# Notes to the 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

*a) 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.

*b) 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 crystalised gain or loss is recognised in the year of termination.

### Turnover

Turnover comprises the invoiced value of goods and services and the value of work executed during the year in respect of long term contracts. Turnover, which is recorded net of value-added tax, rebates and discounts, and after eliminating intra-group sales, is recognised as follows:

*a) Sales of goods and services*

The majority of the group's revenues relate to the sale of goods and services which are recognised when a group entity has fulfilled its contractual obligations to a customer and has obtained the right to receive consideration. This is usually on despatch but is dependent upon the contractual terms that have been agreed with a customer.

*b) Long term contracts*

Revenue is recognised by a group entity in accordance with the stage of completion of its contractual obligations to the customer. The stage of completion is usually based on the proportion of costs incurred compared to the total expected costs to complete the contract, where this also represents a right to receive consideration, and provided the outcome of the contract can be assessed with reasonable certainty.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

### 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 |

Land is not depreciated

## 1 Principal group accounting policies (continued)

### Impairment of fixed assets

Any impairment of fixed assets is calculated as the difference between the carrying values of income generating units (including associated goodwill) and the estimated value in use at the date the impairment loss is recognised. Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis.

Impairments of fixed assets are taken to the profit and loss account.

### 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.

### 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 2004 in note 9.

### Share based long term incentive plans

Where it is considered probable that a liability will arise, provision is made based on the year end share price and the elapsed portion of the relevant vesting periods.

### Provisions

Provisions (other than provisions for post retirement benefits and deferred taxation) are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## 2 Turnover, Profit and Net assets

| | 2004 Turnover £m | 2004 Profit £m | 2004 Net assets £m | 2003 Turnover £m | 2003 Profit £m | 2003 Net assets £m |
|---|---|---|---|---|---|---|
| **Analysis by classes of business** | | | | | | |
| Continuing operations | | | | | | |
| Welding and cutting | 621.5 | 48.7 | 128.8 | 577.1 | 31.8 | 125.9 |
| Air and gas handling | 241.6 | 15.1 | 30.5 | 256.9 | 6.3 | 40.0 |
| Specialised engineering | 7.3 | (2.1) | 2.4 | 8.4 | (1.3) | 2.8 |
| | 870.4 | 61.7 | 161.7 | 842.4 | 36.8 | 168.7 |
| Central operations | - | (7.4) | (13.9) | - | (6.8) | (32.4) |
| Adjusted operating profit (i) | | 54.3 | | | 30.0 | |
| Goodwill - Welding and cutting | | (1.2) | 16.6 | | (1.2) | 17.3 |
| | 870.4 | 53.1 | 164.4 | 842.4 | 28.8 | 153.6 |
| Discontinued operations | | | | | | |
| Welding and cutting | - | 0.6 | - | - | 3.5 | 8.1 |
| Specialised engineering | - | - | - | 28.8 | 6.6 | - |
| | - | 0.6 | - | 28.8 | 10.1 | 8.1 |
| Continuing operations : operating exceptional items | | | | | | |
| Air and gas handling - legal and environmental costs | | (1.9) | | | (0.4) | |
| - restructuring costs | | - | | | (4.1) | |
| Welding and cutting - restructuring costs | | (12.8) | | | (5.0) | |
| Specialised engineering - restructuring costs | | - | | | (0.4) | |
| Central operations - recognition of unauthorised payments (ii) | | (4.5) | | | - | |
| Discontinued operations : operating exceptional items | | | | | | |
| Welding and cutting - restructuring costs | | - | | | (0.9) | |
| Turnover/Operating profit/Operating assets | 870.4 | 34.5 | 164.4 | 871.2 | 28.1 | 161.7 |
| *Continuing operations* | | | | | | |
| *Welding and cutting* | | ***34.7*** | ***145.4*** | | *25.6* | *143.2* |
| *Air and gas handling* | | ***13.2*** | ***30.5*** | | *1.8* | *40.0* |
| *Specialised engineering* | | ***(2.1)*** | ***2.4*** | | *(1.7)* | *2.8* |
| *Central operations* | | ***(11.9)*** | ***(13.9)*** | | *(6.8)* | *(32.4)* |
| | | ***33.9*** | ***164.4*** | | *18.9* | *153.6* |
| *Discontinued operations* | | | | | | |
| *Welding and cutting* | | ***0.6*** | ***-*** | | *2.6* | *8.1* |
| *Specialised engineering* | | ***-*** | ***-*** | | *6.6* | *-* |
| | | ***0.6*** | ***-*** | | *9.2* | *8.1* |
| ***Operating profit/Operating assets*** | | ***34.5*** | ***164.4*** | | *28.1* | *161.7* |
| Non-operating exceptional items (note 4) | | 5.2 | | | (1.0) | |
| Net interest and financing costs | | (11.6) | | | (23.3) | |
| Net debt | | | (66.5) | | | (136.8) |
| Profit on ordinary activities before taxation/Net assets | | 28.1 | 97.9 | | 3.8 | 24.9 |
| **Analysis by geographical area of destination** | | | | | | |
| Continuing operations | | | | | | |
| United Kingdom | 47.4 | | | 52.1 | | |
| Rest of Europe | 347.4 | | | 332.2 | | |
| North America | 223.0 | | | 219.7 | | |
| Rest of World | 252.6 | | | 238.4 | | |
| | 870.4 | | | 842.4 | | |
| Discontinued operations : North America | - | | | 28.8 | | |
| | 870.4 | | | 871.2 | | |

*(i) before exceptional items and amortisation of goodwill*

*(ii) A series of unauthorised payments totalling £9.2 million has been identified following an investigation of a suspected fraud against the group by an employee. Included within the overall total are payments made in prior years amounting to £5.0 million. These prior year payments were expensed directly to reserves and therefore the recognition of these payments in the current year has no overall effect on shareholders' funds as these charges have been reinstated by way of a credit to reserves in the current year. The total charge of £4.5 million is after taking into account insurance recoveries and legal costs.*

