Interim Report
2003

CHARTER

CHARTER

Charter plc
7 Hobart Place London SW1W 0HH
Telephone +44 (0)20 7838 7000
Facsimile +44 (0)20 7259 5112

www.charterplc.com

Contents

Financial highlights

Six months ended 30 June 2003 (unaudited)

	Six months ended 30.06.03 Before exceptional items £m	Six months ended 30.6.03 Exceptional items £m	Six months ended 30.6.03 Total £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
Turnover					
Welding and cutting	283.7	-	283.7	300.6	*581.9*
Air and gas handling	115.6	-	115.6	124.5	*267.4*
Specialised engineering	20.9	-	20.9	26.7	*51.2*
	420.2	-	420.2	451.8	*900.5*
Adjusted operating profit[1]					
Welding and cutting	15.8	-	15.8	20.0	*36.0*
Air and gas handling	0.4	-	0.4	2.2	*1.5*
Specialised engineering	2.6	-	2.6	2.8	*5.4*
Operating businesses	18.8	-	18.8	25.0	*42.9*
Central operations	(3.4)	-	(3.4)	(3.2)	*(6.9)*
	15.4	-	15.4	21.8	*36.0*
Amortisation of goodwill	(0.6)	-	(0.6)	(0.6)	*(1.2)*
Operating exceptional items	-	(5.8)	(5.8)	(7.7)	*(25.3)*
Operating profit	14.8	(5.8)	9.0	13.5	*9.5*
Non-operating exceptional items	-	0.1	0.1	11.5	*21.8*
Profit/(loss) before interest	14.8	(5.7)	9.1	25.0	*31.3*
Interest	(8.6)	-	(8.6)	(9.9)	*(19.3)*
Exceptional refinancing costs	-	(5.0)	(5.0)	-	*-*
Profit/(loss) before tax	6.2	(10.7)	(4.5)	15.1	*12.0*
Net debt			194.3	222.8	*194.0*
Earnings/(loss) per share					
Headline			(8.3)p	10.3p	*5.1p*
Adjusted[1]			3.8p	6.7p	*8.6p*

[1]before exceptional items and amortisation of goodwill

Overview of results

In the six months ended 30 June 2003, the group recorded adjusted operating profits of £15.4 million (2002: £21.8 million). This adjusted operating profit, which is before exceptional items and amortisation of goodwill, is an improvement over the £14.2 million earned in the second half of 2002.

During this period much of management's time has had to be devoted to securing the renewal of the syndicated bank facility which was scheduled to expire on 31 July 2003. The Company announced on 22 July 2003 that the facility had been renewed for the period to 31 March 2005 with an initial facility amount of £120 million. The group's results for the first half reflect a £5.0 million exceptional one-off financing charge in connection with the renewal. Under the present financing arrangements, the Company is committed, by 10 March 2004, to reduce its borrowings under the facility and plans to achieve this through a combination of asset disposals, cash flow and alternative sources of finance. In this regard, a number of specific non-core assets have been identified for sale.

Progress has already been made with the programme of disposals. It was announced on 18 August 2003 that contracts had been exchanged for the sale of Charter's leasehold head office building in Central London for £3.9 million to the Ministry of Defence of the Republic of Italy for completion on 31 October 2003. The profit on disposal will amount to approximately £0.6 million. The head office will be relocating to smaller leasehold premises in Central London. Also, the sales of two of Esab's industrial buildings in Gothenburg in Sweden were completed on 19 August 2003 for total proceeds of £2.6 million, equivalent to their book values.

Against a background of weak demand, particularly in its key markets in Europe and North America, the Welding and Cutting business ("Esab") generated adjusted operating profits of £15.8 million (2002: £20.0 million) on turnover of £283.7 million (2002: £300.6 million). This compares with adjusted operating profits of £16.0 million generated in the second half of 2002 on turnover of £281.3 million.

The Air and Gas Handling business ("Howden") recorded a small adjusted operating profit of £0.4 million (2002: £2.2 million). This represents an improvement over the loss of £0.7 million incurred in the second half of 2002. In the light of the decline in profitability in the North American business last year, a major strategic and operational review has been carried out in the period. As a consequence, in May 2003, it was decided to close a major manufacturing plant in Springfield, Ohio, together with two smaller facilities in Canada and an exceptional charge of £4.0 million has been made in respect of these closures. The closure of the Camden, South Carolina, factory, which manufactured commercial HVAC fans, announced in the second half of last year, was completed in March 2003.

