1(a) Fundamental uncertainty in respect of the application of the going concern basis

In the year to 31 December 2002, the group met its day-to-day working capital requirements through a £127 million syndicated revolving credit facility. In addition, it has in issue US private placement loan notes totalling £128.2 million ($206.3 million) and, as at 31 December 2002, net debt stood at £194.0 million (2001: £214.1 million).

Charter is discussing with its lending banks the renewal of its syndicated revolving credit facility which is due to expire on 31 July 2003. At present some £91 million of the facility is drawn, leaving a balance of £36 million undrawn and available. Whilst the terms of the renewal have yet to be agreed with the banks, the Company will need to reduce its debt significantly during the course of the next twelve months and plans to do this through planned asset disposals. The directors believe that disposals can be made both within a timeframe and at prices that will prove to be acceptable and ensure that the group is able to meet its obligations on an ongoing basis.

The Company has been informed by the agent bank that the outstanding issues should be capable of being satisfactorily resolved prior to expiry of the current facilities, but after receipt of an accountant's report commissioned by the banks. There can be no guarantee that the renewal negotiations will be satisfactorily concluded. However, in the light of the information currently available to them, the directors believe that the banks will continue to provide support on terms acceptable to the Company. On this basis, the directors consider it appropriate to prepare the accounts on a going concern basis. Should the banks not support the Company in this respect, adjustments would be necessary to record additional liabilities and to write down assets to their recoverable amount. Furthermore, additional provisions might need to be made in the group's and Company's balance sheets in respect of liabilities which are currently contingent. It is not practicable to quantify these possible adjustments.

Certain holders of the group's US private placement loan notes have informed the Company that they consider that a default has arisen under the loan notes as a result of the accounting irregularities which were announced by the Company on 27 January 2003 at one of the Air and gas handling units in North America. The directors' view, based on their knowledge of the situation and on advice by the Company's legal advisers, is that no default has occurred and the note holders have been advised accordingly. Of the total loan notes of $206.3 million, $72.3 million are due for scheduled repayment in March 2004 and the directors envisage that the terms of the renewal of the Company's banking facility will take account of the need to repay those notes in 2004. In the event that the Company's and its advisers' views are proven to be incorrect and the note holders elect to accelerate the notes, then the full amount of notes outstanding would become repayable immediately.

1(b) Principal group accounting policies

Basis of accounting

The accounts are prepared in accordance with the historical cost convention and with applicable accounting standards in the United Kingdom. The accounting policies have been consistently applied throughout the period.

Basis of consolidation

The consolidated accounts include the Company and all its subsidiary and associated undertakings to the extent of the group's interest in those undertakings. The group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet.

The results of subsidiary or associated undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. The premium or discount between the purchase consideration and the fair value of the separable net assets acquired is included in the balance sheet as a fixed asset and is amortised on a straight line basis over its useful economic life, a period not exceeding twenty years. The amounts in respect of acquisitions in periods prior to 1 January 1998 remain written off against reserves (see note 24 (iii)).

Treasury policies

Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward foreign exchange contracts have been taken out, at the contractual rates. Foreign currency assets and liabilities are translated into Sterling at the rates of exchange on the balance sheet date or at the forward contract rate.

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

Translation differences on intra-group currency loans and on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against group equity investments, are taken directly to reserves together with the exchange difference on the carrying amount of the related net investments.

All other translation differences are taken to the profit and loss account.

Interest rate transactions

Interest rate swaps and option agreements are used to manage the interest cost of borrowings. Interest receipts and payments under these agreements are accrued so as to match the net income or cost with the related finance expenses. No amounts are recognised in respect of future periods. Where such instruments are terminated the crystalised gain or loss is recognised in the year of termination.

Turnover

Turnover comprises the invoiced value of sales and the value of work executed during the year for long term contracting. Turnover excludes sales taxes.

1(b) Principal group accounting policies (continued)

Fixed asset investments

Fixed asset investments are included at cost less provision for any permanent diminution in value.

Depreciation

Fixed assets are written off evenly over their expected useful lives.

Depreciation is normally provided as follows:

Freehold buildings	- 2% per annum
Leasehold buildings	- the period of the lease or 2% per annum for leases in excess of 50 years
Plant, motor vehicles, furniture and fittings	- 10 to 33% per annum

Technical development expenditure

Expenditure on research and development, patents, and trademarks is written off when incurred.

Deferred taxation

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

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes expenditure which is incurred in the normal course of business in bringing the product or service to its present location and condition. Net realisable value is the estimated selling price less all costs to be incurred. Contract work in progress is valued at cost, less foreseeable losses and progress payments received and receivable.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Post retirement benefits

The cost of providing pensions and other post retirement benefits is charged against profits. Pension surpluses and deficits are allocated on a straight line basis over the expected remaining service lives of current employees.

In those instances where an accounting surplus is not expected to be used in the foreseeable future, the profit and loss account credit arising from interest or variations is restricted to the amount of the regular cost.

Differences between the amounts included in the profit and loss account and payments made to the pension schemes are treated as assets or liabilities in the balance sheet. The post retirement medical costs liability is included in provisions in the balance sheet.

FRS 17 Retirement benefits

On 30 November 2000 the Accounting Standards Board issued FRS 17 Retirement Benefits. FRS 17 will not be mandatory for the group until the year ended 31 December 2005. The FRS has an extended transitional period during which certain disclosures will be required in the notes to the financial statements. The group has included these phased transitional disclosures for the year ended 31 December 2002 in note 9.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares (whether conditional or otherwise) is recognised on a straight line basis over the period to which the employee's performance relates. The amount recognised is the difference between:

(i) either the fair value of the shares at the date the award is made to participants in the scheme; or where purchases of shares have been made by an ESOP trust at fair value and reflected in the Company's balance sheet in accordance with UITF Abstract 13 or have been revalued, the book value of the shares that are available for the award; and

(ii) the amount of consideration, if any, that the participant may be required to pay for the shares.

Where the award is subject to performance criteria, the amount recognised is based on a reasonable expectation of the extent that the performance criteria will be met. Where there are no performance criteria, the cost of the award is recognised over the period to the date when the employee becomes unconditionally entitled to the shares. The credit entry of this charge is taken to shareholders' funds.

