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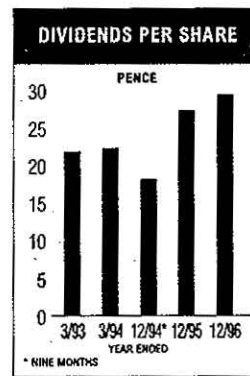
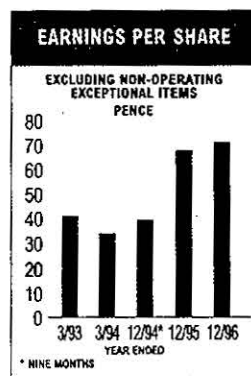
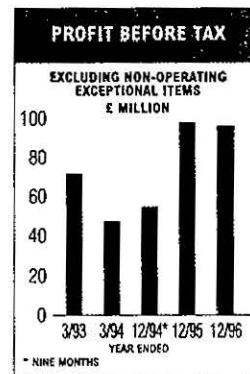
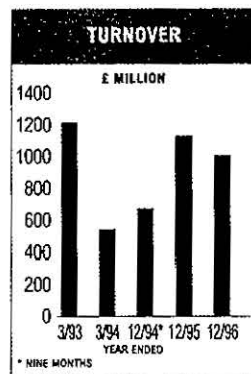
# FINANCIAL HIGHLIGHTS



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**Dec 23 2024**

**S.C. SUPREME COURT**



	1996 £M	1995 £M
<b>TURNOVER</b>		
Continuing operations	883.4	854.0
Discontinued operations	116.5	273.7
	<b>999.9</b>	<b>1,127.7</b>
<b>OPERATING PROFIT</b>		
Continuing operations	92.7	89.7
Discontinued operations	4.3	14.0
	<b>97.0</b>	<b>103.7</b>
<b>NON-OPERATING EXCEPTIONAL ITEMS</b>		
Discontinued operations	(50.0)	-
Profit before taxation	46.0	97.5
Profit for the year	12.0	58.2
Earnings per share - headline	13.7p	67.5p
Earnings per share - underlying	70.9p	67.5p
Dividends per share	29.5p	27.5p
Shareholders' funds per share	247p	230p

## CHAIRMAN'S STATEMENT



1996 was another year of important strategic achievements for Charter. The disposal of the Company's 65.3 per cent interest in building materials manufacturer Cape was another important step in restructuring the group's businesses. Taking place principally over the last four years, this process has created a soundly capitalised group of manufacturing businesses, each of which has a strong market position.

Charter's main activities today are focused on the rail track and welding industries, in which Pandrol and Esab occupy market leading positions in their respective fields.

The Cape disposal has naturally reduced headline group results for the year, with figures showing year on year decline in turnover, profits and earnings per share. Profit before tax and

earnings per share were reduced by the non-operating exceptional item representing the loss on disposal of Cape of £50.0 million after the write-back of goodwill previously written off to reserves. At the underlying level, performance of Charter's continuing activities advanced in a challenging year, with earnings per share of 70.9 pence up 5.0 per cent on the previous year.

The sale of Cape further strengthened the group's financial position. At the end of the year, the group had net funds of £36.5 million compared to net debt of £38.7 million at the end of 1995.

The board has proposed a final dividend of 20.5 pence per share. Together with the interim dividend of 9.0 pence, dividends for the year of 29.5 pence increased by 7.3 per cent compared with the previous year. The Company will again offer the popular gross scrip dividend alternative, which is more tax efficient for both the Company and many shareholders.

Pandrol earned record profits in another excellent year.

A number of important strategic developments took place at Esab during the year, which will both improve the company's competitive position and financial performance.

In Europe, further rationalisation of production capacity will take place with the closure of facilities in Solingen, Germany (announced in September) and Wissen, Germany (announced in February 1997). Capacity released will transfer to other facilities in West and East Europe, producing performance improvements within the next financial year. The appointment of a new Managing Director for Europe will sharpen Esab's focus on the programme of continuous improvement which is required to maintain competitive advantage in the European marketplace.

In South America, Esab has made a significant advance by concluding a joint venture with Argentinean market leader Conarco, in which the group has management control. Mercusor,

the recently formed free trade zone including Argentina, Brazil, Uruguay and Paraguay represents new opportunities for the business and provides a base from which exports to other South American countries can be developed.

The business in Asia/Pacific took important steps during the year to increase local manufacturing capacity. A new facility was opened in Korea in March, which will be expanded following the acquisition of a stainless steel electrode business. In September a £5 million investment in a new Indonesian facility was announced, which will serve both domestic customers and neighbouring markets. These initiatives will improve Esab's competitive position in the market, producing both higher levels of efficiency and the ability to more rapidly meet local customer requirements.

I thank my fellow board members for their valuable contributions to our business during the year. I have a special vote of thanks to Sir Michael Edwardes, who retired as Chairman after last year's annual general meeting. Under his leadership the shape and financial performance of Charter was transformed. I am sure that shareholders will want to join me in extending thanks and very best wishes to Sir Michael upon his retirement from the Company. Derek Cook retired from the board at the end of the year having provided an important and much valued contribution. Charles Parker resigned from the board on 31 December.

I would like to thank Charles for his outstanding contribution to the Company, and wish him well in the future. We have a strong and balanced board which will take Charter forward in the future.

Charter's strategy is to maintain the group's position of market leadership in its various businesses. The underlying performance of the core operations will continue to be improved and the strategic steps taken during the last year will begin to produce benefits in 1997.

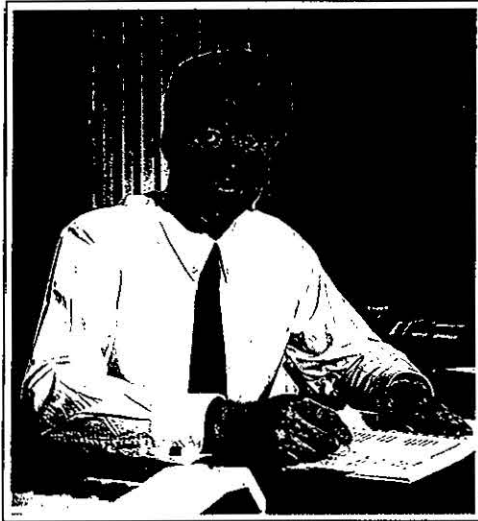
The Company continues to look for acquisition opportunities which will enhance shareholder value, and is in a strong financial position to take another step forward.

1996 was a challenging year in which Charter made a number of important advances. The strategic initiatives made together with the achievement of a sound set of financial results would not have been possible without the commitment of the company's employees. On behalf of the board and the shareholders, I thank everyone in Charter for their support.



**Jeffrey Herbert** *Chairman and Chief Executive*  
17 March 1997

## OPERATING REVIEW



*Nigel Smith Chief Operating Officer*

Operating results in the group's continuing businesses for 1996 were good, despite difficult competitive and economic conditions in some of our major markets.

Sales and profit have improved and there have been significant achievements in consolidating the market leading positions through investments in joint ventures, acquisitions and product and customer service innovations.

### RAIL TRACK EQUIPMENT

	1996 £M	1995 £M
Turnover	<b>146.4</b>	140.7
Operating profit	<b>16.2</b>	15.0
Operating margin	<b>11.1%</b>	10.7%

Pandrol is the world leader in track support systems and also provides rail track maintenance services. The company achieved record profitability in another excellent year. The continued success of the business is based on meeting the needs of its worldwide customers for more capable and lower cost maintenance solutions through product and service innovation.

Operating profits increased by 8.0 per cent on turnover of £146.4 million, up 4.1 per cent on the previous year. The operating margin increased to 11.1 per cent as a result of sales

mix and continued focus on costs.

In the Fastenings Division, sales performances by geographical region were mixed, but performance was particularly strong in Australia, Belgium, Canada, Italy, the United Kingdom and the United States. The new labour-saving PANDROL FASTCLIP system continues to gain acceptance in higher cost countries where railroad customers are seeking to reduce manning and overall maintenance costs. In the United States, reductions in sleeper installation cost resulting from the use of PANDROL FASTCLIP have exceeded 20 per cent, and further commercial orders are expected in 1997.

The Track Maintenance Division increased sales of Tampers and Rail Flaw Detection (RFD) systems and services which more than offset weakness in spares and production grinding services. The production grinding fleet is undergoing an extensive upgrade programme which will begin to give benefits in 1997. The year was marked by a significant export order of six RFD systems to China, together with further orders, won against international competition, for production grinders from China and Brazil for delivery in later years.

The revolutionary new Stoneblower was delivered to Railtrack during the year and is currently undergoing acceptance testing on sites throughout the United Kingdom. Pandrol has a contract to build a further seven Stoneblowers for Railtrack for delivery over the next two years.

### WELDING PRODUCTS

	1996 £M	1995 £M
Turnover	<b>737.0</b>	713.3
Operating profit	<b>77.7</b>	74.6
Operating margin	<b>10.5%</b>	10.5%

Esab had another good year, with the company taking further important steps to maintain its position as the world's leading producer of welding consumables and equipment.

Operating profits increased by 4.2 per cent to £77.7 million on turnover of £737.0 million, up 3.3 per cent on the previous year.

Operating margin was maintained at 10.5 per cent despite the negative effects of the strengthening of the Swedish krona on export sales and a softening in demand for standard welding equipment and cutting equipment.

### WELDING CONSUMABLES AND EQUIPMENT

Welding consumables and specialist equipment performed well during the year with significant growth in sales and operating profit offset in part by disappointing sales of standard equipment.

#### EUROPE

Turnover increased by 3.1 per cent compared to the previous year and operating margin was also improved despite a fall in standard equipment sales as a result of a slow down in the investment cycle. Consumables had a very strong year as a result of initiatives in customer service, product development and investments in manufacturing of specialist high added value products. Market share increased during the year and consolidated Esab's position as market leader.

European economic activity in 1996 generally remained unchanged on the previous year, but there were significant variations by country. In Central Europe, economic activity in Germany and France was disappointing with no real upturn in the market. Performance in Eastern Europe was mixed; Hungary continued to perform well, but results in the Czech Republic were disappointing. Denmark suffered during the first half of the year from difficulties in the shipyards, as was the case in Finland. Markets in Norway and Southern Europe (particularly Italy) were buoyant and the United Kingdom remained robust throughout the year.

In order to maintain the cost competitiveness of Esab in Europe, action was taken during the year to close the consumables factory in



The PANDROL FASTCLIP rail fastening system offers economic advantages to railways.

Instead of requiring up to three teams of men to place individual components, the system is pre-assembled on the sleeper prior to arriving on track and only requires a single operation to switch it into place.

Solingen, Germany and transfer the production to other factories in East and West Europe. The closure was announced in September 1996 with final closure expected in April 1997. In addition, it was announced in February 1997 that the 'L-TEC' brand equipment manufacturing and sales company at Wissen, Germany would be closed in order to improve efficiency and focus attention and resources on the core Esab equipment business.

In order to ensure that the business continues to anticipate and respond rapidly to changing market and economic conditions, the Esab management team has been strengthened through the appointment of a new Managing Director for Esab Europe, Per Svantesson. Formerly President and Managing Director of the Automotive Division of Valeo in North America, he was born and educated in Sweden. Per has a broad base of operational management skills gained from his extensive working experience in Europe and the Americas with Valeo, Electrolux, Volvo and Perstorp.

#### NORTH AMERICA

The North American economy enjoyed another positive year in 1996, but the period proved challenging principally due to increased competitive pressure on prices and consolidation of market distribution channels. Against this background, Esab North America

achieved an excellent result, with increases in both operating profits and margin.

1996 turnover once again moved ahead, with buoyant performance in both Canada and Mexico. In 1995 all North American brands were successfully combined under the yellow and black Esab masterbrand. The brand unification has been followed by the building of brand awareness in the marketplace. Stronger brand awareness, improved levels of customer service, reductions in costs of distribution (which can account for up to 30 per cent of North American product costs) and investments in high added value products, have enabled Esab to improve financial performance and at the same time maintain its market position despite increased competition.

