



David Gawler

Chairman and Chief Executive

Overview of results

I am pleased to report that for the year ended 31 December 2002 the group generated a profit before tax of £12.0 million compared with a loss before tax of £20.3 million in 2001.

Turnover in 2002 was £900.5 million compared with £961.8 million in 2001. The group's adjusted operating profit amounted to £36.0 million (2001: £37.2 million), and, after a charge for amortisation of goodwill of £1.2 million (2001: £1.1 million), the operating profit before exceptional items was £34.8 million (2001: £36.1 million). Given the challenging economic conditions in most of the markets in which the group's businesses operate, these results represent a creditable performance, with an increase in trading margins and steady progress in restructuring the group.

The Welding and cutting business ("Esab"), generated adjusted operating profits of £36.0 million, marginally higher than the £35.7 million achieved in 2001 despite turnover at £581.9 million being some 6.4% lower than last year. Whilst sales declined in each region except Asia, the main decline occurred in the key North American markets where business confidence continues to be weak. Although sales were lower in South America due to the depreciating local currencies, profitability in this region improved.

The operating profits of the Air and gas handling ("Howden") business of £1.5 million (2001: £7.2 million) were below the board's expectations. As announced on 27 January 2003, certain accounting irregularities were discovered in one of its business units in North America. An exceptional charge of £3.9 million has been incurred which reflects the overstatement of this unit's profits not arising in 2002.

The Specialised engineering businesses had a successful year in 2002 generating operating profits of £5.4 million (2001: £2.9 million). This increase is largely attributable to the North American aerospace and defence businesses.

Net exceptional charges of £3.5 million were incurred during the year (2001: exceptional costs of £42.5 million and an exceptional interest credit of £4.4 million).

The group continued to incur exceptional costs associated with the implementation of initiatives to close loss-making businesses, reduce the ongoing cost base and provide a more stable base for profitable growth and enhance cash flow for the future. The exceptional charge in 2002 for restructuring

amounted to £19.9 million (2001: £32.1 million). In addition there was an exceptional charge of £1.5 million for litigation and warranty costs (2001: £2.6 million). Further restructuring measures will be implemented in 2003, however the exceptional costs will be at a more modest level than in 2002.

A non-operating exceptional credit of £15.2 million arose following the successful release of guarantees originally given by the company on the disposal of a former subsidiary. A further non-operating exceptional profit of £12.5 million arose on the sale of properties. Offsetting these credits were non-operating exceptional losses on the sale or termination of operations amounting to £2.1 million together with the write back of £3.8 million of acquisition goodwill on these businesses.

Group results

In the year ended 31 December 2002 turnover from continuing businesses was £900.5 million (2001: £961.8 million). The adjusted operating profit, before exceptional items and amortisation of goodwill, for the year was £36.0 million (2001: £37.2 million). After amortisation of goodwill of £1.2 million (2001: £1.1 million) and an interest charge of £19.3 million (2001: £18.3 million), profit before tax before exceptional items was £15.5 million (2001: £17.8 million).

After net exceptional costs of £3.5 million (2001: exceptional costs of £42.5 million and an exceptional interest credit of £4.4 million), the group's profit on ordinary activities before tax amounted to £12.0 million (2001: loss before tax of £20.3 million).

The group had an ordinary tax charge of £5.1 million (2001: £5.0 million) and an exceptional tax credit of £1.4 million (2001: exceptional tax charge of £6.1 million). The profit for the financial year, after charging minority interests of £3.5 million (2001: £1.4 million), was £4.8 million (2001: loss for the financial year of £32.8 million).

Headline earnings per share amounted to 5.1 pence (2001: loss per share of 34.8 pence) and adjusted earnings per share amounted to 8.6 pence (2001: 12.3 pence).

Cash flow and borrowings

The cash inflow from operating activities for the year improved to £32.2 million (2001: £31.6 million). Capital expenditure declined to £16.6 million from £17.2 million in 2001. Proceeds from the sale of fixed assets amounted to £25.8 million (2001: £4.9 million). The depreciation and amortisation charge for 2002 was £21.8 million (2001: £22.6 million).

During the year, the group's net debt was reduced by £20.1 million to £194.0 million at 31 December 2002. Whilst in 2002 the group's average daily net debt position was lower than in 2001, the group's ordinary interest charge of £19.3 million was £1.0 million higher than the previous year. This was principally due to increased bank margins and fees and to the cancellation of interest rate swap agreements in 2001. The Board continues to target a further reduction in the group's net debt.

Going concern and current liquidity

In the year to 31 December 2002, the group met its day-to-day working capital requirements through a £127 million syndicated revolving credit facility. In addition, it has in issue US private placement loan notes totalling £128.2 million (\$206.3 million) and, as at 31 December 2002, net debt stood at £194.0 million (2001: £214.1 million).

