ASHTEAD GROUP PLC

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ASHTEAD GROUP PLC

Annual Report & Accounts 2003

"The Group has had to confront unprecedented internal difficulties in the USA against a background of the worst trading conditions in at least a decade. With the aid of our advisers, the Group's management has in the space of four months drawn a line under the accounting issue, committed significant additional resources to strengthening the Group's finance function, conducted a full commercial review of the business and of its balance sheet and negotiated renewed bank facilities with revised covenants reflecting the current trading environment.

The Group is a half billion pound turnover business with leading positions in each of its markets. It is once again ready to take advantage of its significant operating leverage as and when economic conditions improve. The Board regrets that the past year has been a difficult one for all the Company's stakeholders but looks forward to making progress along the road to recovery in the current year."

Henry Staunton,
Ashtead's non-executive chairman

Financial highlights

- Loss before exceptional items, goodwill amortisation and tax of £1.8m (2002 profit of £28.9m)
- After exceptional charges of £31.4m, £16.8m of which related to prior years and £7.5m to advisory and commitment fees, the loss before tax was £42.2m (2002 – loss of £15.5m)
- £68.3m increase in net free cash flow* from 2002 outflow of £29.4m to 2003 inflow of £38.9m
- Net debt** at 30 April of £622.3m (2002 - £675.3m). At constant exchange rates, debt reduced by £21.2m in the year.
- Renewed banking arrangements agreed at 30 May providing committed financing through January 2005

** net cash inflow from operating activities before exceptional items, less interest paid, net capital expenditure and tax*

*** net bank debt, the subordinated, unsecured convertible loan note, finance lease obligations and non recourse funding received under the accounts receivable securitisation*

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ASHTEAD GROUP PLC

Chairman's Report

The Group is a half billion pound turnover business with leading positions in each of its markets. It is once again ready to take advantage of its significant operating leverage as and when economic conditions improve. The Board regrets that the past year has been a difficult one for all the Company's stakeholders but looks forward to making progress along the road to recovery in the current year.

Results

The year to 30 April 2003 has been the most difficult since the inception of the Group in 1984. The effect of slowing economies in the USA and the UK, coupled with more difficult conditions in the oil and gas sector, made for challenging trading conditions particularly against the background of uncertainty about war in Iraq. Nevertheless all of this was manageable and was being managed. What had not been anticipated was the admission in early March by the financial controller of our US subsidiary Sunbelt Rentals, that he had been failing properly to reconcile a number of balance sheet accounts. The effects of this admission were immediate. On the following day the Group had been due to make representations and warranties as part of a normal rollover of part of its debt facility. In the circumstances it was clearly unable to do so and as a result was put in default of its banking agreements.

It was gratifying therefore to be able to announce on 2 June the conclusion of the forensic examination and the renewal of our banking arrangements until January 2005. As we noted in our June statement "the Group will generate a significant amount of cash over the next two years and the Board expects to refinance the senior debt facilities well before January 2005."

The knock on effects of the events of March were significant in both the USA and the UK but particularly the latter, given the Group's status as a UK public company. They are reflected in the outcome for the year of a loss of £1.8m before exceptional items, goodwill amortisation and tax, and in the scale of exceptional charges incurred and a loss before tax of £42.2m. The prior year impact of the US accounting issue was £9.4m. A-Plant has also provided for the cost of the rationalisation of a number of its businesses and for the centralisation of all of its UK accounting and head office functions at Warrington, the total sum being £7.4m. In addition, the Group has taken the opportunity to review the method by which it estimates the likely cost of incurred insurance claims in the USA by moving from a case by case analysis carried out by appointed independent claims handling agents to a more conservative actuarial estimate of the likely total cost of the self-insured risk. This has given rise to an additional current year expense of £2.7m and to an exceptional £7.4m charge relating to the brought forward balance.

Total exceptional costs therefore amounted to £31.4m in the year of which £16.8m relates to the year to 30 April 2002 and prior and £7.5m to the cost of advisory and commitment fees in respect of the successful renegotiation of the Group's debt facilities.

Costs relating to the successful legal action in the United States

of approximately £1m in total have been charged to the profit and loss account over the last two years and no credit has been taken in this year's accounts for the anticipated recovery of these or in respect of the US$15m of damages awarded to the Company by the North Carolina business court as announced on 6 May 2003.

Dividend

It was with regret that the Board in late March withdrew the previously declared interim dividend but it was clearly essential at that time to conserve resources. As announced in early June resumption of dividends in future is dependent upon completion of the refinancing anticipated before expiry of the existing facilities in January 2005. An announcement on future dividend policy will be made once that refinancing has been completed.

Staff

The Group's staff across the world have faced unprecedented challenges in recent months in light of the uncertainty caused by the unexpected default under the bank facility. They have responded magnificently and our thanks go to all of them.

The Board

Finally, our congratulations to Philip Lovegrove on being awarded the OBE in the Queen's Birthday Honours List.

Henry Staunton
Chairman
15 July 2003

Chief Executive's Review

Having addressed a number of significant coinciding issues the Board looks forward to making progress on the road to recovery in the coming year. The Board is confident that all three divisions will continue to be cash generative and that significant net free cash flow will be generated in the coming year and beyond, with an attendant reduction in debt levels.

Divisional performance

	Revenues		EBITDA*		Divisional profit**	
	2003	2002	*2003*	2002	*2003*	2002
	£m	£m	*£m*	£m	*£m*	£m
Sunbelt Rentals	*349.1*	382.2	*99.3*	130.5	*32.9*	62.6
A-Plant	*178.4*	187.0	*48.9*	60.2	*7.9*	14.5
Ashtead Technology	*12.0*	14.5	*6.1*	8.4	*2.5*	4.2
Group central costs	*-*	-	*(4.2)*	(4.7)	*(4.2)*	(4.7)
	539.5	583.7	*150.1*	194.4	*39.1*	76.6

* before exceptional items and in 2002 excluding the prior year BET lease impact

** operating profit before exceptional items and goodwill amortisation. Additionally in 2002, the Sunbelt figures exclude the prior year BET lease impact.

A reconciliation between these figures and the loss before tax for the year is given in the financial review on pages 8 to 11.

While it is impossible to determine precisely the trading effects of the US accounting irregularities they undoubtedly had an impact on the Group's performance in the last quarter. On a constant currency basis, total revenues for the year declined 2% and EBITDA by 18%. However, the effect of the weak US dollar increased these reductions to 8% and 23% respectively at actual exchange rates and operating profit before exceptional items and goodwill amortisation declined by 49% at actual rates with similar percentage declines in each division. Actions taken to reduce the cost base included a reduction of 23 in the number of UK branches and a reduction of 7.1% in Group staff numbers.

Sunbelt

Sunbelt continued to take market share in the USA although trading conditions were the most challenging for over a decade. These were exacerbated in the second half by the wettest weather conditions on parts of the East Coast since records began. The maintenance of dollar revenues at last year's levels reflected maintained utilisation levels and the benefit of the twenty-three branches opened in the previous year and four in the first half of the current year. These benefits were offset by increased pressure on rental rates. The 0.2% decline in Sunbelt's dollar revenues compared with the collective decline of 6% in revenues reported by the top ten US equipment rental companies in calendar year 2002. Although cost reduction measures were put in place, the drag effect of the additional 27 branches reduced Sunbelt's profitability with its EBITDA margin

falling to 28.4% (34.1%) and its divisional profit margin to 9.4% (16.4%).