## 2 Turnover, Profit and Net assets (continued)

| | 2004 Turnover £m | 2004 Profit £m | 2004 Net assets £m | 2003 Turnover £m | 2003 Profit £m | 2003 Net assets £m |
|---|---|---|---|---|---|---|
| **Analysis by geographical area of origin** | | | | | | |
| Continuing operations | | | | | | |
| United Kingdom | 81.0 | (21.8) | 1.8 | 97.2 | (19.8) | (13.0) |
| Rest of Europe | 409.8 | 36.7 | 76.2 | 393.7 | 28.5 | 79.9 |
| North America | 249.4 | 11.0 | 26.7 | 237.2 | 1.4 | 25.6 |
| Rest of World | 204.0 | 28.4 | 43.1 | 181.8 | 19.9 | 43.8 |
| Inter-area eliminations | (73.8) | | | (67.5) | | |
| | 870.4 | 54.3 | 147.8 | 842.4 | 30.0 | 136.3 |
| Goodwill : Rest of Europe | | (0.4) | 5.3 | | (0.4) | 5.7 |
| : North America | | (0.7) | 9.7 | | (0.7) | 10.4 |
| : Rest of World | | (0.1) | 1.6 | | (0.1) | 1.2 |
| | 870.4 | 53.1 | 164.4 | 842.4 | 28.8 | 153.6 |
| Discontinued operations | | | | | | |
| Rest of Europe | - | 0.6 | - | - | 3.5 | 8.1 |
| North America | - | - | - | 28.8 | 6.6 | - |
| | - | 0.6 | - | 28.8 | 10.1 | 8.1 |
| Continuing operations : operating exceptional items | | | | | | |
| United Kingdom | | (8.4) | | | (2.2) | |
| Rest of Europe | | (8.9) | | | (1.7) | |
| North America | | (1.9) | | | (5.6) | |
| Rest of World | | - | | | (0.4) | |
| Discontinued operations : operating exceptional items | | | | | | |
| Rest of Europe | | - | | | (0.9) | |
| Turnover/Operating profit/Operating assets | 870.4 | 34.5 | 164.4 | 871.2 | 28.1 | 161.7 |
| *Continuing operations* | | | | | | |
| *United Kingdom* | | ***(30.2)*** | ***1.8*** | | *(22.0)* | *(13.0)* |
| *Rest of Europe* | | ***27.4*** | ***81.5*** | | *26.4* | *85.6* |
| *North America* | | ***8.4*** | ***36.4*** | | *(4.9)* | *36.0* |
| *Rest of World* | | ***28.3*** | ***44.7*** | | *19.4* | *45.0* |
| | | ***33.9*** | ***164.4*** | | *18.9* | *153.6* |
| *Discontinued operations* | | | | | | |
| *Rest of Euorpe* | | ***0.6*** | - | | *2.6* | *8.1* |
| *North America* | | - | - | | *6.6* | - |
| | | ***0.6*** | - | | *9.2* | *8.1* |
| ***Operating profit/Operating assets*** | | ***34.5*** | ***164.4*** | | *28.1* | *161.7* |
| Non-operating exceptional items (note 4) | | 5.2 | | | (1.0) | |
| Net interest and financing costs | | (11.6) | | | (23.3) | |
| Net debt | | | (66.5) | | | (136.8) |
| Profit on ordinary activities before taxation/Net assets | | 28.1 | 97.9 | | 3.8 | 24.9 |

Analysis of the group's share of turnover, profit and net assets of associated undertakings by class of business and geographic origin is set out in note 14.

Net interest and financing costs do not relate to a particular segment and therefore have not been allocated for segmental reporting purposes.

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

| | 2004 | | | | 2003 | | |
|---|---|---|---|---|---|---|---|
| | Continuing | | Discontinued | Total | Continuing | Discontinued | Total |
| | Pre-exceptionals £m | Exceptionals £m | £m | Group £m | £m | £m | Group £m |
| Turnover | 870.4 | - | - | 870.4 | 842.4 | 28.8 | 871.2 |
| Cost of sales | (617.0) | (1.3) | - | (618.3) | (619.0) | (18.6) | (637.6) |
| Gross profit | 253.4 | (1.3) | - | 252.1 | 223.4 | 10.2 | 233.6 |
| Selling and distribution costs | (117.2) | (5.9) | - | (123.1) | (119.2) | (1.2) | (120.4) |
| Administration costs | (87.9) | (12.0) | - | (99.9) | (88.6) | (2.4) | (91.0) |
| Group operating profit/(loss) | 48.3 | (19.2) | - | 29.1 | 15.6 | 6.6 | 22.2 |

(i) Fees in respect of services provided by the auditors were: statutory audit of the Company and its subsidiaries £1.5 million (2003: £1.5 million), statutory audit of associated undertakings £0.1 million (2003: £0.1 million) and other services to the Company and its subsidiaries £1.8 million (2003: £1.7 million). Other services in 2004 principally comprise further assurance services in relation to the adoption of International Financial Reporting Standards in 2005, the rights issue and tax services. Other services in 2003 principally comprise further assurance services related to the disposal of the US Defence businesses and tax services.

(ii) Included above are operating lease rentals for plant and machinery of £2.4 million (2003: £2.2 million) and for other leases of £7.1 million (2003: £4.7 million), depreciation of £16.2 million (2003: £18.7 million) and amortisation of goodwill of £1.2 million (2003: £1.2 million). Losses on disposal of fixed assets amounted to £0.2 million (2003: profits of £0.3 million).

(iii) Amounts invoiced to associated undertakings for the year were £2.6 million (2003: £2.0 million) and amounts invoiced from them were £4.8 million (2003: £8.3 million). At the year end amounts due from associated undertakings were £1.7 million (2003: £2.2 million) and due to them were £1.1 million (2003: £1.7 million). On 2 September 2004, Charter and Mercoweld S.A., a business partner, increased their shareholding in the South American Welding and cutting business venture. Details of this transaction are set out in note 21. At the year end amounts due to group pension schemes were £0.3 million (2003: £0.3 million) and due from them were £nil (2003: £0.1 million).

## 4 Non-operating exceptional items

| | 2004 £m | 2003 £m |
|---|---|---|
| **Continuing operations** | | |
| Profit on sale or termination of operations (ii) | 3.6 | - |
| Loss on termination of operations (iii) | - | (0.3) |
| | 3.6 | (0.3) |
| Profit on fixed asset disposals (iv) | - | 5.1 |
| Losses on fixed asset disposals (v) | (0.3) | (0.4) |
| Net (loss)/profit on fixed asset disposals | (0.3) | 4.7 |
| | 3.3 | 4.4 |
| **Discontinued operations** | | |
| Profit on sale of operations before reinstatement of goodwill (vi) and (vii) | 5.7 | 18.8 |
| Associated goodwill thereon (vi) and (vii) | (6.0) | (20.2) |
| Losses on sale of operations | (0.3) | (1.4) |
| Goodwill provision on discontinuing operation (vi) | - | (4.0) |
| Additional costs in respect of disposals in prior years | (2.0) | - |
| Release of provisions in respect of disposals in prior years | 4.2 | - |
| | 1.9 | (5.4) |
| | 5.2 | (1.0) |

(i) No tax is attributable to the non-operating exceptional items in the year ended 31 December 2004. However in the year ended 31 December 2003 there was a tax credit of £0.2 million. There is no minority interest in the non-operating exceptional items of either period.

(ii) The profit on sale or termination of operations in 2004 relates to Specialised engineering.

(iii) The loss on termination of operations in 2003 of £0.3 million relates to Air and gas handling.

(iv) The profits on fixed asset disposals of £5.1 million in 2003 comprise Welding and cutting £3.6 million, Air and gas handling £0.6 million and Central operations £0.9 million.

(v) The losses on fixed asset disposals of £0.3 million (2003: £0.4 million) relate to Air and gas handling.

(vi) 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 £14.3 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.

(vii) In 2003 the profit on sale of operations and associated goodwill relates to the sale of US Defence included within Specialised engineering.

