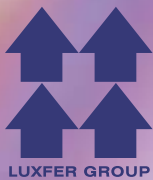


LUXFER HOLDINGS PLC

# Report & Accounts 2000



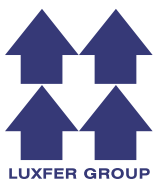
HIGH PERFORMANCE  
ENGINEERING MATERIALS  
WORLDWIDE

Luxfer is an international group of businesses that specialise in the design, manufacture and supply of high performance engineering materials to manufacturing industry worldwide.

Activities of the Group include the manufacture of high pressure gas cylinders, zirconium, magnesium, and aluminium alloys and components. Main markets served include aerospace, automotive, defence and general engineering.



Front cover:  
Magnesium die cast component produced by Zitzmann Druckguss, a German company recently acquired by Luxfer Group.



## CONTENTS

|                                   |                   |
|-----------------------------------|-------------------|
| Financial Results in Summary      | 1                 |
| Highlights by Sector              | 2                 |
| Corporate Information             | 4                 |
| Chairman's Statement              | 5                 |
| Chief Executive's Review          | 6                 |
| Finance Review                    | 10                |
| Luxfer Group Worldwide            | 12                |
| Directors' Report                 | 14                |
| Report of the Auditors            | 19                |
| Group Profit and Loss Account     | 20                |
| Balance Sheets                    | 22                |
| Group Cash Flow Statement         | 23                |
| Notes to the Financial Statements | 24                |
| Company Details                   | Inside Back Cover |

## OPERATING HIGHLIGHTS

- Major strategic restructuring of the Group, refocusing on higher value added products and a lower dependence on UK manufacturing.
- Sale of British Aluminium to Alcoa for £186 million.
- Sale of Baco Consumer Products to Reynolds Metals Company for £42 million.
- Acquisition of Zitzmann Druckguss in Germany, a manufacturer of magnesium and zinc die cast components.
- Repayment of bank debt facilities of £141.3 million and release from credit agreement covenants.
- Post year end: Agreed acquisition of SM Gerzat in France (aluminium cylinder manufacturer) and sale of British Aluminium Speciality Extrusions.

## GROUP FINANCIAL RESULTS IN SUMMARY

| CONTINUING OPERATIONS                           | 2000<br>£M | 1999<br>£M |
|---|------------|------------|
| Sales revenue                                   | 231.9      | 218.7      |
| Operating profit before exceptionals & goodwill | 26.4       | 28.5       |
| EBITDA before exceptionals                      | 35.1       | 36.6       |
| Operating cash flow                             | 33.2       | 32.5       |
| <hr/>   |            |            |
| TOTAL OPERATIONS                                | 2000<br>£M | 1999<br>£M |
| Operating Profit                                | 29.2       | 48.0       |
| Profit before tax                               | 104.5      | 21.9       |
| Profit after tax                                | 96.3       | 16.2       |
| Net debt  | 87.6       | 287.2      |
| Shareholders' funds/(deficit)                   | 21.2       | (72.9)     |

## LUXFER GROUP PRINCIPAL BUSINESSES AND DIVISIONAL STRUCTURE





## GAS CYLINDERS

The strategic restructuring of the Group during the year saw the disposal of the majority of the British Aluminium operations and the sale of Baco Consumer Products. The Group also announced the closure of the Baco Contracts business and the subsequent sale of the highway products part of that business.

The Group now comprises three divisions: Gas Cylinders, Elektron (Magnesium & Zirconium) and Speciality Aluminium. The Speciality Aluminium division was formed from the two businesses remaining from the Aerospace & Speciality division, after the sale of British Aluminium to Alcoa: British Aluminium Speciality Extrusions and British Aluminium Tubes.

Since the year-end British Aluminium Speciality Extrusions has been sold to Pechiney and the proposed acquisition of SM Gerzat the French based gas cylinder manufacturer from Pechiney was announced.

The world's leading manufacturer of aluminium high pressure gas cylinders.

**Operating Highlights**

- Turnover of Gas Cylinders up by 6.7% over 1999.
- Strong demand for new lightweight composite cylinders for life support and medical markets.
- Profitability strong in US and Australia, but UK operation struggling.
- The 2001 acquisition of SM Gerzat in France will provide an important new manufacturing base inside the euro zone.
- Strong demand for superplastically formed components from both the US and UK Superform operations. Revenues up 32% over 1999.

| <b>Summary of results</b> | <b>2000</b>  | <b>1999</b> |
|---------------------------|--------------|-------------|
| Turnover £m               | <b>110.2</b> | 103.3       |
| Operating profit £m       | <b>11.2</b>  | 11.1        |
| Net assets £m             | <b>34.5</b>  | 34.9        |
| Number of employees       | <b>952</b>   | 972         |



Part of the range of Luxfer aluminium and composite cylinders for medical applications.



## ELEKTRON

One of the world's largest producers of zirconium chemicals and the leading supplier of specialist magnesium alloys, fabricated products and powders.

### Operating Highlights

- Turnover up by 5.8% over 1999.
- Strong demand for new high performance magnesium WE alloys into specialist automotive and aerospace markets.
- Strong demand for new zirconium products and a significant increase in investment in zirconium research and development during 2000.
- The acquisition of Zitzmann Druckguss in Germany provides an entry into the rapidly growing magnesium die casting market.
- The division embarks on the construction of a new magnesium recycling plant in the Czech Republic to support the growing use of magnesium in the European automotive industry.

| Summary of results  | 2000  | 1999  |
|---------------------|-------|-------|
| Turnover £m         | 106.6 | 100.8 |
| Operating profit £m | 16.1  | 17.2  |
| Net assets £m       | 45.5  | 40.2  |
| Number of employees | 806   | 691   |



Elektron's advanced alloys are used by foundries throughout the world.



## SPECIALITY ALUMINIUM

The UK's largest and best equipped supplier of aluminium drawn tube products.

### Operating Highlights

- Sales volumes of seamless extruded and porthole drawn products increased.
- Turnover up by 6.1% despite the impact of the sterling to euro exchange rate on revenue. Over 50% of third party revenues are now generated from exports.
- Losses primarily due to impact of currency.
- Significant growth achieved in sales to the European automotive sector.

| Summary of results  | 2000  | 1999 |
|---------------------|-------|------|
| Turnover £m         | 19.2  | 18.1 |
| Operating profit £m | (0.9) | 0.2  |
| Net assets £m       | 8.4   | 10.4 |
| Number of employees | 177   | 169  |



Photocopier drums from precision drawn tube produced by British Aluminium Tubes.

## THE DIRECTORS

**Jeffrey Whalley**

(Aged 58) was appointed non executive director and chairman of the main board of Luxfer Group on 9 February 1996. He is also Chairman of the Remuneration Committee and a member of the Audit Committee. He held a succession of senior executive positions in industry before joining FKI plc in 1980 where he became managing director and later chairman, a position he resigned in 1999. He is also a director of GWB Holdings plc and Towcester Racecourse Limited.

**Ian Bannochie McKinnon**

(Aged 54) was appointed Chief Executive of Luxfer Group on 21 August 1995. He held several senior executive positions in the vehicle industry before leading the successful management buy-out of Leyland Bus which was subsequently sold. In 1991 he was recruited by Alcan to manage their plate and extrusions businesses. He resigned from Alcan to lead the management buy-in team and set up the Luxfer Group.

**Brian Gordon Purves FCMA**

(Aged 46) was appointed Finance Director on 19 March 1996, having held several senior finance positions in Land Rover and Rover Group. He was part of the management buy-in team.

**Thomas William Leader**

(Aged 36) was appointed as a non-executive director of the Company on the 23 November 2000. He is a director of Morgan Grenfell Private Equity Limited (a major investor) and a number of its affiliates and represents that company on the board. He is also a member of the Audit and Remuneration Committees.

**Francis John McKay**

(Aged 55) was appointed as a non executive director of the main board of Luxfer Group on 1 January 1998. He is also a member of the Audit and Remuneration Committees. He was appointed chief executive of Travis Perkins Plc in 1999 on the sale of Blue Circle where he had been chief executive of Blue Circle Heating since 1994.

**Norman Loch Murray**

(Aged 53) chair of the Audit Committee and member of the Remuneration Committee. He was appointed a non executive director of the main board of the Luxfer Group on 28 October 1998. He is chairman of British Linen Advisers Limited and a non executive director of a number of other companies and investment trusts. He is also a past chairman of the British Venture Capital Association and former council member of the Institute of Chartered Accountants of Scotland.

**David Gordon Milne**

(Aged 41) banker, was appointed a non-executive director effective from 1 January 2001. He is also a director of CVC Capital Partners Limited (a major investor) which company he represents on the board. He has also been appointed a member of the Audit and Remuneration Committees.

**Tobias Humphrey James Boyle**

(Aged 43) was a non-executive director and member of the Audit and Remuneration Committees of the Company until his resignation in November 2000. He represented Morgan Grenfell Private Equity Limited on the board before his resignation.

**William Twyman Comfort**

(Aged 34) was a non-executive director and member of the Audit and Remuneration Committees until his resignation in November 2000. He represented CVC Capital Partners Limited on the board before his resignation.

## THE EXECUTIVE MANAGEMENT BOARD

| NAME                            | TITLE   | AGE |
|---------------------------------|---|-----|
| <b>Ian Bannochie McKinnon</b>   | Chief Executive   | 54  |
| <b>Brian Gordon Purves</b>      | Group Finance Director  | 46  |
| <b>Robert John Bailey</b>       | Corporate Development Director                                    | 56  |
| <b>Alan Foster</b>              | Managing Director of MEL Chemicals                                | 57  |
| <b>Dick Hirons*</b>             | Managing Director of Magnesium Elektron                           | 65  |
| <b>Christopher John Dagger*</b> | Managing Director of Magnesium Elektron (appointed February 2001) | 52  |
| <b>James Edward Mundie*</b>     | Group Personnel Director  | 48  |
| <b>George James Newburn*</b>    | Managing Director of Baco   | 58  |
| <b>John Stephen Rhodes</b>      | President of Luxfer Gas Cylinders                                 | 51  |
| <b>Michael Geoffrey Wallis</b>  | Managing Director of Speciality Aluminium                         | 40  |
| <b>Stephen Norman Williams</b>  | Group Financial Controller  | 49  |

\*Dick Hirons retired in February 2001 and was succeeded by Chistopher Dagger. James Mundie and George Newburn resigned at the end of the year following the sale of the UK aluminium businesses.



*“The sale of British Aluminium and Baco represents the first major strategic restructuring of the Group since it was created in 1996”*

Jeff Whalley,  
Chairman

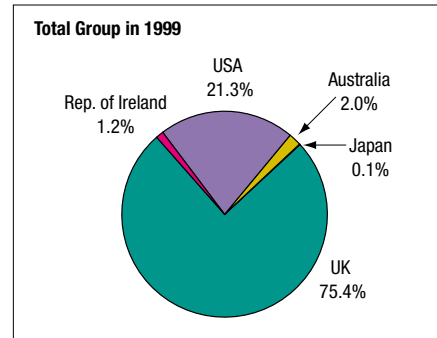
In 2000 we took the opportunity to refocus the Luxfer Group onto higher added value products by selling our Speciality & Aerospace and Engineering & Consumer Products divisions.

The sale of the British Aluminium operations to Alcoa effectively reduced the exposure of the Luxfer Group to the aerospace cycle, improved the balance of our geographic spread of operations and significantly reduced our exposure to the strength of sterling versus the euro.

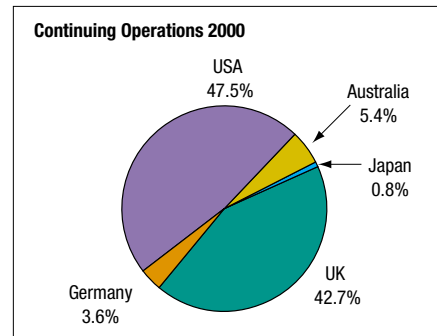
The retained businesses have strong market positions and excellent growth prospects. During 2000 and since the end of the year we have strengthened these businesses (i) by acquiring Zitzmann Druckguss, a German manufacturer of die cast components, in order to take advantage of the rapidly growing use of magnesium in the automotive market; (ii) by investing in the construction of a new magnesium recycling plant in the Czech Republic, again to service the European automotive market; and (iii) through the proposed acquisition of SM Gerzat, a manufacturer of aluminium gas cylinders, based in France, which strengthens our leading position in the European gas cylinder market.

### Results

In the continuing businesses, operating profit before exceptional costs and goodwill amortisation was 7.3% lower at £26.4 million, compared with £28.5 million in 1999. Turnover was up 6% at £231.9 million, compared with £218.7 million in 1999. Cash flow from continuing operating activities was strong at £33.2 million compared with £32.5 million in 1999.



Turnover by  
Geographical  
Origin



### Outlook

While the general outlook is improving the business still faces some major challenges, particularly in regard to the weakness of the euro. However, the changes we have implemented during 2000 have significantly reduced our dependence on UK based manufacturing and have thus reduced our exposure to the strength of sterling. Demand for our speciality products remains strong, endorsing our strategy of developing the Group as a manufacturer of high performance engineering materials.

We enter 2001 confident that by refocusing the business onto speciality products, where we have clear market leadership, we have established a solid foundation for future profitability and growth.

### Jeff Whalley

Chairman



*"The retained businesses are strong businesses with excellent growth prospects"*

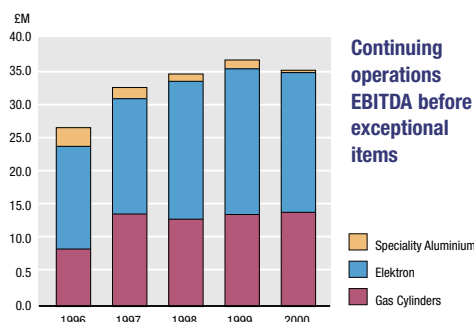
Ian B McKinnon,  
Chief Executive

During the year we implemented the first significant reorganisation of the Luxfer Group since its creation in 1996. It became increasingly apparent throughout 1999 – 2000 that the persistent strength of sterling against the euro made the profitable manufacture of lower value added materials within the UK ever more difficult. As a result we decided to refocus the Group around our higher value added operations and significantly reduce our UK manufacturing base.

Consequently the Group has been refocused around the two main divisions of Gas Cylinders and Elektron. These are profitable, growing businesses operating very successfully in niche markets, with operations equally spread between the UK and overseas. They are focused at the higher added value end of their industry sectors. The reorganisation leaves the Group with a higher return on sales and a much stronger balance sheet.

The reorganisation was achieved as follows:

- In August 2000 we sold our interest in the trade and assets of Baco Consumer Products, the household aluminium foil and plastic bag business. We received cash consideration of £42.1 million and made a profit on disposal of £23.7 million. The business had always been seen as non-core, being our only consumer products business.
- In late October 2000 we sold the majority of our British Aluminium businesses for £186.3 million. The businesses sold included the aluminium plate mill at Kitts Green, the aluminium sheet business, the commercial extrusion businesses and the Baco distribution centres. All of these operations were UK based. The profit on disposal was £83.6 million.
- Taken together the disposal of British Aluminium and Baco Consumer Products resulted in a non-operating profit on disposal of £107.3 million.
- During the year the decision was taken to exit our loss making Baco Contracts business. We sold the highway products operation in May 2000 for £0.4 million and stopped accepting new contracts for the building side. We are now implementing a full closure plan for the operation and have fully provided for this in 2000.



