Notes to the consolidated financial statements

For the year ended 31 December 2005

1 Accounting policies

The principal accounting policies set out below have been consistently applied to all the periods presented except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. The policies applied to financial instruments for 2004 and 2005 are disclosed separately below.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Significant judgements were made in relation to inventory, trade and other receivables, deferred taxation, post retirement benefits and provisions, the accounting policies for which are set out below.

New accounting standards and amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, are as follows:

- IFRS 7 'Financial Instruments: Disclosures', and amendment to IAS 1 (Presentation of Financial Statements) 'Capital Disclosures'. IFRS 7 introduces new disclosures about financial instruments. It requires the disclosure of information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in IAS 32.

  The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

- Amendment to IAS 19 'Employee benefits'. The amendment requires additional disclosure to provide information about plan assets and liabilities and the assumptions underlying the components of the defined benefit cost.

(i) Basis of preparation

The financial information in this report has been prepared on the basis of accounting policies set out below in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations as well as those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

Prior to 2005, the Group prepared its audited annual financial statements using accounting principles generally accepted in the UK (UK GAAP). For the year ended 31 December 2005, the Group is required to prepare its annual consolidated financial statements in accordance with accounting standards adopted for use in the European Union, IFRS. As such, these financial statements take account of the requirements and options in IFRS 1 'First-time adoption of International Financial Reporting Standards' as they relate to the 2004 comparatives included therein.

A company is generally required to determine its IFRS accounting policies as at its reporting date and apply these retrospectively to determine its opening balance sheet at its date of transition to IFRS (1 January 2004). IFRS 1 allows a number of exemptions to this general principle to assist companies in their transition.

The following key exemptions have been taken:-

- Business combinations (IFRS 3): Business combinations prior to the transition date (1 January 2004) have not been restated onto an IFRS basis.
- Fair value as deemed cost: Certain properties have been fair valued at the transition date and this will become the deemed cost.
- Employee benefits: All cumulative actuarial gains and losses have been recognised in equity at the transition date.
- Cumulative translation differences: The cumulative translation difference arising on the retranslation of foreign currency denominated entities has been set at zero at the transition date. The gain or loss on a subsequent disposal of any such entity shall exclude translation differences that arose before the date of transition to IFRS but shall include later translation differences.
- Share-based payments (IFRS 2): Equity settled transactions arising from grants prior to 7 November 2002 have not been accounted for in accordance with the requirements of IFRS 2.
- Financial instruments – IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement): The comparative information for 2004 for derivatives, financial assets and financial liabilities and hedging relationships has not been restated to comply with IAS 32 and IAS 39. The adjustments required on the adoption of IAS 39 as set out in note 31 were established at 1 January 2005 and recognised at that date.

An explanation of how transition from UK GAAP to IFRS has affected the Group's financial position, income statement and cash flows is set out in note 30 and note 31.

Use of adjusted measures

To help provide a better indication of the Group's underlying business performance, items which are both material and non-recurring are presented as exceptional items. The amount of foreign currency exchange differences on inter-company loans included in the income statement is determined by reference to movements in exchange rates and therefore this amount is likely to be volatile. IFRS adjusted earnings per share excludes exceptional items and foreign currency exchange differences on inter-company loans.

(ii) Basis of consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies of the entity. A shareholding of more than one half of the voting rights will normally be the basis of such control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

1 Accounting policies (continued)

(ii) Basis of consolidation (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus the costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, including all separately identifiable intangible assets, is goodwill which has been recorded as an intangible asset since 1 January 1998 (see Goodwill below).

Associates are entities over which the Group has significant influence but not control, normally on the basis of a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recorded at cost.

The Group's share of its associates' post acquisition profits or losses, net of interest and tax, is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves.

Inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

The Group has taken advantage of the business combinations exemption in IFRS 1 and has not restated business combinations that took place before 1 January 2004.

(iii) Segmental reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from other business segments. Segmental assets comprise total assets excluding income tax assets. Segmental liabilities comprise total liabilities excluding income tax liabilities and borrowings other than bank overdrafts. A geographical segment is engaged in providing products within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(iv) Foreign currencies

Items included in the financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, the functional currency and presentation currency of Charter plc.

Foreign currency transactions are translated into the functional currency of group entities using the exchange rate at the date of transaction. Foreign exchange gains and losses arising from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognised in the income statement. The results and net assets of all group companies that have non-Sterling functional currency are included in the consolidated financial statements as follows:-

(a) Assets and liabilities are translated at the exchange rate at the balance sheet date;

(b) Income and expenses are translated at average exchange rates for the relevant period; and

(c) All resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences arising since 1 January 2004 are recognised in the income statement as part of the gain or loss on sale.

(v) Financial instruments

IAS 32 (Financial instruments: Disclosure and presentation), and IAS 39 (Financial instruments: Recognition and measurement), have been adopted with effect from 1 January 2005. The comparative information for 2004 has been prepared in accordance with the Group's IFRS accounting policies for financial instruments applicable up to 31 December 2004. Both policies are set out below.

(a) IFRS accounting policies applicable from 1 January 2005

Derivative financial instruments, principally forward foreign exchange contracts and foreign currency swaps, are used as hedges in the financing and financial risk management of the Group and are initially measured at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

For fair value hedges, any gain or loss from re-measuring the hedging instrument at fair value is recognised in the consolidated income statement together with any gain or loss on the hedged item attributable to the hedged risk.

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, with any ineffective portion recognised in the income statement. When hedged cash flows result in the recognition of a non financial asset or liability, the associated gains or losses previously recognised in shareholders' equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. For net investment hedges gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised in the income statement.

Borrowings are measured at amortised cost. Where borrowings are used to hedge the Group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that are determined to be an effective hedge is recognised in shareholders' equity. Gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Trade and other receivables are measured at amortised cost less any provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement. Trade and other receivables are discounted when the time value of money is considered material.

(b) IFRS accounting policies applicable up to 31 December 2004

Forward foreign exchange contracts which hedge forecast transactions were not recognised until the transaction they hedge was itself recognised.

Where foreign currency borrowings were used to hedge the Group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that were determined to be an effective hedge was recognised in shareholders' equity.

1 Accounting policies (continued)

(vi) Property, plant and equipment
The Group's policy is to carry property, plant and equipment at historic cost less accumulated depreciation and impairment losses except that certain properties were revalued on transition to IFRS at 1 January 2004. These revaluations are treated as deemed cost as at 1 January 2004 as allowed by IFRS 1.

In accordance with the benchmark treatment under IFRS, borrowing costs associated with expenditure on property, plant and equipment are not capitalised.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method spreading the difference between cost and residual value over the estimated useful life as follows:-

Buildings	30-50 years
Plant, machinery and equipment	8-14 years
Vehicles	5 years
IT equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see Impairment of assets below).

(vii) Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiary or associate acquired.

Goodwill, represented by the carrying value at 1 January 2004 under the Group's previous accounting policy together with additional amounts arising since that date is no longer amortised and is carried at cost less accumulated impairment losses, and is included in intangible assets in relation to subsidiaries and in investments in associates in relation to associates. In respect of acquisitions prior to 1 January 2004, the classification and accounting treatment of business combinations has not been restated on transition to IFRS, as permitted by IFRS 1.

Goodwill arising prior to 1 January 1998 was written off directly to reserves. Goodwill arising in the period 1 January 1998 to 31 December 2003 was capitalised as an intangible asset in relation to subsidiaries and amortised on a straight line basis over its estimated useful life, a period not exceeding 20 years or included as part of the carrying value of associates.

(b) Research and development

Research expenditure is charged to income in the year in which it is incurred.

Internal development expenditure is charged to income in the year in which it is incurred, unless it meets the recognition criteria of IAS 38 'Intangible Assets', in which case such costs are capitalised and amortised over the estimated useful life of the asset created, usually between three and ten years.

(c) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred and amortised on a straight line basis over the estimated useful life of the license, usually between 3 and 5 years.

Internal expenditure associated with developing or maintaining computer software programmes is charged to income in the year in which it is incurred, except such costs that are directly associated with the production of identifiable and unique software products controlled by the Group that are likely to generate benefits exceeding costs beyond one year, in which case such costs are capitalised and amortised on a straight line basis over the estimated useful life of the software product, usually less than 3 years.

(viii) Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(ix) Inventory
Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) basis or the average cost basis. Cost includes expenditure which is incurred in the normal course of business in bringing the product to its present location and condition. Net realisable value is the estimated selling price less all disposal costs to be incurred.

(x) Assets held for sale
Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the asset is available for immediate sale in its present condition and the sale is highly probable within one year from the date of classification.

Assets classified for sale are measured at the lower of carrying amount and fair value less costs to sell and cease to be depreciated from the date of classification.

(xi) Trade and other receivables
Trade and other receivables are measured at amortised cost using the effective interest method as reduced by appropriate allowances for estimated irrecoverable amounts.

(xii) Cash and cash equivalents
For the purpose of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(xiii) Taxation
Taxation is that chargeable on the profits for the period, together with deferred taxation. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred taxation liabilities are provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated balance sheet.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1 Accounting policies (continued)

(xiii) Taxation (continued)
Deferred taxation is not provided on the unremitted earnings of subsidiaries where the timing of the reversal of the resulting temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future or where the remittance would not give rise to incremental tax liabilities or is otherwise not taxable.

(xiv) Employee benefits
The Group accounts for pensions and similar post retirement benefits (principally healthcare) under IAS 19 'Employee Benefits'.

In respect of defined benefit pension plans, where the amount of pension benefit that an employee will receive on retirement is defined by the plan, the liability recorded in the balance sheet is the present value of the defined obligation at that date less the fair value of the plan assets, together with an adjustment for any unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

As permitted under IFRS 1 all actuarial gains and losses as at 1 January 2004, the date of transition to IFRS, were recognised for each plan. To the extent that cumulative actuarial gains and losses arising subsequent to 1 January 2004 exceed 10 per cent of the higher of plan assets or liabilities as at the end of the previous year, this excess is normally amortised in the income statement over the expected average remaining working lives of the employees' participating in the plan. Otherwise, the accumulated actuarial gains and losses are not recognised.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period, in which case the past service costs are spread over that period.

For defined benefit schemes, the amount charged to operating profit in the income statement comprises the current service cost, interest on plan liabilities, the expected return on plan assets, past service cost, the impact of any settlements or curtailments and actuarial gains or losses to the extent they are recognised.

For defined contribution plans, where the Group pays fixed contribution into a separate entity and has no legal or constructive obligations to pay further contributions irrespective of whether or not the fund has sufficient assets to pay all employees the benefits relating to service in the current and prior periods, the contributions are recognised as an expense when they are due.

For other defined benefit post retirement obligations, principally post retirement medical arrangements in the US, a similar accounting methodology to that for defined benefit pension plans is used.

Where the actuarial valuation of a scheme demonstrates that the scheme is in surplus, the recognised asset is limited to the extent that the Group can benefit in future, for example, by refunds or a reduction in contributions.

(xv) Share-based payments
The Group operates both equity-settled and cash-settled share-based compensation plans.

The fair value of the employee services received in exchange for the participation in the plan is recognised as an expense in the income statement.

In the case of equity-settled plans the fair value of the employee service is based on the fair value of the equity instruments granted. This expense is spread over the vesting period of the instrument. The corresponding entry is credited to equity. The liability for social security costs arising in relation to the awards is re-measured at each reporting date based on the share price as at the reporting date and the elapsed portion of the relevant vesting periods to the extent it is considered probable that a liability will arise.

Cash settled plans are measured on a similar basis except that the fair value of the liability is re-measured at each reporting date, with changes recognised in the income statement. For cash-settled plans the corresponding entry is included as a liability.

(xvi) Government grants
Grants receivable from governments or similar bodies are credited to the balance sheet in the period in which the conditions relating to the grant are met. Where they relate to specific assets they are amortised on a straight line basis over the same period as the asset is depreciated. Where they relate to revenue expenditure and/or non-asset criteria they are taken to the income statement to match the period in which the expenditure is incurred and criteria met.

(xvii) Provisions
Provisions for disposal and restructuring costs, warranty and product liability, and legal and environmental liability are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If all these conditions are not met then no provision is recognised. Incurred but not reported amounts ('IBNR') are included in provisions. Provisions are not recognised for future operating losses. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(xviii) Revenue recognition
Revenue comprises the invoiced value of goods and services and the value of work executed during the year in respect of long-term contracts. Revenue, which is recorded net of value-added tax, rebates and discounts, and after eliminating intra-group sales, is recognised as follows:

(a) Sales of goods and services
The majority of the Group's revenues relate to the sale of goods and services which are recognised when a group entity has fulfilled its contractual obligations to a customer and has obtained the right to receive consideration. In respect of the sale of goods this is usually on despatch but is dependent upon the contractual terms that have been agreed with a customer.