## 4 Non-operating exceptional items (continued)

(viii) Analysis by geographical area

| | 2004 £m | 2003 £m |
|---|---|---|
| Continuing operations | | |
| United Kingdom | - | 0.8 |
| Rest of Europe | - | 4.0 |
| North America | 3.3 | (0.5) |
| Rest of World | - | 0.1 |
| | 3.3 | 4.4 |
| Discontinued operations | | |
| United Kingdom | 1.1 | 18.8 |
| Rest of Europe | (0.3) | (20.2) |
| North America | 1.1 | - |
| Rest of World | - | (4.0) |
| | 1.9 | (5.4) |
| | 5.2 | (1.0) |

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

| | 2004 £m | 2003 £m |
|---|---|---|
| Receivable | 1.4 | 5.6 |
| Bank loans, overdrafts and loan notes | (12.2) | (21.5) |
| Finance leases | (0.3) | (0.5) |
| Unwinding of discount on provisions (note 20) | (0.4) | - |
| | (11.5) | (16.4) |

In addition in 2003 exceptional financing costs of £6.5 million were incurred primarily in connection with the renewal, in July 2003, of the syndicated bank facility.

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

| | 2004 £m | 2003 £m |
|---|---|---|
| Current taxation | | |
| United Kingdom: | | |
| Corporation tax at 30 per cent (2003: 30 per cent) | 0.1 | - |
| Adjustments in respect of previous years | (7.7) | (2.0) |
| | (7.6) | (2.0) |
| Overseas: | | |
| Current year | 10.7 | 8.8 |
| Adjustments in respect of previous years | 5.4 | (1.4) |
| | 8.5 | 5.4 |
| Associated undertakings | 1.7 | 2.3 |
| Total current taxation | 10.2 | 7.7 |
| Deferred taxation | | |
| United Kingdom: | | |
| Current year | 0.2 | 0.1 |
| Adjustments in respect of previous years | (0.2) | - |
| Overseas: | | |
| Current year | 0.6 | (1.7) |
| Adjustments in respect of previous years | 2.3 | 0.8 |
| | 2.9 | (0.9) |
| Total deferred taxation | 2.9 | (0.8) |
| Total tax charge: | | |
| Current taxation | 10.2 | 7.7 |
| Deferred taxation | 2.9 | (0.8) |
| Total tax charge | 13.1 | 6.9 |

Following the settlement of certain specific outstanding tax issues with the Inland Revenue, an exceptional tax credit of £6.6 million arose in 2004.

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

### 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:

| | 2004 £m | 2003 £m |
|---|---|---|
| Profit on ordinary activities before taxation | 28.1 | 3.8 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent | 8.4 | 1.1 |
| Effects of: | | |
| Movement on deferred tax recognised | (2.9) | 0.8 |
| (Non-taxable income)/expenses not deductible for tax purposes | (1.1) | 0.8 |
| Other taxes (primarily US State taxes) | 1.8 | 1.4 |
| Tax incentives | (0.1) | (1.0) |
| Movement on deferred tax not recognised | 9.8 | 8.2 |
| Effect of lower overseas tax rates | (5.5) | (1.0) |
| Adjustments to tax charge in respect of previous periods | (0.2) | (2.6) |
| Current tax charge for the year | 10.2 | 7.7 |

## 7 Employees - including executive directors

| | 2004 £m | 2003 £m |
|---|---|---|
| Aggregate amounts payable: | | |
| Wages and salaries | 178.5 | 191.3 |
| Social security costs | 30.8 | 31.6 |
| Other pension costs (see note 9) | 12.3 | 13.6 |
| | 221.6 | 236.5 |

| | 2004 | 2003 |
|---|---|---|
| Average number of persons employed by the group: | | |
| Welding and cutting | 6,357 | 6,575 |
| Air and gas handling | 2,556 | 2,829 |
| Specialised engineering | 101 | 280 |
| Corporate | 24 | 21 |
| | 9,038 | 9,705 |

At the year end the number of employees was 9,055 (2003: 9,274).

## 8 Directors' remuneration

Information covering directors' remuneration, interests in shares and interests in share options is included in the Remuneration report on pages 20 to 23.

## 9 Post retirement benefits

### (i) SSAP 24 Accounting for pension costs

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

| | 2004 £m | 2003 £m |
|---|---|---|
| United Kingdom pension charge: | | |
| Regular charge | 4.3 | 3.8 |
| Interest | (0.3) | (0.4) |
| Net charge | 4.0 | 3.4 |
| Overseas pension charge | 8.3 | 10.2 |
| Group pension charge | 12.3 | 13.6 |
| Post retirement medical costs - United States | 1.3 | 0.7 |

## 9 Post retirement benefits (continued)

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

| | Pension schemes | Overseas medical costs liabilities |
|---|---|---|
| Dates of last valuations or review | March 2001, April 2002 and April 2003 | December 2004 |
| 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 2004. Scheme assets are stated at their market value at 31 December 2004.

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 2004 by qualified independent actuaries.

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

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | UK | Overseas | UK | Overseas | UK | Overseas |
| Valuation method | Projected unit | Projected unit | Projected unit | Projected unit | Projected unit | Projected unit |
| Discount rate | 5.25% | 5.6% | 5.4% | 6.1% | 5.5% | 6.6% |
| Inflation rate | 2.85% | 2.5% | 2.8% | 2.5% | 2.3% | 2.5% |
| Increase to deferred benefits during deferment | 3.4% | 2.0% | 3.3% | 2.0% | 2.7% | 2.5% |
| Increase to pensions in payment | 3.1% | 2.2% | 2.9% | 2.3% | 2.7% | 2.4% |
| Salary increases | 2.85% | 3.4% | 2.8% | 3.4% | 3.6% | 3.5% |
| Medical costs liabilities – inflation rate | - | 5.0% | - | 5.0% | - | 5.0% |

**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

| | 2004 £m | 2003 £m |
|---|---|---|
| Current service | (5.5) | (7.2) |
| Past service credit | 2.7 | 11.7 |
| Gain/(loss) on settlements and curtailments | 2.7 | (0.5) |
| Total operating (charge)/credit | (0.1) | 4.0 |

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

| | 2004 £m | 2003 £m |
|---|---|---|
| Expected return on schemes' assets | 29.7 | 26.9 |
| Interest on schemes' liabilities | (31.8) | (31.3) |
| Net return | (2.1) | (4.4) |

## 9 Post retirement benefits (continued)

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

| | 2004 £m | 2003 £m |
|---|---|---|
| Actual return less expected return on schemes' assets | 14.7 | 28.6 |
| Experience gains and losses arising on schemes' liabilities | 6.8 | (13.9) |
| Changes in the assumptions underlying the present value of schemes' liabilities | (42.8) | (26.0) |
| Currency translation adjustment | 3.3 | 3.0 |
| Actuarial loss | (18.0) | (8.3) |
| Adjustment for surplus not recognised | (2.5) | - |
| Actuarial loss recognised in statement of total recognised gains and losses | (20.5) | (8.3) |

