CHLORIDE

Interim report **2002**

power protection

total solutions

wide reach

leading technology

Contents

CHLORIDE

Through rigorous focus on innovation, flexibility and reliability, Chloride is the supplier of choice for power protection solutions. Its strengths derive from applying innovative technologies and industry-leading customer service to the protection of critical applications worldwide.

power protection

Highlights

Interim results for the six months ended 30 September 2002

- Targeted improvements have been made in four key business areas:
  - improvement in operational gearing through cost reduction and increase in product margins
  - growth in our higher-margin service business
  - increased investment in product and solutions innovation
  - generation of increased cash flow from operating activities

  As a result profitability rose despite continued difficult trading conditions
- Operating profit before goodwill amortisation and exceptional items increased by 36% to £3.0 million (2001: £2.2 million), on sales down 8% at £67.6 million (2001: £73.6 million)
- Adjusted EPS up 29% at 0.81p (2001: 0.63p)
- Cash flow from operating activities (after restructuring costs) was a healthy £4.0 million inflow against an outflow of £3.9 million in the same period last year
- Strong balance sheet at the period end with shareholders' funds of £64.6 million and net debt of £9.2 million
- Interim dividend maintained at 0.80p per share, demonstrating the Board's confidence in future performance
- Power protection remains a long-term growth market driven by the demand for business continuity

Chairman's statement

"We enter the second half with a strong product and solutions offering, together with a lower cost base, a better order book and an improving order trend when compared with the start of the year."

Introduction

Over the first half year we achieved our objectives in four key aspects of the business:

– improvement of operational gearing through cost reduction and increase in product margins;

– growth in our higher-margin service business;

– further investment in product and solutions innovation; and

– generation of increased cash flow from operating activities.

As a result first-half profitability rose despite difficult trading conditions. These had an adverse impact on sales, with an absence of major projects and no signs of sustained recovery in many of our key markets.

Results

Operating profit before goodwill amortisation and exceptional items increased by 36% to £3.0 million (2001: £2.2 million) on sales in the first half of the year of £67.6 million (2001: £73.6 million), 8% down on the prior year. This improved operating profit was achieved through vigorous focus on costs and product margins combined with continued growth in higher-margin service revenues.

Profit before tax and goodwill amortisation and exceptional items was 31% up at £2.6 million (2001: £2.0 million). Adjusted EPS was also up by 29% to 0.81p (2001: 0.63p).

Cash flow from operating activities was a healthy £4.0 million inflow against a cash outflow of £3.9 million in the same period last year. The balance sheet remained strong with shareholders' funds of £64.6 million and net debt of £9.2 million.

Chairman's statement *continued*

Dividend

The Board is confident that the Company has good prospects in its global markets for power protection solutions, which are forecast to return to sustained growth over the longer term. The Board is therefore pleased to announce payment of an unchanged interim dividend of 0.80p (2001: 0.80p).

Payment will be made on 3 December 2002 to shareholders on the register at the close of business on 1 November 2002.

Trading environment

We experienced difficult trading conditions in all of our geographic and product markets, which adversely affected sales particularly in the telecommunications, technology, petrochemicals and manufacturing sectors. However, there were some positive developments, with sales growth in the more robust transportation, construction and retail sectors where we secured a number of important contracts.

The strategic development of service as a key part of our solutions offering produced encouraging results with an increase of 15% in this higher-margin business.

Restructuring

In the first half of the year we completed on schedule and on budget the restructuring actions begun in the previous year. The manufacturing facility in Thailand was closed in August 2002, following which we completed the outsourcing of production of small UPS products to a high-quality third party manufacturer in the Far East.

The transfer of production from Germany to Italy is well advanced and we expect the restructuring of the UPS Systems business to be complete by March 2003, bringing further margin and operational benefits.

Innovation

We continue to give priority to investment in technology to maintain the competitive advantage of our high-quality, innovative products and solutions. Our European technology centres are focused on extending a common technology platform across a new range of UPS and Industrial products including enhanced remote monitoring and diagnostic capability. The resulting improvements in operating efficiency, product performance and flexibility will provide significant benefits for our customers in the future.

An important initiative in the USA was the formation of a UPS technology centre to strengthen our development capability for the US market. This will benefit our product and solutions offering in 2003.

Outlook

At this stage there is no evidence of any immediate recovery in the overall market. However, we enter the second half with a lower cost base, a stronger order book and an improving order trend when compared with the start of the year. These positive factors together with increasing service revenues lead us to expect improved performance in the second half. In addition we have the financial strength to take advantage of business development opportunities as they are identified.

Business continuity remains an absolute requirement of our customers. The need to protect mission-critical equipment and the degrading power quality in many countries are the key market drivers which will reassert themselves over the longer term.

The business is already benefiting from its lower cost base and better margins and can address a wide range of market opportunities with its comprehensive products and solutions offerings. We are in an excellent position to leverage these benefits as market conditions improve.

