



CHARTER

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CHARTER

Interim Report 2002

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Financial highlights

Six months ended 30 June 2002 (unaudited)

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- Underlying operating profit of £21.8 million up 55% on the first half of 2001
- Headline earnings per share 10.3 pence (2001: loss per share of 22.6 pence)
- Debt stabilised and targeted to be reduced by year end
- Further initiatives implemented in restructuring programme

| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
|--|---|---|---------------------------------|
| Turnover | | | |
| Welding and cutting products | 300.6 | 323.0 | 621.5 |
| Air and gas handling | 124.5 | 128.4 | 283.8 |
| Specialised engineering | 26.7 | 26.2 | 56.5 |
| | 451.8 | 477.6 | 961.8 |
| Operating profit | | | |
| Welding and cutting products | 20.0 | 20.8 | 35.7 |
| Air and gas handling | 2.2 | (1.9) | 7.2 |
| Specialised engineering | 2.8 | (0.2) | 2.9 |
| Operating businesses | 25.0 | 18.7 | 45.8 |
| Central operations | (3.2) | (4.6) | (8.6) |
| Underlying operating profit | 21.8 | 14.1 | 37.2 |
| Amortisation of goodwill | (0.6) | (0.6) | (1.1) |
| | 21.2 | 13.5 | 36.1 |
| Operating exceptional items | (7.7) | (22.4) | (34.7) |
| Operating profit/(loss) on continuing activities | 13.5 | (8.9) | 1.4 |
| Non-operating exceptional items | 11.5 | (3.6) | (7.8) |
| Net interest | (9.9) | (9.5) | (13.9) |
| Profit/(loss) on ordinary activities before taxation | 15.1 | (22.0) | (20.3) |
| Headline earnings per share | 10.3p | (22.6)p | (34.8)p |
| Underlying earnings per share | 6.7p | 3.1p | 12.3p |

Following the improvement in underlying operating profits in the second half of last year, I am pleased to report that the initiatives taken in restructuring the Group's activities, closing loss-making businesses and reducing the Group's ongoing cost base have resulted in improved margins in the current year. In the six months ended 30 June 2002 the Group recorded underlying operating profits of £21.8 million, a 55% increase over the £14.1 million reported in the first half of last year.

Against a background of difficult trading conditions, particularly in its key markets in Europe and North America, the Welding and Cutting business ("Esab"), generated a solid level of operating profits of £20.0 million (2001: £20.8 million) notwithstanding a fall in sales of 7%.

Both the Air and Gas Handling ("Howden") and Specialised Engineering businesses recorded underlying operating profits for the period whereas they had incurred operating losses in the first half last year. Howden's improvement in profitability was noteworthy given that sales were flat and power generating companies have cancelled projects and deferred maintenance in the wake of Enron and other major corporate insolvencies in North America.

An exceptional credit of £15.2 million arose following the release, on satisfactory terms, of guarantees which had been given in 1999 on the disposal of Wirth, the German tunnelling business. A further non-operating exceptional profit of £0.2 million arose on the sale of a property. These exceptional credits have been partially offset by operating

exceptional costs of £7.7 million which have been incurred in restructuring the Group's activities and a non-operating charge of £3.9 million representing the loss on the proposed disposal of Bauer Howden Inc, a US aerospace business. Overall there was a net exceptional credit for the half year of £3.8 million (2001: exceptional loss of £26.0 million), details of which are provided below, and profit before tax for the period was £15.1 million compared with a loss before tax of £22.0 million last year.

The Group continues with its restructuring initiatives which will benefit profits and cash flow in future years and it is anticipated that further exceptional costs in this regard will be incurred in the second half of 2002 on a similar scale to the second half of last year.

Group results

In the six months ended 30 June 2002 turnover from continuing businesses was £451.8 million (2001: £477.6 million). The underlying operating profit, before exceptional items and amortisation of goodwill, for the period was £21.8 million (2001: £14.1 million). After amortisation of goodwill of £0.6 million (2001: £0.6 million) and an interest charge of £9.9 million (2001: £9.5 million), profit before tax and exceptional items was £11.3 million (2001: £4.0 million).

After a net exceptional credit of £3.8 million (2001: exceptional charges of £26.0 million), the Group's profit on ordinary activities before tax amounted to £15.1 million (2001: loss of £22.0 million).