### History of experience gains and losses

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Difference between the actual and expected return on schemes' assets: | | | |
| Amount (£m) | 14.7 | 28.6 | (73.2) |
| Percentage of schemes' assets | 3% | 6% | 17% |
| Experience gains and losses on schemes' liabilities: | | | |
| Amount (£m) | 6.8 | (13.9) | 18.9 |
| Percentage of schemes' liabilities | 1% | 2% | 3% |
| Total amount recognised in statement of total recognised gains and losses: | | | |
| Amount (£m) | (20.5) | (8.3) | (81.8) |
| Percentage of schemes' liabilities | 3% | 1% | 14% |

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

| | Long-term rate of return expected at 31 December 2004 | | Value at 31 December 2004 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | UK | Overseas | 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 |
| Equities | 7.4% | 8.1% | 101.3 | 101.6 | 45.2 | 248.1 | - | 248.1 |
| Bonds | 4.7% | 5.3% | 114.3 | 60.9 | 32.2 | 207.4 | - | 207.4 |
| Other | 4.0% | 6.3% | 7.8 | 13.0 | 10.7 | 31.5 | - | 31.5 |
| Total market value of assets | | | 223.4 | 175.5 | 88.1 | 487.0 | - | 487.0 |
| Present value of liabilities | | | (207.7) | (234.5) | (149.4) | (591.6) | (22.9) | (614.5) |
| Surplus/(deficit) | | | 15.7 | (59.0) | (61.3) | (104.6) | (22.9) | (127.5) |
| Adjustment for surplus not recognised | | | - | - | (2.5) | (2.5) | - | (2.5) |
| Related deferred tax asset | | | - | - | 0.4 | 0.4 | - | 0.4 |
| Net pension asset/(liability) | | | 15.7 | (59.0) | (63.4) | (106.7) | (22.9) | (129.6) |
| (Asset)/provision already carried on the consolidated balance sheet | | | - | (3.2) | 36.0 | 32.8 | 17.5 | 50.3 |
| Net pension asset/(liability) not reflected on the consolidated balance sheet | | | 15.7 | (62.2) | (27.4) | (73.9) | (5.4) | (79.3) |

| | Long-term rate of return expected at 31 December 2003 | | Value at 31 December 2003 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | UK | Overseas | 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 |
| 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) |

## 9 Post retirement benefits (continued)

| | Long-term rate of return expected at 31 December 2002 UK | Long-term rate of return expected at 31 December 2002 Overseas | Value at 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 |
|---|---|---|---|---|---|---|---|---|
| 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.

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:

| | 2004 £m | 2003 £m |
|---|---|---|
| **Net assets/(liabilities)** | | |
| Net assets excluding pension assets/(liabilities) | 148.2 | 83.0 |
| Pension surplus | 15.7 | 7.6 |
| Pension deficit | (145.7) | (131.2) |
| Related deferred tax asset | 0.4 | 0.1 |
| Net assets/(liabilities) including net pension liability | 18.6 | (40.5) |
| **Reserves** | | |
| Profit and loss reserve excluding net pension liability | 73.6 | 54.7 |
| Net pension liability | (129.6) | (123.5) |
| Profit and loss reserve | (56.0) | (68.8) |
| **Movement in deficit during year** | | |
| Deficit in the schemes at the beginning of the year | (123.6) | (133.4) |
| Current service cost | (5.5) | (7.2) |
| Contributions | 16.3 | 18.5 |
| Past service credit | 2.7 | 11.7 |
| Gain/(loss) on settlements and curtailments | 2.7 | (0.5) |
| Other finance income | (2.1) | (4.4) |
| Actuarial loss | (18.0) | (8.3) |
| Deficit in the schemes at the end of the year | (127.5) | (123.6) |

## 10 Dividends paid and proposed

There were no dividends paid or proposed in the year (2003: nil).

## 11 Earnings/(loss) per share

On 1 April 2004 the number of shares in issue increased from 94,149,021 to 150,636,773 following the rights issue (note 23). Accordingly the earnings per share calculations for prior periods have been restated using the average number of shares in issue (as adjusted for the rights issue) of 119,087,299.

Basic headline earnings per share is calculated on profits of £14.8 million (2003 losses: £7.4 million) and on an average of 142,749,405 (2003 restated: 119,087,299) shares.

## 11 Earnings/(loss) per share (continued)

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 497,819 (2003: nil) dilutive potential shares deriving from share options.

| | Basic 2004 Pence | Fully diluted 2004 Pence | Basic and fully diluted 2003 Pence |
|---|---|---|---|
| Earnings/(loss) per share - headline | 10.37 | 10.33 | (6.21) |
| Amortisation of goodwill | 0.84 | 0.84 | 1.01 |
| Exceptional items | 4.83 | 4.82 | 15.11 |
| Earnings per share - adjusted | 16.04 | 15.99 | 9.91 |

## 12 Intangible fixed assets - goodwill

| | Cost £m | Amortisation £m | Net book value £m |
|---|---|---|---|
| At 31 December 2003 | 22.9 | (5.6) | 17.3 |
| Amortisation for the year | - | (1.2) | (1.2) |
| Goodwill arising on acquisitions | 0.5 | - | 0.5 |
| At 31 December 2004 | 23.4 | (6.8) | 16.6 |

## 13 Tangible fixed assets

| | Land and buildings £m | Plant furniture and fittings £m | Total tangible fixed assets £m |
|---|---|---|---|
| Cost: | | | |
| At 31 December 2003 | 73.4 | 155.0 | 228.4 |
| Currency realignment | (0.6) | (2.0) | (2.6) |
| Additions | 0.5 | 10.8 | 11.3 |
| Disposals | (1.4) | (8.3) | (9.7) |
| Business acquisitions (note 26(iii)) | - | 1.4 | 1.4 |
| At 31 December 2004 | 71.9 | 156.9 | 228.8 |
| Depreciation: | | | |
| At 31 December 2003 | 20.6 | 102.1 | 122.7 |
| Currency realignment | (0.1) | (1.6) | (1.7) |
| Charge to profit and loss account | 2.6 | 13.6 | 16.2 |
| Disposals | (0.6) | (6.5) | (7.1) |
| Impairment | 0.3 | - | 0.3 |
| At 31 December 2004 | 22.8 | 107.6 | 130.4 |
| Net book value: | | | |
| At 31 December 2004 | 49.1 | 49.3 | 98.4 |
| At 31 December 2003 | 52.8 | 52.9 | 105.7 |

| | Land and buildings | | Plant, furniture and fittings | |
|---|---|---|---|---|
| (i) Fixed assets include the following in respect of assets held under finance leases: | 2004 £m | 2003 £m | 2004 £m | 2003 £m |
| Net book value at the year end | 1.0 | 1.7 | 0.5 | 0.4 |
| Depreciation charge for the year | 0.3 | 0.6 | 0.2 | 0.1 |

(ii) The net book value of the group's land and buildings includes £0.5 million (2003: £0.5 million) for long leasehold properties and £7.1 million (2003: £6.2 million) for short leasehold properties.

(iii) Committed capital expenditure of subsidiary undertakings at the year end was £4.2 million (2003: £0.1 million).