#### SOUTH AMERICA

1996 saw the achievement of a major strategic initiative with the announcement in September of a joint venture between Esab SA Industria e Comércio (Esab Brazil) and Conarco Alambres y Soldaduras S.A. (Conarco), the leading producer of welding consumables in Argentina (further details can be found in note 20 to the accounts on page 37). The combined business (in which Esab has management control) gives Esab a strong presence in another South American country. Rapid action has been taken to integrate the two businesses and benefits will flow through in 1997.

Turnover in 1996 increased by 17.5 per cent, largely as a result of the inclusion of Argentinean sales from the joint venture in the last four months. Underlying sales in Brazil were flat compared to the previous year with a slower than expected recovery in economic activity in the second half due to political uncertainty. Economic activity in Argentina recovered strongly in the second half and is forecast to remain buoyant in 1997.

#### ASIA/PACIFIC

1996 was a difficult trading year, but also an important one in the development of the business as a significant contributor to future growth for Esab.

Turnover fell by 6.7 per cent compared with 1995 as a result of delayed funding for contracts in China, the appreciation of the Swedish krona affecting the competitiveness of equipment imported from Europe and specific conditions in key markets.

Singapore performed well, despite a slow down in the ship repair yards caused by high labour costs. Thailand suffered from an unstable political situation and Esab Australia faced strong domestic competition. On the positive side, India once again enjoyed an excellent year for growth and increased market share, with Indonesia and Malaysia also performing well.

A number of strategic actions have been taken to exploit the future growth in the region. Investments have been committed to increase regional manufacture with a new £5 million electrode plant in Indonesia and a new manufacturing site in Korea, together with the acquisition of a stainless steel electrode business, again in Korea. An expanded Chinese sales office has been established and has already generated a strong order book. Equipment supply sources have been expanded to include products from Esab India, Esab North America and Esab South America to reduce the reliance on higher cost European supply.

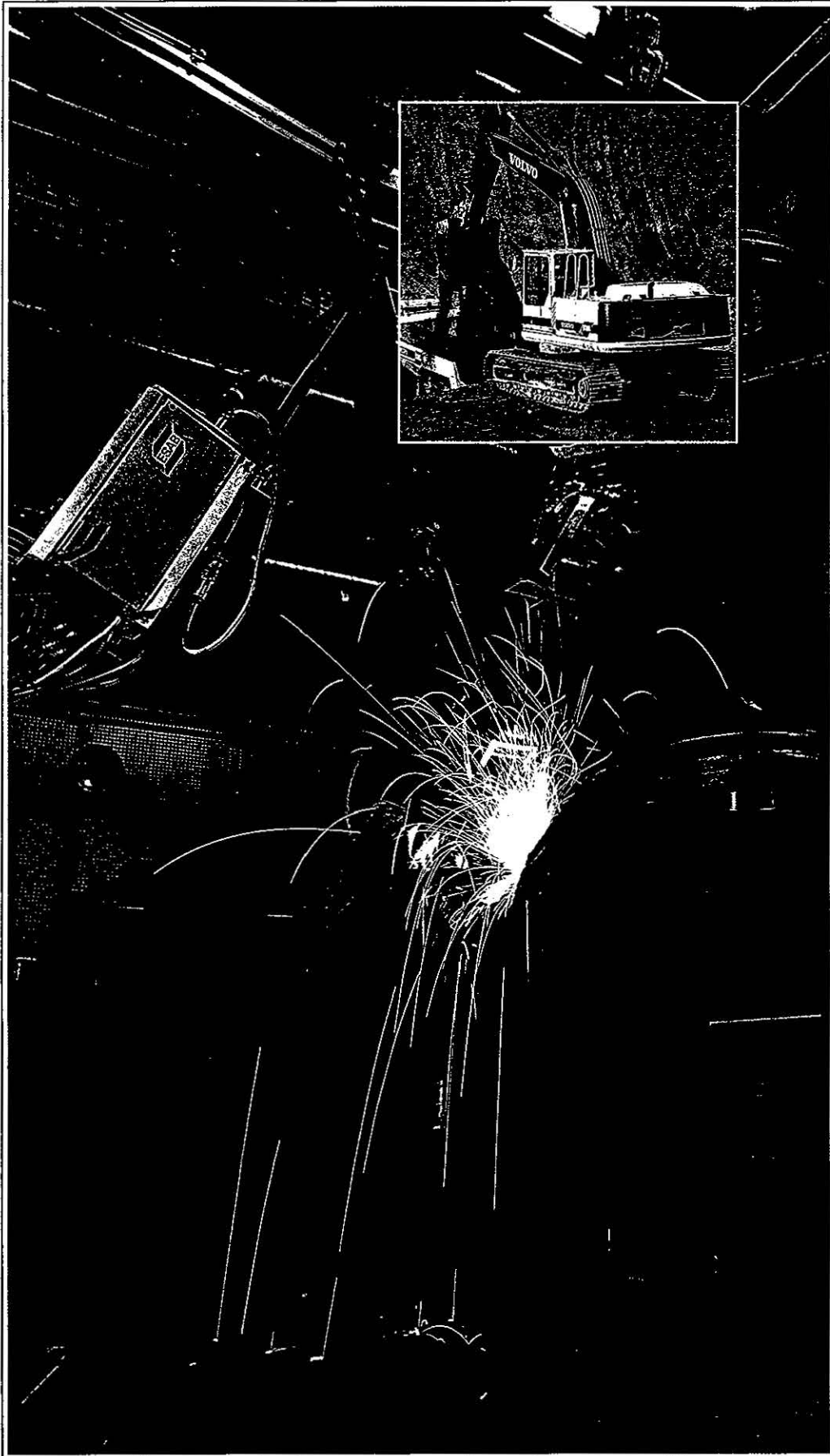
Investment in management and technical resources has also been committed with the appointment of Ian Robb as the new Managing Director.

#### CUTTING SYSTEMS

Esab Cutting Systems had a challenging year characterised by mixed demand across world markets.

Turnover was flat compared to the previous year, which reflected the competitive nature of the market during 1996 and the positive impact in 1995 of the completion of a large order from Russia.

The United States market was very strong on the back of buoyant demand from the machine



Welding is essential to the construction of large off-road vehicles such as excavators and dumpers that are subjected to enormous stresses. Shown here is the construction of the bucket for the Volvo EC390 excavator, using Eiseb welding equipment and consumables.

tool sector, whilst in Europe the market was somewhat weaker. The German market was particularly weak and sales in Eastern Europe were disappointing. This was partly offset by strength in other Western European markets, notably the United Kingdom, which remained buoyant for the second year running. In Asia/Pacific (a leading export market) sales were in line with the previous year.

#### WORKING ENVIRONMENT EQUIPMENT

Nederman results for the year were disappointing with turnover advancing by 4.0 per cent, but operating margins falling due to increased costs caused by the appreciation of the Swedish krona and weakness in the German market.

Within Germany, a restructuring process was implemented during the year with a complete redesign of the organisation and the appointment of new management. The Norfi exhaust extraction business in Ratekau, Germany, was closed in December and the operation moved to the recently acquired Norfi Umwelttechnik facility in Stuttgart.

Actions taken during the year designed to return the company to previous levels of growth include investment in marketing and technical

resources, new product introduction and the opening of new sales subsidiaries in a number of emerging markets.



Nederman capture at source equipment extracts contaminated air before it can be inhaled.

Shown here is the Nederman 5000 fume and dust extraction unit.



Nigel Robson *Finance Director*

Charter is an international group of businesses with leading market positions serving industrial customers.

The group's continuing businesses are focused on the rail track and welding industries, with operations throughout the world. Welding products are distributed to customers from a wide range of industries, including transport, offshore, shipbuilding, power, process and construction. This diversity of activity means that risks to the group are well spread. Local risks continue to be actively managed by each operation, to ensure that they are minimised wherever possible.

## RESULTS

Despite generally less favourable economic conditions and strong competitive pressures both in Europe and North America, the underlying strength of the business has contributed to another good set of results. Turnover from continuing operations at £883.4 million was 3.4 per cent ahead of last year with operating profit from continuing operations up 3.3 per cent at £92.7 million.

The year was marked by the sale of the group's 65.3 per cent investment in Cape PLC in July, which resulted in an exceptional loss on disposal, of £50 million after the write-back of goodwill previously written-off to reserves. Excluding the loss on disposal of Cape,

underlying earnings per share were 70.9 pence, an increase of 5.2 per cent over 1995.

## INTEREST

Net interest payable fell to £1.0 million from £6.2 million in 1995. The group's cash position continued to improve in 1996. At the year end the group had net funds of £36.5 million compared to net debt of £38.7 million at the end of 1995.

## TAXATION

The effective tax rate for the year, excluding exceptional items, was 30 per cent, a reduction from 32 per cent in the previous year. Tax rates have reduced significantly in Brazil. The group benefits from the active management of tax positions around the world and the present rate of tax for the existing businesses should not be exceeded and could fall further in the foreseeable future.

## CASH FLOW

The group continues to generate a positive cash flow, with strong emphasis placed on the importance of cash management throughout the business. Capital expenditure has been maintained in line with depreciation. Acquisitions include the purchase of the outstanding minority interest in the group's North American welding operation for £11.2 million. The sale of the group's investment in Cape PLC generated £47.7 million net of expenses.

## CASH MANAGEMENT

Net funds as at 31 December 1996 can be summarised as follows:

	£m
Cash and deposits	<b>155.6</b>
Short term debt	<b>(47.8)</b>
Long term debt	<b>(71.6)</b>
Investments - listed	<b>0.3</b>
	<b>36.5</b>

Cash and deposits are invested in low risk investments and bank deposits approved by the Funding & Audit Committee. The long term debt principally represents US Dollar denominated loan notes issued to hedge the group's US investments.

In addition to the net funds at the year end, the group had undrawn committed facilities in excess of £260 million. The group does not have any unduly restrictive covenants governing any of its borrowing agreements.

**SHAREHOLDERS' FUNDS**

The board has proposed an increased final dividend of 20.5p, which together with the enlarged interim dividend of 9.0p, gives a total dividend for the year of 29.5p compared to 27.5p in 1995, an increase of 7.3 per cent. After allowing for exceptional items, the dividend is covered 2.4 times.

Shareholders' funds increased in the year to £217.7 million from £200.1 million. Of the increase the retained profit for the year, after adding back the £50 million of goodwill associated with the sale of Cape PLC, was £36.0 million. The success of the group's scrip dividend alternative has added £7.2 million to shareholders' funds. These increases were partially offset by the goodwill of £12.6 million associated with the acquisition of the outstanding minority interest in the group's North American welding operation, which was disclosed as a post balance sheet event last year, and the net effect of the translation of currencies of £13.0 million. This translation loss reflects the strength of sterling at the year end.