- After the year-end we announced the sale of our British Aluminium Speciality Extrusions operation, based at Workington. This business was aerospace driven and its sale followed logically on from the sale of the Kitts Green plate operation.
- During the year we acquired the business of Zitzmann Druckguss in Germany to provide an entry into the rapidly growing magnesium die casting market and we made the decision to construct a magnesium recycling plant in the Czech Republic to support the European automotive die casting industry.
- Also after the year-end we had an irrevocable offer accepted for the acquisition of the aluminium gas cylinder business, SM Gerzat, which is based in France. This acquisition is fully complementary with our gas cylinder business in Europe offering an extension to our product range and additional modern manufacturing capacity.

These changes effectively disposed of the Engineering & Consumer Products division and enabled our exit from the Aerospace and Speciality division at a point close to the top of the aerospace cycle. This has had the effect of improving our product mix and increasing our return on sales, with ongoing operations generating 11.4% compared to 9.4% for the Group as a whole in 1999. It has also significantly lowered our exposure to the strength of sterling by reducing our ongoing UK manufacturing base from 75% of total to 40% of Group turnover.

**Results**

The Luxfer Group now comprises three divisions, Gas Cylinders, Elektron and Speciality Aluminium. The

Speciality Aluminium division currently includes only the aluminium drawn tube operation, which has been retained from the previous Aerospace and Speciality division.

During the year Luxfer made an operating profit before goodwill amortisation and exceptionals of £32.7 million compared to £50.7 million in 1999. Continuing operations made £26.4 million compared to £28.5 million. The fall in total profits results substantially from the sale of our discontinued, UK based, aluminium operations and from the disadvantage of exporting into Europe from a UK manufacturing base. The weakness of the euro has led to cheaper imports in the UK, as well as reducing prices in mainland Europe. We also incurred heavy losses in our contracting business which is now being closed.

The continuing operations saw a much smaller fall in profitability. This is partly a result of the global nature of these operations with a significant presence in the US. We are investing vigorously in these businesses, with an increased focus on research and development. In continuing operations, the level of development expenditure has increased from 1.3% of turnover in 1997 to 1.8% of turnover in 2000. This strategy ensures we maintain our position at the higher added value end of the markets we serve. In 2000 we introduced new zirconium products for catalysis and ceramic applications; we benefited from the success in the automotive industry of a new range of high performance magnesium WE alloys; Gas Cylinders brought to the market advanced "SMART" composite cylinders with an embedded microchip to allow customers to electronically monitor the life of the cylinder and better manage cylinder stocks.

### **Gas Cylinders**

Divisional turnover in 2000 was 6.7% or £6.9 million ahead of 1999. This increase was achieved chiefly from a significant increase in composite cylinder sales into the growing markets for life support, medical and paintball. Composite sales might have been higher but were capacity constrained late in the year. Additional machinery has been installed in 2001 to expand capacity. Sales increased in Asia, Australasia and the Americas. The Japanese trading company, established in 1999, was responsible for an increase in sales of 30% in Far Eastern markets. Europe remained difficult with our production base for this region being in the UK. The proposed acquisition of Gerzat in 2001, which is based in central France, will help us to expand in the European region and there remains an opportunity to shift customer preference from steel cylinders to our lightweight aluminium and composite ranges.

Profitability had been good throughout the year but was dragged down by the currency impact in Europe. We estimate this had a direct impact on profits of £1.5 million for the Gas Cylinder division. It also led to pricing pressure, leading to a further loss of profit.

The proposed 2001 acquisition of Gerzat offers an extension to our product range, access to additional modern capacity and the prospect of some significant synergy opportunities when combined with the UK operations. It provides us with an important manufacturing base within the euro zone.

In 2000 a new heat treatment facility was constructed in the Nottingham operation, part of a £1.8 million investment to reduce manufacturing costs and enable the manufacture of medical cylinders in a new lightweight alloy.

Both the UK and US operations achieved 'Class A' certification in 'Production Planning and Control' during the year. The US operation, now the largest Luxfer Group business, also achieved 'Class A' recognition in 'Strategic Planning' and in 'Total Quality and Continuous Improvement'.

In November 2000, the US acquired the assets of a scuba equipment distributor, Seagate Cylinder Company. This acquisition opens a direct route to the market and growth is expected to come in the form of additional cylinders and other scuba equipment. It will be rebranded ScubaLux.



Micro-meteoroid debris shields on this NASA laboratory space module were manufactured by Superform USA.

The Superform operations had an excellent year with sales up 32%. The US operation returned to past sales levels in the aerospace market combined with the continued penetration of the US and UK specialist high performance automotive market. The UK business also saw significant growth in new markets such as the medical sector and received a special Engineering Innovation Award from Oxford Magnet Technology.

**Elektron**

Elektron Division's revenues increased 5.8% or £5.8 million compared to 1999.

Zirconium turnover remained at similar levels to last year with growth in the US of 8% being offset by a reduction in European sales of 7%. Our UK based operations performed well considering the sterling to euro exchange rate during the year. The US demand from the automotive catalyst market for mixed oxides and solutions remained the dominant source of revenue in the States with further growth achieved in 2000 over what was a good year in 1999. Good progress has been made in winning new customers over to zirconium-rich technology. Significant growth was achieved in new product sales, with specialist markets such as pigment coating chemicals enjoying strong sales demand. There was a general deterioration in the prices and sales in more traditional markets such as solutions sold into the paper market and basic zirconium carbonate used in the paint industry.

Europe experienced a similar fall in sales in zirconium basic products and there has been a slower than expected take up of new products aimed at the automotive catalyst market, though some growth was still achieved in traditional oxide sales. Asian sales were also slightly down with reduced demand from the paper industry. Overall the zirconium businesses benefited from further investment in research and development, which has enabled the division to maintain its position at the higher margin end of the rare earth speciality chemicals industry.



Recent acquisition - Zitzmann Druckguss, Stockheim, Germany.

Magnesium sales increased by 14% in 2000 as a result of the successful acquisition of Zitzmann Druckguss, the German based magnesium and zinc die caster. The magnesium operations as a whole saw a significant change in sales mix. We were able to increase higher margin commercial and high performance alloy sales. Our newly developed high performance WE Alloys are being used more extensively in motor sport and we have achieved increased sales of commercial billet in the US for use as an industrial hardener with steel and aluminium. Sales of alloys into aerospace markets also improved substantially in 2000. Nuclear sales remained stable during the year.

Magnesium recycling increased rapidly in tonnes but with current recycling facilities located in the UK, prices came under significant pressure when servicing our main customers based in the euro zone. The new recycling facility in the Czech Republic will solve this problem. It is expected to be commissioned before the end of 2001. Steel desulphurisation sales have seen a fall in 2000 with weak demand in both Europe and the US. Military and commercial powder sales also fell in 2000 when compared to 1999. Powder sales have been hit by two unfortunate incidents. Firstly, a key customer in the US for military powders had an explosion at its facility and withdrew from military flare production. Secondly, one of our own plants in the US also suffered an explosion resulting, sadly, in the death of one of our employees. Two months of production were subsequently lost.



Zitzmann Druckguss:

Above: Magnesium pressure die casting plant.

Left: Extracting magnesium part by robot from 320 tonne die casting machine.

Zitzmann Druckguss, our newly acquired die casting business, performed well and met our initial expectations. Its customers have welcomed Luxfer's ownership with invitations to tender for new product lines. The magnesium business now offers the complete solution for the magnesium automotive market, supplying specialist alloys, die cast components, recycling, and technical support to this growing sector.

Elektron profitability slipped in 2000 by 6.4% to £16.1 million when compared to 1999. Zirconium profitability in 2000 is down on 1999 because of some price erosion and increased investment expenditure. The lower price margins are due to exposure to the strength of sterling and price pressure in more traditional product markets. We increased research and development expenditure by £0.5 million in 2000 as part of our ongoing investment in the business and this has reduced profitability in the short term, but ultimately will produce the next generation of high margin products.

Magnesium profitability remained stable during 2000 compared to the prior year. The change in mix with increased sales of high performance alloys, especially into the aerospace industry, has helped protect profitability. Profits have been hit by the downturn in steel desulphurisation, the pricing pressure on exporting into the euro zone and the loss of production in the US. Expenditure on research and development increased during the year by £0.2 million.

### Speciality Aluminium

Volumes and revenues in 2000 were slightly ahead of 1999, with sales revenue growth of 6.1%, but average prices have fallen and margins squeezed. Production is entirely based in the UK and thus is proportionately more exposed to the euro exchange rate than our two larger divisions. Despite this, sales volumes have been increased in seamless extruded and porthole drawn products. We have managed to improve our export performance into Europe and exports now count for more than 50% of third party turnover. There has been strong demand for our products from the consumer products sector for use in the new generation of bag-less vacuum cleaners. Significant growth has been achieved in sales to the European automotive sector, with sales up nearly 50% for the sector, but another key sector, the photocopier market, experienced a 13% fall in revenues. However, the photocopier market shows signs of recovery with a key customer now increasing volumes.



British Aluminium Tubes supply the most extensive range of extruded and drawn aluminium tubes in Europe.

As a result of the exchange rate position the division has moved into losses, with a loss in 2000 of £0.9 million.

We estimate sterling to euro currency rates accounted for in excess of £0.5 million to the loss in 2000, when compared to 1999, with further losses attributable indirectly to stronger European competition and weaker prices. A cost reduction programme has been implemented to counter some of these difficulties with

an estimated saving on annual operating costs of £0.3 million being achieved by the end of 2000.

Though currently loss making at a trading profit level, the business still makes a positive contribution to Group EBITDA.

### Environmental issues

We announced in the third quarter of 2000 that site borehole investigations at our Redditch plant had revealed historical (pre 1996) groundwater trichlorethylene (TCE) contamination. We are advised that the contamination poses no health threat to the employees or neighbours of the plant. In 2000 we spent £0.3 million on remedial actions and are in the process of defining a rectification programme which will involve remedial treatment over several years and is expected to cost £1.5 million. We have provided for this future cost in 2000.

Luxfer Group remains committed to the Luxfer Environmental Management System, which has been developed, to ensure continued legislative compliance across the Group.

### Health and Safety

Luxfer is fully committed to achieving and maintaining the highest standards of health and safety for all its employees, contractors, visitors and all those who may be affected by its operations. We believe that the management of health and safety is an integral part of good business practice.

### Summary

Luxfer is now a more balanced global business, manufacturing advanced manufacturing materials for growing niche sectors. Our market leadership is based upon technical excellence and innovation, supported by world class levels of manufacturing efficiency. Above all it is the commitment of our employees to the provision of world class customer service that has enabled us to maintain profitability in the continuing operations.

We go into 2001 confident that the changes we have made during the past year have refocused the Group onto higher margin businesses with strong market positions. We have retained a core of strong businesses with excellent growth prospects and these will provide a solid foundation for future profitability and growth.

### Ian B McKinnon

Chief Executive



*“We now have a stronger balance sheet to support the remaining businesses”*

Brian Purves  
Finance Director

### Results

The operating results for the year are discussed in detail in the Chairman’s Statement on page 5 and in the Chief Executive’s Review on pages 6 to 9.

### Turnover

Turnover within the retained Group increased by 6.0% compared to 1999. Of this increase 2.0% was through organic growth and 4.0% through acquisition. Organic growth was generated primarily through the further successful introduction of new composite cylinders by our Gas Cylinders division. Acquisition growth was through our German magnesium die casting facility ‘Zitzmann Druckguss’, which we acquired in late March 2000.

### Earnings

Profit before interest was high at £134.7 million due to exceptional items. A combined exceptional profit of £107.3 million was recorded on the sale of the business of Baco Consumer Products Limited and of the bulk of British Aluminium Limited. An exceptional loss of £1.8m was recorded on announcing the closure of Baco Contracts. Remaining losses on running out the existing contracts of this business have been charged to cost of sales (discontinued operations).

Net interest charges of £30.2 million are high due to the nature of the Management Buy In (MBI) balance sheet and the inclusion of £5.1 million amortisation of the debt issue costs. In particular, the remaining balance of unamortised debt issue costs relating to bank debt were charged to the profit and loss account during the year on the repayment of those facilities. Our interest bill will now reduce following the repayment of our bank debt.

Earnings before tax of £104.5 million are several times that of 1999, but this is entirely due to the exceptional profit.

The effective tax rate of 7.8% is lower than the UK standard rate of corporation tax despite the Group’s overseas earnings being subject to higher rates of corporation tax, particularly in the USA where state taxes are incurred in addition to the federal rate. The sale of

British Aluminium was achieved by means of a sale of shares in Luxfer Group Limited to Alcoa. These had a high cost base and so no capital gains tax is payable. The underlying sustainable tax rate, however, has increased due to the sale of businesses with substantial UK earnings. On a pro-forma basis, the Group’s near-term marginal tax rate is likely to approach 50%.

### Cash Flow

Cash flow remains strong in the continuing operations and is slightly ahead of the prior year for these businesses. The Group generated operating cash flows of £38.7 million and out of this £33.2 million was from the retained Group. The strong cash flow has enabled us to continue to invest in plant and to increase expenditure on research and development.

### Shareholders' Funds & Borrowings

Shareholders’ funds increased by £94.1 million to £21.2 million and it is good to see the shareholders’ funds positive despite the large negative merger reserve created in 1999. Net debt: EBITDA has dropped from 4.5 times at the end of 1999 to below 3.0 times on the continuing earnings of the retained Group.

All existing senior bank loans were repaid during the year in an aggregate amount of £141.3 million (slightly higher than the original value due to exchange movements). As a result of the debt repayment all the charges over the assets of the company have now been released.

Net debt has been reduced by £199.6 million over the year. We now have a much stronger balance sheet to support the remaining businesses.

### Additional Facilities

All existing facilities were cancelled during the year as the senior debt was repaid. Bilateral working capital facilities, for £25 million, having been signed after the balance sheet date and negotiations are taking place on two further facilities.

The Group’s previous ancillary/working capital facilities were retained on an uncommitted basis prior to the inception of new arrangements and were drawn at 31 December 2000 to the extent of £12.1 million (primarily foreign currency contract risk, and performance bonds and guarantees). Utilisation will fall once certain transitional arrangements with Alcoa cease at the end of April 2001.

The equivalent facilities at the end of 1999 amounted to £60 million, of which £14.5 million was drawn.

## **Treasury**

The Group operates a central treasury function that controls all borrowing facilities, investment of surplus funds and the management of financial risks.

The board has approved hedging policies to cover the Group's exposure to interest costs, metal costs and foreign exchange rates. A Hedging Committee chaired by the Finance Director controls these risks.

## **Interest Rate Risk**

The Group's variable and fixed interest rate exposures are managed through a combination of interest rate swaps and caps. Certain swaps in relation to the repaid bank debt were not cancelled at the point of repayment, but will be in the first half of 2001. The mark to market value of these swaps has been recognised at the year end in the balance sheet.

## **Aluminium Metal Cost Risk**

The benefit and risk of metal hedging contracts related to the businesses sold was passed to the respective buyers. The Group's annual requirement for aluminium has fallen from circa 130,000 per annum to approximately 32,000 tonnes (and 21,000 tonnes following the sale of Speciality Extrusions). With a smaller aluminium business our exposure to this risk has now been significantly reduced. No changes have been made to the Group's board-approved policy. The nature of the remaining businesses is such that, on average, less of the movement on the Group's metal cost can be passed through to the customer.

Accordingly, the proportion of the Group's exposure covered by hedges has increased and, at the end of 2000 stood at 15,800 tonnes covering calendar year 2001. This represented approximately 50% of the exposure as compared to 47,800 tonnes and 37% at the end of 1999.