## 14 Fixed asset investments

| | Group investment in associated undertakings £m | Company investment in subsidiary undertakings £m |
|---|---|---|
| At 31 December 2003 | 27.9 | 1,009.1 |
| Currency realignment | 0.4 | - |
| Business disposals (note 26(iii)) | (8.5) | - |
| Group's share of net profits retained | 2.3 | - |
| At 31 December 2004 | 22.1 | 1,009.1 |

(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 £1.3 million (2003: £1.4 million) and listed investments of £1.7 million (2003: £0.9 million). The market value of listed investments was £9.6 million (2003: £5.2 million).

(iii) Principal interests in group undertakings are shown on pages 50 and 51.

(iv) Loans due by the Company to subsidiary undertakings, which are interest free, amounted to £783.2 million (2003: £834.6 million).

(v) In December 2004 the Company acquired an unlisted investment in an associated undertaking from a subsidiary undertaking for a cash consideration of £12.4 million.

(vi) The group's share in the net assets of associated undertakings comprises:

| | 2004 £m | 2003 £m |
|---|---|---|
| Fixed assets | 10.4 | 15.2 |
| Current assets | 20.0 | 31.5 |
| Liabilities due within 1 year | (7.8) | (16.2) |
| Liabilities due after 1 year | (1.8) | (4.0) |
| Share of net assets | 20.8 | 26.5 |
| Loans to associated undertakings | 1.3 | 1.4 |
| | 22.1 | 27.9 |

(vii) The group's share of turnover, profit and net assets of associated undertakings

| | Turnover 2004 £m | Profit 2004 £m | Net assets 2004 £m | Turnover 2003 £m | Profit 2003 £m | Net assets 2003 £m |
|---|---|---|---|---|---|---|
| Classes of business | | | | | | |
| Welding and cutting | 30.3 | 3.2 | 13.2 | 24.3 | 2.1 | 11.1 |
| Air and gas handling | 16.8 | 1.6 | 8.9 | 7.6 | 1.2 | 8.7 |
| Net interest | - | (0.1) | - | - | (0.4) | - |
| Continuing operations | 47.1 | 4.7 | 22.1 | 31.9 | 2.9 | 19.8 |
| Discontinued operations – Welding and cutting $_{(i)}$ | 5.1 | 0.6 | - | 30.9 | 2.6 | 8.1 |
| Total | 52.2 | 5.3 | 22.1 | 62.8 | 5.5 | 27.9 |
| Geographical area by country of operation | | | | | | |
| United Kingdom | 5.8 | 0.7 | 5.5 | 5.7 | 1.1 | 5.5 |
| Rest of Europe | 0.1 | - | 1.1 | 0.2 | 0.2 | 1.0 |
| North America | 0.8 | 0.3 | 0.5 | 1.7 | - | 0.8 |
| Rest of World | 40.4 | 3.8 | 15.0 | 24.3 | 2.0 | 12.5 |
| Net interest | - | (0.1) | - | - | (0.4) | - |
| Continuing operations | 47.1 | 4.7 | 22.1 | 31.9 | 2.9 | 19.8 |
| Discontinued operations – Rest of Europe $_{(i)}$ | 5.1 | 0.6 | - | 30.9 | 2.6 | 8.1 |
| Total | 52.2 | 5.3 | 22.1 | 62.8 | 5.5 | 27.9 |

*(i) In 2003 the profit attributable to discontinued operations is after charging operating exceptional items of £0.9 million.*

## 15 Stocks

| | 2004 £m | 2003 £m |
|---|---|---|
| At cost: | | |
| Short term contract work in progress | 37.4 | 14.5 |
| Deduct: Progress payments received and receivable | (19.2) | (7.4) |
| Short term contract balances | 18.2 | 7.1 |
| Long term contract work in progress | - | 0.6 |
| Deduct: Progress payments received and receivable | - | (0.3) |
| Long term contract balances | - | 0.3 |
| Contract balances | 18.2 | 7.4 |
| Raw materials, components and consumable stores | 35.6 | 28.3 |
| Work in progress | 10.5 | 12.4 |
| Finished goods | 56.7 | 53.9 |
| | 121.0 | 102.0 |

## 16 Debtors

| | 2004 £m | 2003 £m |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | 179.3 | 164.7 |
| Long term contracts | 4.8 | 4.4 |
| Other debtors *(i)* | 28.7 | 21.7 |
| Prepayments and accrued income | 9.2 | 8.3 |
| | 222.0 | 199.1 |
| Amounts falling due after more than one year: | | |
| Trade debtors | 0.3 | 0.4 |
| Other debtors (note 20(vi)) | 1.6 | 1.0 |
| Prepayments and accrued income including ACT recoverable | - | 2.1 |
| | 1.9 | 3.5 |
| | 223.9 | 202.6 |

*(i) Other debtors includes £5.0 million (2003: £nil) recovered from insurance subsequent to the year end in respect of unauthorised payments (note 2(ii)).*

## 17 Cash at bank and in hand

Cash at bank and in hand includes deposits of £8.8 million (2003: £22.8 million) that are not repayable on demand as defined by FRS 1 Cash Flow Statements (Revised 1996).

## 18 Creditors

| | 2004 £m | 2003 £m |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade creditors | 86.3 | 71.8 |
| Payments received on account | 31.7 | 12.8 |
| Other creditors | 35.2 | 35.2 |
| Corporation tax | 9.3 | 20.1 |
| Social security and other taxation | 12.5 | 8.8 |
| Accruals and deferred income | 42.2 | 32.5 |
| | 217.2 | 181.2 |
| Amounts falling due after more than one year: | | |
| Other creditors | 1.4 | 0.4 |
| Accruals and deferred income | 3.5 | 0.6 |
| | 4.9 | 1.0 |

## 19 Borrowings

| | 2004 £m | 2003 £m |
|---|---|---|
| **Short term** | | |
| 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 |
| US$3.0 million 7.24% loan notes due 01.07.05 | 1.6 | - |
| US$5.0 million 7.33% loan notes due 01.07.05 | 2.6 | - |
| Obligations under finance leases | 0.7 | 0.2 |
| Syndicated bank facility - secured(i) | 2.2 | - |
| - unsecured | 35.1 | 25.7 |
| Other bank loans and overdrafts - secured(i) | - | 0.2 |
| - unsecured | 4.0 | 3.0 |
| | 46.2 | 71.2 |
| **Long term** | | |
| US$3.0 million 7.24% loan notes due 01.07.05 | - | 1.7 |
| US$5.0 million 7.33% loan notes due 01.07.05 | - | 2.8 |
| US$85.0 million 6.88% loan notes due 21.10.07(iii) | 44.3 | 47.5 |
| US$35.0 million 6.96% loan notes due 21.10.09(iii) | 18.2 | 19.6 |
| Obligations under finance leases | 2.0 | 3.2 |
| Syndicated bank facility - secured(i) | - | 2.2 |
| - unsecured | - | 47.7 |
| Other loans - unsecured | 0.9 | 0.8 |
| | 65.4 | 125.5 |
| TOTAL BORROWINGS | 111.6 | 196.7 |

