

Directors' report

The Directors present their report, together with the audited financial statements for the year ended 31 December 2007.

Activities and review of operations

A review of the activities and operations of the Company and its subsidiaries is given in the Chairman's statement on pages 4 and 5, the Chief Executive's statement on pages 6 to 9 and the business and financial review on pages 10 to 35. These are incorporated by reference into and form part of this report.

Business and financial review

The Business and financial review is a review of the development, and the operational and financial performance, of the business during the year ended 31 December 2007 and a description of the principal risks and uncertainties facing the business.

Profits and Dividends

The profit for the year ended 31 December 2007 was £144.8 million (2006: £129.1 million restated). The Directors recommend a final dividend for the year of 12 pence per ordinary share (2006: £nil). No interim dividend was paid for the six months ended 30 June 2007 (2006: nil). Subject to approval at the Annual General Meeting ('AGM'), the final dividend will be paid on 23 May 2008 to those shareholders on the register at the close of business on 2 May 2008.

Directors

The names and brief biographical details of the Directors and Key Management of the Company appear on pages 36 to 38. David Gawler resigned as Executive Chairman of the Company on 31 October 2007. Lars Emilson was appointed as a Non-Executive Director and Chairman designate on 14 September 2007 and became Chairman on 1 November 2007.

Michael Foster and John Biles are retiring by rotation in accordance with the Company's Articles of Association and, each being eligible, offers himself for re-election at the forthcoming AGM. John Neill offers himself for re-election, in accordance with provision A.7.2 of the Combined Code on Corporate Governance of the Financial Reporting Council ('Combined Code') as he has served as a Non-Executive Director of the Company for more than nine years. Lars Emilson will stand for election following his appointment as a Non-Executive Director since the last AGM.

The Articles of Association of the Company provide that a Director may be appointed by an ordinary resolution at a general meeting of the Company or by the existing Directors, either to fill a vacancy or as an additional Director. Further details regarding the Company's procedures for the appointment of Directors can be found on pages 42 – Nominations Committee, 43 – Board Balance and Independence and 44 – Reappointment.

The Board of Directors, which is responsible for the management of the business, may exercise all the powers of the Company subject to the provisions of relevant legislation, the Company's Memorandum and Articles of Association and any special resolution of the Company passed at a general meeting. The Directors have the power to issue and buy back shares in the Company, as well as to grant options over or otherwise dispose of, unissued shares in the Company, to such persons, at such times and on such terms as they think proper.

ESAB Holdings Limited and Howden Group Limited, subsidiaries of the Company, are party to arms length consultancy agreements with Unipart Logistics Limited ('Unipart Logistics') for the provision of lean manufacturing and other consultancy services to ESAB Global and Howden Global respectively. John Neill, a Non-Executive Director of the Company, is currently Group Chief Executive of the Unipart Group of Companies. The total charges paid to Unipart Logistics during the year were £2.4 million (2006: £682,155).

In addition, Hoeganaes Corporation ('Hoeganaes Corp'), a wholly owned subsidiary of GKN plc, supplied powdered metal to two subsidiaries of the Company, being The ESAB Group Inc and ESAB Mexico SA de CV, during the year under review with a total sales value of \$2.1 million (2006: \$1.8 million). During the year Hoeganaes Corporation Europe SA ('Hoeganaes Europe'), a wholly owned subsidiary of GKN plc supplied powdered metal to ESAB Mor Kft, a subsidiary of the Company, for a value of approximately €11,800 (2006: €12,000). In addition ESAB Kft, a subsidiary of the Company,

supplied Hoeganaes Europe with welding rod material for a value of approximately €2,783 (2006: £nil). The relationship between these companies is ongoing, on an arms length basis and in the ordinary course of trade. Grey Denham, a Non-Executive Director of the Company, is Company Secretary and Group Director Legal and Compliance of GKN plc but has no day-to-day involvement in the management of Hoeganaes Corp or Hoeganaes Europe.

No other Directors had any interest in contracts with the Company or its subsidiaries at any time during the period other than service contracts and indemnity agreements.

Directors' interests in the ordinary shares of the Company as well as details of their remuneration and service contracts can be found in the Remuneration report on pages 47 to 51.

Settlement with City Index

On 7 February 2006, the Company announced that it had settled its legal proceedings against City Index in respect of losses incurred as a consequence of certain unauthorised payments having been made by a former employee. The Board is aware that, following the settlement with the Company, City Index sought to continue to pursue claims for contribution against certain current and former Directors of the Company and against the Company's Auditors. An application for leave to appeal to the House of Lords has been sought in respect of a motion to strike out the claims.

Corporate governance

A review of the Company's application of the principles and provisions of the Combined Code can be found on pages 42 to 45.