## **Foreign Currency Risk**

Where no natural hedge exists, all firm contractual commitments denominated in foreign currencies are hedged by means of forward foreign exchange contracts at the point of inception. By virtue, however, of the short-term contract nature of much of the Group's export business, hedges in place at 31 December 2000 cover a relatively small proportion of forecast currency revenues in 2001. The Group has a considerable natural hedge against sterling:US\$ volatility. The UK businesses, however, have a sizeable transaction exposure to the sterling:euro exchange rate.

On the sale of the British Aluminium businesses arrangements were agreed with Alcoa to provide a six-month transitional service on foreign currency receipts

because of the difficulty in splitting the external foreign currency hedge contracts between businesses sold and businesses retained. As explained earlier this has led to temporarily higher utilisation of our exchange facilities while this agreement continues.

The matching of overseas investments with foreign currency borrowings has in the past been used to reduce exchange translation exposures arising on the consolidation of overseas profits and assets. With our borrowings now repaid we have used forward exchange contracts to help hedge the overseas balance sheet. The impact of translation on Group earnings and reserves in 2000 was a gain of £1.4 million, which was primarily a result of a gain on the US balance sheet.

## **Accounting Policies**

The Group adopted FRS 10 (Goodwill and Intangible Assets) concepts on accounting for Goodwill back in 1996. FRS 9 (Associates and Joint Ventures) was also adopted in 1998 but had no effect on the accounts. FRS 11 (Impairment of Fixed Assets and Goodwill) has been applied, but in the opinion of the directors there are currently no relevant circumstances that would require an impairment review to be undertaken.

FRS 12 (Provisions and Contingencies) and FRS 13 (Derivatives and other Financial Instruments: Disclosures) were adopted in 1999. FRS 12 has had no material effect on the balance sheet. Full FRS 13 disclosures are presented in note 21 of the financial statements combined with the disclosures in this Finance Review. We have now adopted FRS 15 (Tangible Fixed Assets) and no material adjustments were required to comply. FRS 14 (Earning per share) has had no impact as a result of the Group being a private equity company and EPS not being a disclosed performance indicator.

## **Acquisitions & Disposals**

The Group acquired Zitzmann Druckguss in March for a consideration of £4.4 million and we incurred costs of £0.3 million. After the balance sheet date we have agreed to sell the business of British Aluminium Speciality Extrusions and to buy SM Gerzat, a French manufacturer of gas cylinders. The sale and purchase considerations are of a similar value.

## **Introduction of the Euro**

The Group has taken steps to ensure that its systems are euro-capable and has established procedures for central treasury to handle the flow of euros and the hedging of foreign exchange risk. Trading in euros has become commonplace during 2000.

**Brian Purves,**  
Finance Director

**LUXFER GROUP - EXCELLENCE IN  
MANUFACTURING AND TECHNOLOGY  
WORLDWIDE**



**CANADA**



Magnesium Powder for steel desulphurisation. Niagara Metallurgical Products, Ontario, Canada.



**UK**



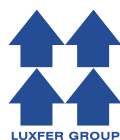
Superform produces front and rear fenders, hood and deck lid for the Aston Martin Vanquish.



**USA**



Reade Manufacturing, part of the Elektron Division introduced Elektron alloys to the US aerospace market. The F22 Raptor, new US fighter utilises Elektron WE43 magnesium alloy, also graphite composite panels from Superform USA.



Since its creation in 1996, Luxfer Group has pursued its goal of becoming a truly international enterprise producing a diverse and technologically advanced range of products and materials.

Examples of the Group activities around the world are indicated above.

The proposed acquisition of a leading French gas cylinder business and the Group's decision to construct a magnesium recycling plant in the Czech Republic demonstrate the Group's ongoing commitment to developing its strategy of manufacturing excellence and exceptional customer service on a global basis.



## GERMANY



Typical die castings in zinc and magnesium produced by Zitzmann Druckguss.



## JAPAN



Nikkei-MEL is responsible for promotion and sales of zirconium chemicals in Japan. Besides catalytic converters for automotive exhaust systems, Nikkei-MEL is working with customers on several new applications for zirconium.



## AUSTRALIA



Luxfer Gas Cylinders (Australia) is the leading supplier of pressurised beverage dispensing cylinders throughout Australasian and Asian markets.



Linda F Seddon  
Company Secretary

The directors present their report and audited financial statements for the year ended 31 December 2000.

### **Business and Principal Activities**

The Company continues to be a holding company for the Luxfer Group.

During the year the Group disposed of its non-core consumer products business carried on under the brand name of Baco. It also accepted an offer for a substantial part of its UK aluminium manufacturing and distribution business. To facilitate the most favourable outcome from the disposals the Group undertook an internal reorganisation. The disposals also presented an opportunity for the Group to rearrange its banking facilities enabling it to repay its secured borrowings. A fuller description of the disposals and their effects, key events and changes during the year together with likely future developments may be found in the Chairman's Statement (page 5) the Chief Executive's Review (pages 6 to 9) and the Finance Review (pages 10 to 11).

Since the year-end the Group has agreed to sell its Speciality Extrusions business. It has also made an irrevocable offer to purchase a gas cylinder business in France, subject to various approvals.

### **Dividend**

The directors do not recommend a final dividend on the ordinary shares.

### **Directors**

*Names:* the names of the directors who held office at 31 December 2000 and during the year together with their short biographical details appear on page 4.

### *Resignations and Appointments:*

Tobias Boyle representing the major investor in the Company, Morgan Grenfell Private Equity Limited resigned on 23 November 2000 and was replaced by Thomas Leader. William Comfort representing the major investor CVC Capital Partners Limited also resigned on 23 November 2000 and was replaced by David Milne with effect from 1 January 2001.

*Transactions with the Directors:* no Director had a material interest in nor were they a party to any contract or arrangement to which the Company or any subsidiary is or was party with the exception of the shareholders agreement which regulates certain aspects of the relationship between shareholders in the Company (Investment Agreement).

*Directors Remuneration:* the remuneration packages of the Executive Directors and the Chairman are determined by the Company's Remuneration Committee. It also, among other things, determines the packages of the divisional heads when they join or leave the Group. Remuneration packages in respect of the Executive Directors and other senior executives in the Group aim to attract, retain and motivate high calibre managers and reward individual performance.

Remuneration packages comprise the following:

*Basic Salary* which takes into account, the responsibilities of the position held and the experience and contribution of the individual executive. Annual reviews also take into account inflation, general economic conditions and Group performance;

*Annual Bonus* comprising a percentage of annual salary, the level depending on the individual's position in the Group. Executive Directors' targets are set in January of each year and are based on Group trading profit and annual cash flow before interest and tax measured against the approved annual budget and an additional bonus for achieving beyond budget in those areas;

*Other Benefits* consist of membership of a Pension Scheme, fully-expensed company car, medical, dental and life insurance.

## DIRECTORS' REMUNERATION

Directors' remuneration during the year was:

|                                | Salary /Fees<br>2000 | Annual bonus<br>2000 | Benefits<br>2000 | Total<br>2000  | Total<br>1999  |
|--------------------------------|----------------------|----------------------|------------------|----------------|----------------|
|                                | £                    | £                    | £                | £              | £              |
| <b>Executive directors</b>     |                      |                      |                  |                |                |
| Ian McKinnon                   | 203,490              | 20,349               | 17,719           | 241,558        | 271,942        |
| Brian Purves                   | 145,350              | 15,310               | 18,855           | 179,515        | 201,998        |
| <b>Non-executive directors</b> |                      |                      |                  |                |                |
| Jeffrey Whalley                | 58,140               | -                    | 13,956           | 72,096         | 68,036         |
| Tobias Boyle*                  | 23,795               | -                    | -                | 23,795         | 26,560         |
| William Comfort*               | 26,560               | -                    | -                | 26,560         | 26,560         |
| Thomas Leader*                 | 2,765                | -                    | -                | 2,765          | -              |
| Francis McKay                  | 20,810               | -                    | -                | 20,810         | 20,000         |
| Norman Murray                  | 20,810               | -                    | -                | 20,810         | 20,000         |
| <b>Totals</b>                  | <b>501,720</b>       | <b>35,659</b>        | <b>50,530</b>    | <b>587,909</b> | <b>635,096</b> |

\*Tobias Boyle and William Comfort's fees are for the period to their date of resignation only. Thomas Leader's fees are for the period from the date of his appointment to 31 December 2000.

Non-executive directors' fees (reviewed annually) are determined by the Board and are periodically benchmarked against comparable companies. Fees for the non-executive directors that represent Morgan Grenfell Private Equity Limited and CVC Capital Partners Limited are determined by the Investment Agreement which provides for an RPI increase annually.

## DIRECTORS' INTERESTS

The beneficial interests of the directors and their families in shares of the Company on 31 December 2000 are as follows:

|                                | Ordinary shares of £0.6487 each                                       |   | Preference shares of £0.6487 each                                     |   |
|--------------------------------|---|---|---|---|
|                                | Shares in which<br>beneficial interest<br>held at<br>31 December 2000 | Shares in which<br>beneficial interest<br>held at<br>1 January 2000 | Shares in which<br>beneficial interest<br>held at<br>31 December 2000 | Shares in which<br>beneficial interest<br>held at<br>1 January 2000 |
| <b>Executive directors</b>     |   |   |   |   |
| Ian McKinnon                   | 180,034   | 180,034   | 17,823,366  | 17,823,366  |
| Brian Purves                   | 71,438  | 52,413  | 5,188,887   | 5,188,887   |
| <b>Non-executive directors</b> |   |   |   |   |
| Jeffrey Whalley                | 77,127  | 77,127  | 7,635,573   | 7,635,573   |
| Norman Murray                  | 246   | 246   | 24,363  | 24,363  |
| <b>Totals</b>                  | <b>328,845</b>  | <b>309,820</b>  | <b>30,672,189</b>   | <b>30,672,189</b>   |

During the year the Remuneration Committee exercised its discretion to allow employees leaving the Group as a result of the reported disposals to exercise their share options. As a measure of equality it also exercised its discretion to allow all holders of options over ordinary shares in the Company to exercise such options over the shares. In consequence, Brian Purves increased his ordinary shareholding in the Company.

In addition, both Brian Purves and Ian McKinnon each held 10,000 Deferred shares of £0.0001 each and 25,000 'B' Preference shares of £1 each in the capital of the Company at 1 January 2000 and 31 December 2000.

|                            | Ordinary shares of £0.6487<br>each in the Company |  |                                     | Preference shares of £0.6487<br>each in the Company |  |                                     |
|----------------------------|---|--|-------------------------------------|---|--|-------------------------------------|
|                            | Options<br>held at<br>31 December<br>2000         | Options<br>held at<br>01 January<br>2000 | Options<br>exercised in<br>the year | Options<br>held at<br>31 December<br>2000           | Options<br>held at<br>01 January<br>2000 | Options<br>exercised in<br>the year |
| <b>Executive directors</b> |   |  |                                     |   |  |                                     |
| Brian Purves               |   |  |                                     |   |  |                                     |
| Exercise price of £0.01    | -   | 9,785                                    | 9,785                               | 968,715   | 968,715                                  | -                                   |
| Exercise price of £0.34    | -   | 9,240                                    | 9,240                               | 914,760   | 914,760                                  | -                                   |
| Totals                     | -   | 19,025                                   | 19,025                              | 1,883,475   | 1,883,475                                | -                                   |

There were no options granted in the year to Brian Purves.

No director or their families had any beneficial interests in any subsidiaries of the Company nor did they have any interest as trustee of either a charitable or other trust at the beginning or end of the year.

### Pensions

Ian McKinnon and Brian Purves participate in the Group's contributory and non-contributory pension arrangements, the combined benefit of which is a pension accrual rate of one forty-fifth of earnings up to the Earnings Cap (set by the Government in each year) for each year of service.

Provision is also made for payment of a spouse's pension on death and a lump sum payment on death in service. In addition they are both members of Funded Unapproved Retirement Benefit Schemes (FURBS), which provide pensions in respect of earnings over the Earnings Cap on a defined contribution basis. Details are set out below:

### Pensions - defined benefit

Executive Directors

|              | Accumulated total<br>accrued pension at<br>31 December 2000 | Increase in accrued<br>pension over year to<br>31 December 2000 | Transfer value<br>of increase |
|--------------|---|---|-------------------------------|
| Ian McKinnon | £40,863 pa  | £1,639 pa   | £4,566                        |
| Brian Purves | £39,654 pa  | £1,647 pa   | £3,176                        |

### Notes

- 1: The accumulated total accrued pension is the total pension which would be paid annually on retirement based on service to and salary at the end of the year.
- 2: The increase in accrued pension excludes any increase due to inflation.
- 3: Both directors have previously brought transfer values into the Group pension arrangements from the schemes of previous employers, in exchange for added years' service credits. The pensions resulting from these service credits are included in the accumulated total accrued pension figures.
- 4: The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less contributions paid by the directors themselves.
- 5: Neither Additional Voluntary Contributions nor their resulting benefits are included in the above table.

### Pensions - defined contribution (including unapproved arrangements)

#### Executive Directors

|              | Company contributions<br>to FURBS over year to<br>31 December 2000 | Company contributions<br>to FURBS over year to<br>31 December 1999 |
|--------------|--|--|
| Ian McKinnon | £30,524  | £29,925  |
| Brian Purves | £22,965  | £22,515  |

### **Employee Involvement**

Senior management are directly involved in the performance of the Group through their participation in annual bonus schemes, share option schemes and share ownership. A combination of newsletters, regular briefings, exchanges and consultations at both Group and site level (as appropriate) are used to communicate with employees and develop their awareness of matters, which concern their business unit or the Group.

The Group continues to offer training and development opportunities to employees at all levels, which provide benefit to both the Group and the individual employee.

The Group has an equal opportunities policy, which is intended to promote good employment practices throughout the Group in the treatment of both employees and job applicants.

### **Disabled Employees**

Where employees have developed a disability whilst employed in the Group which impacts on their ability to carry out their job effectively, the Group has continued to make endeavours to retain and retrain those employees. Applicants for job vacancies who are disabled are given full and fair consideration bearing in mind the requirements of the particular job and the particular aptitude and abilities of the candidate.

### **Research and Development**

During the year the Group invested £5.1 million (1999 - £5.1 million) in research and development on new and improved products and processes. It continues to maintain links in fields of research with both leading universities and outside agencies to support and supplement its own in-house expertise.

### **Payment of Creditors**

The Group does not follow a formal code on payment of creditors. Group policy provides that payment terms should be agreed with suppliers during negotiations. Each business unit endeavours to adhere to this policy as far as it is practicable. Usual practice is to pay suppliers in accordance with agreed terms and conditions provided that goods or services supplied are in accordance with the agreed terms and conditions of contract. Normally, suppliers will be advised as soon as is practicable of a dispute and payment will be made of that part of the invoice not in dispute unless good reason exists. Smaller suppliers will usually be paid in accordance with their standard terms and conditions or those of the business unit concerned (of which they are made aware) as appropriate. Actual practice may vary between business units. At 31 December 2000 the Group had an average of 54 days purchases outstanding to trade creditors calculated in accordance with the Companies Act 1985 (Directors' Report) (Statement of

Payments Practice) Regulations 1997.

### **Donations**

The Company and its subsidiaries made no political donations in the year. Charitable donations in the year amounted to £87,000 (1999 - £75,000).

### **Corporate Governance**

The Company follows principals of corporate governance. Its Board comprises a non-executive chairman, two independent non-executive directors, two non-executive directors appointed by the major investors and two executive directors who are also shareholders. The Company also has a Remuneration Committee and Audit Committee which deal with various appropriate aspects of the affairs of both the Company and the Group in accordance with written terms of reference. Membership of committees appears in directors' biographical details. A Nomination Committee is appointed as necessary. A schedule of appropriate matters is reserved to the Board.

