

Chairman and Chief Executive's statement



David Gawler
Chairman and Chief Executive

Dear Shareholder

I am pleased to report that 2005 has been another highly successful year for Charter. The Company has achieved substantially improved results with adjusted operating profits having increased by 78 per cent to £97.5 million, pre tax profits increased by 152 per cent to £103.5 million and adjusted earnings per share by 117 per cent to 43.0 pence per share.

As shown below, in 2005 Charter has generated sales of £1,065.7 million (2004: £870.4 million), an increase of 22 per cent; an adjusted operating profit of £97.5 million (2004: £54.9 million), an increase of 78 per cent; profit before tax of £103.5 million (2004: £41.0 million), an increase of 152 per cent; and profits attributable to equity shareholders of £74.0 million (2004: £29.8 million), an increase of 148 per cent. Net debt has been reduced to £6.5 million (2004: £66.3 million).

The excellent results achieved in 2005 reflect the strength of the key markets in which ESAB and Howden have traded and the significant benefits that have arisen from the programme of restructurings, plant and business closures and cost reduction and other initiatives implemented in recent years. These two factors have certainly contributed to the substantial improvements in ESAB's and Howden's 2005 adjusted operating margins of 10.3 per cent (2004: 7.9 per cent) and 9.7 per cent (2004: 5.9 per cent), respectively.

Summary of results

	2005 £m	2004 £m
Revenue	1,065.7	870.4
Adjusted operating profit,	97.5	54.9
Exceptional items	4.2	(3.0)
Operating profit	101.7	51.9
Net financing charge before retranslation of intercompany loan balances	(6.3)	(11.5)
Gains/(losses) on retranslation of intercompany loan balances	3.6	(3.0)
Net financing charge	(2.7)	(14.5)
Share of post tax profits of associates	4.5	3.6
Profit before tax	103.5	41.0
Tax on profit on ordinary activities (before the items set out below)	(19.5)	(11.9)
Tax on exceptional items	-	0.5
Tax on gains/losses on intercompany loan balances	(0.5)	0.4
Exceptional tax credit	-	6.6
Taxation	(20.0)	(4.4)
Profit after tax	83.5	36.6
Attributed to: Equity shareholders	74.0	29.8
Minority interests	9.5	6.8
	83.5	36.6
Net debt	6.5	66.3
	pence	pence
Earnings per share Adjusted ₁	43.0	19.8
Basic	46.9	20.9

¹ before exceptional items

² before exceptional items and gains or losses on retranslation of intercompany loan balances

Business results

The business results of the welding, cutting and automation business ('ESAB'), the air and gas handling business ('Howden'), the food equipment business (closed in the year) and central costs are summarised in the following table.

	Year ended 31.12.05 £m		Year ended 31.12.04 £m	
Welding, cutting and automation	720.1		624.9	
Air and gas handling	345.1		241.6	
Food equipment	0.5		3.9	
Revenue	1,065.7		870.4	
Welding, cutting and automation	10.3%	74.4	7.9%	49.2
Air and gas handling	9.7%	33.5	5.9%	14.2
Food equipment		(1.0)		(2.2)
Central operations		(9.4)		(6.3)
Adjusted operating profit,		97.5		54.9
Welding, cutting and automation		3.4		2.4
Air and gas handling		1.1		1.2
Share of post tax profits of associates		4.5		3.6

¹ before exceptional items

² the adjusted operating margins are shown as a percentage of sales

ESAB produced another set of excellent results in 2005, with sales of £720.1 million (2004: £624.9 million), an increase of 15.2 per cent; adjusted operating profits of £74.4 million (2004: £49.2 million), an increase of 51.2 per cent and operating margins of 10.3 per cent (2004: 7.9 per cent), an increase of 30.4 per cent.

Howden made tremendous further progress in 2005, and is beginning to demonstrate its true potential. Sales totalled £345.1 million (2004: £241.6 million), an increase of 42.8 per cent; adjusted operating profits of £33.5 million (2004: £14.2 million), an increase of 136 per cent and operating margins increased to 9.7 per cent as compared with 5.9 per cent last year. Howden's order intake was particularly strong in 2005 and at year-end had orders in hand of £304 million (2004: £181 million), an increase of 68 per cent.

During 2005 the food equipment business, which recorded an operating loss of £1.0 million, inclusive of closure costs (2004: an operating loss of £2.2 million) ceased trading and its assets were sold.

Central costs were £9.4 million (2004: £6.3 million), an increase of £3.1 million. Of this increase, £1.7 million relates to incremental Directors' costs, including costs charged in respect of long term incentive plans for the Directors, and the balance is mainly due to additional costs arising from increased corporate staffing and the greater use of consultants in the year.

The Company's share of post tax profits of associates in 2005 was £4.5 million (2004: £3.6 million).