The Specialised Engineering businesses recorded adjusted operating profits of £2.6 million for the period (2002: £2.8 million).

Group results

In the six months ended 30 June 2003 turnover from continuing businesses was £420.2 million (2002: £451.8 million). The adjusted operating profit, before exceptional items and amortisation of goodwill, for the period was £15.4 million (2002: £21.8 million). After amortisation of goodwill of £0.6 million (2002: £0.6 million) and an interest charge of £8.6 million (2002: £9.9 million), profit before tax and exceptional items was £6.2 million (2002: £11.3 million).

Total exceptional charges in the period

amounted to £10.7 million and comprised £5.8 million in respect of restructuring costs, £5.0 million relating to exceptional refinancing costs and a small net non-operating exceptional profit of £0.1 million. The half-year results for 2002 include a net exceptional credit of £3.8 million comprising net non-operating exceptional credits of £11.5 million offset by operating exceptional charges of £7.7 million. The group's loss on ordinary activities before tax amounted to £4.5 million (2002: profit of £15.1 million).

The group's ordinary tax charge amounted to £2.1 million (2002: £3.4 million) and the tax charge attributable to the exceptional items was £0.1 million (2002: exceptional tax credit of £0.2 million). After charging minority interests of £1.1 million (2002: £2.2 million), the retained loss for the period was £7.8 million (2002: profit of £9.7 million).

The headline loss per share amounted to 8.3 pence (2002: earnings per share of 10.3 pence) and adjusted earnings per share amounted to 3.8 pence (2002: 6.7 pence).

Cash flow, interest and borrowings

The cash inflow from operating activities in the first half of the year was £21.1 million (2002: £9.2 million). Net capital expenditure and financial investment in the period was £4.4 million (2002: £6.6 million). The charge for depreciation and amortisation was £10.4 million (2002: £11.3 million).

During the first six months of the year net debt increased marginally by £0.3 million to £194.3 million, despite the cash outflows associated with the exceptional items. At 30 June 2003 the principal amounts drawn under the syndicated facility totalled £94.2 million. Net debt in the period averaged some £13.5 million less than in the second half of last year. As a result, the £8.6 million interest charge (excluding the exceptional refinancing costs) was £0.8 million lower than that incurred in the second half of 2002.

Going concern and current liquidity

During the first half of 2003, the group met its day-to-day working capital requirements through a £127 million syndicated revolving credit facility and on 30 June 2003, the drawings under the facility totalled £94.2 million. In addition, it had in issue US dollar denominated private placement loan notes totalling $206.3 million (£125.0 million) at 30 June 2003. At that date the group's net debt stood at £194.3 million (31 December 2002: £194.0 million). On 10 March 2004, the group is scheduled to repay $72.3 million (£43.8 million) of the loan notes.

As announced on 22 July 2003, the group renewed its syndicated revolving credit facility, that was due to expire on 31 July 2003, with an initial facility amount of £120.0 million. The terms of the facility, which expires on 31 March 2005, require, inter alia, that, on or before 30 November 2003, the amount of the facility is reduced by £20.0 million and that, on or before 10 March 2004, the facility will reduce by a further £26.0 million. However, under the terms of the facility, the Company may, in certain limited circumstances, request that the facility be increased as at 10 March 2004 by an amount of up to £20.0 million.

The group therefore needs to generate sufficient funds by 10 March 2004 to meet the scheduled loan note repayment of $72.3 million (£43.8 million) and to accommodate the above-mentioned scheduled reductions in the facility. The directors plan to meet these commitments through a combination of:

- asset disposals (and indeed the Company is committed under the terms of the renewed facility to use all reasonable endeavours to generate at least £52.0

million of net proceeds from such disposals by 10 March 2004);

- cash flow from the group's operations; and
- alternative sources of finance.