*(i) Security given principally relates to land and buildings owned by subsidiary undertakings.*

*(ii) Long term borrowings are scheduled for repayment, as follows:*

| | Loan Notes £m | Finance Leases £m | Other Loans £m | Total 2004 £m | Total 2003 £m |
|---|---|---|---|---|---|
| *Between one and two years* | - | 0.6 | - | 0.6 | 54.9 |
| *Between two and five years* | 62.5 | 1.4 | 0.9 | 64.8 | 49.8 |
| *Over five years* | - | - | - | - | 20.8 |
| | 62.5 | 2.0 | 0.9 | 65.4 | 125.5 |

*(iii) 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.*

*(iv) 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

| | Post retirement benefits £m | Disposal & restructuring costs £m | Warranty & product liability £m | Legal & environmental £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| At 31 December 2003 | 65.5 | 19.9 | 11.2 | 11.3 | 3.7 | 111.6 |
| Exchange | (1.0) | 0.1 | (0.2) | (0.4) | (0.1) | (1.6) |
| Utilised | (10.2) | (14.8) | (5.2) | (1.3) | (2.2) | (33.7) |
| Unwinding of discount | - | - | - | 0.4 | - | 0.4 |
| Provided | 7.4 | 11.3 | 4.8 | 5.0 | 1.4 | 29.9 |
| Released | (3.1) | (5.5) | (1.9) | (0.5) | (0.1) | (11.1) |
| At 31 December 2004 | 58.6 | 11.0 | 8.7 | 14.5 | 2.7 | 95.5 |

Deferred taxation amounts are set out below:

| | Provision made /asset recognised 2004 £m | Full potential 2004 £m | Provision made /asset recognised 2003 £m | Full potential 2003 £m |
|---|---|---|---|---|
| Excess of the book value of assets, including finance leases qualifying for taxation allowances, over their written down value for taxation purposes | 9.2 | 9.2 | 9.7 | 9.7 |
| Held over capital gains | 3.6 | 3.6 | 13.3 | 13.3 |
| Relief for future costs | (3.9) | (15.8) | (2.1) | (13.2) |
| Losses carried forward | (10.4) | (106.1) | (20.9) | (145.1) |
| | (1.5) | (109.1) | - | (135.3) |

(i) 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.

(ii) Disposal and restructuring costs include £8.4 million (2003: £7.3 million) in respect of employee severance costs and property costs of £0.9 million (2003: £3.1 million) in the Welding and cutting business. This is expected to result in cash expenditure in 2005. The remaining provisions in this category are expected to be utilised over the next one to two years.

(iii) Warranty and product liability provisions relate to continuing businesses and are expected to be utilised over a period of one to two years dependent on the warranty period provided but will also be replaced by comparable amounts as they are utilised.

(iv) Provision has been made for the probable exposure arising from legal and environmental claims and disputes, both existing and threatened, in some cases arising from warranties given on disposal of businesses. Provisions have been made representing the best estimate of the outcome of the claims including costs. Due to their nature, it is not possible to predict precisely when these provisions will be utilised though most are expected to be utilised over the medium term with utilisation in the next year expected to be in the region of £1.0 to £2.0 million.

(v) Other provisions include various amounts which are not individually material. Due to their nature it is not possible to predict precisely when these provisions will be utilised but utilisation in the next year is expected to be in the region of £1.0 million.

(vi) Other debtors (note 16) includes £1.5 million (2003: nil) of deferred taxation losses carried forward. The unrecognised deferred tax assets are not expected to become recoverable in the foreseeable future.

## 21 Acquisitions and disposals

All acquisitions have been made using acquisition accounting principles. There were no material fair value adjustments.

On 2 September 2004, Charter increased its indirect shareholding in its South American welding and cutting business venture (the "Business") from 41.7 per cent to 51.0 per cent. The transaction involved Charter's wholly owned subsidiary, Exelvia Holdings BV ("Exelvia") and one of its existing Business partners, Mercoweld S.A. ("Mercoweld"), between them acquiring the entire Business interests of their two other partners, Prateleira Trading S.A. and Ponta Do Sol Comercio e Investimentos S.A. (the "Sellers"). Due to a complex ownership structure, the transaction was effected in two parts: the acquisition by Exelvia of all the Sellers' indirect interest in the Business (the "Acquisition") and the sale by two of Exelvia's subsidiaries of an increased interest in the Business to Mercoweld (the "Sell-down"). The two parts of the transaction were completed simultaneously and on an interconditional basis. The overall result of the transaction was that Charter's indirect shareholding in the Business increased from 41.7 per cent to 51.0 per cent and Mercoweld's shareholding increased from 38.0 per cent to 49.0 per cent.

The total purchase price for the acquisition of the Sellers' interests was US$9.0 million. The purchase price payable by Exelvia is limited to US$4.12 million, of which US$1.37 million was paid immediately with the balance of US$2.75 million (plus interest based on US $ LIBOR plus two per cent) payable in instalments, the last of which is in September 2007. The purchase price is subject to downward adjustment in certain circumstances.

The balance of US$4.88 million is payable by Mercoweld directly to the Sellers (in satisfaction of the consideration payable for the Sell-down) on the same instalment basis. A number of amendments to the Business shareholders' arrangements have also been agreed, principally regarding operational matters and termination arrangements. As holders of more than 10 per cent of the voting rights in Charter subsidiaries, the Sellers and Mercoweld are each related parties of Charter and the Acquisition and Sell-down therefore were related party transactions under the Listing Rules of the UK Listing Authority (note 26(iii)).

On 1 June 2004 Esab purchased the solid wire manufacturing operations of Fundia in Finland for a total cash consideration of £2.2 million (note 26(iii)).

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 £14.3 million (note 26(iii)).

## 21 Acquisitions and disposals (continued)

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 was subject to adjustment by reference to the net asset values shown in the Completion Accounts (note 26(iii)).

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(iii)).

## 22 Commitments and contingencies

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

| | Land and buildings 2004 £m | Other 2004 £m | Land and buildings 2003 £m | Other 2003 £m |
|---|---|---|---|---|
| Within one year | 1.3 | 0.8 | 1.3 | 0.9 |
| Between two and five years | 3.5 | 1.6 | 3.7 | 1.7 |
| After five years | 1.5 | - | 0.3 | 0.1 |
| | 6.3 | 2.4 | 5.3 | 2.7 |

Guarantees given by the Company in connection with subsidiary undertakings' borrowings were £106.4 million (2003: £196.3 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.

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. Currently the cases against Charter are confined to Mississippi. 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 860 cases and has, upon advice of counsel, settled 101 cases. These 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. Howden has since amended its complaint to seek similar relief against two other insurers that provided coverage to Buffalo Forge and one insurer providing coverage directly to Howden. Howden has filed a motion for summary judgment in the Pennsylvania action, asking the court to establish the insurers' legal obligation to defend Howden in the underlying lawsuits. 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 insurance policies issued to Buffalo Forge and Howden.