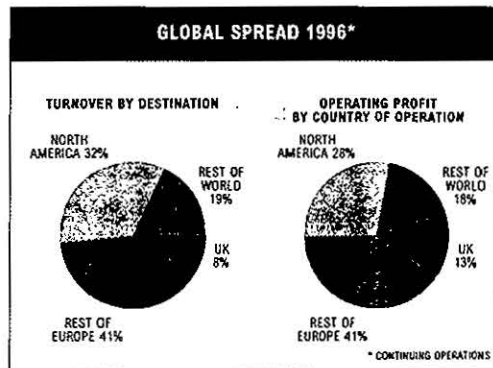
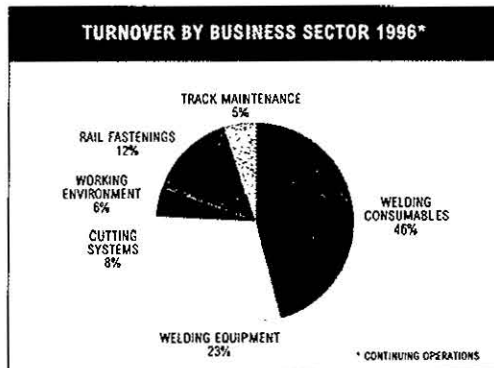
**TREASURY**

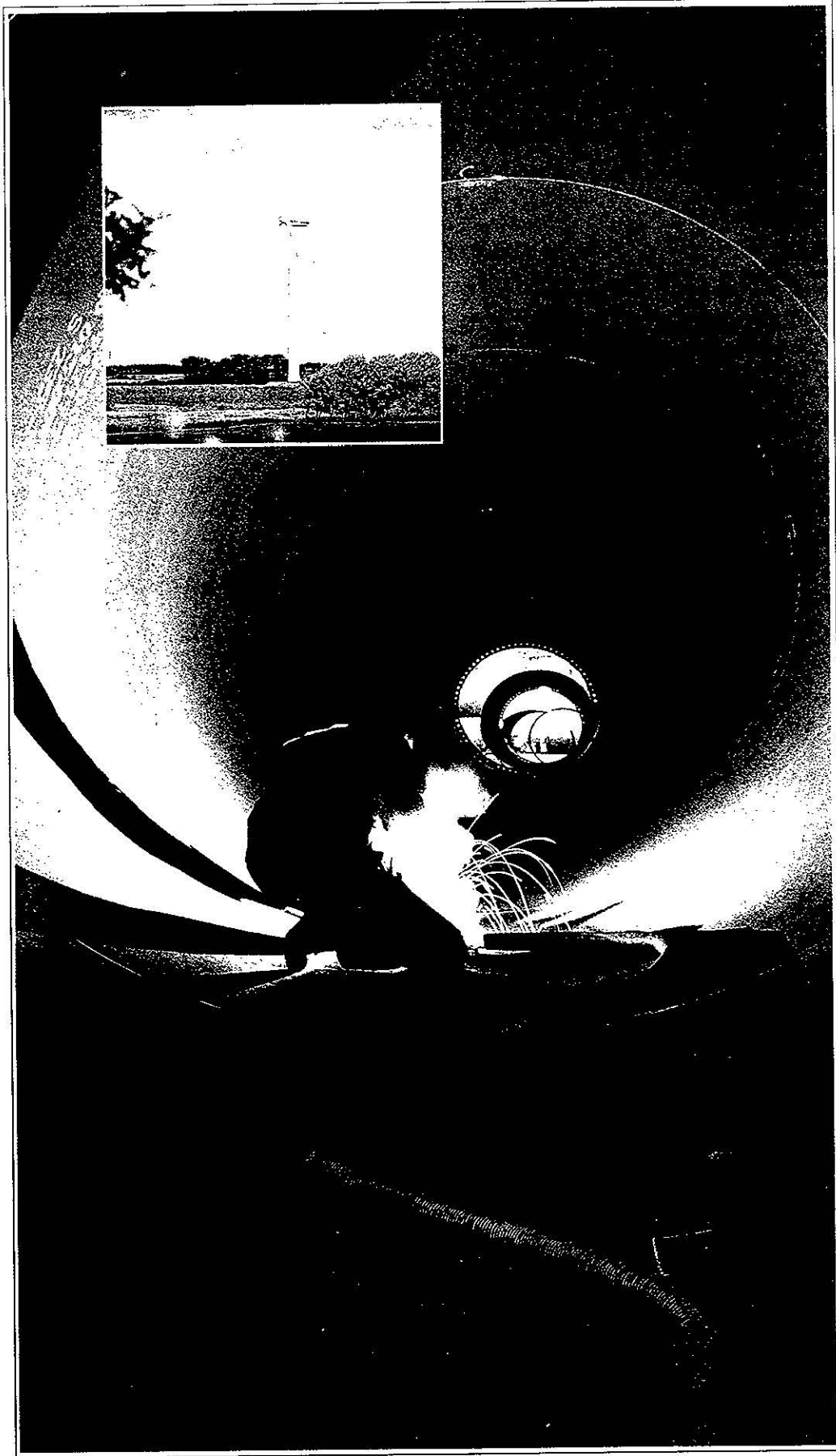
The group maintains a policy of managing its exposure to foreign currencies by hedging a significant proportion of the group's balance sheet and transaction exposures. The group does not hedge its exposure to the translation of foreign currency profits. The most common method of hedging transaction exposures is by the use of forward foreign exchange contracts. Where balance sheet exposures are hedged, this is most commonly achieved by matching overseas net assets with borrowings in the relevant currencies.

Interest rate and foreign currency exposures are monitored closely and a prudent risk management policy is applied. The group does not attempt to profit from its hedging activities.

**ACCOUNTING POLICIES**

The accounts have been prepared using the same accounting policies adopted in previous years. The disclosures required by Financial Reporting Standard 8 on related party transactions appear in Note 3. In accordance with best practice, the group has adopted early the revised Financial Reporting Standard 1 on Cash Flow Statements and has included a reconciliation of the movement in minority interests in Note 24.





The number of  
connections for the main  
network is less than a  
large transmission  
station. This is the  
construction of the tower  
for the Texas A&M, a 220-  
kilovolt and terminal  
stands some 30 meters  
high, using Esab welding  
equipment and  
consumables.

## BOARD OF DIRECTORS

### **J W HERBERT**

*Chairman, Chief Executive and Nominations Committee (54)*

He was appointed Chief Executive in 1990 having joined Charter in 1985 from the General Electric Company. He was formerly a director of Jaguar Rover Triumph. He is a director of Vickers and M&G Recovery Trust.

### **M G TAYLOR CBE**

*Non-executive Deputy Chairman, Funding & Audit, Remuneration and Nominations Committees (62)*

He joined Charter as a director in 1995 and was formerly Vice Chairman of Hanson. He is a director of Vickers, National Westminster Bank and Millennium Chemicals Inc.

### **P W ALLEN**

*Non-executive director, Funding & Audit, Remuneration and Nominations Committees (58)*

He joined Charter as a director in 1994 and was formerly Deputy Chairman of Coopers & Lybrand. He is a director of The Post Office and Schroder Ventures Group.

### **N A JOHNSON OBE**

*Non-executive director, Funding & Audit, Remuneration and Nominations Committees (47)*

He joined Charter as a director in 1994. He is Chief Executive of the RAC, following a career in the motor and general engineering industries. He was formerly Director-General of the Engineering Employers Federation.

### **J M NEILL CBE**

*Non-executive director, Funding & Audit, Remuneration and Nominations Committees (49)*

He joined Charter as a director in 1994. He is Group Chief Executive of the Unipart Group of companies and a director of the Bank of England.

### **N E ROBSON**

*Finance Director (51)*

He joined Charter in 1990 as Finance Director. He was formerly Corporate Finance Director at the Burton Group and Finance Director of London Brick. He is a director of BTP.

### **N W R SMITH**

*Chief Operating Officer (42)*

He was appointed Chief Operating Officer in 1995, having previously been Managing Director of Pandrol. He was formerly Managing Director of GEC-Marconi Electronics.

## NON-EXECUTIVE DIRECTORS

**Martin Taylor CBE**



**Peter Allen**



**Neil Johnson OBE**



**John Neill CBE**



## CORPORATE GOVERNANCE

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The directors confirm that the Company has complied throughout the year with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance.

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### INTERNAL FINANCIAL CONTROL

The board of directors has overall responsibility for the group's system of internal financial control and the Funding & Audit Committee has been delegated formal responsibility for reviewing the effectiveness of the system of internal financial control.

The processes to manage the key risks to the success of the group are reviewed and improved as necessary. The board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority and there are also established procedures for monitoring the group's

businesses. While the operational control of the group is decentralised and responsibility is delegated, the operations are subject to the overall group internal financial control framework. This, by its nature, can provide only reasonable but not absolute assurance against material misstatement or loss. The board confirms it has carried out a review of the effectiveness of the group's internal financial control framework as it operated during the year.

This framework can be described under the following headings:

### FINANCIAL REPORTING

There is a comprehensive planning and budgeting system, with the annual budget being approved by the board. Monthly results are reported against budget and revised forecasts for the full accounting period are prepared regularly as necessary.

### FUNDS AND DEBT REPORTING

Great importance is placed on the monitoring and control of cash flows. Regular and frequent reports in varying degrees of detail are prepared and acted upon.

### OPERATING UNIT CONTROLS

Operating divisions complete annually self-certification internal financial control questionnaires confirming that appropriate controls are in place and functioning properly. The results of this process are reviewed by the Funding & Audit Committee and, where potential problems are identified, appropriate actions are taken.

### CAPITAL EXPENDITURE

Detailed appraisal and authorisation of capital expenditure is performed centrally and forms a part of the annual budgeting process, the results of which are then adapted to respond to changing circumstances during the accounting period.

### GOING CONCERN AND CURRENT LIQUIDITY

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

# AUDITORS' REPORTS

## REPORT OF THE AUDITORS TO THE MEMBERS OF CHARTER plc

We have audited the accounts on pages 21 to 42 including the information appearing under directors' remuneration in the report of the Remuneration Committee on pages 17 to 19.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 13 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

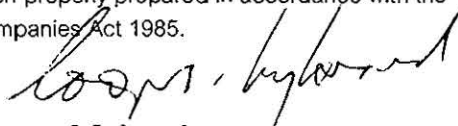
### BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the group at 31 December 1996 and of the result, total recognised gains, and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Coopers & Lybrand**

*Chartered Accountants and Registered Auditors*

London

17 March 1997

## REPORT BY THE AUDITORS TO CHARTER plc ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the accounts, we have reviewed the directors' statements on page 13 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

### BASIS OF OPINION

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures, nor on the ability of the group or Company to continue in operational existence.

### OPINION

With respect to the directors' statements on internal financial control and going concern on page 13, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 13 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).



**Coopers & Lybrand**

*Chartered Accountants*

London

17 March 1997

# DIRECTORS' REPORT

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## ACTIVITIES AND REVIEW OF OPERATIONS

The Operating Review on pages 4 to 8 and Financial Review on pages 9 and 10 outline the activities and operations of the group.

## DIVIDENDS AND SCRIP DIVIDEND ALTERNATIVE

The directors have recommended a final dividend of 20.5 pence which, with the interim dividend of 9.0 pence paid in November 1996, makes a total for the year of 29.5 pence per share compared with 27.5 pence for the comparative period. £26.0 million has been provided for the payment of these dividends.

Payment of the recommended final dividend, if approved at the annual general meeting, will be made on 23 May 1997 to shareholders registered at the close of business on the South African branch register on 20 March 1997 and on the United Kingdom register on 3 April 1997.

In accordance with the authority given at the 1995 annual general meeting, the directors have determined that a scrip alternative to the final dividend will be offered to shareholders who so elect. The terms of the scrip alternative will be more fully described in a circular to be posted to shareholders on or about 10 April 1997.

It is proposed that the authority given at the 1995 annual general meeting to implement a scrip dividend scheme be extended for a further period of two years. This would apply, if the directors so determine, to future dividends which may be paid or declared by the Company up to and including the annual general meeting of the Company to be held in 1999. This authority to your directors is to be proposed by way of a special resolution at the forthcoming annual general meeting (see resolution 7 in the Notice of Meeting).

## DIRECTORS

A list of the directors of the Company appears on page 12 and their interests in the shares of the Company are shown on page 19.

Mr Robson and Mr Allen retire by rotation and offer themselves for reappointment. Mr Robson is an executive director. Mr Allen is a non-executive director and is a member of the Funding & Audit, Remuneration and Nominations Committees.

No director had any interest in any contract with the companies in the group at any time during the period, other than service contracts.

## AUTHORITY TO ALLOT SHARES AND DISAPPLICATION OF PRE-EMPTION RIGHTS

The articles of association of the Company place unissued shares generally at the disposal of the directors but, under the provisions of the Companies Act 1985, directors cannot allot any new shares until they have shareholders' authority to do so. Whilst they have no present intention of utilising such authority (other than with respect to the scrip dividend alternative and the issue of shares upon the exercise of share options), your directors wish to renew, for a further year, the general authority granted to them on 29 April 1996. Approval of shareholders will be sought at the annual general meeting by the passing of an ordinary resolution (resolution 5) whereby your directors will be authorised to allot authorised but unissued ordinary shares of the Company, up to a total of 19,685,522 shares representing approximately 22.3 per cent of the issued share capital. This new authority will expire at the 1998 annual general meeting.