Directors' indemnities

Each of the Directors has been granted an indemnity by the Company to the extent permitted by law in respect of certain liabilities incurred as a result of their office. In accordance with the Company's Articles of Association each Director is indemnified against liability to third parties, excluding criminal liability and regulatory penalties and certain other liabilities. In addition, the Company may pay the Directors' legal costs as they are incurred, subject to reimbursement if the Director is convicted, or if judgement is given against the Director in an action brought by the Company.

Financial instruments

The financial risk management objectives and policies of the Company including interest rate, currency and credit risk are outlined in note 21 to the Company's consolidated financial statements.

Annual General Meeting

The Company's AGM will take place at 12 noon on 16 May 2008 at the offices of ABN AMRO, 250 Bishopsgate, London EC2M 4AA. The Notice of AGM (the 'Notice') can be found in a separate circular to shareholders. The Notice sets out details of the resolutions that will be proposed at the AGM as well as explanatory notes giving the background and reasons for such resolutions. In June 2007 shareholders granted the Directors authority to purchase up to 55 million ordinary shares in the Company, which will expire on 26 September 2008. A resolution to renew this authority will be put to shareholders at the AGM on 16 May 2008.

Employees

The Company's policy is to encourage effective communication and consultation between employees and management. Subsidiaries develop their own consultation and communication procedures as part of their employment practices. Further details can be found in the Corporate social responsibility report on pages 32 to 35 of the Business and financial review.

The Company and its subsidiaries are equal opportunities employers and seek to attract, develop, deploy and reward prospective and present employees solely on the basis of merit, regardless of gender, ethnic origin, religion or sexual orientation. In addition, the Company and its subsidiaries give full and fair consideration to applications for employment made by disabled people, having regard to their aptitudes and abilities. Should employees become disabled during employment, they would be considered for any necessary retraining and available work within their capabilities. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees.

Creditor payment policy

The creditor payment policy of the Company and its subsidiaries is to settle amounts due to creditors in accordance with agreed terms. The policy provides that local practice must be observed in the countries in which they operate and that standard payment terms in each country may also be varied by negotiation with individual suppliers. The Company had no trade creditors at the year end.

Charitable and political contributions

During the year the Company and its subsidiaries donated £90,000 (2006: £58,000) to charities of which £8,581 (2006: £8,000) was to charities in the United Kingdom. Within the United Kingdom, donations were made in the year to support charities working in education (£500 (2006: £1,000)), medical research/support (£4,806 (2006: £4,000)) and community support (£3,275 (2006: £3,000)). There were no political donations made during the year (2006: £nil).

Research and development

The Company and its subsidiaries continue to place strong emphasis on research and development to meet the changing needs of the markets they serve. Research and development expenditure, which excludes engineering and production support costs, totalled £9.2 million (2006: £9.1 million) for the year of which £6.3 million (2006: £6.7 million) has been charged to the income statement for the year and £2.9 million (2006: £2.4 million) has been capitalised as intangible assets.

Share capital structure

Share capital

As at 12 March 2008, the Company had 166,699,142 fully paid ordinary shares of 2 pence each in issue which are listed on the London Stock Exchange. The Company has a single class of shares.

During the year, 10,287 options were exercised pursuant to the Company's Unapproved Executive Share Option Scheme which resulted in the allotment of 10,287 new ordinary shares.

No shares have been issued that carry any special rights with regard to the control of the Company.

Significant shareholdings

As at 12 March 2008, the Company had received the following notifications pursuant to DTR 5 of the Disclosure and Transparency Rules of the FSA (the 'DTR'). An update will be given in the Notice:

Date of notification	Shareholder	Direct/indirect interest	No. of shares/voting rights	% of issued share capital/voting rights
12.06.07	Jupiter Asset Management Ltd	Indirect	11,837,696	7.10
20.11.07	Schroders plc	Indirect	8,750,781	5.25
16.11.07	Barclays Global Investors	Indirect	8,635,162	5.18
03.01.08	Standard Life Investments Ltd	Direct	6,024,729	3.614
		Indirect	2,459,779	1.476
		Total	8,484,508	5.09
15.01.08	J P Morgan Chase & Co	Indirect	8,219,493	4.93
08.03.08	Deutsche Bank AG	Direct	5,187,417	3.11

Rights and obligations

The rights and obligations attaching to the Company's shares are contained in the Articles of Association, a copy of which can be viewed on the Company's website at www.charterplc.com or can be obtained upon request to the Company Secretary. The Articles of Association may only be changed by a special resolution passed at a general meeting of the Company.

Holders of ordinary shares are entitled to receive notice of, attend, speak and vote at any general meeting of the Company, except as described below. On a show of hands, every shareholder who is present has one vote and on a poll every member who is present has one vote for every £0.02 in nominal amount of his shares. Where shares are held jointly, the vote of the shareholder who first appears on the register of members in respect of the share shall be conclusive. At any general

meeting, a poll may be demanded by shareholders who are present and entitled to vote when (i) not less than three such shareholders make such a demand; (ii) those shareholders represent not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting; or (iii) those shareholders represent not less than one-tenth of the total paid-up share capital.