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 co-ordinate pre-trial proceedings in the federal court cases. Up to three cases could be tried in federal court this year. The state court cases are at varying stages in the litigation process; however, one trial (not involving Esab) recently resulted in a "hung jury" and no verdict was rendered. Several other cases involving Esab are scheduled for trial this year. Whilst litigation is notoriously uncertain, on the advice of Esab's counsel in the United States, the directors believe that Esab has meritorious defences to these claims, most of which should be covered in whole or in part by insurance, and Esab is defending these claims vigorously. As a result, the directors do not consider that such claims will have a material adverse effect on Charter's financial position.

Esab has also been named as a defendant in a small number of lawsuits in Massachusetts, Pennsylvania, Ohio and Maryland, in which claimants allege asbestos-induced personal injuries. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts. Several cases are listed for trial this year; however, Esab has been dismissed prior to trial in the previous cases in which it was named as a defendant. 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

| | 2004 Number of Ordinary shares of 2p each | 2004 £ | 2003 Number of Ordinary shares of 2p each | 2003 £ |
|---|---|---|---|---|
| Authorised: | 215,000,000 | 4,300,000 | 109,500,000 | 2,190,000 |
| Issued: | | | | |
| Fully paid shares | 150,636,773 | 3,012,735 | 94,149,021 | 1,882,980 |

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 allotted on 1 April 2004 in connection with the 3 for 5 rights issue at 85 pence per new ordinary share that was announced on 20 February 2004. The net proceeds of the rights issue amounted to £44.6 million after expenses of £3.4 million.

Following approval by the Company's shareholders at the Annual General Meeting held on 25 June 2004, the Company's authorised share capital was increased to £4,300,000 by the creation of 49,010,600 ordinary shares of 2p each.

During the year an award of a contingent right to receive cash or securities was made under the Charter (DG – 2004) Incentive Plan details of which are given in the Remuneration report on page 22. At 31 December 2004 27 participants held options over 1,584,873 shares after adjustment of the options held for the effect of the rights issue; these options are exercisable during various periods up to 19 May 2012 at prices ranging from 139.9p to 727.8p.

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 2001. At 31 December 2004 4 participants held rights over 159,646 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

| Group | Share premium account £m | Profit and loss account £m | Total £m |
|---|---|---|---|
| At 31 December 2003 | 5.9 | (3.4) | 2.5 |
| Retained profit for the financial year | - | 14.8 | 14.8 |
| Recognition of unauthorised payments in prior years | - | 5.0 | 5.0 |
| Net effect of translation of currencies – taxation | - | (0.6) | (0.6) |
| – other | - | 1.5 | 1.5 |
| Goodwill associated with the sale and termination of operations | - | 6.0 | 6.0 |
| Issue of share capital (net of expenses) | 43.5 | - | 43.5 |
| At 31 December 2004 | 49.4 | 23.3 | 72.7 |

| Company | Share premium account £m | Profit and loss account £m | Total £m |
|---|---|---|---|
| At 31 December 2003 | 5.9 | 196.5 | 202.4 |
| Issue of share capital (net of expenses) | 43.5 | - | 43.5 |
| Retained loss for the financial year | - | (6.8) | (6.8) |
| At 31 December 2004 | 49.4 | 189.7 | 239.1 |

(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 £1.2 million of exchange gains on foreign currency loans have been offset against exchange losses on the net investments in certain overseas subsidiaries and associated undertakings.

(iii) Acquisition goodwill of £600.4 million has been dealt with through reserves up to 31 December 2004 (2003: £606.4 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:

| | 2004 £m | 2003 £m |
|---|---|---|
| Loss for the financial year | (6.8) | (1.3) |
| Dividends for the financial year | - | - |
| Total recognised gains and losses | (6.8) | (1.3) |
| Issue of share capital (net of expenses) | 44.6 | - |
| Net increase/(reduction) in shareholders' funds | 37.8 | (1.3) |
| Opening shareholders' funds | 204.3 | 205.6 |
| Closing shareholders' funds | 242.1 | 204.3 |

## 25 Minority interests - equity interests

| | 2004 £m | 2003 £m |
|---|---|---|
| At 1 January | 20.5 | 18.5 |
| Share of profit for the financial year | 6.8 | 4.3 |
| Dividends payable | (2.8) | (1.7) |
| Acquisitions (note 21) | (3.0) | - |
| Net effect of translation of currencies | 0.7 | (0.6) |
| At 31 December | 22.2 | 20.5 |

## 26 Cash flow statement

### (i) Cash flow from operating activities

| | 2004 £m | 2003 £m |
|---|---|---|
| Operating profit - excluding associated undertakings | 29.1 | 22.2 |
| Depreciation | 16.2 | 18.7 |
| Goodwill amortisation | 1.2 | 1.2 |
| Loss/(profit) on sale of fixed assets | 0.2 | (0.3) |
| Change in stock | (19.6) | 4.8 |
| Change in debtors | (20.1) | 19.9 |
| Change in creditors | 47.8 | (0.5) |
| Other movements in provisions | (6.9) | (1.7) |
| Exceptional items | | |
| Unauthorised payments - amount recognised in period | 4.5 | - |
| - amount paid in period | (4.4) | - |
| Restructuring (excluding associated undertakings) - amount charged in period | 12.8 | 9.5 |
| - amount paid in period | (15.2) | (19.2) |
| Legal and environmental - amount charged in period | 1.9 | 0.4 |
| - amount paid in period | - | (0.1) |
| | 47.5 | 54.9 |

### (ii) Analysis of net debt movements

| | Opening balance £m | Cash flow £m | Other non-cash changes £m | Exchange adjustment £m | Closing balance £m |
|---|---|---|---|---|---|
| Cash - gross | 37.1 | (1.1) | - | 0.3 | 36.3 |
| Short term borrowings | (28.9) | 23.3 | - | 1.5 | (4.1) |
| Cash - net | 8.2 | 22.2 | - | 1.8 | 32.2 |
| Other cash at bank and in hand | 22.8 | (13.6) | - | (0.4) | 8.8 |
| Other short term debt | (42.1) | 43.8 | (41.5) | (1.6) | (41.4) |
| Long term debt | (122.3) | 14.5 | 41.5 | 2.9 | (63.4) |
| Finance leases | (3.4) | 1.2 | (0.6) | 0.1 | (2.7) |
| Total | (136.8) | 68.1 | (0.6) | 2.8 | (66.5) |

## 26 Cash flow statement (continued)

### (iii) Acquisitions and disposals

| | Acquisitions | | Disposals | |
|---|---|---|---|---|
| | 2004 £m | 2003 £m | 2004 £m | 2003 £m |
| Fixed assets including investments | 1.4 | 2.7 | 8.5 | 1.4 |
| Stocks | 0.8 | - | - | 5.1 |
| Debtors | - | - | - | 6.3 |
| Creditors | - | - | - | (3.9) |
| Minority interest | 3.0 | - | - | - |
| | 5.2 | 2.7 | 8.5 | 8.9 |
| Goodwill - on acquisitions | 0.5 | - | - | - |
| Net profit on disposal before writeback of goodwill (note 4) | - | - | 5.7 | 18.5 |
| | 5.7 | 2.7 | 14.2 | 27.4 |
| Satisfied by: | | | | |
| Net cash consideration paid | 3.5 | - | (1.2) | - |
| Prior year disposals - consideration paid | - | - | 1.2 | - |
| Investment in associate acquired on disposal of subsidiary | - | 2.7 | - | 2.7 |
| Net cash consideration received | - | - | 14.3 | 26.5 |
| Consideration and costs to be paid in subsequent years (net) | 2.1 | - | (0.5) | (1.3) |
| Exchange adjustment | 0.1 | - | 0.4 | (0.5) |
| | 5.7 | 2.7 | 14.2 | 27.4 |

All acquisitions have been accounted for using acquisition accounting principles.