(b) Construction contracts
Revenue is recognised by a group entity in accordance with the stage of completion of its contractual obligations to the customer. The stage of completion is usually based on the proportion of costs incurred compared to the total expected costs to complete the contract, where this also represents a right to receive consideration, and provided the outcome of the contract can be assessed with reasonable certainty.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

(xix) Leases
Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in property, plant and equipment and the capital element of the leasing commitments is shown as an obligation under finance leases. The lease rentals are treated as consisting of capital and interest repayment elements. The capital element is applied to reduce the outstanding obligations and the interest element charged to income so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

(xx) Dividends
Dividend distributions to the Company's shareholders are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

2 Segment analysis

Primary reporting format – business segments
The Group is organised into two principal businesses, ESAB (welding, cutting and automation) and Howden (air and gas handling). For the purposes of IAS 14, ESAB is analysed into two segments; (i) welding and (ii) cutting and automation. Inter segmental revenue is not significant.

	Welding £m	Cutting and automation £m	Welding, cutting and automation £m	Air and gas handling £m	Food equipment £m	Central operations £m	Total £m
Year ended 31 December 2005							
Total revenue	**607.8**	**112.3**	**720.1**	**345.1**	**0.5**	**–**	**1,065.7**
Segment result (before exceptional items)	**65.5**	**8.9**	**74.4**	**33.5**	**(1.0)**	**(9.4)**	**97.5**
Exceptional items (note 5)	**–**	**–**	**–**	**–**	**–**	**4.2**	**4.2**
Operating profit	**65.5**	**8.9**	**74.4**	**33.5**	**(1.0)**	**(5.2)**	**101.7**
Share of post tax profits of associates	**3.4**	**–**	**3.4**	**1.1**	**–**	**–**	**4.5**
	68.9	**8.9**	**77.8**	**34.6**	**(1.0)**	**(5.2)**	**106.2**
Net financing charge							**(2.7)**
Profit before tax							**103.5**
Tax							**(20.0)**
Profit for the year							**83.5**
Minority interests							**(9.5)**
Profit attributable to equity shareholders							**74.0**
Segment assets	**346.0**	**57.3**	**403.3**	**213.6**	**–**	**45.2**	**662.1**
Investments in associates	**16.4**	**–**	**16.4**	**8.1**	**–**	**0.2**	**24.7**
Unallocated assets: Deferred income tax							**17.1**
Total assets							**703.9**
Segment liabilities	**(188.4)**	**(35.8)**	**(224.2)**	**(199.6)**	**–**	**(25.4)**	**(449.2)**
Unallocated liabilities: Income tax liabilities							**(17.6)**
: Deferred income tax liabilities							**(14.6)**
: Borrowings (excluding overdrafts)							**(73.9)**
Total liabilities							**(555.3)**
Other segment items							
Capital expenditure	**16.0**	**0.8**	**16.8**	**3.6**	**–**	**–**	**20.4**
Depreciation	**(11.0)**	**(0.9)**	**(11.9)**	**(2.6)**	**–**	**(0.2)**	**(14.7)**
Amortisation of intangible assets	**(0.9)**	**(0.1)**	**(1.0)**	**(0.2)**	**–**	**–**	**(1.2)**
Impairment of trade receivables	**(0.5)**	**(0.4)**	**(0.9)**	**(0.8)**	**0.2**	**–**	**(1.5)**

	Welding £m	Cutting and automation £m	Welding, cutting and automation £m	Air and gas handling £m	Food equipment £m	Central operations £m	Total £m
Year ended 31 December 2004							
Total revenue	532.4	92.5	624.9	241.6	3.9	–	870.4
Segment result (before exceptional items)	43.4	5.8	49.2	14.2	(2.2)	(6.3)	54.9
Exceptional items (note 5)	(12.0)	4.9	(7.1)	(2.2)	3.6	2.7	(3.0)
Operating profit	31.4	10.7	42.1	12.0	1.4	(3.6)	51.9
Share of post tax profits of associates	2.1	0.3	2.4	1.2	–	–	3.6
	33.5	11.0	44.5	13.2	1.4	(3.6)	55.5
Net financing charge							(14.5)
Profit before tax							41.0
Tax							(4.4)
Profit for the year							36.6
Minority interests							(6.8)
Profit attributable to equity shareholders							29.8
Segment assets	296.2	46.8	343.0	171.4	0.9	5.9	521.2
Investments in associates	12.8	–	12.8	8.9	–	0.4	22.1
Unallocated assets: Deferred income tax							12.2
Total assets							555.5
Segment liabilities	(179.8)	(35.0)	(214.8)	(154.8)	(0.5)	(22.2)	(392.3)
Unallocated liabilities: Income tax liabilities							(9.3)
: Deferred income tax liabilities							(12.8)
: Borrowings (excluding overdrafts)							(107.4)
Total liabilities							(521.8)
Other segment items							
Capital expenditure	8.1	0.3	8.4	2.8	–	0.1	11.3
Depreciation	(11.2)	(0.9)	(12.1)	(2.9)	(0.1)	(0.2)	(15.3)
Amortisation of intangible assets	(0.4)	(0.1)	(0.5)	(0.6)	–	–	(1.1)
Impairment of trade receivables	(0.1)	(0.4)	(0.5)	(0.1)	(0.3)	–	(0.9)

2 Segment analysis (continued)

Secondary reporting format – geographical segments

The Group's operations are based in five principal geographic areas.

	Revenue		Segment assets		Capital expenditure	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Europe	**442.1**	394.8	**326.9**	308.3	**5.5**	5.9
North America	**258.2**	223.0	**122.2**	91.9	**3.3**	3.0
South America	**99.2**	75.7	**65.9**	34.7	**5.0**	1.4
China	**112.0**	59.6	**93.4**	45.7	**5.6**	0.8
Rest of world	**154.2**	117.3	**53.7**	40.6	**1.0**	0.2
	1,065.7	870.4	**662.1**	521.2	**20.4**	11.3
Investment in associates			**24.7**	22.1		
Unallocated assets – deferred income tax			**17.1**	12.2		
	1,065.7	870.4	**703.9**	555.5	**20.4**	11.3

3 Analysis of revenue by category

	2005 £m	2004 £m
Sales of goods	**806.6**	662.8
Revenue from construction contracts	**228.4**	176.5
Revenue from services	**30.7**	31.1
	1,065.7	870.4

4 Profit before taxation

	2005 £m	2004 £m
The following amounts have been charged/(credited) in arriving at operating profit		
Staff costs (note 8)	**240.0**	215.6
Depreciation of property, plant and equipment		
– Owned assets	**14.2**	14.8
– Finance leases	**0.5**	0.5
Amortisation of intangibles	**1.2**	1.1
(Profit)/loss on disposal of fixed assets	**(0.8)**	0.2
Operating lease rentals payable		
– Plant and machinery	**2.0**	2.4
– Property	**5.3**	7.1
Repairs and maintenance expenditure on property, plant and equipment	**15.8**	13.3
Research and development expenditure	**5.3**	6.8
Trade receivables impairment	**1.3**	0.6
Amortisation of government grants	**(0.4)**	(0.7)
Restructuring costs	**1.1**	12.8
Net exchange (gains)/losses	**(0.2)**	0.4

Services provided by the Group's auditors	**2005 £m**	2004 £m
Audit services	**1.9**	1.6
Other assurance services	**0.4**	1.0
Tax services – compliance	**0.4**	0.2
– advisory	**0.1**	0.3
Other services	**0.4**	0.3
	3.2	3.4

5 Exceptional items

To help provide a better indication of the Group's underlying business performance, items which are both material and non-recurring are presented as exceptional items.

	2005 £m	2004 £m
Restructuring costs	**–**	(12.8)
Recovery of unauthorised payments	**4.2**	0.5
Legal and environmental costs	**–**	(1.9)
Disposals of assets and businesses	**–**	11.2
	4.2	(3.0)
Taxation on exceptional items	**–**	0.5
Exceptional tax credit	**–**	6.6
	4.2	4.1

In the year ended 31 December 2005, there was exceptional income of £4.2 million, arising from the settlement of an action brought against City Index in respect of losses incurred as a consequence of certain unauthorised payments having been made by a former employee. The proceeds of the settlement, earlier recoveries from the Company's insurers and realisations of a former employee's assets have resulted in a full recovery except for a £200,000 insurance policy deductible.

6 Net financing charge

	2005 £m	2004 £m
Interest payable on bank borrowings	**(2.6)**	(7.9)
Interest payable on other loans	**(6.7)**	(6.1)
Interest payable on finance leases	**(0.2)**	(0.3)
Unwinding of discount on provisions	**(0.4)**	(0.4)
Finance charge excluding exchange losses on inter-company loan balances	**(9.9)**	(14.7)
Interest income on bank accounts, deposits and other	**2.9**	3.2
Other	**0.7**	–
Finance income excluding exchange gains on inter-company loan balances	**3.6**	3.2
Before foreign exchange gains/(losses) on inter-company loan balances	**(6.3)**	(11.5)
Foreign exchange gains/(losses) on retranslation of inter-company loan balances	**3.6**	(3.0)
Net financing charge	**(2.7)**	(14.5)

7 Taxation

	2005 £m	2004 £m
Excluding taxation on exceptional items, gains/(losses) on inter-company loans and exceptional tax credit	**19.5**	11.9
Taxation on exceptional items	**–**	(0.5)
Taxation on gains/(losses) on retranslation of inter-company loan balances	**0.5**	(0.4)
Exceptional tax credit	**–**	(6.6)
Tax on profit on ordinary activities	**20.0**	4.4

	2005 £m	2004 £m
Current taxation		
United Kingdom:		
Corporation tax at 30 per cent (2004: 30 per cent)	**–**	0.1
Adjustments in respect of previous years	**–**	(7.7)
	–	(7.6)
Exceptional tax credit	**–**	(6.6)
	–	(14.2)
Overseas:		
Current year	**21.3**	10.3
Adjustments in respect of previous years	**1.4**	5.4
Total current tax charge	**22.7**	1.5
Deferred taxation		
United Kingdom:		
Current year	**–**	0.2
Adjustments in respect of previous years	**–**	(0.2)
	–	–
Overseas:		
Current year	**0.7**	0.6
Adjustments in respect of previous years	**(3.4)**	2.3
	(2.7)	2.9
Total deferred tax charge (note 19)	**(2.7)**	2.9
Total tax charge	**20.0**	4.4

7 Taxation (continued)

Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30 per cent. The differences are explained below:

	2005 £m	2004 £m
Profit on ordinary activities before tax	**103.5**	41.0
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 30 per cent	**31.0**	12.3
Effects of:		
Adjustment to tax in respect of prior period	**4.6**	(0.2)
Adjustment in respect of foreign tax rates	**(7.5)**	(5.5)
Other taxes (primarily US state taxes)	**1.3**	1.7
Tax incentives	**(0.2)**	(0.1)
Non-taxable expenses/(income)	**3.9**	(3.3)
Movement on deferred tax asset not recognised	**(10.0)**	6.7
Associates	**(1.4)**	(1.1)
Non-taxable exchange gains/(losses) on inter-company balances	**(0.5)**	0.5
Exceptional tax credit	**–**	(6.6)
Non-taxable exceptional items	**(1.2)**	–
Tax charge for the year	**20.0**	4.4

8 Employees and directors

	2005 £m	2004 £m
(i) Aggregate amounts payable:		
Wages and salaries	**189.8**	178.5
Social security costs	**40.0**	30.8
Post retirement costs		
Defined benefit schemes and overseas medical costs (note 20)	**7.6**	4.2
Defined contribution schemes	**2.6**	2.1
	240.0	215.6

	2005	2004
(ii) Average number of persons employed by the Group:		
Welding	**5,722**	5,666
Cutting and automation	**785**	747
Welding, cutting and automation	**6,507**	6,413
Air and gas handling	**2,804**	2,556
Food equipment	**15**	45
Corporate	**36**	24
	9,362	9,038

At the year end the number of employees was 9,521 (2004: 9,055).

(iii) Information covering Directors' remuneration, interests in shares and interests in share options is included in the Remuneration report on pages 42 to 45.

	2005 £m	2004 £m
(iv) Key management compensation:		
Salaries and short term employee benefits	**3.7**	2.7
Post-employment benefits	**0.3**	0.2
Share-based payments	**1.7**	0.5
	5.7	3.4

Amounts disclosed above for key management compensation comprise amounts in respect of the Directors of the Company and the Chief Executives of ESAB Global, Howden Global and Anderson Group Inc.

9 Earnings per share

Basic headline earnings per share is calculated on an average of 157,739,159 shares (2004: 142,749,405 shares).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of 2,208,746 (2004: 497,819) dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the contingently issuable shares under the Group's long term incentive plans.

To help provide a better indication of the Group's underlying business performance, exceptional items and foreign currency gains and losses on inter-company loans (including attributable tax) are excluded from the calculations of adjusted earnings per share as set out in the following table.