2 Turnover, profit and operating assets

Classes of business	Turnover 2002 £m	Profit 2002 £m	Operating assets 2002 £m	Turnover 2001 £m	Profit 2001 £m	Operating assets 2001 £m
Welding and cutting products	581.9	36.0	152.9	621.5	35.7	179.2
Air and gas handling	267.4	1.5	52.4	283.8	7.2	77.7
Specialised engineering	51.2	5.4	12.8	56.5	2.9	15.0
	900.5	42.9	218.1	961.8	45.8	271.9
Goodwill - Welding and cutting products	-	(1.2)	18.5	-	(1.1)	19.8
Other assets and central operations	-	(6.9)	(29.6)	-	(8.6)	(61.8)
	900.5	34.8	207.0	961.8	36.1	229.9
Operating exceptional items						
Welding and cutting products						
– restructuring costs	-	(12.2)	-	-	(24.8)	-
Air and gas handling						
– restructuring costs	-	(7.7)	-	-	(4.7)	-
– USA accounting correction (i)	-	(3.9)	-	-	-	-
– litigation and warranty costs	-	(1.5)	-	-	(2.6)	-
Central restructuring costs	-	-	-	-	(2.6)	-
Continuing operations	900.5	9.5	207.0	961.8	1.4	229.9
After goodwill and operating exceptional items						
Welding and cutting products	581.9	22.6	171.4	621.5	9.8	199.0
Air and gas handling	267.4	(11.6)	52.4	283.8	(0.1)	77.7
Specialised engineering	51.2	5.4	12.8	56.5	2.9	15.0
Other assets and central operations	-	(6.9)	(29.6)	-	(11.2)	(61.8)
Continuing operations	900.5	9.5	207.0	961.8	1.4	229.9
Non-operating exceptional items		21.8	-		(7.8)	-
Net interest and net debt		(19.3)	(194.0)		(13.9)	(214.1)
Profit/(loss) on ordinary activities before taxation		12.0			(20.3)	
Net assets			13.0			15.8

Geographical area by country of operation						
United Kingdom	101.4	(7.2)	(14.9)	99.9	(8.3)	(7.3)
Rest of Europe	384.6	25.5	97.5	398.0	31.3	76.8
North America	324.4	2.6	53.7	363.8	4.5	73.3
Rest of World	157.2	15.1	52.2	172.5	9.7	67.3
	967.6	36.0	188.5	1,034.2	37.2	210.1
Goodwill						
– Rest of Europe	-	(0.4)	6.1	-	(0.4)	6.5
– North America	-	(0.7)	11.1	-	(0.6)	11.8
– Rest of World	-	(0.1)	1.3	-	(0.1)	1.5
Inter-area eliminations	(67.1)	-	-	(72.4)	-	-
Operating exceptional items						
United Kingdom	-	(5.0)	-	-	(10.3)	-
Rest of Europe	-	(13.0)	-	-	(17.7)	-
North America (i)	-	(7.3)	-	-	(2.2)	-
Rest of World	-	-	-	-	(4.5)	-
Continuing operations	900.5	9.5	207.0	961.8	1.4	229.9

2 Turnover, profit and operating assets (continued)

Geographical area by country of operation (continued)	Turnover 2002 £m	Profit 2002 £m	Operating assets 2002 £m	Turnover 2001 £m	Profit 2001 £m	Operating assets 2001 £m
After goodwill and operating exceptional items						
United Kingdom	101.4	(12.2)	(14.9)	99.9	(18.6)	(7.3)
Rest of Europe	384.6	12.1	103.6	398.0	13.2	83.3
North America	324.4	(5.4)	64.8	363.8	1.7	85.1
Rest of World	157.2	15.0	53.5	172.5	5.1	68.8
Inter-area eliminations	(67.1)	-	-	(72.4)	-	-
Continuing operations	900.5	9.5	207.0	961.8	1.4	229.9
Non-operating exceptional items		21.8	-		(7.8)	-
Net interest and net debt		(19.3)	(194.0)		(13.9)	(214.1)
Profit/(loss) on ordinary activities before taxation		12.0			(20.3)	
Net assets			13.0			15.8

Geographical area by country of destination	Turnover 2002 £m	Turnover 2001 £m
United Kingdom	56.4	56.0
Rest of Europe	320.5	339.1
North America	316.8	349.7
Rest of World	206.8	217.0
Continuing operations	900.5	961.8

(i) Following the investigation into the accounting irregularities at one of the Air and gas handling units in North America, an operating exceptional loss of £3.9 million that reflects the overstatement of this unit's profits not arising in 2002 was recorded in the results for the year.

(ii) Analysis of associated undertakings by class of business and country of operation is given in note 14.

3 Group operating profit/(loss)

	Before exceptional items 2002 £m	Exceptional items 2002 £m	Total 2002 £m	2001 £m
Turnover	900.5	-	900.5	961.8
Cost of sales	(665.4)	(11.7)	(677.1)	(732.5)
Gross profit	235.1	(11.7)	223.4	229.3
Net operating expenses				
Selling and distribution costs	(123.7)	(4.1)	(127.8)	(133.6)
Administration costs	(81.9)	(8.8)	(90.7)	(100.5)
	(205.6)	(12.9)	(218.5)	(234.1)
Group operating profit/(loss)	29.5	(24.6)	4.9	(4.8)

Fees in respect of services provided by the auditors were: statutory audit of the group £1.5 million (2001: £1.4 million) and other services to the Company and its United Kingdom subsidiaries £0.7 million (2001: £0.7 million). Included above are operating lease rentals for plant and machinery of £1.8 million (2001: £1.8 million) and for other leases of £3.2 million (2001: £2.9 million), depreciation of £20.6 million (2001: £21.5 million) and amortisation of goodwill of £1.2 million (2001: £1.1 million). Amounts invoiced to associated undertakings for the year were £2.5 million (2001: £2.9 million) and amounts invoiced from them were £7.2 million (2001: £7.1 million). At the year end amounts due from associated undertakings were £0.5 million (2001: £1.2 million) and due to them were £1.2 million (2001: £1.0 million).