Shareholders are being invited, subject to the aforementioned resolution being approved, to authorise the directors to allot equity securities in respect of rights issues or otherwise for cash other than to existing shareholders up to an amount equal to 5 per cent of the issued share capital of the Company at 31 December 1996 (namely in respect of 4,408,450 shares), the level permitted by the current guidelines of the investment committees of the Association of British Insurers and the National Association of Pension Funds. A resolution to this effect (resolution 6), which will be proposed as a

special resolution, is set out in the notice of meeting. This authority will expire at the 1998 annual general meeting or, if earlier, 1 August 1998.

#### EMPLOYEES

Charter's policy is to encourage effective communication and consultation between employees and management. Subsidiary undertakings develop their own consultative and communication procedures as part of their employment practices.

Charter and its subsidiary undertakings give full consideration to applications for employment made by disabled people, having regard to their aptitudes and abilities. Should employees become disabled during employment they would be considered for any necessary retraining and available work within their capabilities. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees.

#### CREDITOR PAYMENT POLICY

Charter's creditor payment policy is to reflect the local practice in the countries in which it operates - standard payment terms in each country may also be varied by negotiation with individual suppliers. It is Charter's policy to settle in accordance with agreed terms.

#### CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the group made charitable contributions of £314,000 and a political contribution of £30,000 was made in the United Kingdom to the Conservative Party.

#### RESEARCH AND DEVELOPMENT

The companies in the group continue to place strong emphasis on research and development to meet the changing needs of the markets they serve. Research and development expenditure totalled £11.0 million for the year.

#### SUBSTANTIAL SHAREHOLDINGS

The Company has not been notified of any substantial shareholding in the Company's issued share capital.

#### CAPITAL GAINS TAX

For capital gains tax purposes, the deemed market price of the Company's shares on 6 April 1965, adjusted for the effect of restructuring the group in 1979 and the rights issue in 1994, was:

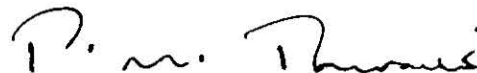
Registered shares	66.00p
Shares represented by renounceable letters of allotment	66.83p
Share warrants to bearer	66.42p

For capital gains tax purposes the deemed market value of the Company's registered and bearer shares on 31 March 1982 was 205.73p.

For capital gains tax purposes the deemed market value of the scrip dividend allotments were:

#### Scrip alternative:

- to 1994 final dividend	890.00p
- to 1995 interim dividend	829.00p
- to 1995 final dividend	966.00p
- to 1996 interim dividend	788.50p



**By order of the board**

P M Thwaite Secretary  
17 March 1997

#### Registered office

7 Hobart Place  
London SW1W 0HH  
Registered in England  
Number 2794949

# REPORT OF THE REMUNERATION COMMITTEE

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The Company aims to attract, motivate and retain high calibre executives by ensuring their rewards are competitive and linked to both individual and business performance. Directors' remuneration is reviewed each year to ensure that they are supportive of the Company's business objectives and the creation of shareholder value.

The Company complies fully with Section A of the best practice provisions annexed to the London Stock Exchange's Listing Rules regarding remuneration committees and has given full consideration to Section B.

## DIRECTORS' REMUNERATION

### SALARY & FEES

Two executive directors have waived their directors' fees from a subsidiary undertaking. Fees waived by these directors during the year amounted to £900 (1995 - one director - £600).

### BENEFITS

The principal benefits provided to a director are a fully expensed car or a cash supplement alternative and medical insurance for the director and his immediate dependants.

### PROFIT SHARING SCHEMES

The executive directors participate in the Approved Profit Participation Share Scheme (approved under the 1988 Income and Corporation Taxes Act) and the Inland Revenue Approved Profit Related Pay Scheme operated by Charter Central Services Limited. These schemes are open to all corporate staff. Awards of shares under the Share Scheme are dependent on achievement of profit before taxation, adjusted for the rise in the retail price index, in excess of the average of the adjusted profit for the previous three years. The maximum permitted payments were made under each of these (1995 - the maximum was paid).

### ANNUAL PROFIT RELATED INCENTIVE SCHEME

The Remuneration Committee set performance targets, both personal and corporate, for each of the executive directors. The corporate target was based on the level of profit before interest and taxation achieved by the operating businesses relative to the agreed annual budget at the beginning of the year. The bonus, which is a cash payment, is payable on a sliding scale being 0 - 40 per cent of base

salary. The budget was achieved and each executive director other than C H Parker was entitled to a 20 per cent bonus under the scheme. (1995 - 30 per cent was paid to each executive director other than N W R Smith who joined the board in December 1995.) J W Herbert and N E Robson sacrificed 100 per cent of their bonus entitlements in lieu of the Company making a contribution to a Funded Unapproved Retirement Benefit Trust. This contribution is shown as a benefit in the remuneration table below.

### NOTIONAL SHARE OPTION SCHEME

There was a notional share option scheme which awarded cash payments based on the rise in the Company's share price after a given period. This scheme is now closed. The only outstanding liability under this scheme relates to 3,399 options held by N E Robson with an exercise price of 510p.

### PENSIONS

The executive directors are members of the non-contributory Charter pension scheme that provides salary related benefits only. The scheme is currently in surplus and no company contributions are being paid.

N E Robson's and N W R Smith's pension benefits are restricted in accordance with the 1989 Finance Act. N E Robson has, in addition to his interests in the scheme, an unfunded pension promise for which the profit and loss charge for the year was £57,000 (1995 - £49,000). N W R Smith is entitled to a supplement to salary to allow him to invest privately to provide additional pension income above that which he will receive from the scheme. However, the return on such private investment is not guaranteed. In respect of 1996 N W R Smith sacrificed his entitlement to the supplement in lieu of the Company making a contribution to a Funded Unapproved Retirement Benefit Scheme. The gross contribution is included within the remuneration table below.

Sir Michael Edwardes, whose appointment as Chairman of the Company was not pensionable, received a once only superannuation gratuity of £18,000 which is included within the remuneration table below.

CONTRACTS

The Company believes that it is in shareholders' interests to attract and retain high calibre executives and that two year contracts are important in this regard. Therefore, the executive directors each have two year rolling contracts.

DIRECTORS' EMOLUMENTS

	SALARY & FEES £000	BENEFITS £000	PROFIT SHARING SCHEMES £000	PROFIT RELATED INCENTIVE SCHEME £000	NOTIONAL SHARE OPTION SCHEME £000	TOTAL 1996 £000	TOTAL 1995 £000
Executive:							
J W Herbert (Chairman from 30 April 1996 and highest paid director)	336	102	12	-	72	522	479
C H Parker (resigned 31 December 1996)	202	16	12	-	-	230	202
N E Robson	186	62	12	-	-	260	240
N W R Smith	218	47	4	50	-	319	18
	942	227	40	50	72	1,331	939
Non-executive:							
Sir Michael Edwardes (Chairman until resignation on 29 April 1996)	43	5	-	-	-	48	79
P W Allen	20	-	-	-	-	20	16
D E Cook (resigned 31 December 1996)	32	-	-	-	-	32	27
N A Johnson	20	-	-	-	-	20	16
J M Neill	20	-	-	-	-	20	16
M G Taylor	40	-	-	-	-	40	3
	175	5	-	-	-	180	157
Total	1,117	232	40	50	72	1,511	1,096

## SHARE OPTIONS AND INTERESTS IN SHARES

Each year the executive directors are eligible for grants of options under either the Inland Revenue Approved Executive Share Option Scheme or the Unapproved Executive Share Option Scheme. Options are granted at the current market price and are normally exercisable between three and ten years after the grant. The exercise of options granted since July 1994 is subject to the achievement of a performance target. The current target is that the growth in earnings per share must exceed the increase in the retail price index by one and a half per cent over a consecutive period of three years.

The interests of directors in shares and share options of the Company, all of which are beneficial interests, are as follows:

	SHARES		NUMBER OF SHARE OPTIONS				OPTIONS EXERCISE PRICE PER SHARE	OPTIONS EXERCISEABLE BETWEEN	
	01.01.96	31.12.96	01.01.96	GRANTED	EXERCISED	31.12.96			
Executive:									
J W Herbert	20,264	21,967	14,108			14,108	475p	24.08.95	23.08.02
			18,005			18,005	613p	05.07.96	04.07.03
			51,203			51,203	741.2p	16.08.97	15.08.04
			12,332			12,332	892p	27.09.98	26.09.05
					62,459	62,459	920.6p	27.06.99	26.06.06
			<u>95,648</u>		<u>62,459</u>	<u>158,107</u>			
C H Parker	11,521	12,697	9,391		(9,391)		475p		
			3,400		(3,400)		613p		
			19,731			19,731	741.2p	16.08.97	30.06.00
			10,090			10,090	892p	27.09.98	30.06.00
					27,156	27,156	920.6p	27.06.99	30.06.00
			<u>42,612</u>		<u>(12,791)</u>	<u>56,977</u>			
N E Robson	11,562	12,910	6,570			6,570	475p	24.08.95	23.08.02
			4,505			4,505	613p	05.07.96	04.07.03
			31,453			31,453	741.2p	16.08.97	15.08.04
			11,211			11,211	892p	27.09.98	26.09.05
					27,156	27,156	920.6p	27.06.99	26.06.06
			<u>53,739</u>		<u>27,156</u>	<u>80,895</u>			
N W R Smith	Nil	1,000	18,116			18,116	828p	15.05.98	14.05.05
					54,312	54,312	920.6p	27.06.99	26.06.06
			<u>18,116</u>		<u>54,312</u>	<u>72,428</u>			
Non-executive:									
P W Allen	1,028	1,069							
D E Cook	625	625							
N A Johnson	Nil	1,000							
J M Neill	2,732	2,732							
M G Taylor	875	875							

The share price on 31 December 1995 was 863p and on 31 December 1996 was 740.5p. The high price for the year was 972p and the low 728p. The market price at the date C H Parker exercised his options was 846.5p.

There was no change in the interests of current directors between 31 December 1996 and 7 March 1997, being one month prior to the date of the notice of the annual general meeting.

# FINANCIAL RECORD

	YEAR ENDED DECEMBER 1996 £M	YEAR ENDED DECEMBER 1995 £M	NINE MONTHS ENDED DECEMBER 1994 £M	PROFORMA YEAR ENDED MARCH 1994 £M	PROFORMA YEAR ENDED MARCH 1993 £M
<b>TURNOVER</b>					
Continuing operations	<b>883.4</b>	854.0	359.2	134.5	116.1
Discontinued operations	<b>116.5</b>	273.7	309.7	411.3	1,088.7
	<b>999.9</b>	1,127.7	668.9	545.8	1,204.8
<b>PROFIT</b>					
<b>OPERATING PROFIT</b>					
Continuing operations	<b>92.7</b>	89.7	41.5	15.1	16.4
Discontinued operations	<b>4.3</b>	14.0	14.2	18.7	43.7
	<b>97.0</b>	103.7	55.7	33.8	60.1
<b>NON-OPERATING EXCEPTIONAL ITEMS</b>					
Discontinued operations	<b>(50.0)</b>	-	-	2.4	217.5
Net interest	<b>(1.0)</b>	(6.2)	(0.9)	13.9	11.6
Profit before taxation	<b>46.0</b>	97.5	54.8	50.1	289.2
Profit after taxation	<b>17.2</b>	66.3	35.8	33.8	261.8
Profit for the period	<b>12.0</b>	58.2	30.8	30.3	257.5
Dividends	<b>(26.0)</b>	(23.8)	(15.4)	(15.4)	(23.3)
Retained (deficit)/profit	<b>(14.0)</b>	34.4	15.4	20.6	234.2
<b>BALANCE SHEET</b>					
Tangible fixed assets	<b>153.1</b>	213.3	264.7	156.2	162.0
Fixed asset investments	<b>16.1</b>	17.8	9.3	-	7.7
Net current assets excluding net funds/(debt)	<b>154.4</b>	173.3	247.1	130.1	107.8
Long term creditors and provisions	<b>(118.9)</b>	(130.6)	(131.0)	(49.0)	(48.6)
Operating net assets	<b>204.7</b>	273.8	390.1	237.3	228.9
Net funds/(debt)	<b>36.5</b>	(38.7)	(184.1)	158.7	384.5
	<b>241.2</b>	235.1	206.0	396.0	613.4
Shareholders' funds	<b>217.7</b>	200.1	159.6	369.1	586.0
Minority interests	<b>23.5</b>	35.0	46.4	26.9	27.4
	<b>241.2</b>	235.1	206.0	396.0	613.4
Earnings per share - headline	<b>13.7p</b>	67.5p	39.4p	35.0p	233.2p
Earnings per share - underlying	<b>70.9p</b>	67.5p	39.4p	33.8p	40.8p
Dividends per share	<b>29.5p</b>	27.5p	18.0p	22.5p	22.0p
Dividend cover	<b>2.4</b>	2.5	2.0	2.0	11.0
Shareholders' funds per share	<b>247p</b>	230p	186p	540p	553p

The proforma figures are the results for a full year ended 31 March. These are presented to provide, despite the consequences of the Scheme of Arrangement in 1993 that resulted in Charter plc acquiring Charter Consolidated P.L.C., an unbroken annual record of the group's operations.