During the last quarter of the year Sunbelt implemented the leading IT operating system in the US rental market. This will facilitate improved efficiencies in customer service and cost control through a supplier rationalisation programme in the coming year. Capital expenditure will also be kept under tight control being concentrated on higher margin products as part of a reconfiguration of the rental fleet.

In recent months there has been a better balance between supply and demand as major equipment disposal programmes by our competitors appear to have been largely completed and dollar revenues have continued broadly in line with those of a year ago.

A-Plant

As previously mentioned the knock-on effect of the US accounting problem had an adverse impact on A-Plant, our UK subsidiary, as it damaged the confidence of customers and suppliers. As a result the positive trend achieved in the first half and beyond was reversed. Full year EBITDA margins were 27.4% (32.2%) while divisional profit margins fell to 4.4% (7.8%).

During the year the integration of the four regional accounting offices and the UK Corporate and Marketing office into our new Warrington facility was successfully completed on time and within budget. A-Plant's business was also restructured on a product basis to give our specialist and tool hire shop businesses a national presence and our general equipment locations a greater focus.

A national meeting of UK managers was held in June, supported by a number of key suppliers, to confirm the successful outcome of the banking discussions, to share with them our strategy and business plan and to brief them on a significant new incentive programme with a view to increasing market share. The

Chief Executive's Review

achievement of this goal has been enhanced by the impending announcement of a 3 year preferred supplier contract with one of the country's largest contractors. The contract has a potential value of several million pounds per annum.

Since the beginning of June there has been a steady increase in the number and value of rental contracts towards the level of early March.

Ashtead Technology

The offshore oil and gas industry was particularly weak in Technology's two principal markets, Aberdeen where the effects were partially offset by serving customers in the West African sector and Houston. Despite the slow US economy the environmental business continued to trade well. Costs and capital expenditure were kept under tight control. Recently we have seen improvement in the offshore market and Technology's management is more optimistic about the future than it has been for some time.

Cashflow

The Group generated a net free cash inflow in the year of £38.9m, a £68.1m turn-round on the previous year's outflow of £29.2m. Net debt at year end was £622.3m, £53.0m less than the previous year's £675.3m. At constant exchange rates the reduction was £21.2m.

Capital expenditure was limited to £85.5m down from £113.8m in the previous year reflecting economic conditions. £71.0m was spent on the equipment fleet of which £58.4m was replacement expenditure and £12.6m for expansion. The average age of the fleet at 30 April 2003 was a fraction over four years in both the UK and the US but, in the US, when the longer-life aerial work platform fleet is excluded, the average fleet age for the rest of the fleet reduces to slightly below three and a half years. This means that the Group retains a relatively young fleet, which is important at the current difficult stage of the economic cycle. Gains on disposal of fixed assets were £2.7m up from £1.5m in the previous year.

It is anticipated that capital expenditure in the coming year will remain at similar levels but with a higher proportion spent in the UK. Significant net free cash flow is also expected.

Response to the US accounting issue

Immediate action was taken in response to the US accounting issue. Sunbelt's financial controller left the Company. A temporary replacement was installed who continues to provide transitional support to a full time appointee who joined Sunbelt in May. A forensic investigation was undertaken by KPMG reporting to the Group and its banks. Deloitte & Touche was also employed to assist the Company in the production and review of detailed business plans across the Group. An ambitious target date of the end of May was set for the determination of the extent of the accounting problem and the conclusion of discussions with the Group's bankers and the delivery of a renewed bank facility. These deadlines were met and an amended facility, committed to January 2005, with revised covenants reflecting current trading conditions was put in place at the end of May.

The audit of our financial statements has since been concluded by PricewaterhouseCoopers and a new senior Group position,

Director of Financial Reporting, has been created and filled from outside the Group.

Outlook

There are some indications that the worst is over as far as the economic cycle is concerned. US government statistics for our principal market, non-residential construction, show that after a 30% decline in the period March 2001 to September 2002, the position has been stable for the last eight months. The continued large investment in PFI work and the announcement of a significant road-widening programme by the UK government are signs of encouragement as A-Plant continues to develop its major account programme. The offshore market, particularly that in Houston, has picked up in recent months after a slow period.

The equipment rental industry tends to lag the economic cycle making it prudent to be cautious. Having addressed a number of significant coinciding issues the Board looks forward to making progress on the road to recovery in the coming year.

The Board is confident that all three divisions will continue to be cash generative and that significant net free cash flow will be generated in the coming year and beyond, with an attendant reduction in debt levels. The Group remains a half billion pound business with market leading positions which offer significant operating leverage as market conditions improve.

George Burnett
Chief Executive
15 July 2003

Financial Review

Profit & loss account

Revenues

Group revenues of £539.5m (2002 - £583.7m) were significantly impacted by the weak US dollar. At constant exchange rates the decline in Group revenues was 2%, significantly less than the 8% decline at actual rates. Sunbelt's revenues declined from £382.2m to £349.1m when measured in sterling but by only 0.2% in US dollars from $548.3m to $547.0m. A-Plant's revenues declined 4.6% from £187.0m to £178.4m reflecting competitive markets and the decision a year ago to withdraw from certain low return activities. Ashtead Technology revenues reduced from £14.5m to £12.0m reflecting lower activity levels in its offshore markets in the North Sea and Gulf of Mexico.

Divisional performance

	Revenues		Profit		Net assets	
	2003	2002	*2003*	2002	*2003*	2002
	£m	£m	*£m*	£m	*£m*	£m
				(restated)		
Sunbelt Rentals	*349.1*	382.2	*32.9*	62.6	*582.1*	652.5
A-Plant	*178.4*	187.0	*7.9*	14.5	*218.6*	245.5
Ashtead Technology	*12.0*	14.5	*2.5*	4.2	*11.3*	12.9
Group central costs	*-*	-	*(4.2)*	(4.7)	*-*	-
Central items*	*-*	-	*-*	-	*(651.0)*	(716.4)
	539.5	583.7	*39.1*	76.6	*161.0*	194.5
Interest			*(40.9)*	(49.5)		
(Loss)/profit before exceptional items, goodwill amortisation, prior year BET lease impact & taxation			*(1.8)*	*27.1*		
Prior year BET lease impact			*-*	1.8		
(Loss)/profit before exceptional items, goodwill & tax			*(1.8)*	28.9		
Exceptional items			*(31.4)*	(35.6)		
Goodwill amortisation			*(9.0)*	(8.8)		
Loss before tax			*(42.2)*	*(15.5)*		

* *Net bank debt, finance lease obligations and convertible loan plus funding received under the debtors securitisation and deferred taxation*

In the table above divisional performance excludes the prior year element of the change in treatment of acquired BET leases because this provides a better comparison between periods. In addition certain costs previously allocated across the operating divisions are now presented separately as this, in conjunction with the exclusion of exceptional items and goodwill amortisation, better reflects underlying divisional performance.

