

John Wood Group PLC

Final results for the year ended 31 December 2003

Wood Group is a market leader in the provision of engineering design, production support and industrial gas turbine services to customers in the oil & gas and power generation industries. Operating in 34 countries, Wood Group employs over 13,000 people.

Financial highlights

- Revenues up 15% to \$1,992.6 million (2002: \$1,738.1 million)
- EBITA increased to \$137.2 million (2002: \$135.9 million) ¹
- Operating profit of \$122.9 million (2002: \$129.8 million)
- Profit before tax \$83.0 million, after exceptional charges of \$20.0 million (2002: \$114.7 million)
- Adjusted diluted earnings per share 15.4 cents (2002: 16.5 cents) ²
- Net cash inflow from operating activities increased to \$144.9 million (2002: \$127.9 million)
- Investment and capital spend of \$96.4 million (2002: \$202.2 million)
- Final dividend of 2.2 cents per ordinary share (2002: 2.0 cents); total for the year 3.3 cents (2002: 3.0 cents)

Divisional highlights

Engineering & Production Facilities

- Revenues up 10% to \$1,095.2 million (2002: \$992.8 million) and EBITA up 4% to \$95.8 million (2002: \$91.7 million)
- Involved in key deepwater engineering projects in the Gulf of Mexico, West Africa and Asia Pacific with a growing engineering presence in midstream and downstream
- New contract award for FEED work on Kerr-McGee's Constitution development announced today
- Important production facilities contract wins in the North Sea, and successful growth in West Africa, Colombia and Brunei

Well Support

- Revenues up 15% to \$412.6 million (2002: \$360.0 million) and EBITA up 45% to \$31.4 million (2002: \$21.7 million)
- Successful international expansion continuing - significant contract wins in Argentina, Saudi Arabia and Russia. Acquisition of Barber Industries in Canada

Gas Turbine Services

- Revenues up 29% to \$455.4 million (2002: \$352.0 million) but EBITA down 26% to \$31.9 million (2002: \$43.1 million) ³
- 29% revenue growth, 15% organic. Disappointing EBITA performance, particularly in the second half of the year - reflecting difficult power market
- Extending and broadening service offering, to include turbine controls and power station operations & maintenance. Since the year end, acquired Z.TEC to accelerate our heavy industrial turbine growth in continental Europe

Sir Ian Wood, Chairman, Wood Group, commented:

“The year saw good revenue growth, but only marginal EBITA growth mainly reflecting the difficult conditions in the power market. During the year, we continued to enhance our market leadership and differentiation in our chosen growth areas.

“In 2004, we believe we will see continuing growth in Well Support and further successful international development of our Production Facilities activities. We also anticipate some recovery in Gas Turbine Services following a number of initiatives to reduce costs and enhance performance. However, as indicated in previous statements, continuing industry-wide delays in large deepwater engineering projects will hold back our overall performance. Looking to 2005 and beyond, we are well positioned to exploit key growth segments of the oil & gas and power industries, and are confident we will deliver good medium-term growth.”

- Ends -

Information:

Wood Group

Sir Ian Wood	Chairman & Chief Executive	
Allister Langlands	Deputy Chief Executive	020 7404 5959 on 8 th March
Alan Semple	Finance Director	Thereafter 012244 851000
Nick Gilman	Investor Relations Manager	
Chris Watson	Financial Controller	
Carolyn Smith	Corporate Communications	01224 851099

Brunswick

Patrick Handley	020 7404 5959
Stuart Bruseth	
Katya Reynier	

Note:

- 1 EBITA represents operating profit before amortisation, and share of associates.
- 2 Adjusted diluted earnings per share is stated after adding back exceptional items and amortisation. Diluted earnings per share for the period was 8.4 cents (2002: 13.8 cents).
- 3 Gas Turbine Services figures exclude discontinuing operations.

The non-statutory financial terms are provided as they are the key units of measurement used by the Company in the management of its business.

