

## 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

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### 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>

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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>		<b>(12.2)</b>	<b>(14.9)</b>
<i>Rest of Europe</i>		<b>29.0</b>	<b>93.7</b>		<b>12.1</b>	<b>103.6</b>
<i>North America</i>		<b>(4.9)</b>	<b>36.0</b>		<b>(11.6)</b>	<b>58.8</b>
<i>Rest of World</i>		<b>19.4</b>	<b>45.0</b>		<b>15.0</b>	<b>53.5</b>
		<u><b>21.5</b></u>	<u><b>161.7</b></u>		<u><b>3.3</b></u>	<u><b>201.0</b></u>
<i>Discontinued operations - North America</i>		<b>6.6</b>	<b>-</b>		<b>6.2</b>	<b>6.0</b>
<b>Operating profit/Operating assets</b>		<u><u><b>28.1</b></u></u>	<u><u><b>161.7</b></u></u>		<u><u><b>9.5</b></u></u>	<u><u><b>207.0</b></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><b>3.8</b></u></u>	<u><u><b>24.9</b></u></u>		<u><u><b>12.0</b></u></u>	<u><u><b>13.0</b></u></u>

3 Analysis of group operating profit/(loss)

	2003				2002		
	Continuing Pre exceptionals £m	Exceptionals £m	Discontinued £m	Total Group £m	Continuing £m	Discontinued £m	Total Group £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)
Group operating profit/(loss)	<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  
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**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.

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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)	4.0	(7.1)

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	(4.4)	1.2

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	(8.3)	(81.8)

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	UK schemes	Overseas	Total pension	Overseas medical	Total
	UK	Overseas	in surplus £m	in deficit £m	schemes £m	schemes £m	costs liabilities £m	schemes £m
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	UK schemes	Overseas	Total pension	Overseas medical	Total
	UK	Overseas	in surplus £m	in deficit £m	schemes (i) £m	schemes £m	costs liabilities £m	schemes £m
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	UK scheme	Overseas	Total pension	Overseas medical	Total
	UK	Overseas	in surplus £m	in deficit £m	schemes £m	schemes £m	costs liabilities £m	schemes £m
Equities	8.0%	9.0%	194.8	53.7	49.7	298.2	-	298.2
Bonds	5.1%	6.5%	121.1	19.9	35.2	176.2	-	176.2
Other	4.5%	6.2%	7.2	2.5	4.9	14.6	-	14.6
Total market value of assets			323.1	76.1	89.8	489.0	-	489.0
Present value of liabilities			(291.2)	(93.7)	(126.6)	(511.5)	(32.9)	(544.4)
Surplus/(deficit)			31.9	(17.6)	(36.8)	(22.5)	(32.9)	(55.4)
Related deferred tax 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><b>196.7</b></u>	<u><b>226.2</b></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	<u>5.9</u>	<u>(3.4)</u>	<u>2.5</u>
	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	<u>5.9</u>	<u>196.5</u>	<u>202.4</u>

- (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	-	-
	<u>(1.3)</u>	<u>(4.7)</u>
Opening shareholders' funds	205.6	210.3
Closing shareholders' funds	<u>204.3</u>	<u>205.6</u>

## 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	<u>20.5</u>	<u>18.5</u>

NOTES TO THE ACCOUNTS  
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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.