In the discussion of divisional performance below reference is made in each case to the divisional profit unless otherwise

stated as the operating profit before exceptional items, goodwill amortisation, central costs and, as discussed above, the prior year element of the change in BET lease treatment. Divisional margins are also discussed on the same basis.

Total divisional profit including Group central costs declined by 49% from a restated £76.6m to £39.1m. At constant rates of exchange the reduction was 45%.

On the same basis Sunbelt's divisional profit declined 47% in sterling at actual rates of exchange but by 43% in US dollars with the remaining 4% decline being due to the weaker US dollar. This decline reflected a reduction in Sunbelt's divisional profit margin from 16.4% to 9.4% largely due to reductions in rental rates caused by the competitive operating environment during the current US economic slowdown and cost growth as the new stores opened in 2002 matured. Equipment utilisation was at similar levels to the equivalent period a year earlier.

A-Plant's divisional profit declined 46% with its divisional profit margin falling from 7.8% to 4.4%. This decline reflected continued competitive conditions in its principal markets. Technology's divisional profit declined 40% in line with the revenue fall in its key offshore markets but its divisional profit margin remains the highest in the group at 20.8% (2002 – 29.0%).

Net assets employed reduced over the year reflecting the ageing of the rental fleet by an average of seven months in the year to 49 months at year-end.

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Depreciation and gain on sale of fixed assets

Depreciation charge	Rental equipment	Other assets	Total	2002
	£m	£m	£m	£m
Sunbelt Rentals	62.2	4.2	66.4	71.0
A-Plant	37.1	3.9	41.0	45.7
Technology	3.4	0.2	3.6	4.2
	102.7	8.3	111.0	120.9
Exceptional impairment	5.0	0.8	5.8	-
	107.7	9.1	116.8	120.9

The gain on sale of fixed assets in the ordinary course of trading this year was £2.7m compared with £1.5m in the previous year.

Staff costs

Staff costs constitute the largest single expense of the business and rose 0.5% to £195.0m (2002 - £194.0m). The average number of employees in the year reduced from 6,393 to 6,386 with 6,078 on the payroll at 30 April 2003 (2002- 6,545). Staff costs include profit share of £5.9m (2002 - £9.0m).

EBITDA before exceptional items

EBITDA before exceptional items, which is not an accounting measure under GAAP but is presented here because it is an important measure of performance utilised in the bank covenants under the Company's senior debt facility, may be reconciled to the loss before tax for the year as follows:

	2003	2002
	£m	£m
Loss before tax	*(42.2)*	(15.5)
Interest payable	*40.9*	52.4
Exceptional items	*31.4*	35.6
Goodwill amortisation	*9.0*	8.8
Depreciation excluding exceptional impairment	*111.0*	120.9
EBITDA before exceptional items	*150.1*	202.2
Less: amount relating to prior year BET lease impact	*-*	(7.8)
EBITDA excluding prior year BET lease impact ("Adjusted EBITDA")	*150.1*	194.4

Adjusted EBITDA declined by 23% in the year reflecting both a reduction in EBITDA margins from 33.3% to 27.8% and the impact of the weak US dollar which meant that Sunbelt's 2003 EBITDA before exceptional items was some £9.1m less than it would have been if measured at the rates of exchange which prevailed during 2002. At constant rates of exchange the reduction in EBITDA before exceptional items was 18%.

Net interest payable and similar charges

	2003	2002
	£m	£m
Bank and finance interest payable (net)	*33.2*	41.9
Accrued interest and amortisation on convertible loan note	*7.7*	7.6
	40.9	49.5
Prior year BET lease interest	*-*	2.9
Exceptional costs	*1.9*	3.0
	42.8	55.4

Bank interest payable relates primarily to the interest payable on the variable rate, secured bank facility. Interest was payable under this facility until March at an average premium of 250 basis points over three month LIBOR for the currency in which the loan is drawn. Thereafter, an additional default interest premium of 1% applied, totalling £0.4m which is included in exceptional costs.

Interest on US$250m of this bank debt has been fixed at 6.825% by three year forward interest rate agreements entered into in August 2000. The impact of these swaps is recognised rateably over their life as part of bank interest payable with the amount recognised in the year totalling £8.4m (2002 - £6.3m). The average borrowing rate experienced during the year on bank borrowings was approximately 6% (2002 - 7%) reflecting predominantly lower US interest rates.

Interest is payable on the £134m subordinated convertible loan note, due 2008, held by Rentokil Initial plc at a fixed rate of 5.25% per annum (£7.0m annually) and also includes a further annual non-cash charge of approximately £0.6m representing the amortisation over the life of the loan note of the difference between its fair value at date of issue and its £134m redemption value. Rentokil Initial plc agreed in May 2003 to defer receipt of the semi-annual interest payments due on this facility commencing with the payment due on 31 March 2003 until the earlier of the date on which the Company's secured bank facility is refinanced and 31 January 2005. This interest will, however, continue to be accrued in the accounts.

Exceptional interest costs in 2003 comprise the 1% default interest payment discussed above together with the fees paid in March and April to certain members of the bank group. Exceptional interest costs in the previous year comprised variation fees payable in connection with the covenant amendments agreed in that year.

(Loss)/profit before exceptional items, goodwill amortisation, prior year BET lease impact and tax

Reflecting the reduction in divisional profit, there was a loss for the year before exceptional items, goodwill and tax of £1.8m (2002 – profit of £27.1m before the prior year BET lease impact of £1.8m). This loss is stated after applying the new estimation method for self insured costs (see exceptional items below). Application of the new estimation method increased the provisions made for self insured costs in the current year by £2.7m meaning that a profit of £0.9m before exceptionals and goodwill amortisation would have been reported had the estimation basis not been changed.

Exceptional items

	2003	2002
	£m	£m
Prior year impact of the US accounting issue	*9.4*	-
Brought forward impact of change in estimation method for US self insurance	*7.4*	-
Advisory and other fees relating to the Company's debt facilities	*7.5*	-
UK business rationalisation	*7.4*	-
(Profit)/loss on disposal of fixed assets	*(0.3)*	32.6
Exceptional interest costs	*-*	3.0
	31.4	35.6

Details of the principal current year exceptional items are as follows:

- The final prior year impact of the US accounting issue was £9.4m of which an estimated £4.9m relates to the 2001/2 financial year and £4.5m to earlier years. The adjustment is comprised of the following errors in the balance sheet at 30 April 2002: (1) an overstatement of fixed assets by £2.4m; (2) an understatement of debt by £1.4m; and (3) an understatement of trade creditors and accruals by £5.6m. Significant enhancements have been made to the controls at Sunbelt in light of the accounting problems.

- The method used to estimate the provision required in relation to the self insured element of the Group's US insurance programme has been changed in the year from the previous case by case estimates by the appointed

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independent claims handling agent to an actuarial estimate of the likely total cost of the self insured retained risk based on previous years' experience adjusted for cost inflation and business growth. The impact of this change is described more fully in the financial statements. The increase in the amount that would have been provided at 30 April 2002 under the new estimation basis over the amount which was actually provided last year is £7.4m which is reported as an exceptional item resulting from the adoption of the new basis for estimating the liability.