Chairman's Statement

After achieving in excess of 15% compound annual growth in revenues and EBITA over the previous five years, the marginal increase in EBITA this year, mainly due to difficult conditions in the power market, was less than satisfactory. Our 2003 revenues showed good growth to \$1,992.6 million (2002: \$1,738.1 million), but EBITA only rose to \$137.2 million (2002: \$135.9 million) and adjusted earnings per ordinary share was 15.4 cents (2002: 16.5 cents). The recommended final dividend of 2.2 cents per ordinary share takes the total dividend for the year to 3.3 cents (2002: 3.0 cents).

Engineering & Production Facilities delivered a good performance. Engineering enjoyed high activity levels and Production Facilities won a number of significant new contracts in both our established and newer markets. Well Support delivered a much improved performance in the year. Pressure Control is continuing to extend its presence outside the US and ESP has recently won its most significant contract in Russia. Gas Turbine Services had a difficult year with the continuing surplus of generation capacity in North America, together with the poor financial condition of certain of the independent power producers, contributing to both delay of gas turbine overhaul work and increased pricing pressure.

We continued our investment programme with total capital spend at \$96.4 million (2002: \$202.2 million), including the acquisitions of KCI and Barber Industries, and \$74.5 million of capital expenditure.

Delivering growth and returns

Our strategy for medium term growth is focused on our broad range of complementary activities in five growth areas in the oil & gas and power markets. During the year we continued to gain market share and achieve good revenue growth from both acquisitions and organic developments.

- In **deepwater topsides, subsea and offshore pipeline engineering** we are involved in 60% of current deepwater projects in the Gulf of Mexico, including some initial work on Gulf Terra's Atwater Valley project and Kerr McGee's Constitution development. In West Africa, we are currently working on Chevron Texaco's Agbami and Benguela-Belize projects. In Asia Pacific, we worked on Unocal's West Seno development and Murphy's Kikeh discovery.
- In **production support and enhancement** services we were awarded five-year contracts by both TOTAL and Talisman Energy (UK) Limited (Talisman) to support their UK North Sea assets - further confirmation of our leading role in reducing our clients' operating costs, enhancing their production and improving health, safety and environmental performance. In West Africa we are supporting Marathon's facilities onshore and offshore in Equatorial Guinea, and, in Brunei, a Wood Group led JV is now working with Brunei Shell Petroleum to manage and upgrade certain of its assets.
- Our **internationalisation of Well Support** is progressing well. Wood Group ESP (electric submersible pumps) won a five-year, \$50 million contract with Repsol in Argentina and further extended its operations in Ecuador, China and Russia and is now well positioned to win more business in these areas. Pressure Control has good growth potential in Canada following the acquisition of Barber Industries and has continued to win international market share, including contracts in Saudi Arabia, Venezuela, Australia and Oman.
- In the **industrial gas turbines aftermarket** we have increased our controls and operations & maintenance capabilities, and have broadened our service offering, including new electrical generator service facilities in the UK and the US. We also opened our new Heavy Industrial Turbine Center of Excellence in Connecticut and expanded our facility in Thailand. Since the year-end, we have completed the

acquisition of Z.TEC to accelerate our heavy industrial turbine growth in continental Europe.

- In **outsourcing and managed services** our spread of life of field oil & gas and power industry support services has helped us win significant long-term contracts in all three businesses. In the North Sea we now have the capability to be the safety case duty holder – which is particularly relevant to the requirements of the newer entrants. Worldwide we believe we are a leader in the provision of long-term production enhancement performance contracts using electric submersible pumps. In the power industry we are winning contracts covering the full maintenance responsibility, including the gas turbines, generators, controls and field service.

The global infrastructure of the Group, our strong client relationships, our know-how, our project and risk management services and our flexible performance contracting solutions have all contributed to the revenue growth this year.

Our People

My sincere thanks go to the Board for their continuing hard work and wise counsel. Bill Edgar will retire in May after nine successful years. I look forward to welcoming Trevor Noble and Les Thomas to lead the continuing development of Engineering & Production Facilities. Deputy Chief Executive, Allister Langlands, has taken on the role of Chief Executive of Gas Turbine Services and I am encouraged by the initiatives he has already put in place to drive performance improvement. Above all, my warm thanks to all our employees – more than 13,000 in 34 countries – for their customer care, their skills, their commitment and their enthusiasm and dedication in driving our further growth.

