

INTERIM REPORT
2004



CHARTER plc

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FINANCIAL HIGHLIGHTS

Six months ended 30 June 2004 (unaudited)



	Six months to 30.06.04 £m	Six months to 30.06.03 £m	Year ended 31.12.03 £m
Turnover			
Continuing operations:			
Welding and cutting	303.4	283.7	577.1
Air and gas handling	108.0	115.6	256.9
Specialised engineering	4.2	4.3	8.4
	<u>415.6</u>	<u>403.6</u>	<u>842.4</u>
Discontinued operations	-	16.6	28.8
	<u>415.6</u>	<u>420.2</u>	<u>871.2</u>
Adjusted operating profit¹			
Continuing operations:			
Welding and cutting	23.3	14.0	31.8
Air and gas handling	4.0	0.4	6.3
Specialised engineering	0.1	(0.9)	(1.3)
	<u>27.4</u>	<u>13.5</u>	<u>36.8</u>
Central operations	(3.6)	(3.4)	(6.8)
	<u>23.8</u>	<u>10.1</u>	<u>30.0</u>
Discontinued operations	0.6	5.3	10.1
Amortisation of goodwill	(0.6)	(0.6)	(1.2)
Operating exceptional items	(12.7)	(5.8)	(10.8)
Operating profit	<u>11.1</u>	<u>9.0</u>	<u>28.1</u>
Non-operating exceptional items	1.3	0.1	(1.0)
Profit before interest	<u>12.4</u>	<u>9.1</u>	<u>27.1</u>
Interest	(6.3)	(8.6)	(16.8)
Exceptional financing costs	-	(5.0)	(6.5)
Profit/(loss) before tax	<u>6.1</u>	<u>(4.5)</u>	<u>3.8</u>
Net debt	<u>82.5</u>	<u>194.3</u>	<u>136.8</u>
Earnings/(loss) per share			
Headline	3.6p	(6.5)p	(6.2)p
Adjusted ¹	7.5p	3.0 p	9.9 p

The earnings per share calculations for 2003 have been restated for the Rights Issue
¹before exceptional items and amortisation of goodwill

- Substantially improved operating margins and trading results
- Adjusted operating profit from continuing operations more than doubled to £23.8 million (2003: £10.1 million)
- Profit before tax of £6.1 million (2003: loss before tax of £4.5 million)
- Adjusted earnings per share 7.5 pence (2003: 3.0 pence)
- Headline earnings per share 3.6 pence (2003: a loss of 6.5 pence)
- Net debt reduced to £82.5 million, a reduction of £54.3 million in the period

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Summary of interim results (unaudited)

	Six months to 30.06.04 £m	Six months to 30.06.03 £m	Year ended 31.12.03 £m
Turnover			
Continuing operations:			
Welding and cutting	303.4	283.7	577.1
Air and gas handling	108.0	115.6	256.9
Specialised engineering	4.2	4.3	8.4
	<u>415.6</u>	<u>403.6</u>	<u>842.4</u>
Discontinued operations	-	16.6	28.8
	<u>415.6</u>	<u>420.2</u>	<u>871.2</u>
Adjusted operating profit¹			
Continuing operations:			
Welding and cutting	23.3	14.0	31.8
Air and gas handling	4.0	0.4	6.3
Specialised engineering	0.1	(0.9)	(1.3)
	<u>27.4</u>	<u>13.5</u>	<u>36.8</u>
Central operations	(3.6)	(3.4)	(6.8)
	<u>23.8</u>	<u>10.1</u>	<u>30.0</u>
Discontinued operations	0.6	5.3	10.1
Amortisation of goodwill	(0.6)	(0.6)	(1.2)
Operating exceptional items	(12.7)	(5.8)	(10.8)
Operating profit	<u>11.1</u>	<u>9.0</u>	<u>28.1</u>
Non-operating exceptional items	1.3	0.1	(1.0)
Profit before interest	<u>12.4</u>	<u>9.1</u>	<u>27.1</u>
Interest	(6.3)	(8.6)	(16.8)
Exceptional financing costs	-	(5.0)	(6.5)
Profit/(loss) before tax	<u>6.1</u>	<u>(4.5)</u>	<u>3.8</u>
Net debt	<u>82.5</u>	<u>194.3</u>	<u>136.8</u>
Earnings/(loss) per share			
Headline	3.6p	(6.5)p	(6.2)p
Adjusted ¹	7.5p	3.0 p	9.9 p

The earnings per share calculations for 2003 have been restated for the Rights Issue
¹before exceptional items and amortisation of goodwill

million has been re-instated in the current period by way of a credit to reserves. The police have now arrested and charged the employee concerned with the theft of £9.1 million. The group is actively pursuing recoveries of the monies and has also lodged a claim against the Company's fidelity insurance policy under which cover is limited to £5.0 million.

