

# CHARTER

**Interim Results 2007**





**CHARTER**

# **David Gawler**

**Chairman**

## **Chairman Designate**



**Lars Emilson**



**Chairman**

- Introduction and overview

**Finance Director**

- Detailed financial results

**CEO**

- Operating and financial results of Esab and Howden

**CEO**

- Prospects

**Executive Directors**

- Q & A

# Overview

- Excellent interim results
- Adjusted EPS of **41.6p** ( **+26%** over 1H 2006)
- Further growth in Sales and Operating Profits in both businesses
- Continued improvement in Operating Margins
  - ESAB **13.7%** ( 12.2%: 1H 2006)
  - Howden **12.2%** ( 10.4%: 1H 2006)
- Net cash of **£60 million** ( £ 43.1 m at 31.12.06)
- Equity shareholders' funds **£347.7 million** ( £246.1 m at 31.12.06)

Note: 2006 figures are restated



**CHARTER**

# **Robert Careless**

**Finance Director**

# Interim results (£m)

	<b>Six months to 30.6.07</b>	<b>Six months to 30.6.06</b>	
<b>Revenue</b>	<b>691.5</b>	624.7	+ 11%
<b>Operating profit</b> <i>(includes profit on sale of property of £4.8 million in the six months to 30.6.06)</i>	<b>85.4</b>	71.0	+ 20%
<b>Profit before tax</b>	<b>92.1</b>	69.6	+ 32%
<b>Profit after tax</b>	<b>75.4</b>	59.9	+ 26%
<b>Profit attributable to equity shareholders</b>	<b>72.2</b>	56.9	+ 27%
<b>Net cash at period end</b>	<b>60.0</b>	36.2	

Note: 2006 figures are restated

# Earnings per share (pence)

	<u>Six months to 30.6.07</u>	<u>Six months to 30.6.06</u>	
<b>Earnings per share - basic</b>	<b>43.3</b>	34.4	+ 26%
Items not related to underlying performance:			
Amortisation and impairment of acquired intangibles and goodwill	<b>0.1</b>	-	
Exceptional tax credit	-	(3.2)	
(Gains)/losses on retranslation of intercompany loan balances <sub>1</sub>	<b>(1.8)</b>	1.8	
<b>Earnings per share - adjusted</b>	<b>41.6</b>	33.0	+ 26%

<sub>1</sub> including tax

Note: 2006 figures are restated

# Restatement of 2006 results (£m)

	Six months to 30.6.06	Year ended 31.12.06
ESAB	1.5	3.2
Howden	0.6	1.0
Central operations	(1.4)	(2.8)
Operating profit	0.7	1.4
Financing credit	-	-
Profit before tax and for period	<u>0.7</u>	<u>1.4</u>
Adjusted earnings per share	<u>0.5 p</u>	<u>0.9 p</u>
<b><u>Adjusted earnings per share:</u></b>		
<b>As reported</b>	<b>32.5 p</b>	<b>67.2 p</b>
<b>As restated</b>	<b>33.0 p</b>	<b>68.1 p</b>

All 2006 figures within this presentation have been restated

# Restatement of 2006 results – equity shareholders' funds (£m)

	<u>30.6.06</u>	<u>31.12.06</u>
As reported	189.1	250.7
Retirement benefit assets recognised	14.6	15.3
Retirement benefit liabilities recognised	(15.6)	(15.5)
Deferred income tax assets	0.7	0.6
Deferred income tax liabilities	(4.6)	(5.0)
As restated	<u>184.2</u>	<u>246.1</u>
Decrease in equity shareholders' funds	<u>(4.9)</u>	<u>(4.6)</u>

All 2006 figures within this presentation have been restated

# Consolidated cash flow (£m)

	<b>Six months to 30.6.07</b>	<b>Six months to 30.6.06</b>	<b>Year ended 31.12.06</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Cash generated from operations	<b>48.5</b>	58.9	106.8
Capital expenditure/acquisitions less disposals	<b>(12.0)</b>	(6.9)	(26.7)
Financing/tax/dividends	<b>(19.4)</b>	(10.6)	(33.6)
Share issues	-	0.3	0.6
Other	<b>(0.2)</b>	1.0	2.5
<b>Net cash inflow</b>	<b>16.9</b>	42.7	49.6
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net cash at period end</b>	<b>60.0</b>	36.2	43.1
	<u>                    </u>	<u>                    </u>	<u>                    </u>