Outlook

Overall, we expect the world oil & gas markets to show year-on-year growth of some 5% against a continuing backdrop of stable and relatively strong commodity prices in 2004. We believe we will see continuing growth in our Well Support activities and further successful international development in Production Facilities. We also anticipate some recovery in Gas Turbine Services following a number of initiatives to reduce costs and enhance performance. However, as indicated in previous statements, we believe continuing industry-wide delays in the progress of large deepwater engineering projects will hold back our overall performance in 2004.

Our strategy remains robust and our activities are well positioned to exploit key growth segments in worldwide oil & gas and power markets. We are continuing to gain market share in key target markets and achieving good revenue growth from both organic and acquisition developments. Overall, we are well positioned in fundamentally strong markets and are confident we will deliver good medium term growth.

Engineering & Production Facilities

Engineering & Production Facilities continued to extend its capability and expertise, and delivered strong growth in 2003.

Engineering & Production Facilities provides a broad range of life-of-field engineering, modifications, maintenance and operations services to oil and gas customers worldwide. 2003 saw revenues increase 10% to \$1,095.2 million (2002: \$992.8 million) and EBITA increase 4% to \$95.8 million (2002: \$91.7 million).

Engineering

We offer a broad range of engineering services in the design of oil and gas production, transportation and processing facilities, with expertise in:

- upstream engineering: including deepwater topsides facilities; lightweight topsides; subsea engineering and onshore processing facilities
- midstream engineering: including offshore & onshore pipeline engineering; compression and LNG/GTL
- downstream engineering: including refining and petrochemicals

In North America, Mustang Engineering (Mustang) and Alliance Engineering (Alliance) had a strong year working on more than 60% of current deepwater projects in the Gulf of Mexico. This includes 'pre' Front End Engineering Design (FEED) work on GulfTerra's Atwater Valley Project. In the North Sea, BP's Clair project is progressing well. In West Africa, detailed engineering for a compliant piled tower in support of ChevronTexaco's Benguela-Belize development in offshore Angola is under way. In Asia Pacific, Mustang and JP Kenny continue to work on Murphy's Kikeh discovery – the deepest development to date in Asia Pacific. Alliance provided conceptual and detailed engineering, plus fabrication and commissioning support, to the Su Tu Den FPSO project offshore Vietnam, which delivered first oil two weeks ahead of the original schedule and received the ConocoPhillips Spirit award for excellence.

As we have previously indicated, a number of the larger deepwater engineering projects worldwide are experiencing longer than anticipated delays before sanction. Notwithstanding this, the economics of deepwater projects remain very compelling. Deepwater is expected to account for in excess of 20% of the world's production that comes on stream between now and 2010. This will require a deepwater capital spend, including engineering, of around \$50 billion during the period. We believe that our strong market position and leading independent engineering capability will win us a significant share of the engineering work to be awarded.

In mid and shallow water, there were some important awards during the year. In Venezuela, Alliance and Vepica are working together to provide engineering and project management services for the ConocoPhillips offshore Corocoro development. We provided engineering services to BP's Tangguh pipeline in Indonesia and on the Phu My to Ho Chi Minh city pipeline in Vietnam. Leading on from this, in 2004, we will begin the engineering construction management of the Phu My pipeline. Ionik - the Group's materials engineering specialists - was awarded a materials/integrity assurance program on ChevronTexaco's existing pipelines in Angola. Additionally, JP Kenny won the initial FEED work, followed by the construction management, for a new offshore pipeline system to transport gas from Algeria to Europe.

With the anticipated significant growth in gas production, and LNG (liquefied natural gas) and GTL (gas to liquids) processing, we are growing our midstream capabilities and have worked with Syntroleum in the detailed design and construction of their greenfield GTL demonstration plant in Tulsa.