Shareholders' funds increased over the six-month period by £56.5 million from £4.4 million to £60.9 million.

Group results

In the six months ended 30 June 2004 turnover from continuing businesses was £415.6 million (2003: £403.6 million). The adjusted operating profit from continuing businesses, before exceptional items and amortisation of goodwill, for the period was £23.8 million (2003: £10.1 million). The adjusted operating profit from discontinued operations was £0.6 million (2003: £5.3 million). After amortisation of goodwill of £0.6 million (2003: £0.6 million) and an interest charge of £6.3 million (2003: £8.6 million), profit before tax and exceptional items was £17.5 million (2003: £6.2 million).

The net exceptional charges for the period before tax amounted to £11.4 million (2003: £10.7 million) and comprised £3.5 million in respect of restructuring costs and £9.2 million relating to unauthorised payments, offset by a net non-operating exceptional credit of £1.3 million. The net exceptional charges of £10.7 million that arose in the corresponding period last year comprised operating exceptional charges of £5.8 million, exceptional financing costs of £5.0 million and a non-operating exceptional credit of £0.1 million. The group's profit on ordinary activities before tax amounted to £6.1 million (2003: loss of £4.5 million).

The group's ordinary tax charge amounted to £5.5 million (2003: £2.1 million) and the tax credit attributable to the exceptional items was £0.1 million (2003: charge £0.1 million). There was also an exceptional tax credit of £6.6 million following settlement of certain specific tax issues with the Inland Revenue. After charging minority interests of £2.5 million (2003: £1.1 million), the retained profit for the period was £4.8 million (2003: loss of £7.8 million).

The headline earnings per share amounted to 3.6 pence (2003: loss per share of 6.5 pence) and adjusted earnings per share amounted to 7.5 pence (2003: 3.0 pence). The comparative earnings per share for 2003 have been adjusted for the Rights Issue.

Cash flow, interest and borrowings

During the period the Rights Issue raised net proceeds of £44.6 million and the sale of the group's 50% interest in GCE Gas Control Equipment AB ("GCE") was completed for a consideration of £14.0 million.

Overview of results

I am pleased to report substantially improved results, with adjusted operating profits from continuing operations in the first half of 2004 more than doubling to £23.8 million (2003: £10.1 million). This performance was also better than the £19.9 million achieved in the second half of last year and more importantly reflects the improving trend in operating margins in each of the core businesses.

The welding and cutting business ("Esab") generated adjusted continuing operating profits of £23.3 million (2003: £14.0 million) on turnover of £303.4 million (2003: £283.7 million).

The air and gas handling business ("Howden") generated an adjusted operating profit of £4.0 million (2003: £0.4 million) on lower turnover. The reduction in turnover resulted from the elimination of low margin business.

The specialised engineering businesses recorded adjusted operating profits from

continuing operations of £0.1 million for the period (2003: loss £0.9 million) on turnover of £4.2 million (2003: £4.3 million).

The successful Rights Issue completed in April 2004, which raised net proceeds of £44.6 million, has strengthened the balance sheet and enabled the group to resume its planned restructuring programmes and enables it to further develop and invest in the group's existing businesses.

On 20 August the Company announced that it was investigating evidence that an employee may have been involved in a fraud against the group involving unauthorised payments of some £10 million. The investigations have now identified £9.2 million of unauthorised payments made over a period of six years. Some £5.0 million of these payments were made prior to 1 January 2004 and these were expensed to reserves as foreign exchange translation movements in the accounting periods in which the payments were made. There has been no further effect in the current period on total shareholders' funds as the £5.0

The cash inflow from operating activities in the first half of the year was £12.8 million (2003: £21.1 million) which was after the £7.1 million spent on restructuring costs and the £4.2 million of unauthorised payments that were made in the period. Net capital expenditure and financial investment in the period was £3.1 million (2003: £4.4 million). The charge for depreciation and amortisation was £8.4 million (2003: £10.4 million).

During the first six months of the year net debt decreased by £54.3 million from £136.8 million to £82.5 million.

Net interest and financing costs in the period totalled £6.3 million (2003: £8.6 million excluding the exceptional financing costs) and were £1.9 million lower than the £8.2 million incurred in the second half of 2003.