The Group operates to established procedures, which are designed to identify, evaluate and manage significant risk in the Group. These procedures are reviewed as considered appropriate and cover both financial and non-financial risks. An internal audit function regularly monitors and audits these risks on a rotating basis.

The following are the Group's principal internal control procedures;

- Risk Management Process implemented in 1998 with the help of external advisors. On an annual self-certification and monitoring basis, local management identify and evaluate the likelihood and magnitude of their key operational, commercial and financial risks. These are collated into a Group Corporate Risk Profile which is reported to the Board for its consideration.
- Environmental Management System established and updated regularly by the Group's environmental consultants and reported upon to the Board. Group and site environmental and health and safety policies and procedures have been established, with periodic external and internal audits.
- Key Internal Financial Controls consist of the preparation of comprehensive monthly financial reviews submitted to and discussed with directors at each regular board meeting. Hedging policies, approved by the Board, cover the Group's exposure to and management of metal costs and foreign exchange rates. The Board also receives regular reports on such activities. The Group Accounting Manual and Group Authority Manual ensure proper, consistent, and legally compliant financial management at all levels. The Chief Executive and the Finance Director carry out regular

performance reviews with divisional management at site. It is part of the work of the Audit Committee to review effectiveness of these controls on behalf of the Board.

### **Going Concern**

After making enquiries, the directors consider that the Group has adequate resources and committed borrowing facilities to continue operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### **Directors' Responsibility Statement**

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss for that period.

In preparing the financial statements, the directors are required to select accounting policies and apply them consistently; make judgements and estimates which are reasonable and prudent; and follow applicable accounting standards subject to any material departures disclosed or explained in the financial statements.

The directors are also responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditors**

Ernst & Young have indicated their willingness to continue to act as auditors of the Group. A resolution will be put to the Annual General meeting of the Company to re-appoint them as auditors. Ernst & Young has stated that, during 2001, it is intending to transfer its business to a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000, to be called Ernst & Young LLP. If this happens, it is the current intention of the Directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst and Young LLP.

By order of the Board

**Linda F Seddon**

Secretary

27 March 2001

**On the Financial Statements**

We have audited the financial statements on pages 20 to 44 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 24 to 26.

**Respective Responsibilities of Directors and Auditors**

The directors are responsible for preparing the Annual Report. As described on page 18, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information contained in the Annual Report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to form an opinion on the effectiveness of either the Company's corporate governance procedures or its internal controls.

**Basis of Audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group'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 financial statements 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 financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Ernst & Young**

Registered Auditor

Manchester

27 March 2001

**GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2000**

|  | Notes | Continuing operations |         | Discontinued operations | Total   | Continuing operations | Discontinued operations | Total   |
|--|-------|-----------------------|---------|-------------------------|---------|-----------------------|-------------------------|---------|
|  |       | Acquisitions          | Ongoing | 2000                    | 2000    | 1999                  | 1999                    | 1999    |
|  |       | 2000                  | 2000    | 2000                    | 2000    | 1999                  | 1999                    | 1999    |
|  |       | £M                    | £M      | £M                      | £M      | £M                    | £M                      | £M      |
| <b>TURNOVER</b>  | 2     | 9.0                   | 222.9   | 270.4                   | 502.3   | 218.7                 | 323.4                   | 542.1   |
| Cost of sales  |       | (7.5)                 | (168.1) | (235.6)                 | (411.2) | (165.0)               | (265.3)                 | (430.3) |
| Gross profit   |       | 1.5                   | 54.8    | 34.8                    | 91.1    | 53.7                  | 58.1                    | 111.8   |
| Net operating expenses excluding goodwill amortisation and exceptional items | 6     | (1.2)                 | (28.7)  | (28.5)                  | (58.4)  | (25.2)                | (35.9)                  | (61.1)  |
|  |       | 0.3                   | 26.1    | 6.3                     | 32.7    | 28.5                  | 22.2                    | 50.7    |
| Amortisation of goodwill   |       | -                     | (1.6)   | (0.4)                   | (2.0)   | (1.5)                 | (0.6)                   | (2.1)   |
| Operating exceptional items:   |       |                       |         |                         |         |                       |                         |         |
| Share options exercised  | 4     | -                     | -       | -                       | -       | (0.3)                 | (0.3)                   | (0.6)   |
| Provision for environmental costs  | 4     | -                     | (1.5)   | -                       | (1.5)   | -                     | -                       | -       |
| <b>OPERATING PROFIT</b>  | 3     | 0.3                   | 23.0    | 5.9                     | 29.2    | 26.7                  | 21.3                    | 48.0    |
| Loss on termination of operations  | 4     | -                     | -       | (1.8)                   | (1.8)   | -                     | -                       | -       |
| Profit on disposal of operations   | 4     | -                     | -       | 107.3                   | 107.3   | -                     | -                       | -       |
| Profit on sale of fixed assets   | 4     | -                     | -       | -                       | -       | -                     | 0.6                     | 0.6     |
| Merger costs   | 4     | -                     | -       | -                       | -       | (1.1)                 | -                       | (1.1)   |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>                         |       | 0.3                   | 23.0    | 111.4                   | 134.7   | 25.6                  | 21.9                    | 47.5    |
| Interest receivable and similar income                                       | 7     |                       |         |                         | 1.6     |                       |                         | 0.7     |
| Interest payable and similar charges   | 8     |                       |         |                         | (31.8)  |                       |                         | (26.3)  |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>                         |       |                       |         |                         | 104.5   |                       |                         | 21.9    |
| Tax on profit on ordinary activities   | 9     |                       |         |                         | (8.2)   |                       |                         | (5.7)   |
| <b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>                          |       |                       |         |                         | 96.3    |                       |                         | 16.2    |
| Minority interests   | 25    |                       |         |                         | (3.8)   |                       |                         | (0.7)   |
| <b>PROFIT FOR THE FINANCIAL YEAR</b>   |       |                       |         |                         | 92.5    |                       |                         | 15.5    |
| Dividends:   |       |                       |         |                         |         |                       |                         |         |
| - accrued preference shares' dividends                                       |       |                       |         |                         | (4.5)   |                       |                         | (3.1)   |
| - paid ordinary shares' dividends  |       |                       |         |                         | -       |                       |                         | (0.5)   |
| <b>RETAINED PROFIT FOR THE YEAR</b>  | 19    |                       |         |                         | 88.0    |                       |                         | 11.9    |

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2000**

|   | <b>2000</b>  | 1999  |
|---|--------------|-------|
|   | <b>£M</b>    | £M    |
| Profit attributable to members of the parent company                                    | <b>92.5</b>  | 15.5  |
| Exchange differences on retranslation of net assets of overseas subsidiary undertakings | <b>2.6</b>   | 1.2   |
| Exchange translation differences on bank loans  | <b>(1.2)</b> | (1.2) |
| <b>TOTAL RECOGNISED GAINS AND LOSSES</b>  | <b>93.9</b>  | 15.5  |

**RECONCILIATION OF SHAREHOLDERS' FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2000**

|   | <b>2000</b>   | 1999   |
|---|---------------|--------|
|   | <b>£M</b>     | £M     |
| Total recognised gains and losses                                 | <b>93.9</b>   | 15.5   |
| Credit back of UITF17 notional charge for share options exercised | <b>0.2</b>    | 0.6    |
| Dividends   | -             | (0.5)  |
| New share capital issued – 'B' preference shares of £1 each       | -             | 0.1    |
|   | <b>94.1</b>   | 15.7   |
| Shareholders' funds/(deficit) at beginning of the year            | <b>(72.9)</b> | (88.6) |
| Shareholders' funds/(deficit) at end of the year                  | <b>21.2</b>   | (72.9) |

**BALANCE SHEETS AT 31 DECEMBER 2000**

|  | <i>Notes</i> | <b>Group</b>   |         | <b>Company</b> |         |
|--|--------------|----------------|---------|----------------|---------|
|  |              | <b>2000</b>    | 1999    | <b>2000</b>    | 1999    |
|  |              | <b>£M</b>      | £M      | <b>£M</b>      | £M      |
| <b>FIXED ASSETS</b>  |              |                |         |                |         |
| Intangible assets  | 10           | 25.9           | 35.1    | -              | -       |
| Tangible assets  | 11           | 76.1           | 121.1   | -              | -       |
| Investments  | 12           | 2.2            | 0.9     | 243.4          | 242.7   |
|  |              | <b>104.2</b>   | 157.1   | <b>243.4</b>   | 242.7   |
| <b>CURRENT ASSETS</b>  |              |                |         |                |         |
| Stocks   | 13           | 36.7           | 77.4    | -              | -       |
| Debtors  | 14           | 40.2           | 94.1    | 8.6            | 3.6     |
| Cash at bank and in hand                                       | 20           | 63.0           | 8.4     | 0.6            | -       |
|  |              | <b>139.9</b>   | 179.9   | <b>9.2</b>     | 3.6     |
| <b>CREDITORS: amounts falling due within one year</b>          | 15           | <b>(57.1)</b>  | (107.0) | <b>(12.3)</b>  | (3.7)   |
| <b>NET CURRENT ASSETS / (LIABILITIES)</b>                      |              | <b>82.8</b>    | 72.9    | <b>(3.1)</b>   | (0.1)   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |              | <b>187.0</b>   | 230.0   | <b>240.3</b>   | 242.6   |
| <b>CREDITORS: amounts falling due after more than one year</b> |              |                |         |                |         |
| Senior notes due 2009  |              | (149.3)        | (155.1) | (155.8)        | (155.1) |
| Bank loans   |              | -              | (134.0) | -              | -       |
| Other loan finance   |              | (1.0)          | (4.6)   | -              | -       |
| Accruals and deferred income                                   |              | (2.3)          | (2.5)   | -              | -       |
|  | 16           | <b>(152.6)</b> | (296.2) | <b>(155.8)</b> | (155.1) |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>                  | 17           | <b>(9.0)</b>   | (5.9)   | -              | -       |
|  |              | <b>25.4</b>    | (72.1)  | <b>84.5</b>    | 87.5    |
| <b>CAPITAL AND RESERVES</b>                                    |              |                |         |                |         |
| Called up share capital  | 18           | 87.0           | 87.0    | 87.0           | 87.0    |
| Profit and loss account  | 19           | 141.7          | 47.6    | (2.5)          | 0.5     |
| Merger reserve   | 19           | (207.5)        | (207.5) | -              | -       |
| Shareholders' funds/(deficit)                                  |              | <b>21.2</b>    | (72.9)  | <b>84.5</b>    | 87.5    |
| Minority interest - equity                                     | 25           | 4.2            | 0.8     | -              | -       |
|  |              | <b>25.4</b>    | (72.1)  | <b>84.5</b>    | 87.5    |
| Shareholders' funds/(deficit) represented by:                  |              |                |         |                |         |
| - Equity   |              | (72.5)         | (162.1) | (9.2)          | (1.7)   |
| - Non-equity   |              | 93.7           | 89.2    | 93.7           | 89.2    |
|  |              | <b>21.2</b>    | (72.9)  | <b>84.5</b>    | 87.5    |

**SIGNED ON BEHALF OF THE BOARD**
*I B McKinnon*  
 27 March 2001

*B G Purves*

**GROUP CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000**

|   | 2000         | 2000        | 1999    | 1999   |
|---|--------------|-------------|---------|--------|
| <i>Notes</i>  | £M           | £M          | £M      | £M     |
| Net cash inflow from continuing operations                                    | 33.2         |             | 32.5    |        |
| Net cash inflow from discontinued operations                                  | 5.5          |             | 32.2    |        |
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>                              | <i>20(a)</i> | <b>38.7</b> |         | 64.7   |
| <b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>                        |              |             |         |        |
| Interest received   | 1.3          |             | 0.7     |        |
| Interest paid   | (26.8)       |             | (27.7)  |        |
| Expenses paid in connection with share issues                                 | -            |             | (1.1)   |        |
| Payment of loan issue costs on refinancing                                    | -            |             | (9.9)   |        |
| Dividends paid to minority interests  | (0.4)        |             | -       |        |
|   |              | (25.9)      |         | (38.0) |
| <b>TAXATION</b>   |              |             |         |        |
| Corporation tax paid  | (3.4)        |             | (4.4)   |        |
| Overseas tax paid   | (4.2)        |             | (3.5)   |        |
|   |              | (7.6)       |         | (7.9)  |
| <b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>                           |              |             |         |        |
| Payments to acquire tangible fixed assets                                     | (14.1)       |             | (21.9)  |        |
| Receipts from sales of tangible fixed assets                                  | -            |             | 1.6     |        |
| Payments to acquire intangible fixed assets                                   | -            |             | (0.6)   |        |
| ESOP purchase of shares   | (1.4)        |             | (1.0)   |        |
| ESOP sale of shares   | 0.1          |             | 0.4     |        |
|   |              | (15.4)      |         | (21.5) |
| <b>ACQUISITIONS AND DISPOSALS</b>   |              |             |         |        |
| Purchase of businesses (including costs)                                      | <i>12</i>    | (4.7)       | -       |        |
| Sale of businesses (net of costs)   | <i>20(d)</i> | 226.2       | -       |        |
| Cash disposed as part of businesses sold                                      |              | (4.5)       | -       |        |
| Payments for acquisitions made in earlier periods                             |              | (0.7)       | (5.5)   |        |
| Receipts on disposals made in earlier periods (net of costs)                  |              | -           | 0.3     |        |
|   |              | 216.3       |         | (5.2)  |
| <b>EQUITY DIVIDEND PAID</b>   |              |             |         |        |
|   |              | -           |         | (2.7)  |
| <b>NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING</b> |              |             |         |        |
|   |              | 206.1       |         | (10.6) |
| <b>MANAGEMENT OF LIQUID RESOURCES</b>   |              |             |         |        |
| Increase in fixed term cash deposits  |              | (47.8)      |         | -      |
| <b>FINANCING</b>  |              |             |         |        |
| Repayment of loan notes - Series B  |              | -           | (95.0)  |        |
| Repayment of other loan note  |              | (4.4)       | -       |        |
| Repayment of bank loans   |              | (141.3)     | (81.1)  |        |
| Repayment of finance leases   |              | (0.2)       | (0.2)   |        |
| Repayment of short term bank borrowings                                       |              | (11.4)      | -       |        |
| Draw down of short term bank borrowings                                       |              | 11.4        | -       |        |
| Draw down of new bank loans   |              | -           | 140.0   |        |
| Issue of senior notes due 2009  |              | -           | 160.0   |        |
| Purchase of senior notes due 2009   |              | (6.2)       | -       |        |
| Return of capital to shareholders   |              | -           | (125.0) |        |
|   |              | (152.1)     |         | (1.3)  |
| <b>INCREASE/(DECREASE) IN CASH</b>  | <i>20(c)</i> | <b>6.2</b>  |         | (11.9) |

## 1. ACCOUNTING POLICIES

### Basis of preparation and consolidation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Luxfer Holdings PLC (formerly Neverealm Limited) was incorporated on 31 December 1998. On 9 April 1999, pursuant to a recapitalisation of Luxfer Group Limited, the Company acquired the entire share capital of Luxfer Group Limited. The 'A' and 'B' ordinary shares of Luxfer Group Limited were acquired by the Company in exchange for the issue of 1,340,240 ordinary shares of £0.6487 each and 132,683,760 preference shares of £0.6487 each in the Company and a cash payment of £125.0 million to the shareholders of Luxfer Group Limited. Luxfer Group Limited's 1,732,829 deferred shares were acquired by the Company for a nominal amount.