4 Non-operating exceptional items

	2002 £m	2001 £m
Continuing operations		
Profit on fixed asset disposals - Welding and cutting products	14.2	-
Losses on fixed asset disposals - Air and gas handling	(1.7)	-
	12.5	-
Losses on termination of operations	(2.1)	-
associated goodwill	(3.8)	(4.1)
	(5.9)	(4.1)
Discontinued operations		
Profit on release of guarantee provision	15.2	-
Losses on termination of operations in prior years	-	(3.7)
	21.8	(7.8)

(i) Tax of £0.2 million (2001: £nil) is attributable to the non-operating exceptional items. There is no minority interest in the non-operating exceptional items of either period.

(ii) The losses on termination of operations of £5.9 million (2001 £4.1 million) comprise Air and gas handling £2.0 million (2001: £nil) and Specialised engineering £3.9 million (2001: £4.1 million).

(iii) A non-operating profit of £15.2 million arose on the release, on satisfactory terms, of guarantees which had been given in 1999 on the sale of Wirth (2001: £nil).

5 Net interest - excluding associated undertakings

	2002 £m	2001 £m
Receivable	3.5	5.4
Bank loans and overdrafts	(21.8)	(22.6)
Finance leases	(0.6)	(0.8)
	(18.9)	(18.0)

During November 2001 following a review of the general market level of interest rates relative to those of the group, a number of interest rate swaps were terminated generating an exceptional gain of £4.4 million.

6 Tax on profit/(loss) on ordinary activities

Current taxation	2002 £m	2001 £m
United Kingdom:		
Corporation tax at 30% (2001: 30%)	0.1	9.6
Adjustments in respect of previous years	(3.6)	7.9
	(3.5)	17.5
Double taxation relief	-	(9.0)
	(3.5)	8.5
Overseas:		
Current year	6.3	6.5
Adjustments in respect of previous years	(3.5)	(4.5)
	(0.7)	10.5
Associated undertakings	1.0	1.2
Total current taxation	0.3	11.7

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

Deferred taxation	2002 £m	2001 £m
United Kingdom:		
Current year	0.2	0.1
Adjustments in respect of previous years	-	-
	0.2	0.1
Overseas:		
Current year	0.2	(0.1)
Adjustments in respect of previous years	3.0	(0.6)
	3.2	(0.7)
Total deferred taxation	3.4	(0.6)

Total tax charge:		
Current taxation	0.3	11.7
Deferred taxation	3.4	(0.6)
Total tax charge	3.7	11.1

In 2001 the exceptional tax charge of £6.1 million included an amount in respect of prior year transactions currently under discussion with local tax authorities.

Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2002 £m	2001 £m
Profit/(loss) on ordinary activities before taxation	12.0	(20.3)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	3.6	(6.1)
Effects of:		
Movement on deferred tax recognised	(3.4)	0.6
Expenses not deductible for tax purposes (primarily exceptional items)	1.8	15.2
Book profit in excess of capital gain	(8.2)	-
Other taxes (primarily US State taxes)	0.9	4.3
Double taxation relief	-	(9.0)
Movement on deferred tax not recognised	11.4	20.3
Effect of lower overseas tax rates	(1.7)	(17.0)
Adjustments to tax charge in respect of previous periods	(4.1)	3.4
Current tax charge for the year	0.3	11.7

7 Employees - including executive directors

	2002 £m	2001 £m
Aggregate amounts payable:		
Wages and salaries	207.0	227.8
Social security costs	33.4	30.2
Other pension costs (see note 9)	11.5	12.3
	251.9	270.3

7 Employees - including executive directors (continued)

	2002	2001
Average number of persons employed by the group:		
Welding and cutting products	6,900	7,306
Air and gas handling	3,228	3,240
Specialised engineering	320	367
Corporate	21	25
	10,469	10,938

At the year end the number of employees was 10,065 (2001: 10,745).

8 Directors' remuneration

Information covering directors' remuneration, interests in shares and interests in share options is included in the Remuneration report on pages 22 to 25.

9 Post retirement benefits

(i) SSAP 24 Accounting for pension costs

The major pension schemes operated by the group are in the United Kingdom and are of the defined benefit type, the assets of which are held in trustee administered funds. With the exception of fair value provisions established on acquisitions and included in note 20, pension costs for employees of overseas subsidiaries are provided for in accordance with local requirements and practices.

	2002 £m	2001 £m
United Kingdom pension charge:		
Regular charge	3.6	4.0
Interest	(0.6)	(0.8)
Net charge	3.0	3.2
Overseas pension charge	8.5	9.1
Group pension charge	11.5	12.3
Post retirement medical costs - United States	0.2	0.4

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

	Pension schemes	Overseas medical costs liabilities
Dates of last valuations or review	April 2000, March 2001 and April 2002	December 2002
Market value of investments	£426.7 million	
Market value of assets as a percentage of accrued service liabilities, allowing for expected future increases in earnings	105%	
Main assumptions:		
Return on investments above general earnings inflation	1.0% to 2.5%	
Return on investments above annual pension increases		
– post retirement benefits	2.3% to 3.3%	
– pre-retirement benefits	2.3% to 4.3%	
Medical costs liabilities - inflation rate		5.0%

(ii) FRS 17 Retirement Benefits

UK Schemes

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations carried out within the last three years and updated by qualified independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2002. Scheme assets are stated at their market value at 31 December 2002.

Overseas Schemes

The group operates a number of defined benefit schemes for employees of its overseas businesses. Full actuarial valuations of these schemes have been carried out within the last three years and results have been updated to 31 December 2002 by qualified independent actuaries.