Dividends

In view of the policy adopted by the Board in March 2001 to set dividends in the light of earnings and cash flow, the directors have decided not to declare a dividend for the period. No dividends were declared in respect of the year ended 31 December 2003.

Operating review

Adjusted operating profit from continuing operations for the six-month period to 30 June 2004 amounted to £23.8 million (2003: £10.1 million), and also represents a significant improvement over the £19.9 million earned in the second half of 2003.

Welding and cutting products

In the first half of 2004, Esab's turnover was £303.4 million (2003: £283.7 million) and adjusted operating profit from continuing operations was £23.3 million (2003: £14.0 million). This compares with adjusted operating profit from continuing operations of £17.8 million in the second half of 2003 on turnover of £293.4 million.

The six months to June 2004 has seen a general improvement in overall market conditions and in demand for Esab products. This is particularly evident in North and South America and in parts of central Europe. In addition to the improved trading environment, the business has benefited also from improved operational efficiencies and from restructuring and other initiatives.

In North America, Esab has enjoyed significantly improved sales and operating margins across all its operations.

In South America, the Esab business has enjoyed growth in sales and operating margins, with factories operating at near full

capacity. The Brazilian economy continues to perform strongly, helped by low levels of inflation, while in Argentina, the other key market in the region, the business remains positive despite the general economic climate.

In Europe, Esab's overall performance is positive, with sales and operating margins increasing. The restructuring and reorganisation of the European business has now reached implementation stage with associated planned improvements to operational efficiencies and business processes. In the second half of this year these initiatives will deliver some reductions in operating costs and overall headcount, as well as improving customer service. The recovery within the Eurozone remains soft and is hindered by the relative strength of the euro and the recent rise in commodity prices. In Poland, Hungary and the Czech Republic, after three difficult years, the economies are again expanding, whilst in the United Kingdom, demand remains steady.

Across Asia the trend generally is towards recovery with increases in sales and operating margins, and Esab's results more than reflect the general upturn in the region, particularly in South Korea. In other key territories such as Russia and the Middle East, sales are above 2003 levels. In India, Esab continues to make good progress.

A significant issue during the period has been the availability of steel and escalating prices due to exceptionally high demand from China. Throughout the period Esab successfully managed to maintain adequate supplies of raw materials to satisfy its existing customer demand. There is some evidence of a softening in the demand for steel, as China consolidates its consumption. Supply and price development for the remainder of the year remains uncertain.

Throughout 2004, Esab's management has been focusing on strategies to drive sustainable and profitable growth across all its operations with improvements evident in most regions, particularly within Europe and North America.

During the period Esab purchased the solid wire manufacturing operations of Fundia in Finland. It also sold its 50% interest in GCE, which was not a core operation.

Air and gas handling

During the first six months, Howden's turnover declined to £108.0 million (2003: £115.6 million). This was due to the elimination of low margin business and deconsolidation of turnover relating to a non-core business which has been merged with that of a competitor. Despite this

reduction in turnover, adjusted operating profit from continuing operations in the period rose substantially to £4.0 million (2003: £0.4 million). This improvement in operating profit reflects the closures of loss making businesses, the restructuring of many of Howden's operations in the last three years and the continuing increased demand in China for Howden's products.

There were no exceptional charges in the period (2003: £4.0 million). Howden's order book has continued to strengthen.

In the Power sector where Howden generates almost half of its sales, turnover improved and operating profits from continuing operations recorded significant improvements over the corresponding period last year. Howden Hua in China, in which the group has a 70% interest, achieved significant sales and profit growth.

In North America, sales were lower than last year due to plant and business closures. Operating profits benefited from the closures and restructuring initiatives that have been implemented in recent years.

Sales levels in the European Industrial and global Compressors businesses were similar to last year, however operating profits reflected significant improvements. In Burton Corblin SA in Nogent, France sales improved and profits increased following the restructuring measures completed last year.

The turnover of Howden Africa Holdings Limited, in which the group has a 56% interest, declined following the merger of its pumps business with that of a competitor. Operating profits from continuing operations in South Africa were down slightly due to lower demand in a non-core environmental control business. Importantly agreement was reached during the period to transfer the Black Empowerment partners' participation in the South African Group from the unlisted power business to the publicly listed company.

Specialised engineering

Turnover from continuing operations for the six months was £4.2 million (2003: £4.3 million) and adjusted operating profit from continuing operations amounted to £0.1 million (2003: loss £0.9 million). Operating profit benefited from the closure of a surplus manufacturing plant.