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

| | 2004 £m | 2003 £m |
|---|---|---|
| Cash flow from operating activities | 0.2 | 9.8 |
| Returns on investments and servicing of finance | - | (0.1) |
| Taxation paid | - | - |
| Capital expenditure and financial investment | (0.1) | (0.6) |
| Increase in cash | 0.1 | 9.1 |

## 27 Financial instruments

The following disclosure forms part of the treasury management notes in the Financial review on pages 10 and 11.

### Interest rate risk profile of financial assets and liabilities

All short term debtors and creditors have been excluded from the disclosures apart from currency disclosures as allowed by FRS13. The interest rate risk profile of financial liabilities of the group as at 31 December 2004 was:

| | Total | | Floating rate financial liabilities | | Fixed rate financial liabilities | | Fixed rate analysis: Weighted average interest rate | | Fixed rate analysis: Weighted average period for which rate is fixed | |
|---|---|---|---|---|---|---|---|---|---|---|
| Currencies | 2004 £m | 2003 £m | 2004 £m | 2003 £m | 2004 £m | 2003 £m | 2004 % | 2003 % | 2004 Years | 2003 Years |
| Euro | (31.0) | (37.9) | (31.0) | (37.5) | - | (0.4) | - | 4.85 | - | 5.67 |
| US Dollar | (69.9) | (119.9) | (0.6) | (3.6) | (69.3) | (116.3) | 7.48 | 6.99 | 3.16 | 2.77 |
| Other | (0.4) | (16.2) | (0.4) | (16.2) | - | - | - | - | - | - |
| Total currency | (101.3) | (174.0) | (32.0) | (57.3) | (69.3) | (116.7) | | | 3.16 | 2.78 |
| Sterling | (10.3) | (22.7) | (10.3) | (22.5) | - | (0.2) | - | 10.00 | - | 0.83 |
| Total group | (111.6) | (196.7) | (42.3) | (79.8) | (69.3) | (116.9) | | | 3.16 | 2.78 |

## 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 liabilities 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.

| Currencies | 2004 £m | 2003 £m |
|---|---|---|
| Euro | 14.2 | 14.9 |
| Polish Zloty | 2.2 | 1.1 |
| US Dollar | 3.6 | 16.6 |
| Chinese Renminbi | 8.7 | 5.7 |
| South African Rand | 8.0 | 5.7 |
| Other | 8.6 | 13.5 |
| Total currency | 45.3 | 57.5 |
| Sterling | 1.1 | 3.8 |
| Total group | 46.4 | 61.3 |

The financial assets denominated in US Dollars include £1.3 million (2003: £1.4 million) in relation 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 remaining assets are represented by cash at bank and in hand and, where applicable, interest is received at floating rates based on the relevant national LIBID equivalents. Floating rate assets all mature within two months.

### Currency exposures

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

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

| | Net foreign currency monetary assets/(liabilities) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Functional currency of group operation | Sterling | | Euro | | US Dollar | | Other | | Total | |
| | 2004 £m | 2003 £m | 2004 £m | 2003 £m | 2004 £m | 2003 £m | 2004 £m | 2003 £m | 2004 £m | 2003 £m |
| Sterling | - | - | 3.6 | 1.4 | 0.8 | 0.9 | 0.4 | 1.0 | 4.8 | 3.3 |
| Euro | (0.8) | - | - | - | (1.9) | 0.1 | 0.5 | - | (2.2) | 0.1 |
| US Dollar | (0.2) | - | (6.4) | - | - | - | (2.5) | - | (9.1) | - |
| Other | (0.7) | 0.1 | 7.5 | 1.6 | 3.1 | 1.8 | 1.0 | (0.2) | 10.9 | 3.3 |
| Total | (1.7) | 0.1 | 4.7 | 3.0 | 2.0 | 2.8 | (0.6) | 0.8 | 4.4 | 6.7 |

### Borrowing facilities

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

| Total committed borrowing facilities | 2004 £m | 2003 £m |
|---|---|---|
| Expiring in one year or less | 77.5 | 67.8 |
| Expiring in more than one year but not more than two years | - | 78.5 |
| Expiring in more than two years but not more that five | 62.5 | 47.5 |
| Expiring in more than five years | - | 19.5 |
| Total | 140.0 | 213.3 |
| **Committed facility undrawn at the year end** | | |
| Expiring in one year or less | 36.0 | - |
| Expiring in more than one year but not more than two years | - | 24.1 |

In March 2005 the group replaced its syndicated revolving credit facility with a new bi-lateral facility of £50 million which expires in March 2007.

## 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 | |
|---|---|---|---|---|
| | 2004 £m | 2003 £m | 2004 £m | 2003 £m |
| Primary financial instruments held or issued to finance the group's operations | | | | |
| Short term borrowings and current portion of long term borrowings | (46.2) | (71.2) | (46.4) | (71.2) |
| Long term borrowings | (65.4) | (125.5) | (71.3) | (133.8) |
| Cash deposits | 45.1 | 59.9 | 45.1 | 59.9 |
| Loan to associated undertaking | 1.3 | 1.4 | 1.3 | 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 | 0.1 | (0.6) | 0.1 | (0.6) |
| Derivative financial instruments held or issued to hedge the currency exposure on expected future sales | | | | |
| Forward foreign currency contracts | - | - | 1.0 | (0.7) |

The fair values of foreign exchange contracts have been estimated by reference to the prices available from the markets on which the instruments 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 pages 10 and 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) | |
|---|---|---|---|---|---|---|
| | 2004 £m | 2003 £m | 2004 £m | 2003 £m | 2004 £m | 2003 £m |
| Unrecognised gains and losses on hedges at the year end | 1.8 | - | (0.8) | (0.7) | 1.0 | (0.7) |
| Of which: | | | | | | |
| Gains and losses expected to be recognised in the next year | 1.6 | - | (0.6) | (0.7) | 1.0 | (0.7) |
| Gains and losses expected to be recognised in subsequent years | 0.2 | - | (0.2) | - | - | - |

### 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 £0.4 million (2003: £1.2 million).

## 28 Post balance sheet event

In March 2005 the Company cancelled its syndicated borrowing facility of £73.3 million as at 31 December 2004 and replaced it with a two year £50 million credit facility, expiring on 31 March 2007, with an option to extend for a further three months.