

Corporate governance

This statement outlines how the relevant provisions of the Combined Code on Corporate Governance have been applied by the Company.

The Board and its committees

The Board

The Board conducts itself in such a way as to give an appropriate lead to the Company, its subsidiaries and affiliates and their respective employees and is committed to the highest standards of corporate governance and to delivery of enhanced shareholder value in a manner consistent with sound business practices and proper standards of corporate and social responsibility. The Board's lead focuses on integrity and personal responsibility with the overriding corporate objective of creating shareholder value.

The Board currently comprises eight directors, three of whom are executive and five of whom are non-executive.

David Gawler, who has been Chairman and Chief Executive since 25 April 2001, will be stepping down as Chief Executive, but has agreed to remain as Chairman after 30 June 2006.

Michael Foster, who was appointed as Commercial Director with effect from 1 January 2005, becomes Chief Executive on 1 July 2006.

The Board has determined that each of the Non-Executive Directors is independent in character and judgement. John Neill has been a Non-Executive Director for more than nine years and, although the Board still considers that he remains independent of thought, character and judgement, he resigned as a member of the Audit and Remuneration Committees on 24 June 2005. He will offer himself for re-election at this year's annual general meeting.

Three new Non-Executive Directors were appointed during 2005, being Grey Denham and Andrew Osborne on 7 February 2005 and John Biles on 1 April 2005. A formalised induction programme for new Board members was introduced in 2005.

One-third of the Directors are required to submit themselves for re-election each year and at this year's annual general meeting, Mr Careless and the Hon. James Bruce retire by rotation in accordance with the Company's Articles of Association and will offer themselves for re-election. Mr Gawler will be stepping down as Chief Executive on 30 June 2006, but has agreed to remain as Chairman, and is also offering himself for re-election.

All Directors of the Company have access to the advice and services of the Company Secretary and may take independent professional advice on any matter relating to the Company at the Company's expense. In advance of Board and committee meetings, Directors and relevant committee members receive detailed papers on the matters to be considered, enabling them to request further clarification or additional information.

The table below shows details of the attendance in 2005 of Directors at both meetings of the Board and meetings of the Audit, Remuneration and Nominations Committees.

	Board	Committees		
		Audit	Remuneration	Nominations
Meetings held	11	5	6	1
David Gawler	11	n/a	n/a	1
Michael Foster	11	n/a	n/a	n/a
Robert Careless	11	n/a	n/a	n/a
The Hon. James Bruce ₁	10	3	6	1
John Neill ₂	10	1	3	n/a
Grey Denham ₃	8	4	6	0
Andrew Osborne ₃	9	1	5	1
John Biles ₄	7	3	2	n/a

1 The Hon. James Bruce resigned as Chairman of the Audit Committee with effect from 24 June 2005.

2 John Neill resigned from the Audit and Remuneration Committees with effect from 24 June 2005.

3 Grey Denham and Andrew Osborne were appointed to the Board and the Audit and Remuneration Committees with effect from 7 February 2005, and were appointed to the Nominations Committee with effect from 23 May 2005.

4 John Biles was appointed to the Board and the Audit and Remuneration Committees with effect from 1 April 2005 and was appointed Chairman of the Audit Committee with effect from 24 June 2005.

Eleven board meetings are scheduled for 2006.

Board evaluation

The Chairman conducted formal evaluations of the Board as a whole and of its Audit, Remuneration and Nominations Committees for 2005 and the results of these evaluations have been reported to the Board.

Evaluation of individual Directors as members of the Board has also been conducted by the Chairman in respect of 2005. The Senior Independent Director is responsible for the evaluation of the performance of the Chairman and meets at least annually with his fellow Non-Executive Directors to appraise the performance of the Chairman. The Chairman periodically meets the Non-Executive Directors without the other Executive Directors present.

Corporate governance framework and Board committees

The Board operates under a Management and Governance Framework, which it has approved and adopted. Under this Framework the Board (a) has detailed the specific powers that the Board has retained, (b) sets out the formal committees that the Board has established and the powers and terms of reference of such committees and (c) addresses certain fundamental policies that the Board has adopted for the good governance of the Company and its subsidiaries and affiliates. The Framework is kept under constant review and will be modified as and when new situations, requirements or practices arise.

