



**CHARTER**

Interim Report  
2005



# Financial highlights

Interim results for the six months ended 30 June 2005 (unaudited)



	Six months to 30.6.2005 £m	Six months to 30.6.2004 £m	
Revenue	495.9	415.6	+19%
Adjusted operating profit <sup>(i)</sup>	41.2	24.0	+72%
Operating profit	41.2	23.6	+75%
Profit before tax	44.4	16.1	+176%
Profit after tax	33.0	18.1	+82%
Profit attributable to equity shareholders	27.7	16.4	+69%
Net debt	45.9	82.2	-44%
	<u>pence</u>	<u>pence</u>	
Earnings per share			
Basic	18.1	12.2	+48%
Adjusted <sup>(ii)</sup>	16.1	9.3	+73%

(i) before exceptional items (see note 3 on page 19)

(ii) before exceptional items (see note 3 on page 19) and gains or losses on retranslation of intercompany loan balances

# Chairman and Chief Executive's statement

## Summary of interim results (unaudited)

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year ended 31.12.04 £m
Revenue	495.9	415.6	870.4
Adjusted operating profit <sup>(i)</sup>	41.2	24.0	54.9
Exceptional items	-	(0.4)	(3.0)
Operating profit	41.2	23.6	51.9
Before retranslation of intercompany loan balances adjustment	(3.5)	(6.2)	(11.5)
Gains/(losses) on retranslation of intercompany loan balances	4.8	(3.2)	(3.0)
Net financing credit (charge)	1.3	(9.4)	(14.5)
Share of post tax profits of associates	1.9	1.9	3.6
Profit before tax	44.4	16.1	41.0
Tax on profit on ordinary activities			
Before taxation on exceptional items, gains/(losses) on intercompany loans and exceptional tax credit	(10.8)	(4.7)	(11.9)
Taxation on exceptional items	-	0.1	0.5
Taxation on gains/(losses) on intercompany loan balances	(0.6)	-	0.4
Exceptional tax credit	-	6.6	6.6
Taxation	(11.4)	2.0	(4.4)
Profit after tax	33.0	18.1	36.6
Attributable to:			
Equity shareholders	27.7	16.4	29.8
Minority interests	5.3	1.7	6.8
	33.0	18.1	36.6
Net debt	45.9	82.2	66.3
Earnings per share			
Basic	18.1p	12.2p	20.9p
Adjusted <sup>(ii)</sup>	16.1p	9.3p	19.8p

(i) before exceptional items (see note 3 on page 19)

(ii) before exceptional items (see note 3 on page 19) and gains or losses on retranslation of intercompany loan balances

## Financial overview

I am pleased to announce excellent first half 2005 results with adjusted earnings per share of 16.1 pence, an increase of 73 per cent compared with the corresponding period in 2004. These results reflect the continuing trend of stronger performance following the restructuring of our businesses and strengthening of the Company's balance sheet that has occurred in recent years. These results have been prepared in accordance with International Financial Reporting Standards ("IFRS") further details of which are given below.

In the six months ended 30 June 2005 sales were £495.9 million, a 19 per cent increase over sales of £415.6 million in the first half of 2004. Adjusted operating profit, before exceptional items, increased by 72 per cent to £41.2 million from £24.0 million earned in the same period in 2004. There were no exceptional items charged against operating profits in the first half of 2005, compared to £0.4 million net exceptional costs in the same period last year.

The profit before tax for the period increased by 176 per cent to £44.4 million (2004: £16.1 million) and the ordinary tax charge before taxation on exceptional items and gains or losses on retranslation of intercompany loans was £10.8 million (2004: £4.7 million). After allowing for minority interests of £5.3 million (2004: £1.7 million), the profit attributable to equity shareholders for the period was £27.7 million (2004: £16.4 million).

The basic earnings per share increased by 48 per cent to 18.1 pence (2004: 12.2 pence). Adjusted earnings per share, before exceptional items and the net gain on retranslation of intercompany loan balances, increased by 73 per cent to 16.1 pence (2004: 9.3 pence).

During the first six months of the year net debt decreased by £20.4 million from £66.3 million to £45.9 million.

## Overview of Group results

		Six months to 30.6.05		Six months to 30.6.04		Year ended 31.12.04
	% sales	£m	% sales	£m	% sales	£m
Welding and cutting		347.7		305.1		624.9
Air and gas handling		147.8		108.0		241.6
Food equipment		0.4		2.5		3.9
<b>Revenue</b>		<b>495.9</b>		<b>415.6</b>		<b>870.4</b>
Welding and cutting	10.5	36.6	7.8	23.7	7.9	49.2
Air and gas handling	6.9	10.2	3.0	3.2	5.9	14.2
Food equipment		(1.1)		0.1		(2.2)
Central operations		(4.5)		(3.0)		(6.3)
<b>Adjusted operating profit<sup>(i)</sup></b>		<b>41.2</b>		<b>24.0</b>		<b>54.9</b>
Welding and cutting		1.7		1.4		2.4
Air and gas handling		0.2		0.5		1.2
<b>Share of post tax profits of associates</b>		<b>1.9</b>		<b>1.9</b>		<b>3.6</b>

(i) before exceptional items (see note 3 on page 19)

The welding and cutting business (“Esab”) continued to produce excellent results during the period, with sales growing by 14 per cent to £347.7 million compared with 2004 first half sales of £305.1 million. Adjusted operating profits were £36.6 million, an increase of 54 per cent compared with £23.7 million earned in the first half of last year. Of particular note was the significant improvement in operating margins to 10.5 per cent, as compared with 7.8 per cent in the first half of 2004.

During the period the air and gas handling business (“Howden”) made significant progress, with sales growing by 37 per cent to £147.8 million (2004: £108.0 million). Adjusted operating profits were £10.2 million, more than three times the £3.2 million earned in the same period in 2004, with a substantial improvement in operating margin to 6.9 per cent from 3.0 per cent. Howden’s order intake during the period continued to be strong and orders in hand at 30 June 2005 were £262 million, 45 per cent ahead of the order book of £181 million at 31 December 2004. Since 30 June 2005, Howden’s order book has continued to grow.

During the period Howden Food Equipment Inc., a US manufacturer of industrial food processing equipment, which traded as Demaco, ceased trading and its assets have been sold. This business had sales in the half year of £0.4 million (2004: £2.5 million) and recorded an operating loss, including closure costs, of £1.1 million (2004: operating profit of £0.1 million).

Central costs were £4.5 million in the first half of 2005 (2004: £3.0 million).

The share of post tax profits of associates in the period amounted to £1.9 million (2004: £1.9 million).

### Operating review

#### Welding and cutting

In the first half of the year, Esab’s turnover was £347.7 million (2004: £305.1 million) and adjusted operating profits were £36.6 million (2004: £23.7 million). This compares with operating profits of £25.5 million in the second half of 2004 on turnover of £319.8 million. The share of post tax profits of associates was £1.7 million (2004: £1.4 million).

The six months to 30 June 2005 saw a continuation of the strong performance reported in 2004 across both welding and cutting operations with sales and operating profit well ahead of the first half of last year.

Significant sales growth has been achieved in the Middle East and Asia which in volume terms are well ahead of last year. Esab India Limited, in which Esab has a 38 per cent interest, performed well. Esab continues to enjoy sales growth in Russia, particularly in the oil and gas sector, where it benefits from its specialised knowledge and capabilities within extreme environments.

In Europe, Esab performed well with good recoveries in Scandinavia. The benefits of the European restructuring

# Chairman and Chief Executive's statement

(continued)

programme initiated in 2004 and continued into the first half of 2005 have resulted in lower costs and improved efficiencies. This programme, which has had a favourable impact on operating margins, has also resulted in improved customer support, order processing and supply logistics.

Esab has continued to benefit from a strong trading environment for its products in South America.

In North America, the Canadian business has achieved strong sales in both equipment and consumables. In the United States sales improved in spite of the slowdown in industrial production experienced in the first few months of the year.

In Asia, Esab is continuing to invest in its production and sales and marketing capabilities and has recently announced the construction of a new welding consumables production facility in China. This plant, which is being built on a 40,000 square metre site near Shanghai, has the potential for future expansion. In recent months a new Esab trading company has also been established in China. This company will supply the local market with welding equipment and consumables sourced from other Esab manufacturing sites. Esab is currently relocating its Chinese cutting equipment plant into a larger, more modern facility in Shanghai. These initiatives will further facilitate the expansion of Esab's overall business in China and elsewhere.

New product introductions announced during the period under review include developments in plasma cutting, and Vision 52 and 55 advanced controllers for cutting operations. On the welding side, Esab is increasingly working with robot applications in the automotive sector and has introduced a number of welding packages for use with new robotic installations as well as for simple retrofitting to the large population of existing installed robots.

With the increasing focus on wind turbine installations for renewable power generation, Esab has further developed its Tandem Twin multi-head automated welding package for use in the production of wind turbine towers. This combined package of advanced welding wires, fluxes and equipment offers considerable improvements in process speed, economy and weld integrity.

Other developments include important extensions to Esab's Marathon Pac, bulk wire delivery systems, including the introduction of a range of specialised aluminium wires for applications within the automotive sector.

The global demand for steel and the increasing industrial production levels experienced in the first half of the year continued to contribute to an upturn in activity for the

welding industry. As a result most of Esab's markets remained strong throughout the period. Process automation has progressively affected the product mix in welding consumables in recent years and this trend is expected to continue in the future.

Overall, Esab achieved strong performances in both sales and operating profits. It will continue to benefit from restructuring initiatives taken over the past four years, and further incremental cost and efficiency gains will continue to accrue as new initiatives are introduced.

## Air and gas handling

During the first six months, Howden's turnover increased to £147.8 million (2004: £108.0 million). This was mainly due to improved global demand particularly in China and increased spending by utility companies in North America. Adjusted operating profits rose substantially to £10.2 million (2004: £3.2 million). Margins improved to 6.9 per cent (2004: 3.0 per cent). Howden's order book continued to strengthen and at 30 June 2005 was 45 per cent higher than the 2004 year-end level and has grown further since 30 June 2005. The share of post tax profits of associates was £0.2 million (2004: £0.5 million).

In the power sector where Howden generates more than half of its sales, revenues increased by 64 per cent and profits doubled. Howden Hua, in which Howden has a 70 per cent interest, more than doubled its sales, against the background of a stronger Chinese power market. Howden also benefited from growth in the power sector in Europe.

In North America, sales rose year on year mainly driven by a strong spring outage period among utilities as power demand in the United States has come under increasing pressure.

In Europe demand in the industrial fan businesses was relatively flat, however sales in Brazil improved due to strength in the mining and mineral sector. Sales of the global compressor businesses improved in line with improved market conditions in the Middle East, China and South America.

In South Africa, where Howden has a 55 per cent interest in Howden Africa Holdings Limited, turnover increased marginally. Howden Africa benefited from a return to service programme of three previously mothballed power stations. These improvements were offset in part by weaknesses in the mining and environmental control businesses due to the strong South African rand.