In downstream, we are working on a number of clean fuel projects in the US and expect to see further work as the 2006 date for implementation of new clean fuel legislation approaches. In addition, we are growing our activities in the Pharmaceutical sector.

Production Facilities

We offer a broad range of production facilities support to our clients around the world, with expertise in:

- production enhancement: water injection; gas injection and gas compression; debottlenecking and maintaining high operational uptime of facilities
- maintenance management; maintenance systems design; life-of-field modifications engineering, planning & execution; operations and maintenance support and; in conjunction with our Gas Turbine Services division, rotating equipment repair & maintenance

We enjoyed high overall activity levels in the North Sea throughout the year. Our major contracts with Shell (through Sigma 3, a joint venture company) and BP successfully undertook significant modifications on a number of the key North Sea producing fields.

During the year we were awarded a five year £250 million contract with Talisman to provide engineering, construction, operations and maintenance services to all of their nine UK assets and the Flotta terminal. We are now supporting Apache on the former BP Forties field assets and we were awarded a major five-year contract by TOTAL for the provision of engineering, procurement, construction and ancillary services for all of its UK North Sea assets.

The North Sea is continuing to evolve with new asset owners looking to reinvigorate production both through incremental exploration and production enhancement. We now have the capability to take on the Safety Case 'duty holder' role taking operational responsibility for the production assets with the client benefiting from world-leading maintenance and operations performance and access to supply chain leverage through a reward based contract.

In the Gulf of Mexico we are carrying out field management for in excess of 35 offshore manned facilities for a number of local operators, including Unocal, Apache and Forest. In Colombia, we commenced new five-year contracts to expand, operate and maintain two early production facilities on the Floreña and Recetor fields. In Venezuela, the Wood Group managed SIMCO consortium has continued to provide water injection services to PDVSA. In Brazil, we continue to provide maintenance and modifications services to Petrobras' offshore facilities in the Campos basin and recently secured a four-year contract to support four offshore drilling installations. In Trinidad and Tobago, our new joint venture, NM Wood Group, now has the capability to provide engineering, operations and maintenance services.

We are also developing our production facilities activities in the Eastern Hemisphere. In West Africa, we entered into a major two-year contract with Marathon to provide operations support to the company's offshore production and gas re-injection and its onshore gas processing and export facilities in Equatorial Guinea. In Brunei, a Wood Group-led joint venture entered into a five-year \$160 million contract with Brunei Shell Petroleum for the management and execution of engineering, fabrication, offshore construction and maintenance services to upgrade certain of its offshore facilities in Brunei Darussalam.

Senior management succession

Bill Edgar will retire in May after nine very successful years as Group Director for Engineering & Production Facilities. He will be replaced by two new Executives - Trevor Noble and Les Thomas – who have just joined us and will both join the main board in May. Trevor will lead the engineering activities and Les the production facilities activities. Both have very significant experience from highly successful careers in the industry and will play a key role in driving the growth of the division.

Well Support

In 2003, we continued the development of our international business, added long-term contracts and further enhanced our product range.

Well Support supplies solutions, products and services to increase production rates and recovery from oil and gas reservoirs. It is among the market leaders worldwide in artificial lift using electric submersible pumps (ESPs), in the provision of surface wellheads and valves, and, in the Gulf of Mexico and in South America, in the provision of electric and slickline services.

Well Support achieved an improved performance in 2003 with revenues of \$412.6 million (2002: \$360.0 million) and EBITA of \$31.4 million (2002: \$21.7 million).

Wood Group ESP

As the world's oilfields mature there is an increasing need for artificial lift to drive production, and ESPs are the fastest growing form of artificial lift. We are the third largest global provider of ESPs for use in artificial lift.

We believe that the Group's service focus is important in securing longer-term contracts. In 2003, we were awarded a five-year, \$50 million, pay-for-performance (PFP) contract to supply electric submersible pumping systems and services to Repsol in Argentina. The contract includes the maintenance and repair of pumps currently owned by Repsol, together with the installation, maintenance and repair of new units to be supplied by Wood Group ESP. Together with our other PFP contracts, including those with PD Oman and Joint Operations in Kuwait, we are now supporting approximately 2,000 wells around the world on a long-term basis.