The Group's ordinary tax charge was £3.4

million (2001: £1.1 million) and the tax credit attributable to the exceptional items was £0.2 million (2001: exceptional tax credit of £2.4 million). The result for the financial period, after charging minority interests of £2.2 million (2001: £0.5 million), was a profit of £9.7 million (2001: loss of £21.2 million).

Underlying earnings per share amounted to 6.7 pence (2001: 3.1 pence) and headline earnings per share were 10.3 pence (2001: loss per share of 22.6 pence).

Cash flow, interest and borrowings

The cash inflow from operating activities in the first half of the year was £9.2 million whereas there had been an outflow of £5.7 million in the corresponding period of 2001. Capital expenditure in the period was £8.7 million (2001: £8.8 million) and compares to a depreciation charge of £11.3 million (2001: £11.5 million).

During the first six months of the year net debt rose by £8.7 million to £222.8 million, however, throughout this period, daily net debt averaged some £9.7 million less than in the second half of last year. Notwithstanding this, the £9.9 million interest charge was £1.1 million higher than that incurred in the second half of 2001. 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 reduction in net debt by the year end.

Dividends

In view of the policy adopted in March 2001 the Board has decided not to declare a

dividend for the period. No dividends were declared in respect of the year ended 31 December 2001.

Operating review

Underlying operating profit for the six month period to 30 June 2002 was £21.8 million compared with £14.1 million earned in the first half of 2001.

Welding and cutting products

During the first six months, Esab's turnover was £300.6 million (2001: £323.0 million) and underlying operating profits were £20.0 million (2001: £20.8 million), a net margin of 6.7% (2001: 6.4%).

Demand from the traditional markets in North America and Europe has been generally weak, as industrial production has fallen and customers' capital projects have been postponed. However, this has been partly offset by stronger performance in some of the emerging markets.

The restructuring programme continues and has been focused on removing Esab's excess manufacturing capacity and streamlining its organisational structure particularly within Europe. Some of the benefits of this programme are beginning to be reflected in the results, which has enabled Esab largely to preserve profitability and cash flow in spite of adverse trading conditions. Further restructuring in Europe and North America is now in progress and other measures have been taken in response to market conditions.

The turnover of the European welding and cutting businesses, which accounts for just

over half of Esab's turnover, declined by some 6% compared with the corresponding period last year. Some of the Central European economies have been adversely affected by strengthening currencies and certain shipyards in Poland are experiencing difficulties. Competition has been intense during the industrial downturn, which has resulted in pressure on prices and margins. In spite of weak demand for capital goods in general, sales of automated welding equipment continued to grow.

Welding markets in North America, which account for some 30% of sales, remained weak during the first half of the year with turnover down around 7% over the corresponding period last year. Although there appeared to be some signs of a recovery in the first quarter, the imposition of tariffs on steel and the impact of major corporate failures led to a weakening demand in the second quarter. Most major welding sectors, including railcar production, petrochemicals and general industrial machinery, have been affected by the industrial recession and in general confidence remains fragile. The North American sales and manufacturing units are also engaged in certain restructuring initiatives which should lead to enhanced margins as markets improve.

Esab operates through partly owned subsidiaries in South America where first half sales decreased by 12% but the level of operating profits and margins improved. In Brazil demand in certain industrial sectors has helped to sustain demand for consumables, whilst in Argentina the

business has grown at the expense of importers, however, currency and political issues are increasingly affecting confidence throughout the region.

The weak North American economy has resulted in reduced demand for exports from Asian countries, such as Malaysia, Indonesia and Japan. Economic growth in China has been sustained and there are signs of a recovery in Singapore. Sales in the Asian region were ahead of last year and operating profits have improved marginally.

Air and gas handling

At Howden, turnover for the half year was marginally lower at £124.5 million (2001: £128.4 million). Underlying operating profits for the period were £2.2 million compared with last year's first half loss of £1.9 million.

Turnover in the global Power business was unchanged at £42.7 million and underlying operating profits were broadly similar. In the Americas turnover was flat at £40.0 million but operating profits improved over the corresponding period last year due to the benefits of the restructuring carried out in 2001.

Turnover in the Industrial businesses was unchanged at £24.1 million but operating profits declined slightly due to the deterioration in performance of the compressors business in North America.