	Year ended 31.12.05 Pence	Year ended 31.12.04 Pence	Year ended 31.12.05 £m	Year ended 31.12.04 £m
Basic earnings per share				
Earnings attributable to equity shareholders	**46.9**	20.9	**74.0**	29.8
Items not relating to underlying business performance				
Exceptional items (note 5)	**(2.7)**	(2.9)	**(4.2)**	(4.1)
(Gain)/loss on retranslation of inter-company loan balances	**(2.3)**	2.1	**(3.6)**	3.0
(Gain)/loss on retranslation of inter-company loan balances – taxation	**0.3**	(0.3)	**0.5**	(0.4)
(Gain)/loss on retranslation of inter-company loan balances – minorities	**0.8**	–	**1.2**	–
Adjusted earnings attributable to equity shareholders	**43.0**	19.8	**67.9**	28.3

	Year ended 31.12.05 Pence	Year ended 31.12.04 Pence	Year ended 31.12.05 £m	Year ended 31.12.04 £m
Fully diluted earnings per share				
Earnings attributable to equity shareholders	**46.3**	20.8	**74.0**	29.8
Items not relating to underlying business performance				
Exceptional items (note 5)	**(2.6)**	(2.8)	**(4.2)**	(4.1)
(Gain)/loss on retranslation of inter-company loan balances	**(2.3)**	2.1	**(3.6)**	3.0
(Gain)/loss on retranslation of inter-company loan balances – taxation	**0.3**	(0.3)	**0.5**	(0.4)
(Gain)/loss on retranslation of inter-company loan balances – minorities	**0.8**	–	**1.2**	–
Adjusted earnings attributable to equity shareholders	**42.5**	19.8	**67.9**	28.3

10 Intangible assets

	Goodwill £m	Computer software £m	Development costs £m	Total £m
Cost				
At 1 January 2005	**24.1**	**4.6**	**2.8**	**31.5**
Exchange adjustments	**0.9**	**0.3**	**–**	**1.2**
Additions	**13.9**	**2.4**	**–**	**16.3**
Disposals	**(0.1)**	**(0.1)**	**–**	**(0.2)**
Internally generated	**–**	**–**	**2.2**	**2.2**
At 31 December 2005	**38.8**	**7.2**	**5.0**	**51.0**
Amortisation				
At 1 January 2005	**5.7**	**2.9**	**1.2**	**9.8**
Exchange adjustments	**–**	**–**	**(0.1)**	**(0.1)**
Charge for the year	**–**	**0.9**	**0.3**	**1.2**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 31 December 2005	**5.7**	**3.7**	**1.4**	**10.8**
Net book amount				
At 1 January 2005	**18.4**	**1.7**	**1.6**	**21.7**
At 31 December 2005	**33.1**	**3.5**	**3.6**	**40.2**

	Goodwill £m	Computer software £m	Development costs £m	Total £m
Cost				
At 1 January 2004	23.6	3.0	2.4	29.0
Exchange adjustments	–	0.1	–	0.1
Additions	–	1.5	–	1.5
Acquired	0.5	–	–	0.5
Internally generated	–	–	0.4	0.4
At 31 December 2004	24.1	4.6	2.8	31.5
Amortisation				
At 1 January 2004	5.7	1.9	1.0	8.6
Exchange adjustments	–	0.1	–	0.1
Charge for the year	–	0.9	0.2	1.1
At 31 December 2004	5.7	2.9	1.2	9.8
Net book amount				
At 1 January 2004	17.9	1.1	1.4	20.4
At 31 December 2004	18.4	1.7	1.6	21.7

10 Intangible assets (continued)

Goodwill acquired in business combinations and carried in the balance sheet is allocated to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amounts of goodwill have been allocated as follows:

	2005 £m	2004 £m
Welding		
Alcotec (single CGU)	**10.4**	10.4
ESAB Sp z.o.o (single CGU)	**5.8**	5.8
Eutectic (single CGU)	**0.9**	0.9
ESAB South America (several CGUs)	**15.1**	0.4
	32.2	17.5
Air and Gas Handling		
Howden South Africa (several CGUs)	**0.9**	0.9
	33.1	18.4

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected sales prices and direct costs during the period. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts and internal forecasts. Selling prices and direct costs are based on past experience and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next two years and extrapolates cash flows for the following years based on estimated growth rates of 5 per cent. This does not exceed the average long term growth rate for the relevant markets.

The rates used to discount the forecast cash flows were 11.6 to 20.5 per cent.

Other intangible assets have finite lives, over which the assets are amortised. The amortisation periods are set out in the accounting policies on page 52.

Amortisation has been included in the income statement as follows:

	Computer software		Development costs		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Cost of sales	**0.5**	0.5	**0.2**	0.2	**0.7**	0.7
Selling and distribution costs	**–**	–	**–**	–	**–**	–
Administrative expenses	**0.4**	0.4	**0.1**	–	**0.5**	0.4
Total	**0.9**	0.9	**0.3**	0.2	**1.2**	1.1

Development costs are amortised once the asset is brought into use. The Group tests development costs for assets not yet brought into use at least annually for impairment.

No impairment losses have been recognised.

11(a) Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Total £m
Cost				
At 1 January 2005	**86.3**	**120.9**	**31.4**	**238.6**
Exchange adjustments	**2.4**	**5.9**	**0.6**	**8.9**
Additions	**4.7**	**10.1**	**3.2**	**18.0**
Disposals	**(13.9)**	**(7.6)**	**(3.2)**	**(24.7)**
Reclassified as assets held for sale	**(9.2)**	**–**	**–**	**(9.2)**
At 31 December 2005	**70.3**	**129.3**	**32.0**	**231.6**
Depreciation				
At 1 January 2005	**22.6**	**78.3**	**26.4**	**127.3**
Exchange adjustments	**0.9**	**3.9**	**0.5**	**5.3**
Charge for the year	**2.4**	**10.3**	**2.0**	**14.7**
Disposals	**(11.3)**	**(8.0)**	**(3.0)**	**(22.3)**
Reclassified as assets held for sale	**(3.9)**	**–**	**–**	**(3.9)**
At 31 December 2005	**10.7**	**84.5**	**25.9**	**121.1**
Net book amount				
At 1 January 2005	**63.7**	**42.6**	**5.0**	**111.3**
At 31 December 2005	**59.6**	**44.8**	**6.1**	**110.5**
Net book amount includes the following in respect of assets held under finance leases				
At 1 January 2005	**0.9**	**–**	**0.5**	**1.4**
At 31 December 2005	**0.7**	**–**	**0.6**	**1.3**

11(a) Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Total £m
Cost				
At 1 January 2004	88.0	121.8	30.2	240.0
Exchange adjustments	(0.8)	(1.8)	(0.3)	(2.9)
Additions	0.5	6.4	2.9	9.8
Disposals	(1.4)	(6.8)	(1.5)	(9.7)
Business acquisitions	–	1.3	0.1	1.4
At 31 December 2004	86.3	120.9	31.4	238.6
Depreciation				
At 1 January 2004	20.2	74.4	25.8	120.4
Exchange adjustments	(0.1)	(1.1)	(0.4)	(1.6)
Charge for the year	2.8	11.1	1.4	15.3
Disposals	(0.6)	(6.1)	(0.4)	(7.1)
Impairment	0.3	–	–	0.3
At 31 December 2004	22.6	78.3	26.4	127.3
Net book amount				
At 1 January 2004	67.8	47.4	4.4	119.6
At 31 December 2004	63.7	42.6	5.0	111.3
Net book amount includes the following in respect of assets held under finance leases				
At 1 January 2004	1.5	–	0.4	1.9
At 31 December 2004	0.9	–	0.5	1.4

As explained in note 30(ii), on transition to IFRS certain freehold land and buildings were revalued upwards by £16.0 million to £25.7 million as at 1 January 2004 based on advice received from independent professional valuers.

11(b) Assets held for sale

Three properties with a carrying value of £5.3 million (welding, cutting and automation £3.5 million, air and gas handling £1.8 million) were sold subsequent to the year end for proceeds in excess of the carrying amount and have accordingly been reclassified from 'property, plant and equipment' to 'assets held for sale'.

12 Investment in associated undertakings

	2005 £m	2004 £m
At 1 January	**22.1**	27.9
Exchange adjustments	**1.5**	0.4
Disposals	**(0.4)**	(8.5)
Share of net profits retained	**1.5**	2.3
At 31 December	**24.7**	22.1
Share of net assets excluding goodwill	**24.7**	22.1
Goodwill	**–**	–
	24.7	22.1

Investments in associated undertakings include listed investments of £3.8 million (2004: £1.7 million). The fair value of these investments, based on quoted market prices, was £32.6 million (2004: £9.6 million).

The Group's share of the net assets of associated undertakings comprises:

	2005 £m	2004 £m
Non-current assets	**12.0**	10.4
Current assets	**21.8**	20.0
Current liabilities	**(9.3)**	(7.8)
Non-current liabilities	**(1.3)**	(1.8)
Share of net assets	**23.2**	20.8
Loans to associated undertakings	**1.5**	1.3
	24.7	22.1

The Group's share of revenue and profit of associated undertakings is as follows:

	2005 £m	2004 £m
Revenue	**52.0**	52.2
Operating profit	**5.9**	5.4
Interest	**0.1**	(0.1)
Profit before tax	**6.0**	5.3
Tax	**(1.5)**	(1.7)
Share of profits	**4.5**	3.6
Dividends received from associates	**(3.0)**	(1.3)
	1.5	2.3

The Group's share of capital commitments and operating lease commitments of associated undertakings were £0.2 million (2004: £0.1 million) and £0.4 million (2004: £0.5 million) respectively.

The Group's share of contingent liabilities of associates amounted to £0.5 million (2004: £0.6 million) in relation to disputed taxes and duties and a claim for salaries and retirement benefits from a former employee.

There are currently no restrictions in place that might impact the Group's associates' ability to remit funds.

13 Inventory

	2005 £m	2004 £m
Raw materials, components and consumables	**38.1**	35.6
Work in progress	**17.7**	10.5
Finished goods	**63.7**	56.6
	119.5	102.7
Inventory carried at net realisable value	**6.5**	8.3
Carrying amount of inventory pledged as security for liabilities	**0.1**	0.1

The Group consumed £699.9 million (2004: £524.9 million) of inventory during the year.

£3.9 million (2004: £5.9 million) was recognised as an expense in the year for the write-down of inventory to net realisable value.

£4.7 million (2004: £3.5 million) of amounts recognised as an expense in earlier periods for the write down of inventory to net realisable value was reversed in the period.

14 Trade and other receivables

	2005 £m	2004 £m
Trade receivables	**246.0**	189.6
Less: provision for impairment of receivables	**(10.2)**	(10.0)
Trade receivables – net	**235.8**	179.6
Amounts receivable under construction contracts	**26.2**	24.6
Prepayments	**13.0**	9.8
Other debtors	**29.7**	23.8
	304.7	237.8
Less: non-current portion		
Trade receivables – net	**9.2**	0.3
Other receivables	**2.6**	0.1
	11.8	0.4
Current portion	**292.9**	237.4

There is no significant difference between the net book amount and the fair value of current trade and other receivables.

The fair values of non-current receivables are as follows:

	2005 £m	2004 £m
Trade receivables – net	**9.2**	0.3
Other receivables	**2.6**	0.1
	11.8	0.4

The effective interest rates on non-current receivables were as follows:

	2005 %	2004 %
Trade receivables – net	**1.5**	4.0

There is no particular concentration of credit risks to trade receivables, as the Group has a large number of internationally dispersed customers.

£15.4 million (2004: £9.0 million) is included within amounts receivable under construction contracts in relation to contract retentions held by customers.

15 Cash and cash equivalents

	2005 £m	2004 £m
Cash at bank and in hand	**34.8**	37.9
Short term bank deposits	**35.7**	1.3
Bank deposits over three months	**5.2**	5.9
Cash and cash equivalents in the balance sheet	**75.7**	45.1
Less: Bank deposits over three months	**(5.2)**	(5.9)
: Bank overdrafts (see note 16)	**(8.3)**	(4.0)
Cash and cash equivalents in the statement of cash flows	**62.2**	35.2

For the purposes of the cash flow statement, cash and cash equivalents are included net of overdrafts repayable on demand. The overdrafts are excluded from the definitions of cash and cash equivalents disclosed in the balance sheet.

The effective interest rate on bank deposits was 3.7 per cent (2004: 2.7 per cent). These deposits have an average maturity of 23 days.

The carrying amounts of cash and cash equivalents approximate their fair value.

Cash and cash equivalents of £75.7 million (2004: £45.1 million) includes balances of £7.5 million (2004: £5.7 million) held as cash collateral in connection with certain local trading practices or banking facilities.

At 31 December 2005 cash at bank and in hand is distributed over a large number of banks located in the countries where the Group operates. Other cash deposits are mainly held in the UK with a limited number of banks. The credit status of institutions where cash is held is kept under review with credit limits being set and monitored accordingly.