Central costs

Central costs were £3.6 million in the first six months of 2004 (2003: £3.4 million).

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Continued

Exceptional items

Overall exceptional charges before tax in the period amounted to £11.4 million (2003: £10.7 million) comprising:

	Six months to 30.6.04 £m	Six months to 30.6.03 £m	Year ended 31.12.03 £m
Operating			
Continuing operations			
Restructuring costs			
Welding and cutting	(3.5)	(1.4)	(5.0)
Air and gas handling	-	(4.0)	(4.1)
Specialised engineering	-	-	(0.4)
	(3.5)	(5.4)	(9.5)
Unauthorised payments	(9.2)	-	-
Litigation and warranty costs	-	-	(0.4)
	(12.7)	(5.4)	(9.9)
Discontinued operations			
Restructuring costs	-	(0.4)	(0.9)
	(12.7)	(5.8)	(10.8)
Non-operating			
Continuing operations			
Net profit on sale of fixed assets	-	0.3	4.7
Profit/(loss) on sale or termination of operations	3.6	(0.2)	(0.3)
Discontinued operations			
Profit on sale of operations before reinstatement of goodwill	5.4	-	18.8
Associated goodwill	(6.0)	-	(20.2)
Loss on sale of operations	(0.6)	-	(1.4)
Goodwill provision on discontinued operations	-	-	(4.0)
Additional costs in respect of disposals in prior years	(1.7)	-	-
	(2.3)	-	(5.4)
	1.3	0.1	(1.0)
Financing costs	-	(5.0)	(6.5)
Total before tax and minority interests	(11.4)	(10.7)	(18.3)

Taxation

The effective adjusted tax rate for the period is 30.4% (2003: 30.9%). Following the settlement of certain specific outstanding tax issues with the Inland Revenue, an exceptional tax credit of £6.6 million has arisen.

Retirement benefits

Over the six-month period to 30 June 2004 the asset position of the group's retirement benefit schemes was broadly static. On an FRS17 basis, the associated liabilities are estimated to have decreased marginally.

Management

On 22 April 2004 Mr Robert Careless was appointed as Finance Director. He replaced Mr David Eilbeck who resigned as a Director on the same date.

Post balance sheet event

On 2 September 2004 the acquisition was completed of an increased interest in Esab's South American joint venture. The overall result of this acquisition has been to increase the Company's effective interest in this joint venture from 41.7% to 51.0%. The purchase consideration was US\$4.12 million of which US\$1.37 million was paid on completion with the balance payable in instalments, the last of which is due in September 2007.

As a result of this transaction the ownership, management and operations of the South American welding and cutting business have been considerably simplified. The remaining joint venture partner, Mercoweld S.A., with whom the Company has an excellent relationship, increased its shareholding from 38.0% to 49.0% on the same date.

Prospects

Restructuring initiatives over the past three years have resulted in improved operational efficiencies, as evidenced by the operating margins recorded by Esab and Howden, and these businesses are now better positioned to benefit from opportunities in their key markets. In view of trading to date, the Board continues to view the outcome for 2004 with confidence.

David Gawler
Chairman and Chief Executive
10 September 2004

Welding and cutting products

The restructuring of Esab's businesses and the rationalisation of its global manufacturing capacity has continued in the first half of 2004. During this period restructuring costs of £3.5 million (2003: £1.4 million) have been incurred in connection with the restructuring and reorganisation of certain of the European businesses. These projects have now entered the initial implementation stages with associated planned improvements to operational efficiencies and business processes. These measures will begin to deliver reduced operating costs and headcounts during the latter half of this year, and the Company remains on target that, following completion of the £14.0 million restructuring programme, Esab will generate cost savings equivalent to at least 75% of such expenditure and the full annualised benefits of such savings should occur in the 2005 financial year.

Unauthorised payments

The exceptional charge of £9.2 million (2003: nil) is in respect of a series of

unauthorised payments. Out of the total amount of £9.2 million, £5.0 million of these payments were made prior to 1 January 2004 and this amount has been treated as a credit in the Statement of Total Recognised Gains and Losses.

Non-operating exceptional items

A non-operating exceptional credit of £3.6 million (2003: loss £0.2 million) arose on the release of a restructuring provision no longer required.

