THE TAKEOVER PANEL

REPORT ON THE YEAR ENDED
31 MARCH 2003

CONTENTS

THE PANEL

AS AT 17 JULY 2003

PETER SCOTT QC	CHAIRMAN Appointed by the Governor of the Bank of England
JOHN L WALKER-HAWORTH FORMER MANAGING DIRECTOR, UBS INVESTMENT BANK	DEPUTY CHAIRMAN Appointed by the Governor of the Bank of England
ANTONY R BEEVOR SENIOR ADVISER, INVESTMENT BANKING, SOCIETE GENERALE	DEPUTY CHAIRMAN Appointed by the Governor of the Bank of England
SIR DAVID LEES CHAIRMAN, GKN	Appointed by the Governor of the Bank of England
ANTONY P HICHENS CHAIRMAN, D S SMITH	Appointed by the Governor of the Bank of England
RICHARD J HARVEY GROUP CHIEF EXECUTIVE, AVIVA	Chairman, Association of British Insurers
J ANTHONY V TOWNSEND DIRECTOR, FINSBURY GROWTH TRUST	Chairman, Association of Investment Trust Companies
G MARK POWELL GROUP MANAGING DIRECTOR, RATHBONE INVESTMENT MANAGEMENT	Chairman, Association of Private Client Investment Managers and Stockbrokers
SIR GEORGE MATHEWSON CHAIRMAN, THE ROYAL BANK OF SCOTLAND GROUP	President, British Bankers' Association
JUDITH C HANRATTY COMPANY SECRETARY, BP	Nominated by Confederation of British Industry
DAVID J ILLINGWORTH SENIOR ADVISER, KPMG	President, Institute of Chartered Accountants in England and Wales
LINDSAY P TOMLINSON CHIEF EXECUTIVE, EUROPE, BARCLAYS GLOBAL INVESTORS	Chairman, Investment Management Association
DAVID J CHALLEN VICE CHAIRMAN, EUROPEAN INVESTMENT BANK, CITIGROUP	Nominated by London Investment Banking Association
SIMON P DINGEMANS MANAGING DIRECTOR, GOLDMAN SACHS	Chairman, London Investment Banking Association Corporate Finance Committee
ALAN C D YARROW VICE CHAIRMAN, DRESDNER KLEINWORT WASSERSTEIN	Chairman, London Investment Banking Association Securities Trading Committee
KENNETH E AYERS CONSULTANT, FRANK RUSSELL COMPANY	Chairman, National Association of Pension Funds Investment Council

Sir Brian J Stewart, Chairman of Scottish & Newcastle and J Martin Taylor, Chairman of W. H. Smith are alternates to Sir David Lees and Antony Hichens.

THE APPEAL COMMITTEE

AS AT 17 JULY 2003

THE RT HON SIR ANDREW LEGGATT FORMER LORD JUSTICE OF APPEAL	CHAIRMAN OF THE APPEAL COMMITTEE Appointed by the Governor of the Bank of England
THE RT HON SIR MARTIN NOURSE FORMER LORD JUSTICE OF APPEAL	DEPUTY CHAIRMAN OF THE APPEAL COMMITTEE Appointed by the Governor of the Bank of England

THE PANEL EXECUTIVE

AS AT 17 JULY 2003

*RICHARD A MURLEY GOLDMAN SACHS	DIRECTOR GENERAL
NOEL P HINTON	DEPUTY DIRECTOR GENERAL
ANTHONY G B PULLINGER	DEPUTY DIRECTOR GENERAL
NICOLA M MILLER	SECRETARY
CHARLES M CRAWSHAY	SECRETARY
*ROBERT E OGILVY WATSON ASHURST MORRIS CRISP	SECRETARY
*STEPHEN A HEWES FRESHFIELDS BRUCKHAUS DERINGER	SECRETARY
*BRIAN STOCKBRIDGE GRANT THORNTON	ASSISTANT SECRETARY
*PENELOPE J P BRIDGES DRESDNER KLEINWORT WASSERSTEIN	ASSISTANT SECRETARY
*PIERS JOHANSEN SKADDEN, ARPS, SLATE, MEAGHER & FLOM	ASSISTANT SECRETARY
* RICHARD G PULFORD PRICEWATERHOUSECOOPERS	ASSISTANT SECRETARY
*IAN R MOORE KPMG	ASSISTANT SECRETARY
*STUART D BANKS CLEARY, GOTTLIEB, STEEN & HAMILTON	ASSISTANT SECRETARY
*AMANDA J PATERSON DELOITTE & TOUCHE	ASSISTANT SECRETARY
*CHRISTOPHER J DANIELS CITIGROUP	ASSISTANT SECRETARY
*JANE M TAYLOR	MANAGER, SUPPORT GROUP
*LEE M MANN	MANAGER, MONITORING SECTION
CRAIG G ANDREWS	DEPUTY MANAGER, MONITORING SECTION
SUSAN POWELL	MANAGER, EXEMPT SYSTEM

* SECONDED

INTRODUCTION TO THE TAKEOVER PANEL

The Takeover Panel is the regulatory body which administers the City Code on Takeovers and Mergers. It is concerned with takeovers of companies whose shares are held by the public. The Code is designed to ensure good business standards and fairness to shareholders. The maintenance of fair and orderly markets is crucial to this objective.