The recapitalisation has been accounted for using merger accounting principles, in order to meet the overriding requirement under section 227(6) of the Companies Act 1985 for financial statements to present a true and fair view. The accounting treatment reflects the fact that ownership and control of Luxfer Group Limited, after the recapitalisation, remained with the same institutional and management shareholders as before the recapitalisation. Under merger accounting principles the consolidated financial statements of Luxfer Holdings PLC appear as a continuation of those for Luxfer Group Limited and therefore as if it had always been the parent of the Group.

The transaction does not meet one of the conditions for merger accounting under Schedule 4A to the Companies Act 1985 and FRS 6 'Acquisitions and Mergers', namely that any non-equity consideration must not exceed 10% of the nominal value of equity shares issued. However, in the opinion of Directors, the alternative approach of using acquisition accounting, which would require the restatement of separable assets and liabilities of Luxfer Group Limited to their fair values, the creation of goodwill on its consolidation and the inclusion of its results only from 9 April 1999, would not give a true and fair view of the Group's results and financial position. The Directors believe the substance of the transaction was not an acquisition of a business but a group recapitalisation under which a new holding company, Luxfer Holdings PLC, was established as part of the legal and accounting process of refinancing Luxfer Group Limited for the same controlling shareholders.

The effect of applying merger accounting principles to the transaction is as follows:

- assets and liabilities were not revalued to their fair value as at 9 April 1999;
- goodwill, which was internally generated in Luxfer Group Limited under the ownership of the present shareholders, was not recognised on consolidation;
- the financial statements of Luxfer Group Limited and Luxfer Holdings PLC have been consolidated for the whole year ending 31 December 1999;
- consistent accounting policies have been applied for the financial statements of Luxfer Holdings PLC for the year ended 31 December 1999 as had been applied in earlier years for Luxfer Group Limited; and
- merger expenses of £1.1 million have been charged to the profit and loss account in the year ended 31 December 1999 as a non-operating exceptional item.

The directors consider that it is not practical to further quantify the effect of the departure from acquisition accounting and they believe to do so could be misleading.

The financial statements consolidate the accounts of Luxfer Holdings PLC and all its subsidiary undertakings drawn up to 31 December. Acquired businesses, are included in the Group financial statements using the acquisition method of accounting. Accordingly, the Group profit and loss account and cash flow statement, includes the results and cash flows of acquired businesses, as from the date of acquisition. Purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. Disposed businesses are included in the Group's profit and loss account and cash flow statement up to the date of disposal.

No profit and loss account is presented for Luxfer Holdings PLC as permitted by section 230 of the Companies Act 1985.

### Goodwill

Positive goodwill arising on acquisitions is capitalised as an asset on the balance sheet and amortised on a straight line basis over the directors' estimate of its useful life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

**Patents**

Acquired patents are capitalised at cost and amortised through the profit and loss account over the directors' estimate of the useful life of each patent.

**Turnover**

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied and is recognised on despatch of goods.

**Depreciation**

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of purchase, of each asset evenly over its expected useful life as follows:

|   |  |
|---|--|
| Freehold land                           | nil  |
| Freehold buildings                      | 3%   |
| Freehold buildings – light construction | 10%  |
| Leasehold land and buildings            | The lesser of life of lease or freehold rate |
| Plant and equipment                     | 4% - 30%                                     |

The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

**Research and development**

Research and development expenditure is written off as incurred.

**Deferred taxation**

Deferred taxation is provided using the liability method on all timing differences, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax on pensions and other post-retirement benefits is provided for in full.

**Foreign currencies**

*Company*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the

rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account.

**Group**

On consolidation, the assets and liabilities of overseas subsidiary undertakings are translated at the rates of exchange ruling at the balance sheet date. The profit and loss accounts and cash flow statements of overseas subsidiary undertakings are translated at the average rates of exchange for the period. The exchange differences arising on the retranslation of opening net assets together with the differences between the profit and loss accounts translated at average rates and at the closing rates are taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on these borrowings are also dealt with in reserves.

**Leasing**

Rentals payable under operating leases are charged in the profit and loss account 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. These assets are treated as fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The interest element of lease rentals is charged against profit so as to give a constant periodic rate of charge on the remaining capital amount outstanding.

**Pensions**

The Group operates defined benefit pension schemes which require contributions to be made to separately administered funds. Contributions to these funds are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group.

The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

The Group also operates money purchase schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

**Capital instruments**

Capital instruments are all instruments that are issued by the Group as a means of raising finance, including shares, debentures, debt instruments and options and warrants that give the holder the right to subscribe for or obtain capital instruments. Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance costs incurred in respect of a capital instrument, other than equity shares, are charged to the profit and loss account over the term of the instrument at a constant percentage rate to the carrying value.

**Financial instruments**

Amounts to be received or paid on interest rate swaps and caps, employed to hedge floating interest rate exposures, are recognised over the life of such agreements as adjustments to interest expense.

Gains and losses on forward exchange contracts that hedge firm currency commitments are deferred and included in the transactions underlying the commitments. If the underlying transaction is not completed, the financial position is closed and gains and losses recognised in the period such commitment is terminated.

**Commodity contracts**

Gains and losses on aluminium London Metal Exchange commodity futures and option contracts, which are used to hedge aluminium metal price exposures, are deferred and reflected in the cost of goods sold when the underlying physical sale transaction takes place.

2. TURNOVER AND SEGMENTAL ANALYSIS

This table sets out information on a world wide basis for each of the Group's industry segments. The industry segments represent the Group's structure as set out on page 1. The disclosure below reflects the new Group structure following the disposal of operations in 2000. The previous division of Engineering & Consumer Products was discontinued in 2000 along with the bulk of the Aerospace & Speciality division. The remainder of the Aerospace & Speciality division formed the new division Speciality Aluminium.

| Activity                 | Turnover   | Operating profit | Net assets | Turnover   | Operating profit | Net assets |
|--------------------------|------------|------------------|------------|------------|------------------|------------|
|                          | 2000<br>£M | 2000<br>£M       | 2000<br>£M | 1999<br>£M | 1999<br>£M       | 1999<br>£M |
| Gas Cylinders            | 110.2      | 11.2             | 34.5       | 103.3      | 11.1             | 34.9       |
| Elektron                 | 106.6      | 16.1             | 45.5       | 100.8      | 17.2             | 40.2       |
| Speciality Aluminium     | 19.2       | (0.9)            | 8.4        | 18.1       | 0.2              | 10.4       |
| Continuing operations    | 236.0      | 26.4             | 88.4       | 222.2      | 28.5             | 85.5       |
| Discontinued operations  | 274.6      | 6.3              | 6.0        | 326.6      | 22.2             | 105.8      |
|                          | 510.6      | 32.7             | 94.4       | 548.8      | 50.7             | 191.3      |
| Inter-segment sales      | (8.3)      | -                | -          | (6.7)      | -                | -          |
| Amortisation of goodwill | -          | (2.0)            | -          | -          | (2.1)            | -          |
| Exceptional costs        | -          | (1.5)            | -          | -          | (0.6)            | -          |
| Unallocated              | -          | -                | (69.0)     | -          | -                | (263.4)    |
|                          | 502.3      | 29.2             | 25.4       | 542.1      | 48.0             | (72.1)     |

Unallocated net assets comprise:

|                                    |         |         |
|------------------------------------|---------|---------|
| Fixed asset investments            | 2.2     | 0.9     |
| Intangible assets                  | 25.9    | 35.1    |
| Cash at bank and in hand           | 63.0    | 8.4     |
| Corporation tax                    | (0.6)   | (1.6)   |
| Overseas tax liabilities           | (1.0)   | (1.7)   |
| Interest accrual                   | (3.4)   | (3.0)   |
| Debt                               | (150.6) | (295.6) |
| Deferred consideration liabilities | (3.3)   | (3.3)   |
| Provision for deferred tax         | (1.2)   | (2.6)   |
|                                    | (69.0)  | (263.4) |

Elektron includes the following which related to acquisitions in 2000: Turnover - £9.0 million, operating profit - £0.3 million and net assets - £9.1 million.

Operating exceptional costs relate to industry segments as follows: Gas Cylinders £nil million (1999 - £0.1 million), Elektron £nil million (1999 - £0.2 million), Speciality Aluminium £1.5 million (1999 - £nil million), Discontinued operations £nil million (1999 - £0.3 million).

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

| Geographic Origin        | Turnover | Operating | Net    | Turnover | Operating | Net     |
|--------------------------|----------|-----------|--------|----------|-----------|---------|
|                          | 2000     | profit    | assets | 1999     | profit    | assets  |
|                          | £M       | 2000      | 2000   | £M       | 1999      | 1999    |
|                          |          | £M        | £M     |          | £M        | £M      |
| UK                       | 107.9    | 8.6       | 40.0   | 112.2    | 11.4      | 46.8    |
| Rest of the World        | 142.1    | 17.8      | 48.4   | 121.1    | 17.1      | 38.7    |
| Inter-segment sales      | (14.0)   | -         | -      | (11.1)   | -         | -       |
| Continuing operations    | 236.0    | 26.4      | 88.4   | 222.2    | 28.5      | 85.5    |
| Discontinued operations  | 274.6    | 6.3       | 6.0    | 326.6    | 22.2      | 105.8   |
|                          | 510.6    | 32.7      | 94.4   | 548.8    | 50.7      | 191.3   |
| Inter-segment sales      | (8.3)    | -         | -      | (6.7)    | -         | -       |
| Amortisation of goodwill | -        | (2.0)     | -      | -        | (2.1)     | -       |
| Exceptional costs        | -        | (1.5)     | -      | -        | (0.6)     | -       |
| Unallocated              | -        | -         | (69.0) | -        | -         | (263.4) |
|                          | 502.3    | 29.2      | 25.4   | 542.1    | 48.0      | (72.1)  |

Rest of the World included the following relating to acquisitions in 2000: Turnover - £9.0 million, operating profit - £0.3 million and net assets £9.1 million. The operating exceptional costs for continuing operations were £1.5 million (1999 - £0.3 million) and relate to the UK £1.5 million (1999 - £0.2 million) and the Rest of the World £nil million (1999 - £0.1 million). Discontinued operations had operating exceptional costs of £nil million (1999 - £0.3 million).

Turnover (destination) by geographic area is as follows:

|                         | Turnover | Turnover |
|-------------------------|----------|----------|
|                         | 2000     | 1999     |
|                         | £M       | £M       |
| UK                      | 37.1     | 37.2     |
| Rest of Europe          | 56.6     | 55.1     |
| Africa                  | 1.6      | 2.7      |
| Americas                | 110.9    | 102.4    |
| Australasia             | 7.7      | 6.6      |
| Asia                    | 18.0     | 14.7     |
| Continuing operations   | 231.9    | 218.7    |
| Discontinued operations | 270.4    | 323.4    |
|                         | 502.3    | 542.1    |

Continuing operations for 2000 includes £9.0 million in Rest of Europe from acquisitions.

3. OPERATING PROFIT

| Operating profit is stated after charging:   | Continuing | Discontinued | Total | Continuing | Discontinued | Total |
|--|------------|--------------|-------|------------|--------------|-------|
|  | operations | operations   | 2000  | operations | operations   | 1999  |
|  | 2000       | 2000         | 2000  | 1999       | 1999         | 1999  |
|  | £M         | £M           | £M    | £M         | £M           | £M    |
| Depreciation - owned assets                  | 8.6        | 4.5          | 13.1  | 8.1        | 5.4          | 13.5  |
| - leased assets                              | 0.1        | 0.1          | 0.2   | -          | 0.2          | 0.2   |
| Amortisation of goodwill                     | 1.6        | 0.4          | 2.0   | 1.5        | 0.6          | 2.1   |
| Operating lease rentals - land and buildings | 1.0        | 1.7          | 2.7   | 0.9        | 2.5          | 3.4   |
| - plant and equipment                        | 0.9        | 2.0          | 2.9   | 0.9        | 2.6          | 3.5   |
| Research and development expenditure         | 4.2        | 0.9          | 5.1   | 3.3        | 1.8          | 5.1   |

Fees paid to auditors for remuneration as auditors was £0.3 million (1999 - £0.3 million). Fees paid to Group auditors for UK non-audit services amounted to £0.8 million (1999 - £0.6 million). Included in the non-audit services is £0.5 million (1999 - £nil million) included in cost of disposal of operations and £nil million (1999 - £0.3 million) included in the debt issue costs capitalised on the refinancing of the Group.

#### 4. EXCEPTIONAL ITEMS

##### 2000

An operating exceptional charge has been made for £1.5 million to provide for the future costs associated with an environmental contamination identified during the year at our Redditch plant. In 2000, site borehole investigations at the plant revealed historical (pre 1996) groundwater trichlorethylene (TCE) contamination which is currently causing very marginal contamination of surface water drains. Rectification will involve the removal and treatment of the ground over several years and is expected to cost £1.5 million.

The Group made an exceptional gain of £107.3 million on the disposal of operations in the year. The gain comprises £23.7 million from the disposal of Baco Consumer Products and £83.6 million in relation to the disposal of the bulk of the Group's British Aluminium businesses. Further details on both these disposals can be found at note 12.

A non-operating charge of £1.8 million has been made for the discontinuation and termination of the Baco Contracts business, which formed part of the discontinued Engineering & Consumer Products Division. An announcement was made in the early part of 2000 confirming the discontinuation of the contracting operations and a formal plan of closure is now being implemented. It is planned that the termination of the operations will be completed during 2001. No new contracts are being accepted. The charge of £1.8 million is net of a gain of £0.2 million relating to the sale of part of the business on 16 May 2000. The cash consideration received for the disposed part of the business was £0.4 million.

The tax attributable to the above non-operating exceptional items is £7.9 million. The amount of the non-operating exceptional items attributable to minority interests is a gain of £3.5 million.

##### 1999

The Group incurred several exceptional costs relating to the recapitalisation and financial restructuring in April 1999. A non-operating merger cost of £1.1 million was stamp duty on the recapitalisation of Luxfer Group Limited. In addition, a charge of £0.6 million was recognised as a result of the exercise of employee share options. The latter charge was a notional figure to represent the cost to the Group when the share options were originally awarded and this is credited back to the profit and loss reserve as part of the movement in shareholders' funds.

In March 1999 Luxfer Group Limited sold the freehold land and buildings of a disused manufacturing site in Huddersfield which was previously used by one of its subsidiaries, Baco Consumer Products Limited. The sale proceeds, net of expenses, were £1.6 million and a profit before tax resulted of £0.6 million. This profit has been included in the Group profit and loss account as a non-operating exceptional profit from the sale of fixed assets.

The tax attributable to the non-operating exceptional items is £0.2 million. A non-operating exceptional gain of £0.1 million was attributable to minority interests.

#### 5. STAFF COSTS

|                       | 2000         | 1999         |
|-----------------------|--------------|--------------|
|                       | £M           | £M           |
| Wages and salaries    | 97.8         | 100.8        |
| Social security costs | 9.9          | 9.9          |
| Other pension costs   | 6.3          | 6.8          |
|                       | <b>114.0</b> | <b>117.5</b> |

The details of directors' remuneration, pension entitlements and share options are disclosed in the Directors' Report on pages 14 to 18.