Operating margins have benefited from improved contract management and project execution.

## Exceptional items

To help provide a better indication of the group's underlying business performance, items that are both material and non-recurring are highlighted as exceptional items within the relevant income statement category.

In the six months ended 30 June 2005 there were no exceptional items. In the corresponding period in 2004 there were a number of significant exceptional items as shown in the table below.

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year ended 31.12.04 £m
Restructuring costs	-	(3.5)	(12.8)
Unauthorised payments (net of insurance proceeds)	-	(4.2)	0.5
Legal and environmental costs	-	-	(1.9)
Disposal of assets and business	-	7.3	11.2
<b>Total exceptional items before tax</b>	-	(0.4)	(3.0)
Taxation on exceptional items	-	0.1	0.5
Exceptional tax credit	-	6.6	6.6
<b>Total exceptional items after tax</b>	-	6.3	4.1

## Taxation

The adjusted effective tax rate for the period on profit before gains or losses on retranslation of intercompany loans and share of post tax profits of associates is 28.6 per cent (2004: 26.4 per cent excluding exceptional items).

In the first half of 2004 the tax credit attributable to exceptional items amounted to £0.1 million and there was an exceptional tax credit of £6.6 million, which arose following the settlement of certain specific UK tax issues.

## Cash flow and borrowings

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year ended 31.12.04 £m
Operating profit	41.2	23.6	51.9
Depreciation	7.8	7.9	16.4
Share-based payments	0.3	-	0.4
(Profit)/loss on sale of fixed assets	(0.4)	0.1	0.2
Working capital movement	(19.1)	(3.4)	7.7
Provisions movement	(4.2)	(4.4)	(12.3)
Exceptional items - amount recognised in period	-	0.4	3.0
- amount paid in period	(4.2)	(11.3)	(19.6)
<b>Cash generated from operations</b>	<b>21.4</b>	<b>12.9</b>	<b>47.7</b>
Capital expenditure	(6.7)	(3.2)	(10.0)
Capitalised development costs	(0.8)	(0.1)	(0.2)
Acquisitions	(0.5)	(0.5)	(3.5)
	(8.0)	(3.8)	(13.7)
Disposals	0.4	13.0	13.1
Sale of fixed assets	1.7	0.1	2.9
Loans to associates	0.2	-	-
Dividends from associates	2.1	1.0	1.3
Financing costs (net)	(4.4)	(7.9)	(13.3)
Dividends paid to minority interests	(1.0)	(1.8)	(2.8)
Tax paid	(8.7)	(6.3)	(11.7)
Share issues (net of expenses)	19.1	44.6	44.6
<b>Net cash flow</b>	<b>22.8</b>	<b>51.8</b>	<b>68.1</b>
New finance leases	-	-	(0.6)
Movement in interest payable accrual	0.4	-	-
Foreign exchange adjustments	(1.2)	2.5	2.7
<b>Movement in net debt</b>	<b>22.0</b>	<b>54.3</b>	<b>70.2</b>
Opening net debt	(66.3)	(136.5)	(136.5)
Adjustment in respect of adoption of IAS 39	(1.6)	-	-
<b>Closing net debt</b>	<b>(45.9)</b>	<b>(82.2)</b>	<b>(66.3)</b>

# Chairman and Chief Executive's statement

(continued)

On 27 April 2005, the Company announced that it had placed 7,531,800 new ordinary shares at 258 pence each, which raised proceeds of £19.1 million net of expenses. The placing represented approximately 5 per cent of the current issued ordinary share capital at that time and had been fully underwritten by Hoare Govett Limited. The Company intends to utilise the proceeds from the placing for general corporate purposes.

The cash inflow generated from operations for the period was £21.4 million (2004: £12.9 million). Capital expenditure was £6.7 million (2004: £3.2 million). The depreciation charge was £7.8 million (2004: £7.9 million). Net proceeds from the sale of fixed assets amounted to £1.7 million (2004: £0.1 million). Net expenditure of £0.5 million was incurred on acquisitions in the period (2004: £0.5 million) whereas in 2004 disposals generated a net £13.0 million.

During the first six months of the year net debt decreased from £66.3 million to £45.9 million reflecting a net cash inflow of £20.4 million, including an exchange loss of £1.2 million, a movement in the accrual for interest payable of £0.4 million and an adjustment in respect of the adoption of IAS 39 of £1.6 million.

As a result of lower average daily borrowing levels during the period, the net financing charge (excluding the net gain on retranslation of intercompany loans) was £3.5 million, which was £2.7 million lower than the £6.2 million incurred in the corresponding period in 2004.

On 21 March 2005 the Company cancelled its onerous syndicated banking facility and replaced it with a two year £50 million credit facility provided by HSBC on conventional terms. This new facility, which is currently unutilised, expires on 31 March 2007, with a right by the Company to extend for a further three months.

## Balance sheet

During the period, equity shareholders' funds increased by £44.3 million to £55.8 million.

## Retirement benefits

At 31 December 2004, the group's balance sheet reflected net provisions of £110.3 million (1 January 2004: £121.8 million) in respect of unfunded pension liabilities. There was a further net provision of £21.5 million (1 January 2004: £25.3 million) in respect of the group's liability for estimated future overseas medical costs. As permitted under IAS 19, the cumulative actuarial gains and losses arising subsequent to 1 January 2004 which fall within a "corridor", calculated by reference to the greater of 10 per cent of plan assets or liabilities, are not recognised on the balance sheet. At 31 December 2004 the amount of the actuarial losses not recognised was £13.2 million in respect of unfunded pension liabilities and £2.0 million in respect of the group's liability for estimated future overseas medical costs.

The valuation of the group's retirement benefit obligations has been reviewed at 30 June 2005. Since 31 December 2004 the increase in the present value of funded and unfunded obligations, arising from lower discount rates, has exceeded the increase in the fair value of plan assets. Consequently, at 30 June 2005, the unrecognised actuarial losses had increased by an estimated £20 million.

## Contingent liabilities

As disclosed in the Company's 2004 annual report and accounts The Esab Group Inc. ("Esab Inc"), a subsidiary of the Company, in common with other companies in the welding products industry, 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, some of which are due to be tried this year. Whilst litigation is notoriously uncertain, on the advice of Esab Inc's counsel in the United States, the Directors believe that Esab Inc has meritorious defences to these claims, most of which should be covered in whole or in part by insurance, and Esab Inc is defending these claims vigorously.

## International Financial Reporting Standards ('IFRS')

The Company has adopted IFRS in the preparation of its consolidated financial statements with effect from 1 January 2005. Therefore the interim results for the period ended 30 June 2005 are presented in accordance with IFRS expected to be applicable as at 31 December 2005 and the comparative figures have been restated.

The Standards that have had the most impact on the Company are:

- IAS 19 ('Employee Benefits') requires the recognition of additional pension and other post retirement liabilities initially on a basis similar, but not identical, to those previously disclosed under FRS 17;
- IAS 21 ('The Effects of Changes in Foreign Exchange Rates') has led to certain gains and losses on foreign exchange previously recognised in reserves affecting the income statement and will mean greater profit volatility in the future;
- IAS 38 ('Intangible Assets') requires the recognition on the balance sheet of internal development costs that meet the recognition criteria of the standard; and
- IFRS 3 ('Business Combinations') no longer allows an annual charge for the amortisation of goodwill; instead capitalised goodwill is subject to annual impairment tests.

In addition, under IFRS 1 ('First-time Adoption of International Financial Reporting Standards') the Company has chosen to revalue certain properties on transition to IFRS, with such revaluations treated as deemed cost in the future.

Set out below is a summary of the impact of adopting IFRS on the comparative profit before tax and earnings per share.

	Six months to 30.6.04 £m	Year ended 31.12.04 £m
<b>Profit before tax</b>		
<b>UK GAAP</b>	6.1	28.1
Post-retirement benefits	2.4	5.4
Property revaluations on transition	(0.1)	(0.2)
Capitalised development costs	0.1	0.2
Amortisation of goodwill	0.6	1.2
Reclassification of associates' tax	(0.8)	(1.7)
	<u>8.3</u>	<u>33.0</u>
Items not related to underlying business performance:		
Exceptional items		
Goodwill on business disposal	6.0	6.0
Unauthorised payments arising in prior years	5.0	5.0
Losses on retranslation of intercompany loan balances	(3.2)	(3.0)
<b>IFRS</b>	<u>16.1</u>	<u>41.0</u>
	pence	pence
<b>Earnings per share - basic</b>		
<b>UK GAAP</b>	3.6	10.4
Post-retirement benefits	1.8	3.8
Property revaluations on transition	(0.1)	(0.1)
Capitalised development costs	0.1	0.1
Goodwill	4.9	5.0
Unauthorised payments arising in prior years	3.7	3.5
Losses on retranslation of intercompany loan balances	(1.8)	(1.8)
<b>IFRS</b>	<u>12.2</u>	<u>20.9</u>
	pence	pence
<b>Earnings per share - adjusted</b>		
<b>UK GAAP</b>	7.5	16.0
Post-retirement benefits	1.8	3.8
Property revaluations on transition	(0.1)	(0.1)
Capitalised development costs	0.1	0.1
<b>IFRS</b>	<u>9.3</u>	<u>19.8</u>

Set out below is a summary of the impact of adopting IFRS on the comparative net assets.

	30.6.04 £m	31.12.04 £m
<b>Net assets</b>		
<b>UK GAAP</b>	81.4	97.9
Post-retirement benefits	(85.2)	(81.3)
Property revaluations on transition	15.1	15.6
Capitalised development costs	1.4	1.6
Goodwill	1.2	1.8
Deferred tax (net)	(2.1)	(2.1)
Other	(0.1)	0.2
<b>IFRS</b>	<u>11.7</u>	<u>33.7</u>

# Chairman and Chief Executive's statement

(continued)

## Post balance sheet event

On 13 September, following approval by shareholders at an Extraordinary General Meeting, the Company completed the acquisition of the 49 per cent minority interest in the South American welding and cutting businesses from the Acevedo family.

The purchase consideration of approximately US\$38 million (£21 million) was satisfied on 13 September 2005 by the issue of 6,424,914 new ordinary shares in the Company, being 3.9 per cent of the enlarged share capital.

The vendors will also receive US\$7.9 million (£4.4 million) in cash in lieu of dividends that they will not now be paid in respect of the period from 1 January 2004 to 13 September 2005.

Under the terms of the acquisition, the Company has acquired certain holding companies, through which the Acevedo family held its 49 per cent interest in the South American welding and cutting businesses. The consideration has been calculated on the basis of these holding companies having net liabilities (excluding their net investment in the South American welding and cutting businesses) of approximately US\$1 million. To the extent that the actual net liabilities are different as at the date of completion, the consideration will be adjusted on a dollar for dollar basis.

In the year ended 31 December 2004, the South American welding and cutting businesses generated profit before taxation of £8.9 million on sales of £72.1 million (including intra-group sales of £2.3 million); these results represented considerable improvements over the previous year in which profit before tax was £5.3 million and sales were £56.0 million (including intra-group sales of £1.6 million). As at 31 December 2004, the businesses had shareholders' funds of £22.4 million, gross assets of £34.6 million and net cash of £2.0 million.