The sale of the group's 50% interest in GCE was completed on 26 February 2004. A non-operating exceptional profit of £5.4 million arose on the sale of this business, which was offset by the write back of the balance of goodwill on the acquisition of GCE of £6.0 million. A provision of £4.0 million in 2003 had also been made against the write back of goodwill of GCE.

An additional provision of £1.7 million has been made in respect of a prior year disposal.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Six months ended 30 June 2004 (unaudited)

Note	Six months ended 30.6.04			Six months ended 30.6.03	Year ended 31.12.03
	Pre-exceptional £m	Exceptionals £m	Total £m	Total £m	Total £m
	415.6	-	415.6	403.6	842.4
	-	-	-	16.6	28.8
1	415.6	-	415.6	420.2	871.2
Continuing operations					
Operating profit (excluding operating exceptional items and share of associated undertakings' operating profit)	21.0	-	21.0	7.5	25.5
Operating exceptional items	-	(12.7)	(12.7)	(5.4)	(9.9)
Group operating profit/(loss)	21.0	(12.7)	8.3	2.1	15.6
Share of associated undertakings' operating profit	2.2	-	2.2	2.0	3.3
	23.2	(12.7)	10.5	4.1	18.9
Discontinued operations					
Operating profit (excluding share of associated undertakings' operating profit)	-	-	-	3.5	6.6
Share of associated undertakings' operating profit excluding exceptional items	0.6	-	0.6	1.8	3.5
Share of associated undertakings' exceptional items	-	-	-	(0.4)	(0.9)
	0.6	-	0.6	4.9	9.2
<i>Group operating profit/(loss)</i>	21.0	(12.7)	8.3	5.6	22.2
<i>Share of associated undertakings' operating profit/(loss)</i>	2.8	-	2.8	3.4	5.9
1	23.8	(12.7)	11.1	9.0	28.1
2	Non-operating exceptional items				
Continuing operations					
Profit/(loss) on sale or termination of operations		3.6	3.6	(0.2)	(0.3)
Net profit on fixed asset disposals		-	-	0.3	4.7
		3.6	3.6	0.1	4.4
Discontinued operations					
Loss on sale of operations		(2.3)	(2.3)	-	(1.4)
Goodwill provision on discontinuing operation		-	-	-	(4.0)
		(2.3)	(2.3)	-	(5.4)
Profit on ordinary activities before interest	23.8	(11.4)	12.4	9.1	27.1
Net interest and financing costs					
Excluding associated undertakings and exceptional financing costs	(6.2)	-	(6.2)	(8.4)	(16.4)
Share of associated undertakings' interest	(0.1)	-	(0.1)	(0.2)	(0.4)
Exceptional financing costs	-	-	-	(5.0)	(6.5)
	(6.3)	-	(6.3)	(13.6)	(23.3)
Profit/(loss) on ordinary activities before taxation	17.5	(11.4)	6.1	(4.5)	3.8
3	(5.5)	0.1	(5.4)	(2.2)	(6.9)
3	-	6.6	6.6	-	-
3	(5.5)	6.7	1.2	(2.2)	(6.9)
Profit/(loss) on ordinary activities after taxation	12.0	(4.7)	7.3	(6.7)	(3.1)
Minority interests - equity	(2.5)	-	(2.5)	(1.1)	(4.3)
Profit for the period	9.5	(4.7)	4.8	(7.8)	(7.4)
Dividends - equity			-	-	-
Retained profit/(loss) for the period	9.5	(4.7)	4.8	(7.8)	(7.4)
4	Earnings/(loss) per share - basic				
Headline			3.6p	(6.5)p	(6.2)p
Adjusted ¹			7.5p	3.0 p	9.9 p

The earnings per share calculations for 2003 have been restated for the rights issue
¹before exceptional items and amortisation of goodwill

CONSOLIDATED BALANCE SHEET
30 June 2004 (unaudited)

	30.6.04 £m	31.12.03 £m
Fixed assets		
Intangible fixed assets - goodwill	16.8	17.3
Tangible fixed assets	97.8	105.7
Fixed asset investments - associated undertakings	20.7	27.9
	135.3	150.9
Current assets		
Stocks	110.4	102.0
Debtors	213.8	202.6
Cash at bank and in hand	33.3	59.9
	357.5	364.5
Creditors: amounts falling due within one year		
Creditors	(193.3)	(181.2)
Short term borrowings	(7.5)	(71.2)
	(200.8)	(252.4)
Net current assets	156.7	112.1
Total assets less current liabilities	292.0	263.0
Creditors: amounts falling due after more than one year		
Other long term creditors	(1.0)	(1.0)
Long term borrowings	(108.3)	(125.5)
Provisions for liabilities and charges	(101.3)	(111.6)
	81.4	24.9
Shareholders' funds - equity interests	60.9	4.4
Minority shareholders' - equity interests	20.5	20.5
	81.4	24.9