Howden's businesses in South Africa have benefited from improved order books despite the general political and economic uncertainties in the region. Operating profits improved by £0.8 million over the first half last year, despite losses being incurred in

their overseas operations and at the electric motor subsidiary, Hertz.

The process of restructuring under-performing businesses has continued in the first half with the closure of the loss making VSH Systems, Howden's commercial HVAC (heating, ventilation and air-conditioning) business in Australia and Howden's business in Malaysia. The Power business is rationalising its manufacturing capacity in Europe. In addition, as a result of overcapacity and severe margin pressure, a decision has been made to cease assembling compressors in America. These initiatives will be substantially complete by the year end.

Howden Talleres Sanchez Luengo SA, in Spain, has relocated its facilities to a single site at a purpose built factory in La Union near Cartagena. These modern facilities will enable it to increase its share of the global market for air pre-heater elements.

The slowdown in the Power and Industrial markets in both North America and Europe is beginning to affect orders. The North America power generating companies are deferring investment in new plant as the market comes to terms with the insolvency of Enron and other related issues. By contrast, the Power market in China is now experiencing rapid growth.

Specialised engineering

Turnover for the six months was £26.7 million (2001: £26.2 million) and, following a return to profitability in the second half of last year,

these businesses have continued to trade profitability and generated underlying operating profits of £2.8 million (2001: loss of £0.2 million).

The North American aerospace and defence businesses have performed well following resolution last year of issues relating to problem contracts. Market conditions have proved weak in the commercial aviation sector but robust in the military sector. Negotiations to sell Bauer Howden Inc in Connecticut, USA are in hand and it is expected that the disposal will be completed before the year end.

In the food packaging business Demaco, sales and orders have been much stronger than last year, though margins in this capital equipment business are under pressure. As previously reported, the sale of Solbern to its management team was completed on 21 February 2002 for a net cash consideration of £1.7 million.

The Hong Kong drilling equipment business, HD Engineering, has experienced deteriorating local market conditions and, although it reported a small profit for the first six months, it is unlikely to generate a profit in the second half unless its markets improve.

Central costs

As anticipated, following the restructuring of the Group's head office in London, central costs fell to £3.2 million in the first six months of 2002 compared with £4.6 million in the corresponding period in 2001.

Exceptional items

Overall there was an exceptional credit in the period of £3.8 million (2001: exceptional charge of £26.0 million) comprising:

| | Six months ended 30.6.02 Total £m | Six months ended 30.6.01 Total £m | Year ended 31.12.01 Total £m |
|---|--|--|--|
| Restructuring costs | (7.7) | (18.2) | (32.1) |
| Litigation and warranty costs | - | (4.2) | (2.6) |
| Operating exceptional items | (7.7) | (22.4) | (34.7) |
| Release of Wirth provision | 15.2 | - | - |
| Profit on sale of fixed assets | 0.2 | - | - |
| Goodwill provision on discontinuing operation | (2.6) | - | (4.1) |
| Losses on sale or termination of operations | (1.3) | (3.6) | (3.7) |
| Non-operating exceptional items | 11.5 | (3.6) | (7.8) |
| Exceptional gain on swap contracts | - | - | 4.4 |
| Total | 3.8 | (26.0) | (38.1) |

Welding and cutting products

The restructuring of the Esab business and the rationalisation of manufacturing capacity has continued in the first half of 2002. During the period the exceptional costs of restructuring Esab totalled £3.6 million (2001: £11.2 million). Actions taken during the period included:

- The closures of the Niagara Falls plant in North America and the Thailand equipment factory were completed in the period.
- The reorganisation of the European business has continued and provision has been made to relocate Esab's key global and European functions in a new London

office in the fourth quarter of 2002. This office will provide the base to drive the changes, from both a market and internal operating perspective, required for improved performance. In addition, the sales and marketing organisations in Europe are being restructured and improved transport and warehousing arrangements are being implemented.

- The transfer of certain consumables product lines from Waltham Cross in the UK and Utrecht in Holland to Vamberk in the Czech Republic is continuing.
- The transfer of assembly lines of certain ranges of welding equipment from

Sweden and North America to Poland and Mexico has been accelerated.