In the first half of 2005, the performance of the South American welding and cutting businesses has continued to show further positive progress. The Directors expect this to continue for the remainder of the current financial year.

This acquisition increases the group's exposure to the Brazilian and Argentine markets, which the Directors believe, offer attractive growth opportunities and provide a firm base from which to further develop our business in South America. This acquisition has enabled the Company to assume complete management control of its South American businesses, which will facilitate the transfer of additional more up to date technologies to these businesses.

## Dividends

The Board has decided not to declare a dividend for the six months ended 30 June 2005.

## Board

During the period there have been a number of changes in the Board. Michael Foster, who had been a Non-Executive Director since December 2001, was appointed Commercial Director on 1 January 2005. Three new Non-Executive Directors have also joined the Board. Grey Denham and Andrew Osborne were appointed on 8 February 2005 and John Biles on 1 April 2005.

## Prospects

Esab, the welding and cutting business, and Howden, the air and gas handling business, have both achieved strong growth in sales, operating profits and operating margins and are well positioned to make further progress.

In the light of the first half results and strong trading to date, the Board now expects that the full year's results will be ahead of its previous expectations.

**David Gawler**

*Chairman and Chief Executive*

28 September 2005

# Consolidated income statement

Six months ended 30 June 2005 (unaudited)

Note		Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
2	<b>Revenue</b>	495.9	415.6	870.4
	Cost of sales	(348.0)	(294.4)	(616.8)
	<b>Gross profit</b>	147.9	121.2	253.6
	Selling and distribution costs	(58.9)	(56.2)	(122.2)
	Administrative expenses	(47.8)	(48.7)	(90.7)
	Other operating income	-	7.3	11.2
2	<b>Operating profit</b>	41.2	23.6	51.9
	Analysed as:			
	Operating profit excluding exceptional items	41.2	24.0	54.9
3	Exceptional items	-	(0.4)	(3.0)
		41.2	23.6	51.9
4	Net financing charge excluding gains/(losses) on retranslation of intercompany loan balances	(3.5)	(6.2)	(11.5)
10(ix)	Gains/(losses) on retranslation of intercompany loan balances	4.8	(3.2)	(3.0)
	Net financing credit/(charge)	1.3	(9.4)	(14.5)
	Share of post tax profits of associates	1.9	1.9	3.6
	<b>Profit before tax</b>	44.4	16.1	41.0
5	Tax on profit on ordinary activities			
	Excluding taxation on exceptional items, gains/(losses) on retranslation of intercompany loan balances and exceptional tax credit	(10.8)	(4.7)	(11.9)
	Taxation on exceptional items	-	0.1	0.5
	Taxation on gains/(losses) on retranslation of intercompany loan balances	(0.6)	-	0.4
	Exceptional tax credit	-	6.6	6.6
		(11.4)	2.0	(4.4)
	<b>Profit for the financial period</b>	33.0	18.1	36.6
	<b>Attributable to:</b>			
	- Equity shareholders	27.7	16.4	29.8
	- Minority interests	5.3	1.7	6.8
		33.0	18.1	36.6
6	<b>Earnings per share</b>			
	<i>Basic</i>	18.1 p	12.2 p	20.9 p
	<i>Diluted</i>	17.9 p	12.2 p	20.8 p

# Consolidated balance sheet

Six months ended 30 June 2005 (unaudited)

	30.6.05 £m	30.6.04 £m	31.12.04 £m
<b>Non-current assets</b>			
Property, plant and equipment	108.4	111.1	111.3
Intangible assets	22.7	20.2	21.7
Investments in associates	22.0	20.7	22.1
Retirement benefit assets	3.4	2.1	2.6
Deferred income tax assets	10.0	6.4	12.2
Trade and other receivables	0.4	0.3	0.4
	<u>166.9</u>	<u>160.8</u>	<u>170.3</u>
<b>Current assets</b>			
Inventory	116.6	94.9	102.7
Trade and other receivables	251.0	225.0	237.4
Derivative financial instruments	1.8	-	-
Cash and cash equivalents	37.2	33.3	45.1
	<u>406.6</u>	<u>353.2</u>	<u>385.2</u>
<b>Total assets</b>	<u>573.5</u>	<u>514.0</u>	<u>555.5</u>
<b>Current liabilities</b>			
Borrowings	(13.5)	(7.2)	(46.0)
Trade and other payables	(213.6)	(185.6)	(209.1)
Derivative financial instruments	(1.9)	-	-
Income tax liabilities	(12.2)	(7.8)	(9.3)
Provisions	(13.6)	(16.5)	(16.5)
	<u>(254.8)</u>	<u>(217.1)</u>	<u>(280.9)</u>
<b>Non-current liabilities</b>			
Borrowings	(69.6)	(108.3)	(65.4)
Deferred income tax liabilities	(10.6)	(10.0)	(12.8)
Retirement benefit obligations	(130.6)	(144.0)	(134.4)
Provisions	(21.6)	(21.9)	(23.4)
Other payables	(4.0)	(1.0)	(4.9)
	<u>(236.4)</u>	<u>(285.2)</u>	<u>(240.9)</u>
<b>Total liabilities</b>	<u>(491.2)</u>	<u>(502.3)</u>	<u>(521.8)</u>
<b>Net assets</b>	<u>82.3</u>	<u>11.7</u>	<u>33.7</u>
<b>Equity</b>			
Share capital	3.2	3.0	3.0
Share premium	68.3	49.4	49.4
Retained earnings	(18.7)	(60.5)	(46.7)
Other reserves	3.0	(0.7)	5.8
<b>Total equity shareholders' funds</b>	<u>55.8</u>	<u>(8.8)</u>	<u>11.5</u>
Minority interests	26.5	20.5	22.2
<b>Total equity</b>	<u>82.3</u>	<u>11.7</u>	<u>33.7</u>
<b>Net debt</b>	<u>45.9</u>	<u>82.2</u>	<u>66.3</u>

By order of the board  
A R Yapp, Secretary  
28 September 2005

# Consolidated cash flow statement

Six months ended 30 June 2005 (unaudited)

Note	Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
<b>Cash flow from operating activities</b>			
8	21.4	12.9	47.7
	(4.4)	(7.9)	(13.3)
	(8.7)	(6.3)	(11.7)
<b>Net cash flow from operating activities</b>	<b>8.3</b>	<b>(1.3)</b>	<b>22.7</b>
<b>Cash flow from investing activities</b>			
	-	(1.1)	(1.2)
	(0.5)	(0.5)	(3.5)
	0.4	14.1	14.3
	(0.8)	(0.1)	(0.2)
	(6.7)	(3.2)	(10.0)
	1.7	0.1	2.9
	0.2	-	-
	2.1	1.0	1.3
<b>Net cash flow from investing activities</b>	<b>(3.6)</b>	<b>10.3</b>	<b>3.6</b>
<b>Cash flow from financing activities</b>			
	-	0.1	(0.1)
	(36.4)	(64.5)	(68.6)
	3.4	(14.3)	(14.5)
	(0.3)	(0.5)	(1.2)
	(33.3)	(79.2)	(84.4)
	(1.0)	(1.8)	(2.8)
	19.1	44.6	44.6
<b>Net cash flow from financing activities</b>	<b>(15.2)</b>	<b>(36.4)</b>	<b>(42.6)</b>
Currency variations on cash and cash equivalents	(0.7)	(1.4)	0.6
Net movement in cash and cash equivalents	(11.2)	(28.8)	(15.7)
Cash and cash equivalents at 1 January <sup>(i)</sup>	40.4	56.1	56.1
Cash and cash equivalents at end of period <sup>(i)</sup>	29.2	27.3	40.4
<sup>(i)</sup> For the purposes of the cash flow statement, cash and cash equivalents are included net of overdrafts repayable on demand. These overdrafts are excluded from the definition of cash and cash equivalents disclosed in the balance sheet.			
<b>Reconciliation of net cash flow to movement in net debt</b>			
Net movement in cash and cash equivalents	(11.2)	(28.8)	(15.7)
Cash outflow from debt and lease financing	33.3	79.3	84.3
(Decrease)/increase in cash on deposit	-	(0.1)	0.1
<b>Change in net debt resulting from cash flows</b>	<b>22.1</b>	<b>50.4</b>	<b>68.7</b>
New finance leases	-	-	(0.6)
Movement in interest payable accrual	0.4	-	-
Currency variations on borrowings and cash deposits	(0.5)	3.9	2.1
<b>Movement in net debt in the period</b>	<b>22.0</b>	<b>54.3</b>	<b>70.2</b>
Opening net debt	(66.3)	(136.5)	(136.5)
Adjustment in respect of adoption of IAS 39 (see note 11)	(1.6)	-	-
<b>Closing net debt</b>	<b>(45.9)</b>	<b>(82.2)</b>	<b>(66.3)</b>
Gross borrowings	(83.1)	(115.5)	(111.4)
Cash at bank and in hand (including cash on deposit)	37.2	33.3	45.1
	(45.9)	(82.2)	(66.3)

# Consolidated statement of changes in equity

Six months ended 30 June 2005 (unaudited)

	Attributable to equity shareholders of Charter plc				Minority interests £m	Total equity £m
	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m		
<b>At 1 January 2004 (unaudited)</b>	1.9	5.9	(76.9)	-	20.5	(48.6)
Exchange translation	-	-	-	(0.7)	0.1	(0.6)
Exchange translation – attributable taxation	-	-	-	-	-	-
Profit for the financial period	-	-	16.4	-	1.7	18.1
Charge for share-based payments	-	-	-	-	-	-
Movement in hedging reserve	-	-	-	-	-	-
Issue of share capital (net of expenses)	1.1	43.5	-	-	-	44.6
Dividends paid to minority interests	-	-	-	-	(1.8)	(1.8)
<b>At 30 June 2004 (unaudited)</b>	<b>3.0</b>	<b>49.4</b>	<b>(60.5)</b>	<b>(0.7)</b>	<b>20.5</b>	<b>11.7</b>
<b>At 1 January 2004 (unaudited)</b>	1.9	5.9	(76.9)	-	20.5	(48.6)
Exchange translation	-	-	-	6.8	0.7	7.5
Exchange translation – attributable taxation	-	-	-	(1.0)	-	(1.0)
Profit for the financial period	-	-	29.8	-	6.8	36.6
Charge for share-based payments	-	-	0.4	-	-	0.4
Movement in hedging reserve	-	-	-	-	-	-
Issue of share capital (net of expenses)	1.1	43.5	-	-	-	44.6
Dividends paid to minority interests	-	-	-	-	(2.8)	(2.8)
Purchase of minority interests	-	-	-	-	(3.0)	(3.0)
<b>At 31 December 2004 (unaudited)</b>	<b>3.0</b>	<b>49.4</b>	<b>(46.7)</b>	<b>5.8</b>	<b>22.2</b>	<b>33.7</b>
Adjustment in respect of adoption of IAS 39 (see note 11)	-	-	-	0.6	-	0.6
<b>At 1 January 2005 (unaudited)</b>	<b>3.0</b>	<b>49.4</b>	<b>(46.7)</b>	<b>6.4</b>	<b>22.2</b>	<b>34.3</b>
Exchange translation	-	-	-	(1.9)	0.1	(1.8)
Exchange translation – attributable taxation	-	-	-	-	-	-
Profit for the financial period	-	-	27.7	-	5.3	33.0
Charge for share-based payments	-	-	0.3	-	-	0.3
Movement in hedging reserve (net of tax)	-	-	-	(1.5)	-	(1.5)
Issue of share capital (net of expenses)	0.2	18.9	-	-	-	19.1
Dividends paid to minority interests	-	-	-	-	(1.1)	(1.1)
Purchase of minority interests	-	-	-	-	-	-
<b>At 30 June 2005 (unaudited)</b>	<b>3.2</b>	<b>68.3</b>	<b>(18.7)</b>	<b>3.0</b>	<b>26.5</b>	<b>82.3</b>

## 1(a) Basis of preparation

The interim financial information in this report has been prepared on the basis of accounting policies set out in note 1(b) in accordance with International Financial Reporting Standards (IFRS).