The prior years' net funds/(debt) figures have been restated to include current asset investments as these meet the definition of liquid resources in Financial Reporting Standard 1 (Revised).

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1996

Note	1996 £M	1995 £M
<b>2&amp;3 TURNOVER</b>		
Continuing operations	<b>883.4</b>	854.0
Discontinued operations	<b>116.5</b>	273.7
	<b>999.9</b>	1,127.7
<b>2&amp;3 OPERATING PROFIT</b>		
Continuing operations	<b>92.7</b>	89.7
Discontinued operations	<b>4.3</b>	14.0
	<b>97.0</b>	103.7
<b>4 NON-OPERATING EXCEPTIONAL ITEMS</b>		
Sale of discontinued operations	<b>(50.0)</b>	-
Profit on ordinary activities before interest	<b>47.0</b>	103.7
<b>5 Net interest</b>	<b>(1.0)</b>	(6.2)
<b>2&amp;3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>46.0</b>	97.5
<b>6 Tax on profit on ordinary activities</b>	<b>(28.8)</b>	(31.2)
	<b>17.2</b>	66.3
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		
<b>24 Minority interests – equity interests</b>	<b>(5.2)</b>	(8.1)
Profit for the financial year	<b>12.0</b>	58.2
<b>10 Dividends – equity</b>	<b>(26.0)</b>	(23.8)
<b>23 Retained (deficit)/profit for the financial year</b>	<b>(14.0)</b>	34.4
<b>11 EARNINGS PER SHARE</b>		
Headline	<b>13.7p</b>	67.5p
Underlying	<b>70.9p</b>	67.5p

The notes on pages 26 to 42 form part of these accounts.

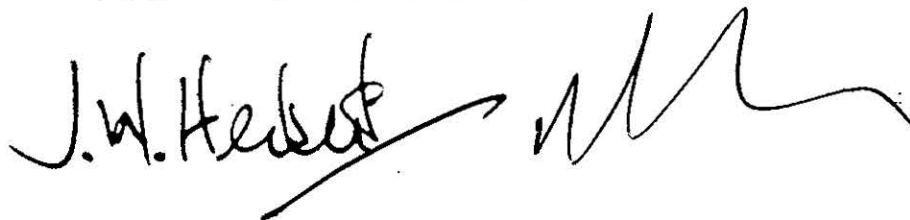
# CONSOLIDATED BALANCE SHEET

31 December 1996

Note	1996 £M	1996 £M	1995 £M	1995 £M
<b>FIXED ASSETS</b>				
12		<b>153.1</b>		213.3
13		<b>16.1</b>		17.8
		<b>169.2</b>		231.1
<b>CURRENT ASSETS</b>				
14	<b>128.1</b>		162.9	
15	<b>216.8</b>		259.8	
		<b>0.3</b>	1.4	
16	<b>155.6</b>		158.3	
	<b>500.8</b>		582.4	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
17	<b>(190.5)</b>		(249.4)	
18	<b>(47.8)</b>		(116.2)	
	<b>(238.3)</b>		(365.6)	
<b>NET CURRENT ASSETS</b>		<b>262.5</b>		216.8
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>431.7</b>		447.9
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>				
		<b>(1.2)</b>		(0.2)
18		<b>(71.6)</b>		(82.2)
19	<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		<b>(117.7)</b>	(130.4)
		<b>241.2</b>		235.1
<b>CAPITAL AND RESERVES</b>				
22		<b>1.8</b>		1.7
23		<b>4.7</b>		3.4
23		<b>112.9</b>		126.9
23		<b>98.3</b>		68.1
<b>SHAREHOLDERS' FUNDS - EQUITY INTERESTS</b>		<b>217.7</b>		200.1
24		<b>23.5</b>		35.0
		<b>241.2</b>		235.1

Approved by the board of directors on 17 March 1997

**J W Herbert** Director    **N E Robson** Director



The notes on pages 26 to 42 form part of these accounts.

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 1996

Note	1996 £M	1996 £M	1995 £M	1995 £M
25(i)	<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>85.6</b>	124.5
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
	Interest received	12.3	19.1	
	Interest paid	(15.2)	(19.6)	
	Interest element of finance lease rental payments	(1.2)	(1.3)	
	Dividends paid to minority interests	(3.2)	(6.1)	
		(7.3)		(7.9)
	<b>TAXATION PAID</b>	<b>(15.7)</b>		<b>(24.0)</b>
	<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
	Purchase of tangible fixed assets	(28.5)	(29.4)	
	Sale of tangible fixed assets	1.0	7.3	
	(Purchase)/sale of fixed asset investment	(0.6)	43.1	
		(28.1)		21.0
	<b>ACQUISITIONS AND DISPOSALS</b>			
	Purchase of minority interest in ESAB Corporation	(11.2)	-	
	Sale of subsidiary undertakings	47.7	73.0	
	Net debt/(cash) disposed of/acquired with subsidiary undertakings	24.8	(1.4)	
	Deferred cash consideration in respect of transactions of previous periods	-	0.4	
		61.3		72.0
	<b>EQUITY DIVIDENDS PAID</b>			
	Dividends paid to shareholders	(17.2)		(19.4)
	Cash inflow before use of liquid resources and financing	<b>78.6</b>		166.2
	<b>MANAGEMENT OF LIQUID RESOURCES</b>			
	Decrease/(increase) in other cash at bank and in hand not included above	6.4	(8.4)	
	Sales/(purchases) of current asset investments	1.1	(0.7)	
		7.5		(9.1)
	<b>FINANCING</b>			
	Issue of share capital	1.4	3.0	
	Decrease in short-term borrowings other than those repayable on demand	(29.2)	(156.2)	
	Decrease in long-term borrowings	-	(10.3)	
	Capital element of finance lease rental payments	(6.8)	(4.0)	
		(34.6)		(167.5)
	<b>INCREASE/(DECREASE) IN CASH IN THE YEAR</b>	<b>51.5</b>		<b>(10.4)</b>

The notes on pages 26 to 42 form part of these accounts.

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 1996

	1996 £M	1995 £M
Profit for the financial year	12.0	58.2
Temporary diminution in the value of an investment property	(1.4)	(2.8)
Net effect of translation of currencies	(13.0)	(1.9)
Total recognised gains and losses relating to the financial year	(2.4)	53.5

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December 1996

	1996 £M	1995 £M
Profit for the financial year	12.0	58.2
Dividends	(26.0)	(23.8)
	(14.0)	34.4
Other recognised gains and losses relating to the financial year	(14.4)	(4.7)
New share capital subscribed	1.4	3.0
Scrip dividends taken up in the year	7.2	3.4
Goodwill on acquisition written back to profit in the financial year	50.0	16.2
Goodwill written off on acquisitions	(12.6)	(11.8)
Net addition to shareholders' funds	17.6	40.5
Opening shareholders' funds	200.1	159.6
Closing shareholders' funds	217.7	200.1

The notes on pages 26 to 42 form part of these accounts.

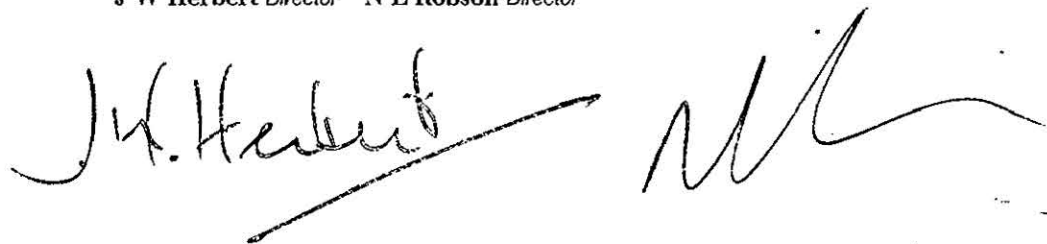
# COMPANY BALANCE SHEET

31 December 1996

Note	1996 £M	1996 £M	1995 £M	1995 £M
<b>FIXED ASSETS</b>				
13		710.5		743.4
<b>CURRENT ASSETS</b>				
	23.3		12.4	
	38.6		42.4	
	61.9		54.8	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
	(18.1)		(16.5)	
18	(76.4)		(73.1)	
	(94.5)		(89.6)	
<b>NET CURRENT LIABILITIES</b>		<b>(32.6)</b>		<b>(34.8)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>677.9</b>		<b>708.6</b>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>				
18		(250.0)		(250.0)
		427.9		458.6
<b>CAPITAL AND RESERVES</b>				
22		1.8		1.7
23		4.7		3.4
23		186.7		186.7
23		94.4		94.4
23		140.3		172.4
<b>SHAREHOLDERS' FUNDS - EQUITY INTERESTS</b>		<b>427.9</b>		<b>458.6</b>

Approved by the board of directors on 17 March 1997

J W Herbert Director N E Robson Director



The image shows two handwritten signatures in black ink. The signature on the left is 'J.W. Herbert' and the signature on the right is 'N.E. Robson'. Both signatures are written in a cursive, flowing style.

The notes on pages 26 to 42 form part of these accounts.

# NOTES TO THE ACCOUNTS

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## 1 PRINCIPAL GROUP ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

The accounts are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets and with applicable accounting standards in the United Kingdom. However, compliance with Statement of Standard Accounting Practice 19 requires departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties. An explanation of the result of the departure is given in the note relating to depreciation below.

### 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 dealt with through reserves.

### TRANSLATION OF FOREIGN CURRENCIES INTO STERLING

Foreign currency assets and liabilities are translated into sterling at the rates of exchange on the balance sheet date. Profit and loss items are translated into sterling at the average rates of exchange during the year.

Translation differences relating to overseas subsidiary and associated undertakings and to foreign currency borrowings used to finance these undertakings are dealt with through reserves. All other exchange differences are dealt with in the profit and loss account.

### TURNOVER

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

### FIXED ASSET INVESTMENTS

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

### DEPRECIATION

Fixed assets are written off evenly over their expected useful lives, with the exception that no depreciation is provided on investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principles set out in Statement of Standard Accounting Practice 19. The directors consider that to depreciate such properties would not give a true and fair view, but that a true and fair view is given by following Statement of Standard Accounting Practice 19 as described above. If this departure from the requirements of the Companies Act had not been made the profit for the year would have been reduced by depreciation on the revalued properties of £0.2 million (1995 - £0.2 million). The charge would have been the same if the historical cost accounting rules had been used.