The Company has identified a number of specific non-core assets for sale and is in discussions with potential purchasers. In the light of this, other potential sources of funding and other information available to them, the directors believe that the group will generate sufficient funds to meet its financing commitments and accordingly consider it appropriate to prepare these accounts on a going concern basis. However, there can be no absolute certainty that the group will be able to generate the necessary funds and, in such circumstances, adjustments may be necessary to write down assets to recoverable amounts and to record additional liabilities, some of which are currently contingent.

As announced on 7 March 2003, certain holders of the US private placement loan notes due in 2007 and 2009 have informed the Company that they consider that a default has arisen under their loan notes as a result of the accounting irregularities that were announced by the Company on 27 January 2003 at one of the Air and Gas Handling units in North America. These holders of loan notes have commenced legal proceedings in New York against the Company and its subsidiary, Charter Central Finance Limited, seeking a declaratory judgement of the court that such default has occurred. The directors' view, based on their knowledge of the situation and on advice of the Company's legal advisers, is that no such default has occurred and the note holders have been advised accordingly. In the event that the views of the Company and its advisers are proven to be incorrect and there is a default under the loan notes, this would entitle the holders of the loan notes to accelerate their repayment and, if holders were to do so, then the full amounts due under the loan notes would become immediately due and payable. This would constitute an event of default under the syndicated revolving credit facility and therefore might lead to the outstanding amount due under the facility becoming immediately due and payable. However there is no certainty that the holders of the loan notes or lenders under the facility would in fact accelerate the obligations due to them.

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 2002.

Operating review

Adjusted operating profit for the six-month period to 30 June 2003 was £15.4 million (2002: £21.8 million), an improvement over the £14.2 million earned in the second half of 2002.

Welding and cutting

In the first half of 2003, Esab's turnover was £283.7 million (2002: £300.6 million) and adjusted operating profits were £15.8 million

(2002: £20.0 million). This compares with adjusted operating profits of £16.0 million in the second half of 2002 on turnover of £281.3 million.

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, recent months have shown encouraging signs of improvement in Europe. Esab continues to experience strong growth in emerging markets.

The restructuring programmes are focused on transferring production to low cost countries, improving operational efficiency, reducing costs and other measures in response to market conditions. Certain of the benefits of these programmes are beginning to be reflected in the results, which has enabled Esab largely to maintain gross margins despite the decline in sales compared to last year. Further restructuring in Europe and North America is now in progress, and additional measures have been taken in response to market conditions.

Recent initiatives include a project to realise further procurement savings through global coordination and extending the function to cover indirect costs, a targeted reduction in working capital requirements and the simplification of the European sales and administration organisations.

The first half of 2003 saw significant product introductions in each major business area. New modular based standard equipment ranges and automation and cutting systems were announced in June 2003, together with several new developments in consumable products, for example copper free and stainless steel welding wires incorporating advances in surface technologies.

The European welding and cutting businesses, which account for just over half of Esab's turnover, recorded a modest increase in sales, and gross margins were maintained.

Welding markets in North America, which account for some 30% of sales, remained weak during the first half of the year, and turnover and operating profits declined. However, the benefits of restructuring were evident in the gross margins, which remained at 2002 levels despite the fall in sales. Most major welding market sectors, including railcar production, car production, petrochemicals and general industrial machinery, have been affected by the industrial recession and, in general, confidence in North America remains fragile. The North American sales and manufacturing units are also engaged in restructuring initiatives that will result in enhanced margins as markets improve.

Esab operates through partly owned subsidiaries in South America, where first half sales and operating profits improved in local currency terms but not in sterling terms.

Business confidence in Asia suffered from the impact of the SARS crisis and the Iraqi conflict, with sales recording declines over the prior year. Cost saving measures at Esab's subsidiaries in the region, coupled with a sound result from the South Korean associate, Esab SeAH, has delivered an increase in operating profit compared with the corresponding period last year.

Air and gas handling

During the first six months, Howden's turnover declined to £115.6 million (2002: £124.5 million). Adjusted operating profits for the period were £0.4 million (2002: £2.2

million), however, this represents an improvement over the £0.7 million loss incurred in the second half of 2002 on sales of £142.9 million.

Given the decline in profitability in North America, a major strategic and operational review was carried out of all Howden's operations in North America and in May 2003 it was decided to close the manufacturing plant in Springfield, Illinois, together with two smaller facilities in Canada. Following these closures together with the closure of the factory at Camden, South Carolina, announced last year, Howden's fan manufacturing business in North America will be concentrated at New Philadelphia, Ohio, and Mexico City.

