004 having replaced Mr D M Eilbeck who resigned as Finance Director on that date. Mr Careless, 50, joined the Company in February 2002 and has been responsible for corporate finance and restructuring. He was formerly Finance Director and Company Secretary of Semara Holdings plc.
- (v) As a result of the recent Rights Issue, the interests of the current directors as at 30 April 2004, being a date not more than one month prior to the date of the notice of the annual general meeting, have changed as follows: D Gawler now has an interest in 40,000 ordinary shares of 2p each and J M Neill now has an interest in 4,371 ordinary shares of 2p each.
- (vi) The register of interests of the directors and their families in the share capital of the Company and copies of directors' service contracts will be available for inspection by members at the registered office of the Company during normal business hours on any working day (Saturdays and Bank Holidays excepted) from the date of this notice and will, on the day of the annual general meeting, be available for inspection at the offices of ABN AMRO, 250 Bishopsgate, London EC2M 4AA, from 11.45 a.m. until the conclusion of the meeting.
- (vii) Between 9 March 2004 and 30 April 2004, being a date not more than one month prior to the date of the notice of the annual general meeting, the Company has been informed of the following changes in non-beneficial interests in its ordinary shares: Guinness Peat Group plc 10.99 per cent; Jupiter Asset Management Limited 12.06 per cent; Ennismore Fund Management 3.75 per cent; Hermes Pensions Management Limited 3.21 per cent; and Legal & General Group PLC 3.02 per cent.
- (viii) Refreshments will be available at the venue from 11.30 a.m.

## Appendix

### Summary of the Main Provisions of the Charter (DG - 2004) Incentive Plan

#### 1. Eligibility

David Gawler is the only director or employee of the Company who is entitled to participate in the Plan. It will operate as an incentive for Mr. Gawler as his service agreement has been extended until 30 June 2006.

#### 2. Grant of Awards

An award representing a contingent right to receive a payment in cash or securities will be made within 42 days of the date when the Plan is adopted. The award is personal to the participant and his personal representatives and may not be transferred. No payment will be required for the grant of the award and the award is not pensionable.

#### 3. Circumstances in which Awards vest

The award will vest on 30 June 2006. The award may vest earlier in the event of the participant's cessation of employment in certain permitted circumstances (e.g. injury, ill-health, redundancy, death, or circumstances where the Company terminates the employment and vesting is approved by the Remuneration Committee in its absolute discretion) or on a change of control of the Company.

In the event of early vesting due to a change of control of the Company the award will only vest in proportion to the part of the period between 25 April 2001 (the date the original Incentive Plan was established) and 30 June 2006 which has expired by the date the award vests. If the participant ceases to be employed prior to the date the award vests other than for a permitted reason, voluntarily resigns or there is any purported transfer of his award the award shall immediately lapse.

#### 4. Payment on vesting

On vesting the participant becomes entitled to an amount in Pounds Sterling which may be satisfied, at the Company's discretion, by a payment in cash or the issue or transfer of shares in the Company or any of its subsidiaries, or a combination of all or any of the above. For these purposes, any shares will generally be valued on the same basis as the Relevant Share Price described below.

Payment will be made as soon as reasonably practicable after vesting of the award. The gross amount of the total payment will be calculated in accordance with the following formula:

$$£1 \times (V - 158) \times 96V$$

where V is a number, being the lesser of the number of pence in the "Relevant Share Price" and 395.

For these purposes the "Relevant Share Price" is based on the average share price in the period comprising the 20 dealing days following the date the annual results for the calendar year ending 31 December 2005 are announced. In the event of early vesting it is based on an average share price in the 20 dealing days immediately prior to the date the award vests or, in the event of a change of control, the price per share of the relevant offer.

## NOTICE OF MEETING

continued

### 5. Variation of Capital

In the event of any variation of the share capital of the Company including a consolidation, a sub-division or rights issue, or in the event of any demerger of a part of the Company's undertaking or any subsidiary, or any material special distribution to shareholders, the Remuneration Committee may make such adjustment to the terms of the award (including as to the definition of Relevant Share Price and the formula described in paragraph 4 above) as it considers appropriate (and are confirmed by the Company's auditors as being reasonable in their opinion).

### 6. Limits

The number of shares in the Company which may be issued to satisfy the award will be limited so that the total number of shares issued or remaining issuable in a ten year period under this scheme and all other discretionary share option schemes shall not exceed 5% of the Company's issued share capital at the relevant time.

### 7. Amendment

The Remuneration Committee may suspend, amend or alter the Plan at any time but no action may impair or adversely affect the rights of the participant without the participant's consent and no alteration (except for minor amendments to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participant in the Plan, the Company or any member of its group) shall be made to benefit the participant without the prior approval of the Company in general meeting.

*Copies of the Charter (DG - 2004) Incentive Plan will be available for inspection at the registered office of the Company during normal business hours from the date of despatch of the notice of meeting up to the date of and during the Annual General Meeting, and at the place of the meeting from 15 minutes prior to the start of the meeting until the close of the meeting.*

## SHAREHOLDER INFORMATION

### Internet

Internet users will be able to view this report, together with other information about Charter plc at the Company's web site [www.charterplc.com](http://www.charterplc.com)

### Calendar

Annual general meeting	25 June 2004
Interim report	September 2004

### Registered office

52 Grosvenor Gardens  
London SW1W 0AU  
Telephone +44 (0)20 7881 7800  
Facsimile +44 (0)20 7259 9338

Registered in England  
Number 2794949

### Registrars

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 7NH

Shareholder enquiries: Telephone 0870 702 0000

If you are a shareholder you may check your holding on the Computershare Services web site at [www.computershare.com](http://www.computershare.com)

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**CHARTER**

Charter plc  
52 Grosvenor Gardens London SW1W 0AU  
Telephone +44 (0)20 7881 7800  
Facsimile +44 (0)20 7259 9338

[www.charterplc.com](http://www.charterplc.com)