The commercial merits of takeovers are not the responsibility of the Panel; these are matters for the companies concerned and their shareholders. Wider questions of public interest are the concern of the governmental authorities in the UK and, in some circumstances, the European Community, through the Office of Fair Trading and the Competition Commission or the European Commission.

The Panel was set up in 1968 in response to mounting concern about unfair practices. The composition and powers of the Panel have evolved over the years as circumstances have changed, although it remains a non-statutory body.

The essential characteristics of the Panel system are flexibility, certainty and speed, enabling parties to know where they stand under the Code in a timely fashion. These characteristics are important in order to avoid over-rigid rules and the risk of takeovers becoming delayed by litigation of a tactical nature, which may frustrate the ability of shareholders to decide the outcome of an offer.

It is the Panel's practice to focus on the specific consequences for shareholders of rule breaches. Accordingly, the Panel's immediate priority is to provide appropriate redress; thereafter it will consider whether disciplinary action, if any, is necessary. If the Panel finds there has been a breach, it may have recourse to private reprimand, to public censure, to reporting the offender's conduct to another regulatory authority (for example, the Department of Trade and Industry or the Financial Services Authority) and to requiring further action to be taken, as it thinks fit.

THE PANEL

The Panel draws its membership from major financial and business institutions to ensure a spread of expertise in takeovers, securities markets, industry and commerce. The Panel has the support of the Bank of England, its original sponsor, and the Governor appoints the Chairman, the Deputy Chairmen and three independent members, who are industrialists. To ensure that industry is represented at all meetings, many of which have to be arranged at short notice, certain other industrialists act as alternates to the industrialist members.

The three independent members appointed by the Governor are appointed for three years with the possibility of re-appointment thereafter for a further term of three years. There is no limit to the number of terms that can be served. Members of the Panel and the Executive are asked to suggest names of suitable candidates. Once a list of candidates has been compiled, it is considered by a Nominations Committee of the Panel which compiles a short-list. The Committee then submits recommendations to the Governor.

The Panel can be convened at short notice to hear an appeal against a ruling of the Executive. It also hears disputed disciplinary cases.

THE CODE COMMITTEE

The role of the Code Committee is to keep under review and, where appropriate, put forward, consult upon and make amendments to the substantive provisions (such as the General Principles and Rules) of the Code and the Rules Governing Substantial Acquisitions of Shares ("SARs").

THE APPEAL COMMITTEE

There is a right of appeal from the Panel to the Appeal Committee in certain circumstances, particularly where the Panel finds a breach of the Code and proposes to take disciplinary action. An appeal may also be made, in other cases, with leave of the Panel. The Chairman of the Appeal Committee and his deputy will usually have held high judicial office.

THE EXECUTIVE

The Executive is headed by the Director General, usually an investment banker on secondment. Some of the Executive are permanent, providing an essential element of continuity. They are joined by lawyers, accountants, stockbrokers, investment bankers and others on two-year secondments.

The Executive monitors takeovers, checking that all actions taken, as well as documents and announcements issued, comply with the Code, and keeps a close watch on dealings in relevant securities. The Executive is available for consultation and to give rulings and interpretations before, during and, where appropriate, after takeovers. The Panel encourages and in some cases requires early consultation so that problems can be avoided; a major part of the Executive's role is to provide guidance.

Many enquiries about the possible effects of the Code on prospective transactions need a swift response to allow the potential bidders, once an offer has been announced, to meet the Code's strict timetable.

CHAIRMAN'S STATEMENT

The now familiar low level of transactions which I remarked upon last year has persisted up to the present time, but the stream of enquiries to the Executive has not really abated. Although many of these enquiries do not lead to transactions which see the light of day, they remain a vital element in the decision making of parties to potential transactions and their advisers, and not less so when markets are quiet.

It is no part of my function or that of the Panel to predict the future course of markets, but if only for reasons of internal efficiency we must be sensitive to signals given by increases and decreases in activity, and seek a balance between meeting the needs of the present, and being ready to deal with demands which may be made on our services when, perhaps without much warning, market activity increases. We have seen some periods in recent months when activity, at least in the form of enquiries, has increased, but it is too early to discern a firm trend towards increased transactions.

The Panel has taken appropriate steps to respond to the uncertain current position. I am delighted to report that the revisions to our charges which of necessity took effect in the last financial year, coupled with economies of staffing, have kept the Panel on a sound financial basis, without being prejudicial to our ability to meet the future needs of those we serve.