16 Borrowings

	2005 £m	2004 £m
Non-current		
US$85.0 million 7.38 per cent loan notes due 21.10.07	**49.4**	44.3
US$35.0 million 7.46 per cent loan notes due 21.10.09	**20.3**	18.2
Other loans – unsecured	**0.9**	0.9
Finance lease obligations	**1.2**	2.0
	71.8	65.4
Current		
US$3.0 million 7.24 per cent loan notes due 01.07.05	**–**	1.6
US$5.0 million 7.33 per cent loan notes due 01.07.05	**–**	2.6
US$85.0 million 7.38 per cent loan notes due 21.10.07 – accrued interest as at balance sheet date	**0.7**	–
US$35.0 million 7.46 per cent loan notes due 21.10.09 – accrued interest as at balance sheet date	**0.3**	–
Syndicated bank facility – secured	**–**	2.2
Other bank loans – secured	**0.1**	–
Other bank loans – unsecured	**–**	35.1
Bank overdrafts – secured	**1.3**	–
Bank overdrafts – unsecured	**7.0**	4.0
Finance lease obligations	**1.0**	0.5
	10.4	46.0
Total borrowings	**82.2**	111.4

Secured bank overdrafts at 31 December 2005 principally relate to an overdraft secured on receivables.

Amounts owed under the syndicated bank facility as at 31 December 2004 were secured on land and buildings owned by a subsidiary undertaking.

The interest rate risk profile of the Group's borrowings as at 31 December 2005 was:

				Fixed rate analysis	
	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currencies					
Euro	**3.4**	**3.4**	**–**	**–**	**–**
US Dollar	**74.2**	**2.5**	**71.7**	**7.5**	**2.4**
Other	**1.3**	**1.3**	**–**	**–**	**–**
Total currency	**78.9**	**7.2**	**71.7**		
Sterling	**3.3**	**3.3**	**–**	**–**	**–**
Total gross	**82.2**	**10.5**	**71.7**		

The maturity of non-current borrowings is as follows:-

	Loan notes £m	Finance leases £m	Other loans £m	Total 2005 £m	Total 2004 £m
Between one and two years	**49.4**	**1.1**	**–**	**50.5**	0.6
Between two and five years	**20.3**	**0.1**	**0.9**	**21.3**	64.8
	69.7	**1.2**	**0.9**	**71.8**	65.4

16 Borrowings (continued)

The minimum lease payments under finance leases are as follows:

	2005 £m	2004 £m
Within one year	**1.1**	0.8
In the second to fifth years inclusive	**1.4**	2.2
	2.5	3.0
Less future finance charges	**(0.3)**	(0.5)
Present value of lease obligations	**2.2**	2.5

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2005 £m	2004 £m
Sterling	**3.3**	10.3
US Dollar	**74.2**	69.7
Euro	**3.4**	31.0
Other	**1.3**	0.4
	82.2	111.4

The above US Dollar borrowings include $120 million loan notes that are swapped into Sterling.

The Group has the following undrawn committed borrowing facilities:

	2005 £m	2004 £m
Expiring within one year	**–**	36.0
Expiring beyond one year	**50.0**	–
	50.0	36.0

17 Trade and other payables

	2005 £m	2004 £m
Trade creditors	**108.1**	86.3
Construction contracts	**52.6**	33.2
Other creditors	**38.9**	33.9
Other taxation and social security	**16.6**	12.5
Government grants	**3.0**	3.1
Accruals and deferred income	**46.6**	41.7
	265.8	210.7
Less: non-current portion		
Other creditors	**1.3**	1.4
Government grants	**2.4**	2.7
Accruals and deferred income	**0.3**	0.8
	4.0	4.9
Current portion	**261.8**	205.8

There is no difference between the net book amount and the fair value of trade and other payables.

18 Provisions

	Disposal and restructuring £m	Warranty and product liability £m	Legal and environ-mental £m	Other £m	Total £m
At 1 January 2005	**11.0**	**8.7**	**16.8**	**3.7**	**40.2**
Exchange adjustments	**(0.3)**	**0.3**	**1.3**	**0.4**	**1.7**
Amounts provided	**2.3**	**8.7**	**9.8**	**1.6**	**22.4**
Amounts released	**(1.7)**	**(3.7)**	**(0.8)**	**(0.8)**	**(7.0)**
Utilised in the year	**(6.7)**	**(3.6)**	**(5.8)**	**(0.9)**	**(17.0)**
Amortisation of discount	**–**	**–**	**0.4**	**–**	**0.4**
At 31 December 2005	**4.6**	**10.4**	**21.7**	**4.0**	**40.7**

Provisions have been analysed between current and non-current as follows:-

	2005 £m	2004 £m
Current	**25.6**	19.8
Non-current	**15.1**	20.4
	40.7	40.2

(i) Disposal and restructuring costs include £3.1 million (2004: £8.4 million) in respect of employee severance costs and property costs of £0.5 million (2004: £0.9 million) in the welding, cutting and automation business. This is expected to result in cash expenditure in 2006. The remaining provisions in this category are expected to be utilised over the next one to two years.

(ii) Warranty and product liability provisions relate to continuing businesses and are expected to be utilised over a period of one to two years dependent on the warranty period provided but will also be replaced by comparable amounts as they are utilised.

(iii) Provision has been made for the probable exposure arising from legal and environmental claims and disputes, both existing and threatened, in some cases arising from warranties given on disposal of businesses. Provisions have been made representing the best estimate of the outcome of the claims including costs before taking account of insurance recoveries. Where the outcome of a claim is uncertain the legal costs of defence have been provided for to the extent that they are reliably measurable. Where appropriate insurance recoveries are recognised in 'receivables'. At 31 December 2005 these amounted to £1.7 million. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specified to the liability. Due to their nature, it is not possible to predict precisely when these provisions will be utilised though most are expected to be utilised over the short to medium term with utilisation in the next year expected to be in the region of £10 million.

(iv) Other provisions include various amounts which are not individually material. Due to their nature it is not possible to predict precisely when these provisions will be utilised but utilisation in the next year is expected to be in the region of £1 million to £2 million.

(v) The opening balances as at 1 January 2005 for 'legal & environmental' and 'other' provisions are after reclassifying £3.3 million from trade and other payables following further consideration of the classification requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

19 Deferred tax

The movement on the deferred tax asset/(liability) is set out below:-

	2005 £m	2004 £m
At 1 January	**(0.6)**	(2.1)
Adjustment on adoption of IAS 39 (note 31)	**(0.2)**	–
Exchange adjustments	**(0.1)**	0.2
Income statement credit/(charge)	**2.7**	(2.9)
Reclassification to creditors	**–**	4.2
Taken to equity – attributable to hedging reserve	**0.7**	–
At 31 December	**2.5**	(0.6)

Deferred tax assets are recognised for tax losses carried forward to the extent to which the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £70.6 million (2004: £87.0 million) in respect of taxable losses of £223.8 million (2004: £235 million) that can be carried forward against taxable profits. Of these losses £157.9 million have no expiry date and £65.9 million in respect of the US Group expire as follows:

Date of expiry	2005 £m
31 December 2010	**11.8**
31 December 2019	**6.9**
31 December 2020	**5.4**
31 December 2021	**1.3**
31 December 2022	**23.0**
31 December 2023	**12.4**
31 December 2024	**5.1**
	65.9

In addition the Group has an unrecognised deferred tax asset in respect of its provision for post retirement benefits under IAS 19 of £37.4 million (2004: £35.5 million).

No deferred tax is provided on the unremitted earnings of overseas subsidiary undertakings as the Group is able to control the remittance of such earnings and has no intention of making any such remittance.

19 Deferred tax (continued)

The movements in deferred tax assets and liabilities during the year are shown below:

Deferred tax assets

	Provisions £m	Tax losses £m	Post retirement benefits £m	Other £m	Total £m
At 1 January 2005	**5.4**	**5.7**	**0.9**	**0.2**	**12.2**
Exchange adjustments	**(0.3)**	**(0.3)**	**–**	**–**	**(0.6)**
Income statement credit	**1.0**	**3.2**	**–**	**0.8**	**5.0**
Taken to equity – attributable to hedging reserve	**–**	**–**	**–**	**0.5**	**0.5**
At 31 December 2005	**6.1**	**8.6**	**0.9**	**1.5**	**17.1**

Deferred tax liabilities

	Accelerated capital allowances £m	Held over capital gains £m	Other £m	Total £m
At 1 January 2005	**(4.6)**	**(6.8)**	**(1.4)**	**(12.8)**
Adjustment on adoption of IAS 39 (note 31)	**–**	**–**	**(0.2)**	**(0.2)**
Exchange adjustments	**0.2**	**0.3**	**–**	**0.5**
Income statement charge	**(1.0)**	**–**	**(1.3)**	**(2.3)**
Taken to equity – attributable to hedging reserve	**–**	**–**	**0.2**	**0.2**
At 31 December 2005	**(5.4)**	**(6.5)**	**(2.7)**	**(14.6)**
Net deferred tax asset/(liability)				
At 31 December 2005				**2.5**
At 31 December 2004				(0.6)

20 Retirement benefit obligations

The major pension schemes operated by the Group are in the United Kingdom and are of the defined benefit type, the assets of which are held in trustee administered funds. The Group also provides post retirement medical benefits in the United States.

As explained in note 30, in accordance with the transitional rules in IFRS 1 all cumulative surpluses and deficits were recognised in the balance sheet at 1 January 2004. Subsequent to that date IAS 19 allows a smoothing approach in which some of the movement in surpluses and deficits is deferred and recognised over time commencing in the following accounting period (the 'corridor approach'). Any surplus or deficit arising as a consequence of actuarial gains and losses arising subsequent to 1 January 2004 is not fully recognised in the balance sheet.

The valuation of United Kingdom and overseas defined benefit pension schemes and the liability for United States post retirement medical benefit liabilities is assessed by professionally qualified independent actuaries using the projected unit credit method.

	2005 £m	2004 £m
Income statement charge		
Pension benefits – defined benefit schemes	**(6.5)**	(5.2)
Post-employment medical benefits	**(1.1)**	1.0
	(7.6)	(4.2)
Balance sheet obligation		
Pension benefits – defined benefit schemes	**(103.0)**	(113.3)
Post-employment medical benefits	**(24.1)**	(21.5)
	(127.1)	(134.8)

Pension benefits – defined benefit schemes

The amounts recognised in the income statement are as follows:

	2005			2004		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Current service cost	**(2.1)**	**(1.7)**	**(3.8)**	(1.8)	(2.9)	(4.7)
Interest cost	**(23.4)**	**(8.5)**	**(31.9)**	(22.7)	(8.9)	(31.6)
Expected return on plan assets	**23.6**	**6.1**	**29.7**	23.1	6.6	29.7
Net actuarial (losses)/gains recognised during the year	**–**	**(0.6)**	**(0.6)**	–	1.4	1.4
Past service (cost)/credit	**–**	**(0.2)**	**(0.2)**	–	0.4	0.4
(Losses)/gains on settlement and curtailment	**–**	**(0.1)**	**(0.1)**	–	1.3	1.3
Adjustment for surplus not recoverable	**–**	**0.4**	**0.4**	–	(1.7)	(1.7)
Total	**(1.9)**	**(4.6)**	**(6.5)**	(1.4)	(3.8)	(5.2)
Included in the income statement as follows:						
Cost of sales	**(0.7)**	**(1.3)**	**(2.0)**	(0.6)	(0.5)	(1.1)
Selling and distribution costs	**(0.9)**	**(1.1)**	**(2.0)**	(0.2)	(1.0)	(1.2)
Administrative expenses	**(0.3)**	**(2.2)**	**(2.5)**	(0.6)	(2.3)	(2.9)
Total	**(1.9)**	**(4.6)**	**(6.5)**	(1.4)	(3.8)	(5.2)

The actual return on plan assets was £65.4 million (2004: £45.1 million).