The powers retained by the Board include the approval of annual and interim results, the membership, authority and terms of reference of the Board committees, strategy and the adoption of the annual budget, significant financing arrangements, matters relating to share capital (including employee share schemes and share options) and contracts or expenditures that exceed certain monetary thresholds.

The Remuneration and Audit Committees are composed of Non-Executive Directors only, although Executive Directors are invited to attend parts of the Audit Committee meetings. Mr Gawler chairs the Nominations Committee, however the remaining members are Non-Executive Directors. The Executive Committee is composed of the Executive Directors, together with such senior executives as may be nominated by the Chief Executive and whose appointments are confirmed by the Board. The Disclosure Committee is currently composed of the three Executive Directors.

The terms of reference of the Audit, Remuneration and Nominations Committees are available on request from the Company Secretary at the Company's registered office and are also available on the Company's web site at www.charterplc.com.

Remuneration Committee

The Remuneration Committee is responsible for ensuring the remuneration and other terms and conditions of employment of the Executive Directors are appropriate to attract, motivate and retain high calibre individuals. A significant proportion of Executive Directors' total remuneration is structured so as to link rewards to corporate and individual performance. Executive Directors' remuneration packages and terms are set and reviewed by reference to peer group companies with broadly similar stock market capitalisations and on advice from external consultants. The Remuneration Committee is also responsible for determining the remuneration of designated senior management.

The Remuneration Report on pages 42 to 45 provides detailed information concerning the remuneration of the Directors.

The Hon. James Bruce is the chairman of the Remuneration Committee and was a member throughout 2005. John Neill was a member until his resignation from the committee on 24 June 2005. Grey Denham and Andrew Osborne became members of the committee with effect from 7 February 2005 and John Biles from 1 April 2005.

Disclosure Committee

The Disclosure Committee, which was established during the year, is responsible for the creation and maintenance of appropriate procedures, systems and controls to ensure compliance by the Company with its obligations under the Disclosure Rules and the Listing Rules. It has responsibility for determining, on a timely basis, the disclosure treatment of material information, and assisting in, and where appropriate, carrying out the design, implementation and periodic evaluation of disclosure controls and procedures that operate within the Company and its subsidiaries and affiliates. The committee also has responsibility for the identification of inside information, for the purpose of the maintenance of the Company's insider lists, as required by the Disclosure Rules.

Audit Committee

The Audit Committee's terms of reference include the roles and responsibilities set out in the Combined Code. The committee is intended to provide appropriate and regular lines of communication between the Board and the external and internal auditors. The Chief Executive and Finance Director, together with representatives from the external auditors are usually present at committee meetings and the head of internal audit also attends those parts of the meetings that the committee chairman deems appropriate.

The Audit Committee:

- monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- makes recommendations to the Board regarding the adoption of annual and interim financial reports;
- reviews the Company's internal financial controls and internal control and risk management systems;
- monitors and reviews the effectiveness of the Company's internal audit function;
- makes recommendations to the Board regarding the Auditors and their terms of appointment;
- reviews and monitors the external Auditors' independence and objectivity and the effectiveness of the audit process;
- is responsible for developing and implementing a policy on the engagement of the external Auditors to supply non-audit services;
- makes recommendations to the Board in relation to 'whistle blowing' policies and procedures.

The Hon. James Bruce was the chairman of the Audit Committee until 24 June 2005 and was a member throughout 2005. John Biles was appointed chairman of the committee on 24 June 2005. John Neill was a member until his resignation from the committee on 24 June 2005. Grey Denham and Andrew Osborne became members of the committee with effect from 7 February 2005 and John Biles from 1 April 2005, upon their respective appointments to the Board. The Board is satisfied that the Hon. James Bruce, John Biles and Andrew Osborne all have recent and relevant financial experience.

The Audit Committee adopted a formal policy in relation to the external Auditors providing non-audit services during 2005. It has also reviewed the non-audit services provided by the external Auditors throughout the year and has received from them a 'Confirmation of Independence' letter. The committee remains satisfied as to their independence. The Audit Committee has also evaluated the effectiveness of the external audit process.