9 Post retirement benefits (continued)

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

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

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

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

	2002 Group £m
Current service	(7.1)
Past service cost	-
Total operating charge	(7.1)

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

	2002 Group £m
Expected return on schemes' assets	34.4
Interest on schemes' liabilities	(33.2)
Net return	1.2

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

	2002 Group £m
Actual return less expected return on schemes' assets	(73.2)
Experience gains and losses arising on schemes' liabilities	18.9
Changes in the assumptions underlying the present value of schemes' liabilities	(30.7)
Currency translation adjustment	3.2
Actuarial loss recognised in statement of total recognised gains and losses	(81.8)

History of experience gains and losses

	2002 Group
Difference between the actual and expected return on scheme assets:	
Amount (£m)	(73.2)
Percentage of scheme assets	17%
Experience gains and losses on scheme liabilities:	
Amount (£m)	18.9
Percentage of scheme liabilities	3%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£m)	(81.8)
Percentage of scheme liabilities	14%

9 Post retirement benefits (continued)

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

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

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

	Long-term rate of return expected at 31 December 2001		Value at 31 December 2001					
	UK	Overseas	UK schemes in surplus £m	UK scheme in deficit £m	Overseas schemes £m	Total pension schemes £m	Overseas medical costs liabilities £m	Total schemes £m
Equities	8.0%	9.0%	194.8	53.7	49.7	298.2	-	298.2
Bonds	5.1%	6.5%	121.1	19.9	35.2	176.2	-	176.2
Other	4.5%	6.2%	7.2	2.5	4.9	14.6	-	14.6
Total market value of assets			323.1	76.1	89.8	489.0	-	489.0
Present value of liabilities			(291.2)	(93.7)	(126.6)	(511.5)	(32.9)	(544.4)
Surplus/(deficit)			31.9	(17.6)	(36.8)	(22.5)	(32.9)	(55.4)
Related deferred tax liability			-	-	-	-	-	-
Net pension asset/(liability)			31.9	(17.6)	(36.8)	(22.5)	(32.9)	(55.4)
Provision already carried on the consolidated balance sheet			-	-	33.7	33.7	32.9	66.6
Net pension asset/(liability) not reflected on the consolidated balance sheet			31.9	(17.6)	(3.1)	11.2	-	11.2

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

	2002 Group £m	2001 Group £m
Net assets		
Net assets excluding pension assets/(liabilities)	79.1	82.4
Pension assets	14.1	31.9
Pension liabilities	(146.8)	(87.3)
Net assets including net pension liability	(53.6)	27.0
Reserves		
Profit and loss reserve excluding net pension liability	52.8	50.5
Net pension liability	(132.7)	(55.4)
Profit and loss reserve	(79.9)	(4.9)

9 Post retirement benefits (continued)

Movement in deficit during year

	2002 Group £m
Deficit in the schemes at the beginning of the year	(55.4)
Current service cost	(7.1)
Contributions	9.7
Past service cost	-
Other finance income	1.2
Actuarial loss	(81.8)
Deficit in the schemes at the end of the year	(133.4)

10 Dividends paid and proposed

	2002 £m	2001 £m
Interim dividend of nil p (2001: nil p) per share	-	-
Final dividend of nil p (2001: nil p) per share	-	-
	-	-

11 Earnings per share

Basic headline earnings per share is calculated on profits of £4.8 million (2001 losses: £32.8 million) and on an average of 94,149,000 (2001: 94,149,000) shares.

Adjusted earnings per share is also shown calculated by reference to earnings before the amortisation of goodwill and exceptional items, as adjusted for attributable tax and minority interests. The directors consider that this gives a useful additional indication of underlying performance.

Fully diluted earnings per share adjusts the average number of shares in the basic calculation for nil (2001: nil) dilutive potential shares deriving from share options.

	Basic 2002 Pence	Basic 2001 Pence	Fully diluted 2002 Pence	Fully diluted 2001 Pence
Earnings per share - headline	5.1	(34.8)	5.1	(34.8)
Amortisation of goodwill	1.3	1.1	1.3	1.1
Exceptional items	2.2	46.0	2.2	46.0
Earnings per share - adjusted	8.6	12.3	8.6	12.3

12 Intangible fixed assets - goodwill

	Cost £m	Amortisation £m	Net book value £m
At 31 December 2001	23.0	(3.2)	19.8
Negative goodwill on acquisitions	(0.1)	-	(0.1)
Amortisation for the year	-	(1.2)	(1.2)
At 31 December 2002	22.9	(4.4)	18.5

The negative goodwill acquired during the year will be recognised in the profit and loss account over the period expected to be benefited.

13 Tangible fixed assets

	Land and buildings £m	Plant furniture and fittings £m	Total tangible fixed assets £m
Cost:			
At 31 December 2001	93.7	173.3	267.0
Currency realignment	(1.9)	(9.0)	(10.9)
Additions	3.5	13.0	16.5
Disposals	(10.0)	(9.6)	(19.6)
Business disposals	(0.2)	(0.9)	(1.1)
At 31 December 2002	85.1	166.8	251.9
Depreciation:			
At 31 December 2001	17.8	94.7	112.5
Currency realignment	(0.5)	(4.6)	(5.1)
Charge to profit and loss account	3.1	17.5	20.6
Disposals	(1.1)	(7.4)	(8.5)
Business disposals	(0.1)	(0.6)	(0.7)
At 31 December 2002	19.2	99.6	118.8
Net book value:			
At 31 December 2002	65.9	67.2	133.1
At 31 December 2001	75.9	78.6	154.5

	Land and buildings		Plant, furniture and fittings	
(i) Fixed assets include the following in respect of assets held under finance leases:	2002 £m	2001 £m	2002 £m	2001 £m
Net book value at the year end	0.5	0.7	0.2	0.3
Depreciation charge for the year	0.2	0.2	0.1	0.2

(ii) The net book value of the group's land and buildings includes £3.5 million (2001: £3.6 million) for long leasehold properties and £7.6 million (2001: £8.0 million) for short leasehold properties.

(iii) Committed capital expenditure of subsidiary undertakings at the year end was £1.0 million (2001: £1.0 million).

14 Fixed asset investments

	Group investment in associated undertakings - unlisted £m	Company investment in subsidiary undertakings £m
At 31 December 2001	24.6	1,009.1
Currency realignment	(0.3)	-
Group's share of net profits retained	(0.1)	-
At 31 December 2002	24.2	1,009.1

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

(ii) Principal interests in group undertakings are shown on pages 53 and 54.

(iii) Loans due by the Company to subsidiary undertakings, which are interest free, amounted to £832.4 million (2001: £861.0 million).