20 Retirement benefit obligations (continued)

The amounts recognised in the balance sheet are as follows:

	2005			2004		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	**(494.0)**	**(130.2)**	**(624.2)**	(455.6)	(115.4)	(571.0)
Fair value of plan assets	**439.4**	**99.5**	**538.9**	398.0	88.1	486.1
	(54.6)	**(30.7)**	**(85.3)**	(57.6)	(27.3)	(84.9)
Present value of unfunded obligations	**–**	**(39.9)**	**(39.9)**	–	(41.7)	(41.7)
Unrecognised actuarial losses (under the corridor approach)	**7.9**	**15.8**	**23.7**	7.6	7.8	15.4
Unrecognised past service costs	**–**	**0.3**	**0.3**	–	0.2	0.2
Surplus not recoverable	**–**	**(1.8)**	**(1.8)**	–	(2.3)	(2.3)
Net liability in the balance sheet	**(46.7)**	**(56.3)**	**(103.0)**	(50.0)	(63.3)	(113.3)
Included in the balance sheet as follows:-						
Non-current assets	**4.0**	**0.1**	**4.1**	2.6	–	2.6
Non-current liabilities	**(50.7)**	**(56.4)**	**(107.1)**	(52.6)	(63.3)	(115.9)
	(46.7)	**(56.3)**	**(103.0)**	(50.0)	(63.3)	(113.3)

The movement in the net liability recognised in the balance sheet is as follows:

	2005			2004		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	**(50.0)**	**(63.3)**	**(113.3)**	(53.3)	(71.6)	(124.9)
Exchange differences	**–**	**(0.5)**	**(0.5)**	–	1.3	1.3
Charge to income statement	**(1.9)**	**(4.6)**	**(6.5)**	(1.4)	(3.8)	(5.2)
Contributions paid	**5.2**	**12.1**	**17.3**	4.7	10.8	15.5
At 31 December	**(46.7)**	**(56.3)**	**(103.0)**	(50.0)	(63.3)	(113.3)

Post-employment medical benefits (United States)

The amounts recognised in the income statement were as follows:

	2005 £m	2004 £m
Current service cost	**(0.5)**	(0.4)
Interest cost	**(1.3)**	(1.3)
Past service credit	**0.7**	2.7
Total	**(1.1)**	1.0
The amounts recognised in the balance sheet were as follows:		
Present value of unfunded obligation	**(26.4)**	(23.5)
Unrecognised actuarial losses (under corridor approach)	**2.3**	2.0
Liability in the balance sheet – non-current liabilities	**(24.1)**	(21.5)

The movement in the liability recognised in the balance sheet is as follows:

	2005 £m	2004 £m
At 1 January	**(21.5)**	(25.3)
Exchange differences	**(2.6)**	1.7
(Charge)/credit to income statement	**(1.1)**	1.0
Amounts paid	**1.1**	1.1
At 31 December	**(24.1)**	(21.5)

20 Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	2005		2004	
	UK %	Overseas %	UK %	Overseas %
Discount rate	**4.70**	**5.30**	5.25	5.60
Inflation rate	**2.85**	**2.50**	2.85	2.50
Expected return on plan assets – equities	**7.50**	**8.90**	7.40	8.10
– bonds	**4.50**	**5.30**	4.70	5.30
– other	**5.40**	**6.00**	4.00	6.30
– total	**5.90**	**7.20**	6.10	6.90
Future salary increases	**3.10**	**3.60**	2.85	3.40
Future pension increases	**3.00**	**2.30**	3.10	2.20
Medical costs inflation (ultimate rate)		**5.00**		5.00

The mortality assumptions for the United Kingdom schemes are based on the PA92 standard mortality tables after retirement with allowance for future mortality improvements. Based on the rates used, a member who retires at age 60 will live on average for a further 24 years after retirement if they are male and for a further 27 years after retirement if they are female.

For the principal overseas schemes, the mortality assumptions have been derived from the RP2000 table (United States), the P94 tables (Sweden) and the Heubeck 2005 G Tables (Germany). The main actuarial assumption for the United States post retirement medical benefits is the long term increase in health costs of 5 per cent a year (2004: 5 per cent).

21 Financial instruments and risk management

(a) Treasury management

Charter's central treasury department is responsible for ensuring the availability and flexibility of funding arrangements in order to meet the ongoing requirements of the Group. In addition, it is responsible for managing the interest rate risks, liquidity risks and balance sheet foreign exchange translation risks of the Group. Foreign exchange transaction exposures are generally managed directly by operating subsidiaries within strict guidelines and controls established by their divisional management and overseen by group treasury. It is the Group's policy not to hedge profit and loss account translation exposure.

(b) Interest rate risk

The Group finances its operations through a mix of equity and borrowings. Borrowings are made in the desired currencies at both fixed and floating rates of interest. It is the Group's objective to minimise the cost of borrowings whilst retaining the flexibility of funding opportunities. When considered appropriate, the Group uses interest rate swaps, interest rate caps and collars and forward rate agreements to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

(c) Currency risks

The Group has significant investments in overseas operations. As a result, movements in exchange rates can significantly affect the Group's balance sheet. Where practicable, borrowings are denominated in the currencies of the Company's net foreign investments with a view to maintaining a low cost of borrowings while hedging against currency depreciation. Forward foreign exchange contracts are used to hedge currency flows within its operating units. The Group seeks to comply with the requirements of hedge accounting where considered appropriate. The revaluation gains and losses arising from such hedges are recognised in the consolidated statement of changes in equity to the extent that they are effective. The ineffective portion of any hedge is recognised directly in the consolidated income statement.

(d) Credit risk

The credit status of dealing counterparties and institutions where cash is held is kept under review with credit limits being set and monitored accordingly.

(e) Liquidity management

Together with the management of interest rate and balance sheet translation risks, the Group's objective is to achieve a balance between continuity and flexibility of funding by maintaining a range of maturities on its borrowings and deposits.

Net fair values of derivative financial instruments that qualify for hedge accounting:

	Assets £m	Liabilities £m
At 31 December 2005:		
Forward foreign currency contracts – cash flow hedges	**0.3**	**(2.9)**
Less:		
Non-current portion	**–**	**(0.2)**
Current portion	**0.3**	**(2.7)**

21 Financial instruments and risk management (continued)

The net fair value losses at 31 December 2005 on the above open forward foreign exchange contracts are expected to be transferred to the income statement as follows:

	2005 £m	2004 £m
Losses already recognised in the year	**(0.7)**	–
(Losses)/gains expected to be recognised in the next year	**(1.8)**	1.0
Losses expected to be recognised in subsequent years	**(0.1)**	–
	(2.6)	1.0

In accordance with the UK GAAP accounting policy for hedging instruments adopted in 2004, gains and losses were not recognised until the exposure that was being hedged was itself recognised. The net unrecognised gain on instruments used for hedging at 31 December 2004 was £1.0 million, all of which was expected to be recognised during 2005.

There were no derivatives outstanding at the balance sheet date that were designated as fair value hedges (2004: nil).

Net fair values of derivatives financial instruments that do not qualify for hedge accounting:

	Assets £m	Liabilities £m
At 31 December 2005:		
Embedded derivatives within contracts	**–**	**(0.3)**
Forward foreign currency contracts relating to the hedging or management of foreign currency cash or debt positions	**1.8**	**–**
	1.8	**(0.3)**
Less:		
Non-current portion	**–**	**–**
Current portion	**1.8**	**(0.3)**

Interest rate swaps
There were no outstanding interest rate swap contracts at 31 December 2005.

Hedge of net investment in foreign operations
No foreign currency denominated borrowings were designated as hedges of the net investment in foreign operations at 31 December 2005. At 31 December 2004 the Group had euro borrowings of £28.3 million designated as a hedge of its net investment in foreign operations.

Fair values of financial liabilities
Set out below is a comparison by category of book values and fair values of all the Group's financial liabilities at the year end:

	Book value		Fair value	
	2005 £m	2004 £m	2005 £m	2004 £m
Primary financial instruments held or issued to finance the Group's operations				
Short-term borrowings and current portion of long-term borrowings	**(10.4)**	(46.0)	**(10.4)**	(46.2)
Long-term borrowings	**(71.8)**	(65.4)	**(75.7)**	(71.3)

The fair values of foreign exchange contracts have been calculated by reference to the prices available from the market on which the instruments are traded. All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates. The fair value of short-term deposits and borrowings approximates to the carrying amount because of the short maturity of these instruments.

Market price risk
The Group monitors the interest rate risks to which it is exposed primarily through a process of sensitivity analysis. This involves estimating the effect on profit before tax of a range of possible changes in interest rates. On the basis of the Group's analysis, it is estimated that a rise of one percentage point in the principal interest rates to which the Group is exposed would reduce profit before tax by approximately £0.1 million (2004: £0.4 million).

Currency risk
Financial instruments within individual Group companies that are not denominated in the functional currency of the Company concerned as at 31 December 2005 were as follows:

	Net foreign currency monetary assets/(liabilities)				
	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
Functional currency of group operation					
Sterling	**–**	**12.0**	**4.7**	**1.3**	**18.0**
Euro	**(1.6)**	**–**	**(0.1)**	**(0.4)**	**(2.1)**
US Dollar	**(0.1)**	**(0.5)**	**–**	**0.1**	**(0.5)**
Other	**1.7**	**1.1**	**2.0**	**2.1**	**6.9**
Total	**–**	**12.6**	**6.6**	**3.1**	**22.3**

21 Financial instruments and risk management (continued)

Disclosures in relation to 2004

The following disclosures in relation to the comparative information for 2004 were prepared in accordance with the Group's previous accounting policies and disclosure requirements under UK GAAP.

All short-term debtors and creditors were excluded from the disclosures apart from currency disclosures as allowed by FRS 13. The interest rate risk profile of financial liabilities of the Group as at 31 December 2004 was:

				Fixed rate analysis	
	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currencies					
Euro	(31.0)	(31.0)	–	–	–
US Dollar	(69.7)	(0.6)	(69.1)	7.48	3.16
Other	(0.4)	(0.4)	–	–	–
Total currency	(101.1)	(32.0)	(69.1)		3.16
Sterling	(10.3)	(10.3)	–	–	–
Total gross	(111.4)	(42.3)	(69.1)		3.16

The floating rate financial liabilities principally comprised bank borrowings bearing interest at rates fixed in advance for periods ranging from one month to six months by reference to the appropriate LIBOR equivalent. The fixed rate liabilities principally comprised US loan notes which the Group had outstanding at 31 December 2004.

The following table shows the interest rate risk profile of financial assets held by the Group at 31 December 2004. The financial assets shown principally comprise cash and short-term deposits required for working capital purposes and loans to associates.

	2004 £m
Currencies	
Euro	14.2
Polish Zloty	2.2
US Dollar	3.6
Chinese Renminbi	8.7
South African Rand	8.0
Other	8.6
Total currency	45.3
Sterling	1.1
Total group	46.4

The financial assets denominated in US Dollars included £1.3 million in relation to an associated undertaking repayable in five bi-annual instalments commencing 1 July 2006. The interest rate was fixed at 4.5 per cent per annum. The remaining assets were represented by cash at bank and in hand and, where applicable, interest was received at floating rates based on the relevant national LIBID equivalents. Floating rate assets all matured within two months.

	Net foreign currency monetary assets/(liabilities)				
	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
Functional currency of group operation					
Sterling	–	3.6	0.8	0.4	4.8
Euro	(0.8)	–	(1.9)	0.5	(2.2)
US Dollar	(0.2)	(6.4)	–	(2.5)	(9.1)
Other	(0.7)	7.5	3.1	1.0	10.9
Total	(1.7)	4.7	2.0	(0.6)	4.4

22 Called up share capital

	2005 Number of ordinary shares of 2 pence each	2005 £	2004 Number of ordinary shares of 2 pence each	2004 £
Authorised:	**215,000,000**	**4,300,000**	215,000,000	4,300,000
Issued:				
Fully paid shares	**165,253,905**	**3,305,078**	150,636,773	3,012,735

On 3 May 2005, 7,531,800 new ordinary shares were issued for cash of £19.1 million net of expenses. The shares were issued credited as fully paid and rank pari-passu in all respects with the existing shares of 2 pence each.

As explained in note 29, on 13 September 2005, 6,424,914 ordinary shares were issued as part consideration for the acquisition of the minority interest in the Company's South American welding and cutting businesses with a fair value of £21.2 million.

In 2005, 660,418 ordinary shares were issued for cash of £1.1 million on the exercise of employee share options.

Details of awards of contingent rights to the allotment of ordinary shares in the Company under long term incentive plans are given in the Remuneration report on pages 44 and 45.

23 Share-based payments

Share-based compensation arrangements established since 7 November 2002 for the Executive Directors, Mr Gawler, Mr Foster and Mr Careless are set out in the Remuneration report on pages 42 to 45.

The awards to Mr Foster and Mr Careless were both made during 2005. Mr Foster's award was valued using the Monte Carlo model, which gave rise to a fair value of £192,288 (131.6 pence per share), based on an expected volatility of 50.9 per cent, a risk free interest rate of 4.7 per cent and a zero dividend yield. Mr Careless's award was valued using the Stochastic model, which gave rise to a fair value of £154,800 (295.2 pence per share), based on an expected volatility of 46.5 per cent, a risk free interest rate of 4.2 per cent and a zero dividend yield.

