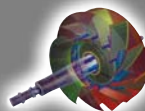




CHARTER



World market leading businesses providing excellence in technology and service

Interim Report 2001

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Highlights

- Sales have increased by 5.8 per cent.
- Margins under continuing pressure as a result of the global economic environment.
- Exceptional costs of £26 million.
- Restructuring in progress; benefits expected to start to come through in 2002.

	Six months ended 30.6.01	Six months ended 30.6.01	Six months ended 30.6.01	Six months ended 30.6.00	Year ended 31.12.00
	Underlying £m	Exceptional items £m	Total £m	Total £m	Total £m
Turnover					
Continuing operations	477.6	-	477.6	451.6	934.0
Operating profit/(loss)					
Continuing operations					
- excluding operating exceptional items	13.5	-	13.5	27.0	46.8
- operating exceptional items	-	(22.4)	(22.4)	(1.5)	(2.8)
	13.5	(22.4)	(8.9)	25.5	44.0
Non-operating exceptional items					
Continuing operations					
- net profit on fixed asset disposals	-	-	-	-	14.7
- losses on termination of operations	-	-	-	-	(4.0)
Discontinued operations					
- losses on termination of operations	-	(3.6)	(3.6)	-	(4.1)
	-	(3.6)	(3.6)	-	6.6
Profit/(loss) before taxation	4.0	(26.0)	(22.0)	17.6	34.2
Profit/(loss) for the financial period	2.4	(23.6)	(21.2)	10.5	20.6
Basic earnings per share - headline	2.5p	(25.1)p	(22.6)p	11.2p	21.9p
Basic earnings per share - underlying	3.1p	-	3.1p	13.3p	18.9p
Dividends per share	Nil p	-	Nil p	Nil p	8.0p

Interim Statement

Market conditions for Welding and Cutting products ('ESAB'), and Air and Gas Handling ('Howden'), have deteriorated this year as the effect of the US slowdown has continued to spread to other regions. There have been exceptions to this, such as the continued demand from shipyards for ESAB products, particularly in Europe, and from the power sector for Howden products in North America.

Restructuring

At the time of the Annual General Meeting it was confirmed that a strategic and operational review was being undertaken throughout the group. Following the review Charter, ESAB and Howden embarked on a number of restructuring and other initiatives, which include:

- ESAB: reorganisation of European sales companies and rationalisation of parts of the supply chain. These measures, when fully implemented in 2002, will cost some £7.5 million in total, of which £5.0 million has been charged in the first half of this year with the remainder to be incurred in the second half. This is expected to lead to annual savings in the region of £2.5 million.
- ESAB: closure of the office in Atlanta, which has led to a charge of £1.3 million at 30 June 2001, but which should generate annual cost savings of £1.6 million commencing next year.
- Phased removal of excess manufacturing capacity in both Howden and ESAB. A number of plants will undergo a substantial restructuring of operations. Two smaller plants have been closed during the first half and the operating businesses have commenced discussions with employees and their representatives in several other plants, which are expected to lead to closure. The costs of these measures of

£9.4 million, are reflected in the first six months' results and annualised savings of some £5.5 million are anticipated, once the programme is fully implemented.

- Charter: complete restructuring of the group's head office in London, for which £2.5 million of costs have been charged, much of which relates to the departure of former executive directors. These changes to the head office structure will reduce annual costs by some £2.0 million commencing next year.

Financial controls are being strengthened across the group. This has led to the identification of a number of specific issues which, whilst not fundamental, have been recognised and reflected in these results.

The initiatives stemming from the operational review are ongoing and likely to result in further exceptional and one off charges in the second half. These measures, when fully implemented, should enable the businesses to generate improved returns in future.

Results

In the six months ended 30 June 2001, group turnover from continuing businesses increased to £477.6 million, an increase of 5.8 per cent over the corresponding period last year, and operating profit before exceptional items declined to £13.5 million (2000: £27.0 million). After charging £22.4 million of exceptional costs, the group's operating loss amounted to £8.9 million (2000: operating profit of £25.5 million). Of these exceptional costs £15.7 million is due to the restructuring of the ESAB and Howden businesses, £4.2 million to specific litigation and product liability issues at Howden, most of which relate to issues of prior years, and £2.5 million to the restructuring of Charter's head office.