This report would not be complete without some reluctant reference to the continuing saga of the proposed European Takeover Directive. The first draft of this Directive emerged as long ago as 1989. As I write, it is still uncertain whether the proposal will be enacted and if so in what form. Many of the Panel's concerns do seem to have been resolved in the draft issued by the Commission in October 2002, reflecting the persistent efforts of the Executive working closely and constructively with the Department of Trade and Industry and the Commission; but the views of Member States on what constitutes a level playing field for takeovers and mergers and other issues still vary widely. Issues such as voting structures and the ability of management to frustrate bids without consulting shareholders remain contentious. There is now a risk that the understandable desire to reach some finality may lead to emasculation of the resultant text to an extent which would raise real doubt as to the value of having a Directive at all. The Market Abuse Directive, however, has been adopted and will soon be implemented. The Panel lobbied for a number of amendments before adoption and I am pleased to say was largely successful in its efforts.

This year Philip Remnant's two year term as Director General of the Panel came to an end and I want to express the Panel's warm thanks to him for the very effective and successful way in which he discharged his responsibilities and to wish him well as he returns to an enhanced role at Credit Suisse First Boston. In his place we are delighted to welcome Richard Murley whose

experience at Goldman Sachs and Kleinwort Benson and earlier legal background will provide an excellent basis for what lies ahead.

Once again, I can report that our relations with the FSA remain good and that the detailed and published operational arrangements between us are working well. The regulation of market abuse benefits from the combined efforts of the FSA and the Panel and I believe that we are both determined to avoid the possible difficulties which were rightly identified during the passage of the Financial Services and Markets Act.

The Code Committee continues to do a demanding job admirably, keeping the Code in line with the needs of the markets and adjusting its terms in the light of experience without succumbing to the temptations of over-elaborate detail and unduly burdensome requirements. A report from its chairman, Donald Brydon, appears on page 10.

I also want to pay tribute to the work of the Executive, consisting as you will know of both permanent members and those seconded to us. It is a combination which under the Director General brings a useful and wide mix of skills as well as providing valuable experience for those who will return to engage in Code transactions. The Executive must deal with day-to-day problems, give guidance and rulings on the application of the Code, sometimes under extreme time pressure, as well as dealing with strategic issues raised by European and domestic legislation and servicing the Code Committee. The reputation of the Panel depends on them and I believe it is in good hands. Finally, may I add that we were delighted to see the name of Peter Lee, who retired last year as a Deputy Director General of the Panel, in the New Year's Honours List.

PETER SCOTT QC
17 July 2003

THE CODE COMMITTEE

AS AT 17 JULY 2003

DONALD BRYDON CHAIRMAN	CHAIRMAN, AXA INVESTMENT MANAGERS
JOHN D COOMBE	CHIEF FINANCIAL OFFICER GLAXOSMITHKLINE
HEYDAR KAHNAMOUYIPOUR	FORMER MANAGING DIRECTOR, UBS INVESTMENT BANK
ALAN D PAUL	PARTNER, ALLEN & OVERY
THOMAS M ROSS	DIRECTOR, ROYAL LONDON MUTUAL INSURANCE SOCIETY
IAN G SALTER	DEPUTY CHAIRMAN, LONDON STOCK EXCHANGE
CHRISTOPHER SMITH	MANAGING DIRECTOR, CAZENOVE & CO. CORPORATE FINANCE

CHAIRMAN OF THE CODE COMMITTEE'S STATEMENT

In its second year, the Code Committee has continued its remit to keep the Code and the SARs under review and to consider, consult on and make amendments where appropriate. The Committee has met four times during the year under review and has issued two new Public Consultation Papers ("PCPs") in the year and four Response Statements ("RSs"). The Code has been amended to reflect the results of these consultation exercises and also to effect some minor amendments agreed by the Committee but which did not require public consultation because they did not materially change the intended effect of the text.

Matters leading to possible amendments might arise from specific experiences, from market developments or from particular concerns of those operating within the markets. Normally, once it has agreed that an issue should be pursued, the Committee's practice is to delegate preparation of a draft PCP to the Executive, which informally consults as appropriate with parties who have a particular interest or relevant expertise in the subject matter. Once the Committee has approved the PCP, it is published and made available on the Panel's website. Consultation periods vary between one and two months, depending on the complexity of the subject. The Committee will then reach conclusions taking careful account of all responses to the PCP and those conclusions are published, with the final amendments, in a RS. Each RS is also available on the website.

The Committee's first action of the year was to publish its conclusions on two matters concerning persons who should be considered to be acting in concert under the Code (RS9 and RS10). PCP9 on the position of the trustees of an Employee Benefit Trust and PCP10 on shareholder activism both elicited considerable interest and, as a result of that consultation exercise, the Committee amended its original proposals.