24 Reserves

			Other reserves			
	Share premium £m	Merger reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2004	5.9	–	–	–	(76.9)	(71.0)
Exchange adjustments, net of tax	–	–	5.8	–	–	5.8
Profit for the year	–	–	–	–	29.8	29.8
Issue of share capital (net of expenses)	43.5	–	–	–	–	43.5
Charge for share-based payments	–	–	–	–	0.4	0.4
At 31 December 2004	49.4	–	5.8	–	(46.7)	8.5
Adjustment in respect of adoption of IAS 39 (see note 31)	–	–	–	0.6	–	0.6
At 1 January 2005	**49.4**	**–**	**5.8**	**0.6**	**(46.7)**	**9.1**
Exchange adjustments, net of tax	**–**	**–**	**8.8**	**–**	**–**	**8.8**
Profit for the year	**–**	**–**	**–**	**–**	**74.0**	**74.0**
Change in fair value of outstanding cash flow hedges	**–**	**–**	**–**	**(3.4)**	**–**	**(3.4)**
Net transfer from income statement	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Net deferred tax movement for the year	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Issue of share capital (net of expenses)	**20.0**	**21.1**	**–**	**–**	**–**	**41.1**
Charge for share-based payments	**–**	**–**	**–**	**–**	**0.8**	**0.8**
At 31 December 2005	**69.4**	**21.1**	**14.6**	**(1.4)**	**28.1**	**131.8**

In accordance with the provisions of Section 131 of the Companies Act 1985 the premium arising on the issue of shares as part consideration for the acquisition of the minority interest in the Company's South American welding and cutting businesses has been included as a merger reserve.

25 Operating lease commitments – minimum lease payments

	2005		2004	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Commitments under non-cancellable operating leases amounts payable:				
Within one year	**4.4**	**3.3**	4.4	2.5
Between two and five years	**6.7**	**3.1**	8.2	2.9
After five years	**8.3**	**–**	8.3	–
	19.4	**6.4**	20.9	5.4

26 Contingent liabilities

(i) Central operations

Charter, together with certain of its wholly-owned subsidiaries, has been named as defendant in a number of asbestos-related actions in the United States on the basis that it is allegedly liable for the acts of a former subsidiary Cape PLC. Charter contests the existence of any such liability. The issue went to trial in three cases involving the Company's principal subsidiary, Charter Consolidated P.L.C., and other wholly-owned subsidiaries, between 1985 and 1987. In the first of these cases, tried in Pennsylvania, after an adverse lower court decision the appeal court gave judgement in the Charter defendants' favour. In the second case, in New Jersey, judgement was also given for the Charter defendants. The third case, in South Carolina, was dismissed for lack of subject matter jurisdiction, without a decision having been rendered on the issue. During recent years, Charter and/or certain of its subsidiaries have been served in a number of cases in Mississippi, Illinois and a few other states. Currently the cases against Charter are confined to Mississippi. Charter is seeking dismissals in these pending cases. Upon advice of counsel, Charter has settled some of the cases brought in Mississippi and will continue to pursue dismissals in the remainder. The Directors have received legal advice that Charter and its wholly-owned subsidiaries should be able to continue to defend successfully the actions brought against them, but that uncertainty must exist as to the eventual outcome of the trial of any particular action. It is not practicable to estimate in any particular case the amount of damages which might ensue if liability were imposed on Charter or any of its wholly-owned subsidiaries. In 2005, £0.1 million was charged against Charter's operating profits in respect of defence costs and other expenses. The litigation is reviewed each year and, based on that review and legal advice, the Directors believe that the aggregate of any such liability is unlikely to have a material effect on Charter's financial position. In these circumstances, the Directors have concluded that it is not appropriate to make any provision in respect of such actions.

(ii) Air and gas handling

Howden Buffalo Inc., an indirect subsidiary of Charter, has been named as a defendant in a number of asbestos-related actions in the United States. On the advice of counsel, Howden Buffalo is vigorously defending all the cases that have been filed against it. Over the past few years, Howden Buffalo has sought and received dismissals in 5,295 cases and has, on the advice of counsel, settled 158 cases. These cases were all settled for nuisance value amounts, much less than the cost of defending the cases at trial. Howden Buffalo has received legal advice indicating that it should be able to continue to defend successfully the actions that are brought. At this time, it is not practical to estimate the amount of any potential damages or to provide details of the current stage of proceedings in particular cases, as the majority of cases do not specify the amount of damages sought and the cases are at varying stages in the litigation process. However, legal fees associated with the defence of these claims have been covered by applicable insurance. The situation is reviewed regularly and based on the most recent review and legal advice obtained by Howden Buffalo, the Directors believe that the aggregate of any potential liability is unlikely to have a material effect on Charter's financial position.

In November 2003, Howden Buffalo filed a lawsuit in the US District Court in Pittsburgh, Pennsylvania, USA, against three insurance companies that provided general liability coverage to a predecessor of Howden Buffalo known as Buffalo Forge Company ('Buffalo Forge'). The lawsuit sought a declaratory judgement that Howden Buffalo was entitled to coverage under the Buffalo Forge policies for legal defence costs, liabilities and expenses incurred by Howden Buffalo in underlying lawsuits alleging that Howden Buffalo was liable as a successor to Buffalo Forge for asbestos-related injuries allegedly sustained by the claimants as a result of exposure to asbestos in products manufactured by Buffalo Forge. Howden Buffalo later amended its complaint to seek similar relief against two other insurers that provided coverage to Buffalo Forge and one insurer providing coverage directly to Howden Buffalo. After extensive negotiations, Howden Buffalo and the insurers executed a coverage-in-place settlement agreement in 2005 that will ensure that most of Howden Buffalo's legal defence costs and indemnity obligations are funded by its insurance policies for the foreseeable future. In certain years, the policies subject to the funding agreement have self-insurance features that may require Howden Buffalo or one of its subsidiaries to contribute a share of the defence and indemnity costs. However, the Directors believe, based on legal advice, that the majority of asbestos-related lawsuits against Howden Buffalo resulting from the historical operations of Buffalo Forge will be covered, in substantial part, by the insurers participating in the funding agreement under the policies issued to Buffalo Forge and Howden Buffalo.

26 Contingent liabilities (continued)

(iii) Welding

The ESAB Group Inc, ('EGI'), an indirect subsidiary of Charter, has been named as a defendant in a number of lawsuits in state and federal courts in the United States alleging personal injuries from exposure to manganese in the fumes of welding consumables. Other current and former manufacturers of welding consumables have also been named as defendants as well as various trade associations, including the American Welding Society, the National Electrical Manufacturers Association, the Ferroalloys Association, and others. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts. A multi-district litigation proceeding has been established to consolidate and co-ordinate pre-trial proceedings in the federal court cases. Last year, a trial in federal court involving EGI and another welding defendant settled shortly before trial. The settlement amount is confidential, but is not material to EGI's financial condition. Trials in federal court were scheduled for February, May and August of 2006. However, plaintiffs moved to dismiss the February and May cases. A substitute case has been selected for May. EGI is a defendant in the federal court cases scheduled for trial. The state court cases are at varying stages in the litigation process. One trial in Texas last year (not involving EGI) resulted in a defence verdict. However, the court granted a new trial. Another case in Madison County, Illinois involving EGI also resulted in a defence verdict. There are over 25 state court trials scheduled for 2006, but it is not anticipated that they will all begin as scheduled. Whilst litigation is notoriously uncertain and the risk of an adverse jury verdict in any trial exists, having considered the advice of EGI's counsel in the United States, the Directors believe that EGI has meritorious defences to these claims, most of which should be covered in whole or in part by insurance, and EGI, in conjunction with other current and former US manufacturers of welding consumables, is defending these claims vigorously. In 2005 US$6 million was charged against EGI's operating profits in respect of defence costs net of insurance recoveries. The estimated defence costs, net of insurance recoveries for 2006 are estimated to be of the order of US$7million, which is reflected in EGI's balance sheet at 31 December 2005. It is not possible to reliably estimate the total defence costs, which will be involved beyond 2006. In view of the foregoing and, in particular, the legal advice received in the United States, the Directors do not consider that such claims will have a material adverse effect on Charter's financial position.

EGI has also been named as a defendant in a small number of lawsuits in Massachusetts, Pennsylvania, Ohio and Maryland, in which claimants allege asbestos-induced personal injuries. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts. Several cases are listed for trial this year; however, EGI has been dismissed prior to trial in the previous cases in which it was named as a defendant. Upon the advice of counsel, the Directors believe that EGI has meritorious defences to these claims and EGI intends vigorously to defend these lawsuits. In addition, the majority of defence costs are being borne by EGI's insurers.

27 Capital and other financial commitments

	2005 £m	2004 £m
Committed capital expenditure not provided in the financial statements – subsidiary undertakings	**3.1**	4.2

Guarantees given by the Company were as follows:

	2005 £m	2004 £m
Subsidiary company borrowings	**73.0**	106.4
Other	**1.1**	1.4
	74.1	107.8

28 Cash generated from operations

	2005 £m	2004 £m
Operating profit	**101.7**	51.9
Depreciation	**14.7**	15.3
Amortisation of intangible assets	**1.2**	1.1
Amortisation of government grants	**(0.4)**	(0.7)
Charge for share-based payments	**0.8**	0.4
(Profit)/loss on sale of fixed assets	**(0.8)**	0.2
Working capital	**(21.9)**	8.4
Movement in pension provision	**(10.8)**	(12.4)
Movements in other provisions	**5.9**	0.1
Exceptional items		
Profit on sale of businesses	**–**	(11.2)
Recovery of unauthorised payments – credit recognised in period	**(4.2)**	(0.5)
– amount received/(paid) in period	**4.9**	(4.4)
Restructuring (excluding associated undertakings) – amounts charged in period	**–**	12.8
– amount paid in period	**(6.6)**	(15.2)
Legal and environmental costs – amount charged in period	**–**	1.9
– amount paid in period	**–**	–
	84.5	47.7

29 Acquisitions and disposals

On 13 September 2005, following approval by shareholders at an extraordinary general meeting, the Company completed the acquisition of the 49 per cent minority interest in the South American welding and cutting businesses from the Acevedo family. Part of the purchase consideration was satisfied on 13 September 2005 by the issue of 6,424,914 new ordinary shares in the Company, being 3.9 per cent of the enlarged share capital with a fair value of £21.2 million based on the share price. This acquisition was classified as a related party transaction by the UK Listing Authority. Costs of £0.9 million were directly attributable to the acquisition.

In January 2006 the vendors received £4.4 million in cash in lieu of dividends that they will not now be paid in respect of the period from 1 January 2004 to 13 September 2005.

Under the terms of the acquisition, the Company has acquired certain holding companies, through which the vendors held their 49 per cent interest in the South American welding and cutting businesses.

In the year ended 31 December 2004, the businesses generated profit before taxation of £8.9 million on sales of £72.1 million (including intra-group sales of £2.3 million). As at 31 December 2004, the businesses had shareholders' funds of £22.4 million, gross assets of £34.6 million and net cash of £2.0 million.

All acquisitions have been accounted for using acquisition accounting principles and there were no fair value adjustments.

The assets and liabilities acquired and disposed of were as follows:-

	Acquisitions		Disposals	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Fixed assets including investments	**–**	1.4	**0.4**	8.5
Inventory	**–**	0.8	**–**	–
Trade and other payables	**(3.3)**	–	**–**	–
Minority interest	**15.8**	3.0	**–**	–
	12.5	5.2	**0.4**	8.5
Goodwill – on acquisition	**13.9**	0.5	**–**	–
Net profit on disposal	**–**	–	**–**	5.7
	26.4	5.7	**0.4**	14.2
Satisfied by:				
Net cash consideration paid (including costs)	**0.9**	3.5	**–**	–
Fair value of shares issued	**21.2**	–	**–**	–
Net cash consideration received	**–**	–	**0.4**	14.3
Consideration and costs to be paid in subsequent years (net)	**4.4**	2.1	**–**	(0.5)
Exchange adjustments	**(0.1)**	0.1	**–**	0.4
	26.4	5.7	**0.4**	14.2

The total net cash consideration paid during the year, as shown in the cash flow statement, includes amounts paid in respect of current and prior year acquisitions and disposals of subsidiary undertakings as follows:

	Acquisitions		Disposals	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Current year acquisitions	**0.9**	3.5	**–**	–
Prior year acquisitions	**1.0**	–	**–**	–
Prior year disposals	**–**	–	**–**	1.2
	1.9	3.5	**–**	1.2

30 IFRS transition reconciliations

The impact of the transition from UK GAAP to IFRS is summarised in the table below. The reconciliations on pages 78 to 80 detail the adjustments required to restate the consolidated income statement for the year ended 31 December 2004 and the consolidated balance sheets as at 31 December 2004 and 1 January 2004 on an IFRS basis.