Charter is discussing with its lending banks the renewal of its syndicated revolving credit facility which is due to expire on 31 July 2003. At present some £91 million of the facility is drawn, leaving a balance of £36 million undrawn and available. Whilst the terms of the renewal have yet to be agreed with the banks, the Company will need to reduce its debt significantly during the course of the next twelve months and plans to do this through planned asset disposals. The directors believe that disposals can be made both within a timeframe and at prices that will prove to be acceptable and ensure that the group is able to meet its obligations on an ongoing basis.

The Company has been informed by the agent bank that the outstanding issues should be capable of being satisfactorily resolved prior to expiry of the current facilities, but after receipt of an accountant's report commissioned by the banks. There can be no guarantee that the renewal negotiations will be satisfactorily concluded. However, in the light of the information currently available to them, the directors believe that the banks will continue to provide support on terms acceptable to the Company. On this basis, the directors consider it appropriate to prepare the accounts on a going concern basis. Should the banks not support the Company in this respect, adjustments would be necessary to record additional liabilities and to write down assets to their recoverable amount. Furthermore, additional provisions might need to be made in the group's and Company's balance sheets in respect of liabilities which are currently contingent. It is not practicable

to quantify these possible adjustments.

Certain holders of the group's US private placement loan notes have informed the Company that they consider that a default has arisen under the loan notes as a result of the accounting irregularities which were announced by the Company on 27 January 2003 at one of the Air and gas handling units in North America. The directors' view, based on their knowledge of the situation and on advice by the Company's legal advisers, is that no default has occurred and the note holders have been advised accordingly. Of the total loan notes of \$206.3 million, \$72.3 million are due for scheduled repayment in March 2004 and the directors envisage that the terms of the renewal of the Company's banking facility will take account of the need to repay those notes in 2004. In the event that the Company's and its advisers' views are proven to be incorrect and the note holders elect to accelerate the notes, then the full amount of notes outstanding would become repayable immediately.

Operating review

The group's adjusted operating profit for the year was £36.0 million (2001: £37.2 million).

Welding and cutting products

For the year ended 31 December 2002, Esab's turnover declined to £581.9 million (2001: £621.5 million) and adjusted operating profits were £36.0 million (2001: £35.7 million) representing an improved profit margin of 6.2% (2001: 5.7%).

The trading conditions in the major markets in which Esab operates have remained challenging during 2002 and business confidence continues to be fragile, particularly given the threat of war in the Middle East. Demand in Esab's major markets in Europe and North America for welding equipment, cutting equipment and welding supplies has continued to be weak and these markets are showing little sign of recovery. Overall, sales and orders were below the previous year's levels in North America and Europe but higher in emerging markets. Esab's activities in Latin America performed well despite the economic instability in Argentina and Brazil.

Good progress has been made in continuing the transfer of our manufacturing centres closer to the developing markets for metal fabrication, process engineering and shipbuilding in Central Europe, South America and Mexico. This shortens the lines of communication to growing markets and also takes advantage of reduced

manufacturing costs. Largely as a result of the restructuring initiatives, total head count across all Esab's global operations declined by some 500 during the period and now totals 6,711.

In Europe, which is Esab's largest market representing just over half of its turnover, sales were similar to the previous year but operating profits were slightly lower as a consequence of the economic environment. Sales in the North and South American regions, which together generate some 40% of Esab's sales of welding products, declined by some 12% compared with 2001. However, given a sound performance by the South American region, despite the depreciation of local currencies, the operating profits for the combined North and South American regions were slightly higher than the previous year.

Esab's Asian region maintained its level of sales and improved its profit contribution. Although the Asian markets in general have continued to be subdued, rapid economic growth is being experienced in China.

A number of new product development programmes were initiated in the year and the launch of new cutting, automation and standard equipment products is planned for 2003. Increased use of modular design within the standard equipment and the welding automation range is in progress. This should reduce production costs, increase flexibility and shorten delivery times in the future.

Whilst demand in the major markets for welding supplies, cutting and welding equipment continues to be weak, with no immediate signs of recovery, the restructuring initiatives presently being implemented will achieve a lower cost base and provide a sound platform for Esab in the future.

Air and gas handling

At Howden, sales for the year were £267.4 million (2001: £283.8 million). Operating profits for the year were £1.5 million (2001: £7.2 million). As announced on 27 January 2003, certain accounting irregularities were discovered in one of its business units in North America. Following an in depth investigation, an exceptional charge of £3.9 million has been incurred which reflects the overstatement of this unit's profits not arising in 2002. This investigation produced no evidence that these irregularities have led to any defalcation or that any cash or other assets have left the group.