One significant matter considered during the year was the application of the Code to Dual Listed Company structures. Having received representations from certain institutional shareholder bodies and in the light of recommendations from the Executive, the Committee took the unusual step of announcing its preliminary view that the Code should extend to these transactions. This announcement was followed by a full consultation in PCP11. The proposal received wide support and the Code was duly amended in August.

The Committee went on to consider Rule 31.9, which prohibits an offeree company from releasing certain types of information after Day 39 of the offer timetable. The Rule contained a short list of specific announcements that were prohibited late in the offer period but the Executive, over the years, had often had to consider whether that list should not be extended and, indeed, whether it should be illustrative or exhaustive. The Committee proposed that the scope of the Rule should be extended so that generally no material new information could be released by the offeree company after Day 39. Respondents to PCP12 supported the proposals and the Code was therefore amended as proposed.

More recently, the Committee considered technical amendments to the Code arising from a change in company law which will allow companies to hold certain types of share "in treasury" for resale at a later date. The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 will come into force on 1 December and, in PCP13, the Committee proposed changes to the Code to come into force at the same time.

As a result of the Executive's experience of enforcing certain provisions of the Code, the Committee has also proposed, in PCP14, two minor amendments dealing with the disclosure of relevant share capital by parties to a takeover bid. The objective of both amendments is to provide the market with better information and to assist market participants in complying with their disclosure obligations under the Code.

This second year of the Committee's work has shown that there is a continuing interest by both individuals and professional bodies in contributing to the process of developing the Code and the SARs through the consultation process. The Committee is grateful for this interest and has very much appreciated and been influenced by the responses given to its proposals.

I would also like to thank the dedication of the Executive, whose support for the Committee has been first class. The Committee developed an excellent working relationship with Philip Remnant as Director General of the Panel and it wishes him well on his return to the corporate finance world. I would also like to record my appreciation for the continued dedication and application to its work of all the members of the Committee.

DONALD BRYDON
17 July 2003

REPORT BY THE DIRECTOR GENERAL

The number of takeover proposals published during the year, 108, was almost identical to that of the previous year. Bid activity in the current year continues to run at a low level.

PROPOSED TAKEOVER DIRECTIVE

On 2 October 2002, the European Commission published a revised proposal for a Takeover Directive. In framing this new proposal, the Commission sought to retain core elements of the text of the Directive that narrowly failed to be adopted by the European Parliament in July 2001, whilst including new provisions seeking to address, in particular, the concerns raised by the European Parliament in relation to what has become known as the "level playing field" issue (i.e. equal treatment for shareholders across the EU).

The main new provisions contained in the proposal were: strengthened provisions preventing the board of a target company from taking defensive measures to frustrate a bid without the approval of shareholders; a mechanism whereby restrictions on voting rights and on the transfer of securities would no longer be enforceable following a successful takeover; disclosure provisions to ensure that a company's share structure and control mechanisms are fully transparent to the market; detailed provisions on the "equitable price" to be paid by bidders in the event of a mandatory bid; and squeeze-out and sell-out rights to deal with the problem of minority shareholders following a takeover bid.

The Commission stopped short of introducing the "full break-through" proposal which had been recommended by the group of experts in their January 2002 report. Whilst restrictions on voting rights and on the transfer of securities would no longer be enforceable following a successful takeover bid, entrenched double or multiple voting rights would remain undisturbed. The new proposal contained no guidance as to whether or not compensation would be payable to those shareholders who previously enjoyed the benefit of such restrictions.

Despite many intense negotiations following the publication of the revised proposal in October last year, Member States have yet to reach agreement on the revised proposal. Some Member States are unwilling to support Article 9 (frustrating action) unless Article 11 (break-through) is extended along the lines suggested by the expert group in order to enable a bidder to override double or multiple voting rights. Possible compromises to reach agreement might include the deletion of Articles 9 and 11 or significant dilution of the restrictions in Article 9. Although the Directive remains a minimum standards directive (which, broadly, means the UK can have higher regulatory standards than specified in the Directive), the Panel would struggle to see the benefits of a Directive that removed or weakened Article 9 and hence allowed target

company boards to frustrate offers against the wishes of their shareholders.

THE IMPORTANCE OF PRIOR CONSULTATION WITH THE EXECUTIVE

Paragraph 3(b) of the Introduction to the Code states that, where there is any doubt whatsoever as to whether a proposed course of action is in accordance with the General Principles or the Rules of the Code, the Executive should be consulted in advance.

There have been a number of recent instances where a party failed to consult the Executive in advance and proceeded on the basis of an incorrect interpretation of the Code. The appropriate remedy for the breach put the party in question in a materially worse position than if there had been prior consultation, due to the difficulty in putting matters right after the event.

The Executive is ready to respond rapidly to requests for rulings; parties and their advisers are strongly encouraged to take advantage of this facility.