14 Fixed asset investments (continued)

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

	2002 £m	2001 £m
Fixed assets	16.6	17.9
Current assets	27.4	25.6
Liabilities due within 1 year	(10.9)	(11.0)
Liabilities due after 1 year	(8.9)	(7.9)
Share of net assets	24.2	24.6

(v) The Group's share of turnover, profit and operating assets of associated undertakings

	Turnover 2002 £m	Profit 2002 £m	Operating assets 2002 £m	Turnover 2001 £m	Profit 2001 £m	Operating assets 2001 £m
Classes of business						
Welding and cutting products	54.5	4.4	18.2	53.1	5.3	16.7
Air and gas handling	5.5	0.9	6.0	5.8	0.9	7.9
Air and gas handling - operating exceptional items	-	(0.7)	-	-	-	-
Net interest	-	(0.4)	-	-	(0.3)	-
Continuing operations	60.0	4.2	24.2	58.9	5.9	24.6
Geographical area by country of operation						
United Kingdom	3.8	0.7	4.1	3.8	1.0	4.4
Rest of Europe	28.4	2.6	8.7	28.3	3.1	9.1
Rest of Europe - operating exceptional items	-	(0.7)	-	-	-	-
North America	1.5	0.2	0.8	1.9	0.3	1.2
Rest of World	26.3	1.8	10.6	24.9	1.8	9.9
Net interest	-	(0.4)	-	-	(0.3)	-
Continuing operations	60.0	4.2	24.2	58.9	5.9	24.6

15 Stocks

At cost:	2002 £m	2001 £m
Short term contract work in progress	20.4	10.0
Deduct: Progress payments received and receivable	(16.6)	(4.5)
Short term contract balances	3.8	5.5
Long term contract work in progress	0.5	4.9
Deduct: Progress payments received and receivable	-	(3.9)
Long term contract balances	0.5	1.0
Contract balances	4.3	6.5
Raw materials, components and consumable stores	33.6	39.2
Work in progress	11.9	19.1
Finished goods	62.6	64.7
	112.4	129.5

16 Debtors

	2002 £m	2001 £m
Amounts falling due within one year:		
Trade debtors	181.8	209.5
Long term contracts	9.8	9.4
Other debtors	23.6	20.1
Prepayments and accrued income	6.7	8.3
	221.9	247.3
Amounts falling due after more than one year:		
Trade debtors	0.2	0.4
Other debtors (note 20(v))	1.0	4.1
Prepayments and accrued income including ACT recoverable	2.6	2.7
	3.8	7.2
	225.7	254.5

17 Cash at bank and in hand

Cash at bank and in hand includes deposits of £0.8 million (2001: £17.0 million) that are not repayable on demand as defined by FRS 1 Cash Flow Statements (Revised 1996).

18 Creditors: amounts falling due within one year

	2002 £m	2001 £m
Trade creditors	79.3	97.2
Payments received on account	3.5	7.5
Other creditors	32.0	36.8
Corporation tax	20.2	27.7
Social security and other taxation	8.5	9.2
Accruals and deferred income	39.1	36.8
	182.6	215.2

19 Borrowings

	2002 £m	2001 £m
Short term:		
Loan notes	1.9	3.4
Bank loans and overdrafts - secured	0.3	0.8
Bank loans and overdrafts - unsecured	92.1	108.5
Obligations under finance leases	0.3	0.6
	94.6	113.3

19 Borrowings (continued)

	2002 £m	2001 £m
Long term:		
6.78% 2004 loan notes of US$72.3 million	45.0	49.5
7.24% 2005 loan notes of US$6.0 million (2001: US$9.0 million)	3.7	6.2
7.33% 2005 loan notes of US$5.0 million	3.1	3.4
6.88% 2007 loan notes of US$85.0 million	52.8	58.2
6.96% 2009 loan notes of US$35.0 million	21.7	24.0
Loans - unsecured	0.8	0.8
Obligations under finance leases	4.5	6.3
Total long term	131.6	148.4
Total borrowings:		
Short term	94.6	113.3
Long term	131.6	148.4
Total borrowings	226.2	261.7

(i) Repayments of long term borrowings are due as follows:

	Other borrowings £m	Finance leases £m	Total £m
Between one and two years	46.8	0.2	47.0
Between two and five years	58.6	-	58.6
Over five years otherwise than by instalments	21.7	4.3	26.0
	127.1	4.5	131.6

(ii) Parent company balance sheet:
Loans due by the Company to subsidiary undertakings are interest free and are repayable on demand.

20 Provisions for liabilities and charges

	Deferred taxation £m	Disposal and reorganisation costs (note (i)) £m	Post retirement benefits £m	Other £m	Total £m
At 31 December 2001	-	44.2	71.1	21.8	137.1
Utilised	-	(10.0)	(7.3)	(5.3)	(22.6)
Provided	0.4	10.3	6.4	7.7	24.8
Released	-	(15.2)	-	(1.9)	(17.1)
Currency realignment	0.3	1.1	0.6	(0.9)	1.1
At 31 December 2002	0.7	30.4	70.8	21.4	123.3

Deferred taxation amounts are set out below:

	Provision made 2002 £m	Full potential 2002 £m	Provision made 2001 £m	Full potential 2001 £m
Excess of the book value of assets, including finance leases qualifying for taxation allowances, over their written down value for taxation purposes	8.7	8.7	2.5	2.0
Held over capital gains	10.0	10.0	-	10.0
Relief for future costs	(1.2)	(18.7)	(2.9)	(16.0)
Losses carried forward	(16.8)	(146.6)	-	(98.8)
Other timing differences	-	-	0.4	0.5
	0.7	(146.6)	-	(102.3)

20 Provisions for liabilities and charges (continued)

(i) In 2001 disposal and reorganisation costs included a £20.3 million fair value provision in respect of guarantees given for a disposed business. In 2002 £15.2 million was credited to the profit and loss account (note 4) and £5.1 million was utilised on the release of those guarantees. Also included in both 2002 and 2001 are reorganisation costs relating to continuing operations. The majority of the reorganisation costs will be utilised over the next twelve to twenty four months.

(ii) Post retirement benefits include obligations for both pensions and medical costs. These are expected to be utilised over a period of not less than ten years and are expected to be replaced by comparable amounts as they are utilised.

(iii) Other provisions include amounts in respect of legal costs and claims, deferred acquisition payments, warranty liabilities and environmental costs. Due to their nature it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that this will be over the short to medium term.