- Advisory and other fees relating to the Company's debt facilities comprise principally the professional advisory costs incurred in resolving the defaults under the Company's debt facilities resulting from the revelation of the US accounting issue together with fees paid to debt providers. All these costs have been accounted for in the year ended 30 April 2003 save for fees which only became payable conditional on execution of the agreements resolving the defaults which occurred on 30 May 2003. Under FRS 12 these fees, totalling an additional £6.8m (£2.9m of which has since been paid and £3.9m which will be payable at the time the forthcoming refinancing is completed) are required to be accounted for as exceptional items in 2003/4 as they only become due in that financial year. This caption also includes £0.4m of default interest cost.

- UK business rationalisation relates to the cost of A-Plant's rationalisation of a number of its businesses and to the centralisation of all of its UK accounting and head office functions at Warrington. Following a strategic reassessment 23 profit centres were closed in the second half under the programme announced in January, primarily relating to areas where A-Plant was geographically over-represented. This major closure programme was the first large scale withdrawal from individual locations undertaken with previous profit centre closures having been the combination of two profit centres at the same site under a single manager. Additionally A-Plant's previous four regional accounting centres were all shut and their functions migrated to the new centre at Warrington. £1.0m of the total cost relates to vacant property rental costs which will only be paid in future periods.

Loss before tax

After the above exceptional items, the loss before tax for the year was £42.2m (2002 – loss of £15.5m).

Taxation

Reflecting one of the benefits of the capital intensive nature of the Group's operations, the current tax charge continues to be low at £0.3m. No significant current tax payments are expected in the foreseeable future due to the continuing availability of tax losses in the US and unclaimed tax depreciation in the UK and to ongoing benefits arising from the structure of the BET USA acquisition.

The total tax credit for the year is £9.0m (2002 – credit of £19.2m) and predominantly represents deferred tax credits arising in the United States. The Group remains in a net deferred tax loss position in the UK and is consequently unable to recognise any credit for its UK tax losses. This inability to take credit for the UK tax loss position explains why the overall effective tax rate (based on pre- goodwill profits) of 27.1% is less than the UK statutory rate of 30%. For the same reason the overall effective tax rate will remain volatile in future dependent on the profit mix between the UK and the US.

Earnings per share

The basic loss per share computed by reference to the FRS 3 loss was 10.3p per share (2002 – profit of 1.1p per share). The loss per share computed on the pre-tax loss before exceptional items and goodwill amortisation less a notional 30 per cent tax credit was 0.4p per share (2002 – EPS of 6.2p per share). This additional measure of earnings per share is presented as the directors believe that to do so is helpful to users of the accounts.

Dividend

No dividend is recommended in respect of the year (2002 – total dividend of £11.3m at 3.5p per share). As announced on 2 June 2003, resumption of dividend payments is dependent on the completion of a refinancing of the Company's senior debt facility.

Balance sheet

Fixed Assets

Total additions to fixed assets in the year were £85.5m (2002 - £113.8m) of which £71.0m (2002 - £98.0m) was spent on rental equipment as follows:

	2003			2002		
	Expansion	*Replacement*	*Total*	Expansion	Replacement	Total
	£m	*£m*	*£m*	£m	£m	£m
Sunbelt	*11.3*	*34.5*	*45.8*	30.8	36.2	67.0
A-Plant	*-*	*22.4*	*22.4*	10.6	16.1	26.7
Technology	*1.3*	*1.5*	*2.8*	3.4	0.9	4.3
	12.6	*58.4*	*71.0*	44.8	53.2	98.0

Capital expenditure in the year was restricted in light of the difficult market conditions faced by all of the Group's three divisions. The Group has been able to lower capital expenditure in this way without harming the business because it entered the slow down with a young rental fleet. At 30 April 2003 the average age of the fleet was 49 months.

In the coming year the Group currently anticipates that capital expenditure will again fall below the level of the depreciation charge and will amount to approximately £80m. This will still be sufficient to complete a significant replacement programme and will result in the fleet ageing by between six and seven months by 30 April 2004.

Current assets

Stocks of resale items, parts and consumables reduced by 10% to £11.6m (2002 - £12.9m) and trade debtors and prepayments (excluding non-recourse financing received under the accounts

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receivable securitisation discussed further under cash flow and net debt below) were 5% lower at £104.3m (2002 - £110.7m). Debtor days for the Group were 60 days at 30 April 2003 (2002 – 58 days). The bad debt charge as a percentage of turnover was 1.6% (2002 - 1.4%).

Trade and other creditors

Group creditor days declined from 135 days at 30 April 2002 to 115 days at 30 April 2003 reflecting lower capital expenditure levels. Suppliers continue to be paid in accordance with the individual payment terms agreed with each of them. The total amount payable within trade creditors, bills payable and accruals at 30 April 2003 relating to the purchase of rental equipment is £33.3m (2002 - £60.7m).

Litigation

The North Carolina business court issued a ruling in May 2003 provisionally awarding Sunbelt Rentals damages of $5m tripled under State law to $15m in a dispute with Head & Engquist. The events subject to litigation date back to December 1999 prior to the acquisition of BET USA by the Company when the former president of its BPS division joined Head & Engquist as president of their aerial work platform division and over the subsequent six months led the recruitment of over 100 former BPS staff in a concerted raid on BPS's business and staff.

Subsequent to the Court ruling Head & Engquist (which is registered with the SEC) announced that it had booked a provision of $17m against the litigation and related costs and that it had amended its bank facility to avoid breaching its covenants as a result of this charge. It also announced that it intended to appeal the ruling when finalised by the Court which is expected in late Summer or early Autumn 2003. All litigation costs (totalling over £1m) have been expensed by the Company since July 2000 when the action was commenced.

Cash flow and net debt

Net cash inflow from operations before exceptional items reduced 22% to £157.3m (2002 - £202.0m). This reflected good control of working capital, particularly receivables, throughout the year. Exceptional items paid in the year were £4.4m.

Interest paid in the year (excluding exceptional costs and, in 2002, prior year BET lease impact) fell to £41.4m (2002 - £46.2m) and there was a small tax refund of £0.7m (2002 – payment of £0.7m). Cash payments to acquire fixed assets virtually halved from £203.3m to £107.1m reflecting the impact of the active ageing of the fleet undertaken in the past two years.

Proceeds from the sale of fixed assets decreased from £39.2m to £29.4m but, as reported a year ago, last year's total included two special non-recurring items. Excluding these items, last year's disposal proceeds totalled £26.6m so this year's £29.4m represents a good result given the lower level of new expenditure.

Net debt

	2003	2002
	£m	£m
Net bank debt	*412.6*	515.0
Non-recourse finance under debtors securitisation	*57.5*	-
Finance lease obligations	*22.4*	30.6
	492.5	545.6
5.25% unsecured convertible loan note, due 2008	*129.8*	129.7
Total net debt	*622.3*	675.3

Aided by the weak US dollar, total net debt levels, which we (and our bankers) define to include non-recourse funding received under the accounts receivable securitisation, fell to £622.3m (2002 - £675.3). Measured at constant (30 April 2003) exchange rates, total net debt was reduced in the year by £21.2m.