Nominations Committee

Having regard to its size and structure, the Board as a whole acted as the Nominations Committee until 23 May 2005, retaining all power and authority in relation to the appointment and removal of Directors and the Company Secretary. The Board met twice in this capacity during the year, in relation to the appointments of Grey Denham and Andrew Osborne in January 2005 and John Biles in March 2005.

To ensure further compliance with the Combined Code a separate Nominations Committee was established with effect from 23 May 2005 comprising David Gawler, the committee chairman, the Hon. James Bruce, Grey Denham and Andrew Osborne.

Executive Committee

The Board has delegated powers and authority to the Executive Committee for the day to day management of the affairs of the Company and its subsidiaries and affiliates (other than Anderson Group Inc), subject to powers that the Board has either retained or explicitly delegated to the various other board committees.

The members of the committee during 2005 were the three Executive Directors, being David Gawler (who, as Chairman and Chief Executive Officer of the Company, acted as chairman of the committee), Michael Foster and Robert Careless. Jon Templeman, Chief Executive of ESAB Global and Bob Cleland, Chief Executive of Howden Global became members of the Executive Committee in March 2006.

Anderson Group Inc

The operations of ESAB and Howden in North America are managed by Anderson Group Inc ('AGI'), a subsidiary of Charter plc. Del Tanner is President and Chief Executive Officer of AGI. AGI's board is responsible for all aspects of the management of its affairs and for the corporate governance framework of the businesses that are operated by its subsidiaries. The Company exercises its rights as shareholder of AGI by appointing two nominees as non-executive directors to the board of AGI and they, on behalf of the Company, review matters of significance relating to its ownership interest in AGI such as board appointments, financial results, corporate strategy, major investments and divestments and corporate governance issues. Michael Foster was one of two non-executive directors on the board of AGI and a member of its audit and remuneration committees.

Relations with shareholders

The Company has a policy of maintaining an active dialogue with institutional shareholders through individual meetings. Communications with private shareholders are conducted through the annual report, presentations at the annual general meeting and the Company's internet site that, inter alia, gives a full description of the Company's business operations.

The Board receives regular updates on all meetings and communications with major shareholders. The major shareholders are offered the opportunity to meet with the Non-Executive Directors from time to time, as appropriate.

The Hon. James Bruce is the Senior Independent Director and is available to shareholders if they have concerns.

Compliance with the Combined Code

The Board monitors its compliance with the requirements of the Combined Code on a continuous basis.

Throughout the year ended 31 December 2005, the Company has been in compliance with the provisions set out in Section 1 of the Combined Code issued in July 2003 on corporate governance, as appended to the Financial Services Authority Listing Rules, except for the following principal items:

- A.2.1 The posts of Chairman and Chief Executive are held by David Gawler. This position was originally approved by shareholders following Mr Gawler's appointment in 2001. In addition, as explained in the remuneration report, shareholders approved changes to Mr Gawler's long term incentive plan at the 2004 annual general meeting. Major shareholders have been consulted and continue to support this appointment. Mr Gawler is stepping down as Chief Executive on 30 June 2006;
- A.4.1 Having regard to its size and structure, the entire Board acted as the Nominations Committee until May 2005, when a separate Nominations Committee, comprising a majority of independent Non-Executive Directors, was established;
- B.2.2 The definition of 'senior management' was formally determined by the Board in March 2005. The Remuneration Committee is responsible for determining the remuneration of these individuals;

Corporate governance (continued)

- C.3.2 During 2005, the Audit Committee recommended a policy on the engagement of the external Auditors to supply non-audit services, which was adopted by the Board in June 2005; and
- C.3.4 The Board has delegated authority to the Audit Committee to review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Arrangements were formalised and approved by the Audit Committee and were implemented in March 2006.

Internal control

The Board has overall responsibility for the system of internal control and the Audit Committee has been delegated formal responsibility for reviewing the effectiveness of the system of internal control.

The processes to manage the key risks to the success of the Company are reviewed and improved as necessary. There is an organisational structure with clearly defined lines of responsibility and delegation of authority and there are also established procedures for monitoring each business. While the operational control is largely decentralised and responsibility is delegated, the operations are subject to the overall internal control framework. This, by its nature, can provide reasonable but not absolute assurance against material misstatement or loss.