(iv) At the year end £7.5 million (2001: £27.8 million) of fair value provisions remained unutilised. In the 2001 balance, £20.3 million was as noted in (i) above.

(v) Other debtors (note 16) includes £nil (2001: £3.2 million) of deferred taxation losses carried forward.

(vi) During the period it came to the group's attention that there were additional unrecognised tax losses in certain territories. These have been reflected in the £146.6 million full potential deferred taxation asset at 31 December 2002. The unrecognised deferred tax assets are not expected to become recoverable in the foreseeable future.

21 Acquisitions

The consideration in respect of acquisitions made in the year was £0.6 million and the fair value of net assets acquired was £0.7 million resulting in negative goodwill of £0.1 million.

22 Commitments and contingencies

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

	Land and buildings 2002 £m	Other 2002 £m	Land and buildings 2001 £m	Other 2001 £m
Within one year	1.4	1.0	1.0	0.9
Two to five years	2.4	1.5	1.5	1.0
After five years	1.2	0.1	0.9	0.1
	5.0	2.6	3.4	2.0

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Guarantees and other obligations	-	20.3	273.9	297.4

In addition the group has contingent liabilities entered into in the normal course of business from which no liability is expected to arise.

The Company's guarantees primarily relate to subsidiary undertakings' borrowings.

Charter, together with certain of its wholly-owned subsidiaries, has been named as defendant in a number of asbestos-related actions in the United States on the basis that it is allegedly liable for the acts of a former subsidiary Cape PLC. Charter contests the existence of any such liability. The issue went to trial in three cases involving the Company's principal subsidiary, Charter Consolidated P.L.C., and other wholly-owned subsidiaries, between 1985 and 1987. In the first of these cases, tried in Pennsylvania, after an adverse lower court decision the appeal court gave judgement in the Charter defendants' favour. In the second case, in New Jersey, judgement was also given for the Charter defendants. The third case, in South Carolina, was dismissed for lack of subject matter jurisdiction, without a decision having been rendered on the issue. During recent years, Charter and/or certain of its subsidiaries have been served in a number of cases in Mississippi, Illinois and a few other states. Charter is seeking dismissals in these pending cases. Upon advice of counsel, Charter has settled some of the cases brought in Mississippi and will continue to pursue dismissals in the remainder. The directors have received legal advice that Charter and its wholly-owned subsidiaries should be able to continue to defend successfully the actions brought against them, but that uncertainty must exist as to the eventual outcome of the trial of any particular action. It is not practicable to estimate in any particular case the amount of damages which might ensue if liability were imposed on Charter or any of its wholly-owned subsidiaries. The litigation is reviewed each year and, based on that review and legal advice, the directors believe that the aggregate of any such liability is unlikely to have a material effect on Charter's financial position. In these circumstances, the directors have concluded that it is not appropriate to make any provision in respect of such actions.

22 Commitments and contingencies (continued)

Howden Buffalo, Inc., a subsidiary of Charter, has been named as a defendant in a number of asbestos-related actions in the United States. Upon advice of counsel, Howden is vigorously defending all of the cases that have been filed against it. Over the past few years, Howden has sought and received dismissals in 155 cases and has, upon advice of counsel, settled four cases. The four cases were all settled for nuisance value amounts, much less than the cost of defending the cases at trial. Howden has received legal advice indicating that it should be able to continue to defend successfully the actions that are brought. At this time, it is not practical to estimate the amount of any potential damages in particular cases. However, legal fees associated with the defense of these claims have been covered by applicable insurance. The situation is reviewed regularly and based on the most recent review and legal advice, Howden believes that the aggregate of any potential liability is unlikely to have a material effect on its financial position.

The Esab Group Inc., a subsidiary of Charter, has been named as a defendant in a number of lawsuits in the United States alleging personal injuries from exposure to manganese in the fumes of welding consumables. Other current and former manufacturers of welding consumables have also been named as defendants as well as various trade associations including the American Welding Society, the National Electrical Manufacturers Association, the Ferroalloys Association and others. Esab and the other named defendants contest the existence of any liability and are vigorously defending these cases.

23 Share capital

	2002 Number of Ordinary shares of 2p each	2002 £	2001 Number of Ordinary shares of 2p each	2001 £
Authorised:	109,500,000	2,190,000	109,500,000	2,190,000
Issued:				
Fully paid shares	94,149,021	1,882,980	94,149,021	1,882,980

No shares of 2p each were allotted during the year. During the year options were granted over 613,236 shares. At 31 December 2002 51 participants held options over 2,186,805 shares; these options are exercisable during various periods up to 19 May 2012 at prices ranging from 177p to 920.6p.

Included in the above, under the terms of the group's Equity Partnership Plan, approved by shareholders in 1997, are deferred rights to acquire shares. This plan has not operated since 1999. At 31 December 2002 7 participants held rights over 203,898 shares. As none of the performance targets associated with any of the awards has been met, the awards would only be of value in the event of a change in control of the Company. The exercise price of these awards would be funded by a cash bonus payable at the date of exercise and therefore the effective cost to the allottee would be nil.

Prior to its acquisition by the Company, Howden Group PLC operated share savings schemes for employees. These schemes allowed eligible employees to save limited fixed monthly amounts over a five year period and then to subscribe for shares at an option price. On the acquisition of Howden Group PLC by the Company, these pre-existing entitlements were transferred into options to purchase the Company's shares. At the year end all entitlements had lapsed. No further entitlements will be granted under these schemes.

24 Reserves

Group	Share premium account £m	Profit and loss account £m	Total £m
At 31 December 2001	5.9	(16.1)	(10.2)
Retained profit for the financial year	-	4.8	4.8
Net effect of translation of currencies	-	(4.4)	(4.4)
Net effect of translation of currencies – taxation	-	(1.4)	(1.4)
Goodwill associated with the sale and termination of operations	-	3.8	3.8
At 31 December 2002	5.9	(13.3)	(7.4)

Company	Share premium account £m	Profit and loss account £m	Total £m
At 31 December 2001	5.9	202.5	208.4
Retained loss for the financial year	-	(4.7)	(4.7)
At 31 December 2002	5.9	197.8	203.7

24 Reserves (continued)

(i) In the event of certain overseas subsidiary and associated undertakings distributing reserves or profits, an additional liability to United Kingdom and overseas taxation would arise.