Prior to 2005, the group prepared its audited annual financial statements using accounting principles generally accepted in the UK (UK GAAP). For the year ending 31 December 2005, the group is required to prepare its annual consolidated financial statements in accordance with accounting standards adopted for use in the European Union, IFRS. As such, those financial statements will take account of the requirements and options in IFRS 1 "First-time adoption of International Financial Reporting Standards" as they relate to the 2004 comparatives included therein.

A company is generally required to determine its IFRS accounting policies as at its reporting date and apply these retrospectively to determine its opening balance sheet at its date of transition to IFRS (1 January 2004). IFRS 1 allows a number of exemptions to this general principle to assist companies in their transition.

The following key exemptions have been taken:

- Business combinations (IFRS 3): Business combinations prior to the transition date (1 January 2004) have not been restated onto an IFRS basis.
- Fair value as deemed cost: Certain properties have been fair valued at the transition date and this will become the deemed cost.
- Employee benefits: All cumulative actuarial gains and losses have been recognised in equity at the transition date.
- Cumulative translation differences: The cumulative translation difference arising on the retranslation of foreign currency denominated entities has been set at zero at the transition date. The gain or loss on a subsequent disposal of any such entity shall exclude translation differences that arose before the date of transition to IFRS but shall include later translation differences.
- Share-based payments (IFRS 2): Equity settled transactions arising from grants prior to 7 November 2002 have not been accounted for in accordance with the requirements of IFRS 2.
- Financial instruments - IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement): The comparative information for 2004 for derivatives, financial assets, financial liabilities and hedging relationships has not been restated to comply with IAS 32 and IAS 39. The adjustments required on the adoption of IAS 32 and IAS 39 as set out in note 11 were established at 1 January 2005 and recognised at that date.

An explanation of how transition from UK GAAP to IFRS has affected the group's financial position, income statement and cash flows is set out in notes 10,11 and appendices 1 to 5 (the reconciliations). These reconciliations are based on the IFRS's expected to be applicable as at 31 December 2005 and the interpretation of those standards. The IFRS and the International Financial Reporting Interpretations Committee (IFRIC) interpretations that will be applicable at 31 December 2005 are not known with certainty. These consolidated interim statements are based on management's understanding of current issued standards and interpretations and current facts and circumstances, which may change. For example, amended or additional standards or interpretations may be issued by the International Accounting Standards Board. IFRS is currently being applied in the UK and in a large number of other countries simultaneously for the first time. Due to a number of new and revised standards issued after December 2003, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application of IFRS.

Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the group's financial statements for the year ending 31 December 2005 cannot be determined with certainty.

Further details of the transition adjustments were made available in the press release "Charter plc - Adoption of International Financial Reporting Standards" on 17 June 2005 which is available at [www.charterplc.com](http://www.charterplc.com). As explained in note 10(ix), since the publication of that press release the functional currency of two non-trading subsidiaries has been changed. The only impact of this change is to reduce the amount of the exchange losses arising on the retranslation of the intercompany loan element of investment in subsidiaries reclassified from reserves to the income statement for the year ended 31 December 2004 to £3.0 million. There is no impact on net assets.

### Comparatives

The information shown in respect of the year ended 31 December 2004 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The statutory accounts of the Company for the year then ended have been audited and filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified.

### Use of adjusted measures

To help provide a better indication of the group's underlying business performance, items which are both material and non-recurring are presented as exceptional items. The amount of foreign currency exchange differences on retranslation of intercompany loans included in the income statement is determined by reference to movements in exchange rates and therefore this amount is likely to be volatile. IFRS adjusted earnings per share excludes exceptional items and foreign currency exchange differences on intercompany loans.

## 1(b) Principal group accounting policies

The principal accounting policies set out below have been consistently applied to all the periods presented except for those relating to the classification and measurement of financial instruments. The group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. The policies applied to financial instruments for 2004 and 2005 are disclosed separately below.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

### Basis of consolidation

Subsidiaries are entities over which the group has the power to govern the financial and operating policies of the entity. A shareholding of more than one half of the voting rights will normally be the basis of such control. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus the costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired, including all separately identifiable intangible assets, is goodwill which has been recorded as an intangible asset since 1 January 1998 (see Goodwill below).

Associates are entities over which the group has significant influence but not control, normally on the basis of a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recorded at cost.

The group's share of its associates' post acquisition profits or losses, net of interest and tax, is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The group has taken advantage of the business combinations exemption in IFRS1 and has not restated business combinations that took place before 1 January 2004.

### Segment reporting

The group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from other business segments. A geographical segment is engaged in providing products within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### Foreign currencies

Items included in the financial statements for each of the group's entities are measured using the currency of the primary economic environment in which that entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, the functional currency and presentation currency of Charter plc.

Foreign currency transactions are translated into the functional currency of group entities using the exchange rate at the date of the transaction. Foreign exchange gains and losses arising from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognised in the income statement. The results and net assets of all group companies that have non-Sterling functional currency are included in the consolidated financial statements as follows:-

- (i) Assets and liabilities are translated at the exchange rate at the balance sheet date;
- (ii) Income and expenses are translated at average exchange rates for the relevant period; and
- (iii) All resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences arising since 1 January 2004 are recognised in the income statement as part of the gain or loss on sale.

### Financial instruments

IAS 32, Financial instruments: Disclosure and presentation, and IAS 39, Financial instruments: Recognition and measurement, have been adopted with effect from 1 January 2005. The comparative information for 2004 has been prepared in accordance with the group's IFRS accounting policies for financial instruments applicable up to 31 December 2004. Both policies are set out below.

#### *IFRS accounting policies applicable from 1 January 2005*

Derivative financial instruments, principally forward foreign exchange contracts and foreign currency swaps, are used as hedges in the financing and financial risk management of the group and are initially measured at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair value.

## 1(b) Principal group accounting policies (continued)

### *IFRS accounting policies applicable from 1 January 2005 (continued)*

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

For fair value hedges, any gain or loss from re-measuring the hedging instrument at fair value is recognised in the consolidated income statement together with any gain or loss on the hedged item attributable to the hedged risk.

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, with any ineffective portion recognised in the income statement. When hedged cash flows result in the recognition of a non financial asset or liability, the associated gains or losses previously recognised in shareholders' equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. For net investment hedges, gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised in the income statement.

Borrowings are measured at amortised cost. Where borrowings are used to hedge the group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that are determined to be an effective hedge is recognised in shareholders' equity. Gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Trade and other receivables are measured at amortised cost less any provision for impairment. A provision for impairment is established when there is objective evidence that the group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement. Trade and other receivables are discounted when the time value of money is considered material.

### *IFRS accounting policies applicable up to 31 December 2004*

Forward foreign exchange contracts which hedge forecast transactions were not recognised until the transaction they hedge was itself recognised.

Where foreign currency borrowings were used to hedge the group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that were determined to be an effective hedge was recognised in shareholders' equity. Gains and losses accumulated in shareholders' equity arising subsequent to 1 January 2004 were included in the income statement on disposal of a foreign operation.

### **Property, plant and equipment**

The group's policy is to carry property, plant and equipment at historic cost less accumulated depreciation except that certain properties were revalued on transition to IFRS at 1 January 2004. These revaluations are treated as deemed cost as at 1 January 2004 as allowed by IFRS 1.

In accordance with the benchmark treatment under IFRS, borrowing costs associated with expenditure on property, plant and equipment are not capitalised.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method spreading the difference between cost and residual value over the estimated useful life as follows:-

Buildings	– 30 to 50 years
Plant, machinery and equipment	– 8 to 14 years
Vehicles	– 5 years
IT equipment	– 3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see Impairment of assets on page 16).

### **Intangible assets**

#### *(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the subsidiary or associate acquired.

Goodwill, represented by the carrying value at 1 January 2004 under the group's previous accounting policy together with additional amounts arising since that date is no longer amortised and is carried at cost less accumulated impairment losses, and is included in intangible assets in relation to subsidiaries and in investments in associates in relation to associates. In respect of acquisitions prior to 1 January 2004, the classification and accounting treatment of business combinations has not been restated on transition to IFRS, as permitted by IFRS 1.

1(b) Principal group accounting policies (continued)

**Intangible assets** (continued)

Goodwill arising prior to 1 January 1998 was written off directly to reserves. Goodwill arising in the period 1 January 1998 to 31 December 2003 was capitalised as an intangible asset in relation to subsidiaries and amortised on a straight line basis over its estimated useful life, a period not exceeding 20 years or included as part of the carrying value of associates and similarly amortised.

(ii) *Research and development*

Research expenditure is charged to income in the year in which it is incurred.

Internal development expenditure is charged to income in the year in which it is incurred, unless it meets the recognition criteria of IAS 38 "Intangible Assets", in which case such costs are capitalised and amortised over the estimated useful life of the asset created, usually between 3 and 10 years.

(iii) *Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred and amortised over the estimated useful life of the license, usually between 3 and 5 years.

Internal expenditure associated with developing or maintaining computer software programmes is charged to income in the year in which it is incurred, except such costs that are directly associated with the production of identifiable and unique software products controlled by the group that are likely to generate benefits exceeding costs beyond one year, in which case such costs are capitalised and amortised over the estimated useful life of the software product, usually less than 3 years.

**Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) basis or the average cost basis. Cost includes expenditure which is incurred in the normal course of business in bringing the product to its present location and condition. Net realisable value is the estimated selling price less all costs to be incurred.

**Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Taxation**

Taxation is that chargeable on the profits for the period, together with deferred taxation. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated balance sheet.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred taxation is not provided on temporary differences arising on subsidiaries and associates where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future or where the remittance would not give rise to incremental tax liabilities or are otherwise not taxable.

**Employee benefits**

The group accounts for pensions and similar post retirement benefits (principally healthcare) under IAS 19 "Employee Benefits".