- Esab's Australian subsidiary has been closed and its products are now sold in Australia through a distributor.

Air and gas handling

During the period the exceptional costs of restructuring Howden totalled £4.1 million (2001: £4.5 million). Specific steps taken included:

- The closure of Howden Malaysia, based in Kuala Lumpur, was announced in March and was largely completed by the end of June with the loss of some 70 jobs. This business manufactured light industrial and commercial fans principally for the palm oil industry and incurred an operating loss in the first half year of £0.2 million.
- The closure of the manufacturing facility at Howden Power A/S based in Næstved, Denmark, was announced in April. The business specialises in the design and manufacture of large variable pitch axial fans for the power industry and operates in the same market and serves the same customers as Howden Power Limited in Belfast. Both facilities have experienced workload fluctuations over the last two years and manufacturing is being consolidated into the facility in Belfast, where greater use of subcontractors for non-core components will be made. The closure of the manufacturing operation in Næstved and the process of relocating machinery to Belfast is at an advanced stage and a net reduction of around 100 jobs in Denmark will result from the closure.
- The closure of Burton Corblin Inc, based in Langhorne, Pennsylvania, has been announced and should be completed by the end of the year with the loss of 22 jobs in the USA. The business designs and manufactures gas compressors for use in industrial applications, the chemical and petrochemical process industries and in the manufacture of speciality gases. It supplies customers in the USA, Canada and Mexico but has been incurring losses in recent years.

Central operations

No central restructuring costs were incurred in the first half (2001: £2.5 million).

Non-operating exceptional items

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.

A further non-operating exceptional profit of £0.2 million arose on the sale of a property.

The non-operating exceptional charge of £3.9 million represents the loss on the proposed disposal of Bauer Howden Inc, the

principal item of which is £2.6 million in respect of the diminution in the value of goodwill on its acquisition. This latter element of the charge to the profit and loss account has no overall effect on shareholders' funds as it was written off to reserves at the time the acquisition was made.

Retirement benefits

At 31 December 2001, if the provision required by FRS17 had been incorporated in the consolidated balance sheet, net assets would have increased by £11.2 million. At that date the total market value of the assets in the Group's pension schemes was £489.0 million, of which £399.2 million related to UK schemes.

During the first half of the year action was taken to transfer a further element of the weighting of the schemes' investments from equities to bonds. However, at 30 June 2002, the market value of the total assets of the UK schemes had declined by £18.3 million to £380.9 million as a consequence of the fall in equity markets.

An FRS17 valuation of the Group's post retirement liabilities has not been carried out at 30 June 2002.

Board

Neil Johnson and Martin Taylor retired as non-executive directors at the conclusion of the annual general meeting held on 24 April 2002, following which Homi Mullan, who was appointed as a director on 14 December 2001, succeeded Martin Taylor as Deputy Chairman and senior independent non-executive director.

Prospects

Significant progress has been made in closing loss-making businesses and in improving the gross margins of our principal businesses, which has resulted in higher operating profits in the six months to 30 June 2002. Demand during the period under review was below that experienced last year, however, provided market conditions do not deteriorate further, the Board anticipates that the Group's underlying operating profits for the full year will be in line with market expectations.

David Gawler

Chairman and Chief Executive
4 September 2002

Consolidated profit and loss account

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Six months ended 30 June 2002 (unaudited)