In the Power Division, which generates more than 40% of Howden's global sales, turnover and operating profits showed an increase over the corresponding period last year. Howden Hua in China, in which the group has a 70% interest, and the restructured Australian business both produced improved results, however the markets that Howden serves in both North America and Europe remain depressed.

Sales and operating profits in the Industrial and Aftermarket division in North America were lower. The Industrial markets have been affected by continual delays and cancellations of commitments to fixed capital projects. The closure of the Camden, South Carolina, factory, which manufactured commercial HVAC fans, announced in the second half of last year, was completed in March 2003.

Sales in the European Industrial and global Compressors businesses were lower due to depressed market conditions in Europe and the delays in commitment to capital projects affecting demand for compressors worldwide. The restructuring of Burton Corblin SA in Nogent, France, announced last year, was completed and this helped to mitigate the fall in operating profit. The sales and engineering office in Poland is also being closed.

The turnover of Howden South Africa, in which the group has a 58% interest, was up by some 45% and operating profits more than doubled. The loss-making electric motor subsidiary, Hertz Technologies, was sold for a nominal consideration.

Howden's order book for deliveries scheduled to be made before 31 December 2003 is ahead of the corresponding order position last year.

Specialised engineering

Turnover for the six months was £20.9 million (2002: £26.7 million) and adjusted operating profits amounted to £2.6 million (2002: £2.8 million). The figures for 2002 include turnover of £1.8 million and an operating loss of £0.4 million in respect of Bauer and Solbern, which were sold in 2002.

The North American aerospace and defence businesses account for some three quarters of the turnover of the Specialised Engineering businesses and have continued to perform well, maintaining sales and margins.

The US food packaging business Demaco has seen sales, orders and margins under pressure. Similarly the Hong Kong drilling equipment business, HD Engineering, continues to experience weak local market conditions with little immediate prospect of recovery until the market improves.

Central costs

Central costs were £3.4 million in the first six months of 2003 compared with £3.2 million in the corresponding period in 2002.

Exceptional items

Overall exceptional charges in the period amounted to £10.7 million (2002: net exceptional credit of £3.8 million) comprising:

	Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
Operating exceptional items			
Restructuring costs	(5.8)	(7.7)	*(19.9)*
USA accounting correction	-	-	*(3.9)*
Litigation and warranty costs	-	-	*(1.5)*
	(5.8)	(7.7)	*(25.3)*
Non-operating exceptional items			
Continuing operations			
Net profit on fixed asset disposals	0.3	0.2	*12.5*
Losses on termination of operations	(0.2)	(1.3)	*(2.1)*
associated goodwill	-	(2.6)	*(3.8)*
	(0.2)	(3.9)	*(5.9)*
Discontinued operations			
Profit on release of Wirth guarantee provision	-	15.2	*15.2*
	0.1	11.5	*21.8*
Exceptional refinancing costs	(5.0)	-	-
Total	(10.7)	3.8	*(3.5)*

Welding and cutting

The restructuring of the Esab business and the rationalisation of manufacturing capacity has continued in the first half of 2003. During this period exceptional restructuring costs totalled £1.8 million (2002: £3.6 million). Actions taken during the period included:

- The continued restructuring and reorganisation of the European business, with consolidation of warehouse facilities and headcount some 300 lower than June 2002.
- The reorganisation and streamlining of the North American businesses continues, with headcount now approximately 160 below June 2002 and further savings planned.
- The ongoing transfer of flux-cored wire production from Waltham Cross in the United Kingdom and Utrecht in Holland to Vamberk in the Czech Republic and Katowice in Poland is continuing, as is the transfer of certain equipment production from Sweden to Poland. This major project is expected to be completed by 2004.

The above restructuring initiatives have resulted in a headcount reduction at Esab of just over 100 employees in the first half of 2003.

Air and gas handling

During the period the exceptional costs of restructuring Howden totalled £4.0 million (2002: £4.1million) and are in respect of the closures announced in May 2003 of the manufacturing plant in Springfield, Illinois, and of the two smaller facilities in Canada. Other specific steps taken were:

- The closure of Howden's manufacturing plant located in Camden, South Carolina, announced in November 2002, was completed on schedule in the first quarter of 2003. This plant manufactured fans for the commercial and general ventilation markets in the USA.
- The closure of Calidair in Gloucestershire in the United Kingdom, the non-core specialist engineering business, announced last year, was completed.