In respect of defined benefit pension plans, where the amount of pension benefit that an employee will receive on retirement is defined by the plan, the liability recorded in the balance sheet is the present value of the defined obligation at that date less the fair value of the plan assets, together with an adjustment for any unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

As permitted under IFRS 1 all actuarial gains and losses as at 1 January 2004, the date of transition to IFRS, were recognised for each plan. To the extent that cumulative actuarial gains and losses arising subsequent to 1 January 2004 exceed 10% of the higher of plan assets or liabilities as at the end of the previous year, this excess is normally amortised in the income statement over the expected average remaining working lives of the employees' participating in the plan. Otherwise, the accumulated actuarial gains and losses are not recognised.

## 1(b) Principal group accounting policies (continued)

### Employee benefits (continued)

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period, in which case the past service costs are spread over that period.

For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, interest cost, expected return on plan assets, past service cost and the impact of any settlements or curtailments, as well as actuarial gains or losses to the extent they are recognised.

For defined contribution plans, where the group pays fixed contribution into a separate entity and has no legal or constructive obligations to pay further contributions if the fund has insufficient assets to pay all employees the benefits relating to service in the current and prior periods, the contributions are recognised as an expense when they are due.

For other defined benefit post retirement obligations, principally post retirement medical arrangements in the US, a similar accounting methodology to that for defined benefit pension plans is used.

Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognised asset is limited to that for which the group can benefit in future, for example by refunds or a reduction in contributions.

### Share-based payments

The group operates both equity-settled and cash-settled share-based compensation plans.

The fair value of the employee services received in exchange for the participation in the plan is recognised as an expense in the income statement.

In the case of equity-settled plans the fair value of the employee service is based on the fair value of the equity instruments granted. This expense is spread over the vesting period of the instrument. The corresponding entry is credited to equity.

Cash settled plans are measured on a similar basis except that the fair value of the liability is re-measured at each reporting date, with changes recognised in the income statement. For cash-settled plans the corresponding entry is included as a liability.

### Provisions

Provisions for disposal and restructuring costs, warranty and product liability, and legal and environmental liability 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 discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Revenue recognition

Revenue comprises the invoiced value of goods and services and the value of work executed during the year in respect of long term contracts. Revenue, 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 dependant 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.

### 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 property, plant and equipment 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 charged to income 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.

### Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

2 Segment analysis

	Welding £m	Cutting £m	Welding and cutting £m	Air and gas handling £m	Food equipment £m	Central operations £m	Total £m
<b>Six months ended 30 June 2005</b>							
Total revenue	311.5	36.2	347.7	147.8	0.4	-	495.9
Segment result (before exceptional items)	34.5	2.1	36.6	10.2	(1.1)	(4.5)	41.2
Exceptional items (note 3)	-	-	-	-	-	-	-
Operating profit	34.5	2.1	36.6	10.2	(1.1)	(4.5)	41.2
Share of post tax profits of associates	1.7	-	1.7	0.2	-	-	1.9
	36.2	2.1	38.3	10.4	(1.1)	(4.5)	43.1
Net financing charge							1.3
Profit before tax							44.4
Tax							(11.4)
							33.0
<b>Six months ended 30 June 2004</b>							
Total revenue	273.4	31.7	305.1	108.0	2.5	-	415.6
Segment result (before exceptional items)	21.9	1.8	23.7	3.2	0.1	(3.0)	24.0
Exceptional items (note 3)	(3.5)	5.4	1.9	-	3.6	(5.9)	(0.4)
Operating profit	18.4	7.2	25.6	3.2	3.7	(8.9)	23.6
Share of post tax profits of associates	1.1	0.3	1.4	0.5	-	-	1.9
	19.5	7.5	27.0	3.7	3.7	(8.9)	25.5
Net financing charge							(9.4)
Profit before tax							16.1
Tax							2.0
							18.1
<b>Year ended 31 December 2004</b>							
Total revenue	561.0	63.9	624.9	241.6	3.9	-	870.4
Segment result (before exceptional items)	45.7	3.5	49.2	14.2	(2.2)	(6.3)	54.9
Exceptional items (note 3)	(12.8)	5.7	(7.1)	(2.2)	3.6	2.7	(3.0)
Operating profit	32.9	9.2	42.1	12.0	1.4	(3.6)	51.9
Share of post tax profits of associates	2.1	0.3	2.4	1.2	-	-	3.6
	35.0	9.5	44.5	13.2	1.4	(3.6)	55.5
Net financing charge							(14.5)
Profit before tax							41.0
Tax							(4.4)
							36.6

### 3 Exceptional items

To help provide a better indication of the group's underlying business performance, items which are both material and non-recurring are presented as exceptional items.

	Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
Restructuring costs	-	(3.5)	(12.8)
Unauthorised payments (net of insurance proceeds)	-	(4.2)	0.5
Legal and environmental costs	-	-	(1.9)
Disposals of assets and businesses	-	7.3	11.2
	-	(0.4)	(3.0)
Taxation on exceptional items	-	0.1	0.5
Exceptional tax credit	-	6.6	6.6
	-	6.3	4.1
<b>4 Net financing charge – excluding gains/(losses) on retranslation of intercompany balances</b>			
	Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
Receivable	1.7	1.7	3.2
Bank loans, overdrafts and loan notes	(4.9)	(7.5)	(14.0)
Finance leases	(0.1)	(0.2)	(0.3)
Unwinding of discount on provisions	(0.2)	(0.2)	(0.4)
	(3.5)	(6.2)	(11.5)
<b>5 Tax charge/(credit)</b>			
	Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
United Kingdom	-	0.2	(7.8)
Overseas	11.4	4.4	18.8
Tax on profit on ordinary activities excluding exceptional tax credit	11.4	4.6	11.0
Exceptional tax credit	-	(6.6)	(6.6)
	11.4	(2.0)	4.4

The share of associated undertakings profit included in the income statement includes share of associates tax charge of £0.9 million (2004 half year: £0.8 million; 2004 full year: £1.7 million)

The exceptional tax credit in 2004 arises from the release of a tax accrual no longer required following the settlement of certain outstanding tax issues with local tax authorities.

### 6 Earnings per share

Basic headline earnings per share is calculated on an average of 153,160,951 shares (2004 half year: 134,862,036 shares; 2004 full year: 142,749,405 shares).

Fully diluted earnings per share adjusts the average number of shares in the basic calculation for 1,915,136 shares (2004 half year: 81,600 shares; 2004 full year: 497,819 shares) being dilutive potential shares deriving from share options.

To help provide a better indication of the group's underlying business performance, exceptional items and retranslation gains and losses on intercompany loan balances (including attributable tax and minority interests) are excluded from the calculations of adjusted earnings per share as set out in the following table.

	Six months ended 30.6.05 pence	Six months ended 30.6.04 pence	Year ended 31.12.04 pence	Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
Basic earnings per share						
Earnings attributable to equity shareholders	18.09	12.16	20.88	27.7	16.4	29.8
Items not relating to underlying business performance						
Exceptional items	-	(4.67)	(2.87)	-	(6.3)	(4.1)
(Gain)/loss on retranslation of intercompany loan balances	(3.13)	2.37	2.10	(4.8)	3.2	3.0
(Gain)/loss on retranslation of intercompany loan balances - taxation	0.39	-	(0.28)	0.6	-	(0.4)
(Gain)/loss on retranslation of intercompany loan balances - minorities	0.78	(0.59)	-	1.2	(0.8)	-
Adjusted earnings attributable to equity shareholders	16.13	9.27	19.83	24.7	12.5	28.3

7 Retirement benefit obligations

The valuation of United Kingdom and overseas defined benefit pension schemes and the balance sheet provision for United States post retirement benefit liabilities are assessed annually by professionally qualified independent actuaries using the projected unit credit method.

As explained in note 10, in accordance with the transitional rules in IFRS 1, all cumulative surpluses and deficits were recognised in the balance sheet at 1 January 2004. Subsequent to that date IAS 19 allows a smoothing approach in which some of the movement in surpluses and deficits is deferred and recognised over time (the "corridor approach"). As a consequence any surplus and deficit arising subsequent to 1 January 2004 is not fully recognised in the balance sheet.

(i) The position at 1 January 2004 and 31 December 2004 is set out below:-

	1 January 2004				
	UK pension schemes	Overseas pension schemes	Total pension schemes	Overseas medical costs liability	Total
	£m	£m	£m	£m	£m
Present value of funded obligations	(431.5)	(112.3)	(543.8)	-	(543.8)
Fair value of plan assets	378.2	85.4	463.6	-	463.6
	<u>(53.3)</u>	<u>(26.9)</u>	<u>(80.2)</u>	<u>-</u>	<u>(80.2)</u>
Present value of unfunded obligations	-	(41.2)	(41.2)	(25.3)	(66.5)
Surplus not recoverable	-	(0.4)	(0.4)	-	(0.4)
Net liability	<u>(53.3)</u>	<u>(68.5)</u>	<u>(121.8)</u>	<u>(25.3)</u>	<u>(147.1)</u>

  

	31 December 2004				
	UK pension schemes	Overseas pension schemes	Total pension schemes	Overseas medical costs liability	Total
	£m	£m	£m	£m	£m
Present value of funded obligations	(455.6)	(115.4)	(571.0)	-	(571.0)
Fair value of plan assets	398.0	88.1	486.1	-	486.1
	<u>(57.6)</u>	<u>(27.3)</u>	<u>(84.9)</u>	<u>-</u>	<u>(84.9)</u>
Present value of unfunded obligations	-	(38.6)	(38.6)	(23.5)	(62.1)
Unrecognised actuarial losses	7.6	7.9	15.5	2.0	17.5
Surplus not recoverable	-	(2.3)	(2.3)	-	(2.3)
Net liability	<u>(50.0)</u>	<u>(60.3)</u>	<u>(110.3)</u>	<u>(21.5)</u>	<u>(131.8)</u>

(ii) The principal actuarial assumptions used were as follows:-

	31 December 2004		1 January 2004	
	UK	Overseas	UK	Overseas
Discount rate	5.25%	5.60%	5.40%	6.10%
Expected return on plan assets – equities	7.40%	8.10%	7.70%	9.50%
– bonds	4.70%	5.30%	4.80%	6.60%
– other	4.00%	6.30%	4.30%	6.60%
Future salary increases	2.85%	3.40%	2.80%	3.40%
Future pension increases	3.10%	2.20%	2.90%	2.20%
Medical costs inflation rate		5.00%		5.00%

(iii) The amounts included in operating profit in the income statements are analysed as follows:-

	Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
<b>Defined benefit schemes and overseas medical costs</b>			
Current service cost		(2.0)	(4.9)
Interest on schemes' liabilities		(16.6)	(32.7)
Expected return on schemes' assets		14.9	29.7
Past service costs		-	2.9
Gains/(losses) on settlements, curtailments and other items		(0.2)	1.0
Defined benefit schemes		<u>(3.9)</u>	<u>(4.0)</u>
Defined contribution schemes		<u>(1.2)</u>	<u>(2.1)</u>
		<u>(5.1)</u>	<u>(6.1)</u>

## 8 Cash generated from operations

	Six months ended 30.6.05 £m	Six months ended 30.6.04 £m	Year ended 31.12.04 £m
Operating profit	41.2	23.6	51.9
Depreciation	7.8	7.9	16.4
Charge for share-based payments	0.3	-	0.4
(Profit)/loss on sale of fixed assets	(0.4)	0.1	0.2
Working capital	(19.1)	(3.4)	7.7
Movements in provisions	(4.2)	(4.4)	(12.3)
Exceptional items			
Profit on sale of businesses	-	(7.3)	(11.2)
Unauthorised payments - amount recognised in period	-	4.2	(0.5)
- amount paid in period	-	(4.2)	(4.4)
Restructuring (excluding associated undertakings) - amount charged in period	-	3.5	12.8
- amount paid in period	(4.2)	(7.1)	(15.2)
Legal and environmental costs - amount charged in period	-	-	1.9
- amount paid in period	-	-	-
	<u>21.4</u>	<u>12.9</u>	<u>47.7</u>

## 9 Share capital

On 3 May 2005, 7,531,800 new ordinary shares were issued for cash of £19.1 million net of expenses. During the six months ended 30 June 2005, 40,733 shares were issued on the exercise of options.