By order of the board
A R Yapp, Secretary
10 September 2004

CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2004 (unaudited)

Note	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m
5 Cash flow from operating activities	12.8	21.1	54.9
Dividends received from associated undertakings	1.0	2.2	3.4
Returns on investments and servicing of finance	(9.7)	(12.7)	(23.8)
Taxation paid	(6.3)	(3.7)	(7.0)
Purchase of tangible fixed assets	(3.2)	(3.9)	(7.1)
Sale of tangible fixed assets	0.1	1.1	16.6
Loan to associate undertaking	-	(1.6)	(1.5)
Capital expenditure and financial investment	(3.1)	(4.4)	8.0
Acquisitions and disposals	12.5	(0.1)	26.5
Cash inflow before management of liquid resources and financing	7.2	2.4	62.0
Management of liquid resources - decrease/(increase) in cash on deposit	20.2	-	(23.0)
Financing			
Decrease in short term borrowings (other than those repayable on demand)	(39.9)	-	(1.8)
Decrease in long term borrowings	(14.3)	-	-
Repayment of capital element of finance leases	(0.5)	(0.6)	(1.1)
Cash outflow from debt and lease financing	(54.7)	(0.6)	(2.9)
Issue of ordinary share capital (net of expenses)	44.6	-	-
	(10.1)	(0.6)	(2.9)
Increase in cash in the period	17.3	1.8	36.1
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the period	17.3	1.8	36.1
Cash outflow from debt and lease financing	54.7	0.6	2.9
Cash (inflow)/outflow from liquid resources	(20.2)	-	23.0
Change in net debt resulting from cash flows	51.8	2.4	62.0
Foreign exchange adjustments	2.5	(2.7)	(4.8)
Movement in net debt in the period	54.3	(0.3)	57.2
Opening net debt	(136.8)	(194.0)	(194.0)
Closing net debt	(82.5)	(194.3)	(136.8)
Gross borrowings	(115.8)	(229.7)	(196.7)
Cash at bank in hand (including cash on deposit)	33.3	35.4	59.9
	(82.5)	(194.3)	(136.8)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Six months ended 30 June 2004 (unaudited)

	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m
Profit/(loss) for the period - excluding associated undertakings	2.9	(10.2)	(10.6)
- associated undertakings	1.9	2.4	3.2
Profit/(loss) for the period	4.8	(7.8)	(7.4)
Recognition of unauthorised payments in prior years	5.0	-	-
Net effect of translation of currencies - taxation	-	-	(0.6)
- other	(3.9)	2.8	(6.3)
Total recognised gains and losses	5.9	(5.0)	(14.3)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Six months ended 30 June 2004 (unaudited)

	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m
Profit/(loss) for the period	4.8	(7.8)	(7.4)
Recognition of unauthorised payments in prior years	5.0	-	-
Net effect of translation of currencies	(3.9)	2.8	(6.9)
Total recognised gains and losses	5.9	(5.0)	(14.3)
Goodwill associated with the sale and termination of operations	6.0	-	24.2
Issue of share capital (net of expenses)	44.6	-	-
Net increase/(reduction) in shareholders' funds	56.5	(5.0)	9.9
Opening shareholders' funds	4.4	(5.5)	(5.5)
Closing shareholders' funds	60.9	(10.5)	4.4

