



Financial Performance

In difficult trading conditions, Group turnover from continuing operations fell by 10.3% to £398.7m (2001 – £444.3m). Operating profit on continuing operations after goodwill amortisation and exceptional items fell to £17.6m (2001 – £21.0m). Profits on ordinary activities before tax were £7.0m (2001 – £9.5m).

The decline in Aerospace Divisional turnover (£27.3m on a constant currency basis) was principally as a result of the ongoing slowdown in the Civil Aerospace market, with the operations at Jet Products (Boeing 737 production halved) and BWT (slowdown in the regional jet market) seeing the largest percentage declines. New vehicle production in North America held up well but, as anticipated, the Group's automotive turnover in North America fell as programmes ended. Outside North America, automotive turnover rose slightly as growing diesel volumes and new programmes coming on stream in Cape Town more than offset declines in new vehicle production in continental Europe. Turnover in the Specialised Industrial Division, before currency effects, was broadly unchanged. Adverse currency movements accounted for £11.2m of the total £45.6m (10.3%) reduction in Group turnover.

On a constant currency basis, operating profits before exceptional costs and goodwill amortisation were ahead of the prior year by £0.5m (16%) in the Specialised Industrial Division and by £0.5m (4%) in the Automotive Division. The latter result reflected the achievement of significant cost savings in North America following the merging of management at two operations in late 2001. Underlying profitability in the Aerospace Division fell by 52% (£9.1m). Adverse currency movements further reduced the Group result by £1.2m compared with 2001.

Exceptional Items and Goodwill Amortisation

Exceptional charges for the year comprised £1.3m of reorganisation and redundancy costs (2001 – £2.9m). These arose across a number of operations as employee numbers were reduced in line with demand and a small aerospace satellite factory was closed. A review of the carrying value of fixed assets and goodwill across the Group resulted in no impairment (2001 – £4.0m). The small reduction in the goodwill amortisation charge to £5.8m (2001 – £6.1m) was exchange rate related.

Interest Charge

The net interest charge for the year of £6.6m was 33% lower than the prior year (2001 – £9.8m) as a result of the significant reduction in the level of the Group's borrowings and lower interest rates, particularly in the USA. Most of the Group's borrowings are in US\$. Interest cover, calculated on operating profits before exceptional items and goodwill amortisation, was 3.7 times (2001 – 3.5 times).

Taxation

The overall Group taxation charge of £3.1m comprised a £3.6m charge relating to ordinary activities for the year, a net benefit of £0.1m relating to prior years and a net reduction in deferred tax liabilities of £0.4m. The Group's effective tax rate for 2002, measured on profit before amortisation and impairment of goodwill and before losses on disposal, was 18.5% (2001 – 23.2%). A reconciliation of the rate for the year, between the UK corporate tax rate of 30% and the actual charge, is included in Note 7 to the financial statements.

The Group had already adopted Financial Reporting Standard 19 – "Deferred Tax" in its 2001 results.

Earnings and Dividends per Share

Underlying earnings per share (after exceptional costs but before amortisation and impairment of goodwill and loss on disposal of operations and fixed assets) was 4.47p (2001 – 5.51p). As noted in the Chairman's Statement, a final dividend of 1.35p per share is proposed to be paid on 29 May 2003 to shareholders on the register on 2 May 2003. Together with the interim dividend of 0.65p, total dividends paid in respect of 2002 would then be 2.00p (2001 – 2.00p).

Disposals

The Group sold its four European expansion joint businesses (located in Denmark, Poland, the Czech Republic and the United Kingdom) during September 2002 for a total consideration, net of costs, of £3.8m. Of this £2.8m was received in the year. On turnover of £5.7m the operations broke even at the profit before interest and tax level during the period prior to disposal. A loss of £3.5m resulted from the disposal after taking into account the write-off of £1.4m of goodwill held on the balance sheet. Full details are shown in Note 25 to the financial statements.

Cash Flow and Net Borrowings

Cash profits, combined with a continuing tight control of working capital and capital expenditure, resulted in Free Cash Flow (operating cash flow from operations after net capital expenditure, interest and tax) of £25.2m (2001 – £28.6m). After receiving net disposal and acquisition proceeds of £2.2m and funding £2.5m in dividends the cash generated was used to reduce the Group's borrowings. The majority of the Group's borrowings are in US\$, as a policy hedge against the Group's US\$ assets, and the weakening US\$ (\$1.46:£ to \$1.61:£ over the year) reduced the reported sterling borrowings by £10.4m. Overall, the Group's net borrowings fell by £35.3m to £87.4m (2001 – £122.7m) during 2002.