The drive to penetrate new markets continues. Wood Group ESP has just won its most significant contract to date in the Russian market and is entering new markets in the Middle East and Asia Pacific.

An important factor for customers in choosing our services and products is the efficiency and run lives of our ESPs. During the year we received six US patents for novel technologies related to electric submersible and surface pumping systems. The innovations are designed to increase run lives, reduce total operating costs and provide maximum serviceability of the systems all of which can improve the performance and profitability of pay-for-performance contracts.

Joe Brady, who led Centrilift's very significant growth in the electric submersible pump sector, has joined us as Chairman of Wood Group ESP.

Wood Group Pressure Control

Wood Group Pressure Control maintained its position as the second largest US and fourth largest worldwide supplier of surface wellheads and valves.

In the first half of 2003, Wood Group Pressure Control acquired the assets of Barber Industries (Barber) for \$10.7 million. Barber is an established manufacturer and supplier of wellhead equipment, valves and safety systems to oil & gas production and pipeline industries in Canada. The acquisition will help Wood Group Pressure Control grow its market share in Canada, and the expansion of the customer base and the integration of the product lines is providing further opportunities around the world.

A number of important contract wins in 2003 enabled Wood Group Pressure Control to continue to grow, both in the US market and in the international arena. Among these were an extension to our ConocoPhillips contract and increasing levels of activity with a number of US independents. In addition, in the international arena, contracts were secured in Saudi Arabia, Venezuela, Australia and Oman.

Wood Group Pressure Control, like Wood Group ESP, provides a combined product and service offering. Apache North Sea have recently awarded us the contract for the provision and maintenance of surface wellheads and valves on the Forties Field in the North Sea.

Wood Group Logging Services

Wood Group Logging Services provides services and products focused on well monitoring and mechanical downhole operations including electric and slickline well logging and the supply of permanent monitoring gauges. During the year, we continued to extend our service offering throughout the Gulf of Mexico, Texas and Louisiana.

Wood Group Production Technology continues to make good progress and introduced the 25,000 psi-rated version of its ROC™ family of downhole permanent monitoring gauges, offering greater reliability and the ability to operate in higher pressure, higher temperature environments. An early example of the success of this product is the contract from Shell for installation of 12 of these gauges in the Princess and Llano field wells in the Gulf of Mexico.

Wood Group Logging Services in Argentina delivered good growth in the year and continues to benefit from a relatively strong local market.

Gas Turbine Services

The world leading independent in the repair and overhaul of industrial gas turbines

Wood Group Gas Turbine Services is a world leading independent provider of maintenance, repair and overhaul services for industrial gas turbines and related high speed rotating equipment used for compression, transmission and power generation in the oil & gas and power generation industries. Our market differentiations are technology and the broad range of services that we provide, positioning us to win longer-term contracts across multiple engine types and across a wide range of activities.

2003 revenues increased by 29% to \$455.4 million (2002: \$352.0 million), but EBITA decreased by 26% to \$31.9 million (2002: \$43.1 million). *

In aero-derivative gas turbines, we have three businesses that are either original equipment manufacturer (OEM) joint ventures or OEM approved. Rolls Wood Group, our joint venture with Rolls-Royce, opened two new state of the art facilities for Rolls-Royce RB211 and Avon gas turbine overhaul and repair in Aberdeen. Long-term contract wins included Statoil in Norway for their fleet of Rolls-Royce engines on both the onshore gas terminal at Kårstø and on the offshore Heidrun platform. TransCanada Turbines, our Calgary-based joint venture with TransCanada Pipelines, secured a \$50 million, eight-year, long term service agreement with a leading US power utility, for the maintenance of General Electric and Rolls-Royce gas turbines, drawing on our ability to service multiple engine types. Wood Group Pratt & Whitney, our joint venture with Pratt & Whitney, continued to perform satisfactorily despite the difficult North American power market.