OFFER ANNOUNCEMENTS

The Panel has always been concerned to ensure the maintenance of fair and orderly markets in connection with an offer. As a result, Rule 2.2 requires an announcement to be made where the offeree company is the subject of rumour and speculation or where there is an untoward movement in its share price. Under Rule 2.4, it will normally be sufficient for the announcement to state simply that offer talks are taking place or that the potential offeror is considering making an offer.

Note 1 on Rule 2.2 makes clear that parties should consult the Panel if they are in any doubt as to whether or not an announcement should be made. Also, the Note states that it is for the Panel to determine whether a share price movement is untoward for this purpose. However, parties should not delay an announcement in order to consult the Panel if it is clear that an announcement is required.

The requirement for consultation does not necessarily mean that the Panel will require an announcement to be made and the Panel will always consider the question in the light of all relevant factors.

Rule 2.2 also stipulates that an announcement is required where negotiations or discussions are to be extended to more than a very restricted number of people outside those who need to know in the companies concerned and their immediate advisers, and that an offeror wishing to approach a wider group should consult the Panel. In practice, the Panel must always be consulted prior to more than six external parties being approached. Like any other person privy to confidential price-sensitive information concerning an offer, the external parties approached must, as required by Rule 2.1, keep the offer discussions secret and such parties should not themselves approach additional third parties without consulting the Panel.

Under Rule 2.3, prior to an approach being made, the responsibility for making an announcement lies with the offeror who should therefore keep a close watch on the offeree company's share price and monitor the press, newswires and internet bulletin boards for any rumour and speculation. Once an approach has been made to the board of the offeree company, the primary responsibility for making an announcement will normally lie with the board

of the offeree company. However, if the approach is rejected by the offeree, the announcement obligation will normally revert to the offeror as only the offeror will then know whether it intends to proceed with the offer. In cases of doubt as to where the announcement obligation lies, the Panel should be consulted.

ACQUISITION OF SHARES FROM A SINGLE SHAREHOLDER

Rule 5.1 and SAR 1 both impose certain restrictions on the acquisition of shares and/or rights over shares. Broadly, Rule 5.1 restricts acquisitions that take a person's voting rights in a company through 30%; and SAR 1 restricts the speed with which a person may accumulate between 15% and 30% of the voting rights in a company. In each case, an exception exists in the case of an acquisition from a single shareholder (see Rule 5.2(a) and SAR 2(a)).

A fund manager managing investment accounts on behalf of a number of underlying clients (whether or not on a discretionary basis) is not regarded as a single shareholder. Accordingly, the exceptions in Rule 5.2(a) and SAR 2(a) will not apply to a purchase from a fund manager unless the interest acquired represents the interest of a single underlying entity. In cases of doubt, the Panel should be consulted.

NO EXTENSION OF RULE 9 OFFERS TO CONCERT PARTIES OF THE OFFEROR

General Principle 10 sets out one of the fundamental tenets of the Code, namely that where control of a company is acquired by a person, or persons acting in concert, a general offer to all other shareholders will normally be required. Rule 9.1 elaborates on this, setting out the circumstances in which a shareholder will trigger an obligation to make a general offer. If the shareholder acquiring shares is acting in concert with others, all the relevant shareholdings are aggregated for the purposes of determining whether the bid obligation laid down in the Rule has been triggered. However, under Note 1 on Rule 9.2, the prime responsibility for making an offer lies with the person who makes the acquisition which causes the bid obligation to be triggered.

When a group of shareholders is acting in concert, the Panel treats them as being the equivalent of a single person. Usually, therefore, the person responsible for making the offer will extend it to all shareholders outside the concert party but not to members of the concert party itself. The Executive takes the view that the person with the responsibility for making the offer is free to extend it to other concert party members if it so wishes, but will not normally be required to do so.

INDUCEMENT FEES ON ASSET DISPOSALS

Rule 21.2 sets out certain safeguards which an offeree company must observe prior to agreeing to pay an inducement fee to an offeror or potential offeror. Note 1 on Rule 21.2 illustrates the type of arrangements to which the Rule applies.

Normally such arrangements are entered into between an offeree company and either an offeror or a potential offeror. However, on occasion, as part of its defence strategy, an offeree company may consider disposing of one or more of its assets or businesses to a third party and may wish to enter into an agreement to pay an inducement fee to that third party in connection with the transaction.

Although Rule 21.2 is not directly in point, the ability of an offeree company to enter into such an agreement is restricted by Rule 21.1(e). This Rule prohibits an offeree company from entering into a contract otherwise than in the ordinary course of business during the course of an offer or where it has reason to believe that a bona fide offer might be imminent, unless it has obtained the prior approval of its shareholders in general meeting. However, provided the proposed inducement fee is de minimis and provided the other safeguards set out in Rule 21.2 are observed, the Executive will normally permit such an agreement to be entered into without shareholder approval having to be obtained. For these purposes, an inducement fee will normally be considered to be de minimis if it is no more than the lower of 1% of the consideration for the asset disposal and 1% of the value of the offeree company calculated by reference to the offer price.