The average monthly number of employees during the year was made up as follows:

|                             | 2000         | 1999         |
|-----------------------------|--------------|--------------|
|                             | No.          | No.          |
| Production and distribution | 3,178        | 3,632        |
| Sales and administration    | 460          | 576          |
| Research and development    | 76           | 69           |
|                             | <b>3,714</b> | <b>4,277</b> |

6. ANALYSIS OF NET OPERATING EXPENSES

|   | Continuing operations      |                       | Discontinued operations | Total      | Continuing operations | Discontinued operations | Total      |
|---|----------------------------|-----------------------|-------------------------|------------|-----------------------|-------------------------|------------|
|   | Acquisitions<br>2000<br>£M | Ongoing<br>2000<br>£M | 2000<br>£M              | 2000<br>£M | 1999<br>£M            | 1999<br>£M              | 1999<br>£M |
| Net operating expenses:   |                            |                       |                         |            |                       |                         |            |
| Distribution costs  | 0.3                        | 4.8                   | 9.5                     | 14.6       | 4.3                   | 11.8                    | 16.1       |
| Administrative expenses <sup>1</sup>                                      | 0.9                        | 27.4                  | 19.5                    | 47.8       | 23.5                  | 25.5                    | 49.0       |
| Other operating income  | -                          | (0.4)                 | (0.1)                   | (0.5)      | (0.8)                 | (0.5)                   | (1.3)      |
| Net operating expenses  | 1.2                        | 31.8                  | 28.9                    | 61.9       | 27.0                  | 36.8                    | 63.8       |
| Less:   |                            |                       |                         |            |                       |                         |            |
| - Amortisation of goodwill  | -                          | (1.6)                 | (0.4)                   | (2.0)      | (1.5)                 | (0.6)                   | (2.1)      |
| - Exceptional administrative expenses                                     | -                          | (1.5)                 | -                       | (1.5)      | (0.3)                 | (0.3)                   | (0.6)      |
| Net operating expenses before exceptional items and goodwill amortisation | 1.2                        | 28.7                  | 28.5                    | 58.4       | 25.2                  | 35.9                    | 61.1       |

<sup>1</sup> Includes operating exceptional items and goodwill amortisation.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

|  | 2000<br>£M | 1999<br>£M |
|--|------------|------------|
| Bank interest received                       | 1.3        | 0.7        |
| Gain on re-purchase of senior notes due 2009 | 0.3        | -          |
|  | 1.6        | 0.7        |

8. INTEREST PAYABLE AND SIMILAR CHARGES

|   | 2000<br>£M | 1999<br>£M |
|---|------------|------------|
| Loan notes - Series A and B                     | -          | 3.4        |
| Senior notes due 2009                           | 16.2       | 11.8       |
| Bank loan and overdrafts                        | 10.2       | 9.5        |
| Other loan notes                                | 0.1        | 0.2        |
| Amortisation of loan issue costs                | 5.1        | 1.2        |
| Unwinding of discount on deferred consideration | 0.1        | 0.2        |
| Finance leases                                  | 0.1        | -          |
|   | 31.8       | 26.3       |

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

|  | 2000<br>£M | 1999<br>£M |
|--|------------|------------|
| The taxation charge is made up as follows: |            |            |
| Based on the profit for the year:          |            |            |
| UK Corporation tax at 30% (1999 – 30.25%)  | 3.9        | 1.6        |
| Overseas tax                               | 4.2        | 4.4        |
| Deferred tax                               | 0.2        | 1.2        |
|  | 8.3        | 7.2        |
| Adjustments to prior year:                 |            |            |
| UK Corporation tax                         | -          | (1.4)      |
| Overseas tax                               | (0.6)      | (0.1)      |
| Deferred tax                               | 0.5        | -          |
|  | 8.2        | 5.7        |

10. INTANGIBLE FIXED ASSETS

| Group                    | Goodwill<br>£M | Patents<br>£M | Total<br>£M |
|--------------------------|----------------|---------------|-------------|
| Cost:                    |                |               |             |
| At 1 January 2000        | 41.3           | 0.6           | 41.9        |
| Disposals                | (9.3)          | -             | (9.3)       |
| At 31 December 2000      | 32.0           | 0.6           | 32.6        |
| Amortisation:            |                |               |             |
| At 1 January 2000        | 6.8            | -             | 6.8         |
| Provided during the year | 2.0            | -             | 2.0         |
| Disposals                | (2.1)          | -             | (2.1)       |
| At 31 December 2000      | 6.7            | -             | 6.7         |
| Net book values:         |                |               |             |
| At 31 December 2000      | 25.3           | 0.6           | 25.9        |
| At 1 January 2000        | 34.5           | 0.6           | 35.1        |

The goodwill is being amortised over the directors' estimate of its useful life of 20 years. The patent was acquired in 1999 and is being amortised over its legal duration which is 20 years. The disposed goodwill related to the businesses disposed in the year, as further explained in note 12.

11. TANGIBLE FIXED ASSETS

| Group                    | Land and buildings |                         |                          | Plant and equipment | Total<br>£M |
|--------------------------|--------------------|-------------------------|--------------------------|---------------------|-------------|
|                          | Freehold<br>£M     | Long<br>leasehold<br>£M | Short<br>leasehold<br>£M | £M                  |             |
| Cost:                    |                    |                         |                          |                     |             |
| At 1 January 2000        | 32.3               | 2.0                     | 2.1                      | 235.9               | 272.3       |
| Business acquisitions    | 4.0                | -                       | -                        | 3.1                 | 7.1         |
| Business disposals       | (13.8)             | (0.1)                   | (1.4)                    | (113.5)             | (128.8)     |
| Additions                | 1.1                | 0.5                     | 0.1                      | 14.2                | 15.9        |
| Disposals                | -                  | -                       | -                        | (3.5)               | (3.5)       |
| Exchange adjustment      | 0.9                | -                       | -                        | 2.7                 | 3.6         |
| At 31 December 2000      | 24.5               | 2.4                     | 0.8                      | 138.9               | 166.6       |
| Depreciation:            |                    |                         |                          |                     |             |
| At 1 January 2000        | 13.2               | 1.3                     | 0.9                      | 135.8               | 151.2       |
| Provided during the year | 0.7                | 0.1                     | 0.1                      | 12.4                | 13.3        |
| Business disposals       | (7.7)              | -                       | (0.6)                    | (63.9)              | (72.2)      |
| Disposals                | -                  | -                       | -                        | (3.4)               | (3.4)       |
| Exchange adjustment      | 0.3                | -                       | -                        | 1.3                 | 1.6         |
| At 31 December 2000      | 6.5                | 1.4                     | 0.4                      | 82.2                | 90.5        |
| Net book values:         |                    |                         |                          |                     |             |
| At 31 December 2000      | 18.0               | 1.0                     | 0.4                      | 56.7                | 76.1        |
| At 1 January 2000        | 19.1               | 0.7                     | 1.2                      | 100.1               | 121.1       |

The net book value of plant and equipment at 31 December 2000 includes £1.3 million (1999 - £0.8 million) acquired under finance leases.

12. INVESTMENTS

|                     | Company's<br>own shares<br>£M | Group<br>Other<br>investments<br>£M | Total<br>£M | Company's<br>own shares<br>£M | Company<br>Subsidiary<br>undertakings<br>£M | Total<br>£M |
|---------------------|-------------------------------|-------------------------------------|-------------|-------------------------------|---|-------------|
| Cost:               |                               |                                     |             |                               |   |             |
| At 1 January 2000   | 0.8                           | 0.1                                 | 0.9         | 0.8                           | 241.9                                       | 242.7       |
| Additions           | 1.4                           | -                                   | 1.4         | 1.4                           | 6.1   | 7.5         |
| Disposals           | (0.1)                         | -                                   | (0.1)       | (0.1)                         | (6.7)                                       | (6.8)       |
| At 31 December 2000 | 2.1                           | 0.1                                 | 2.2         | 2.1                           | 241.3                                       | 243.4       |

**Company**

Included in the £241.3 million investments in subsidiary undertakings is £23.3 million (1999 - £30.0 million) loans to subsidiaries and £218.0 million (1999 - £211.9 million) investments in subsidiaries ordinary share capital.

**Acquisition of Zitzmann Druckguss**

On 22 March 2000 the Group acquired the trade and assets of Zitzmann Druckguss, a magnesium and zinc die casting company based in Germany. The assets and liabilities acquired, fair value adjustments made and consideration paid are shown below:

|                                  | Book value<br>£M | Revaluations<br>£M | Fair<br>value<br>£M |
|----------------------------------|------------------|--------------------|---------------------|
| Tangible fixed assets            | 7.2              | (0.1)              | 7.1                 |
| Stocks                           | 1.1              | (0.1)              | 1.0                 |
| Debtors                          | 1.0              | -                  | 1.0                 |
| Creditors and accruals           | (3.0)            | -                  | (3.0)               |
| Obligations under finance leases | (1.4)            | -                  | (1.4)               |
| Net assets                       | 4.9              | (0.2)              | 4.7                 |
| Consideration – cash paid        |                  |                    | 4.4                 |
| Acquisition costs – paid         |                  |                    | 0.3                 |
|                                  |                  |                    | 4.7                 |

An initial review of the acquisition balance sheet had been completed by 31 December 2000, but the fair value exercise has not been finalised and the above balance sheet represents the directors' best estimate of the fair value at the date of signing of the financial statements. Tangible fixed assets have been reduced in value by £0.1 million being the net adjustment for a revaluation of freehold land and the impairment of unused plant. Stocks have been reduced in value by £0.1 million to write down obsolete supplies.

**Acquisition of Seagate Cylinder Company**

On 7 November 2000 we acquired the trade and assets of Seagate Cylinder Company a scuba driving equipment distributor based in the USA. The consideration was £0.5 million in cash for inventory and other current assets with a fair value of £0.5 million. The business is to be re-branded as ScubaLux.

12. INVESTMENTS (continued)

**Disposal of Baco Consumer Products**

On 4 August 2000 the Group sold the operations of Baco Consumer Products for £42.1 million. A profit on disposal of £23.7 million has been recognised in the profit and loss account as a non-operating exceptional item. The net assets on disposal, costs incurred, consideration received and profit made were as follows:

|                                    | £M     |
|------------------------------------|--------|
| Intangible fixed assets – goodwill | 1.4    |
| Tangible fixed assets              | 10.3   |
| Stocks                             | 7.3    |
| Debtors                            | 8.7    |
| Creditors and accruals             | (11.0) |
| Obligations under finance leases   | (0.3)  |
| Net assets                         | 16.4   |
| Consideration – cash received      | 42.1   |
| Costs incurred                     | (2.0)  |
| Consideration net of costs         | 40.1   |
| Profit on disposal                 | 23.7   |

**Disposal of British Aluminium businesses**

On 31 October 2000 the Group sold the bulk of its British Aluminium businesses for £186.3 million, resulting in a non-operating profit of £83.6 million. The sale included British Aluminium Plate, British Aluminium Sheet, British Aluminium Commercial Extrusions and Baco Metal Centres. The net assets, costs and consideration on disposal were as follows:

|                                    | £M     |
|------------------------------------|--------|
| Intangible fixed assets – goodwill | 5.8    |
| Tangible fixed assets              | 46.3   |
| Stocks                             | 41.8   |
| Debtors                            | 56.1   |
| Cash                               | 4.5    |
| Creditors and accruals             | (57.0) |
| Deferred tax                       | (2.0)  |
| Net assets                         | 95.5   |
| Consideration – cash received      | 186.3  |
| Costs incurred                     | (7.2)  |
| Consideration net of costs         | 179.1  |
| Profit on disposal                 | 83.6   |

**Disposal of Baco Contracts – highway products business**

On 16 May 2000 the Group sold its interest in the ‘Highway Products’ segment of Baco Contracts for £0.4 million. Net assets disposed related to work-in-progress stocks of £0.2 million and a non-operating profit of £0.2 million was made. The remainder of Baco Contracts is being closed, for which purpose a charge of £2.0 million has been made. The profit and loss account shows a net non-operating charge of £1.8 million for the termination of the entire business.

12. INVESTMENTS (continued)

Details of the investments in which the Group or the Company holds more than 10% of the nominal value of any class of share capital are as follows:

| Name of company  | Country of incorporation | Holding         | Proportion of voting rights and shares held | Nature of business |
|--|--------------------------|-----------------|---|--------------------|
| Architectural Distribution Systems Limited * <sup>1</sup>  | Eire                     | Ordinary shares | 100%  | Distribution       |
| BA Foreign Sales Corporation *                             | Barbados                 | Common shares   | 100%  | Distribution       |
| BA Holdings, Inc.*   | United States            | Common stock    | 100%  | Holding company    |
| BA Products Limited *                                      | England and Wales        | Ordinary shares | 100%  | Dormant            |
| Biggleswick Limited * <sup>1</sup>                         | England and Wales        | Ordinary shares | 79.4%                                       | Manufacturing      |
| British Aluminium Speciality Extrusions and Tubes Limited* | England and Wales        | Ordinary shares | 100%  | Engineering        |
| Dealsinmetals.com Limited *                                | England and Wales        | Ordinary shares | 100%  | Dormant            |
| H.D. Plastics Limited *                                    | England and Wales        | Ordinary shares | 79.4%                                       | Dormant            |
| Hart Investment Holdings, Inc*                             | United States            | Common stock    | 100%  | Investment company |
| Hart Metals, Inc. *  | United States            | Common stock    | 100%  | Manufacturing      |
| Hydrospin, Inc. *  | United States            | Common stock    | 100%  | Manufacturing      |
| LGL Manufacturing Services Limited*                        | England and Wales        | Ordinary shares | 66.7%                                       | Engineering        |
| Luxfer Australia Pty Limited * <sup>1</sup>                | Australia                | Ordinary shares | 100%  | Engineering        |
| Luxfer Gas Cylinders Limited *                             | England and Wales        | Ordinary shares | 100%  | Engineering        |
| Luxfer Group Limited                                       | England and Wales        | Ordinary shares | 100%  | Holding company    |
| Luxfer Group 2000 Limited                                  | England and Wales        | Ordinary shares | 100%  | Holding company    |
| Luxfer Inc.*   | United States            | Common stock    | 100%  | Engineering        |
| Luxfer Investments Corporation*                            | United States            | Common stock    | 100%  | Investment company |
| Luxfer Japan, Ltd*   | Japan                    | Ordinary shares | 100%  | Distribution       |
| Luxfer Overseas Holdings Limited*                          | England and Wales        | Ordinary shares | 100%  | Holding company    |
| Magnesium Elektron Limited *                               | England and Wales        | Ordinary shares | 100%  | Manufacturing      |
| Magnesium Elektron, Inc. *                                 | United States            | Common stock    | 100%  | Manufacturing      |
| Magnesium Investments Corporation *                        | United States            | Common stock    | 100%  | Investment company |
| Niagara Metallurgical Products Limited *                   | Canada                   | Common stock    | 100%  | Manufacturing      |
| Reade Investments Corporation*                             | United States            | Common stock    | 100%  | Investment company |
| Reade Manufacturing, Inc.*                                 | United States            | Common stock    | 100%  | Manufacturing      |
| Zitzmann Druckguss GmbH *                                  | Germany                  | Ordinary shares | 100%  | Manufacturing      |
| <b>Other Investments</b>                                   |                          |                 |   |                    |
| Nikkei-MEL Co Limited *                                    | Japan                    | Ordinary shares | 50%   | Distribution       |

Subsidiary undertakings are all held by the company unless indicated.

\* Held by a subsidiary undertaking

<sup>1</sup> During the year the following name changes were made: Baco Consumer Products Limited changed its name to Biggleswick Limited following the sale of its trading activities. British Aluminium Australia Pty Limited changed its name to Luxfer Australia Pty Limited. On the sale of the trade and assets of its business in 2000, Baco Metal Centres (Dublin) Limited changed its name to Architectural Distribution Systems Limited.