Net interest payable for the period increased to £9.5 million (2000: £7.9 million). After charging the £22.4 million of exceptional operating costs and a further £3.6 million of non-operating exceptional costs, the group's pre-tax loss amounted to £22.0 million (2000: profit before tax £17.6 million), a headline loss of 22.6 pence per share (2000: profit of 11.2 pence). However, underlying pre-exceptional earnings amounted to 3.1 pence per share (2000: 13.3 pence). The effective tax rate was 28 per cent (2000: 26 per cent).

Operating cash outflow for the period was £5.7 million (2000: an inflow of £16.9 million) and net debt rose during the first half to £238.9 million, an increase of £29.1 million. This increase was due largely to an £18.4 million reduction in creditors, following a payment policy change by Charter,

and £5.9 million of adverse currency movements.

In view of the policy adopted recently by the Board to set dividends in the light of earnings and cash flow, no dividend has been declared for the period.

Outlook

Management anticipate that the underlying operating profit in the second half will be better than that achieved in the first. Furthermore the underlying operating profit for the full year, provided market conditions do not deteriorate further, could be in line with that achieved last year. The anticipated second half improvement is predicated on a significantly better underlying result being achieved by both Howden and the Specialised Engineering businesses.

Operating Review

Welding and Cutting Products

Economic conditions in the welding and cutting industries have proved difficult in the first half. In general, sales of welding consumables have increased, whereas the equipment and cutting businesses have struggled, as customers' capital projects are postponed. Performance in Europe has been encouraging, in large part due to the buoyancy of the shipbuilding sector, whereas the industrial manufacturing sector in North America has been depressed. The North American slowdown has spread to Asia and to Latin America, where financial difficulties in Argentina have added to uncertainties. Management are not envisaging a recovery in the global economic environment in the short term, but nonetheless are expecting a better operating performance in the second half compared to that achieved in the latter half of last year.

ESAB have recovered some ground following the lengthy period of uncertainty, caused by the protracted bid for Charter which lapsed finally in the second half of last year. Sales achieved during the first six months at £323.0 million are 3.4 per cent ahead of the corresponding period last year. Operating profit before exceptional items declined to £20.8 million (2000: £27.4 million) and exceptional costs amounted to £11.2 million, of which £9.9 million is in respect of restructuring in Europe and £1.3 million to the closure of the office in Atlanta.

Europe

Sales of £151.4 million achieved during the first six months are 10.5 per cent ahead of the corresponding period last year, despite mixed trading conditions in the different national and product markets. The level of order intake increased in the first seven months by 5.6 per cent, in part due to

continued high demand from shipyards. Operating profit before exceptional items increased by 15.6 per cent to £14.1million (2000: £12.2 million).

ESAB's European sales and manufacturing units are heavily involved in the restructuring programmes, the benefits of which should ensure that the trend of improving margins in Europe continues next year.

North America

Welding markets in North America remained weak during the first half of the year. Most major welding market sectors including petrochemicals, railcar production, heavy plant and agricultural equipment have been affected severely by the slowdown in North America. This position has been further exacerbated as distributors reduce stocks. There has, however, been some growth in the shipbuilding and offshore gas production sectors.

Sales of £98.3 million during the first six months are 5.8 per cent down on the corresponding period last year. This is due not only to the poor trading environment but also to customer uncertainties caused, particularly in the first few months of the year, by last year's bid for Charter. Operating margins declined to 4.1 per cent (2000: 9.7 per cent).

South America

ESAB operates through controlled joint ventures in both Brazil and Argentina, where first half sales increased by 4.1 per cent to £31.9 million, but operating profits fell 54.4 per cent due to weak markets.

The Brazilian economic environment remains uncertain. Official growth forecasts are being revised downwards and the domestic energy crisis continues to hamper output and demand. In addition, Argentina is facing

a continuing fiscal and economic crisis. The outlook for short-term improvement in market conditions is therefore uncertain.

Asia Pacific

ESAB reported sales growth of 27.6 per cent to £12.3 million and produced an operating profit of £0.6 million against an operating loss of £0.4 million last year. The sales increase reflects a full half year's manufacturing by the new equipment facility in Thailand and was helped by the relative price stability in the region. China continues to demonstrate strong growth as a result of government-sponsored infrastructure projects and Singapore has remained stable, but industrial demand in Malaysia, Korea, Taiwan and the Philippines has weakened.

Cutting

In North America orders have been slow to develop as a result of the postponement of capital projects by customers, although several specialised shipyard orders have been secured for partial delivery in the fourth quarter of this year. In Europe demand is slowing. First half turnover declined by 5.7 per cent to £29.1 million, with operating profit down by 76 per cent to £0.5 million, largely as a result of North American market conditions. Order intake was down by 3 per cent in the first seven months of the year.