## 10 IFRS transition reconciliations

	Six months ended 30.06.04		Year ended 31.12.04		At 1 January 2004
	Profit before tax £m	Net assets £m	Profit before tax £m	Net assets £m	Net assets £m
<b>UK GAAP</b>	6.1	81.4	28.1	97.9	24.9
Post - retirement benefits <sup>(i)</sup>	2.4	(85.2)	5.4	(81.3)	(89.2)
Property revaluations on transition <sup>(ii)</sup>	(0.1)	15.1	(0.2)	15.6	16.0
Capitalised development costs <sup>(iii)</sup>	0.1	1.4	0.2	1.6	1.4
Goodwill <sup>(iv)</sup>	0.6	1.2	1.2	1.8	0.6
Share-based payments <sup>(v)</sup>	-	-	-	0.4	-
Reclassification of associates tax <sup>(vi)</sup>	(0.8)	-	(1.7)	-	-
Deferred taxation - post retirement benefits <sup>(vii)</sup>	-	0.9	-	0.9	0.9
Deferred taxation - property revaluations <sup>(vii)</sup>	-	(3.0)	-	(3.0)	(3.0)
Leases <sup>(x)</sup>	-	(0.1)	-	(0.2)	(0.2)
	<u>8.3</u>	<u>11.7</u>	<u>33.0</u>	<u>33.7</u>	<u>(48.6)</u>
Items not related to underlying business performance					
Goodwill on business disposal <sup>(iv)</sup>	6.0	-	6.0	-	-
Unauthorised payments arising in prior years <sup>(viii)</sup>	5.0	-	5.0	-	-
Losses on retranslation of intercompany loan balances <sup>(ix)</sup>	(3.2)	-	(3.0)	-	-
<b>IFRS</b>	<u>16.1</u>	<u>11.7</u>	<u>41.0</u>	<u>33.7</u>	<u>(48.6)</u>

**10 IFRS transition reconciliations (continued)**

**(i) Post-retirement benefits (IAS 19 "Employee benefits")**

Under UK GAAP the group accounted for pensions and other post employment benefits in accordance with SSAP 24, Accounting for pension costs, with pension surpluses and deficits spread over the average remaining service lives of current employees and other post employment benefits, principally medical costs, recorded as liabilities based on the valuation methodologies required by that standard. The additional FRS 17, Retirement benefits, disclosures showed the pension fund surpluses and deficits and the other post employment benefit liabilities based on the valuation methodologies required by that standard.

IAS 19 has a similar (although not identical) valuation approach to FRS 17, and in accordance with the transitional exemptions in IFRS 1, all cumulative surpluses and deficits have been recognised in the balance sheet as at 1 January 2004.

On transition to IAS 19 an additional liability of £89.2 million was recognised. This amount included an allowance of £18.0 million for the future administration costs of the pension schemes that will ultimately be borne by the group to the extent that those administration costs relate to past service.

FRS 17 would recognise further changes to the surpluses and deficits immediately in subsequent balance sheets whereas IAS 19 permits a smoothing approach to be adopted in which some of the movement in the surpluses and deficits is deferred and recognised over time according to a mechanism sometimes referred to as the "corridor" approach. Under this approach actuarial gains and losses within a "corridor", calculated by reference to the greater of 10 per cent of the gross assets or liabilities of the scheme, can remain unrecognised. This means that only actuarial movements outside this 'corridor' are required to be recognised, and even then they are recognised in the income statement over the estimated remaining service lives of the relevant employees. This means that under IAS 19 only the balance sheet at the date of transition will show the full surplus or deficit positions of all of the group's employee benefit arrangements.

**(ii) Property revaluations (IAS 16 "Property, plant and equipment")**

IAS 16 allows property, plant and equipment to be carried in the balance sheet based on either valuation or cost less depreciation. The group has adopted a policy of cost less depreciation. The transitional rules of IFRS 1 allow companies to revalue certain items of property, plant and equipment at fair value on a selective basis as at the date of transition. This fair value is treated as the deemed cost for those assets under IFRS. The group has revalued certain freehold properties (both land and buildings), which has the impact of increasing the carrying value of property, plant and equipment by £16.0 million at the date of transition. There is an increase in deferred taxation liabilities of £4.5 million, partly offset by the recognition of deferred tax assets of £1.5 million, on transition as a consequence of these revaluations.

The operating profit impact of this is to increase the depreciation cost.

**(iii) Capitalised development costs (IAS 38 "Intangible assets")**

Under UK GAAP, the group wrote off all research and development costs as incurred. IAS 38 requires development costs meeting the criteria specified in the standard to be capitalised as an intangible asset and amortised over the estimated useful life of the asset. Typically these lives are in the range 3 to 10 years.

**(iv) Goodwill (IFRS 3 "Business combinations and goodwill")**

Under UK GAAP, the group capitalised goodwill arising since 1 January 1998 as an intangible fixed asset and it was amortised over its estimated useful life, a period not exceeding 20 years. Goodwill arising prior to this date was written off against reserves. Under IFRS, goodwill is considered to have an indefinite life and so is not amortised, but is subject to annual impairment testing. IFRS 1 allows the goodwill at the date of transition under UK GAAP to be used for the purposes of IFRS at that date, except that negative goodwill at 1 January 2004 has been credited directly to reserves, increasing the carrying value of goodwill and net assets at that date by £0.6 million.

Under the business combinations exemption in IFRS 1, no adjustments will be made for previous business combinations. In addition goodwill previously written off directly to reserves under UK GAAP will not be recycled to the income statement on the disposal or part-disposal of a subsidiary or associate as it would under UK GAAP.

The impact of this is that the goodwill of £6.0 million previously written off to reserves in relation to the disposal of GCE Gas Control Equipment AB that was charged to the 2004 profit and loss account under UK GAAP is not charged to the 2004 income statement under IFRS.

**(v) Share-based payments (IFRS 2 "Share-based payments")**

Under UK GAAP, the group spread the full cost of options and shares over the vesting period where it was probable that a liability would arise. The cost was calculated by reference to the difference between the market price of the shares at the balance sheet date, or at the date of vesting if earlier, and any proceeds receivable. The corresponding entry was shown as a liability.

Under IFRS 2 the fair value of the equity instrument is calculated at the date of grant and is spread over the vesting period for equity settled arrangements with the corresponding entry credited to equity. As there were no relevant outstanding arrangements at the date of transition to IFRS there is no difference at this date. The charge in 2004 is similar under UK GAAP and IFRS but there is a reduction in liabilities of £0.4 million at 31 December 2004 because the credit entry is taken to equity under IFRS rather than being treated as a liability.

## 10 IFRS transition reconciliations (continued)

### (vi) Reclassification of associates tax (IAS 1 "Presentation of Financial Statements")

Under UK GAAP, the share of the operating profit, interest and taxation of associated undertakings were disclosed separately in the income statement. IAS 1 requires the result of associated undertakings to be presented net of interest and taxation as a single line item.

### (vii) Deferred taxation (IAS 12 "Income taxes")

Under UK GAAP deferred taxation was provided on the basis of timing differences between the accounting and taxable profits. IFRS has a different approach and is based on the balance sheet with deferred taxation provided on all temporary differences between the book carrying values and the tax base of assets and liabilities.

The impact of this is an additional deferred taxation liability of £3.0 million in relation to the revaluation of land and buildings under IFRS 1 and an additional deferred taxation asset of £0.9 million in relation to the increase in liabilities for post retirement benefits under IAS 19.

### (viii) Unauthorised payments arising in prior years (IAS 8 "Accounting policies, accounting estimates and errors")

Under UK GAAP, errors identified in an accounting period relating to earlier periods were generally accounted for in the period in which the error was identified unless they were considered fundamental. However IAS 8 requires that material "prior period errors" should be accounted for by adjusting the comparative information for the periods affected. Consequently £5.0 million, relating to the unauthorised payments announced on 20 August 2004 which arose prior to 1 January 2004, are not charged to income in 2004 under IFRS. This adjustment has no impact on net assets.

### (ix) Gains/(losses) on retranslation of intercompany loan elements of net investments (IAS 21 "The effects of changes in foreign exchange rates")

Exchange gains and losses arising from the retranslation of certain intra-group loans were taken directly to reserves under UK GAAP where the loan was considered long term in nature and was considered part of the net investment in a subsidiary. IAS 21 is more restrictive in terms of which loans can be treated in this way and as a consequence certain amounts taken directly to reserves under UK GAAP have been included in the income statement under IFRS. As these amounts are determined by reference to movements in exchange rates this is likely to give rise to greater income statement volatility in the future. However, this different treatment has no impact on net assets as an equal and opposite amount has been taken directly to reserves on consolidation.

Since the publication of the press release "Charter plc – Adoption of International Financial Reporting Standards" on 17 June 2005 the functional currency of two non-trading subsidiaries has been changed. The only impact of this change is to reduce the amount of the exchange loss required to be reclassified from reserves to the income statement for the year ended 31 December 2004 to £3.0 million. There is no impact on net assets.

### (x) Balance sheet reclassifications

In addition to the above items a number of items have been reclassified in the balance sheet under IFRS. The principal items are:

- Capitalised software previously included within tangible fixed assets under UK GAAP has been transferred to intangible assets under IFRS;
- Leases that include a land element which were accounted for as finance leases under UK GAAP have been split so that the land element is treated as an operating lease under IFRS;
- Amounts recoverable under contracts that were included within stock and work in progress under UK GAAP are included within trade and other receivables under the IFRS balance sheet format;
- Deferred taxation assets and liabilities were shown net under UK GAAP but are included separately as assets and liabilities under IFRS.