Further significant debt repayments are expected in both 2003/4 and 2004/5.

Bank loan facilities

The Group's principal bank facility is the committed secured multi-currency loan facility entered into at the time of the BET acquisition on 1 June 2000. Interest is payable on this facility at variable rates linked to underlying market rates traded in the London interbank market.

At 30 April 2003 £417.9m (2002 - £506.7m) was drawn under the facility with the remainder of the commitment (£42.5m) undrawn.

The effects of the surprise disclosure by Sunbelt's financial controller in early March that he had been failing properly to reconcile a number of balance sheet accounts proved immediate. On the following day, the Group was due to make representations and warranties as part of a normal rollover of part of its debt facility. In the light of the disclosure of the inaccuracies in Sunbelt's reported accounts, it was impossible for these representations to be made and as a result the Group was put in default of its banking agreements.

Following the amendment to the bank agreement agreed on 30 May 2003 resolving the defaults, the facility now terminates on 28 January 2005, four months earlier than the previous revolver termination date of 31 May 2005. Amortisation of the facility prior to repayment now comprises:

- $50m reduction in revolver commitment at 31 May 2003 which was effected by cancellation of part of the undrawn revolver commitment referred to above plus the usual 1% ($3.75m) term loan amortisation on the same date;
- a further $50m of reduction in revolver commitment at 31 May 2004 which is to be effected by cancelling the remaining undrawn revolver commitment of $18m and $32m payable from cash generation over the coming year. The Company has also agreed with the bank group not to use the $18m undrawn revolver commitment in the period prior to its expiry; and
- additionally at 31 May 2004 the Company has now committed to make a $28m amortisation payment to the term loan holders so as to provide them with the same pro rata paydown in 2004 as the revolver banks are due to receive.

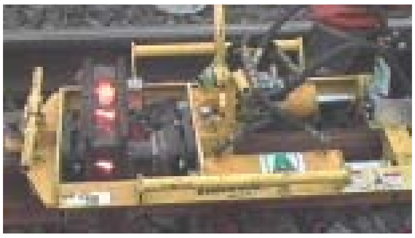
To the extent that cash is generated from transactions outside the normal course of business prior to 31 May 2004, all or part amortisation payments due at that date will be accelerated and funded from such proceeds as they are received.

The facility is secured by means of fixed and floating charges over substantially all of the Group's assets. Under the terms of the facility, the Group is required to demonstrate compliance with certain financial covenants comprising the ratios of EBITDA to interest and to senior and total debt levels, the ratio of debt levels to the value of tangible assets, a maximum capital expenditure commitment and a minimum cash flow requirement on a quarterly basis. These ratios were reset at the time the banks waived the defaults resulting from the revelation of the US accounting issue and the Board is satisfied that they provide the appropriate financial flexibility.

Interest is now payable on borrowings under the facility at 300 basis points above LIBOR. This margin was increased from the average 250 basis point margin which applied prior to the default.

Financial Review

The Group also has a secured but uncommitted bank overdraft line provided alongside the main secured facility as well as various customary ancilliary facilities. At 30 April 2003 £4.8m was outstanding under the overdraft facility leaving £6.2m undrawn. Subsequently written confirmation was received from the provider of this facility indicating their intention to continue to make it available until January 2005 so long as the quarterly financial covenants under the main bank facility are met.



The Board considers that the renewed facilities provide adequate funding for the group and that the anticipated future cash generation, together with current cash balances and undrawn amounts, are sufficient to meet the agreed facility reductions.

The Board intends to refinance the existing bank facilities well before their expiry in January 2005. In light of the significant cash generation this year and that which is expected in the forthcoming two years, the Board expects that it will be able to complete the necessary refinancing before the existing facilities expire.

Accounts receivable securitisation

On 14 June 2002 the Company and certain of its subsidiaries completed a rolling £60m accounts receivable securitisation with Banc of America Securities. Under the securitisation programme the Group receives non-recourse funding secured against its UK and US receivables.

The securitisation programme contained a cross default clause with the effect that, from 13 March 2003, the securitisation provider could have ceased to purchase future receivables. In practice, however, the programme was continued throughout the period of default and Banc of America agreed on 30 May 2003 to waive its cross default rights and to recommit the securitisation until 28 January 2005. A funding charge of LIBOR plus 200 basis points now applies to amounts received under the securitisation (previously LIBOR plus 135 basis points).

5.25% secured convertible loan note, due 2008

Part of the consideration for the BET USA acquisition was satisfied by the issue of the £134m nominal value 5.25% unsecured convertible loan note, due 2008 which is currently held by the vendor, Rentokil Initial plc ("Rentokil"). No interest was payable on this loan note in its first year of issue but from 1 June 2001 it has borne interest at a fixed discounted rate of 5.25% per annum. It is convertible into 89.3m ordinary shares at any time after 1 June 2001 at the holder's option (giving an effective conversion price of 150p per share) and is repayable at par in June 2008 if not previously converted. The Company's consent is required for any transfer of the convertible loan which would result in the transferee holding, on conversion, ten percent or more of the Company's share capital.

Additionally, certain orderly marketing restrictions also apply to ordinary shares issued through conversion.

Under the terms of the inter creditor agreement executed in June 2000 between the senior banks, Rentokil and the Company, Rentokil had agreed that the banks would have the right to issue a notice preventing the Company from making an interest payment to Rentokil in circumstances where there was a default under the Senior Credit agreement. Rentokil had also agreed that in the event of such a notice being issued it would not be able to take any action against the Company for a minimum period of 180 days. On 31 March 2003 the banks issued the relevant notice with the result that the Company did not make

the £3.5m interest payment due to Rentokil on that day. Subsequently agreement was reached with Rentokil to defer both this payment and all subsequent payments due up to January 2005 (a total of £14m) until the earlier of the point at which the Company refinances its existing senior debt facilities and 31 January 2005.

Pensions

The Group operates pension plans for the benefit of its employees and made contributions totalling £3.8m to these plans in the year. Except for the old UK plan which now covers approximately 500 UK employees out of the UK total of 2,350 and plans affecting two directors, these plans are defined contribution plans.

The last triennial valuation of the existing UK defined benefit plan (as at 30 April 2001) showed a deficit of 6% (measured as the shortfall in assets compared with liabilities) under the best estimate assumptions required to be used under SSAP 24 for accounting purposes and 16% under the conservative assumptions used by the actuary for funding purposes. In consequence the employer's contribution was increased from 5% to 11% of salary effective 1 November 2001 which was the level recommended by the actuary to address the funding shortfall. Like most similar UK plans, the plan remains mostly invested in equities and in light of the poor returns on equity investments in the two years since the last valuation the Company agreed earlier this year that the employer's contribution would be raised to 15% of salary effective 1 May 2003.