The Executive should be consulted at the earliest opportunity in all such cases where an inducement fee or any similar arrangement is proposed.

ESTIMATED VALUE OF UNQUOTED PAPER CONSIDERATION

Rule 24.10 requires that, when an offer involves the issue of unlisted securities, the offer document must contain an estimate by an appropriate adviser of the value of such securities. The Executive interprets this provision as applying in any case where the consideration securities are not publicly quoted.

The Executive is aware that occasionally a valuation of the offeror's securities might give rise to difficulties, for example where an offer is not recommended and the offeror is a vehicle with no substantive business of its own. The Executive may, therefore, consider that it is not appropriate to publish an estimated value pursuant to Rule 24.10 in circumstances where the offeror and its advisers have not had access to sufficient information relating to the offeree company to provide an estimated value of the consideration securities.

In such circumstances a statement to the effect that the adviser was not able to publish an estimate of the value of the consideration securities must be included in the offer documentation. In addition, where no Rule 24.10 valuation is published, it will not normally be possible for the offeror to satisfy the Executive that the value of its offer exceeds the price of any purchases of offeree shares that might have been made to which Rule 6 applies. Offerors should, therefore, ensure that no such purchases are made unless a Rule 24.10 valuation will be published or a full cash alternative is provided. If any such purchases are made and a valuation cannot be published, the Executive is likely to prohibit the offeror from proceeding with its offer until such time as any purchases cease to be relevant for the purpose of Rule 6.

ACCOUNTS

In last year's report, the measures which had already been taken to improve the Panel's financial position were outlined, namely the increase in both document fees and the contract note levy, as well as the introduction of an annual fee of £5,000 for exempt status. These changes have had a significant impact this year, in which a surplus of £1,494,817 has been recorded, whereas in the previous year there was a deficit of £3,220,561.

The contract note levy, increased from 25p to £1 in April 2002, produced £4,297,823, compared with £1,412,184 in the previous year. Income from document fees increased to £4,089,000

from £3,290,000. Sales of the Code were relatively high this year; the income from exempt status fees does not reflect a full year of is operation.

Expenditure shows a further fall of 10% after last year's reduction of over 12%. Staffing levels are continually examined against the background of bid activity but it is unlikely that they will be reduced further. Non-personnel costs declined sharply following, in particular, an unexpected reduction in legal and other fees.

The Panel's income is of a volatile nature and is therefore difficult to predict. Expenditure is easier to forecast and the Panel monitors its costs carefully. The Panel intends to build up a sufficient, but not excessive, accumulated surplus in order to be able to cope with a sudden sharp drop in income or an unexpected major expense. Given that the current accumulated surplus amounts to a little over three months' expenditure, the Panel does not believe that this position has yet been reached.

RICHARD MURLEY
17 July 2003

STATISTICS

The Panel held one meeting to hear appeal against a ruling by the Executive. The appeal was not successful. No cases were heard by the Appeal Committee.

There were 108 (year ended 31 March 2002 — 107) published takeover or merger proposals of which 106 (106) reached the stage where formal documents were sent to shareholders. These proposals were in respect of 105 (104) target companies.

12 (10) offers were not recommended at the time the offer document was posted. 7 (4) of these remained unrecommended at the end of the offer period, of which 2 (2) lapsed.

12 (3) offers were, at the time of their announcement, mandatory bids under Rule 9.

A further 18 (7) cases, which were still open at 31 March 2003, are not included in these figures.

The Executive was engaged in detailed consultations in another 182 (190) cases which either did not lead to published proposals, were waivers of the Code's requirements in cases involving very few shareholders or were transactions, subject to approval by shareholders, involving controlling blocks of shares.

	2002-2003	**2001-2002**
OUTCOME OF PROPOSALS		
Successful proposals involving control (including schemes of arrangement)	85	96
Unsuccessful proposals involving control (including schemes of arrangement)	6	5
Proposals withdrawn before issue of documents (including offers overtaken by higher offers)	2	1
Proposals involving minorities, etc	15	5
	108	107

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2003

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

	NOTE	2003 £	2002 £
INCOME			
Contract note levy		4,297,823	1,412,184
Document fees		4,089,000	3,290,000
City Code sales		303,512	149,271
Exempt income		105,000	–
Other income		1,620	8,368
		8,796,955	4,859,823
EXPENDITURE			
Personnel costs		5,766,297	5,940,681
Accommodation costs		577,867	631,413
Other expenditure		1,007,306	1,627,266
		7,351,470	8,199,360
SURPLUS / (DEFICIT) BEFORE INTEREST AND TAXATION		1,445,485	(3,339,537)
Interest receivable		56,918	144,141
Taxation	2	(7,586)	(25,165)
SURPLUS / (DEFICIT) FOR THE YEAR		1,494,817	(3,220,561)
ACCUMULATED SURPLUS AT BEGINNING OF YEAR		879,285	4,099,846
ACCUMULATED SURPLUS AT END OF YEAR		2,374,102	879,285

All activities are regarded as being continuing.