(ii) In the group reserves £6.4 million of exchange gains on foreign currency loans have been offset against exchange losses on the net investments in certain overseas subsidiaries and associated undertakings.

(iii) Acquisition goodwill of £630.6 million has been dealt with through reserves up to 31 December 2002 (2001: £634.4 million).

(iv) Under the provisions of the Companies Act 1985, a separate profit and loss account for the Company is not presented. The Company's reconciliation of movements in shareholders' funds was as follows:

	2002 £m	2001 £m
Loss for the financial year	(4.7)	(32.3)
Dividends for the financial year	-	-
	(4.7)	(32.3)
Opening shareholders' funds	210.3	242.6
Closing shareholders' funds	205.6	210.3

25 Minority interests - equity interests

	2002 £m	2001 £m
At 31 December 2001	24.1	30.5
Share of profit for the financial year	3.5	1.4
Dividends payable	(0.7)	(2.2)
Acquisitions and disposals	(0.7)	-
Net effect of translation of currencies	(7.7)	(5.6)
At 31 December 2002	18.5	24.1

26 Cash flow statement

(i) Cash flow from operating activities

	2002 £m	2001 £m
Operating profit/(loss) - excluding associated undertakings	4.9	(4.8)
Depreciation	20.6	21.5
Goodwill amortisation	1.2	1.1
Profit on sale of fixed assets	(0.4)	(0.3)
Exceptional items		
Current year charge - restructuring (excluding associated undertakings)	19.2	32.1
Current year charge - litigation and warranty	1.5	2.6
Restructuring costs spend	(20.5)	(12.4)
Litigation costs recovered/(spent)	0.3	(1.6)
Change in stock	8.3	1.0
Change in debtors	17.2	(4.5)
Change in creditors	(16.9)	0.9
Other movements in provisions	(3.2)	(4.0)
	32.2	31.6

26 Cash flow statement (continued)

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

	2002 £m	2001 £m
Increase/(decrease) in cash in the year	26.8	(33.5)
Cash outflow from debt and lease financing	5.2	18.9
Cash (inflow)/outflow from liquid resources	(15.9)	10.3
Change in net debt resulting from cash flows	16.1	(4.3)
New finance leases	(0.1)	(0.2)
Exchange adjustments	4.1	0.2
Movement in net debt in the year	20.1	(4.3)
Opening balance of net debt	(214.1)	(209.8)
Closing balance of net debt	(194.0)	(214.1)

(iii) Analysis of net debt movements

	Opening balance £m	Cash flow £m	Other non-cash changes £m	Exchange adjustment £m	Closing balance £m
Cash - gross	30.6	(1.0)	-	1.8	31.4
Short term borrowings	(109.3)	27.8	-	(10.9)	(92.4)
Cash - net	(78.7)	26.8	-	(9.1)	(61.0)
Other cash at bank and in hand	17.0	(15.9)	-	(0.3)	0.8
Other short term debt	(3.4)	3.3	(2.0)	0.2	(1.9)
Long term debt	(142.1)	-	2.0	13.0	(127.1)
Finance leases	(6.9)	1.9	(0.1)	0.3	(4.8)
Total	(214.1)	16.1	(0.1)	4.1	(194.0)

(iv) Acquisitions and disposals of subsidiary undertakings

	Acquisitions		Disposals	
	2002 £m	2001 £m	2002 £m	2001 £m
Fixed assets including investments	-	0.1	0.4	-
Stocks	-	-	2.3	-
Debtors	-	-	1.0	-
Creditors	-	-	(0.7)	-
Minority interest	0.7	-	-	-
	0.7	0.1	3.0	-
Negative goodwill - on acquisitions	(0.1)	-	-	-
Loss on disposal	-	-	(1.1)	-
	0.6	0.1	1.9	-
Satisfied by:				
Net cash consideration	0.6	0.1	1.9	-

All acquisitions have been accounted for using acquisition accounting principles. None of the 2002 acquisitions or disposals were individually material to the group. The impact of the acquisitions and disposals on the group's profit and cash flows is not material.

27 Financial instruments

The following disclosure forms part of the treasury management notes in the Financial review on page 13.

Interest rate risk profile of financial assets and liabilities

All short term debtors and creditors have been excluded from the disclosures. The interest rate risk profile of financial liabilities of the group as at 31 December 2002 was:

	Total		Floating rate financial liabilities		Semi-fixed rate hedged financial liabilities		Fixed rate hedged financial liabilities		Financial liabilities on which no interest is paid		Fixed rate analysis: Weighted average interest rate		Fixed rate analysis: Weighted average period for which rate is fixed	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Currencies	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	Years	Years
Euro	(30.6)	(39.9)	(29.8)	1.8	-	(40.5)	(0.8)	(1.2)	-	-	4.85	4.85	7.01	8.01
East European	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other European	(16.2)	(1.5)	(16.2)	(1.5)	-	-	-	-	-	-	0.18	-	1.32	-
North American	(133.2)	(152.3)	(1.5)	7.9	-	(10.6)	(131.7)	(149.6)	-	-	7.01	7.04	3.63	4.7
South American	(0.4)	(0.8)	(0.3)	(0.8)	-	-	(0.1)	-	-	-	-	-	-	-
Asian	(0.3)	(5.7)	(0.3)	(5.7)	-	-	-	-	-	-	-	-	-	-
South African	-	(0.7)	-	(0.7)	-	-	-	-	-	-	-	-	-	-
Total currency	(180.7)	(200.9)	(48.1)	1.0	-	(51.1)	(132.6)	(150.8)	-	-			3.65	4.72
Sterling	(45.5)	(60.8)	(45.1)	(60.2)	-	-	(0.4)	(0.6)	-	-	10.00	6.50	1.96	2.92
Total group	(226.2)	(261.7)	(93.2)	(59.2)	-	(51.1)	(133.0)	(151.4)	-	-			3.65	4.72

The floating rate financial liabilities principally comprise bank borrowings bearing interest at rates fixed in advance for periods ranging from one month to six months by reference to the appropriate Libor equivalent.