## Cash generated from operations (£m)

	<b>Six months to 30.6.07</b>	<b>Six months to 30.6.06</b>	<b>12 months to 31.12.06</b>
Operating profit	<b>85.4</b>	71.0	144.6
Depreciation and amortisation	<b>7.6</b>	7.6	15.0
Increase in inventories	<b>(25.1)</b>	(13.6)	(19.9)
Increase in receivables	<b>(72.9)</b>	(40.6)	(58.2)
Increase in payables	<b>61.0</b>	25.5	29.5
Net working capital increase	<b>(37.0)</b>	(28.7)	(48.6)
Movement in retirement benefit obligations	<b>(8.5)</b>	(5.0)	(15.7)
Movement in provisions	<b>1.0</b>	16.0	14.3
Other items	<b>-</b>	(2.0)	(2.8)
<b>Cash generated from operations</b>	<b>48.5</b>	<b>58.9</b>	<b>106.8</b>

# Capital expenditure, acquisitions and disposals (£m)

	<b>Six months to 30.6.07</b>	<b>Six months to 30.6.06</b>	<b>12 months to 31.12.06</b>
Capital expenditure <sup>1</sup>	<b>17.0</b>	12.4	26.9
Repayment of loans to associates	-	-	(1.5)
Acquisitions	<b>0.5</b>	5.8	13.5
	<b>17.5</b>	18.2	38.9
Disposals	<b>(5.5)</b>	(11.3)	(12.2)
Capital expenditure/acquisitions less disposals	<b>12.0</b>	6.9	26.7
<i>Depreciation and amortisation</i>	<b>7.6</b>	7.6	15.0

<sup>1</sup> including capitalised development costs

## Tax (£m)

	<b>Six months to 30.6.07</b>	Year ended 31.12.06
Tax on profit on ordinary activities (before the items set out below)	<b>(16.4)</b>	(27.1)
<i>Effective adjusted tax rate</i> <sup>1</sup>	<b>19.0%</b>	19.4%
Exceptional tax credit	-	10.5
Tax on gains/(losses) on intercompany loan balances	<b>(0.3)</b>	(0.3)
Tax on profit on ordinary activities	<b>(16.7)</b>	(16.9)

<sup>1</sup> *Before amortisation and impairment of acquired intangibles and goodwill, exceptional items, gains/(losses) on retranslation of intercompany loan balances and share of post tax profits of associates*

# Financing credit/(charge) (£m)

	<b>Six months to 30.6.07</b>	<b>Six months to 30.6.06</b>	<b>Year ended 31.12.06</b>
Retirement benefit obligations			
- interest on scheme liabilities	<b>(16.7)</b>	(16.2)	(32.1)
- return on scheme assets	<b>17.9</b>	16.2	32.1
	<b>1.2</b>	-	-
Interest payable (including fees)	<b>(1.7)</b>	(4.1)	(6.8)
Interest income	<b>1.8</b>	2.7	4.7
"Make whole" payment to US note holders	-	-	(2.1)
Unwinding of discount on provisions	<b>(0.3)</b>	(0.1)	(0.4)
	<b>(0.2)</b>	(1.5)	(4.6)
Gains/(losses) on retranslation of intercompany loans	<b>3.3</b>	(2.6)	0.2
Net financing credit/(charge)	<b>4.3</b>	(4.1)	(4.4)

Notes: 2006 figures are restated

# Reconciliation of post-retirement benefit obligations (£m)

At 31.12.06	- as reported		(108.6)
	- assets recognised	15.3	
	- liabilities recognised	<u>(15.5)</u>	<u>(0.2)</u>
	- as restated		(108.8)
Charge to operating profit			(1.4)
Credit to financing costs			1.2
Net actuarial gain			32.7
Contributions paid			9.9
Acquisitions			(0.2)
Exchange adjustments			1.5
<b>At 30.6.07</b>			<b><u>(65.1)</u></b>