The above restructuring initiatives have resulted in a headcount reduction at Howden of just over 150 employees in the first half of 2003.

Non-operating exceptional items

A non-operating exceptional profit of £0.3 million arose on the sale of a surplus property, which was offset by a non-operating exceptional loss of £0.2 million on the disposal of the loss making electrical motors business, Hertz Technologies, in South Africa.

Retirement benefits

Over the six-month period to 30 June 2003 there was an improvement in the asset position of the group's retirement benefit schemes. The corresponding liabilities are estimated to have increased by a similar, but slightly lower amount, using the same assumptions as at 31 December 2002.

Prospects

Further progress has been made during the first half of 2003 in restructuring several of the group's operating businesses and in closing loss making units in Howden and Esab. As a consequence of these measures, together with those taken in earlier periods, the group's ongoing cost base has been reduced. This provides the foundation for an improvement in the competitive position of the group's operating businesses particularly when demand improves.

As a result of the programme of disposals of non-core assets and other initiatives, a significant reduction in the group's net debt is expected.

Demand in most markets served by the group in the first half of 2003 was below that experienced in the corresponding period last year and margins remain under pressure. However, some improvement is expected in certain key markets in the second half.

David Gawler
Chairman and Chief Executive
4 September 2003

Consolidated profit and loss account

Six months ended 30 June 2003 (unaudited)

Note		Six months ended 30.6.03 Before exceptional items £m	Six months ended 30.6.03 Exceptional items £m	Six months ended 30.6.03 Total £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
	Turnover					
2	Continuing operations	420.2	-	420.2	451.8	*900.5*
	Operating profit					
2	Continuing operations					
	- excluding associated undertakings and operating exceptional items	11.0	-	11.0	18.3	*29.5*
	- operating exceptional items	-	(5.4)	(5.4)	(7.7)	*(24.6)*
	- group operating profit	11.0	(5.4)	5.6	10.6	*4.9*
	- associated undertakings	3.8	(0.4)	3.4	2.9	*4.6*
	- total operating profit	14.8	(5.8)	9.0	13.5	*9.5*
3	Non-operating exceptional items					
	Continuing operations					
	- Losses on termination of operations	-	(0.2)	(0.2)	(1.3)	*(2.1)*
	associated goodwill	-	-	-	(2.6)	*(3.8)*
		-	(0.2)	(0.2)	(3.9)	*(5.9)*
	- net profit on fixed asset disposals	-	0.3	0.3	0.2	*12.5*
	Discontinued operations					
	- profit on release of guarantee provision	-	-	-	15.2	*15.2*
	Profit on ordinary activities before interest	14.8	(5.7)	9.1	25.0	*31.3*
	Net interest and similar charges					
	- excluding associated undertakings	(8.4)	-	(8.4)	(9.6)	*(18.9)*
	- associated undertakings	(0.2)	-	(0.2)	(0.3)	*(0.4)*
	- exceptional refinancing costs	-	(5.0)	(5.0)	-	*-*
	Profit/(loss) on ordinary activities before taxation	6.2	(10.7)	(4.5)	15.1	*12.0*
4	Tax on profit/(loss) on ordinary activities	(2.1)	-	(2.1)	(3.4)	*(5.1)*
4	Exceptional tax (charge)/credit	-	(0.1)	(0.1)	0.2	*1.4*
	Profit/(loss) on ordinary activities after taxation	4.1	(10.8)	(6.7)	11.9	*8.3*
	Minority interests					
	- equity	(1.1)	-	(1.1)	(2.2)	*(3.5)*
	Retained profit/(loss) for the financial period	3.0	(10.8)	(7.8)	9.7	*4.8*
	Earnings/(loss) per share - basic					
	Headline	3.2p	(11.5)p	(8.3)p	10.3p	*5.1p*
	Adjusted	3.8p	-	3.8p	6.7p	*8.6p*