Air and Gas Handling

Market conditions in the main market segments in which the Air and Gas Handling business operates are showing contrasting trends. The power market, which accounts for over a third of annual turnover, is experiencing rapid growth in North America and a resurgence of activity in China. However, the European market remains depressed. The general industrial market,

which accounts for the balance of turnover, is generally linked to GDP and has been affected by the general slow-down in the world economy, particularly in North America.

Results

Orders received in the first six months increased by some 28 per cent over the corresponding period last year. Much of this increase will not benefit sales until the second half of the year and should produce a significantly better operating result. Turnover in the first six months rose by 8 per cent to £128.4 million but the business recorded an operating loss before exceptional items of £1.9 million compared with an underlying operating profit of £4.3 million in the corresponding period last year. One of Howden's largest businesses, the Americas, produced a particularly disappointing result.

Turnover in the global power business rose by 7.8 per cent to £40.2 million, but underlying operating profit declined by £0.8 million to £2.6 million. This decline was due to a cost overrun on one particular project and a generally less profitable sales mix.

Turnover in the Americas rose by 13.1 per cent to £40.1 million but the business incurred an underlying operating loss of £1.5 million (2000: operating profit of £2.9 million) The decline in profitability was the result of a less favourable sales mix with SCR (Selective Catalytic Reduction) sales replacing more profitable aftermarket sales, low margins on the Boston artery project and the under utilisation of the US plants. Howden is taking measures to reduce its excess manufacturing capacity.

The South African businesses were once again affected by the weakness in the local economy.

Operating Review (continued)

Specialised Engineering

First half turnover at £26.2 million (2000: £20 million) was 31 per cent higher than that achieved last year in the corresponding period and operating losses amounted to £0.2 million (2000: operating loss of £2.5 million).

The North American aerospace and defence businesses are expected to return to profitability in the second half of this year,

having largely overcome the contractual issues that damaged earnings in 2000.

Delays in the receipt of orders in the US food packaging businesses have again led to losses in the first half of the year, some of which may be recovered in the second half. Offers for these businesses are currently being considered and at least one disposal is anticipated before the end of 2001. The drilling business continues to perform well.

Consolidated Profit and Loss Account

Six months ended 30 June 2001 (unaudited)

	Six months ended 30.6.01	Six months ended 30.6.01	Six months ended 30.6.01	Six months ended 30.6.00	Year ended 31.12.00
	Underlying £m	Exceptional items £m	Total £m	Total £m	Total £m
Turnover					
1 Continuing operations	477.6	-	477.6	451.6	934.0
Operating profit					
1 Continuing operations					
- excluding associated undertakings and operating exceptional items	9.7	-	9.7	24.7	40.3
- operating exceptional items	-	(22.4)	(22.4)	(1.5)	(2.8)
- excluding associated undertakings	9.7	(22.4)	(12.7)	23.2	37.5
- associated undertakings	3.8	-	3.8	2.3	6.5
	13.5	(22.4)	(8.9)	25.5	44.0
2 Non-operating exceptional items					
Continuing operations					
- net profit on fixed asset disposals	-	-	-	-	14.7
- losses on termination of operations	-	-	-	-	(4.0)
Discontinued operations					
- losses on termination of operations	-	(3.6)	(3.6)	-	(4.1)
Profit/(loss) on ordinary activities before interest	13.5	(26.0)	(12.5)	25.5	50.6
Net interest					
- excluding associated undertakings	(9.3)	-	(9.3)	(7.6)	(15.9)
- associated undertakings	(0.2)	-	(0.2)	(0.3)	(0.5)
Profit/(loss) on ordinary activities before taxation	4.0	(26.0)	(22.0)	17.6	34.2
3 Tax on profit/(loss) on ordinary activities	(1.1)	2.4	1.3	(5.0)	(7.9)
Profit/(loss) on ordinary activities after taxation	2.9	(23.6)	(20.7)	12.6	26.3
Minority interests - equity interests	(0.5)	-	(0.5)	(2.1)	(5.7)
Profit/(loss) for the financial period	2.4	(23.6)	(21.2)	10.5	20.6
Dividends - equity	-	-	-	-	(7.5)
Retained profit/(loss) for the financial period	2.4	(23.6)	(21.2)	10.5	13.1
Earnings per share - basic					
Headline	2.5p	(25.1)p	(22.6)p	11.2p	21.9p
Underlying	3.1p	-	3.1p	13.3p	18.9p
Dividends per share	Nil p	-	Nil p	Nil p	8.0p

The information shown in respect of the year ended 31 December 2000 is extracted from the statutory accounts of Charter plc for the year then ended which have been audited and filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified. These interim accounts are prepared on the basis of the accounting policies as set out in those statutory accounts.