NOTES

1 Turnover and Operating profit

	Turnover			Operating profit		
	Six months ended	Six months ended	Year ended	Six months ended	Six months ended	Year ended
	30.6.04 £m	30.6.03 £m	31.12.03 £m	30.6.04 £m	30.6.03 £m	31.12.03 £m
● Analysis by classes of business						
Continuing operations						
Welding and cutting	303.4	283.7	577.1	23.3	14.0	31.8
Air and gas handling	108.0	115.6	256.9	4.0	0.4	6.3
Specialised engineering	4.2	4.3	8.4	0.1	(0.9)	(1.3)
	415.6	403.6	842.4	27.4	13.5	36.8
Central operations	-	-	-	(3.6)	(3.4)	(6.8)
Adjusted operating profit				23.8	10.1	30.0
Goodwill - Welding and cutting				(0.6)	(0.6)	(1.2)
				23.2	9.5	28.8
Discontinued operations						
Welding and cutting	-	-	-	0.6	1.8	3.5
Specialised engineering	-	16.6	28.8	-	3.5	6.6
	-	16.6	28.8	0.6	5.3	10.1
Continuing operations : operating exceptional items						
Air and gas handling - litigation and warranty costs				-	-	(0.4)
- restructuring costs				-	(4.0)	(4.1)
Welding and cutting - restructuring costs				(3.5)	(1.4)	(5.0)
Specialised engineering- restructuring costs				-	-	(0.4)
Central operations - recognition of unauthorised payments ¹				(9.2)	-	-
Discontinued operations : operating exceptional items						
Welding and cutting - restructuring costs				-	(0.4)	(0.9)
Turnover/Operating profit	415.6	420.2	871.2	11.1	9.0	28.1
<i>Continuing operations</i>						
Welding and cutting				19.2	12.0	25.6
Air and gas handling				4.0	(3.6)	1.8
Specialised engineering				0.1	(0.9)	(1.7)
Central operations				(12.8)	(3.4)	(6.8)
				10.5	4.1	18.9
<i>Discontinued operations</i>						
Welding and cutting				0.6	1.4	2.6
Specialised engineering				-	3.5	6.6
				0.6	4.9	9.2
Operating profit				11.1	9.0	28.1
Non - operating exceptional items				1.3	0.1	(1.0)
Net interest and financing costs				(6.3)	(13.6)	(23.3)
Profit on ordinary activities before taxation				6.1	(4.5)	3.8
● Analysis by geographical area of destination						
Continuing operations						
United Kingdom	21.6	27.3	52.1			
Rest of Europe	168.8	167.3	332.2			
North America	109.2	112.2	219.7			
Rest of World	116.0	96.8	238.4			
	415.6	403.6	842.4			
Discontinued operations	-	16.6	28.8			
	415.6	420.2	871.2			

¹ A series of unauthorised payments totalling £9.2 million has been identified following an investigation of a suspected fraud against the group by an employee. Included within the overall total are payments made in prior years amounting to £5.0 million. These prior year payments were expensed directly to reserves and therefore the recognition of these payments in the current year has no overall effect on shareholder's funds as these charges have been reinstated by way of a credit to reserves in the current year. No account has been taken of any amounts that may be recoverable from insurance or otherwise.

NOTES

1 Turnover and Operating profit (continued)

	Turnover			Operating profit		
	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m
● Analysis by geographical area of origin						
Continuing operations						
United Kingdom	36.7	46.9	97.2	(10.8)	(8.6)	(19.8)
Rest of Europe	197.0	189.0	393.7	14.0	11.0	28.5
North America	124.2	120.5	237.2	7.9	(0.9)	1.4
Rest of World	95.3	84.3	181.8	12.7	8.6	19.9
Inter-area eliminations	(37.6)	(37.1)	(67.5)	-	-	-
	415.6	403.6	842.4	23.8	10.1	30.0
Goodwill : Rest of Europe				(0.2)	(0.2)	(0.4)
: North America				(0.3)	(0.3)	(0.7)
: Rest of World				(0.1)	(0.1)	(0.1)
				23.2	9.5	28.8
Discontinued operations						
Rest of Europe	-	-	-	0.6	1.8	3.5
North America	-	16.6	28.8	-	3.5	6.6
	-	16.6	28.8	0.6	5.3	10.1
Continuing operations : operating exceptional items						
United Kingdom				(11.5)	(0.3)	(2.2)
Rest of Europe				(1.2)	(0.7)	(1.7)
North America				-	(4.1)	(5.6)
Rest of World				-	(0.3)	(0.4)
Discontinued operations : operating exceptional items						
Rest of Europe				-	(0.4)	(0.9)
Turnover/Operating profit	415.6	420.2	871.2	11.1	9.0	28.1
<i>Continuing operations</i>						
United Kingdom				(22.3)	(8.9)	(22.0)
Rest of Europe				12.6	10.1	26.4
North America				7.6	(5.3)	(4.9)
Rest of World				12.6	8.2	19.4
				10.5	4.1	18.9
<i>Discontinued operations</i>						
Rest of Europe	0.6			0.6	1.4	2.6
North America	-			-	3.5	6.6
				0.6	4.9	9.2
Operating profit				11.1	9.0	28.1
Non-operating exceptional items				1.3	0.1	(1.0)
Net interest and financing costs				(6.3)	(13.6)	(23.3)
Profit on ordinary activities before taxation				6.1	(4.5)	3.8