| | Six months ended 30.6.02 | Six months ended 30.6.02 | Six months ended 30.6.02 | Six months ended 30.6.01 | Year ended 31.12.01 | |
|-------------------------|--|--------------------------------|--------------------------------|--------------------------------|---------------------------|---------|
| | Before exceptional items | Exceptional items | Total | Total | Total | |
| Note | £m | £m | £m | £m | £m | |
| Turnover | | | | | | |
| 1 | Continuing operations | 451.8 | - | 451.8 | 477.6 | 961.8 |
| Operating profit | | | | | | |
| 1 | Continuing operations | | | | | |
| | - excluding associated undertakings and operating exceptional items | 18.3 | - | 18.3 | 9.7 | 29.9 |
| | - operating exceptional items | - | (7.7) | (7.7) | (22.4) | (34.7) |
| | - excluding associated undertakings | 18.3 | (7.7) | 10.6 | (12.7) | (4.8) |
| | - associated undertakings | 2.9 | - | 2.9 | 3.8 | 6.2 |
| | | 21.2 | (7.7) | 13.5 | (8.9) | 1.4 |
| 2 | Non-operating exceptional items | | | | | |
| | Continuing operations | | | | | |
| | - provision for loss on sale of operations associated goodwill | - | (1.3) | (1.3) | - | - |
| | | - | (2.6) | (2.6) | - | (4.1) |
| | | - | (3.9) | (3.9) | - | (4.1) |
| | - profit on sale of fixed assets | - | 0.2 | 0.2 | - | - |
| | Discontinued operations | | | | | |
| | - profit on release of guarantee provision | - | 15.2 | 15.2 | - | - |
| | - losses on termination of operations | - | - | - | (3.6) | (3.7) |
| | Profit/(loss) on ordinary activities before interest | 21.2 | 3.8 | 25.0 | (12.5) | (6.4) |
| | Net interest | | | | | |
| | - excluding associated undertakings | (9.6) | - | (9.6) | (9.3) | (18.0) |
| | - associated undertakings | (0.3) | - | (0.3) | (0.2) | (0.3) |
| | - exceptional gain on swaps contracts | - | - | - | - | 4.4 |
| | Profit/(loss) on ordinary activities before taxation | 11.3 | 3.8 | 15.1 | (22.0) | (20.3) |
| 3 | Tax on profit/(loss) on ordinary activities | (3.4) | - | (3.4) | 1.3 | (5.0) |
| 3 | Exceptional tax credit/(charge) | - | 0.2 | 0.2 | - | (6.1) |
| | Profit/(loss) on ordinary activities after taxation | 7.9 | 4.0 | 11.9 | (20.7) | (31.4) |
| | Minority equity interests | | | | | |
| | - excluding operating exceptional items | (2.2) | - | (2.2) | (0.5) | (2.3) |
| | - operating exceptional items | - | - | - | - | 0.9 |
| | Retained profit/(loss) for the financial period | 5.7 | 4.0 | 9.7 | (21.2) | (32.8) |
| | Earnings per share - basic | | | | | |
| | Headline | 6.1p | 4.2p | 10.3p | (22.6)p | (34.8)p |
| | Underlying | 6.7p | - | 6.7p | 3.1p | 12.3p |

Consolidated balance sheet

30 June 2002 (unaudited)

| | 30.6.02 £m | 30.6.02 £m | 31.12.01 £m | 31.12.01 £m |
|--|---------------|---------------|----------------|----------------|
| Fixed assets | | | | |
| Intangible fixed assets - goodwill | | 19.2 | | 19.8 |
| Tangible fixed assets | | 148.9 | | 154.5 |
| Fixed asset investments - associated undertakings | | 23.6 | | 24.6 |
| | | 191.7 | | 198.9 |
| Current assets | | | | |
| Stocks | 127.6 | | 129.5 | |
| Debtors | 251.0 | | 254.5 | |
| Cash at bank and in hand | 40.8 | | 47.6 | |
| | 419.4 | | 431.6 | |
| Creditors: amounts falling due within one year | | | | |
| Creditors | (198.4) | | (215.2) | |
| Short term borrowings | (121.7) | | (113.3) | |
| | (320.1) | | (328.5) | |
| Net current assets | | 99.3 | | 103.1 |
| Total assets less current liabilities | | 291.0 | | 302.0 |
| Creditors: amounts falling due after more than one year | | | | |
| Other long term creditors | | (0.7) | | (0.7) |
| Long term borrowings | | (141.9) | | (148.4) |
| Provisions for liabilities and charges | | (126.7) | | (137.1) |
| | | 21.7 | | 15.8 |
| Shareholders' funds - equity interests | | 1.9 | | (8.3) |
| Minority interests - equity interests | | 19.8 | | 24.1 |
| | | 21.7 | | 15.8 |

By order of the board

A R Yapp Secretary

4 September 2002

Consolidated cash flow statement

Six months ended 30 June 2002 (unaudited)