This is the second year disclosure is required under the transitional provisions of the new UK accounting standard on pensions (FRS 17) of the actuarial position of the plan updated to 30 April 2003. In providing this disclosure, FRS 17 requires use of actuarial methods and assumptions which differ from those used by the actuary for the triennial valuations used for funding purposes. Reflecting these differences and the poor performance in the past two years of the UK stock market (in which most of the plans' assets are invested) the deficit in the Company's defined benefit plans at 30 April 2003 on the basis required by FRS 17 was £14.5m (2002 - £7.1m).

Financial Review

Operating statistics

	Profit centre numbers		Year end staff numbers	
	2003	2002	*2003*	2002
Sunbelt Rentals	*193*	188	*3,671*	3,886
A-Plant	*249*	268	*2,314*	2,573
Ashtead Technology	*7*	7	*81*	71
Corporate office	*-*	-	*12*	15
	449	463	*6,078*	6,545

Financial instruments

The Group's financial instruments comprise borrowings, some cash and liquid resources, and various items such as trade debtors, trade creditors and bills of exchange payable, etc., that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

In addition to the foregoing, on 24 August 2000 Ashtead Group plc entered into forward rate agreements with LloydsTSB Bank plc and Bank of America under which the variable interest rates payable under the bank facility on a total of US$250m of borrowings were exchanged for a three year fixed interest rate of 6.825%. On 5 March 2003 a further three year hedge commencing 1 May 2003 was entered into with Bank of America on a total of $100m of borrowings at a three year fixed interest rate of 2.5%.

Derivative transactions are only undertaken for the purposes of

managing funding, interest rate and currency risks. The Group does not trade in financial instruments. The main risks arising from the Group's financial instruments are interest, liquidity, counterparty and foreign currency risks. The Board reviews and agrees objectives and treasury policies for managing each of these risks and they are summarised below.

Interest rate risk management

The Group's interest rate management policy is to use a combination of fixed and variable rates of interest to provide some element of protection against sudden changes in the level of interest rates. New derivative transactions are only entered into with the authority of the Group's Finance and Administration Committee and the Finance Director provides a regular report on treasury matters to each Board Meeting in which the need for new derivative transactions is reviewed and discussed.

At 30 April 2003 some 54% of the Group's borrowings were at fixed rates (comprising $250m of the bank debt on which interest rates have been fixed for three years from August 2000 as described above, the £134m convertible loan on which interest is fixed at 5.25% and the £22.4m of finance lease debt which carries an average interest rate of 7.9%).

Liquidity risk

The Group's policy is to ensure continuity of funding which is currently provided through the committed secured loan facility which now runs for 18 months to January 2005 and the £134m convertible loan note which now has four years and eight months until its maturity. As discussed above the Board expects to refinance the bank debt facilities before their January 2005 expiry.

Foreign exchange risk management

With a significant portion of the Group's operations based outside the UK, the Group faces currency risk on its non-sterling net assets as the translation of overseas subsidiaries can have a considerable effect on the Group's reported net assets. The main

exposures are to US dollar and Euro exchange rates against sterling.

The Group seeks to mitigate the effect of these structural currency exposures by matching the currency of third party borrowings against the currency of earnings generated from assets. At 30 April 2003, total net borrowings (excluding the securitisation funding) of £575.1m were drawn as to a net £389.4m in US dollars, £18.4m in Euros and £167.3m in sterling.

The Group's exposure to exchange rate movements on trading transactions is relatively limited. All Group companies invoice revenues in their respective local currency and generally incur expense and, except in the Republic of Ireland, purchase assets in their local currency. Consequently the Group does not routinely hedge either forecast foreign exchange exposures or the impact of exchange rate movements on the translation of overseas profits into sterling. Foreign exchange risk on significant non-trading transactions (eg acquisitions) is considered on an individual basis.

Counterparty risk

The Group is exposed to credit risk related losses in the event of non-performance by a counterparty to its interest rate hedging financial instruments. This risk is managed by entering into derivative transactions only with institutions with a strong credit rating and by limiting the total exposure to any single counterparty. At 30 April 2003 the counterparties to the Group's interest rate hedging transactions were LloydsTSB Bank plc and Bank of America who are not expected to fail to meet their obligations.

Ian Robson

Ian Robson
Finance Director
15 July 2003

Operational Review - Sunbelt Rentals

This past year has been the most challenging year that the Sunbelt management team has had to manage through in its history. Although the accounting irregularities we experienced and our planned IT migration were difficult in themselves, the US economy also proved to be extremely challenging. After an extensive internal and external investigation into the accounting irregularities, we have isolated the issues and have taken definitive actions to ensure that our accounting functions are now robust enough to prevent any repetition. I would like to thank the Sunbelt team for their determination in continuing to do what they do better than any in our industry, which is to focus on the customer, through this difficult period. I also acknowledge the difficulties our shareholders and employees have faced and would like to thank them for their support and loyalty through this challenging time.

Sunbelt's revenues and divisional profit declined from £382.2m to £349.1m and £62.6m to £32.9m respectively. These sterling results were impacted by the weak US dollar as in US dollars revenues declined only marginally from $548.3m in 2002 to $547.0m. Divisional profit in US dollars declined 43% from $89.8m to $51.5m.

The proof of the strength in Sunbelt comes from the operational performance exhibited in a year that saw the worst construction and industrial economic conditions in most of our life times. Sunbelt has outperformed both the published revenue figures from our peer group in the United States and the US economy.

Sunbelt held its revenues virtually level at a time when our primary market - non-residential construction – saw a 13% deterioration and the top ten equipment rental companies - we are number four - reported a 6% decline in overall revenues.

I am pleased once again to report on the continued growth of our specialty rental businesses, Pump and Power Services, Scaffold Services and now also the Industrial Resource Group, which is a new specialty we added in the past year. Pump and Power has now grown to 14 locations and has continued to expand its product offerings. It achieved same store sales growth of 25%, while also continuing to deliver a higher return on investment than the company average. Pump and Power now accounts for 6% of total revenues. I expect the current Pump and Power management team to continue this growth both via new locations and also by expansion of our current product line, without sacrificing the returns we have traditionally achieved.

Scaffold Services now represents 17% of total revenue broadly similar to the level of last year despite a significant decline in industrial maintenance activity. The focus has been on safety, operational improvements and continued integration with the core Sunbelt business. Scaffold Services continues to be an important part of our overall strategy by allowing diversification of both product and services offered to our current and growing customer base.

The Industrial Resource Group in its first year of operation comprises two locations. This business was developed to serve the specialty industrial tool and equipment needs of the industrial service contractor. Although accounting for less than one percent of total revenue, I believe it will continue to grow rapidly and strengthens our ability to deliver service to our customer at an attractive return.

While the General Tool businesses performed well given the difficult market conditions, growing their revenues 4% over the previous year, we continued to see significant rate pressure in our Aerial Work Platform business whose revenues reduced 7%. In both cases our relentless focus on customer service helped

us gain share in most markets in which we operate.

In the fourth quarter of the year just ended we successfully migrated both our financial and point of sales system to the industry leading US rental software package. This was a major project for the company, which involved training over 1,000 of our staff on the new system. As expected we have seen an immediate improvement in our customer service levels and productivity in our transactional processes resulting from this investment.