	Year ended 31 December 2004		At 1 January 2004
	Profit before tax £m	Net assets £m	Net assets £m
UK GAAP	28.1	97.9	24.9
Post-retirement benefits[(i)]	5.4	(81.3)	(89.2)
Property revaluations on transition[(ii)]	(0.2)	15.6	16.0
Capitalised development costs[(iii)]	0.2	1.6	1.4
Goodwill[(iv)]	1.2	1.8	0.6
Share-based payments[(v)]	–	0.4	–
Reclassification of associates tax[(vi)]	(1.7)	–	–
Deferred taxation – post retirement benefits[(vii)]	–	0.9	0.9
Deferred taxation – property revaluations[(vii)]	–	(3.0)	(3.0)
Leases[(x)]	–	(0.2)	(0.2)
	33.0	33.7	(48.6)
Items not related to underlying business performance			
Goodwill on business disposal[(iv)]	6.0	–	–
Unauthorised payments arising in prior years[(viii)]	5.0	–	–
Foreign currency losses on inter-company loan element of net investments[(ix)]	(3.0)	–	–
IFRS	41.0	33.7	(48.6)

30 IFRS transition reconciliations (continued)

(i) Post-retirement benefits (IAS 19 Employee benefits)
Under UK GAAP Charter accounted for pensions and other post-employment benefits in accordance with SSAP 24, Accounting for pension costs, with pension surpluses and deficits spread over the average remaining service lives of current employees and other post-employment benefits, principally medical costs, recorded as liabilities based on the valuation methodologies required by that standard. The additional FRS 17, Retirement benefits, disclosures showed the pension fund surpluses and deficits and the other post-employment benefit liabilities based on the valuation methodologies required by that standard.

IAS 19 has a similar (although not identical) valuation approach to FRS 17, and in accordance with the transitional exemptions in IFRS 1, all cumulative surpluses and deficits have been recognised in the balance sheet as at 1 January 2004.

On transition to IAS 19 an additional liability of £89.2 million was recognised. This amount included an allowance of £18.0 million for the future administration costs of the pension scheme that will ultimately be borne by Charter to the extent that those administration costs relate to past service.

FRS 17 would recognise further changes to the surpluses and deficits immediately in subsequent balance sheets whereas IAS 19 permits a smoothing approach to be adopted in which some of the movement in the surpluses and deficits is deferred and recognised over time according to a mechanism referred to as the ‘corridor’ approach. Under this approach actuarial gains and losses within a corridor, calculated by reference to the greater of 10 per cent of the gross assets or liabilities of the scheme, can remain unrecognised. This means that only actuarial movements outside this corridor are required to be recognised, and even then they are recognised in the income statement over the estimated remaining service lives of the relevant employees. This means that under IAS 19 only the balance sheet at the date of transition will show the full surplus or deficit positions of all of the Group’s employee benefit arrangements.

(ii) Property revaluations (IAS 16 Property plant and equipment)
IAS 16 allows property, plant and equipment to be carried in the balance sheet based on either valuation or cost less depreciation. Charter has adopted a policy of cost less depreciation. The transitional rules of IFRS 1 allow companies to revalue certain items of property, plant and equipment at fair value on a selective basis as at the date of transition. This fair value is treated as the deemed cost for those assets under IFRS. Charter has revalued certain freehold properties (both land and buildings), which has the impact of increasing the carrying value of property, plant and equipment by £16.0 million at the date of transition. There is an increase in deferred taxation liabilities of £4.5 million, partly offset by the recognition of deferred tax assets of £1.5 million, on transition as a consequence of these revaluations.

The operating profit impact of this is to increase the depreciation cost.

(iii) Capitalised development costs (IAS 38 Intangible assets)
Under UK GAAP, Charter wrote off all research and development costs as incurred. IAS 38 requires development costs meeting the criteria specified in the standard to be capitalised as an intangible asset and amortised over the estimated useful life of the asset. Typically these lives are in the range 3 to 10 years.

(iv) Goodwill (IFRS 3 Business combinations and goodwill)
Under UK GAAP, Charter capitalised goodwill arising since 1 January 1998 as an intangible fixed asset and it was amortised over its estimated useful life, a period not exceeding 20 years. Goodwill arising prior to this date was written off against reserves. Under IFRS, goodwill is considered to have an indefinite life and so is not amortised, but is subject to annual impairment testing. IFRS 1 allows the goodwill at the date of transition under UK GAAP to be used for the purposes of IFRS at that date, except that negative goodwill at 1 January 2004 has been credited directly to reserves, increasing the carrying value of goodwill and net assets at that date by £0.6 million.

Under the business combinations exemption in IFRS 1, no adjustments have been made for previous business combinations. In addition goodwill previously written off directly to reserves under UK GAAP will not be recycled to the income statement on the disposal or part-disposal of a subsidiary or associate as it would have been under UK GAAP.

The impact of this is that the goodwill of £6.0 million previously written off to reserves in relation to the disposal of GCE Gas Control Equipment AB that was charged to the 2004 profit and loss account under UK GAAP is not charged to the 2004 income statement under IFRS.

(v) Share-based payments (IFRS 2 Share-based payments)
Under UK GAAP, Charter spread the full cost of options and shares over the vesting period where it was probable that a liability would arise. The cost was calculated by reference to the difference between the market price of the shares at the balance sheet date, or at the date of vesting if earlier, and any proceeds receivable. The corresponding entry was shown as a liability.

Under IFRS 2 the fair value of the equity instrument is calculated at the date of grant and is spread over the vesting period for equity settled arrangements with the corresponding entry credited to equity. As there were no relevant outstanding arrangements at the date of transition to IFRS there is no difference at this date. The charge in 2004 is similar under UK GAAP and IFRS but there is a reduction in liabilities of £0.4 million at 31 December 2004 because the credit entry is taken to equity under IFRS rather than being treated as a liability.

30 IFRS transition reconciliations (continued)

(vi) Reclassification of associates tax (IAS 1 Presentation of Financial Statements)
Under UK GAAP, the share of the operating profit, interest and taxation of associated undertakings were disclosed separately in the income statement. IAS 1 requires the result of associated undertakings to be presented net of interest and taxation as a single line item.

(vii) Deferred taxation (IAS 12 Income taxes)
Under UK GAAP deferred taxation was provided on the basis of timing differences between the accounting and taxable profits. IFRS has a different approach and is based on the balance sheet with deferred taxation provided on all temporary differences between the book carrying values and the tax base of assets and liabilities.

The impact of this is an additional deferred taxation liability of £3.0 million in relation to the revaluation of land and buildings under IFRS 1 and an additional deferred taxation asset of £0.9 million in relation to the increase in liabilities for post retirement benefits under IAS 19.

(viii) Unauthorised payments arising in prior years (IAS 8 Accounting policies, accounting estimates and errors)
Under UK GAAP, errors identified in an accounting period relating to earlier periods were generally accounted for in the period in which the error was identified unless they were considered fundamental. However IAS 8 requires that material 'prior period errors' should be accounted for by adjusting the comparative information for the periods affected. Consequently £5.0 million, relating to the unauthorised payments announced on 20 August 2004 which arose prior to 1 January 2004, is not charged to income in 2004 under IFRS. This adjustment has no impact on net assets.

(ix) Foreign currency losses on inter-company loan element of net investments (IAS 21 The effects of changes in foreign exchange rates)
Exchange gains and losses arising from the retranslation of certain intra-group loans were taken directly to reserves under UK GAAP where the loan was considered long-term in nature and was considered part of the net investment in a subsidiary. IAS 21 is more restrictive in terms of which loans can be treated in this way and as a consequence certain amounts taken directly to reserves under UK GAAP have been included in the income statement under IFRS. As these amounts are determined by reference to movements in exchange rates, this is likely to give rise to greater income statement volatility in the future. However this different treatment has no impact on net assets as an equal and opposite amount has been taken directly to reserves on consolidation.

Since the publication of the press release 'Charter plc – Adoption of International Financial Reporting Standards' on 17 June 2005 the functional currency of two non-trading subsidiaries has been changed. The only impact of this change is to reduce the amount of the exchange loss required to be reclassified from reserves to the income statement for the year ended 31 December 2004 to £3.0 million. There is no impact on net assets.

(x) Balance sheet reclassifications
In addition to the above items a number of items have been reclassified in the balance sheet under IFRS. The principal items are:

- Capitalised software previously included within tangible fixed assets under UK GAAP has been transferred to intangible assets under IFRS;
- Leases that include a land element which were accounted for as finance leases under UK GAAP have been split so that the land element is treated as an operating lease under IFRS;
- Amounts recoverable under contracts that were included within stock and work in progress under UK GAAP are included within trade and other receivables under the IFRS balance sheet format;
- Deferred taxation assets and liabilities were shown net under UK GAAP but are included separately as assets and liabilities under IFRS.

(xi) Cash flow statement
- Cash flows reported under IFRS and UK GAAP are defined differently – under IFRS, cash flows, referred to as 'cash and cash equivalents', include bank deposits repayable within 3 months. Under UK GAAP, these were treated as short-term deposits;
- IFRS requires cash flows to be reported under the three headings of operating, investing and financing activities whereas UK GAAP requires cash flows to be reported in greater detail under 9 standard headings, such as taxation and interest;
- IFRS requires foreign currency translation differences to be included on the face of the cash flow statement in order that opening and closing cash and cash equivalents balances may be reconciled. This is not a requirement under UK GAAP.

31 IFRS transition reconciliations – financial instruments first time adoption IAS 32 and IAS39

The adoption of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 January 2005 results in a change in the Group's accounting policy for financial instruments. The impact of these standards on the Group's opening balance sheet is shown below.

The principal impact of IAS 32 and IAS 39 on the Group's financial statements relates to the recognition of derivative financial instruments at fair value. Financial assets and financial liabilities that arise on derivatives that do not qualify for hedge accounting are held on the balance sheet at fair value with the changes in value reflected through the income statement. The accounting treatment of derivatives that qualify for hedge accounting depends on how they are designated. The varying accounting treatments are explained below.

Cash flow hedges
The Group hedges the foreign currency exposure on certain revenue and purchase contracts. Under UK GAAP, foreign currency derivatives were held off balance sheet. Under IAS 39, derivative financial instruments that qualify for cash flow hedging are recognised on the balance sheet at fair value with corresponding fair value changes deferred in equity in a separate hedging reserve.

Net investment hedges
The gains or losses on the translation of currency borrowings used to hedge the Group's net investments in foreign entities are recognised in equity. Provided the hedging requirements of IAS 39 are met and the hedging relationship is fully effective, this treatment does not differ from UK GAAP.

The adjustments to the opening balance sheet at 1 January 2005 are as follows:

	£m
Derivative financial instruments – Current assets	1.5
Derivative financial instruments – Current liabilities	(0.7)
Deferred income tax liabilities	(0.2)
Increase in net assets	0.6
Hedging reserve	0.6

In addition as at 1 January 2005 the following balance sheet reclassifications are required on the adoption of IAS 39:

– Borrowings and cash are required to be grossed up for £24.7 million of cash held in cash pools; and

– The interest payable accrual of £1.6 million is reclassified from trade and other payables to borrowings.

32 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions
During the year, group entities entered into the following trading transactions with related parties that are not members of the Group.

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31.12.05 £m	Year ended 31.12.04 £m	**Year ended 31.12.05 £m**	Year ended 31.12.04 £m	**31.12.05 £m**	31.12.04 £m	**31.12.05 £m**	31.12.04 £m
Associates	**2.5**	2.6	**6.0**	4.8	**2.2**	1.7	**1.9**	1.1

Other related party transactions
On 13 September 2005, Charter acquired the outstanding 49 per cent of the shares in the South American welding and cutting businesses which it did not already own. Details of this transaction are set out in note 29.

Principal interests in Group undertakings

Subsidiary undertakings

	Country of incorporation	Group interest in equity capital (per cent)	Nature of business
Welding, automation and cutting products			
Europe			
ESAB AB	Sweden	100	Welding consumables and equipment
ESAB Vamberk s.r.o.	Czech Republic	100	Welding consumables and equipment
ESAB Cutting Systems GmbH	Germany	100	Oxy-fuel, plasma, laser and water jet cutting
ESAB Mor Kft	Hungary	100	Welding consumables
ESAB Sp z.o.o.	Poland	100	Welding consumables
ESAB Saldatura S.p.A.	Italy	100	Welding consumables and equipment
North America			
The ESAB Group Inc.(iv)	USA	100	Welding consumables and equipment
South America			
ESAB SA Industria e Comercio	Brazil	100	Welding consumables and equipment
Conarco Alambres y Soldaduras S.A.	Argentina	100	Welding consumables and equipment
Asia Pacific			
ESAB Asia/Pacific Pte Limited	Singapore	100	Welding consumables and equipment
HD Engineering Limited	Hong Kong	100	Drilling machines, components and accessories
Air and gas handling			
Europe			
Howden UK Limited(v)	Northern Ireland	100	Industrial and utility fans and heat exchangers
Howden Sirocco SA	France	100	Industrial fans
Howden BC Compressors(v)	France	100	Compressors
Howden BV(v)	Netherlands	100	Industrial fans
Turbowerke Meissen Howden GmbH	Germany	100	Industrial fans
Howden Ventilatoren GmbH	Germany	100	Industrial and utility fans
Howden Power A/S	Denmark	100	Industrial and utility fans
Howden Spain SL(v)	Spain	100	Heat exchangers
North America			
Howden Buffalo Inc.(iv)	USA	100	Industrial and utility fans
Asia Pacific			
Howden Hua Engineering Co Limited	China	70	Industrial and utility fans and heat exchangers
South Africa			
Howden Africa Holdings Limited	South Africa	55	Industrial and utility fans, heat exchangers, gas cleaning equipment, pumps and cooling systems

Associated undertakings

Howden Compressors Limited	Scotland	49	Screw compressors
ESAB SeAH Corporation	South Korea	50	Welding consumables
ESAB India Limited	India	38	Welding consumables and equipment
Pump Brands (Pty) Limited	South Africa	42	Pumps and related products

(i) Each of the associated undertakings has only one class of capital.
(ii) The principal country of operation is the same as the country of incorporation.
(iii) The Group undertakings above are all held by subsidiary undertakings of the Company. A full list of Group undertakings will be annexed to the Company's next annual return.
(iv) The ESAB Group Inc. and Howden Buffalo Inc. are both wholly owned subsidiaries of Anderson Group Inc., the holding company of the Group's US businesses.
(v) Howden UK Limited, Howden BC Compressors, Howden BV and Howden Spain SL were formerly known as Howden Power Limited, Burton Corblin SA, Ventilatoren Sirocco Howden BV and Howden Power Spain SL respectively.