The Panel on Takeovers and Mergers has no recognised gains and losses other than the income and expenditure shown above and therefore no statement of total gains and losses has been presented.

BALANCE SHEET
AT 31 MARCH 2003

	NOTE	2003 £	2002 £
CURRENT ASSETS			
Debtors and prepayments	3	1,579,340	903,918
Bank and cash		1,435,675	735,840
		3,015,015	1,639,758
CURRENT LIABILITIES			
Creditors and accruals	4	629,529	731,645
Corporation tax		11,384	28,828
		640,913	760,473
Net Assets		2,374,102	879,285
Representing:			
ACCUMULATED SURPLUS		2,374,102	879,285

The accounts on pages 18 to 21 were approved by the Finance Committee on 9 July 2003 and signed on behalf of the Members by:

PETER SCOTT QC

The Chairman, Panel on Takeovers and Mergers

ANTONY BEEVOR

The Chairman, Finance Committee

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2003

	NOTE	2003 £	2002 £
Net cash inflow/(outflow) from operating activities	5	668,266	(4,489,428)
Returns on investments and servicing of finance			
Interest received		56,599	162,701
Net cash inflow from returns on investments and servicing of finance		56,599	162,701
Taxation			
UK corporation tax paid		(25,030)	(69,897)
Increase/(decrease) in cash	6	(699,835)	(4,396,624)

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF ACCOUNTS AND ACCOUNTING POLICIES

a) The accounts have been prepared on the historical cost basis of accounting and in accordance with applicable Accounting Standards in the United Kingdom.

b) All expenditure of a capital nature amounting to less than £5,000 is written off in the year in which it is incurred.

c) Income and expenditure is accounted for on an accruals basis.

d) Assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date. Foreign currency profits and losses arising from transactions during the year are translated and included in the financial statements at the rate of exchange prevailing at the date the transactions are executed and all foreign exchange differences are taken to the profit and loss account.

2. TAXATION	2003 £	2002 £
UK corporation tax payable on interest income received:		
Current	7,586	25,165
	7,586	25,165

Corporation tax is payable at a rate of 20% (2002: 20%) for the first £300,000 of taxable profit and thereafter at an effective rate of 32.5% (2002: 32.5%).

NOTES TO THE ACCOUNTS *continued*

3. DEBTORS AND PREPAYMENTS	2003 £	2002 £
Contract note levy accrued income	1,224,263	401,786
Document fees	135,000	350,000
Interest receivable	4,477	4,158
Exempt income	20,000	–
Other debtors and prepayments	195,600	147,974
	1,579,340	903,918

4. CREDITORS AND ACCRUALS	2003 £	2002 £
Personal costs	194,112	118,383
Legal and professional fees	104,395	268,318
Provision for contract note levy repayable	318,000	325,000
Other creditors and accruals	13,022	19,944
	629,529	731,645

5. NET CASH OUTFLOW FROM OPERATING ACTIVITIES	2003 £	2002 £
Surplus/(deficit) before interest and taxation	1,445,485	(3,339,537)
Increase in debtors and prepayments	(675,103)	(308,417)
Decrease in creditors	(102,116)	(841,474)
Net cash inflow/(outflow) from operating activities	668,266	(4,489,428)

6. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS	2003 £	2002 £
Increase/(decrease) in cash in period	699,835	(4,396,624)
Change in net funds/(debt)	699,835	(4,396,624)
Net funds at 1 April 2002	735,840	5,132,464
Net funds at 31 March 2003	1,435,675	735,840

7. PENSION SCHEMES

During the year, the Panel operated two defined contribution pension schemes. Contributions to these schemes are charged to the profit and loss account in the year in which they arise. The cost of these schemes for the year was £139,197 (2002: £138,478).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE PANEL ON TAKEOVERS AND MERGERS

We have audited the accounts which comprise the income and expenditure account, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in Note 1.

RESPECTIVE RESPONSIBILITIES OF PANEL MEMBERS AND AUDITORS

The Panel Members' responsibilities for preparing the accounts in accordance with applicable accounting standards are set out in the statement of Panel Members' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Panel Members as a body and for no other purpose. We do not, in give this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The maintenance and integrity of the Takeover Panel web site is the responsibility of the Panel Members; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the Panel Members in the preparation of the accounts, and of whether the accounting policies are appropriate to the Panel's circumstances, consistently applied and adequately disclosed.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

OPINION

In our opinion the accounts present fairly, on the basis set out in Note 1, the state of affairs of The Panel on Takeovers and Mergers at 31 March 2003 and of its surplus and cash flows for the year then ended.