Our Light Industrial Turbine (LIT) activities include the repair and overhaul of the Siemens (Ruston) and Solar turbine range. Contracts awarded included a six-year service agreement with British Nuclear Fuels (BNFL) to provide maintenance services to certain of their generating equipment and controls at the Westinghouse UK Fuel Business at Springfields, Preston, and a five-year contract from Talisman in the North Sea to provide maintenance services for 45 gas turbines covering a range of manufacturers on seven of their North Sea facilities.

Our Heavy Industrial Turbine (HIT) activities delivered a disappointing EBITA performance, particularly in the second half. They were negatively impacted by increased pricing pressure, resulting from the continuing power market overcapacity and weak financial condition of some of the North American independent power producers. This is unlikely to improve materially in 2004, but we believe will provide a good market growth opportunity in the medium term. Power markets in the rest of the world continue to grow.

We extended our HIT service offering with the opening of a Centre of Excellence in Connecticut for component repair and rotor overhaul, and new generator repair facilities in the US and the UK. Our new contracts included an estimated \$11.5 million long-term maintenance services contract with GWF Energy in the US, that covers field service, component repair and parts supply and is expected to run until 2013. Our continuing investment in field services is providing pull through opportunities for component repair and supply of parts, and our recent Z.TEC acquisition will provide a strong foothold for growth of field services in Europe. We continued to invest in extending our range of re-engineered parts using advances in technology to generate improvements in reliability and functionality for our customers. We have extended our services to include turbine controls retrofits and have also expanded into power station operations and maintenance.

Wood Group Power Solutions, a business providing packaged power solutions, won a major contract with Drummond Limited for the design, procurement and installation and commissioning of a 65 MW power plant, consisting of one General Electric LM6000 and one General Electric LM2500 industrial gas turbine, to the company's expanded coal mining operations in northern Colombia.

In gas turbine accessories and components, we have a number of businesses with strong niche market positions. The component repair business in Dundee, UK has retained its

contract with the UK Ministry of Defence for the repair of engine components for Tornado fighter aircraft. In the US, Fuel Systems won a three-year order with Dominion Energy for the overhaul and repair of GE engine fuel nozzles at its Chesterfield power station in Virginia.

* Figures exclude discontinuing activities

Financial Review

In 2003, the Group enjoyed strong growth in revenue and operating cash flows

Trading Performance

Details of Group-wide developments and the market conditions in the year are laid out in the Chairman's statement and the operating reviews.

Group revenues increased by 15% to \$1,992.6 million (2002: \$1,738.1 million) reflecting a year of strong activity for the Group, with good revenue growth in all three divisions.

Group EBITA increased marginally by 1% to \$137.2 million (2002: \$135.9 million) reflecting increased EBITA in both Engineering & Production Facilities and Well Support offset by reduced EBITA in Gas Turbine Services. The overall EBITA margin ("margin") fell from 7.8% in 2002 to 6.9%, as a result of lower margins in Engineering & Production Facilities and Gas Turbine Services, offset to some extent by increased margins in Well Support.

The lower overall margin in Engineering & Production Facilities is as a result of a decline in margin in engineering activities, which includes the impact of higher business development costs, partly offset by an increase in the production facilities margin. The decline in Gas Turbine Services margin is as a result of a number of factors, including: greater field service revenues; investment in the development of new businesses; pricing pressures due to the difficult power market; lower than anticipated activity levels in certain of our workshops, particularly in the second half; and certain other one-off costs. Well Support's margins increased due to higher volumes in our manufacturing businesses combined with improved cost control.

The share of operating profit in associates fell to \$1.3 million, which compares to \$6.5 million for 2002, reflecting the difficult trading conditions faced by ASCO plc (ASCO) in 2003.

Amortisation, including the share of joint venture amortisation, increased from \$12.6 million in 2002 to \$15.6 million in 2003 as a result of the acquisitions made during both 2002 and 2003. Total operating profit decreased to \$122.9 million (2002: \$129.8 million) as a result of the lower profit from ASCO and higher amortisation.