The fixed rate hedging principally comprises US Dollar Private Placement Loan Notes which the group had outstanding at the year end.

The following table shows the interest rate risk profile of financial assets held by the group at the year end. The financial assets shown principally comprise cash and short term deposits required for working capital purposes.

	Total		Floating rate financial assets	
	2002	2001	2002	2001
Currencies	£m	£m	£m	£m
Euro	12.4	25.3	12.4	25.3
East European	2.7	2.8	2.7	2.8
Other European	1.3	1.2	1.3	1.2
North American	4.3	9.3	4.3	9.3
South American	1.9	1.7	1.9	1.7
Asian	5.6	3.2	5.6	3.2
South African	1.7	0.3	1.7	0.3
Total currency	29.9	43.8	29.9	43.8
Sterling	2.3	3.8	2.3	3.8
Total group	32.2	47.6	32.2	47.6

27 Financial instruments (continued)

Currency exposures

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

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

	Net foreign currency monetary assets/(liabilities)																	
Functional currency of group operation	Sterling		Euro		East European		Other European		North American		South American		Asian		South African		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Sterling	-	-	5.7	2.6	-	-	-	-	2.2	0.5	-	-	0.1	0.1	-	-	8.0	3.2
Euro	0.5	0.1	-	-	0.1	-	-	0.1	0.7	0.9	-	-	-	-	-	-	1.3	1.1
East European	-	-	(0.6)	(0.4)	-	-	0.1	0.1	0.2	0.1	-	-	-	-	-	-	(0.3)	(0.2)
Other European	-	-	(0.4)	-	-	-	-	-	(0.1)	1.5	-	-	-	-	-	-	(0.5)	1.5
North American	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South American	-	-	-	-	-	-	-	-	0.1	(0.3)	-	-	-	-	-	-	0.1	(0.3)
Asian	-	-	0.2	0.1	-	-	-	-	0.7	0.6	-	-	-	-	-	-	0.9	0.7
South African	-	0.2	0.2	0.3	-	-	-	-	0.2	0.2	-	-	-	-	-	-	0.4	0.7
Total	0.5	0.3	5.1	2.6	0.1	-	0.1	0.2	4.0	3.5	-	-	0.1	0.1	-	-	9.9	6.7

The table below shows the group's balance sheet hedging at the year end:

	Balance sheet exposures*		Hedged**		Unhedged		Benefit/(cost) of covering unhedged per annum		Sensitivity***	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Euro	43.6	50.7	45.3	47.5	(1.7)	3.2	-	-	2.3	2.4
East European	39.5	37.4	-	-	39.5	37.4	(0.1)	(1.0)	-	(0.1)
Other European	17.4	14.7	17.4	17.0	-	(2.3)	-	-	0.8	0.9
North American	64.0	69.3	71.1	87.7	(7.1)	(18.4)	(0.1)	(0.5)	3.5	4.4
South American	18.1	30.3	-	0.3	18.1	30.0	(1.1)	(2.2)	-	(0.1)
Asian	37.5	32.9	-	11.3	37.5	21.6	(0.9)	(1.0)	(0.1)	0.5
South African	3.8	3.3	-	0.4	3.8	2.9	(0.4)	(0.2)	(0.1)	-
Total currency	223.9	238.6	133.8	164.2	90.1	74.4	(2.6)	(4.9)	6.4	8.0

* Debt and equity employed, net of minority interests.

** Financed with local functional currency borrowings.

*** Sensitivity of total net debt to a 5 per cent exchange movement.

Borrowing facilities

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

Total committed borrowing facilities	2002 £m	2001 £m
Expiring in one year or less	130.9	176.6
Expiring in more than one year but not more than two years	46.8	2.1
Expiring in more than two years	79.5	139.2
Total	257.2	317.9

Committed facility undrawn at the year end		
Expiring in one year or less	41.8	76.5
Expiring in more than one year but not more than two years	-	-

27 Financial instruments (continued)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all the group's financial assets and financial liabilities at the year end:

Primary financial instruments held or issued to finance the group's operations	Book value 2002 £m	Book value 2001 £m	Fair value 2002 £m	Fair value 2001 £m
Short term borrowings and current portion of long term borrowings	(94.6)	(113.3)	(94.6)	(113.3)
Long term borrowings	(131.6)	(148.4)	(146.2)	(154.9)
Cash deposits	32.2	47.6	32.2	47.6
Other financial liabilities	-	-	-	-
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps and similar instruments	-	-	-	-
Interest rate caps and collars	-	-	-	(0.1)
Forward foreign currency contracts	(1.2)	0.1	(1.2)	0.1
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales				
Forward foreign currency contracts	-	-	0.8	0.5

The fair values of foreign exchange contracts have been estimated by reference to the prices available from the markets on which the instruments involved are traded. All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates. The fair value of short term deposits and borrowings approximates to the carrying amount because of the short maturity of these instruments.

Hedges

As explained in the Financial review on page 13, the group's policy is to hedge the following exposures:

- Interest rate risk - using interest rate swaps, caps and collars and forward rate agreements.
- Balance sheet translation risk - using forward foreign exchange contracts and borrowings in functional currencies.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains 2002 £m	Gains 2001 £m	(Losses) 2002 £m	(Losses) 2001 £m	Total net gains/(losses) 2002 £m	Total net gains/(losses) 2001 £m
Gains and losses arising in and before the year that were not recognised in the year	0.8	-	-	(6.7)	0.8	(6.7)
Unrecognised gains and losses on hedges at the year end	0.8	-	-	(6.7)	0.8	(6.7)
Of which:						
Gains and losses expected to be recognised in the next year	0.8	-	-	(0.1)	0.8	(0.1)
Gains and losses expected to be recognised in subsequent years	-	-	-	(6.6)	-	(6.6)

Market price risk

The group monitors the interest rate risks to which it is exposed primarily through a process of sensitivity analysis. This involves estimating the effect on profit before tax of a range of possible changes in interest rates. On the basis of the group's analysis, it is estimated that a rise of one percentage point in the principal interest rates to which the group is exposed would reduce profit before tax by approximately £1.4 million (2001: £1.2 million) and the effect of a rise of three percentage points would reduce profit before tax by approximately £4.1 million (2001: £3.7 million).