Consolidated balance sheet

30 June 2003 (unaudited)

	30.6.03 £m	30.6.03 £m	31.12.02 £m	31.12.02 £m
Fixed assets				
Intangible fixed assets - goodwill		17.9		18.5
Tangible fixed assets		127.9		133.1
Fixed asset investments - associated undertakings		26.3		24.2
		172.1		175.8
Current assets				
Stocks	116.8		112.4	
Debtors	227.1		225.7	
Cash at bank and in hand	35.4		32.2	
	379.3		370.3	
Creditors: amounts falling due within one year				
Creditors	(190.9)		(182.6)	
Short term borrowings	(145.6)		(94.6)	
	(336.5)		(277.2)	
Net current assets		42.8		93.1
Total assets less current liabilities		214.9		268.9
Creditors: amounts falling due after more than one year				
Other long term creditors		(1.0)		(1.0)
Long term borrowings		(84.1)		(131.6)
Provisions for liabilities and charges		(121.0)		(123.3)
		8.8		13.0
Shareholders' funds - equity interests		(10.5)		(5.5)
Minority interests - equity interests		19.3		18.5
		8.8		13.0

By order of the board

A R Yapp, Secretary

4 September 2003

Consolidated cash flow statement

Six months ended 30 June 2003 (unaudited)

Note		Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
5	Cash flow from operating activities	21.1	9.2	*32.2*
	Dividends received from associated undertakings	2.2	2.7	*3.3*
	Returns on investments and servicing of finance	(12.7)	(11.5)	*(21.9)*
	Taxation paid	(3.7)	(2.6)	*(8.0)*
	Capital expenditure and financial investment	(4.4)	(6.6)	*9.2*
	Acquisitions and disposals			
	Sale of subsidiary undertakings - net proceeds	(0.1)	1.7	*1.9*
	Purchase of subsidiary undertakings	-	(0.5)	*(0.6)*
	Equity dividends paid	-	-	-
	Cash inflow/(outflow) before management of liquid resources and financing	2.4	(7.6)	*16.1*
	Management of liquid resources	-	(0.8)	*15.9*
	Financing			
	Decrease in short term borrowings other than those repayable on demand	-	(0.3)	*(3.3)*
	Decrease in long term borrowings	-	(6.0)	-
	Capital element of finance lease rental payments	(0.6)	(1.0)	*(1.9)*
	Increase/(decrease) in cash in the financial period	1.8	(15.7)	*26.8*
	(Increase)/decrease in net debt in the financial period	(0.3)	(8.7)	*20.1*

Statement of total recognised gains and losses

Six months ended 30 June 2003 (unaudited)

	Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
(Loss)/profit for the financial period			
- excluding associated undertakings	(10.2)	7.8	*1.6*
- associated undertakings	2.4	1.9	*3.2*
	(7.8)	9.7	*4.8*
Net effect of translation of currencies	2.8	(2.1)	*(4.4)*
Net effect of translation of currencies - taxation	-	-	*(1.4)*
Total recognised gains and losses	(5.0)	7.6	*(1.0)*

Reconciliation of movements in shareholders' funds

Six months ended 30 June 2003 (unaudited)

	Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
(Loss)/profit for the financial period	(7.8)	9.7	*4.8*
Dividends	-	-	*-*
	(7.8)	9.7	*4.8*
Other recognised gains and losses	2.8	(2.1)	*(5.8)*
Goodwill associated with the sale and termination of operations	-	2.6	*3.8*
Net (reduction in)/addition to shareholders' funds	(5.0)	10.2	*2.8*
Opening shareholders' funds	(5.5)	(8.3)	*(8.3)*
Closing shareholders' funds	(10.5)	1.9	*(5.5)*

1 Going concern and current liquidity

During the first half of 2003, the group met its day-to-day working capital requirements through a £127 million syndicated revolving credit facility and on 30 June 2003, the drawings under the facility totalled £94.2 million. In addition, it had in issue US dollar denominated private placement loan notes totalling $206.3 million (£125.0 million) at 30 June 2003. At that date the group's net debt stood at £194.3 million (31 December 2002: £194.0 million). On 10 March 2004, the group is scheduled to repay $72.3 million (£43.8 million) of the loan notes.