Restatement of consolidated balance sheet

At 1 January 2004 (unaudited)

	UK GAAP £m	IAS 19 Employee benefits £m	IFRS 1 Property revaluations £m	IAS 38 Intangible assets £m	IFRS 3 Business combinations and goodwill £m	IFRS 2 Share-based payment £m	Reclassifications Software £m	Leases £m	Contract receivables £m	IAS 21 Foreign exchange hedges £m	Deferred taxation and provisions £m	Total adjustments £m	IFRS £m
Assets													
Non-current assets													
Property, plant and equipment	**105.7**	–	16.0	–	–	–	(1.1)	(1.0)	–	–	–	13.9	**119.6**
Goodwill	**17.3**	–	–	–	0.6	–	–	–	–	–	–	0.6	**17.9**
Other intangible assets	**–**	–	–	1.4	–	–	1.1	–	–	–	–	2.5	**2.5**
Investments in associates	**27.9**	–	–	–	–	–	–	–	–	–	–	–	**27.9**
Retirement benefit asset	**–**	1.5	–	–	–	–	–	–	–	–	–	1.5	**1.5**
Deferred income tax assets	**–**	0.9	1.5	–	–	–	–	–	–	–	6.3	8.7	**8.7**
Trade and other receivables	**3.5**	–	–	–	–	–	–	–	–	–	–	–	**3.5**
Total non-current assets	**154.4**	2.4	17.5	1.4	0.6	–	–	(1.0)	–	–	6.3	27.2	**181.6**
Current assets													
Inventory	**102.0**	–	–	–	–	–	–	–	(7.6)	–	–	(7.6)	**94.4**
Trade and other receivables	**199.1**	(4.5)	–	–	–	–	–	0.5	14.5	0.1	–	10.6	**209.7**
Cash and cash equivalents	**59.9**	–	–	–	–	–	–	–	–	–	–	–	**59.9**
Total current assets	**361.0**	(4.5)	–	–	–	–	–	0.5	6.9	0.1	–	3.0	**364.0**
Total assets	**515.4**	(2.1)	17.5	1.4	0.6	–	–	(0.5)	6.9	0.1	6.3	30.2	**545.6**
Liabilities													
Current liabilities													
Borrowings	**(71.2)**	–	–	–	–	–	–	0.2	–	–	–	0.2	**(71.0)**
Trade and other payables	**(161.1)**	–	–	–	–	–	–	–	(6.9)	(0.1)	1.2	(5.8)	**(166.9)**
Income tax liabilities	**(20.1)**	–	–	–	–	–	–	–	–	–	–	–	**(20.1)**
Provisions	**(25.0)**	–	–	–	–	–	–	–	–	–	(1.2)	(1.2)	**(26.2)**
Total current liabilities	**(277.4)**	–	–	–	–	–	–	0.2	(6.9)	(0.1)	–	(6.8)	**(284.2)**
Non-current liabilities													
Borrowings	**(125.5)**	–	–	–	–	–	–	0.1	–	–	–	0.1	**(125.4)**
Deferred tax liabilities	**–**	–	(4.5)	–	–	–	–	–	–	–	(6.3)	(10.8)	**(10.8)**
Retirement benefit obligations	**(65.5)**	(86.1)	–	–	–	–	–	–	–	–	–	(86.1)	**(151.6)**
Provisions	**(21.1)**	(0.1)	–	–	–	–	–	–	–	–	–	(0.1)	**(21.2)**
Other payables	**(1.0)**	–	–	–	–	–	–	–	–	–	–	–	**(1.0)**
Total non-current liabilities	**(213.1)**	(86.2)	(4.5)	–	–	–	–	0.1	–	–	(6.3)	(96.9)	**(310.0)**
Total liabilities	**(490.5)**	(86.2)	(4.5)	–	–	–	–	0.3	(6.9)	(0.1)	(6.3)	(103.7)	**(594.2)**
Net assets	**24.9**	(88.3)	13.0	1.4	0.6	–	–	(0.2)	–	–	–	(73.5)	**(48.6)**
Equity													
Share capital	**1.9**	–	–	–	–	–	–	–	–	–	–	–	**1.9**
Share premium	**5.9**	–	–	–	–	–	–	–	–	–	–	–	**5.9**
Retained earnings & other reserves	**(3.4)**	(88.3)	13.0	1.4	0.6	–	–	(0.2)	–	–	–	(73.5)	**(76.9)**
	4.4	(88.3)	13.0	1.4	0.6	–	–	(0.2)	–	–	–	(73.5)	**(69.1)**
Equity minority interests	**20.5**	–	–	–	–	–	–	–	–	–	–	–	**20.5**
Total equity	**24.9**	(88.3)	13.0	1.4	0.6	–	–	(0.2)	–	–	–	(73.5)	**(48.6)**

Restatement of consolidated income statement

Year ended 31 December 2004 (unaudited)

	UK GAAP £m	IAS 19 Employee benefits £m	IFRS 1 Property revalu-ations £m	IAS 38 Intangible assets £m	IFRS 3 Business combin-ations and goodwill £m	IAS 8 Prior year errors £m	IAS 1 Joint ventures and associates £m	IAS 21 Foreign exchange losses £m	IAS 39 Financial instru-ments £m	Total adjust-ments £m	IFRS £m
Revenue	**870.4**	–	–	–	–	–	–	–	–	–	**870.4**
Cost of sales	**(618.3)**	1.7	(0.2)	–	–	–	–	–	–	1.5	**(616.8)**
Gross profit	**252.1**	1.7	(0.2)	–	–	–	–	–	–	1.5	**253.6**
Selling and distribution costs	**(123.1)**	0.9	–	–	–	–	–	–	–	0.9	**(122.2)**
Administrative expenses	**(99.9)**	2.8	–	0.2	1.2	5.0	–	–	–	9.2	**(90.7)**
Sales of assets and businesses	**5.2**	–	–	–	6.0	–	–	–	–	6.0	**11.2**
Operating profit	**34.3**	5.4	(0.2)	0.2	7.2	5.0	–	–	–	17.6	**51.9**
Net financing charge	**(11.6)**	–	–	–	–	–	0.1	(3.0)	–	(2.9)	**(14.5)**
Share of profits of associates	**5.4**	–	–	–	–	–	(1.8)	–	–	(1.8)	**3.6**
Profit before tax	**28.1**	5.4	(0.2)	0.2	7.2	5.0	(1.7)	(3.0)	–	12.9	**41.0**
Taxation	**(6.5)**	–	–	–	–	–	1.7	0.4	–	2.1	**(4.4)**
Profit for the year	**21.6**	5.4	(0.2)	0.2	7.2	5.0	–	(2.6)	–	15.0	**36.6**
Attributable to:											
Equity shareholders	**14.8**	5.4	(0.2)	0.2	7.2	5.0	–	(2.6)	–	15.0	**29.8**
Minority interests	**6.8**	–	–	–	–	–	–	–	–	–	**6.8**
	21.6	5.4	(0.2)	0.2	7.2	5.0	–	(2.6)	–	15.0	**36.6**

Restatement of consolidated balance sheet

At 31 December 2004 (unaudited)

	UK GAAP £m	IAS 19 Employee benefits £m	IFRS 1 Property revalu-ations £m	IAS 38 Intangible assets £m	IFRS 3 Business combin-ations and goodwill £m	IFRS 2 Share-based payment £m	IAS 8 Prior year errors £m	Reclassifications Software £m	Leases £m	Contract receivables £m	IAS 21 Foreign exchange hedges £m	Deferred taxation and provisions £m	Total adjust-ments £m	IFRS £m
Assets														
Non-current assets														
Property, plant and equipment	**98.4**	–	15.6	–	–	–	–	(1.7)	(1.0)	–	–	–	12.9	**111.3**
Goodwill	**16.6**	–	–	–	1.8	–	–	–	–	–	–	–	1.8	**18.4**
Other intangible assets	**–**	–	–	1.6	–	–	–	1.7	–	–	–	–	3.3	**3.3**
Investments in associates	**22.1**	–	–	–	–	–	–	–	–	–	–	–	–	**22.1**
Retirement benefit assets	**–**	2.6	–	–	–	–	–	–	–	–	–	–	2.6	**2.6**
Deferred income tax assets	**1.5**	0.9	1.5	–	–	–	–	–	–	–	–	8.3	10.7	**12.2**
Trade and other receivables	**0.4**	–	–	–	–	–	–	–	–	–	–	–	–	**0.4**
Total non-current assets	**139.0**	3.5	17.1	1.6	1.8	–	–	–	(1.0)	–	–	8.3	31.3	**170.3**
Current assets														
Inventory	**121.0**	–	–	–	–	–	–	–	–	(18.3)	–	–	(18.3)	**102.7**
Trade and other receivables	**222.0**	(5.1)	–	–	–	–	–	–	0.6	19.8	0.1	–	15.4	**237.4**
Cash and cash equivalents	**45.1**	–	–	–	–	–	–	–	–	–	–	–	–	**45.1**
Total current assets	**388.1**	(5.1)	–	–	–	–	–	–	0.6	1.5	0.1	–	(2.9)	**385.2**
Total assets	**527.1**	(1.6)	17.1	1.6	1.8	–	–	–	(0.4)	1.5	0.1	8.3	28.4	**555.5**
Liabilities														
Current liabilities														
Borrowings	**(46.2)**	–	–	–	–	–	–	–	0.2	–	–	–	0.2	**(46.0)**
Trade and other payables	**(207.9)**	–	–	–	–	0.4	–	–	–	(1.5)	(0.1)	3.3	2.1	**(205.8)**
Income tax liabilities	**(9.3)**	–	–	–	–	–	–	–	–	–	–	–	–	**(9.3)**
Provisions	**(16.5)**	–	–	–	–	–	–	–	–	–	–	(3.3)	(3.3)	**(19.8)**
Total current liabilities	**(279.9)**	–	–	–	–	0.4	–	–	0.2	(1.5)	(0.1)	–	(1.0)	**(280.9)**
Non-current liabilities														
Borrowings	**(65.4)**	–	–	–	–	–	–	–	–	–	–	–	–	**(65.4)**
Deferred tax liabilities	**–**	–	(4.5)	–	–	–	–	–	–	–	–	(8.3)	(12.8)	**(12.8)**
Retirement benefit obligations	**(58.6)**	(78.8)	–	–	–	–	–	–	–	–	–	–	(78.8)	**(137.4)**
Provisions	**(20.4)**	–	–	–	–	–	–	–	–	–	–	–	–	**(20.4)**
Other payables	**(4.9)**	–	–	–	–	–	–	–	–	–	–	–	–	**(4.9)**
Total non-current liabilities	**(149.3)**	(78.8)	(4.5)	–	–	–	–	–	–	–	–	(8.3)	(91.6)	**(240.9)**
Total liabilities	**(429.2)**	(78.8)	(4.5)	–	–	0.4	–	–	0.2	(1.5)	(0.1)	(8.3)	(92.6)	**(521.8)**
Net assets	**97.9**	(80.4)	12.6	1.6	1.8	0.4	–	–	(0.2)	–	–	–	(64.2)	**33.7**
Equity														
Share capital	**3.0**	–	–	–	–	–	–	–	–	–	–	–	–	**3.0**
Share premium	**49.4**	–	–	–	–	–	–	–	–	–	–	–	–	**49.4**
Retained earnings & other reserves	**23.3**	(80.4)	12.6	1.6	1.8	0.4	–	–	(0.2)	–	–	–	(64.2)	**(40.9)**
	75.7	(80.4)	12.6	1.6	1.8	0.4	–	–	(0.2)	–	–	–	(64.2)	**11.5**
Equity minority interests	**22.2**	–	–	–	–	–	–	–	–	–	–	–	–	**22.2**
Total equity	**97.9**	(80.4)	12.6	1.6	1.8	0.4	–	–	(0.2)	–	–	–	(64.2)	**33.7**