Norman Broadhurst
24 October 2002

Summarised consolidated profit and loss account

(unaudited)

Year to 31 March 2002 £000		Six months to 30 September 2002 £000	Six months to 30 September 2001 £000
148,327	Turnover	67,602	73,610
	Operating profit before goodwill		
5,040	amortisation and exceptional items	3,005	2,205
	Exceptional items:		
(6,800)	restructuring costs	–	(3,940)
(12,827)	goodwill impairment	–	(1,120)
(3,029)	Goodwill amortisation	(1,182)	(1,464)
(17,616)	Operating profit/(loss)	1,823	(4,319)
(559)	Net interest payable	(388)	(200)
(18,175)	Profit/(loss) on ordinary activities before taxation	1,435	(4,519)
(862)	Tax on profit/(loss) on ordinary activities	(706)	(361)
(19,037)	Profit/(loss) on ordinary activities after taxation	729	(4,880)
(33)	Minority interests	–	–
(19,070)	Profit/(loss) for the period	729	(4,880)
(3,772)	Dividends	(1,883)	(1,905)
(22,842)	Loss retained	(1,154)	(6,785)
	Earnings per share		
1.41p	Adjusted	0.81p	0.63p
(8.05)p	Basic	0.31p	(2.06)p
(8.05)p	Diluted	0.31p	(2.06)p

Summarised consolidated balance sheet

(unaudited)

At 31 March 2002 £000		At 30 September 2002 £000	At 30 September 2001 £000
	Fixed assets		
41,926	Goodwill	39,507	50,934
13,925	Tangible assets	13,226	14,583
10,624	Investments	10,583	9,550
66,475		63,316	75,067
	Current assets		
29,761	Stocks	27,253	31,574
48,899	Debtors	43,190	46,371
23,929	Cash at bank and in hand	22,242	29,741
102,589		92,685	107,686
73,031	Creditors: amounts falling due within one year	62,250	61,574
29,558	Net current assets	30,435	46,112
96,033	Total assets less current liabilities	93,751	121,179
16,384	Creditors: amounts falling due after more than one year	16,040	26,096
12,950	Provisions for liabilities and charges	13,145	13,446
66,699	Net assets	64,566	81,637
66,651	Equity shareholders' funds	64,518	81,637
48	Minority interests	48	–
66,699	Total capital employed	64,566	81,637

Summarised consolidated cash flow statement

(unaudited)

Year to 31 March 2002 £000		Six months to 30 September 2002 £000	Six months to 30 September 2001 £000
1,779	Cash inflow/(outflow) from operating activities	4,027	(3,864)
(616)	Returns on investments and servicing of finance	(388)	(200)
(2,692)	Taxation	(780)	(1,173)
(2,802)	Capital expenditure	(919)	(933)
(4,992)	Acquisitions and disposals	–	(677)
(3,779)	Equity dividends paid	(1,892)	(1,897)
(13,102)	Cash inflow/(outflow) before use of liquid resources and financing	48	(8,744)
	Management of liquid resources		
21,522	Net (increase)/decrease in short-term deposits	(1,665)	7,678
	Financing		
407	Net cash inflow from financing	120	1,307
8,827	(Decrease)/increase in cash	(1,497)	241

Statement of total recognised gains and losses
(unaudited)

Year to 31 March 2002 £000		Six months to 30 September 2002 £000	Six months to 30 September 2001 £000
(19,070)	Profit/(loss) for the period	729	(4,880)
(291)	Currency translation differences on foreign currency net investments	(1,021)	(1,315)
(19,361)	Total recognised losses for the period	(292)	(6,195)

Reconciliation of movements in equity shareholders' funds
(unaudited)

Year to 31 March 2002 £000		Six months to 30 September 2002 £000	Six months to 30 September 2001 £000
(19,070)	Profit/(loss) for the period	729	(4,880)
(3,772)	Dividends	(1,883)	(1,905)
(291)	Exchange adjustments	(1,021)	(1,315)
61	New share capital issued	42	32
18	Share premium thereon	–	–
(23,054)	Net decrease in equity shareholders' funds	(2,133)	(8,068)
89,705	Opening equity shareholders' funds	66,651	89,705
66,651	Closing equity shareholders' funds	64,518	81,637

Notes to the interim financial statements

(unaudited)

1 Segmental information

Year to 31 March 2002 Turnover £000	Year to 31 March 2002 Profit/(loss) before interest £000		Six months to 30 September 2002 Turnover £000	Six months to 30 September 2002 Profit/(loss) before interest £000	Six months to 30 September 2001 Turnover £000	Six months to 30 September 2001 Profit/(loss) before interest £000
117,627	4,775	Europe	54,386	2,875	57,723	2,294
21,968	320	Americas	10,485	125	11,296	79
8,732	(55)	Asia and Australasia	2,731	5	4,591	(168)
148,327	5,040	Total	67,602	3,005	73,610	2,205
–	(6,800)	Restructuring costs	–	–	–	(3,940)
–	(12,827)	Goodwill impairment	–	–	–	(1,120)
–	(3,029)	Goodwill amortisation	–	(1,182)	–	(1,464)
148,327	(17,616)		67,602	1,823	73,610	(4,319)

2 Preparation of the interim financial statements

The interim financial statements, which are unaudited, have been prepared on the basis of the accounting policies set out in the 2002 annual report.