Cash flow	2002 £m	2001 £m
Operating profit	17.6	21.3
Depreciation	17.8	18.4
Net capital expenditure (including finance leases)	(11.7)	(15.6)
Goodwill amortisation and impairment	5.8	10.2
Working capital movement	2.7	(3.0)
Net interest paid	(7.3)	(9.7)
Tax recovered	0.3	7.0
Free cash flow	25.2	28.6
Net disposals and acquisitions	2.2	11.5
Dividends paid	(2.5)	(15.0)
Dividends from associated undertakings	–	0.2
Effect of exchange rates	10.4	(1.5)
Reduction in net borrowings	35.3	23.8
Net borrowings	87.4	122.7

Funding and Liquidity

The Group finances its borrowings at Group level through a multi-bank revolving credit facility and the US private placement market. In addition it has a number of other local banking facilities. The policy is to ensure that all projected net borrowing requirements are covered by committed facilities. At the end of 2002 the Group had total facilities of £181m (including £160m committed) of which £80m was unused. The maturity profile of the £87.4m of net borrowings at the end of 2002 is:

	2003	2004	2005	2006	2007	2008
£m	(9.1)	32.7	0.2	0.2	15.7	47.7
	net cash					

Interest Rate and Currency Risk Management

In addition to funding and liquidity, the Group's main financial risks relate to interest rate fluctuations and foreign currency exposures. The management of all these risks is performed by a centralised treasury department which reports to the Group Finance Director. It operates under the guidance of the Group Treasury Committee, which meets quarterly, and acts according to the laid down objectives, policies and authority levels approved by the Board.

It is a Group policy to have the majority of its borrowings subject to fixed interest rates. At the year-end £65.2m of private placement borrowings (weighted average cost 7.53%) and £13.6m of other borrowings were subject to fixed rates, thus resulting in 78% of the Group's gross debt of £101.1m being fixed interest in nature.

The Group hedges, through currency denominated loans and forward contracts, the majority of the exchange exposures that arise on its net investment in overseas operations. These exchange rate movements are treated as movements on reserves and recorded in the statement of total recognised gains and losses. Whilst the Group does not hedge the effects of currency movements on the translation of its overseas earnings into sterling, it does seek to cover, normally through forward exchange contracts on a rolling 12 month basis, known transaction exposures.

Pensions

The Group has continued to account for retirement benefits in accordance with SSAP24 and full details are disclosed at Note 24 to the financial statements. The Group's main defined benefit pension scheme is in the UK. It also has three small USA defined benefit schemes and a range of defined contribution schemes. At the date of the last valuation, on 6 April 2001, the UK plan's assets represented 100% of the benefits that had accrued to members after allowing for future

increases in earnings. This position has deteriorated significantly since then as equity markets have fallen steeply. In total the Group charged £2.7m (2001 – £1.5m) to its profit and loss account in respect of its defined benefit schemes and £3.3m (2001 – £3.5m) in respect of its defined contribution schemes. Total cash funding of £1.6m (2001 – £1.4m) was made in respect of all the defined benefit schemes. Whilst the next valuation of the UK plan is not until April 2004, the Group intends to increase its funding in 2003 such that the total cash contributions in respect of all its defined benefit schemes is anticipated to rise by around £1.6m, to £3.2m p.a.

Although not adopted, full disclosure in accordance with FRS17 (Retirement Benefits) is provided as required in Note 24 to the financial statements. This shows that, at 31 December 2002, there were total unprovided pension deficits, net of deferred tax of £27.6m. Despite nearly 50% of the UK plan's assets being in bonds, which performed well, this represents a deterioration of £22.4m in the year as equity values fell sharply and the discount rate used to discount pension liabilities reduced from 6.0% to 5.5%. Had the Group adopted FRS17, then the 2002 charge to operating profit would have been £1.9m.

Non Statutory Information

Throughout the commentary on the results a number of non statutory financial numbers are quoted. These include:

- Operating profit before exceptional items and goodwill amortisation – this is used to illustrate the ongoing, underlying trading performance of the Group. Note 2 provides the information to reconcile this to operating profit.
- Underlying earnings per share – this is used to highlight the total performance of the Group prior to impact of goodwill amortisation and the disposal of assets and discontinued operations. Note 9 provides the information to reconcile this to basic earnings per share.
- Free cash flow – this is used to illustrate the total net cash generation by the Group prior to corporate activity such as acquisitions, disposals and dividend payments. Its derivation is fully documented earlier in this report.

Authority to Purchase Own Shares

In order to provide the Group with greater future funding flexibility, the Board intends to put a resolution to the shareholders at the forthcoming Annual General Meeting to give the Group the authority to purchase its own shares. Notwithstanding this resolution, the Board has no current intention of exercising such authority.

Going Concern

After making enquiries, the Directors are of the opinion that the Group has adequate financial resources to continue to operate for the foreseeable future. It is, therefore, appropriate for the accounts to continue to be prepared on a going concern basis.



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