## Total equity (£m)

	<b>As at 30.6.07</b>	As at 31.12.06	As at 30.6.06
Equity shareholders' funds	<b>347.7</b>	246.1	184.2
Minority interests	<b>12.4</b>	10.3	14.2
	<b>360.1</b>	256.4	198.4

Notes: 2006 figures are restated



**CHARTER**

**Michael Foster**

**Chief Executive**

# Summary of results (£m)

	<u>Six months to 30.6.07</u>		<u>Six months to 30.6.06</u>
ESAB	464.3	+ 12%	414.8
Howden	227.2	+ 8%	209.9
<b>Sales</b>	<u>691.5</u>	+ 11%	<u>624.7</u>
ESAB	63.5	+ 26%	50.4
Howden (excluding profit on sale of a property)	27.7	+ 26%	21.9
Howden - profit on sale of a property	-		4.8
Central operations	(5.8)		(6.1)
<b>Operating profit</b>	<u>85.4</u>	+ 20%	<u>71.0</u>
<b>Share of post tax profits of associates</b>	<u>2.4</u>		<u>2.7</u>
<b>Operating margins</b>			
ESAB	13.7%		12.2%
Howden (excluding profit on sale of a property)	12.2%		10.4%

Note: 2006 figures are restated

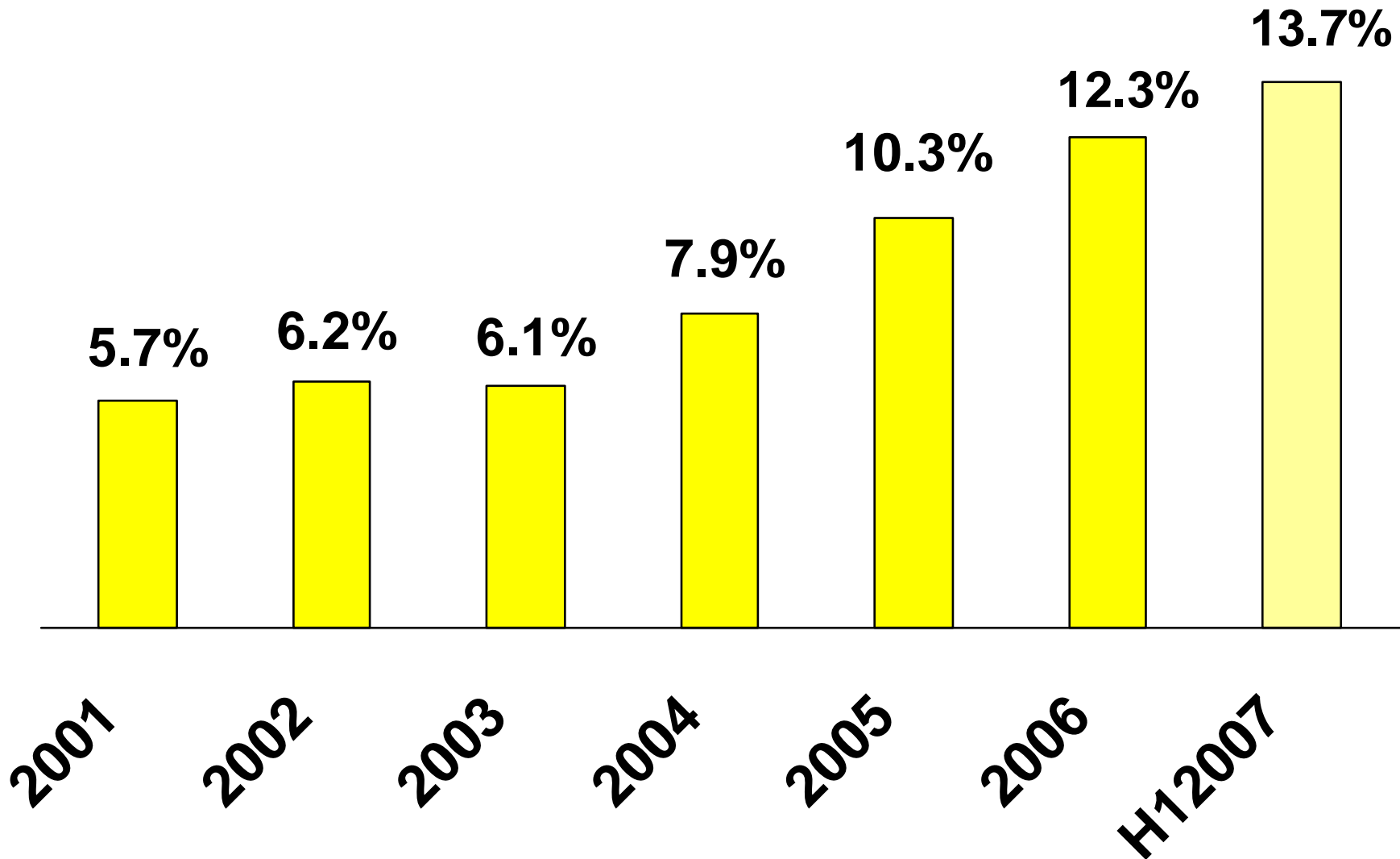
- Continuation of strong performance

- Sales: £464.3 million +12 per cent
- Operating profit: £63.5 million +26 per cent
- Operating margins: 13.7 per cent +150 basis points

Note: 2006 results restated

	<u>Six months to 30.6.07</u>	<u>Six months to 30.6.06</u>	<u>Year ended 31.12.06</u>
Welding	396.9 +12.6%	352.6	698.6
Cutting and automation	67.4 +8.4%	62.2	129.8
<b>Revenue</b>	<b>464.3 +11.9%</b>	<b>414.8</b>	<b>828.4</b>
Welding	60.2 +34.7%	44.7	91.4
Cutting and automation	3.3 -42.1%	5.7	10.7
<b>Operating profit</b>	<b>63.5 +26.0%</b>	<b>50.4</b>	<b>102.1</b>
Share of profits of associates (post tax)	<b>2.3</b>	<b>2.1</b>	<b>4.3</b>
Operating margins:			
- Welding	15.2%	12.7%	13.1%
- Cutting and automation	4.9%	9.2%	8.2%
- Overall	13.7%	12.2%	12.3%

Note: 2006 results restated



*Figures for 2001 to 2003 are extracted from annual accounts prepared under UK GAAP. Subsequent periods are prepared under IFRS.*