Howden North America, which represented around 30% of Howden's global sales in 2002, showed a 15% decline in turnover and

a fall in profitability. Measures have already been taken to address the lack of profitability in North America. The closure of the manufacturing plant located in Camden, South Carolina was announced to the workforce in November 2002 with closure planned by the end of the first quarter of 2003. This plant, which had been commissioned towards the end of 1999, manufactured fans for the commercial and general ventilation markets in the USA. These markets have been declining in recent years and have proved fiercely competitive. In the light of the poor results achieved, Howden has withdrawn from these market sectors. In view of the generally disappointing results in North America, a strategic and operational review is being undertaken to determine what further actions need to be taken concerning the future.

By contrast, the remainder of the Howden group achieved improved operating profits despite a 2% decline in sales.

The Power Division, which represents some 40% of Howden's global sales, showed a 5% increase in turnover and a 7% increase in operating profits. Whilst the markets in which the Power Division operates have generally remained depressed, the market in China continues to grow, with Howden Hua enjoying a 25% uplift in sales. Manufacturing rationalisation was completed for European fan production at the Belfast site while the Heater Element operation has now been brought together at one new purpose built factory near Cartagena in Spain.

One notable area of growth was Howden South Africa, which had a good year with sales increasing by 12% and operating profits growing satisfactorily.

The Industrial business in Europe showed steady progress in both sales and profitability, while Compressors experienced difficult trading conditions, which led to the closure of its small operation in North America and a planned reduction in the number of employees in France.

The results benefited from the elimination of losses in VSH Systems, which was closed last year.

In general the Power and Industrial markets that Howden serves are suffering weak demand and are experiencing delays and cancellations from customers on many major capital expenditure projects.

Specialised engineering

Sales for 2002 were £51.2 million (2001: £56.5 million), with operating profits for the

year improving to £5.4 million (2001: £2.9 million). This improvement was largely attributable to the North American aerospace and defence businesses, which account for 70% of the turnover of the Specialised Engineering businesses.

Sales by the Hong Kong drilling equipment business, HD Engineering, declined in line with the general business environment in which it operates. However this business managed to record a small operating profit. Demaco, the manufacturer of pasta machinery, experienced stronger sales than last year, but margins in this capital equipment business remain under pressure.

The sale of Bauer Howden Inc in Connecticut, USA was successfully completed in December 2002.

Central costs

Central costs fell to £6.9 million in 2002 from £8.6 million last year, following actions to reduce the cost of the group's corporate and head office activities.

Exceptional items

In total, the exceptional items resulted in an overall charge of £3.5 million before tax (2001: £38.1 million) and comprised:

	2002 £m	2001 £m
Operating exceptional items		
Restructuring costs	(19.9)	(32.1)
USA accounting correction	(3.9)	-
Litigation and warranty costs	(1.5)	(2.6)
	(25.3)	(34.7)
Non-operating exceptional items		
Continuing operations		
Net profit on sale of fixed assets	12.5	-
Losses on sale or termination of operations associated goodwill	(2.1)	-
	(3.8)	(4.1)
	(5.9)	(4.1)
Discontinued operations		
Profit on release of Wirth guarantee provision	15.2	-
Losses on sale or termination of operations in prior years	-	(3.7)
	21.8	(7.8)
Exceptional interest credit		
Exceptional gain on swap contracts	-	4.4
Total	(3.5)	(38.1)

Welding and cutting products

The restructuring of the Esab business and the rationalisation of its manufacturing capacity has continued in 2002 and resulted in exceptional charges of £12.2 million (2001: £24.8 million) being incurred. Actions taken during the period included:

- The closures of the Niagara Falls plant in North America and the Thailand equipment factory were completed during 2002.
- The reorganisation of the European business has continued with the sales and marketing organisations in Europe being restructured and improvements to the transport and warehousing arrangements being implemented.
- Esab's key global and European functions were relocated to a new London office in the third quarter of 2002. This office now provides the base to drive the changes, from both a market and internal operating perspective, required for improved performance.

- The largest restructuring project is the rationalisation of Esab's European capacity for the manufacture of flux cored wire. As previously reported, a phased transfer is underway to relocate production from Waltham Cross in the United Kingdom and Utrecht in Holland to Katowice in Poland and Vamberk in the Czech Republic, respectively. This project has been planned to achieve greater cost efficiencies and to locate production closer to the growing Central European markets and is on schedule to be completed within budget by the end of 2004. This project is expected to generate substantial annual savings.
- The transfer of assembly lines of certain ranges of welding equipment from North America to Mexico has been completed.
- The project to transfer part of the production of Standard Equipment from Laxå in Sweden to Opole in Poland is scheduled to be completed in 2003.
- Esab's loss making Australian subsidiary has been closed and its products are now sold in this region through a distributor.
- These restructuring initiatives have resulted in head count reductions at Esab of around 500 in the year. A further reduction of just over 100 employees will occur in 2003.