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| Note | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
|---|---|---|---------------------------------|
| 4 Cash flow from operating activities | 9.2 | (5.7) | 31.6 |
| Exceptional bid costs paid | - | (0.2) | (0.2) |
| Dividends received from associated undertakings | 2.7 | 1.4 | 2.2 |
| Returns on investments and servicing of finance | (11.5) | (12.5) | (16.2) |
| Taxation paid | (2.6) | (0.8) | (7.7) |
| Capital expenditure and financial investment | (6.6) | (3.8) | (12.3) |
| Acquisitions and disposals | | | |
| Sale of subsidiary undertakings - net proceeds | 1.7 | (0.5) | (0.7) |
| Purchase of subsidiary undertakings | (0.5) | (0.1) | (0.1) |
| Equity dividends paid | - | (0.9) | (0.9) |
| Cash outflow before management of liquid resources and financing | (7.6) | (23.1) | (4.3) |
| Management of liquid resources | (0.8) | (8.5) | (10.3) |
| Financing | | | |
| Decrease in short term borrowings other than those repayable on demand | (0.3) | (18.4) | (17.6) |
| (Decrease)/increase in long term borrowings | (6.0) | 2.8 | 0.4 |
| Capital element of finance lease rental payments | (1.0) | (1.0) | (1.7) |
| Decrease in cash in the financial period | (15.7) | (48.2) | (33.5) |
| Increase in net debt in the financial period | (8.7) | (29.1) | (4.3) |

Statement of total recognised gains and losses

Six months ended 30 June 2002 (unaudited)

| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
|---|---|---|---------------------------------|
| Profit/(loss) for the financial period | | | |
| - excluding associated undertakings | 7.8 | (23.8) | (37.5) |
| - associated undertakings | 1.9 | 2.6 | 4.7 |
| Profit/(loss) for the financial period | 9.7 | (21.2) | (32.8) |
| Net effect of translation of currencies | (2.1) | - | (4.2) |
| Total recognised gains and losses | 7.6 | (21.2) | (37.0) |

Reconciliation of movements in shareholders' funds

Six months ended 30 June 2002 (unaudited)

| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
|--|---|---|---------------------------------|
| Profit/(loss) for the financial period | 9.7 | (21.2) | (32.8) |
| Other recognised gains and losses | (2.1) | - | (4.2) |
| Goodwill associated with sale of operations | 2.6 | - | 4.1 |
| Net addition to/(reduction in) shareholders' funds | 10.2 | (21.2) | (32.9) |
| Opening shareholders' funds | (8.3) | 24.6 | 24.6 |
| Closing shareholders' funds | 1.9 | 3.4 | (8.3) |

1 Continuing operations

| | Turnover | | | Operating profit | | |
|--|--------------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|
| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
| Welding and cutting products | 300.6 | 323.0 | 621.5 | 20.0 | 20.8 | 35.7 |
| Air and gas handling | 124.5 | 128.4 | 283.8 | 2.2 | (1.9) | 7.2 |
| Specialised engineering | 26.7 | 26.2 | 56.5 | 2.8 | (0.2) | 2.9 |
| | 451.8 | 477.6 | 961.8 | 25.0 | 18.7 | 45.8 |
| Goodwill - Welding and cutting products | - | - | - | (0.6) | (0.6) | (1.1) |
| Central operations | - | - | - | (3.2) | (4.6) | (8.6) |
| | 451.8 | 477.6 | 961.8 | 21.2 | 13.5 | 36.1 |
| Operating exceptional items | | | | | | |
| Welding and cutting products | | | | | | |
| - restructuring costs | - | - | - | (3.6) | (11.2) | (24.8) |
| Air and gas handling | | | | | | |
| - restructuring costs | - | - | - | (4.1) | (4.5) | (4.7) |
| - litigation and warranty costs | - | - | - | - | (4.2) | (2.6) |
| Central restructuring costs | - | - | - | - | (2.5) | (2.6) |
| | 451.8 | 477.6 | 961.8 | 13.5 | (8.9) | 1.4 |
| Geographical area by country of operation | | | | | | |
| United Kingdom | 47.3 | 46.6 | 99.9 | (3.1) | (3.8) | (8.3) |
| Rest of Europe | 186.7 | 207.1 | 398.0 | 10.4 | 15.4 | 31.3 |
| North America | 165.3 | 173.1 | 363.8 | 6.1 | (1.2) | 4.5 |
| Rest of World | 91.2 | 88.2 | 172.5 | 8.4 | 3.7 | 9.7 |
| | 490.5 | 515.0 | 1,034.2 | 21.8 | 14.1 | 37.2 |
| Goodwill | - | - | - | (0.6) | (0.6) | (1.1) |
| Operating exceptional items | | | | | | |
| United Kingdom | - | - | - | (0.1) | (3.1) | (10.3) |
| Rest of Europe | - | - | - | (5.7) | (12.7) | (17.7) |
| North America | - | - | - | (1.1) | (4.4) | (2.2) |
| Rest of World | - | - | - | (0.8) | (2.2) | (4.5) |
| Inter area eliminations | (38.7) | (37.4) | (72.4) | - | - | - |
| | 451.8 | 477.6 | 961.8 | 13.5 | (8.9) | 1.4 |