Depreciation and amortisation are normally provided as follows:

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

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#### TECHNICAL DEVELOPMENT EXPENDITURE

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

#### DEFERRED TAXATION

Deferred taxation is provided on the liability method in respect of timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### 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.

#### PROSPECTING, EXPLORATION AND DEVELOPMENT EXPENDITURE

Prospecting expenditure and expenditure on abortive projects is charged to the profit and loss account. Expenditure incurred on projects with commercial potential is capitalised. Costs to develop new and expand existing mineral deposits and ore bodies are also capitalised.

#### 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.

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.

**2 TURNOVER, PROFIT AND OPERATING ASSETS**

CLASSES OF BUSINESS	TURNOVER	PROFIT	OPERATING ASSETS	TURNOVER	PROFIT	OPERATING ASSETS
	1996 £M	1996 £M	1996 £M	1995 £M	1995 £M	1995 £M
Rail track equipment	146.4	16.2	35.2	140.7	15.0	32.2
Welding products	737.0	77.7	183.7	713.3	74.6	194.0
<b>OPERATING BUSINESSES</b>	<b>883.4</b>	<b>93.9</b>	<b>218.9</b>	854.0	89.6	226.2
Other assets and central operations	-	(1.2)	(14.2)	-	0.1	(13.6)
<b>CONTINUING OPERATIONS</b>	<b>883.4</b>	<b>92.7</b>	<b>204.7</b>	854.0	89.7	212.6
Discontinued operations	116.5	4.3	-	273.7	14.0	61.2
	<b>999.9</b>	<b>97.0</b>	<b>204.7</b>	1,127.7	103.7	273.8

**GEOGRAPHICAL AREA BY COUNTRY OF OPERATION**

United Kingdom	89.2	11.9	12.1	89.9	12.3	13.3
Rest of Europe	398.2	38.1	79.8	392.8	35.8	99.1
North America	319.0	25.9	68.5	302.2	24.8	65.6
Rest of World	111.6	16.8	44.3	107.6	16.8	34.6
	<b>918.0</b>	<b>92.7</b>	<b>204.7</b>	892.5	89.7	212.6
Inter area eliminations	(34.6)	-	-	(38.5)	-	-
<b>CONTINUING OPERATIONS</b>	<b>883.4</b>	<b>92.7</b>	<b>204.7</b>	854.0	89.7	212.6
Discontinued operations	116.5	4.3	-	273.7	14.0	61.2
	<b>999.9</b>	<b>97.0</b>	<b>204.7</b>	1,127.7	103.7	273.8
Non-operating exceptional items		(50.0)			-	
Net interest		(1.0)			(6.2)	
Profit on ordinary activities before taxation		<b>46.0</b>			97.5	

**GEOGRAPHICAL AREA BY DESTINATION**

	TURNOVER 1996 £M	TURNOVER 1995 £M
United Kingdom	68.3	65.4
Rest of Europe	360.3	350.3
North America	280.8	267.3
Rest of World	174.0	171.0
<b>CONTINUING OPERATIONS</b>	<b>883.4</b>	854.0
Discontinued operations	116.5	273.7
	<b>999.9</b>	1,127.7

### 3 OPERATING PROFIT

	CONTINUING 1996 £M	DISCONTINUED 1996 £M	TOTAL 1996 £M	CONTINUING 1995 £M	DISCONTINUED 1995 £M	TOTAL 1995 £M
Turnover	883.4	116.5	999.9	854.0	273.7	1,127.7
Cost of sales	(605.1)	(99.7)	(704.8)	(579.3)	(238.9)	(818.2)
Gross profit	278.3	16.8	295.1	274.7	34.8	309.5
<b>NET OPERATING EXPENSES</b>						
Selling and distribution costs	(125.6)	(5.4)	(131.0)	(122.4)	(10.6)	(133.0)
Research and development expenditure	(10.2)	(0.8)	(11.0)	(10.0)	(1.4)	(11.4)
Administration costs	(58.3)	(6.3)	(64.6)	(61.5)	(8.8)	(70.3)
	(194.1)	(12.5)	(206.6)	(193.9)	(20.8)	(214.7)
Income from interests in associated undertakings	5.8	-	5.8	5.2	-	5.2
Dividends and other income	2.7	-	2.7	3.7	-	3.7
	(185.6)	(12.5)	(198.1)	(185.0)	(20.8)	(205.8)
Operating profit	92.7	4.3	97.0	89.7	14.0	103.7

Fees in respect of services provided by the auditors were: statutory audit of the group £1.3 million (1995 - £1.6 million) and other services to the Company and its United Kingdom subsidiaries £0.2 million (1995 - £0.3 million).

Included above are operating lease rentals for plant and machinery of £1.6 million (1995 - £3.1 million) and for other leases of £3.2 million (1995 - £4.2 million), depreciation of £28.7 million (1995 - £33.1 million) and government grants of £0.1 million (1995 - £0.1 million).

The profit on ordinary activities before taxation for the year includes £5.8 million that relates to associated undertakings (1995 - £5.2 million). The net profits retained by associated undertakings were £2.2 million (1995 - £2.7 million).

Amounts invoiced to associated undertakings for the year were £6.7 million and amounts invoiced from them were £4.1 million. At the year end amounts due from associated undertakings were £1.0 million and due to them were £0.3 million.

### 4 NON-OPERATING EXCEPTIONAL ITEMS

	1996 £M	1995 £M
Sale of discontinued operation - Cape (1995 Hargreaves)	-	15.9
Provision for loss on sale of discontinued operations - (1995 coal division)	-	(1.0)
Cost of goodwill on acquisition of Cape (1995 Hargreaves/coal division) written back from reserves having arisen on the acquisition of Charter Consolidated P.L.C. by Charter plc	(50.0)	(14.9)
	(50.0)	-

There was no tax attributable to or minority interest in the non-operating exceptional items of either this or the comparative period.

**5 NET INTEREST**

	1996 £M	1995 £M
Receivable	11.3	15.2
Bank loans and overdrafts	(11.1)	(20.1)
Finance leases	(1.2)	(1.3)
	<b>(1.0)</b>	<b>(6.2)</b>

**6 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	1996 £M	1995 £M
United Kingdom:		
Corporation tax at 33 per cent (1995 - 33 per cent)	11.1	8.5
Deferred taxation	0.6	0.6
Double taxation relief	(0.2)	(1.2)
ACT written off	-	0.9
	<b>11.5</b>	<b>8.8</b>
Overseas:		
Taxation	12.3	18.1
Deferred taxation	0.6	1.4
	<b>24.4</b>	<b>28.3</b>
Adjustments in respect of previous years	2.4	1.4
Associated undertakings	2.0	1.5
	<b>28.8</b>	<b>31.2</b>

**7 EMPLOYEES (INCLUDING EXECUTIVE DIRECTORS)**

	1996 £M	1995 £M
Aggregate amounts payable:		
Wages and salaries	229.0	266.0
Social security costs	38.9	38.9
Other pension costs (see note 9)	5.6	6.4
	<b>273.5</b>	<b>311.3</b>
	1996 NUMBER	1995 NUMBER
Average number of persons employed by the group:		
Rail track equipment	1,117	1,086
Welding products	8,119	7,247
Corporate	40	38
Discontinued operations	2,500	4,747
	<b>11,776</b>	<b>13,118</b>

## 8 DIRECTORS' REMUNERATION

Directors' aggregate emoluments fall within the following bands:

£	1996	1995
0 - 5,000	-	1
15,001 - 20,000	3	4
25,001 - 30,000	-	1
30,001 - 35,000	1	-
35,001 - 40,000	1	-
45,001 - 50,000	1	-
75,001 - 80,000	-	1
200,001 - 205,000	-	1
225,001 - 230,000	1	-
235,001 - 240,000	-	1
255,001 - 260,000	1	-
315,001 - 320,000	1	-
475,001 - 480,000	-	1
520,001 - 525,000	1	-

Additional information covering directors' remuneration, interest in shares and interests in share options is included in the report of the Remuneration Committee on pages 17 to 19.

## 9 POST RETIREMENT BENEFITS

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 the fair value provision established on the acquisition of Esab AB (see note 19), pension costs for employees of overseas subsidiaries are provided for in accordance with local requirements and practices.

	1996 £M	1995 £M
United Kingdom pension credit:		
Regular charge	3.0	3.9
Variation credit	(3.9)	(3.9)
Interest	(2.4)	(3.3)
Net credit	(3.3)	(3.3)
Overseas pension charge	8.9	9.7
Group pension charge	5.6	6.4
Post retirement medical costs - United States	1.1	1.1

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	MEDICAL COSTS LIABILITIES
Dates of last valuations or review	March 1994 and 1995	December 1995
Market value of investments	£245 million	
Weighted average actuarial value of assets as a percentage of accrued service liabilities, allowing for expected future increases in earnings	116%	
Main assumptions:		
Return on investments above general earnings inflation	1.0% - 2.0%	
Return on investments above annual pension increases	4.0% - 5.0%	
Medical costs liabilities - initial medical inflation rates		12.5% - 15.0%

**10 DIVIDENDS PAID AND PROPOSED**

	1996 £M	1995 £M
Interim dividend of 9.0p (1995 - 8.5p) per share paid on 8 November 1996	7.9	7.3
Proposed final dividend of 20.5p (1995 - 19.0p) per share	18.1	16.5
	<b>26.0</b>	23.8

**11 EARNINGS PER SHARE**

Headline earnings per share is calculated on earnings of £12.0 million (1995 - £58.2 million) and on an average of 87,500,000 (1995 - 86,205,000) shares.

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

	1996 PENCE	1995 PENCE
Earnings per share - headline	13.7	67.5
Non - operating exceptional items	57.2	-
Earnings per share - underlying	<b>70.9</b>	67.5

**12 TANGIBLE FIXED ASSETS**

	LAND AND BUILDINGS £M	PLANT, FURNITURE AND FITTINGS £M	TOTAL TANGIBLE ASSETS £M
Cost or valuation:			
At 31 December 1995	112.1	149.9	262.0
Currency realignment	(7.9)	(9.6)	(17.5)
Temporary diminution in value	(2.0)	-	(2.0)
Additions at cost	1.6	25.4	27.0
Acquisitions of subsidiary undertakings	5.6	9.0	14.6
Disposals of subsidiary undertakings	(28.9)	(49.0)	(77.9)
Disposals	(1.8)	(1.9)	(3.7)
At 31 December 1996	<b>78.7</b>	<b>123.8</b>	<b>202.5</b>
Depreciation:			
At 31 December 1995	4.9	43.8	48.7
Currency realignment	(1.3)	(1.3)	(2.6)
Charge to profit and loss account	3.8	24.9	28.7
Disposals of subsidiary undertakings	(2.0)	(21.5)	(23.5)
Disposals	(0.7)	(1.2)	(1.9)
At 31 December 1996	<b>4.7</b>	<b>44.7</b>	<b>49.4</b>
Net book value:			
At 31 December 1996	<b>74.0</b>	<b>79.1</b>	<b>153.1</b>
At 31 December 1995	107.2	106.1	213.3

## 12 TANGIBLE FIXED ASSETS *(continued)*

(i) Fixed assets include the following in respect of assets held under finance leases and being primarily in respect of land and buildings:	1996 £M	1995 £M
Net book value at the year end	7.7	5.0
Depreciation charge for the year	1.2	0.9

- (ii) Land and buildings comprise amounts at cost of £70.7 million and amounts at valuation on an open market basis of £8.0 million, at a valuation date of 31 December 1996.
- (iii) Freehold properties include an investment property valued at £8.0 million (1995 - £10.0 million) on an open market basis, equivalent to written down historical cost. This is net of a £6.2 million (1995 - £4.2 million) temporary diminution in value pending the renewal of tenants' leases that currently are due to expire by 2004, or the reletting of the available space. The valuation was carried out as at 31 December 1996 by P M Thwaite, the Secretary of the Company who also has responsibility for property management. To present a true and fair view, depreciation of £0.2 million has not been charged on this property (cumulative to 31 December 1996 - £0.7 million).
- (iv) The net book value of the group's land and buildings includes £3.7 million (1995 - £4.2 million) for long leasehold properties and £4.5 million (1995 - £6.6 million) for short leasehold properties.
- (v) Committed capital expenditure of subsidiary undertakings at the year end was £5.3 million (1995 - £8.0 million).