As announced on 22 July 2003, the group renewed its syndicated revolving credit facility, that was due to expire on 31 July 2003, with an initial facility amount of £120.0 million. The terms of the facility, which expires on 31 March 2005, require, inter alia, that, on or before 30 November 2003, the amount of the facility is reduced by £20.0 million and that, on or before 10 March 2004, the facility will reduce by a further £26.0 million. However, under the terms of the facility, the Company may, in certain limited circumstances, request that the facility be increased as at 10 March 2004 by an amount of up to £20.0 million.

The group therefore needs to generate sufficient funds by 10 March 2004 to meet the scheduled loan note repayment of $72.3 million (£43.8 million) and to accommodate the above-mentioned scheduled reductions in the facility. The directors plan to meet these commitments through a combination of:

- asset disposals (and indeed the Company is committed under the terms of the renewed facility to use all reasonable endeavours to generate at least £52.0 million of net proceeds from such disposals by 10 March 2004);
- cash flow from the group's operations; and
- alternative sources of finance.

The Company has identified a number of specific non-core assets for sale and is in discussions with potential purchasers. In the light of this, other potential sources of funding and other information available to them, the directors believe that the group will generate sufficient funds to meet its financing commitments and accordingly consider it appropriate to prepare these accounts on a going concern basis. However, there can be no absolute certainty that the group will be able to generate the necessary funds and, in such circumstances, adjustments may be necessary to write down assets to recoverable amounts and to record additional liabilities, some of which are currently contingent.

As announced on 7 March 2003, certain holders of the US private placement loan notes due in 2007 and 2009 have informed the Company that they consider that a default has arisen under their loan notes as a result of the accounting irregularities that were announced by the Company on 27 January 2003 at one of the Air and Gas Handling units in North America. These holders of loan notes have commenced legal proceedings in New York against the Company and its subsidiary, Charter Central Finance Limited, seeking a declaratory judgement of the court that such default has occurred. The directors' view, based on their knowledge of the situation and on advice of the Company's legal advisers, is that no such default has occurred and the note holders have been advised accordingly. In the event that the views of the Company and its advisers are proven to be incorrect and there is a default under the loan notes, this would entitle the holders of the loan notes to accelerate their repayment and, if holders were to do so, then the full amounts due under the loan notes would become immediately due and payable. This would constitute an event of default under the syndicated revolving credit facility and therefore might lead to the outstanding amount due under the facility becoming immediately due and payable. However there is no certainty that the holders of the loan notes or lenders under the facility would in fact accelerate the obligations due to them.

2 Continuing operations

	Turnover			Operating profit		
	Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*	**Six months ended 30.6.03 £m**	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
Welding and cutting	**283.7**	300.6	*581.9*	**15.8**	20.0	*36.0*
Air and gas handling	**115.6**	124.5	*267.4*	**0.4**	2.2	*1.5*
Specialised engineering	**20.9**	26.7	*51.2*	**2.6**	2.8	*5.4*
	420.2	451.8	*900.5*	**18.8**	25.0	*42.9*
Goodwill - Welding and cutting	**-**	-	*-*	**(0.6)**	(0.6)	*(1.2)*
Central operations	**-**	-	*-*	**(3.4)**	(3.2)	*(6.9)*
	420.2	451.8	*900.5*	**14.8**	21.2	*34.8*
Operating exceptional items						
Welding and cutting						
- restructuring costs	**-**	-	*-*	**(1.8)**	(3.6)	*(12.2)*
Air and gas handling						
- restructuring costs	**-**	-	*-*	**(4.0)**	(4.1)	*(7.7)*
- USA accounting correction	**-**	-	*-*	**-**	-	*(3.9)*
- litigation and warranty costs	**-**	-	*-*	**-**	-	*(1.5)*
	420.2	451.8	*900.5*	**9.0**	13.5	*9.5*
Geographical area by country of operation						
United Kingdom	**46.9**	47.3	*101.4*	**(8.6)**	(3.1)	*(7.2)*
Rest of Europe	**189.0**	186.7	*384.6*	**12.8**	10.4	*25.5*
North America	**137.1**	165.3	*324.4*	**2.6**	6.1	*2.6*
Rest of World	**84.3**	91.2	*157.2*	**8.6**	8.4	*15.1*
	457.3	490.5	*967.6*	**15.4**	21.8	*36.0*
Goodwill	**-**	-	*-*	**(0.6)**	(0.6)	*(1.2)*
Operating exceptional items						
United Kingdom	**-**	-	*-*	**(0.3)**	(0.1)	*(5.0)*
Rest of Europe	**-**	-	*-*	**(1.1)**	(5.7)	*(13.0)*
North America	**-**	-	*-*	**(4.1)**	(1.1)	*(7.3)*
Rest of World	**-**	-	*-*	**(0.3)**	(0.8)	*-*
Inter area eliminations	**(37.1)**	(38.7)	*(67.1)*	**-**	-	*-*
	420.2	451.8	*900.5*	**9.0**	13.5	*9.5*
Geographical area by country of destination						
United Kingdom	**27.6**	30.7	*56.4*			
Rest of Europe	**167.5**	153.8	*320.5*			
North America	**127.9**	162.8	*316.8*			
Rest of World	**97.2**	104.5	*206.8*			
	420.2	451.8	*900.5*			