### (xi) Cash flow statement

- Cash flows reported under IFRS and UK GAAP are defined differently – under IFRS, cash flows, referred to as "cash and cash equivalents", include bank deposits repayable within 3 months. Under UK GAAP, these were treated as short-term deposits;
- IFRS requires cash flows to be reported under the three headings of operating, investing and financing activities whereas UK GAAP requires cash flows to be reported in greater detail under 9 standard headings, such as taxation and interest;
- IFRS requires foreign currency translation differences to be included on the face of the cash flow statement in order that opening and closing cash and cash equivalents balances may be reconciled. This is not a requirement under UK GAAP.

## 11 IFRS transition reconciliations – financial instruments first time adoption IAS 32 and IAS39

The adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2005 results in a change in the group's accounting policy for financial instruments. The impact of these standards on the group's opening balance sheet is outlined below.

The principal impact of IAS 32 and IAS 39 on the group's financial statements relates to the recognition of derivative financial instruments at fair value. Financial assets and financial liabilities that arise on derivatives that do not qualify for hedge accounting are held on the balance sheet at fair value with the changes in value reflected through the income statement. The accounting treatment of derivatives that qualify for hedge accounting depends on how they are designated. The varying accounting treatments are explained below.

11 IFRS transition reconciliations – financial instruments first time adoption IAS 32 and IAS39 (continued)

*Cash flow hedges*

The group hedges the foreign currency exposure on certain revenue and purchase contracts. Under UK GAAP, foreign currency derivatives were held off balance sheet. Under IAS 39, derivative financial instruments that qualify for cash flow hedging are recognised on the balance sheet at fair value with corresponding fair value changes deferred in equity in a separate hedging reserve.

*Net investment hedges*

The gains or losses on the translation of currency borrowings used to hedge the group's net investments in foreign entities are recognised in equity. Provided the hedging requirements of IAS 39 are met and the hedging relationship is fully effective, this treatment does not differ from UK GAAP.

The adjustments to the opening balance sheet at 1 January 2005 are as follows:

	£m
Derivative financial instruments – Current assets	1.5
Derivative financial instruments – Current liabilities	(0.7)
Deferred income tax liabilities	(0.2)
Increase in net assets	<u>0.6</u>
Hedging reserve	<u>0.6</u>

In addition as at 1 January 2005 the following balance sheet reclassifications are required on the adoption of IAS 32 and IAS 39

- borrowings and cash are required to be grossed up for £24.7 million of cash held in cash pools; and
- the interest payable accrual of £1.6 million is reclassified from trade and other payables to borrowings.

# Restatement of consolidated balance sheet

At 1 January 2004 (unaudited)

	UK GAAP £m	IAS 19 Employee benefits £m	IFRS 1 Property revaluations £m	IAS 38 Intangible assets £m	IFRS 3 Business combinations and goodwill £m	IFRS 2 Share- based payments £m	Reclassifications					Total adjustments £m	IFRS £m
							Software £m	Leases £m	Contract receivables £m	IAS 21 Foreign exchange hedges £m	Deferred taxation £m		
<b>Assets</b>													
<b>Non-current assets</b>													
Property, plant and equipment	105.7	-	16.0	-	-	-	(1.1)	(1.0)	-	-	-	13.9	119.6
Goodwill	17.3	-	-	-	0.6	-	-	-	-	-	-	0.6	17.9
Other intangible assets	-	-	-	1.4	-	-	1.1	-	-	-	-	2.5	2.5
Investments in associates	27.9	-	-	-	-	-	-	-	-	-	-	-	27.9
Retirement benefit assets	-	1.5	-	-	-	-	-	-	-	-	-	1.5	1.5
Deferred income tax assets	-	0.9	1.5	-	-	-	-	-	-	-	6.3	8.7	8.7
Trade and other receivables	3.5	-	-	-	-	-	-	-	-	-	-	-	3.5
<b>Total non-current assets</b>	<b>154.4</b>	<b>2.4</b>	<b>17.5</b>	<b>1.4</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>(1.0)</b>	<b>-</b>	<b>-</b>	<b>6.3</b>	<b>27.2</b>	<b>181.6</b>
<b>Current assets</b>													
Inventory	102.0	-	-	-	-	-	-	-	(7.6)	-	-	(7.6)	94.4
Trade and other receivables	199.1	(4.5)	-	-	-	-	-	0.5	14.5	0.1	-	10.6	209.7
Cash and cash equivalents	59.9	-	-	-	-	-	-	-	-	-	-	-	59.9
<b>Total current assets</b>	<b>361.0</b>	<b>(4.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.5</b>	<b>6.9</b>	<b>0.1</b>	<b>-</b>	<b>3.0</b>	<b>364.0</b>
<b>Total assets</b>	<b>515.4</b>	<b>(2.1)</b>	<b>17.5</b>	<b>1.4</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>(0.5)</b>	<b>6.9</b>	<b>0.1</b>	<b>6.3</b>	<b>30.2</b>	<b>545.6</b>
<b>Liabilities</b>													
<b>Current liabilities</b>													
Borrowings	(71.2)	-	-	-	-	-	-	0.2	-	-	-	0.2	(71.0)
Trade and other payables	(161.1)	-	-	-	-	-	-	-	(6.9)	(0.1)	-	(7.0)	(168.1)
Income tax liabilities	(20.1)	-	-	-	-	-	-	-	-	-	-	-	(20.1)
Provisions	(25.0)	-	-	-	-	-	-	-	-	-	-	-	(25.0)
<b>Total current liabilities</b>	<b>(277.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.2</b>	<b>(6.9)</b>	<b>(0.1)</b>	<b>-</b>	<b>(6.8)</b>	<b>(284.2)</b>
<b>Non-current liabilities</b>													
Borrowings	(125.5)	-	-	-	-	-	-	0.1	-	-	-	0.1	(125.4)
Deferred tax liabilities	-	-	(4.5)	-	-	-	-	-	-	-	(6.3)	(10.8)	(10.8)
Retirement benefit obligations	(65.5)	(83.1)	-	-	-	-	-	-	-	-	-	(83.1)	(148.6)
Provisions	(21.1)	(3.1)	-	-	-	-	-	-	-	-	-	(3.1)	(24.2)
Other payables	(1.0)	-	-	-	-	-	-	-	-	-	-	-	(1.0)
<b>Total non-current liabilities</b>	<b>(213.1)</b>	<b>(86.2)</b>	<b>(4.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>(6.3)</b>	<b>(96.9)</b>	<b>(310.0)</b>
<b>Total liabilities</b>	<b>(490.5)</b>	<b>(86.2)</b>	<b>(4.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.3</b>	<b>(6.9)</b>	<b>(0.1)</b>	<b>(6.3)</b>	<b>(103.7)</b>	<b>(594.2)</b>
<b>Net assets</b>	<b>24.9</b>	<b>(88.3)</b>	<b>13.0</b>	<b>1.4</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(73.5)</b>	<b>(48.6)</b>
<b>Equity</b>													
Share capital	1.9	-	-	-	-	-	-	-	-	-	-	-	1.9
Share premium	5.9	-	-	-	-	-	-	-	-	-	-	-	5.9
Retained earnings and other reserves	(3.4)	(88.3)	13.0	1.4	0.6	-	-	(0.2)	-	-	-	(73.5)	(76.9)
<b>Total equity shareholders funds</b>	<b>4.4</b>	<b>(88.3)</b>	<b>13.0</b>	<b>1.4</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(73.5)</b>	<b>(69.1)</b>
Equity minority interests	20.5	-	-	-	-	-	-	-	-	-	-	-	20.5
<b>Total equity</b>	<b>24.9</b>	<b>(88.3)</b>	<b>13.0</b>	<b>1.4</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(73.5)</b>	<b>(48.6)</b>

# Restatement of consolidated income statement

Six months ended 30 June 2004 (unaudited)

	UK GAAP £m	IAS 19 Employee benefits £m	IFRS 1 Property revaluations £m	IAS 38 Intangible assets £m	IFRS 3 Business combinations and goodwill £m	IAS 8 Prior year errors £m	IAS 1 Joint ventures and associates £m	IAS 21 Foreign exchange losses £m	Total adjustments £m	IFRS £m
<b>Revenue</b>	415.6	-	-	-	-	-	-	-	-	415.6
Cost of sales	(295.0)	0.7	(0.1)	-	-	-	-	-	0.6	(294.4)
<b>Gross profit</b>	120.6	0.7	(0.1)	-	-	-	-	-	0.6	121.2
Selling and distribution costs	(56.5)	0.3	-	-	-	-	-	-	0.3	(56.2)
Administrative expenses	(55.8)	1.4	-	0.1	0.6	5.0	-	-	7.1	(48.7)
Other operating income	1.3	-	-	-	6.0	-	-	-	6.0	7.3
<b>Operating profit</b>	9.6	2.4	(0.1)	0.1	6.6	5.0	-	-	14.0	23.6
Net financing charge	(6.3)	-	-	-	-	-	0.1	(3.2)	(3.1)	(9.4)
Share of profits of associates	2.8	-	-	-	-	-	(0.9)	-	(0.9)	1.9
<b>Profit before tax</b>	6.1	2.4	(0.1)	0.1	6.6	5.0	(0.8)	(3.2)	10.0	16.1
Taxation	1.2	-	-	-	-	-	0.8	-	0.8	2.0
<b>Profit for the period</b>	7.3	2.4	(0.1)	0.1	6.6	5.0	-	(3.2)	10.8	18.1
<b>Attributable to:</b>										
Equity shareholders	4.8	2.4	(0.1)	0.1	6.6	5.0	-	(2.4)	11.6	16.4
Minority interests	2.5	-	-	-	-	-	-	(0.8)	(0.8)	1.7
	7.3	2.4	(0.1)	0.1	6.6	5.0	-	(3.2)	10.8	18.1

# Restatement of consolidated balance sheet

At 30 June 2004 (unaudited)