Exceptional items

In order to provide shareholders with a better indication of Charter's underlying business performance, items that are both material and non-recurring have been highlighted and described as exceptional items within the relevant income or expenditure categories.

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 realisation of the former employee's assets have resulted in a full recovery except for the £200,000 insurance deductible.

Tax

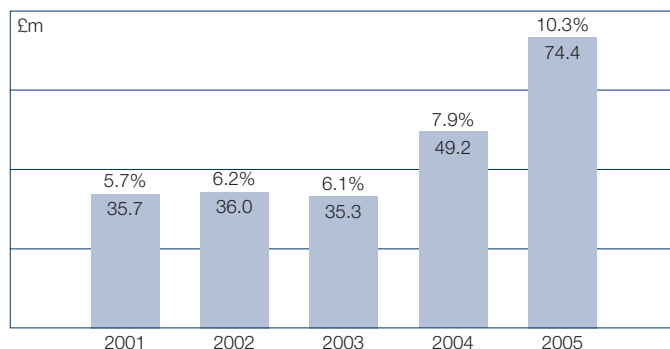
The adjusted effective tax rate for the year was 21.4 per cent (2004: 27.4 per cent), reflecting increasing profits being generated in low tax jurisdictions and the utilisation of brought forward tax losses not previously recognised.

Chairman and Chief Executive's statement (continued)

As can be seen from the charts below, ESAB and Howden have achieved substantially improved operating profits and margins. Both businesses are now cash generative and well positioned to deliver further improvements in 2006 and beyond.

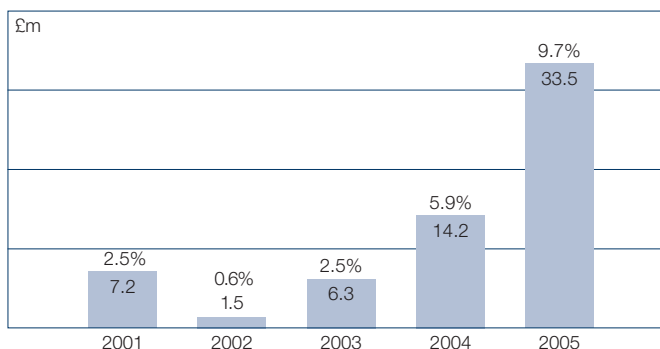
ESAB's adjusted operating profit and margins

Figures for 2001/2/3 have been extracted from annual accounts prepared under UK GAAP.



Howden's adjusted operating profit and margins

Figures for 2001/2/3 have been extracted from annual accounts prepared under UK GAAP.



Cash flow and net debt

	2005 £m	2004 £m
Net debt as at 1 January,	(67.9)	(136.5)
Cash flow from operations	84.5	47.7
Net capital expenditure ₂	(18.9)	(7.3)
Net (acquisitions)/disposals ₃	(1.5)	9.6
Dividends from associates	3.0	1.3
Interest paid (net)	(6.0)	(13.3)
Dividends paid to minorities	(2.8)	(2.8)
Tax paid	(14.9)	(11.7)
Share issues ₃	20.2	44.6
Other	(2.2)	2.1
Movement in net debt	61.4	70.2
Net debt as at 31 December	(6.5)	(66.3)

1 the 1 January 2005 position has been restated, as required under IAS 39, to include an interest payable accrual of £1.6 million

2 includes capitalised development costs and is net of sales of fixed assets

3 excludes market value of shares issued in connection with the acquisition of 49 per cent of the South American welding and cutting businesses

During the year, net debt was virtually eliminated, reducing from £66.3 million to £6.5 million. Cash generated from operations was £84.5 million (2004: £47.7 million), an increase of 77 per cent. Net capital expenditure was £18.9 million (2004: £7.3 million), an increase of 159 per cent, whereas the depreciation charge amounted to only £14.7 million (2004: £15.3 million).

Acquisition of minority interest

On 13 September 2005, the Company completed the acquisition of the 49 per cent minority interest in the South American welding and cutting businesses from the Acevedo family for a total cost of £26.4 million. The acquisition, full details of which were disclosed in the shareholders' circular of 26 August 2005, increased ESAB's exposure to the important Brazilian and Argentine markets. Your directors believe that these markets offer attractive growth opportunities and provide a firm base from which to develop further ESAB's business elsewhere in South America.

I am pleased to report that, in 2005, the acquired businesses performed well and that, as anticipated at the time of its announcement, the acquisition enhanced the Company's earnings per share in the year.

Five year overview

This is my final report as Chief Executive as I will be standing down from this role on 30 June 2006, although I have agreed to remain as Chairman.