Holders of ordinary shares also have various rights to appoint a proxy or proxies (who need not be members of the Company) or, where appropriate, a corporate representative, to attend and vote on their behalf. Further details about the right to appoint a proxy or a corporate representative are set out on page 6 of the Notice.

Shareholders may, by special resolution, set out regulations or provisions according to which the Directors must abide. Shareholders may by ordinary resolution appoint additional Directors, re-elect a retiring Director (or, in place of a retiring Director, elect some other person eligible for appointment) or authorise the Directors to ignore the borrowing restrictions which are set out in the Articles of Association. Shareholders also have the right, by ordinary resolution, to remove any Director from office if at least 28 days notice of the intention to move such a resolution has been given to the Company.

Without prejudice to any special rights which have been conferred on any shareholders, any share of the Company may be issued with such preferred, deferred or other special rights or subject to such restrictions as the Directors or the shareholders may determine.

The Directors may make calls on shareholders in respect of monies unpaid on their shares. If any call is not complied with the Directors may serve a notice requiring payment with interest and expenses. Failure to comply with this may result in forfeiture of any share the subject of the notice. The Company has a lien on any share which is not fully paid.

The shareholders may, by ordinary resolution, declare dividends up to the amount recommended by the Directors which may, if recommended by the Directors, be paid by the distribution of assets or which the Directors may, if authorised by an ordinary resolution, offer to shareholders in the form of fully-paid ordinary shares. The Directors may declare interim dividends of such amounts and on such dates as they think fit.

Unless the Directors determine otherwise, a shareholder is not entitled to exercise any rights attaching to his shares in relation to general meetings of the Company if any sum payable by him to the Company in respect of such shares remains unpaid. Further, a shareholder is not, unless the Directors otherwise determine, entitled to attend or vote at any general meeting if the shareholder has failed to comply with a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) within 14 days (or, in the case of a holder of less than 0.25% in nominal value of the ordinary shares, 28 days) from the date of service of such notice. If a shareholder who holds at least 0.25% in nominal value of the ordinary shares is in default of a section 793 notice, then the Directors may also withhold the payment of any dividend to and restrict the transfer of shares held by that shareholder.

Transfer restrictions

The registration of transfers may be suspended at such times and for such periods as the Directors may determine for up to 30 days in any year. The Directors may refuse to register any transfer of any share which is not a fully-paid up share and refuse to register any transfer in favour of more than four persons jointly. The Directors may also refuse to recognise any instrument of transfer unless it is in respect of any one class of share, is lodged at such place as they may determine and, where appropriate, is accompanied by any relevant share certificates and such other evidence as they may reasonably require to show the right of the transferor to make the transfer.

The Directors may also suspend transfers where a shareholder has failed to comply with a section 793 notice, in the manner noted above.

Voting restrictions

No member shall, unless the Directors otherwise determine, be entitled to vote at a general meeting either personally or by proxy, or to exercise any other right conferred by membership in relation to meetings of the Company, if any call or other sum presently payable by him to the Company in respect of such shares remains unpaid. The Directors also have powers to suspend voting rights in certain limited circumstances when a shareholder has failed to comply with a section 793 notice in the manner noted above.

Change of control

Significant agreements

The Company acts as guarantor in respect of a £75 million Multi-Currency Revolving Facility Agreement dated 6 March 2006 (as amended on 6 September 2007) between HSBC Bank ('HSBC') and Charter Central Finance Limited, a subsidiary of the Company.

This contains a change of control provision which, if triggered, could restrict further utilisations and/or require the repayment of all outstanding utilisations. In such circumstances HSBC may also call for cash collateral for outstanding utilisations under separate documentary credit facilities provided to two subsidiaries of the Company of £40 million and US\$ 20 million respectively.

The Company's Long Term Incentive Plan 2005 contains provisions that allow outstanding awards to vest in certain circumstances upon a change of control of the Company. Conditional awards made pursuant to the Charter Deferred Bonus Plan will automatically vest on a change of control of the Company. Further details concerning the above can be found in the Remuneration report on pages 47 and 48.

Corporate social responsibility ('CSR')

The Company's report on CSR, including its approach to health and safety, social, environmental and other related environmental issues, can be found on pages 32 to 35 of the Business and financial review.

Statement of disclosure of information to Auditors

So far as the Directors are aware, there is no relevant audit information (that is, information needed by the Company's Auditors in connection with preparing their report) of which the Company's Auditors are unaware, and each Director has taken all reasonable steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company and a further resolution to authorise the Board to fix the Auditors' remuneration will be proposed at the AGM.

By order of the Board

James R Deeley

Company Secretary
12 March 2008

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