The comparative figures for the year ended 31 March 2002 do not comprise full financial statements and have been extracted from the 2002 statutory accounts, which have been filed with the Registrar of Companies. The auditors' opinion on those accounts was unqualified and did not include any statement under section 237 of the Companies Act 1985.

3 Exceptional items

Exceptional costs in the prior year comprise restructuring costs of £6.8 million in respect of the programme to reduce worldwide costs and a goodwill impairment charge of £12.8 million.

4 Taxation

The tax charge provided at the half year is based on the estimated effective tax rate for each undertaking in the Group applicable to the year to 31 March 2003 as applied to the taxable profits for the period.

5 Earnings per share

Year to 31 March 2002 Million		Six months to 30 September 2002 Million	Six months to 30 September 2001 Million
	Weighted average number of 25p ordinary shares		
236.9	– basic and adjusted	236.7	237.4
–	Adjustment for shares under option	–	–
	Weighted average number of 25p ordinary shares		
236.9	– diluted	236.7	237.4
£000		£000	£000
	Profit/(loss) for basic and diluted		
(19,070)	earnings per share calculations	729	(4,880)
6,800	Restructuring costs	–	3,940
12,827	Goodwill impairment	–	1,120
(256)	Tax on exceptional items	–	(140)
3,029	Goodwill amortisation	1,182	1,464
3,330	Profit for adjusted earnings per share calculation	1,911	1,504
1.41p	Earnings per share – adjusted	0.81p	0.63p
(8.05)p	– basic	0.31p	(2.06)p
(8.05)p	– diluted	0.31p	(2.06)p

The weighted average number of shares excludes shares held by the Chloride Group Employee Benefit Trust and the Chloride Quest.

The directors consider that the adjusted earnings per share figures more accurately reflect the underlying performance of the business.

Notes to the interim financial statements *continued*

6 Fixed assets

Investments comprises £10.6 million in respect of a holding at 30 September 2002 of 11.2 million of the Company's ordinary shares (2001: £9.6 million in respect of 9.5 million shares) by the Chloride Group Employee Benefit Trust, which had a market value in excess of £3.1 million (2001: £5.4 million). The Trust holds these shares to meet long-term commitments in relation to employee share option plans.

7 Cash flow statement supporting information

a) Reconciliation of net cash flow to movement in net debt

Year to 31 March 2002 £000		Six months to 30 September 2002 £000	Six months to 30 September 2001 £000
8,827	(Decrease)/increase in cash	(1,497)	241
(328)	Net cash inflow from movement in debt and lease financing	(120)	(1,182)
(21,522)	Cash outflow/(inflow) from increase/(decrease) in liquid resources	1,665	(7,678)
(249)	Debt and finance leases acquired with subsidiary	–	–
264	Exchange rate translation differences	(1,123)	(125)
(13,008)	Increase in net debt	(1,075)	(8,744)
4,884	Net (debt)/funds at 1 April	(8,124)	4,884
(8,124)	Net debt at 30 September	(9,199)	(3,860)

7 Cash flow statement supporting information *continued*

b) Reconciliation of operating profit to net cash flow

Year to 31 March 2002 £000		Six months to 30 September 2002 £000	Six months to 30 September 2001 £000
2,011	Operating profit before exceptional items	1,823	741
7,034	Depreciation and goodwill amortisation	2,712	3,033
–	Profit on sale of tangible assets	–	32
(533)	Decrease in stocks	2,791	160
11,881	Decrease in debtors	5,557	11,789
(14,717)	Decrease in creditors and provisions	(8,316)	(16,514)
(3,897)	Restructuring costs	(540)	(3,105)
1,779	Cash inflow/(outflow) from operating activities	4,027	(3,864)

c) Analysis of net debt

At 31 March 2002 £000		At 30 September 2002 £000	At 30 September 2001 £000
10,032	Cash	6,678	1,999
(6,034)	Overdrafts	(4,635)	(6,683)
(9,802)	Debt due within one year	(10,344)	(88)
(15,250)	Debt due after more than one year	(15,572)	(25,568)
(274)	Discounted trade bills	(269)	(620)
(693)	Finance lease obligations	(621)	(642)
13,897	Liquid resources	15,564	27,742
(8,124)	Net debt	(9,199)	(3,860)

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