Air and gas handling

During the period the exceptional costs of restructuring Howden totalled £7.7 million (2001: £4.7 million). In addition there was an exceptional charge for litigation and warranty costs of £1.5 million (2001: £2.6 million). Specific restructuring steps taken included:

- The closure in the year of Howden Malaysia, a loss-making manufacturer of light industrial and commercial fans that principally served the palm oil industry.
- The closure of the manufacturing facility at Howden Power A/S based in Næstved, Denmark. This business, which has experienced significant workload fluctuations over the last few years, specialised in the design and manufacture of large variable pitch axial fans for the power industry and operated in the same market and served the same customers as Howden Power Limited in Belfast. Consequently, the plant and machinery was relocated from Næstved to Belfast where production has been consolidated and where greater use of

subcontractors for non-core components is already being made.

- The closure of Burton Corblin Inc, Pennsylvania, the loss-making manufacturer of gas compressors, was completed in December 2002. The restructuring of Burton Corblin SA in France will result in a reduction in the headcount by around 35 in the first half of 2003.
- The closure of the manufacturing plant located in Camden, South Carolina, which manufactures fans for the commercial and general ventilation markets, is planned by the end of the first quarter of 2003 with the loss of some 73 jobs. The profitable low noise "Whisper Vane" range of fans, currently assembled at Camden, is being retained and will be transferred to a sub-contractor in future.
- The employees of Howden Calidair, a specialist engineering business based in Gloucestershire in the United Kingdom, were advised in December 2002 that closure would occur in the first half of 2003, upon completion of the current order book.
- Given the downturn in orders in the power market in North America, in January 2003, 48 employees were made redundant from the Springfield, Illinois, manufacturing facility.
- The above restructuring initiatives have resulted in head count reductions in 2002 at Howden of around 270 and will result in a further reduction of 190 in 2003.

Central operations

No central restructuring costs were incurred during the year (2001: £2.6 million).

Non-operating exceptional items

The exceptional profit on sale of fixed assets, amounting to £12.5 million, was in respect of the disposal of properties. The principal element of this profit related to the sale of Esab's freehold factory in Waltham Cross in the United Kingdom.

Non-operating exceptional losses on sale or termination of operations of £2.1 million were incurred in respect of the sale of Bauer Howden Inc, a US aerospace business, and the closure of Howden Malaysia. In addition there was an exceptional charge of £3.8 million (2001: £4.1 million) in respect of the write back of acquisition goodwill relating to these businesses. This latter element of the charge to the profit and loss account has no overall effect on shareholders' funds.

A non-operating exceptional credit of £15.2 million arose on the release, on satisfactory terms, of guarantees which had been given in 1999 on the sale of Wirth. As part of the sale agreement, the Company had provided guarantees in respect of Wirth's bank indebtedness, which at 31 December 2001 exchange rates, amounted to £20.3 million and against which provision had been made at the date of sale. Subsequently, Wirth's German bankers had exercised their rights to call for cash collateral from the Company in the amount of £15.6 million. In July 2002 a settlement was reached whereby the Company's guarantees were cancelled and the cash collateral deposits returned in exchange for a cash contribution of £5.1 million.

Retirement benefits

At 31 December 2002, the group's balance sheet reflected provisions of £36.1 million (2001: £33.7 million) in respect of unfunded pension liabilities and £30.0 million (2001: £32.9 million) in respect of the group's estimated future overseas medical costs.

If the provision for the net pension liability of £102.7 million (2001: £22.5 million), calculated in accordance with FRS17, had been incorporated in the consolidated balance sheet at 31 December 2002, net assets would have decreased by £66.6 million (2001: increase in net assets of £11.2 million).

Dividends

In view of the policy adopted in March 2001 to set dividends in the light of earnings and cash flow, the Board has decided not to declare a dividend for the year ended 31 December 2002.

Prospects

Significant progress has been made during the year in closing loss making units in Howden and Esab, and restructuring several of the group's operating businesses. These measures have reduced the group's ongoing cost base, which should provide the foundation for an improvement in the competitive position of the group's operating businesses. Demand in 2002 was below that experienced in the prior year and, provided that market conditions do not decline further, and the Company's bank facilities are renewed on satisfactory terms, the Board anticipates that the group's operating profit, before exceptional items, in 2003 will be broadly in line with market expectations.

David Gawler

Chairman and Chief Executive
7 March 2003