Note: 2006 results restated

	<b>First half 2007</b>		<b>Second half 2006</b>	<b>First half 2006</b>
Europe	<b>233.2</b>	<b>50.2%</b>	201.8	197.1
North America	<b>107.9</b>	<b>23.2%</b>	100.2	110.0
South America	<b>62.0</b>	<b>13.4%</b>	54.5	51.7
China	<b>9.9</b>	<b>2.1%</b>	12.1	8.8
Rest of World	<b>51.3</b>	<b>11.1%</b>	45.0	47.2
<b>Total sales</b>	<b>464.3</b>	<b>100.0%</b>	413.6	414.8

Sales growth:

First half 2007 over first half 2006	12 per cent
First half 2007 over second half 2006	12 per cent

- Europe (sales up 18 per cent over first half of 2006)
  - Strong demand particularly from shipbuilding, energy and pipeline industries
  - Growth in core Western European markets underpinned performance
  - European emerging markets, especially Russia, Central and Southern Europe, performed particularly well
  
- North America (sales down 2 per cent)
  - Sales increased by 9 per cent in US dollar terms
  - End user markets remain strong
  - Recovery from Hanover strike

- South America (sales up 20 per cent)
  - Strong volume growth, partly offset by currency factors
- China (sales up 13 per cent)
  - Further progress made on establishing ESAB in China
- Rest of World (sales up 9 per cent)
  - Results ahead in Asia Pacific, with strong shipbuilding and energy sectors in Singapore and Malaysia
  - Strong results in Middle East and South Africa, due to activity in construction and energy sectors

- Consumables manufacturing capacity:
  - Achieved forecast increase of 20 per cent (90,000 tonnes) between June 2006 and June 2007
  - An additional 10 per cent will be added around end of Q1 2008, mainly in China
  
- Continuing improvement in cost efficiencies:
  - Maintaining high plant utilisation
  - Roll-out of Lean-manufacturing
  - Locate new capacities in low cost areas
  