Consolidated Balance Sheet

30 June 2001 (unaudited)

	30.6.01 £m	30.6.01 £m	31.12.00 £m	31.12.00 £m
Fixed assets				
Intangible fixed assets - goodwill		20.4		20.9
Tangible fixed assets		163.1		167.2
Fixed asset investments - associated undertakings		23.3		22.6
		206.8		210.7
Current assets				
Stocks	143.8		135.4	
Debtors	264.3		261.0	
Cash at bank and in hand	46.6		63.1	
	454.7		459.5	
Creditors: amounts falling due within one year				
Creditors	(201.5)		(219.9)	
Short term borrowings	(128.6)		(124.1)	
	(330.1)		(344.0)	
Net current assets		124.6		115.5
Total assets less current liabilities		331.4		326.2
Creditors: amounts falling due after more than one year				
Other long term creditors		(1.2)		(1.2)
Long term borrowings		(156.9)		(148.8)
Provisions for liabilities and charges		(140.3)		(121.1)
		33.0		55.1
Shareholders' funds - equity interests		3.4		24.6
Minority interests - equity interests		29.6		30.5
		33.0		55.1

By order of the board
P M Thwaite Secretary
6 September 2001

Consolidated Cash Flow Statement

Six months ended 30 June 2001 (unaudited)

Note	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m
4 Cash flow from operating activities	(5.7)	16.9	44.5
Exceptional bid costs paid	(0.2)	(1.5)	(2.6)
Dividends received from associated undertakings	1.4	0.7	0.7
Returns on investments and servicing of finance	(12.5)	(8.9)	(18.7)
Taxation paid	(0.8)	(5.0)	(8.5)
Capital expenditure and financial investment	(3.8)	(6.4)	2.8
Acquisitions and disposals			
Sale of subsidiary undertakings - net proceeds	(0.5)	(3.8)	0.5
Purchase of subsidiary undertakings	(0.1)	(10.5)	(10.8)
Net cash/debt acquired with/disposed of with subsidiary undertakings	-	-	0.1
Equity dividends paid	(0.9)	(9.9)	(16.5)
Cash outflow before management of liquid resources and financing	(23.1)	(28.4)	(8.5)
Management of liquid resources	(8.5)	38.9	50.0
Financing			
Issue of share capital	-	-	0.1
(Decrease)/increase in short term borrowings other than those repayable on demand	(18.4)	(8.3)	18.7
Increase/(decrease) in long term borrowings	2.8	5.6	(138.7)
Capital element of finance lease rental payments	(1.0)	(0.7)	(1.4)
(Decrease)/increase in cash in the financial period	(48.2)	7.1	(79.8)
Increase in net debt in the financial period	(29.1)	(37.0)	(16.3)

Statement of Total Recognised Gains and Losses

Six months ended 30 June 2001 (unaudited)

	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m
(Loss)/profit for the financial period			
- excluding associated undertakings	(23.8)	9.2	16.4
- associated undertakings	2.6	1.3	4.2
(Loss)/profit for the financial period	(21.2)	10.5	20.6
Net effect of translation of currencies	-	0.1	(2.3)
Total recognised gains and losses	(21.2)	10.6	18.3

Reconciliation of Movements in Shareholders' Funds

Six months ended 30 June 2001 (unaudited)

	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m
(Loss)/profit for the financial period	(21.2)	10.5	20.6
Dividends	-	-	(7.5)
	(21.2)	10.5	13.1
Other recognised gains and losses	-	0.1	(2.3)
Net (deduction from)/addition to shareholders' funds	(21.2)	10.6	10.8
Opening shareholders' funds	24.6	13.8	13.8
Closing shareholders' funds	3.4	24.4	24.6