Exceptional items

The Group no longer exercises any significant influence over ASCO, and the likelihood of receiving any proceeds from its investment is considered remote. Accordingly, the Group has written off its investment, resulting in an exceptional charge of \$13.8 million. The Group has ceased to equity account for its interest in ASCO with effect from December 2003.

There was an exceptional net loss on the disposal of tangible fixed assets amounting to \$3.5 million in 2003. This amount included a loss of \$5.9 million on an early production facility which was sold back to the customer, at their request. This is partly offset by a gain of \$2.4 million in respect of the excess of insurance recoveries over the book value of fixed assets destroyed in a fire at a Rolls Wood Group facility in 2002.

There was a further exceptional loss of \$2.7 million relating to the closure costs of the Group's discontinued aero engine overhaul operations.

Interest and Taxation

Net interest payable by the Group and joint ventures was \$15.1m compared to \$11.0m in 2002. The increase in interest cost includes the impact of higher non-US dollar interest costs where local borrowings are used to hedge currency exposures, particularly in South America. The Group had interest cover¹ of 9.1 times (2002: 12.4 times). The share of interest payable by ASCO was \$4.8 million (2002: \$4.1 million). From December 2003 we will no longer reflect our share of ASCO's interest cost in the Group's financial statements.

The tax charge of \$37.8 million, which includes a credit of \$1.3 million in respect of exceptional items, reflects an effective tax rate 33.0% of profit before tax, amortisation, impairments and exceptional items and compares to a rate of 34.9% in 2002. The reduction in the tax rate is due to an increased proportion of profits being earned in lower tax jurisdictions.

Earnings Per Share and Dividends

Diluted earnings per share was 8.4 cents compared to 13.8 cents in 2002 and was impacted by the exceptional charges in the current year. The adjusted diluted earnings per share before amortisation and exceptional items decreased to 15.4 cents (2002: 16.5 cents), as a result of a 2% reduction in adjusted earnings and a 5% increase in the weighted average number of shares in issue. A final recommended dividend of 2.2 cents per share (2002: 2.0 cents) takes the total dividend for the year to 3.3 cents (2002: 3.0 cents).

Shareholders' Funds

Shareholders' funds increased by \$33.4 million to \$541.3 million. The increase comprises retained profits of \$25.7 million, \$7.3 million of exchange movements and other movements of \$0.4 million.

Operating Cash Flow

The Group enjoyed strong cash flow from operating activities of \$144.9 million in 2003 compared to \$127.9 million in 2002, an increase of 13% or \$17.0 million. The operating profit after adding back non-cash items was \$141.4 million, and working capital reduced by \$4.0 million in spite of a significant increase in revenues. Dividends from joint ventures increased to \$11.7 million compared to \$7.7 million in 2002.

Capital Investment

There was continued investment in acquisitions and capital expenditure in 2003. Capital expenditure totalled \$74.5 million compared to \$105.9 million in 2002. The investment of \$18.5 million in acquisitions in 2003 included the acquisition of KCI and Barber Industries and compares with \$77.1 million in 2002. The disposals of Enterprise Engineering and WG Drilling Products resulted in net proceeds of \$7.3 million.

Net Debt and Financial Instruments

Net debt reduced by \$2.2 million to \$175.0 million at December 2003 from \$177.2 million at December 2002 as a result of the net cash flows described above, less an amount of \$17.3 million invested in Group shares by employee share trusts in order to satisfy the future exercise of options. The Group's gearing ratio² has decreased from 35% at December 2002 to 32% at December 2003.

Group borrowings are primarily US dollar denominated. Of the total long-term borrowings of \$230.9 million, \$125.0 million are at a fixed rate of interest averaging 4.4%, excluding margin. The Group's policies in respect of financial instruments are set out in note 17 to the financial statements.

- ¹ Interest cover is defined as EBITA divided by net group and joint venture interest payable.
- ² Gearing is calculated as net debt divided by shareholders funds.