- Development standard equipment
- Cutting/Automation

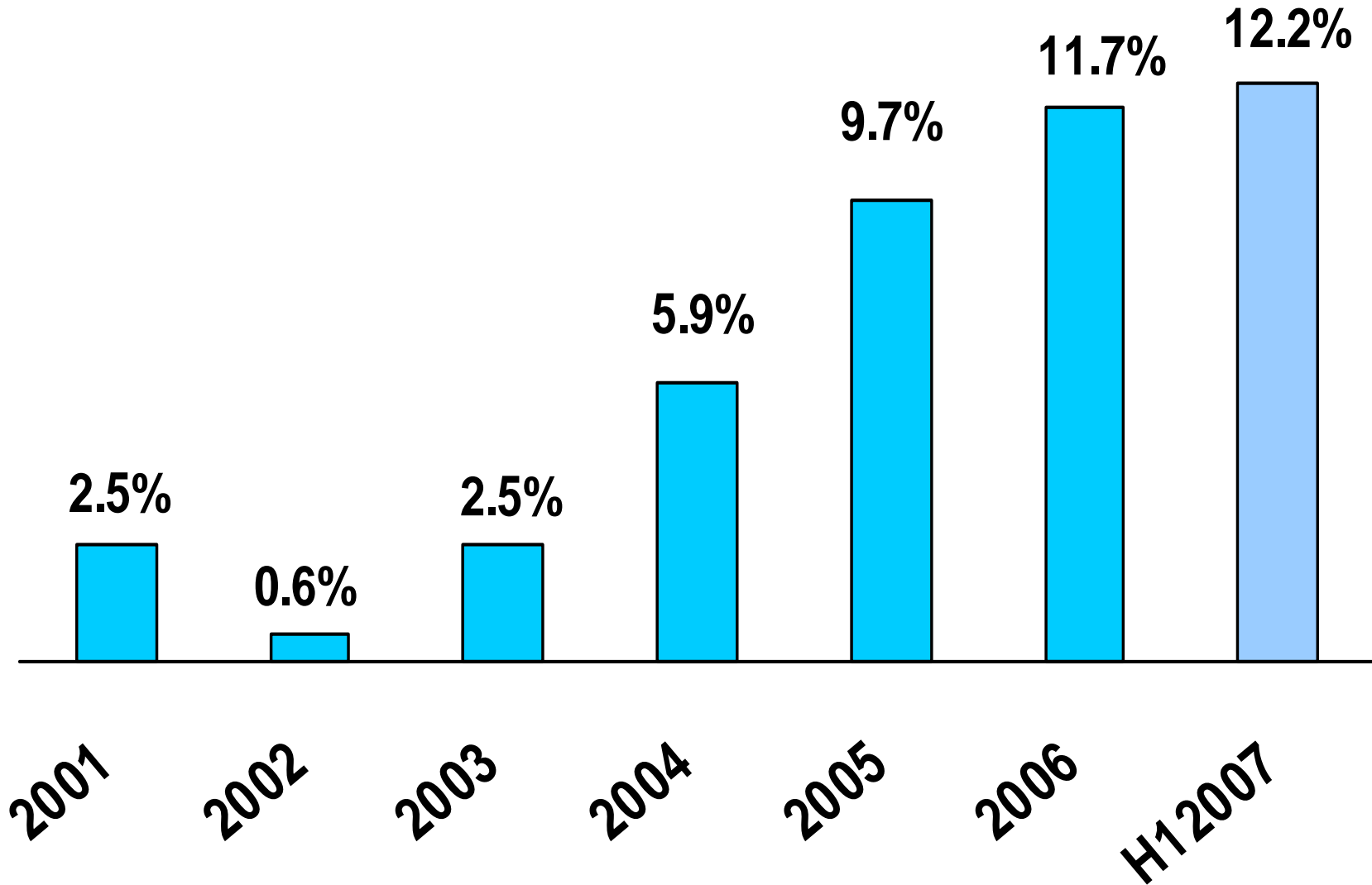
Charter has three main criteria for making acquisition

