



**Robert Careless**  
Finance Director

## Results

Total group sales decreased marginally from £871.2 million to £870.4 million. However, adjusted operating profits, before amortisation of goodwill and operating exceptional items, increased by 37 per cent from £40.1 million to £54.9 million. Goodwill amortisation was £1.2 million (2003: £1.2 million) and operating exceptional losses were £19.2 million (2003: £10.8 million). Operating profits after goodwill amortisation and operating exceptional items increased from £28.1 million to £34.5 million.

A net non-operating exceptional gain arose in the year of £5.2 million (2003: £1.0 million loss). The background and nature of all the exceptional items before taxation is provided in the Chairman and Chief Executive's statement on pages 2 to 5.

Net interest payable of £11.6 million (2003: £16.8 million) was covered 4.7 times (2003: 2.4 times) by profit before interest, goodwill amortisation and exceptional items. In 2003, exceptional financing costs of £6.5 million arose in connection with the renewal of the group's revolving credit facility and legal costs associated with the US loan note dispute. No exceptional financing costs were incurred in 2004.

Profit before tax was £28.1 million (2003: £3.8 million). The effective adjusted tax rate on profit before amortisation of goodwill and exceptional items was 31.5 per cent (2003: 30.5 per cent). The increase in tax rate over the year was primarily due to surplus tax losses being generated in the UK, the benefit of which could not be recognised by the group. This rate is expected to increase slightly in 2005. An exceptional tax credit of £6.6 million arose during the year following the settlement of certain outstanding tax issues with the Inland Revenue. A tax credit of £0.5 million (2003: £0.2 million) arose in connection with exceptional items.

The net minority interest was £6.8 million (2003: £4.3 million).

Adjusted earnings per share before goodwill amortisation and exceptional items increased by 62 per cent from 9.9 pence to 16.0 pence. Headline earnings per share were 10.4 pence compared with a loss per share last year of 6.2 pence.

## 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 £79.3 million (2003: £65.4 million).

## Contingent liabilities

Details of the group's contingent liabilities are given in note 22.

## International Financial Reporting Standards (IFRS)

An analysis of the impact of IFRS is being prepared and the 2004 results will be restated and are expected to be announced during the second quarter of 2005. Further details are set out in the Chairman and Chief Executive's statement on page 5.

## Dividends

As stated by the Chairman and Chief Executive, in his statement on pages 2 to 5, the board has not declared a dividend for the year (2003: £nil).

## Equity shareholders' funds

Equity shareholders' funds increased by £71.4 million from £4.4 million to £75.7 million. The retained profit for the year was £14.8 million (2003: £7.4 million loss).

The retained profit for the year of £14.8 million is after charging £6.0 million in respect of goodwill associated with the sale of the group's 50 per cent interest in GCE Gas Control Equipment AB that had previously been written off to reserves. A rights issue was completed in April 2004, which raised net proceeds of £44.6 million.

The balance on shareholders' funds of £75.7 million in the consolidated balance sheet is after a cumulative goodwill write-off of £600.4 million that remains written off. The parent company has substantial net assets with equity shareholders' funds of £242.1 million (2003: £204.3 million).

## Cash flow and borrowings

Cash flow from operating activities was £47.5 million (2003: £54.9 million). Overall, the group achieved a net cash inflow, after exchange adjustments, of £70.3 million in the year, reducing net debt at 31 December 2004 to £66.5 million (2003: £136.8 million).

	2004 £m	2003 £m
Group operating profit before exceptionals	48.3	32.1
Depreciation and amortisation	17.4	19.9
Loss/(profit) on sale of fixed assets	0.2	(0.3)
Working capital	8.1	24.2
Provisions	(6.9)	(1.7)
Exceptional items	(19.6)	(19.3)
<b>Cash flow from operating activities</b>	<b>47.5</b>	<b>54.9</b>
Capital expenditure	(10.0)	(7.1)
Sale of fixed assets	2.9	16.6
Loans to associates	-	(1.5)
Dividends from associates	1.3	3.4
Financing costs (incl. dividends to minority interests)	(16.1)	(23.8)
Tax paid	(11.7)	(7.0)
Acquisitions and disposals	9.6	26.5
Share issues	44.6	-
<b>Net cash flow</b>	<b>68.1</b>	<b>62.0</b>
New finance leases	(0.6)	-
Foreign exchange adjustments	2.8	(4.8)
<b>Movement in net debt</b>	<b>70.3</b>	<b>57.2</b>
Opening net debt	(136.8)	(194.0)
<b>Closing net debt</b>	<b>(66.5)</b>	<b>(136.8)</b>

Net debt at 31 December 2004 can be summarised as follows:

	2004 £m	2003 £m
Cash and deposits	45.1	59.9
Short term debt	(46.2)	(71.2)
Long term debt	(65.4)	(125.5)
	<u>(66.5)</u>	<u>(136.8)</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 generally managed directly by operating subsidiaries within strict guidelines and controls established by their divisional management and overseen by group treasury. It is the group's policy not to hedge profit and loss account translation exposure.

## Interest rate risk

The group finances its operations through a mix of equity and borrowings. Borrowings are made in the desired currencies at both fixed and floating rates of interest. It is the group's objective to minimise the cost of borrowings whilst retaining the flexibility of funding opportunities. In the past, the group has used a combination of interest rate swaps, interest rate caps and collars and forward rate agreements to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. However, as at 31 December 2004, no such interest rate derivative financial instruments were in place.

As at 31 December 2004, the group had net debt of £66.5 million. During the year, our fixed rate debt reduced by £47.6 million to £69.3 million principally due to the scheduled repayment of US\$75.3 million of US Loan Notes. Net debt, at £66.5 million was £2.8 million lower than our gross fixed debt at the year end. This net difference comprised cash of £45.1 million held within operating units offset by £42.3 million of floating rate borrowings.

## Currency risks

The group has significant investments in overseas operations. As a result, movements in exchange rates can significantly affect the group's balance sheet. The group seeks to mitigate the effects of structural currency exposures by borrowing in certain of the functional currencies of its main operations and by using forward foreign exchange contracts to hedge the currency flows within its operating units. The group currently maintains euro borrowings to hedge its euro balance sheet. In managing its currency exposures, the group aims to maintain a low cost of borrowings while substantially hedging against currency depreciation.

## Liquidity management

Together with the management of interest rate and balance sheet translation risks, the group's objective is to achieve a balance between continuity and flexibility of funding by maintaining a range of maturities on its borrowings and deposits. As at 31 December 2004, the long-term finance available to the group was £62.5 million (US\$120 million) of US Private Placement Loan Notes. Subsequent to the year end, the group has replaced its onerous syndicated loan facility with a new £50 million revolving credit agreement expiring on 31 March 2007, with an option to extend for a further three months. This new facility has been arranged with a single bank and is structured on more conventional terms.

Further details of the group's treasury management are given in note 27 to the accounts on pages 47 to 49.

**Robert Careless**  
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