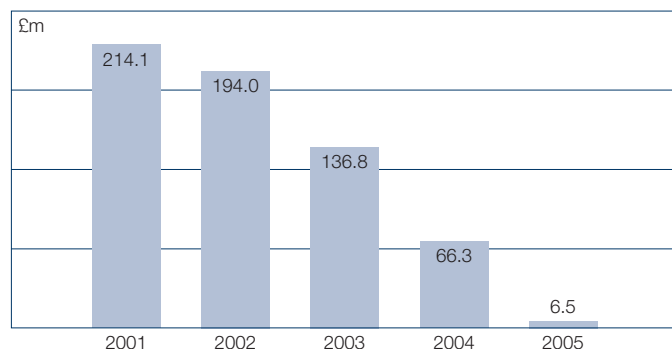
When I was appointed Chairman and Chief Executive of Charter in April 2001, the Company faced a number of trading and financial issues. As disclosed in the 31 December 2000 accounts, net debt stood at £209.8 million and equity shareholders' funds at £24.6 million. Charter was incurring substantial financing and tax charges and generating insufficient cash flows. By 31 December 2005 net debt had been reduced to £6.5 million and equity shareholders' funds had risen to £135.1 million. This improvement in shareholders' funds has been achieved, notwithstanding the recognition on transition to IFRS (on 1 January 2004) of some £88 million of additional post-retirement liabilities.

In 2000 both ESAB and Howden were suffering from declining operating profits and margins and faced a number of other serious challenges. Over the past five years a programme of restructurings, closures of plants and loss making businesses, relocation of manufacturing from high to low cost locations and other cost saving initiatives have been implemented. This programme has led to a reversal of the trend of declining operating profits and margins. Importantly, in 2005 ESAB and Howden achieved substantially improved operating profits and margins and both businesses are now cash generative and well positioned to deliver further improvements in 2006 and beyond.

Net debt at 31 December 2001 was £214.1 million and there was a deficit of £8.3 million on equity shareholders' funds. As can be seen from the charts below, by 31 December 2005, net debt had been reduced to £6.5 million and equity shareholders' funds had risen to £135.1 million. The improvement in equity shareholders' funds was achieved, notwithstanding the recognition on transition to IFRS (on 1 January 2004) of some £88 million of additional post-retirement liabilities.

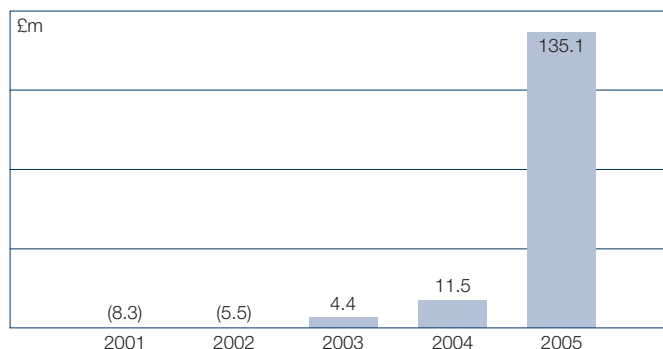
Net debt

Figures for 2001/2/3 have been extracted from annual accounts prepared under UK GAAP.



Equity shareholders' funds

Figures for 2001/2/3 have been extracted from annual accounts prepared under UK GAAP.



Charter's financing charges have also been reduced; furthermore its effective adjusted global tax rate, as noted above, has declined as more of its taxable profits are being generated in tax jurisdictions with relatively low tax rates and in territories where taxable profits are sheltered by previously unrecognised tax losses brought forward.

The Company's Board has been strengthened and now comprises five Non-Executive Directors and three Executive Directors. Management has also been strengthened in ESAB Global, Howden Global, Anderson Group Inc and at Charter's corporate headquarters.

I am pleased to report that Michael Foster, who was appointed Commercial Director on 1 January 2005, will succeed me as Chief Executive on 1 July 2006.

Board

There have been a number of changes in the Board during the year. Michael Foster was appointed Commercial Director on 1 January 2005. As noted above, he will assume the position of Chief Executive on 1 July 2006.

Three new Non-Executive Directors have also joined the Board. Grey Denham and Andrew Osborne were appointed on 8 February 2005 and John Biles on 1 April 2005.

Contingent liabilities

As disclosed in the Company's annual report and accounts in recent years, The ESAB Group Inc. ('EGI'), an indirect subsidiary of the Company, in common with other companies in the welding products industry, 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 and several trials are due to be heard this year. Whilst litigation is notoriously uncertain and the risk of an adverse jury verdict in any trial exists, on 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.

Dividend

The Board has decided not to recommend a final dividend for the year ended 31 December 2005 but its dividend policy will be kept under review.

Prospects

ESAB and Howden have both achieved strong growth in revenue, operating profits and operating margins and are well positioned to make further progress in generally favourable market conditions.

ESAB and Howden have started the year strongly and in the first two months of the year are ahead of the Board's previous expectations in both operating profit and cash flow terms; furthermore, since year-end Howden's order book has continued to grow. For these reasons, and given the excellent results achieved in 2005, the Board views the Company's trading prospects for 2006 with confidence.

David Gawler

Chairman and Chief Executive
16 March 2006