3 Non-operating exceptional items

Tax of £0.1million (2002 half-year £nil; 2002 full-year £0.2million) is attributable to the non-operating exceptional items.There is no minority interest in the non-operating exceptional items of any period.

4 Tax charge/(credit)

	Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
United Kingdom	-	-	*(3.3)*
Overseas	1.4	2.5	*6.0*
Associated undertakings	0.8	0.7	*1.0*
	2.2	3.2	*3.7*

5 Cash flow from operating activities

	Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
Operating profit			
- excluding associated undertakings	5.6	10.6	*4.9*
Depreciation and amortisation charges	10.4	11.3	*21.8*
Profit on sale of fixed assets	(0.1)	(0.1)	*(0.4)*
Exceptional items			
Current year charge - restructuring (excluding associated undertakings)	5.4	7.7	*19.2*
Current year charge - litigation and warranty	-	-	*1.5*
Restructuring costs spend	(8.5)	(6.7)	*(20.5)*
Litigation and warranty costs recovered	-	-	*0.3*
Working capital	7.1	(12.4)	*8.6*
Other movements in provisions	1.2	(1.2)	*(3.2)*
	21.1	9.2	*32.2*

6 Reconciliation of net cash flow to movement in net debt

	Six months ended 30.6.03 £m	Six months ended 30.6.02 £m	*Year ended 31.12.02 £m*
Increase/(decrease) in cash in the financial period	**1.8**	(15.7)	*26.8*
Cash outflow from debt and lease financing	**0.6**	7.3	*5.2*
Cash outflow/(inflow) from liquid resources	**-**	0.8	*(15.9)*
Change in net debt resulting from cash flows	**2.4**	(7.6)	*16.1*
New finance leases	**-**	(0.1)	*(0.1)*
Exchange adjustments	**(2.7)**	(1.0)	*4.1*
Movement in net debt in the financial period	**(0.3)**	(8.7)	*20.1*
Opening balance of net debt	**(194.0)**	(214.1)	*(214.1)*
Closing balance of net debt	**(194.3)**	(222.8)	*(194.0)*

7 Analysis of net debt movements

	Opening balance £m	Cash flow £m	Other non-cash changes £m	Exchange adjustment £m	Closing balance £m
Cash - gross	31.4	0.3	-	2.8	34.5
Short term borrowings repayable on demand	(92.4)	1.5	-	(8.7)	(99.6)
Cash - net	(61.0)	1.8	-	(5.9)	(65.1)
Other cash at bank and in hand	0.8	-	-	0.1	0.9
Other short term debt	(1.9)	-	(43.8)	0.1	(45.6)
Long term debt	(127.1)	-	43.8	3.0	(80.3)
Finance leases	(4.8)	0.6	-	-	(4.2)
Total	(194.0)	2.4	-	(2.7)	(194.3)

8 Interim accounts

The information shown in respect of the year ended 31 December 2002 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 and contained the following fundamental uncertainty wording regarding going concern: "In forming our opinion we have considered the adequacy of the disclosures made in note 1(a) concerning the fundamental uncertainty in respect of going concern. In view of the significance of this uncertainty we consider that it should be brought to your attention, but our opinion is not qualified in this respect." These interim accounts are prepared on the basis of the accounting policies as set out in those statutory accounts.