1 Continuing operations (continued)

| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Turnover Year ended 31.12.01 £m |
|--|---|---|---|
| Geographical area by country of destination | | | |
| United Kingdom | 30.7 | 27.9 | 56.0 |
| Rest of Europe | 153.8 | 173.1 | 339.1 |
| North America | 162.8 | 169.0 | 349.7 |
| Rest of World | 104.5 | 107.6 | 217.0 |
| | 451.8 | 477.6 | 961.8 |

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 any period.

3 Tax on profit on ordinary activities

| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
|-------------------------|---|---|---------------------------------|
| United Kingdom | - | - | 8.6 |
| Overseas | 2.5 | (2.3) | 1.3 |
| Associated undertakings | 0.7 | 1.0 | 1.2 |
| | 3.2 | (1.3) | 11.1 |

The year ended 31 December 2001 includes an exceptional tax charge of £6.1m in respect of prior year transactions currently under discussion with local tax authorities.

4 Cash flow from operating activities

| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
|---|---|---|---------------------------------|
| Operating profit/(loss) - excluding associated undertakings | 10.6 | (12.7) | (4.8) |
| Depreciation and amortisation charges | 11.3 | 11.5 | 22.6 |
| Profit on sale of fixed assets | (0.1) | - | (0.3) |
| Exceptional items | | | |
| Current year charge - restructuring | 7.7 | 18.2 | 32.1 |
| Current year charge - litigation and warranty | - | 4.2 | 2.6 |
| Restructuring costs spend | (6.7) | (7.0) | (12.4) |
| Litigation and warranty costs spend | - | - | (1.6) |
| Working capital | (12.4) | (15.9) | (2.6) |
| Cash movement in provisions | (1.2) | (4.0) | (4.0) |
| | 9.2 | (5.7) | 31.6 |

5 Reconciliation of net cash flow to movement in net debt

| | Six months ended 30.6.02 £m | Six months ended 30.6.01 £m | Year ended 31.12.01 £m |
|--|---|---|---------------------------------|
| Decrease in cash in the financial period | (15.7) | (48.2) | (33.5) |
| Cash outflow from debt and lease financing | 7.3 | 16.6 | 18.9 |
| Cash outflow from liquid resources | 0.8 | 8.5 | 10.3 |
| Change in net debt resulting from cash flows | (7.6) | (23.1) | (4.3) |
| New finance leases | (0.1) | (0.1) | (0.2) |
| Exchange adjustments | (1.0) | (5.9) | 0.2 |
| Movement in net debt in the financial period | (8.7) | (29.1) | (4.3) |
| Opening balance of net debt | (214.1) | (209.8) | (209.8) |
| Closing balance of net debt | (222.8) | (238.9) | (214.1) |

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 | 30.6 | (8.2) | - | 0.6 | 23.0 |
| Short term borrowings repayable on demand | (109.3) | (7.5) | - | (1.0) | (117.8) |
| Cash - net | (78.7) | (15.7) | - | (0.4) | (94.8) |
| Other cash at bank and in hand | 17.0 | 0.8 | - | - | 17.8 |
| Other short term debt | (3.4) | 0.3 | - | (0.2) | (3.3) |
| Long term debt | (142.1) | 6.0 | - | (0.6) | (136.7) |
| Finance leases | (6.9) | 1.0 | (0.1) | 0.2 | (5.8) |
| Total | (214.1) | (7.6) | (0.1) | (1.0) | (222.8) |

7 Interim accounts

The information shown in respect of the year ended 31 December 2001 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.