## 13 FIXED ASSET INVESTMENTS

	GROUP INVESTMENTS IN ASSOCIATED UNDERTAKINGS - UNLISTED £M	COMPANY SUBSIDIARY UNDERTAKINGS £M
At 31 December 1995	17.8	743.4
Currency realignment	(2.8)	-
Group's share of net profits retained	2.2	-
Group's share of other reserve movements	(0.5)	-
Additions	0.6	-
Disposals	(1.2)	(32.9)
At 31 December 1996	16.1	710.5

## 14 STOCKS

	1996 £M	1995 £M
At cost:		
Short term contract work in progress	0.4	52.2
Deduct: Progress payments received and receivable	-	(45.7)
Short term contract balances	0.4	6.5
Long term contract work in progress	4.2	11.0
Deduct: Progress payments received and receivable	-	(5.0)
Long term contract balances	4.2	6.0
Contract balances	4.6	12.5
Raw materials, components and consumable stores	35.3	47.7
Work in progress	18.4	21.0
Finished goods	69.8	81.7
	128.1	162.9

The estimated value for stocks of finished goods on a replacement cost basis was £73.6 million (1995 - £84.2 million).

**15 DEBTORS**

	1996 £M	1995 £M
Amounts falling due within one year:		
Trade debtors	150.3	193.9
Long term contracts	-	2.1
Other debtors	26.2	26.0
Prepayments and accrued income	5.7	8.1
	<b>182.2</b>	<b>230.1</b>
Amounts falling due after more than one year:		
Trade debtors	-	2.2
Other debtors	1.8	2.1
Prepayments and accrued income - pension prepayment	29.6	25.4
- ACT recoverable	3.2	-
	<b>34.6</b>	<b>29.7</b>
	<b>216.8</b>	<b>259.8</b>

An interest free loan of £4,316 was made to J W Herbert in April 1996 and is being repaid in 12 equal monthly instalments.

**16 CASH AT BANK AND IN HAND**

Cash at bank and in hand includes deposits of £114.4 million (1995 - £131.5 million) that are not repayable on demand as defined by Financial Reporting Standard 1 (Revised).

**17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1996 £M	1995 £M
Trade creditors	59.5	84.4
Payments received on account	0.4	2.8
Other creditors	21.8	38.3
Corporate taxation	37.7	30.0
Social security and other taxation	9.1	13.2
Accruals and deferred income	43.9	64.2
Dividend payable	18.1	16.5
	<b>190.5</b>	<b>249.4</b>

## 18 BORROWINGS

	1996 £M	1995 £M
Short term:		
Bank loans and overdrafts - secured	2.5	4.7
Bank loans and overdrafts - unsecured	43.6	105.0
Obligations under finance leases	1.7	6.5
	<b>47.8</b>	116.2
Long term:		
6.35% 2001 loan notes of US\$27.7 million	16.2	17.9
6.78% 2004 loan notes of US\$72.3 million	42.3	46.6
Bank loans - secured	3.1	4.8
Obligations under finance leases	10.0	12.8
Other	-	0.1
	<b>71.6</b>	82.2
<b>Total borrowings</b>	<b>119.4</b>	198.4

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

	BANK LOANS £M	OTHER BORROWINGS £M	FINANCE LEASES £M	TOTAL £M
Between one and two years	0.6	-	1.6	2.2
Between two and five years	1.1	16.2	2.8	20.1
Over five years otherwise than by instalments	1.4	42.3	5.6	49.3
	<b>3.1</b>	<b>58.5</b>	<b>10.0</b>	<b>71.6</b>

(ii) Parent company balance sheet:

Loans due by the parent company to a subsidiary undertaking of £326.4 million (1995 - £323.1 million) are subject to interest at variable rates. Of that total, £250.0 million (1995 - £250.0 million) is repayable on 31 March 1999 and £76.4 million (1995 - £73.1 million) is repayable on demand.

## 19 PROVISIONS FOR LIABILITIES AND CHARGES

	DEFERRED TAXATION £M	DISPOSAL AND REORGAN- ISATION COSTS £M	PENSIONS £M	OTHER POST RETIREMENT BENEFITS £M	OTHER £M	TOTAL £M
At 31 December 1995	5.9	9.9	62.4	19.3	32.9	130.4
Utilised in period	-	(2.9)	(6.3)	(0.8)	(5.3)	(15.3)
Provided in period	-	6.4	7.7	0.2	11.7	26.0
Released in period	(0.2)	(4.1)	(0.4)	-	(1.1)	(5.8)
Released with sale of subsidiary	(1.7)	-	-	-	(5.7)	(7.4)
Currency realignment	(0.5)	(1.1)	(7.2)	(0.7)	(0.7)	(10.2)
At 31 December 1996	3.5	8.2	56.2	18.0	31.8	117.7

Deferred taxation amounts are set out below:

	PROVISION MADE 1996 £M	FULL POTENTIAL 1996 £M	PROVISION MADE 1995 £M	FULL POTENTIAL 1995 £M
Excess of the book value of assets, including finance leases qualifying for taxation allowances, over their written down value for taxation purposes	2.4	4.0	5.5	10.0
Surplus on revaluation of properties	2.1	1.5	2.8	3.0
Legal costs provided for future years in respect of asbestos-related litigation	(0.2)	(0.2)	(0.6)	(0.6)
Relief for reorganisation and closure costs	(5.1)	(20.4)	(2.1)	(11.4)
Pension variations	9.2	9.2	8.5	2.2
Losses carried forward	-	(26.6)	-	(36.2)
Other timing differences	3.0	2.0	1.7	1.7
Advance corporation tax (see (ii) below)	(7.9)	(18.2)	(9.9)	(14.5)
	<b>3.5</b>	<b>(48.7)</b>	5.9	(45.8)

- (i) Other provisions include amounts in respect of legal costs and claims, deferred acquisition payments, warranty liabilities and environmental costs.
- (ii) Advance corporation tax of £9.8 million (1995 - £6.0 million) is included in taxation recoverable in the Company's balance sheet.
- (iii) At the year end £6.1 million (1995 - £15.7 million) of fair value provisions remained unutilised.

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## 20 EXPANSION IN SOUTH AMERICA

Effective as of 1 September 1996, a joint venture was formed between the group's Brazilian welding subsidiary Esab SA Industria e Comercio (Esab Brazil) and Conarco Alambres y Soldaduras S.A. (Conarco), the leading producer of welding consumables in Argentina.

Esab Brazil was jointly owned by the group, with a 61.5 per cent share, and its local partners. Esab Brazil's shareholders each exchanged 38 per cent of their shareholdings for a 62 per cent shareholding in Conarco. The group's resulting economic interest is 38 per cent in each company and as the group has voting control down the corporate structure the joint venture is consolidated into these accounts.

In accordance with Financial Reporting Standard 2 this transaction has been accounted for as a sale of the group's interest in Esab Brazil and a purchase of the group's 38 per cent interest in the joint venture. The net effect of the transaction on the group's operating profit, being the incorporation of the results of Conarco from the effective date of acquisition, is contained within continuing operations but is not sufficiently material to warrant separate disclosure as an acquisition.

Sale and purchase considerations in the transaction were all satisfied by way of share issues. There was no profit or loss to the group on the sale of Esab Brazil. There were also no material fair value or other adjustments on the purchase of the interest in the joint venture and no goodwill.

## 21 COMMITMENTS AND CONTINGENCIES

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

	LAND AND BUILDINGS 1996 £M	OTHER 1996 £M	LAND AND BUILDINGS 1995 £M	OTHER 1995 £M
Within one year	1.5	1.9	1.3	2.2
Two to five years	3.3	2.6	2.5	3.5
After five years	2.0	-	2.8	-
	<b>6.8</b>	<b>4.5</b>	<b>6.6</b>	<b>5.7</b>

	GROUP 1996 £M	GROUP 1995 £M	COMPANY 1996 £M	COMPANY 1995 £M
Guarantees and other obligations	<b>9.8</b>	7.9	<b>81.5</b>	119.8

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. Recently, Charter and/or certain of its subsidiaries have been served in a number of cases in Mississippi and a few other states. Charter is seeking dismissals in these pending cases. Upon advice of counsel, Charter has settled the majority of the cases brought in Mississippi. Charter will continue to pursue dismissals in the remaining cases. 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 SHARE CAPITAL

	1996 ORDINARY SHARES OF 2p EACH	1996 £	1995 ORDINARY SHARES OF 2p EACH	1995 £
Authorised:	109,500,000	2,190,000	109,500,000	2,190,000
Issued:				
Fully paid shares	88,168,998	1,763,380	86,852,138	1,737,043

- (i) During the year 1,040,216 fully paid shares of 2p each were allotted under the Company's scrip dividend scheme for a nominal consideration of £20,804.
- (ii) During the year 276,644 fully paid shares of 2p each were allotted as a result of the exercise of options granted under the group's share option schemes, for which an aggregate consideration of £1,400,588 was received. During the year options were granted over 573,325 shares. At 31 December 1996 83 participants held options over 1,645,480 shares; these options are exercisable during various periods up to 26 June 2006 at prices ranging from 409p to 920.6p.

## 23 RESERVES

GROUP	SHARE PREMIUM ACCOUNT £M	OTHER RESERVES £M	PROFIT AND LOSS ACCOUNT £M	TOTAL £M
At 31 December 1995	3.4	126.9	68.1	198.4
Retained deficit for the year	-	-	(14.0)	(14.0)
Scrip dividends taken up in the year	-	-	7.2	7.2
Goodwill on acquisition written back to profit for the year	-	-	50.0	50.0
Temporary diminution in the value of an investment property less deferred tax release of £0.6 million	-	(1.4)	-	(1.4)
Premium on shares issued	1.4	-	-	1.4
Expenses on shares issued	(0.1)	-	-	(0.1)
Goodwill on acquisition of subsidiary undertakings	-	-	(12.6)	(12.6)
Reclassification (see note v)	-	(12.6)	12.6	-
Net effect of translation of currencies	-	-	(13.0)	(13.0)
At 31 December 1996	4.7	112.9	98.3	215.9

COMPANY	SHARE PREMIUM ACCOUNT £M	MERGER RESERVE £M	SPECIAL RESERVE £M	PROFIT AND LOSS ACCOUNT £M	TOTAL £M
At 31 December 1995	3.4	186.7	94.4	172.4	456.9
Retained loss for the year	-	-	-	(39.3)	(39.3)
Scrip dividends taken up in the year	-	-	-	7.2	7.2
Premium on shares issued	1.4	-	-	-	1.4
Expenses on shares issued	(0.1)	-	-	-	(0.1)
At 31 December 1996	4.7	186.7	94.4	140.3	426.1

**23 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) Included in the net effect of translation of currencies is a charge of £2.0 million (1995 - charge £1.8 million) in relation to foreign currency borrowings less deposits.
- (iii) Goodwill on acquisitions was £12.6 million, being consideration of £22.9 million and the fair value of net assets acquired of £10.3 million.
- (iv) Acquisition goodwill of £331.9 million has been dealt with through reserves up to 31 December 1996 (1995 - £369.3 million).
- (v) Other reserves comprise merger and revaluation reserves, the latter of which carries a debit balance of £4.2 million (1995 - £2.8 million). The merger reserve was set up as a result of Charter plc taking merger relief on the shares it issued to acquire Charter Consolidated P.L.C.. Where a dividend is paid to Charter plc by its subsidiaries an equivalent amount of the merger reserve becomes realised. In the event that the carrying value of the subsidiaries needs to be written down through the profit and loss account, an equivalent amount can be transferred from the merger reserve to the profit and loss account reserve. The merger reserve can also be used, inter alia, for the write off of goodwill on acquisitions.
- (vi) The special reserve arose on the cancellation of the Company's share premium account in the nine month period ended 31 December 1994.
- (vii) 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:

	1996 £M	1995 £M
Loss for the financial year	(13.3)	(7.4)
Dividends for the financial year	(26.0)	(23.8)
	(39.3)	(31.2)
Scrip dividends taken up in the year	7.2	3.4
New share capital subscribed net of expenses	1.4	3.0
	(30.7)	(24.8)
Opening shareholders' funds	458.6	483.4
Closing shareholders' funds	427.9	458.6

**24 MINORITY INTERESTS – EQUITY INTERESTS**

	1996 £M	1995 £M
At 31 December 1995	35.0	46.4
Share of profit for the financial year	5.2	8.1
Dividends payable	(3.3)	(6.8)
Reserve movements	(0.3)	(0.1)
Acquisitions and disposals movements	(11.4)	(12.6)
Net effect of translation of currencies	(1.7)	-
At 31 December 1996	23.5	35.0

## 25 CASH FLOW STATEMENT

(i) Cash flow from operating activities:

	CONTIN- UING 1996 £M	DISCONT- INUED 1996 £M	TOTAL 1996 £M	CONTIN- UING 1995 £M	DISCONT- INUED 1995 £M	TOTAL 1995 £M
Operating profit	92.7	4.3	97.0	89.7	14.0	103.7
Depreciation charge	24.4	4.3	28.7	23.9	9.2	33.1
Share of profit of associates	(5.8)	-	(5.8)	(5.2)	-	(5.2)
Dividends from associates	1.9	-	1.9	1.2	-	1.2
	(3.9)	-	(3.9)	(4.0)	-	(4.0)
Stocks decrease/(increase)	8.4	0.9	9.3	(9.4)	(0.6)	(10.0)
Debtors decrease/(increase)	(17.5)	(1.9)	(19.4)	11.9	(6.7)	5.2
Creditors increase/(decrease)	(7.0)	(8.1)	(15.1)	1.5	(1.1)	0.4
Pension variation surpluses	(5.3)	(1.0)	(6.3)	(5.2)	(2.0)	(7.2)
Portfolio investment trading and related dividends	(0.6)	-	(0.6)	(0.4)	-	(0.4)
Net cash inflow/(outflow) from reorganisations and terminations	0.1	(4.2)	(4.1)	4.5	(0.8)	3.7
	91.3	(5.7)	85.6	112.5	12.0	124.5

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

	1996 £M	1996 £M	1995 £M	1995 £M
Increase/(decrease) in cash in the year	51.5		(10.4)	
Cash outflow from decrease in debt and lease financing	36.0		170.5	
Cash (inflow)/outflow from liquid resources	(7.5)		9.1	
Change in net funds/(debt) resulting from cash flows		80.0		169.2
Loans and finance leases acquired/disposed of with disposals and acquisitions		(14.1)		-
New finance leases		(1.5)		-
Reclassification of current asset investments		-		(2.0)
Exchange adjustments		10.8		(21.8)
Movement in net funds/(debt) in the year		75.2		145.4
Opening balance of net funds/(debt)		(38.7)		(184.1)
Closing balance of net funds/(debt)		36.5		(38.7)

**25 CASH FLOW STATEMENT** (continued)

(iii) Analysis of net funds/(debt) movements:

	OPENING BALANCE £M	CASH FLOW £M	DISPOSALS/ ACQUISITIONS £M	OTHER NON-CASH CHANGES £M	EXCHANGE ADJUSTMENT £M	CLOSING BALANCE £M
Cash - gross	26.8	26.6	-	(5.8)	(6.4)	41.2
Short term borrowing repayable on demand (45.9)		24.9	-	2.6	2.0	(16.4)
Cash - net	(19.1)	51.5	-	(3.2)	(4.4)	24.8
Other cash at bank and in hand	131.5	(6.4)	(14.3)	3.7	(0.1)	114.4
Other short term debt	(63.8)	29.2	(0.3)	(2.4)	7.6	(29.7)
Long term debt	(69.4)	-	(0.2)	2.0	6.0	(61.6)
Finance leases	(19.3)	6.8	0.7	(1.6)	1.7	(11.7)
	(40.1)	81.1	(14.1)	(1.5)	10.8	36.2
Current asset investments	1.4	(1.1)	-	-	-	0.3
Total	(38.7)	80.0	(14.1)	(1.5)	10.8	36.5

(iv) Disposals and acquisitions of subsidiary undertakings:

	1996 £M	1995 £M
Fixed assets	(39.4)	(38.3)
Investments	(0.9)	3.8
Stock	(10.5)	(32.4)
Debtors	(52.8)	(33.0)
Creditors and provisions	29.4	29.1
Taxation	6.2	1.0
Net debt	10.7	2.2
Minority interest	8.2	9.6
	(49.1)	(58.0)
Goodwill/(discount)	12.6	(1.9)
Profit on disposal	-	(16.2)
	(36.5)	(76.1)
Satisfied by:		
Cash	36.5	73.0
Deferred consideration	-	3.1
	36.5	76.1

(v) Disposals and acquisitions of subsidiary undertakings had the following net effects on the standard cash flow headings:

	1996 £M	1995 £M
Cash flow from operating activities	(2.3)	(2.7)
Returns on investments and servicing of finance	(2.1)	(0.1)
Taxation paid	-	(0.4)
Capital expenditure and financial investment	(3.8)	18.6
Financing	-	3.2
(Decrease)/increase in cash	(8.2)	18.6

# SHAREHOLDER INFORMATION

## ANALYSIS OF CHARTER'S SHARE CAPITAL AT 31 DECEMBER 1996

CATEGORY	PERCENTAGE OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS
Individuals	5.1	6,917
Insurance companies	2.1	70
Pension funds and trusts	6.1	153
Banks and nominee companies	79.6	1,398
Others	7.1	193
	100.0	8,731

## GEOGRAPHICAL

United Kingdom	80.1	7,436
Rest of Europe	0.9	247
Rest of World	19.0	1,048
	100.0	8,731

## CALENDAR

Annual general meeting	Thursday 1 May 1997
Expected date of final dividend payment	Friday 23 May 1997
Interim dividend announcement and half yearly report	Tuesday 9 September 1997
Expected date of interim dividend payment	Friday 7 November 1997

## FACT BOOK

The welding and rail track industries are not well documented. There are no industry associations which produce global overviews of market and company performance. Thus, it has not previously been possible to form a view of business in the welding and rail track industries without investing a significant amount of time on research.

The Charter Fact Book addresses this situation by bringing together a body of information which will assist the reader in building awareness about these industries and the position of Charter within them. The Fact Book also covers the development of the Charter group, its current position and the fundamentals of its business performance. In order to assist in the analysis of financial performance, figures have been restated to provide, wherever possible, a consistent basis for comparison.

Copies of the Fact Book are available to shareholders and members of the public from the Investor Relations Manager at the Company's Registered Office.

## REGISTERED OFFICE

7 Hobart Place  
London SW1W 0HH

Registered in England  
Number 2794949

## PRINCIPAL INTERESTS IN GROUP UNDERTAKINGS

SUBSIDIARY UNDERTAKINGS	COUNTRY OF INCORPORATION	GROUP INTEREST IN EQUITY CAPITAL (PER CENT)	NATURE OF BUSINESS
<b>RAIL TRACK EQUIPMENT</b>			
Pandrol International Limited	England	100	Manufacture of resilient fastenings and rail track maintenance services
<b>WELDING PRODUCTS</b>			
Esab AB	Sweden	100	Welding consumables and equipment
Esab Corporation	USA	100	Welding consumables and equipment
Esab SA Industria e Comercio	Brazil	38	Welding consumables and equipment
Conarco Alambres y Soldaduras S.A.	Argentina	38	Welding consumables and equipment
Esab Asia/Pacific Pte Ltd	Singapore	100	Welding consumables and equipment
Esab - Hancock GmbH	Germany	100	Oxy-fuel, plasma, laser and water jet cutting
AB Ph Nederman & Co	Sweden	100	Working environment products and systems for factories and workshops
<b>ASSOCIATED UNDERTAKINGS</b>			
GCE Gas Control Equipment AB	Sweden	50	Gas control equipment
Electrody Baildon Sp z.o.	Poland	28	Welding consumables
Alloy Rods Korea Corp.	Korea	50	Welding consumables
ESAB India Ltd	India	38	Welding consumables and equipment

### Notes

- 1 The group's controlling interests in Esab SA Industria e Comercio and Conarco Alambres y Soldaduras S.A. are held by intermediate holding companies in which the group has voting control.
- 2 Each of the associated undertakings has only one class of capital.
- 3 The principal country of operation is the same as the country of incorporation.
- 4 The group undertakings above are all held by subsidiary undertakings of the Company. A full list of group undertakings will be annexed to the Company's next annual return.

## NOTICE OF MEETING

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Notice is hereby given that the fourth annual general meeting of members of Charter plc will be held in the Mountbatten Room at the Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS on Thursday 1 May 1997 at 12 noon for the following purposes:

1 To receive and consider the accounts and the report of the directors for the year ended 31 December 1996.

2 To consider the following resolution which will be proposed as an Ordinary Resolution:

"THAT a final dividend of 20.5 pence per share in respect of the year ended 31 December 1996 be and is hereby declared due and payable on 23 May 1997 to shareholders on the register at the close of business on 3 April 1997 (in the case of shareholders other than those on the South African branch register) or 20 March 1997 (in the case of those shareholders on the South African branch register), such final dividend to be payable only in respect of such of the shares in respect of which there has been no valid election to receive new shares instead of a dividend in cash pursuant to the scrip dividend scheme."

3 To reappoint as directors Mr Robson and Mr Allen who retire by rotation.

4 To reappoint Coopers & Lybrand as auditors and authorise the board to fix their remuneration.

5 To consider the following resolution, which will be proposed as an Ordinary Resolution:

"THAT the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £393,710, PROVIDED THAT this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired."

6 To consider the following resolution, which will be proposed as a Special Resolution:

"THAT, subject to the passing of the previous resolution, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue in favour of shareholders where the equity securities respectively attributable to the interests of all shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever); and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £88,169,

and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 1 August 1998 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the

directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired."

- 7 To consider the following resolution, which will be proposed as a Special Resolution:
- "THAT the directors be authorised pursuant to the Articles of Association of the Company to offer (if the directors so determine), and give effect to elections with respect to such offer, to holders of shares the right to receive instead of cash (in whole or part) in respect of any interim or final dividend paid or declared during the period beginning at the conclusion of this annual general meeting and ending at the conclusion of the annual general meeting to be held in 1999, an allotment of additional shares, credited as fully paid, (which may have a value greater than the cash amount which shareholders would receive by way of interim or final dividend in the absence of an election to receive such additional shares) subject to such exclusions or restrictions as the directors may in their absolute discretion consider appropriate in relation to legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory and such offer being on the basis described in the circular sent to holders of shares in connection with the 1996 final dividend or on such other basis (being not materially different) to be described in any additional or supplemental circular to be sent to shareholders."

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy accompanies this notice.

**By order of the board**

P M Thwaite *Secretary*  
7 April 1997

**Registered office**

7 Hobart Place  
London SW1W 0HH

**Notes**

- 1 White forms of proxy must reach the Company's registrars, The Royal Bank of Scotland plc, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH, not less than 48 hours before the meeting. Blue forms of proxy must reach the registrars of the South African branch register, Consolidated Share Registrars, PO Box 61051, Marshalltown 2107, South Africa, not less than 48 hours before the meeting.
- 2 Holders of share warrants to bearer who wish to attend in person or by proxy or to vote at the meeting must comply with the relevant conditions governing share warrants to bearer.
- 3 Copies of directors' service contracts will be available for inspection by members at the registered office of the Company during normal business hours on any working day (Saturdays and Bank Holidays excepted) from the date of this notice and will, on the day of the annual general meeting, be available for inspection at the Mountbatten Room at the Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS, from 11.45 a.m. until the conclusion of the meeting.