Notes

1 Continuing operations

	Turnover			Operating profit		
	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m
Welding and cutting products	323.0	312.5	632.4	20.8	27.4	43.9
Air and gas handling	128.4	119.1	256.7	(1.9)	6.2	13.1
Specialised engineering	26.2	20.0	44.9	(0.2)	(2.5)	(1.6)
	477.6	451.6	934.0	18.7	31.1	55.4
Goodwill - Welding and cutting products	-	-	-	(0.6)	(0.5)	(1.0)
Central operations	-	-	-	(4.6)	(3.6)	(7.6)
	477.6	451.6	934.0	13.5	27.0	46.8
Operating exceptional items						
Welding and cutting products						
- restructuring costs	-	-	-	(11.2)	-	-
Air and gas handling						
- restructuring costs	-	-	-	(4.5)	-	-
- litigation and warranty costs	-	-	-	(4.2)	-	-
Central restructuring costs	-	-	-	(2.5)	-	-
Bid costs	-	-	-	-	(1.5)	(2.8)
	477.6	451.6	934.0	(8.9)	25.5	44.0
Geographical area by country of operation						
United Kingdom	46.6	45.4	94.9	(3.8)	(3.8)	(9.4)
Rest of Europe	207.1	180.9	375.6	15.4	13.5	29.4
North America	173.1	180.8	378.2	(1.2)	10.2	15.9
Rest of World	88.2	82.4	167.1	3.7	6.1	9.1
	515.0	489.5	1,015.8	14.1	26.0	45.0
Goodwill	-	-	-	(0.6)	(0.5)	(1.0)
Operating exceptional items						
United Kingdom	-	-	-	(3.1)	-	-
Rest of Europe	-	-	-	(12.7)	-	-
North America	-	-	-	(4.4)	-	-
Rest of World	-	-	-	(2.2)	-	-
Inter area eliminations	(37.4)	(37.9)	(81.8)	-	-	-
	477.6	451.6	934.0	(8.9)	25.5	44.0

1 Continuing operations (continued)

	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Turnover
			Year ended 31.12.00 £m
Geographical area by country of destination			
United Kingdom	27.9	29.4	58.4
Rest of Europe	173.1	159.5	323.3
North America	169.0	162.5	336.7
Rest of World	107.6	100.2	215.6
	477.6	451.6	934.0

2 Non-operating exceptional items

There is expected to be no tax attributable to and there are no minority interests in the non-operating exceptional items of either period.

3 Tax on profit/(loss) on ordinary activities

	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m
United Kingdom	-	-	-
Overseas	(2.3)	4.3	6.1
Associated undertakings	1.0	0.7	1.8
	(1.3)	5.0	7.9

4 Cash flow from operating activities

	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m
Operating profit - excluding associated undertakings and operating exceptional items	9.7	24.7	40.3
Depreciation and amortisation charges	11.5	11.2	22.2
Working capital	(22.9)	(11.7)	(5.6)
Cash movement in provisions including restructuring	(4.0)	(7.3)	(12.4)
	(5.7)	16.9	44.5

5 Reconciliation of net cash flow to movement in net debt

	Six months ended 30.6.01 £m	Six months ended 30.6.00 £m	Year ended 31.12.00 £m
(Decrease)/increase in cash in the financial period	(48.2)	7.1	(79.8)
Cash outflow from debt and lease financing	16.6	3.4	121.4
Cash outflow/(inflow) from liquid resources	8.5	(38.9)	(50.0)
Change in net debt resulting from cash flows	(23.1)	(28.4)	(8.4)
Loans and finance leases acquired/disposed of with disposals and acquisitions	-	-	0.1
New finance leases	(0.1)	-	(0.1)
Exchange adjustments	(5.9)	(8.6)	(7.9)
Increase in net debt in the financial period	(29.1)	(37.0)	(16.3)
Opening balance of net debt	(209.8)	(193.5)	(193.5)
Closing balance of net debt	(238.9)	(230.5)	(209.8)

6 Analysis of net debt movements

	Opening balance £m	Cash flow £m	Other non-cash changes £m	Exchange adjustment £m	Closing balance £m
Cash - gross	56.4	(25.6)	-	0.4	31.2
Short term borrowings repayable on demand	(100.8)	(22.6)	-	(0.9)	(124.3)
Cash - net	(44.4)	(48.2)	-	(0.5)	(93.1)
Other cash at bank and in hand	6.7	8.5	-	0.2	15.4
Other short term debt	(21.9)	18.4	-	(0.1)	(3.6)
Long term debt	(141.8)	(2.8)	-	(5.3)	(149.9)
Finance leases	(8.4)	1.0	(0.1)	(0.2)	(7.7)
Total	(209.8)	(23.1)	(0.1)	(5.9)	(238.9)



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