- To strength market position
  - ESAB acquired a further 18% in ESAB India for a consideration of £17 million
  - ESAB acquired the welding business of Air Liquide in Argentina in July for £4 million
  
- To enter new markets
  - ESAB exchanged contracts to acquire Electrodi AD Ihtiman, the market leader in welding electrodes in Bulgaria expected consideration of £5m
  
- To improve the technological base of the company
  - ESAB completed the acquisition of ATAS a technology acquisition to enhance the cutting business in July for £2 million

- Continuation of strong performance
  - Sales: £227.2 million + 8 per cent
  - Operating profit: £27.7 million + 26 per cent
  - Operating margins: 12.2 per cent + 180 basis points
  - Order book: £425 million up £64 million
- Aftermarket revenue £54.7 million, up 2.1 per cent after an adverse exchange impact of 7 per cent; gross margins improved

Note: 2006 results restated

	<b>Six months to 30.6.07</b>	Six months to 30.6.06	Year ended 31.12.06
<b>Revenue</b>	<b><u>227.2</u></b>	<u>209.9</u>	<u>429.5</u>
Operating profit – excluding profit on a property sale	<b><u>27.7</u></b>	<u>21.9</u>	<u>50.3</u>
Operating profit – including profit on a property sale	<b><u>27.7</u></b>	<u>26.7</u>	<u>55.1</u>
Share of profits of associates (post tax)	<b><u>0.1</u></b>	<u>0.6</u>	<u>1.5</u>
Operating margin - excluding profit on a property sale	<b>12.2%</b>	10.4%	11.7%



Figures for 2001 to 2003 are extracted from annual accounts prepared under UK GAAP. Subsequent periods are prepared under IFRS.

Note: 2006 results restated

	<b>First half 2007</b>		<b>Second half 2006</b>	<b>First half 2006</b>
Europe	<b>66.6</b>	<b>29.3%</b>	50.3	50.2
China	<b>58.7</b>	<b>25.8%</b>	69.1	79.8
North America	<b>50.2</b>	<b>22.1%</b>	49.9	37.7
South America	<b>6.8</b>	<b>3.0%</b>	6.8	5.9
Rest of World	<b>44.9</b>	<b>19.8%</b>	43.5	36.3
<b>Total</b>	<b>227.2</b>	<b>100.0%</b>	219.6	209.9

Sales growth:

First half 2007 over first half 2006

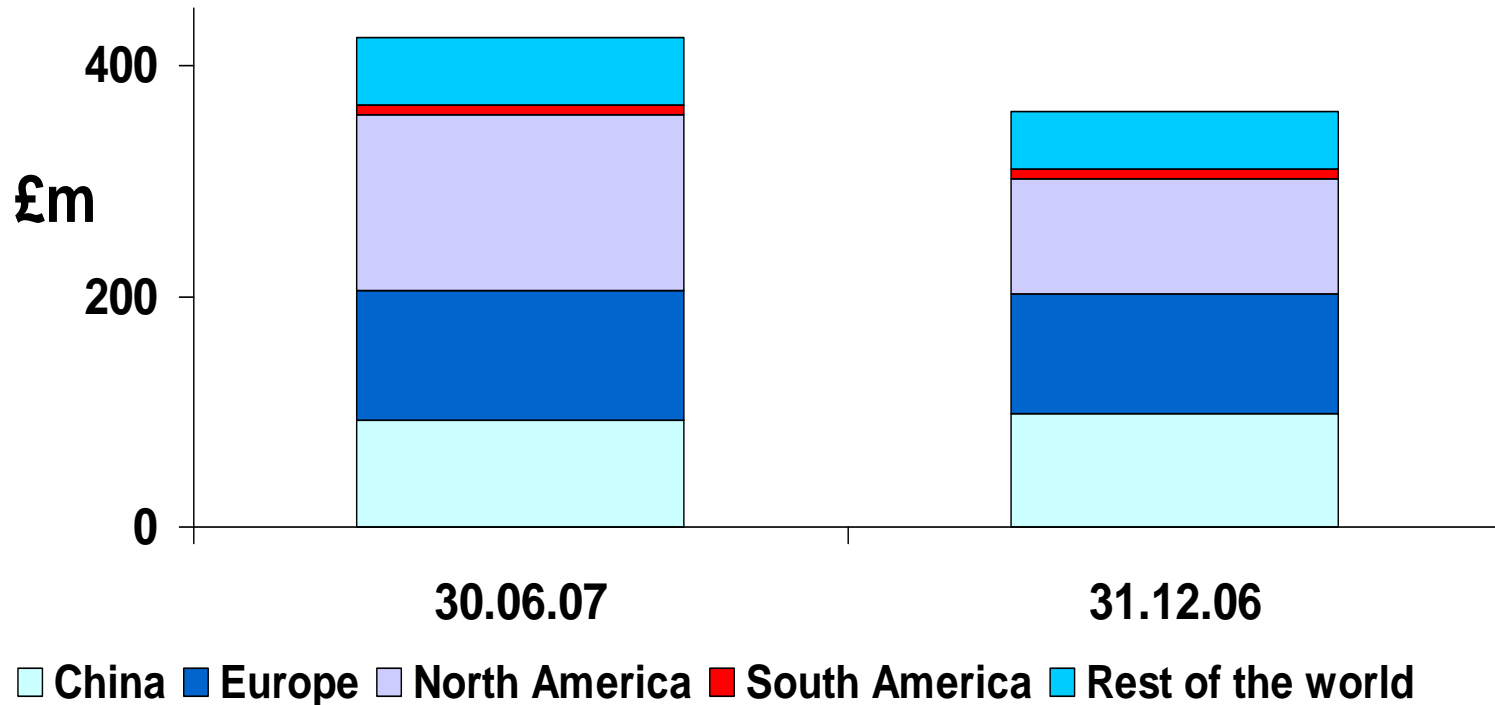
8 per cent

First half 2007 over second half 2006

3 per cent

# Howden: order book progression (£m)

	<u>Six months to 30.6.07</u>	<u>Six months to 31.12.06</u>
Order book at period start	361	360
Orders booked	291	221
Sales	(227)	(220)
Order book at period end	<u>425</u>	<u>361</u>



- Europe (sales up 33 per cent)
  - Strong demand for new build and aftermarket
  - Sales further boosted by the acquisition of Howden Compressors Ltd
- China (sales down 26 per cent)
  - Sales levels down due to anticipated slowdown in demand for new generating capacity
- North America (sales up 33 per cent)
  - Strong markets for retrofits to reduce sulphur dioxide emissions
  - Increase in aftermarket sales

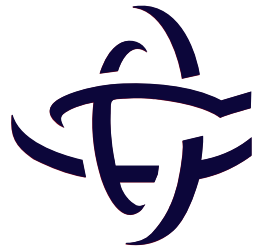
- South America (sales up 15 per cent)
  - Sales and order book grew due to increased demand from iron and steel industries
- Rest of World (sales up 24 per cent)
  - Improved results in South Africa, reflecting return-to-service in electricity industry and strong mining sector
  - Australian mining sector strong, but overall Australia remains a relatively small market for Howden

- North America:
  - Likely to be the strongest area for at least the next 12 months
  - Flue gas desulphurisation equipment and new generating capacity
  - Demand will be met from factories in North America and Europe
  
- Europe:
  - Expect significant development of new coal fired generating capacity
  
- Petrochemical:
  - Important in many geographic areas
  - Howden's presence developed via the acquisition of Howden Compressors

- China
  - New compressor factory opened and launch orders won
  - Opportunities in new applications, eg waste water treatment and petrochemical
  - Aftermarket developing strongly with retrofit contracts
  - Signs that replacement of older power generating plant is accelerating, aided by environmental pressures
  
- Other areas:
  - India/Russia: presence established
  - South Africa: outstanding 50 per cent in Bateman Howden subsidiary, a gas cleaning systems company acquired in July.

# Prospects

- Going forward, ESAB will continue to benefit from recent additions to its capacity and on-going programmes to increase production efficiencies and to improve technology.
- Howden expects increasing sales to its customers in North America and Europe, which will compensate for the slow down in sales to China.
- ESAB and Howden are well placed to achieve further progress and the Board views Charter's prospects with confidence



# CHARTER

**Interim Results 2007**