A number of policies and procedures have been established by the Board with regard to internal control and they are summarised below.

Assessment of business risk

A system of risk assessment and identification and evaluation of controls is embedded within the Company's management processes. Strategic risks and opportunities arising from changes in the business environment are regularly reviewed by the Executive Committee and formally discussed by the Board. Risks relating to key activities within the operating businesses and at head office are assessed on a continuous basis and reported to the Executive Committee and the Board.

Control environment

The Board sets overall policy and delegates the authority to implement that policy to the Executive Committee which is empowered to sub-delegate authority to operating businesses and operating units. A well-defined organisational structure with clear operating procedures, lines of responsibility and delegated authority has been established. There are procedures for appraisal, review and authorisation of investments and capital expenditure.

Information and communication

The Company's operating procedures include a comprehensive system for reporting financial and non-financial information to the Board, including:

- the preparation and review of annual budgets;
- a review of the businesses at each board meeting, focusing on any new risks arising (for example, those relating to proposed major investments and key changes in the markets); and
- meetings between various Executive Directors and operational management.

Control procedures

Detailed operational procedures are developed for each key activity that embody key controls. The implications of changes in law and regulations are taken into account within these procedures. Procedures are established to safeguard the assets of the Company and its subsidiaries and to ensure that all financial transactions are properly recorded. Accounting policies and practices are widely disseminated throughout the Company's subsidiaries.

Monitoring process

There are clear procedures for monitoring the system of internal controls. The significant components of these are:

- The managing director and finance director of each operating unit are required to review internal controls and to return a self certified internal control questionnaire confirming the effectiveness of internal control systems;
- Each operating business maintains a log of business risks. Progress on action plans to mitigate high and medium risks is monitored in monthly management reviews that also check for newly emerging risks. The Board reviews every six months the systems for risk management and monitors progress against action plans;
- As part of its audit visits the internal audit function seeks to verify that the internal controls confirmed in the self-certified internal control questionnaires are being effectively applied. The internal audit function conducts on-site assessments on operating units. The Audit Committee reviews the findings of the internal audit process;
- The Audit Committee has specific responsibility for reviewing the effectiveness of internal controls and monitors the process of assessing the internal controls on behalf of the Board; and
- The Audit Committee reviews the process by which risks are identified and assessed and the effectiveness of controls over these risks are assessed by operating units, operational management and head office.

The Board confirms it has carried out a review of the effectiveness of the system of internal controls described above for the financial year and up to the date of this report in accordance with the guidance set out in Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance). The review encompassed operational, financial and compliance controls as well as risk management. The systems used included the following elements:

- As part of their ongoing reviews of the businesses, the Executive Directors and head office reviewed the effectiveness of strategic, operational and compliance internal controls and risk management. As appropriate this involved considering any reports on key risk areas (concentrating on significant changes in the risk profile) and controls, formulation of actions, policies and procedures to control risks and reviewing the actions being taken on problem areas identified; and
- The Board considered reports from the Audit Committee and the Executive Directors on these areas during the year and, at the time of approving the Annual Report and Accounts, considered a summary of the assessments of the effectiveness of the key risks and controls identified that was prepared on behalf of the Executive Directors.

Statement of Directors' responsibilities

The following statement sets out the responsibilities of the Directors in relation to the consolidated financial statements and those of the Company. The reports of the external auditors, shown on pages 38 and 39, set out their responsibilities in relation to those financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. In preparing those financial statements, the Directors are required to:

- (1) select appropriate accounting policies and apply them consistently;
- (2) make judgements and estimates that are reasonable and prudent;
- (3) state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained; and
- (4) prepare those financial statements on the going concern basis, unless they consider that to be inappropriate.

The applicable accounting standards referred to in (3) above are:

- (a) UK GAAP for the Company; and
- (b) IFRS as adopted by the European Union and implemented in the UK for the Group.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and its subsidiaries and, in that context, to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors are required to prepare financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

The Directors are responsible for the maintenance and integrity of the web site. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.