NOTES

2 Non-operating exceptional items

	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m
Continuing operations			
Profit/(loss) on sale or termination of operations	3.6	(0.2)	(0.3)
Profit on fixed asset disposals	-	0.3	5.1
Losses on fixed asset disposals	-	-	(0.4)
Net profit on fixed asset disposals	-	0.3	4.7
	<u>3.6</u>	<u>0.1</u>	<u>4.4</u>
Discontinued operations			
Profit on sale of operations before reinstatement of goodwill	5.4	-	18.8
Associated goodwill thereon	(6.0)	-	(20.2)
Loss on sale of operations	(0.6)	-	(1.4)
Goodwill provision on discontinuing operation	-	-	(4.0)
Additional costs in respect of disposals in prior years	(1.7)	-	-
	<u>(2.3)</u>	<u>-</u>	<u>(5.4)</u>
	<u>1.3</u>	<u>0.1</u>	<u>(1.0)</u>

No tax is attributable to the non-operating exceptional items in the six months to 30 June 2004. However, in the six months to 30 June 2003 there was a tax charge of £0.1 million and in the twelve months to 31 December 2003 there was a tax credit of £0.2 million.

There is no minority interest in the non-operating exceptional items of any period.

3 Tax charge/(credit)

	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m
United Kingdom	0.2	-	(1.9)
Overseas	4.4	1.4	6.5
Associated undertakings	0.8	0.8	2.3
Tax on profit/(loss) on ordinary activities excluding exceptional tax credit	5.4	2.2	6.9
Exceptional tax credit	(6.6)	-	-
	<u>(1.2)</u>	<u>2.2</u>	<u>6.9</u>

The exceptional tax credit arises from the release of a tax accrual no longer required following the settlement of certain outstanding tax issues with local tax authorities.

4 Earnings per share

On 1 April 2004 the number of shares in issue increased from 94,149,021 to 150,636,773 following the Rights Issue. Accordingly the earnings per share calculations for prior periods have been restated using the average number of shares in issue (as adjusted for the Rights Issue) of 119,087,299.

Basic earnings per share is calculated on an average of 134,862,036 shares (2003 restated 119,087,299 shares).

Adjusted earnings per share is also shown calculated by reference to earnings before the amortisation of goodwill and exceptional items, as adjusted for attributable tax and minority interests. The directors consider that this gives a useful additional indication of underlying performance.

NOTES

5 Cash flow from operating activities

	Six months ended 30.6.04 £m	Six months ended 30.6.03 £m	Year ended 31.12.03 £m
Operating profit - excluding associated undertakings	8.3	5.6	22.2
Depreciation and amortisation charges	8.4	10.4	19.9
Loss/(profit) on sale of fixed assets	0.1	(0.1)	(0.3)
Working capital	(3.4)	7.1	24.2
Other movements in provisions	(2.0)	1.2	(1.7)
Exceptional items			
Unauthorised payments - amount recognised in period	9.2	-	-
- amount paid in period	(4.2)	-	-
	5.0	-	-
Restructuring (excluding associated undertakings) - amount charged in period	3.5	5.4	9.5
- amount paid in period	(7.1)	(8.5)	(19.2)
Litigation and warranty - amount charged in period	-	-	0.4
- amount paid in period	-	-	(0.1)
	<u>12.8</u>	<u>21.1</u>	<u>54.9</u>

6 Analysis of net debt movements

	Opening balance £m	Cash flow £m	Exchange adjustment £m	Closing Balance £m
Cash in hand and at bank	37.1	(5.0)	(1.0)	31.1
Short term loans and overdrafts	(28.9)	22.3	1.1	(5.5)
Net cash	8.2	17.3	0.1	25.6
Liquid resources - cash on deposit	22.8	(20.2)	(0.4)	2.2
Other short term debt	(42.1)	39.9	0.6	(1.6)
Long term debt	(122.3)	14.3	2.1	(105.9)
Finance leases	(3.4)	0.5	0.1	(2.8)
Total	<u>(136.8)</u>	<u>51.8</u>	<u>2.5</u>	<u>(82.5)</u>

7 Interim accounts

The information shown in respect of the year ended 31 December 2003 is extracted from the statutory accounts of the Company 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.

The paper used for this report is produced only using wood pulp originating from managed sustainable plantations. The pulp is chlorine-free and purchased only from suppliers which comply with European ISO standards. The paper is also acid-free, recyclable and bio-degradable.

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