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants and Registered Auditors, London

9 July 2003

STATEMENT OF PANEL MEMBERS' RESPONSIBILITIES

The Panel Members have determined that accounts should be prepared for each financial year that present fairly the state of affairs of the Panel as at the end of the financial year and of its surplus or deficit for that period.

The Panel Members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 March 2003. The Panel Members also confirm that applicable accounting standards have been followed and that the accounts have been prepared on the going concern basis.

The Panel Members are responsible for keeping proper accounting records and for taking reasonable steps to safeguard the assets of the Panel and to prevent and to detect fraud and other irregularities.

STATEMENTS ISSUED BY THE PANEL DURING THE YEAR ENDED 31 MARCH 2003

2002

12 April	2002/9	THE DISSEMINATION OF REGULATORY INFORMATION *(Changes to the mechanism for the release of information required by the Code)*
26 April	2002/10*	CODE COMMITTEE — PUBLIC CONSULTATION PAPER *(Issue of Public Consultation Paper 11)* *PCP11: Dual listed company transaction and frustrating action*
1 May	2002/11	THE TAKEOVER CODE *(Release of the new edition of the Code)*
16 May	2002/12*	CODE COMMITTEE — RESPONSES TO PUBLICCONSULTATION PAPERS 9 AND 10 *(End of Consultation Period and responses available for public inspection)*
1 July	2002/13*	CODE COMMITTEE — RESPONSES TO PUBLICCONSULTATION PAPER 11 *(End of Consultation Period and responses available for public inspection)*
4 July	2002/14*	CODE COMMITTEE — RESPONSES STATEMENTS 9 AND 10 AND CODE AMENDMENTS *(Response Statements 9 and 10 Code amendments)*
18 July	2002/15	2002 ANNUAL REPORT *(Extracts from the Report by the Director General contained in the 2002 Annual Report)*
31 July	2002/16	RETIREMENT OF PETER LEE *(Peter Lee retires after 30 years' service at the Panel)*
16 August	2002/17	ALEXANDERS HOLDINGS PLC *(Panel dismisses appeal in relation to Alexanders Holdings Plc)*
19 August	2002/18	ALEXANDERS HOLDINGS PLC *(re-named Quays Group Plc)* *(Reasons for the Panel dismissing an appeal against a ruling of the Executive)*
27 August	2002/19*	CODE COMMITTEE — RESPONSE STATEMENT 11 AND CODE AMENDMENTS *(Response Statement 11 and Code amendments)*
29 August	2002/20	ALEXANDERS HOLDINGS PLC *(re-named Quays Group Plc)* *(Criticism of offeree company financial adviser for failure to consult with the Executive)*
3 September	2002/21	GUINNESS PEAT GROUP PLC — RYLAND GROUP PLC *(Criticism of Guinness Peat Group Plc regarding the sale of 29.9% in Ryland Group Plc)*
15 November	2002/22	SIGNATURE RESTAURANT S PLC— PINCO 1771 LIMITED *(Offer timetable suspended)*
25 November	2002/23	COFFEE REPUBLIC PLC — CAFFE NERO GROUP PLC *(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 16 December 2002)*
25 November	2002/24	CROWN SPORTS PLC — BENNELONG UK LIMITED *(Offer timetable suspended)*

2002

16 December	2002 /25	THISTLE HOTELS PLC — ORB A.R.L. *(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 15 January 2003)*

2003

2 January	2003/1	SIGNATURE RESTAURANT S PLC — PINCO 1771 LIMITED *(Offer timetable restarted)*
3 January	2003/2	LONDON CLUBS INTERNATIONAL PLC — STANLEY LEISURE PLC *(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 22 January 2003)*
7 January	2003/3*	CODE COMMITTEE — PUBLIC CONSULTATION PAPER *(Issue of Public Consultation Paper 12)* *PCP12: Questions as to the possible amendment of Rule 31.9 and related Rules*
10 January	2003/4	HOUSE OF FRASER PLC — TBH INVESTMENTS LTD *(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 24 January 2003)*
21 January	2003/5	INDIGO CAPITAL LLC — REGUS PLC *(Criticism of potential offeror for certain breaches of the Code)*
31 January	2003/6	NEW DIRECTOR GENERAL FOR THE TAKEOVER PANEL *(Panel Executive appointment)*
3 March	2003/7	SIX CONTINENTS P LC — CAPITAL MANAGEMENT AND INVESTMENT PLC *(Statement concerning a disposal by Capital Management and Investment Plc of Six Continents Plc shares)*
7 March	2003/8	WM MORRISON SUPERMARKETS PLC — SAFEWAY PLC *(Offer timetable extended)*
31 March	2003/9	MITCHELLS & BUTLERS PLC *(Commencement of an offer period)*

* Statements issued by the Code Committee

For details of how to obtain copies of the Code, Panel Statements and Annual Reports contact:
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