Looking forward to this year: we plan to leverage the new IT system to allow Sunbelt to launch strategic programs which will further improve our service levels to the most important part of our business - the customer. These programs include a rental related accessory and consumables sales program of high margin, impulse purchase items that will be sold from our existing infrastructure. It also includes a program that helps management determine the correct minimum stocking quantities for high return rental assets and thus increases efficiency and customer service.

We are also continuing to focus on the reconfiguration of the rental fleet towards higher return assets while keeping tight control over capital spending and emphasising the need for controlled disposals of lower return assets. The entire management team's profit share program is now based on increasing our return on invested capital.

I would like to end by thanking all the members of the Sunbelt team for achieving the goals we set for ourselves in making Sunbelt a safer workplace for our team members and our customers. This was accomplished by focus on staff turnover, training and continued commitment to safety. I have total confidence we will meet and exceed the goals we have set for the coming year.

Our business plan for the coming year is built around the expectation that we will not see any improvement in the economy. We believe, however, that our competitors will continue to rationalise their businesses through store closings and fleet disposals from which we should benefit. All capital investment will be focused on fleet replacement in higher return items as we continue to reconfigure the fleet. I am committed to leveraging the benefits and efficiency gains from our new IT system and the reduction of costs through supplier rationalisation. This plan will be executed whilst continuing to focus and improve upon what Sunbelt is known for - its unequalled customer service.

Bruce Dressel
President and Chief Executive - Sunbelt Rentals
15 July 2003

Operational Review - A-Plant

The market remained competitive and this, along with our continued strategy to reduce our exposure to certain high volume low return markets, resulted in a 4.6% reduction in revenues year-on-year. The decline was predominantly in our Main Plant and Tool Hire businesses. A number of our Specialist businesses saw growth in double digits and have the potential to improve further in the coming year. Although we reduced our cost base year on year, we were unable to mitigate fully the lost revenues and consequently divisional profit declined from £14.5m last year to £7.9m in 2003.

As we focused on our three key product areas, Main Plant, Tool Hire and Specialist products (which includes Rail, Power Generation, Pumps, Welding, Accommodation, Powered Access, Acrow Formwork and Falsework, Groundcare, Bigair, Trenchless Technology and Traffic), a great deal of work has been done to realign our fleet from a geographical to a product based structure. This in turn has helped keep expenditure on rental equipment under control at £22.4m. As a consequence despite our reduced profitability we remained significantly cash positive in the year.

Towards the end of the year, to increase operational efficiency, 23 profit centres were closed in geographical areas where we had an overlap of coverage of the same product type. This closure programme represents the first withdrawal from individual locations we have ever undertaken. Previous profit centre closures having been the combination of two profit centres (eg Main Plant and Tool Hire) at the same location into a single profit centre managed by one manager. The assets from the closed locations have been redistributed to locations that have the capacity to do more business from their fixed cost base. The full benefit of the improved efficiency is ahead of us, as markets and customers are now being developed using the transferred fleet.

Undoubtedly the events following the announcement of the accounting issues in the US, such as the fall in share price, UK press speculation on the future of A-Plant and the Group, and competitors targeting our staff and customers all had a significant effect on our business. Since the Group's announcement on 2 June that these issues have been resolved, we have taken several steps designed to rebuild our team's confidence. I would like to thank all our staff, customers and suppliers for their commitment, loyalty and efforts during this difficult period.

The Tool Hire rebranding programme at our 64 dedicated locations was completed on schedule last Autumn and the Tool Hire business was then split out last December as a separate division under the management of one Managing Director.

During the year we also undertook the consolidation of the four separate accounting offices and A-Plant Marketing Department into one single office, based in Warrington. This not only benefits our staff but also offers an even greater level of service to our

customers who now only need to deal with a single accounting office nationally.

Our strategy to develop major customers continued. This customer group accounted for 23% of our total revenue in the year. 23 national accounts were renegotiated in the period and we successfully won 8 new accounts. Our contracts with national account customers cover an average period of 2 years.

The future

As will be clear from the report above, this has been a year of many changes to the structure of A-Plant and has also been a period of consolidation and bedding-in. The market will remain competitive in the coming year but I believe we are now well positioned as a business to operate in the tough conditions we expect, with the necessary structural changes made. Our management structure and business are now clearly aligned to our core product areas, which gives us the ability to manage much more efficiently. We expect this to help us improve revenues and profits in the coming year.

Sat Dhaiwal
Chief Executive, A-Plant
15 July 2003

Operational Review - Ashtead Technology Rentals

Overall our revenues declined 17% in difficult markets last year which, given the relatively fixed cost nature of the rental business, inevitably led to a decline in EBITA margin from 29% to 21%. Divisional profit reduced from £4.2m to £2.5m.

Offshore & Inspection

This stream of our business had a particularly difficult year as the number of both Construction & Inspection, Repair & Maintenance projects fell from the previous year. In some of our markets the over-supply of equipment has led to very damaging competitive pricing. As the offshore business operates world-wide, all three of our offshore operations suffered to a greater or lesser extent the effects of this over-supply.

Our Aberdeen operation, which serves Europe & Africa, is our largest offshore business. The poorer second half reported last year for this business continued into this year. The North Sea market appears to be in a steady decline as no large-scale developments have been brought to the market again. Africa's deepwater developments have continued to give us a steady level of business but could not compensate for declines in Europe.

Singapore fell back from the previous year's strong performance. However, our performance was encouraging against a background of concerns about political and health risks in the region. There is still an underlying strength in the offshore market as energy demand increases across South-East Asia. Ashtead has continued to develop its product range and remains the largest rental company of its type in the region.

Our biggest disappointment was the performance of our Houston operation. As with our Aberdeen operation, the poor second half of the last financial year continued throughout this year. A severe decline in the Gulf of Mexico offshore market was exacerbated by the effect of the general US economic decline on our onshore inspection business.