### 13. STOCKS

| Group                               | 2000        | 1999        |
|-------------------------------------|-------------|-------------|
|                                     | £M          | £M          |
| Raw materials and consumables       | 14.2        | 23.6        |
| Work in progress                    | 9.2         | 16.8        |
| Finished goods and goods for resale | 13.3        | 37.0        |
|                                     | <b>36.7</b> | <b>77.4</b> |

The difference between purchase price or production cost of stocks and their replacement cost is not material.

### 14. DEBTORS

|   | Group       |             | Company    |            |
|---|-------------|-------------|------------|------------|
|   | 2000        | 1999        | 2000       | 1999       |
|   | £M          | £M          | £M         | £M         |
| Trade debtors                           | 35.0        | 90.6        | -          | -          |
| Amounts owed by subsidiary undertakings | -           | -           | 7.3        | 3.5        |
| Other debtors                           | 0.9         | 0.8         | 1.3        | 0.1        |
| Prepayments and accrued income          | 4.3         | 2.7         | -          | -          |
|   | <b>40.2</b> | <b>94.1</b> | <b>8.6</b> | <b>3.6</b> |

### 15. CREDITORS: amounts falling due within one year

|   | Group       |              | Company     |            |
|---|-------------|--------------|-------------|------------|
|   | 2000        | 1999         | 2000        | 1999       |
|   | £M          | £M           | £M          | £M         |
| Bank loans (see note 16)                | -           | 1.7          | -           | -          |
| Trade creditors                         | 25.3        | 63.6         | -           | -          |
| Amounts owed to subsidiary undertakings | -           | -            | 9.5         | 0.9        |
| Corporation tax                         | 0.6         | 1.6          | -           | -          |
| Overseas tax                            | 1.0         | 1.7          | -           | -          |
| Other taxes and social security costs   | 1.3         | 2.6          | -           | -          |
| Obligations under finance leases        | 0.3         | 0.2          | -           | -          |
| Accruals and deferred income            | 28.6        | 35.6         | 2.8         | 2.8        |
|   | <b>57.1</b> | <b>107.0</b> | <b>12.3</b> | <b>3.7</b> |

### 16. CREDITORS: amounts falling due after more than one year

|  | Group        |              | Company      |              |
|--|--------------|--------------|--------------|--------------|
|  | 2000         | 1999         | 2000         | 1999         |
|  | £M           | £M           | £M           | £M           |
| Bank loans   | -            | 134.0        | -            | -            |
| Senior notes due 2009                                    | 149.3        | 155.1        | 155.8        | 155.1        |
| Other loan notes   | -            | 4.4          | -            | -            |
| Obligations under finance leases                         | 1.0          | 0.2          | -            | -            |
| Accruals and deferred income                             | 2.3          | 2.5          | -            | -            |
|  | <b>152.6</b> | <b>296.2</b> | <b>155.8</b> | <b>155.1</b> |
| Net obligations under finance leases are due as follows: |              |              |              |              |
| In one year or less                                      | 0.3          | 0.2          | -            | -            |
| Between one and two years                                | 0.3          | 0.1          | -            | -            |
| Between two and five years                               | 0.7          | 0.1          | -            | -            |
|  | <b>1.3</b>   | <b>0.4</b>   | <b>-</b>     | <b>-</b>     |

The bank loans were repaid in early November 2000. They had been secured on the assets of the Group and the Group was released from this obligation once the bank debt had been repaid. The bank loans in 1999 are shown as principal of £139.9 million net of unamortised issue costs of £4.2 million. The Senior Notes due 2009 are listed on the Luxembourg Stock Exchange and also registered with the SEC in the United States of America. The interest rate is fixed at 10.125 % on an total principal amount of £160.0 million. A principal amount of £6.5 million has been purchased during the year by the Group. The senior notes are shown net of unamortised issue costs of £4.2 million (1999 - £4.9 million) and purchased notes of £6.5 million (1999 - £nil million).

17. PROVISIONS FOR LIABILITIES AND CHARGES

| Group                                 | Termination<br>of operations | Environmental<br>provision | Pensions and<br>other retirement<br>benefits | Deferred tax | Total |
|---------------------------------------|------------------------------|----------------------------|--|--------------|-------|
|                                       | £M                           | £M                         | £M   | £M           | £M    |
| At 1 January 2000                     | -                            | -                          | 3.3  | 2.6          | 5.9   |
| Business disposals                    | -                            | -                          | -  | (2.0)        | (2.0) |
| Charge to the profit and loss account | 2.0                          | 1.5                        | 6.3  | 0.7          | 10.5  |
| Cash payments                         | (0.4)                        | -                          | (5.2)  | -            | (5.6) |
| Translation movement                  | -                            | -                          | 0.3  | (0.1)        | 0.2   |
| At 31 December 2000                   | 1.6                          | 1.5                        | 4.7  | 1.2          | 9.0   |

Deferred taxation provided and the amounts not provided in the financial statements are as follows:

| Group   | Provided   |            | Not provided |            |
|---|------------|------------|--------------|------------|
|   | 2000<br>£M | 1999<br>£M | 2000<br>£M   | 1999<br>£M |
| Capital allowances in advance of depreciation | 2.9        | 6.4        | 2.9          | 4.2        |
| Other timing differences                      | (1.7)      | (3.8)      | (1.5)        | (0.3)      |
| Tax losses                                    | -          | -          | (0.1)        | (0.1)      |
|   | 1.2        | 2.6        | 1.3          | 3.8        |

No provision has been made for deferred tax in respect of earnings which are retained overseas because the availability of double tax relief will ensure that no tax will be payable on any earnings remitted to the United Kingdom.

18. SHARE CAPITAL

|  | 2000<br>No. | 1999<br>No. | 2000<br>£M | 1999<br>£M |
|--|-------------|-------------|------------|------------|
| <b>Authorised:</b>                         |             |             |            |            |
| Ordinary shares of £0.6487 each            | 1,410,778   | 1,410,778   | 0.9        | 0.9        |
| Deferred ordinary shares of £0.0001 each   | 10,000,000  | 10,000,000  | -          | -          |
| Preference shares of £0.6487 each          | 132,683,760 | 132,683,760 | 86.0       | 86.0       |
| 'B' preference shares of £1 each           | 50,000      | 50,000      | 0.1        | 0.1        |
|  | 144,144,538 | 144,144,538 | 87.0       | 87.0       |
| <b>Allotted, called up and fully paid:</b> |             |             |            |            |
| Ordinary shares of £0.6487 each            | 1,340,240   | 1,340,240   | 0.9        | 0.9        |
| Preference shares of £0.6487 each          | 132,683,760 | 132,683,760 | 86.0       | 86.0       |
| Deferred ordinary shares of £0.0001 each   | 20,000      | 20,000      | -          | -          |
|  | 134,044,000 | 134,044,000 | 86.9       | 86.9       |
| <b>Allotted, called up and 25% paid:</b>   |             |             |            |            |
| 'B' preference shares of £1 each           | 50,000      | 50,000      | 0.1        | 0.1        |

The rights of the shares are as follows:

**Ordinary shares of £0.6487 each**

The ordinary shares carry no entitlement to an automatic dividend but rank *pari passu* in respect of any dividend declared and paid other than the preference dividend (see below).

**Deferred ordinary shares of £0.0001 each**

The 20,000 deferred shares have no entitlement to dividends and are entitled to a return on capital on a liquidation or

18. SHARE CAPITAL (continued)

winding up only after the holders of the ordinary shares have received £1,000,000 per ordinary share. The deferred shares have no entitlement to vote.

**Preference shares of £0.6487 each**

The preference shares have an entitlement to a fixed cumulative dividend of 5% per annum payable on redemption of the preference shares. Interest will accrue on unpaid preference dividends at the rate of 5% per annum on the nominal amount of the preference shares compounding on 31 December in each year. The preference shares are redeemable at any time, but must be redeemed in 2010 at par or, if earlier, under certain circumstances if permitted under the terms of the senior notes 2009 indenture. The ability to pay dividends in cash and redeem the preference shares is subject to certain restrictions contained in the indenture.

**'B' preference shares of £1 each**

The 50,000 'B' preference shares are entitled to a dividend on the same terms as the Company's other preference shares and are entitled to be redeemed prior to any other distribution or return of capital to shareholders.

19. RESERVES

| Group   | Merger<br>reserve<br>£M | Profit and<br>loss account<br>£M |
|---|-------------------------|----------------------------------|
| At 1 January 2000   | (207.5)                 | 47.6                             |
| Retained profit for the year  | -                       | 88.0                             |
| Exchange differences on retranslation of net assets of overseas subsidiary undertakings | -                       | 2.6                              |
| Exchange translation differences on bank loans  | -                       | (1.2)                            |
| Credit back of UITF 17 charge for share options exercised                               | -                       | 0.2                              |
| Credit back of preference dividend not paid   | -                       | 4.5                              |
| At 31 December 2000   | (207.5)                 | 141.7                            |
| <b>Company</b>  |                         |                                  |
| At 1 January 2000   |                         | 0.5                              |
| Deficit for the year  |                         | (7.7)                            |
| Credit back of preference dividend not paid   |                         | 4.5                              |
| Credit back of UITF 17 charge for share options exercised                               |                         | 0.2                              |
| At 31 December 2000   |                         | (2.5)                            |

The loss after taxation dealt with in the accounts of the parent company was £3.2 million (1999 – profit of £0.5 million). As at 31 December 2000, accrued cumulative preference dividends amounted to £7.6 million. These dividends have been accrued through the profit and loss account and credited back to reserves because the dividends are not due for payment.

20. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

|   | 2000  | 1999  |
|---|-------|-------|
|   | £M    | £M    |
| Operating profit  | 29.2  | 48.0  |
| Depreciation  | 13.3  | 13.7  |
| Amortisation of goodwill  | 2.0   | 2.1   |
| Loss on disposal of tangible fixed assets                                 | 0.1   | 0.1   |
| Charge for share options exercised  | -     | 0.6   |
| (Increase)/decrease in stocks   | (5.9) | 2.6   |
| (Increase) in debtors   | (9.0) | (0.2) |
| Increase/(decrease) in creditors and provisions                           | 9.4   | (2.2) |
| Net cash inflow from operating activities before non-operating cash flows | 39.1  | 64.7  |
| Non-operating exceptional costs   | (0.4) | -     |
| Net cash inflow from operating activities                                 | 38.7  | 64.7  |
| Discontinued operations   | 5.5   | 32.2  |
| Continuing operations   | 33.2  | 32.5  |
| Net cash inflow from operating activities                                 | 38.7  | 64.7  |

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

|  | 2000    | 1999    |
|--|---------|---------|
|  | £M      | £M      |
| Increase/(decrease) in cash for the year               | 6.2     | (11.9)  |
| Cash outflow from repayment of debt and finance leases | 145.9   | 176.3   |
| Cash outflow from purchase of senior notes due 2009    | 6.2     | -       |
| Cash inflow from new debt facilities                   | -       | (300.0) |
| Cash outflow from new debt issue costs                 | -       | 9.9     |
| Cash outflow from increase in fixed term cash deposits | 47.8    | -       |
| Change in net debt resulting from cash flows           | 206.1   | (125.7) |
| Finance leases acquired on acquisition of business     | (1.4)   | -       |
| Finance leases sold on disposal of business            | 0.3     | -       |
| Gain on purchase of senior notes due 2009              | 0.3     | -       |
| Translation differences                                | (0.6)   | (1.0)   |
| Accrued issue costs                                    | -       | 0.1     |
| Amortisation of debt issue costs                       | (5.1)   | (1.2)   |
| Movement in net debt in the year                       | 199.6   | (127.8) |
| Net debt at the beginning of the year                  | (287.2) | (159.4) |
| Net debt at the end of the year                        | (87.6)  | (287.2) |

**(c) Analysis of changes in net debt**

|                                | At 1 Jan<br>2000<br>£M | Cash<br>flow<br>£M | Other non-<br>cash changes<br>£M | Acquisitions<br>£M | Disposals<br>£M | Exchange<br>movement<br>£M | At 31 Dec<br>2000<br>£M |
|--------------------------------|------------------------|--------------------|----------------------------------|--------------------|-----------------|----------------------------|-------------------------|
| Cash at bank and in hand       | 8.4                    | 6.2                | -                                | -                  | -               | 0.6                        | 15.2                    |
| Fixed term cash deposits       | -                      | 47.8               | -                                | -                  | -               | -                          | 47.8                    |
| Senior Notes due 2009          | (155.1)                | 6.2                | (0.4)                            | -                  | -               | -                          | (149.3)                 |
| Bank loans                     | (135.7)                | 141.3              | (4.4)                            | -                  | -               | (1.2)                      | -                       |
| Other loans and finance leases | (4.8)                  | 4.6                | -                                | (1.4)              | 0.3             | -                          | (1.3)                   |
|                                | (295.6)                | 199.9              | (4.8)                            | (1.4)              | 0.3             | (1.2)                      | (102.8)                 |
| <b>Total</b>                   | <b>(287.2)</b>         | <b>206.1</b>       | <b>(4.8)</b>                     | <b>(1.4)</b>       | <b>0.3</b>      | <b>(0.6)</b>               | <b>(87.6)</b>           |

Cash at bank and in hand of £63.0 million, as disclosed in the balance sheet, includes £15.2 million as quoted above and the £47.8 million of fixed term cash deposits.

**(d) Disposal of operations**

The operations disposed in the year contributed £9.5 million to operating cash flows and incurred £4.7 million in capital expenditure. Cash inflows for 'sale of businesses (net of costs)' of £226.2 million includes consideration received of £228.8 million net of expenses paid of £2.6 million.

## 21. FINANCIAL INSTRUMENTS

A summary of the Group's objectives, policies and strategies in relation to financial risk management and use of financial instruments is set out in the Finance Review on page 10 to 11. The following disclosures relating to financial instruments have been prepared on a basis which excludes short term debtors and creditors which had resulted from the Group's operating activities.

### (a) Financial instruments of the Group

The financial instruments of the Group other than short term debtors and creditors were as follows:

Primary financial instruments:

|                                  | Book value<br>2000<br>£M | Fair value<br>2000<br>£M | Book value<br>1999<br>£M | Fair value<br>1999<br>£M |
|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Financial assets:</b>         |                          |                          |                          |                          |
| Cash at bank and in hand         | 63.0                     | 63.0                     | 8.4                      | 8.4                      |
| <b>Financial liabilities:</b>    |                          |                          |                          |                          |
| Cumulative preference shares     | 93.7                     | 54.7                     | 89.2                     | 52.8                     |
| Senior Notes due 2009            | 153.5                    | 148.5                    | 160.0                    | 152.0                    |
| Bank loans                       | -                        | -                        | 139.9                    | 139.9                    |
| Other loan notes                 | -                        | -                        | 4.4                      | 3.6                      |
| Obligations under finance leases | 1.3                      | 1.3                      | 0.4                      | 0.4                      |
| Accrued deferred consideration   | 2.8                      | 2.6                      | 3.3                      | 3.1                      |
|                                  | 251.3                    | 207.1                    | 397.2                    | 351.8                    |

Financial liabilities will mature as follows:

|                            | 2000<br>£M | 1999<br>£M |
|----------------------------|------------|------------|
| In one year or less        | 1.3        | 3.5        |
| Between one and two years  | 1.1        | 13.3       |
| Between two and five years | 1.7        | 46.9       |
| Over five years            | 247.2      | 333.5      |
|                            | 251.3      | 397.2      |

Derivative financial instruments are as follows:

|   | Book value<br>2000<br>£M | Fair value<br>2000<br>£M | Book value<br>1999<br>£M | Fair value<br>1999<br>£M |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Held to hedge purchases and sales by trading businesses:</b> |                          |                          |                          |                          |
| Forward foreign currency contracts                              | -                        | 0.1                      | 0.4                      | 0.7                      |
| Forward aluminium commodity contracts                           | -                        | 0.3                      | -                        | 7.5                      |
| Aluminium call options  | -                        | -                        | -                        | 0.1                      |
|   | -                        | 0.4                      | 0.4                      | 8.3                      |
| <b>Held to manage interest rate risks on financing:</b>         |                          |                          |                          |                          |
| Interest rate swaps   | (0.3)                    | (0.3)                    | (0.2)                    | 1.5                      |
| Interest rate caps  | -                        | -                        | -                        | 0.2                      |
|   | (0.3)                    | (0.3)                    | (0.2)                    | 1.7                      |

The fair value calculations were performed on the following basis:

#### Cash in hand, at bank

The carrying value approximates to the fair value as a result of the short term maturity of the instruments.