	UK GAAP £m	IAS 19	IFRS 1	IAS 38	IFRS 3	IFRS 2	Reclassifications				Total adjustments	IFRS £m	
		Employee benefits	Property revaluations	Intangible assets	Business combinations and goodwill	Share- based payments	Software	Leases	Contract receivables	IAS 21 Foreign exchange hedges			Deferred taxation
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>													
<b>Non-current assets</b>													
Property, plant and equipment	97.8	-	15.1	-	-	-	(0.8)	(1.0)	-	-	-	13.3	111.1
Goodwill	16.8	-	-	-	1.2	-	-	-	-	-	-	1.2	18.0
Other intangible assets	-	-	-	1.4	-	-	0.8	-	-	-	-	2.2	2.2
Investments in associates	20.7	-	-	-	-	-	-	-	-	-	-	-	20.7
Retirement benefit assets	-	2.1	-	-	-	-	-	-	-	-	-	2.1	2.1
Deferred income tax assets	-	0.9	1.5	-	-	-	-	-	-	-	4.0	6.4	6.4
Trade and other receivables	0.3	-	-	-	-	-	-	-	-	-	-	-	0.3
<b>Total non-current assets</b>	<b>135.6</b>	<b>3.0</b>	<b>16.6</b>	<b>1.4</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>(1.0)</b>	<b>-</b>	<b>-</b>	<b>4.0</b>	<b>25.2</b>	<b>160.8</b>
<b>Current assets</b>													
Inventory	110.4	-	-	-	-	-	-	-	(15.5)	-	-	(15.5)	94.9
Trade and other receivables	213.5	(4.7)	-	-	-	-	-	0.6	15.5	0.1	-	11.5	225.0
Cash and cash equivalents	33.3	-	-	-	-	-	-	-	-	-	-	-	33.3
<b>Total current assets</b>	<b>357.2</b>	<b>(4.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>(4.0)</b>	<b>353.2</b>
<b>Total assets</b>	<b>492.8</b>	<b>(1.7)</b>	<b>16.6</b>	<b>1.4</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>(0.4)</b>	<b>-</b>	<b>0.1</b>	<b>4.0</b>	<b>21.2</b>	<b>514.0</b>
<b>Liabilities</b>													
<b>Current liabilities</b>													
Borrowings	(7.5)	-	-	-	-	-	-	0.3	-	-	-	0.3	(7.2)
Trade and other payables	(185.5)	-	-	-	-	-	-	-	-	(0.1)	-	(0.1)	(185.6)
Income tax liabilities	(7.8)	-	-	-	-	-	-	-	-	-	-	-	(7.8)
Provisions	(16.5)	-	-	-	-	-	-	-	-	-	-	-	(16.5)
<b>Total current liabilities</b>	<b>(217.3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.3</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>0.2</b>	<b>(217.1)</b>
<b>Non-current liabilities</b>													
Borrowings	(108.3)	-	-	-	-	-	-	-	-	-	-	-	(108.3)
Deferred tax liabilities	(1.5)	-	(4.5)	-	-	-	-	-	-	-	(4.0)	(8.5)	(10.0)
Retirement benefit obligations	(64.2)	(79.8)	-	-	-	-	-	-	-	-	-	(79.8)	(144.0)
Provisions	(19.1)	(2.8)	-	-	-	-	-	-	-	-	-	(2.8)	(21.9)
Other payables	(1.0)	-	-	-	-	-	-	-	-	-	-	-	(1.0)
<b>Total non-current liabilities</b>	<b>(194.1)</b>	<b>(82.6)</b>	<b>(4.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4.0)</b>	<b>(91.1)</b>	<b>(285.2)</b>
<b>Total liabilities</b>	<b>(411.4)</b>	<b>(82.6)</b>	<b>(4.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.3</b>	<b>-</b>	<b>(0.1)</b>	<b>(4.0)</b>	<b>(90.9)</b>	<b>(502.3)</b>
<b>Net assets</b>	<b>81.4</b>	<b>(84.3)</b>	<b>12.1</b>	<b>1.4</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(69.7)</b>	<b>11.7</b>
<b>Equity</b>													
Share capital	3.0	-	-	-	-	-	-	-	-	-	-	-	3.0
Share premium	49.4	-	-	-	-	-	-	-	-	-	-	-	49.4
Retained earnings and other reserves	8.5	(84.3)	12.1	1.4	1.2	-	-	(0.1)	-	-	-	(69.7)	(61.2)
<b>Total equity shareholders funds</b>	<b>60.9</b>	<b>(84.3)</b>	<b>12.1</b>	<b>1.4</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(69.7)</b>	<b>(8.8)</b>
Equity minority interests	20.5	-	-	-	-	-	-	-	-	-	-	-	20.5
<b>Total equity</b>	<b>81.4</b>	<b>(84.3)</b>	<b>12.1</b>	<b>1.4</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(69.7)</b>	<b>11.7</b>

# Restatement of consolidated income statement

Year ended 31 December 2004 (unaudited)

	UK GAAP £m	IAS 19 Employee benefits £m	IFRS 1 Property revaluations £m	IAS 38 Intangible assets £m	IFRS 3 Business combinations and goodwill £m	IAS 8 Prior year errors £m	IAS 1 Joint ventures and associates £m	IAS 21 Foreign exchange losses £m	Total adjustments £m	IFRS £m
<b>Revenue</b>	870.4	-	-	-	-	-	-	-	-	870.4
Cost of sales	(618.3)	1.7	(0.2)	-	-	-	-	-	1.5	(616.8)
<b>Gross profit</b>	252.1	1.7	(0.2)	-	-	-	-	-	1.5	253.6
Selling and distribution costs	(123.1)	0.9	-	-	-	-	-	-	0.9	(122.2)
Administrative expenses	(99.9)	2.8	-	0.2	1.2	5.0	-	-	9.2	(90.7)
Other operating income	5.2	-	-	-	6.0	-	-	-	6.0	11.2
<b>Operating profit</b>	34.3	5.4	(0.2)	0.2	7.2	5.0	-	-	17.6	51.9
Net financing charge	(11.6)	-	-	-	-	-	0.1	(3.0)	(2.9)	(14.5)
Share of profits of associates	5.4	-	-	-	-	-	(1.8)	-	(1.8)	3.6
<b>Profit before tax</b>	28.1	5.4	(0.2)	0.2	7.2	5.0	(1.7)	(3.0)	12.9	41.0
Taxation	(6.5)	-	-	-	-	-	1.7	0.4	2.1	(4.4)
<b>Profit for the year</b>	21.6	5.4	(0.2)	0.2	7.2	5.0	-	(2.6)	15.0	36.6
<b>Attributable to:</b>										
Equity shareholders	14.8	5.4	(0.2)	0.2	7.2	5.0	-	(2.6)	15.0	29.8
Minority interests	6.8	-	-	-	-	-	-	-	-	6.8
	21.6	5.4	(0.2)	0.2	7.2	5.0	-	(2.6)	15.0	36.6

# Restatement of consolidated balance sheet

At 31 December 2004 (unaudited)

	UK GAAP £m	IAS 19	IFRS 1	IAS 38	IFRS 3	IFRS 2	Reclassifications				Total adjustments	IFRS £m	
		Employee benefits	Property revaluations	Intangible assets	Business combinations and goodwill	Share- based payments	Software	Leases	Contract receivables	IAS 21 Foreign exchange hedges			Deferred taxation
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>													
<b>Non-current assets</b>													
Property, plant and equipment	98.4	-	15.6	-	-	-	(1.7)	(1.0)	-	-	-	12.9	111.3
Goodwill	16.6	-	-	-	1.8	-	-	-	-	-	-	1.8	18.4
Other intangible assets	-	-	-	1.6	-	-	1.7	-	-	-	-	3.3	3.3
Investments in associates	22.1	-	-	-	-	-	-	-	-	-	-	-	22.1
Retirement benefit assets	-	2.6	-	-	-	-	-	-	-	-	-	2.6	2.6
Deferred income tax assets	1.5	0.9	1.5	-	-	-	-	-	-	-	8.3	10.7	12.2
Trade and other receivables	0.4	-	-	-	-	-	-	-	-	-	-	-	0.4
<b>Total non-current assets</b>	<b>139.0</b>	<b>3.5</b>	<b>17.1</b>	<b>1.6</b>	<b>1.8</b>	<b>-</b>	<b>-</b>	<b>(1.0)</b>	<b>-</b>	<b>-</b>	<b>8.3</b>	<b>31.3</b>	<b>170.3</b>
<b>Current assets</b>													
Inventory	121.0	-	-	-	-	-	-	-	(18.3)	-	-	(18.3)	102.7
Trade and other receivables	222.0	(5.1)	-	-	-	-	-	0.6	19.8	0.1	-	15.4	237.4
Cash and cash equivalents	45.1	-	-	-	-	-	-	-	-	-	-	-	45.1
<b>Total current assets</b>	<b>388.1</b>	<b>(5.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>1.5</b>	<b>0.1</b>	<b>-</b>	<b>(2.9)</b>	<b>385.2</b>
<b>Total assets</b>	<b>527.1</b>	<b>(1.6)</b>	<b>17.1</b>	<b>1.6</b>	<b>1.8</b>	<b>-</b>	<b>-</b>	<b>(0.4)</b>	<b>1.5</b>	<b>0.1</b>	<b>8.3</b>	<b>28.4</b>	<b>555.5</b>
<b>Liabilities</b>													
<b>Current liabilities</b>													
Borrowings	(46.2)	-	-	-	-	-	-	0.2	-	-	-	0.2	(46.0)
Trade and other payables	(207.9)	-	-	-	-	0.4	-	-	(1.5)	(0.1)	-	(1.2)	(209.1)
Income tax liabilities	(9.3)	-	-	-	-	-	-	-	-	-	-	-	(9.3)
Provisions	(16.5)	-	-	-	-	-	-	-	-	-	-	-	(16.5)
<b>Total current liabilities</b>	<b>(279.9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>-</b>	<b>0.2</b>	<b>(1.5)</b>	<b>(0.1)</b>	<b>-</b>	<b>(1.0)</b>	<b>(280.9)</b>
<b>Non-current liabilities</b>													
Borrowings	(65.4)	-	-	-	-	-	-	-	-	-	-	-	(65.4)
Deferred tax liabilities	-	-	(4.5)	-	-	-	-	-	-	-	(8.3)	(12.8)	(12.8)
Retirement benefit obligations	(58.6)	(75.8)	-	-	-	-	-	-	-	-	-	(75.8)	(134.4)
Provisions	(20.4)	(3.0)	-	-	-	-	-	-	-	-	-	(3.0)	(23.4)
Other payables	(4.9)	-	-	-	-	-	-	-	-	-	-	-	(4.9)
<b>Total non-current liabilities</b>	<b>(149.3)</b>	<b>(78.8)</b>	<b>(4.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8.3)</b>	<b>(91.6)</b>	<b>(240.9)</b>
<b>Total liabilities</b>	<b>(429.2)</b>	<b>(78.8)</b>	<b>(4.5)</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>-</b>	<b>0.2</b>	<b>(1.5)</b>	<b>(0.1)</b>	<b>(8.3)</b>	<b>(92.6)</b>	<b>(521.8)</b>
<b>Net assets</b>	<b>97.9</b>	<b>(80.4)</b>	<b>12.6</b>	<b>1.6</b>	<b>1.8</b>	<b>0.4</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64.2)</b>	<b>33.7</b>
<b>Equity</b>													
Share capital	3.0	-	-	-	-	-	-	-	-	-	-	-	3.0
Share premium	49.4	-	-	-	-	-	-	-	-	-	-	-	49.4
Retained earnings and other reserves	23.3	(80.4)	12.6	1.6	1.8	0.4	-	(0.2)	-	-	-	(64.2)	(40.9)
<b>Total equity shareholders funds</b>	<b>75.7</b>	<b>(80.4)</b>	<b>12.6</b>	<b>1.6</b>	<b>1.8</b>	<b>0.4</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64.2)</b>	<b>11.5</b>
Equity minority interests	22.2	-	-	-	-	-	-	-	-	-	-	-	22.2
<b>Total equity</b>	<b>97.9</b>	<b>(80.4)</b>	<b>12.6</b>	<b>1.6</b>	<b>1.8</b>	<b>0.4</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64.2)</b>	<b>33.7</b>