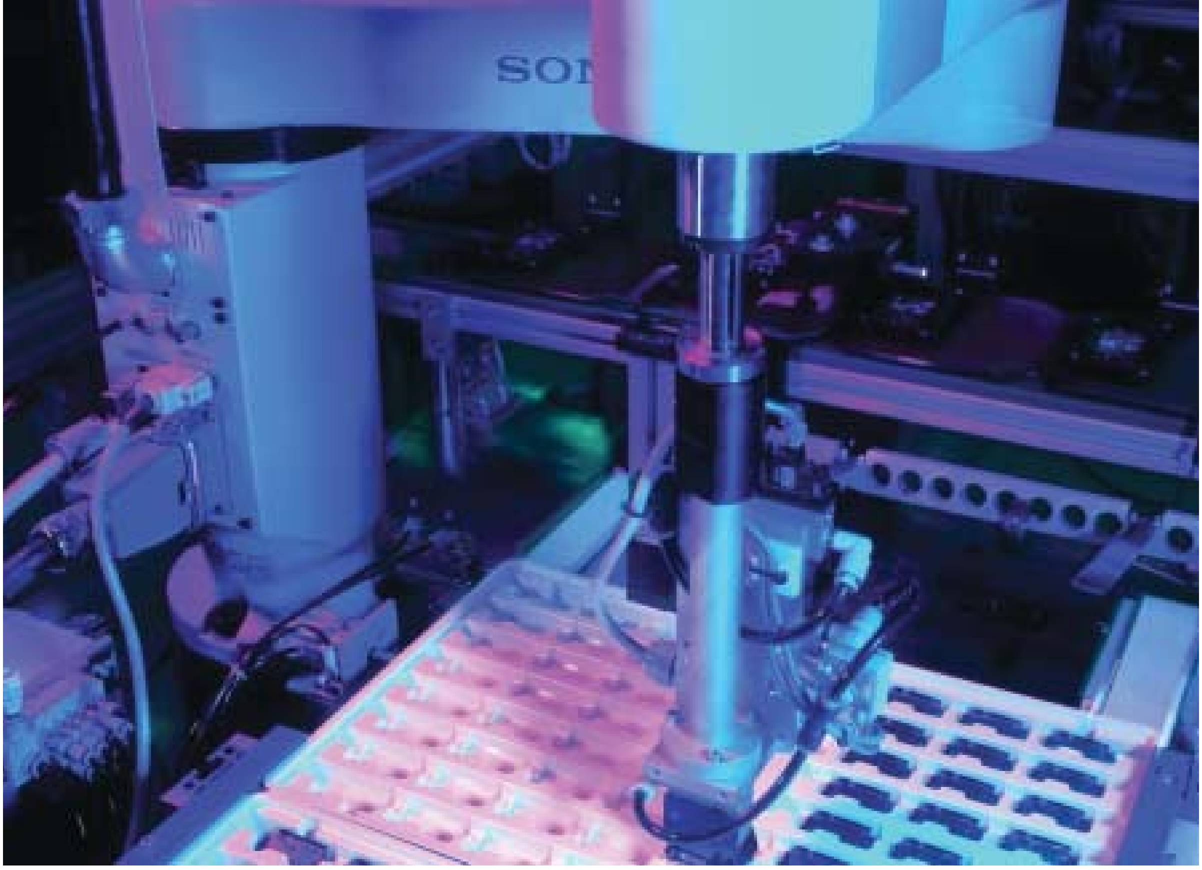
Environmental

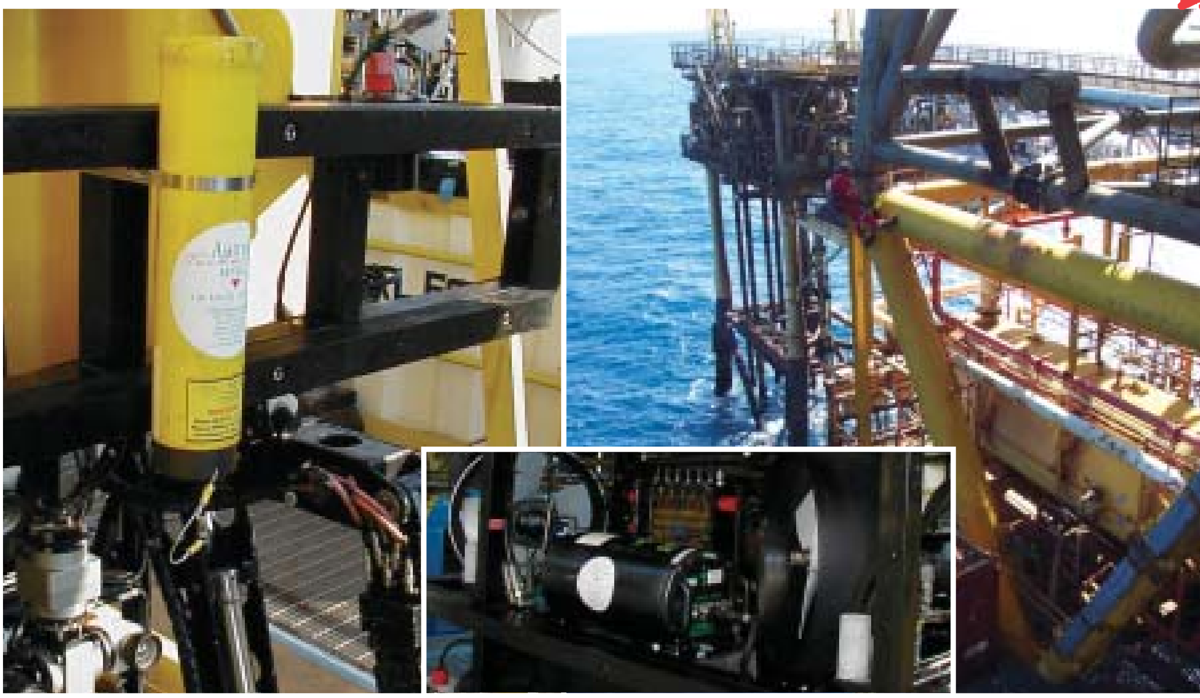
Once again we saw an increase in our Environmental revenues. Although the effects of the US recession were not uniform across our four North American locations only one of the locations failed to increase its revenues and that was against a record prior year. The businesses have continued to benefit from a focus on rental and a widening product range.

Prospects

Currently we are trading ahead of last year in all of our businesses. Offshore pricing remains competitive but against a background of rising demand. The environmental market is also improving in North America and we have recently expanded by opening a further location in the Bay area of Northern California. Overall we believe we can deliver profit improvement in the coming year.

Rob Phillips
Chief Executive - Ashtead Technology Rentals
15 July 2003





ASHTEAD GROUP PLC

Directors

1. Henry Staunton, BA, FCA, Non-executive Chairman

Aged 55, Henry Staunton, BA, FCA, is Finance Director and Deputy Chairman, Media Ventures of Granada plc. Henry Staunton is chairman of the Nominations Committee and a member of the Finance and Administration, Audit and Remuneration Committees. The re-election of Henry Staunton, who retires by rotation in accordance with the Articles of Association, as a director of the Company will be proposed at the Annual General Meeting.

Executive Directors

2. George Burnett, MA, LLB, CA, Chief Executive

Aged 56, George Burnett, MA, LLB, CA, was Managing Director from May 1984 until being appointed Chief Executive in February 2000. He is a non-executive director of Henderson Strata Investments plc and Chairman of the Governors of the Surrey Institute of Art and Design, University College. George Burnett is also Chairman of the Finance and Administration Committee and a member of the Nominations Committee.

3. Ian Robson, BSc, FCA, Finance Director

Aged 44, Ian Robson, BSc, FCA, was appointed Finance Director on 26 June 2000 having joined the Group on 22 May 2000. For the preceding four years he held a series of senior financial positions in Reuters Group plc and before that he was a partner of Price Waterhouse (now PricewaterhouseCoopers LLP). Ian Robson is a member of the Finance and Administration Committee. The re-election of Ian Robson, who retires by rotation in accordance with the Articles of Association, as a director of the Company will be proposed at the Annual General Meeting.

Future Dates

2003 Annual General Meeting - 22 September 2003

2004 Annual General Meeting - 20 September 2004

Company Secretary
Robert Clark, FCA, ATII

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