#### Cumulative preference shares

The cumulative preference shares, which were issued in April 1999, have a right to a cumulative 5% dividend which falls payable in 2009 along with the par value of the shares. The book value of £93.7 million (1999 - £89.2 million) disclosed

21. FINANCIAL INSTRUMENTS (continued)

in the financial liabilities table in part (a) includes the accrued cumulative dividend of £7.6 million (1999 - £3.1 million). The fair value has been estimated by discounting the future cash flows relating to shares on the assumption the shares and final cumulative dividend will be repaid ten years after issue, in 2009. The discount rate used is the annual interest rate yield implicit in the senior notes due 2009, based on their market value at end of the year.

**Bank loans**

The bank loans were repaid in 2000. In 1999 the book value of £139.9 million for bank loans was before the netting off of the related issue costs of £4.2 million. The £139.9 million approximated to the fair value because the underlying instruments had a floating interest rate which was reset for periods of up to six months in duration. Part of the floating interest rate had been hedged into fixed rates, but at the balance sheet date there was no material difference between these fixed and floating rates.

**Other loan notes and deferred consideration**

These instruments are unquoted and have fixed interest rates which were set at their dates of issue. The fair value of the loan notes and deferred consideration has been calculated by discounting the future cash flows using the Group's known incremental rate of borrowing for liabilities which could be used to replace the existing instruments.

**Senior notes due 2009**

The Senior Notes are a traded instrument and are listed on the Luxembourg stock exchange and registered with the SEC in the United States of America. The fair value is derived from a quoted price as at 31 December, each year.

**Forward exchange contracts**

The fair value of these contracts is calculated by determining what the Group would be expected to receive or pay on termination of each individual contract by comparison to present market prices.

**Interest rate swaps and caps**

The fair value has been calculated using the commonly used market pricing model known as the Black-Scholes option pricing model.

**Aluminium commodity contracts**

The fair value of these contracts has been calculated by valuing the contracts against the equivalent forward rates quoted on the LME at 31 December, each year.

**(b) Interest rate risks**

**Interest rate risk profile on financial liabilities**

The following table shows the present split between fixed and floating interest rate financial liabilities. The split is after all interest rate swaps and caps have been applied and therefore is the net exposure after hedging.

|                   | Floating rate | Fixed rate | Total | Floating rate | Fixed rate | Total |
|-------------------|---------------|------------|-------|---------------|------------|-------|
|                   | 2000          | 2000       | 2000  | 1999          | 1999       | 1999  |
| Currency:         | £M            | £M         | £M    | £M            | £M         | £M    |
| Sterling          | -             | 247.2      | 247.2 | 47.3          | 319.0      | 366.3 |
| US Dollar         | -             | 2.8        | 2.8   | 9.3           | 15.7       | 25.0  |
| Australian Dollar | -             | -          | -     | -             | 5.9        | 5.9   |
| Euro              | -             | 1.3        | 1.3   | -             | -          | -     |
|                   | -             | 251.3      | 251.3 | 56.6          | 340.6      | 397.2 |

The weighted average interest rates for these liabilities are as follows:

| Fixed interest rate liabilities | Weighted average interest rate | Weighted average period | Weighted average interest rate | Weighted average period |
|---------------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
| Currency:                       | 2000                           | 2000                    | 1999                           | 1999                    |
|                                 | %                              | Years                   | %                              | Years                   |
| Sterling                        | 8.2                            | 9.3                     | 6.9                            | 7.9                     |
| US Dollar                       | 4.8                            | 1.8                     | 7.3                            | 2.1                     |
| Australian Dollar               | -                              | -                       | 8.0                            | 2.5                     |
| Euro                            | 6.9                            | 2.3                     | -                              | -                       |
|                                 | 8.1                            | 9.2                     | 6.9                            | 7.6                     |

**(c) Currency risk disclosures**

The currency exposures that give rise to exchange gains or losses which are taken to the profit and loss account under SSAP 20 have been hedged by the use of foreign exchange contracts and by borrowings in the relevant foreign currencies.

21. FINANCIAL INSTRUMENTS (continued)

**(d) Gains and losses on hedging**

The gains and losses on the hedging instruments represent changes in the fair values of these instruments. These gains and losses are only recognised when the exposure being hedged is itself realised. The table below shows the level of aggregate gains or losses (on the hedging instruments only) which is being deferred. It also demonstrates when they will be recognised in the future to offset the movement in the fair value of the exposure being hedged. It is the Group's policy not to trade or speculate in hedging instruments and therefore these gains and losses are matched by opposite losses or gains in the underlying exposures.

**Reconciliation of movement in unrealised gains and losses on hedges:**

|   | Net gains<br>/(losses)<br>2000<br>£M | Net gains<br>/(losses)<br>1999<br>£M |
|---|--------------------------------------|--------------------------------------|
| Unrecognised gains and losses on hedging at beginning of year     | 9.8                                  | (4.8)                                |
| Gains and losses arising in prior years now recognised in year    | (9.5)                                | 4.5                                  |
| Gains and losses from prior years carried forward to future years | 0.3                                  | (0.3)                                |
| Gains and losses in year carried forward to future years          | 0.1                                  | 10.1                                 |
| Total unrecognised gains and losses carried forward               | 0.4                                  | 9.8                                  |

**Maturity of unrecognised gains and losses carried forward:**

|   | Net gains<br>/(losses)<br>2000<br>£M | Net gains<br>/(losses)<br>1999<br>£M |
|---|--------------------------------------|--------------------------------------|
| Expected to be recognised within one year           | 0.4                                  | 7.7                                  |
| Expected to be recognised in one to two years       | -                                    | 1.8                                  |
| Expected to be recognised in two to five years      | -                                    | 0.3                                  |
| Total unrecognised gains and losses carried forward | 0.4                                  | 9.8                                  |

**(e) Undrawn committed facilities**

The Group cancelled its committed facilities when it repaid the bank debt in early November 2000. New facilities are being formalised. One revolving credit facility was agreed in January 2001 for £25 million. An equivalent of £15 million or 60% was undrawn at the end of 2000. The new facility provides cash advances, performance bonds, letters of credit and foreign exchange cover. At 31 December 1999, the Group had equivalent undrawn revolving credit facilities of £31.2 million.

22. COMMITMENTS

**(a) Operating leases**

Annual commitments under non-cancellable operating leases are as follows:

| Group                          | Land and buildings |            | Plant and equipment |            |
|--------------------------------|--------------------|------------|---------------------|------------|
|                                | 2000<br>£M         | 1999<br>£M | 2000<br>£M          | 1999<br>£M |
| Operating leases which expire: |                    |            |                     |            |
| Within one year                | 0.2                | 0.1        | 0.2                 | 0.5        |
| In two to five years           | 0.3                | 1.2        | 0.7                 | 2.3        |
| In over five years             | 0.6                | 1.9        | -                   | -          |
|                                | 1.1                | 3.2        | 0.9                 | 2.8        |

**(b) Future capital expenditure**

Amounts contracted for but not provided in the financial statements amounted to £0.8 million (1999 - £5.3 million) for the Group and £nil (1999 - £nil) for the Company.

### 23. PENSION COMMITMENTS

The Group operates defined benefit arrangements in the United Kingdom, the United States of America, Germany and Japan. An arrangement operated in Eire was disposed of during the year as part of the sale of the British Aluminium businesses. The levels of funding are determined by periodic actuarial valuations. Further, the Group operates defined contribution schemes in the UK, USA and Australia. The assets of the schemes are generally held in separate trustee administered funds.

The principal defined benefit pension scheme in the United Kingdom is the British Aluminium Pension Plan (shortly to be renamed the Luxfer Group Pension Plan) which closed to new members in 1998, new employees then being eligible for a defined contribution plan. The pension cost of the Plan is assessed in accordance with the advice of an independent firm of professionally qualified actuaries, Lane Clark & Peacock. The latest actuarial valuation of the Plan was carried out as at 5 April 2000.

As at 5 April 2000 the actuarial value of the assets of the British Aluminium Pension Plan represent 102% of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. The market value of the Plan's assets at the valuation date amounted to £208.3 million.

The assumptions which had the most significant effect on the results of the valuation were that the rate of investment return would be 7.5% pa before retirement and 6% pa after retirement, earnings growth would be 4.5% pa, inflation would be 3% pa, pensions in payment would increase at 2.75% pa, and equity dividends would increase by 4% pa.

The pension cost for the British Aluminium Pension Plan in 2000 was £3.9 million (1999 - £5.2 million). The disposal of the businesses during the year reduced the active membership of the plan, and are reflected in this figure. The total pension cost in respect of the other arrangements in 2000 was £2.4 million (1999 - £1.6 million).

### 24. THE LUXFER GROUP EMPLOYEE SHARE OWNERSHIP PLAN 1997 AND THE LUXFER GROUP UNAPPROVED EXECUTIVE SHARE OPTION SCHEME 1997

The Group has an employee share plan to give opportunities of ownership to employees across the Group. We have established an employee benefit trust (the "ESOP") to facilitate the purchase and holding of shares for transfer to certain senior employees in accordance with The Luxfer Group Unapproved Executive Share Option Scheme 1997 (the "Scheme").

The ESOP was established with the benefit of a gift equivalent to the set up and running costs. Shares are held by an independent trustee. When the plan was initially set up, 132,500 A ordinary shares in Luxfer Group Limited were held by the trustee, which the ESOP purchased at a premium of £0.99. Subsequently, in 1999 the plan trustee acquired a further 30,000 ordinary shares from former employee shareholders for an aggregate cost of £1.0 million. The purchase monies were provided via a non-interest bearing loan repayable, in normal circumstance, out of the proceeds of the transfer of shares to employees when they exercise options under the Scheme. The trustee has waived the right to receive dividends exceeding a nominal amount.

The Remuneration Committee determines which senior employees are to be granted options and in what number under the Scheme. Options become exercisable upon the occurrence of a listing of the Luxfer Group or a sale subject to conditions. In normal circumstances options expire on the seventh anniversary of their grant or the second anniversary of a listing of the Company. The Scheme has a duration of ten years. In 1999, when Luxfer Holdings PLC issued the new preference and ordinary shares at the time of the Recapitalisation in exchange for the ordinary shares in Luxfer Group Limited, option holders were permitted by the Remuneration Committee to exercise a portion of their existing options. The remainder of the options were converted into options for ordinary shares in Luxfer Holdings PLC at the rate of 1 ordinary share and 99 preference shares for each A ordinary share in Luxfer Group Limited. As a result, from 9 April 1999 the plan trustee held 113,610 ordinary shares and 11,247,390 preference shares in Luxfer Holdings PLC.

In July 2000 the Remuneration Committee determined that those employees leaving the Luxfer Group as a result of the disposal of a Luxfer Group business should be permitted to exercise their options over both ordinary and preference shares on leaving the Group. As a measure of equality the Remuneration Committee also permitted employees holding options over the ordinary shares to exercise their options over the ordinary shares only. In addition, the Remuneration Committee also determined to grant further options over ordinary shares to senior employees remaining with the Group, which also became exercisable immediately. The plan trustees acquired a further 20,963 ordinary shares and 691,713 preference shares from former employee shareholders (which had not previously been the subject of options) leaving the employment of the Group. The plan trustee now holds 32,459 ordinary shares and 11,939,103 preference shares in Luxfer Holdings PLC. Further monies were loaned to the plan trustee, on the same terms and conditions as the existing loan, to provide

sufficient funding to enable the trustee to complete these transactions. The amount advanced was an aggregate of £1,339,000 after taking into account monies received by the plan trustee on the exercise of share options. The costs of the ESOP are charged through the Group's profit and loss account as they accrue.

In 1999, in accordance with Urgent Issues Task Force (UITF) abstracts 13 and 17, issued by the U.K. Accounting Standards Board, we booked an exceptional charge of £0.6 million relating to shares held by the ESOP in connection with the award of executive options. The triggering event would normally be a listing or trade sale of our operations, but approximately 30% of the options became exercisable due to the Recapitalisation. In 2000 we booked a further £0.2 million charge relating to the shares options exercised during the year. There is no impact on distributable reserves.

A charge of £1.5 million (1999 - £2.1 million) would have had to be made if all the share options had been exercised. The charge is calculated as the difference between the option price and the fair value of the shares at the time of the award. This charge is a potential charge which is taken as the options become exercisable.

## 25. MINORITY INTERESTS

|                      | 2000<br>£M | 1999<br>£M |
|----------------------|------------|------------|
| At beginning of year | 0.8        | 0.1        |
| Profit for the year  | 3.8        | 0.7        |
| Dividends paid       | (0.4)      | -          |
| At end of year       | 4.2        | 0.8        |

## 26. RELATED PARTY DISCLOSURE

The following interest payments were made to funds managed by the following related parties with regard to Series B loan notes:

|                                | 2000<br>£M | 1999<br>£M |
|--------------------------------|------------|------------|
| Morgan Grenfell Private Equity | -          | 3.5        |
| CVC Capital Partners           | -          | 3.5        |
| Mercury Asset Management       | -          | 2.3        |
|                                | -          | 9.3        |

These loan notes were repaid to the holders on 9 April 1999 at par.

## 27. POST BALANCE SHEET EVENTS

Since the year end, the business British Aluminium Speciality Extrusions was sold and consequently the results of this business are included in discontinued operations in the Group's profit and loss account.

Also after the year end the Group made an irrevocable offer to acquire the aluminium gas cylinder business SM Gerzat, based in France. The cost of the acquisition will be covered by the disposal proceeds from British Aluminium Speciality Extrusions. Both transactions are with the aluminium group Pechiney.

## COMPANY DETAILS

### Company Registration

Registration no. 3944037

### Registered Office

The Victoria, Harbour City  
Salford Quays  
Manchester M5 2SP

### Secretary

Linda F Seddon

### Auditors

Ernst & Young  
100 Barbirolli Square  
Manchester M2 3EY

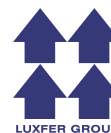
### Bankers

Bank of Scotland  
The Royal Bank of Scotland plc  
Lloyds TSB Bank plc

### Solicitors

Dickson Minto W.S.  
Royal London House  
22/25 Finsbury Square  
London EC2A 1DS

Hammond Suddards  
Trinity Court  
16 John Dalton Street  
Manchester M60 8HS



LUXFER GROUP

### LUXFER HOLDINGS PLC

The Victoria, Harbour City  
Salford Quays  
Manchester M5 2SP  
England

Tel: +44 (0) 161 911 8800

Fax: +44 (0) 161 911 8894

Website: [www.luxfer.com](http://www.luxfer.com)



LUXFER GROUP