

In the year to 31 December 2006, revenue increased by 18.0 per cent to £1,257.9 million (2005: £1,065.7 million). Operating profit was £143.2 million (2005: £101.7 million).

The profit for the year attributable to equity shareholders was £122.0 million (2005: £74.0 million), an increase of 64.9 per cent.

As at 31 December 2006, total equity shareholders' funds were £250.7 million (2005: £135.1 million), an increase of £115.6 million.

In 2006, basic earnings per share were 73.5 pence (2005: 46.9 pence), an increase of 56.7 per cent. Adjusted earnings per share of 67.2 pence (2005: 43.0 pence) were derived from basic earnings per share as set out below.

	2006 pence	2005 pence
Basic earnings per share	73.5	46.9
Items not relating to underlying business performance:		
Exceptional items	(6.4)	(2.7)
Gains on retranslation of intercompany loan balances	(0.1)	(2.3)
Taxation on retranslation of intercompany loan balances	0.2	0.3
Minority share of retranslation of intercompany loan balances	–	0.8
Adjusted earnings per share	67.2	43.0

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 2006, an exceptional tax credit of £10.5 million arose from the recognition of deferred tax assets in North America.

In 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

	2006 £m	2005 £m
Current tax charge – UK	3.4	–
– overseas	28.7	22.2
	32.1	22.2
Deferred tax credit – UK	(1.8)	–
– overseas	(3.2)	(2.7)
Tax charge before taxation on gains on intercompany loans and exceptional tax credit	27.1	19.5
Taxation on net gains on retranslation of intercompany loan balances – overseas	0.3	0.5
Exceptional deferred tax credit – overseas	(10.5)	–
Taxation	16.9	20.0

In 2006, the total tax on profit on ordinary activities was £16.9 million (2005: £20.0 million).

Within the 2006 tax charge, there was an amount of £0.3 million (2005: £0.5 million) in relation to gains on retranslation of intercompany loans.

As noted above, there was an exceptional tax credit of £10.5 million arising from the recognition of deferred tax assets in North America.

The adjusted effective tax rate for the year on profit (before gains on retranslation of intercompany loans, exceptional items and the share of post tax profits of associates) was 19.6 per cent (2005: 21.4 per cent).

The reduction in the tax rate in the year was largely a consequence of increasing profits being generated in low tax jurisdictions such as China and Eastern Europe.

The adjusted effective tax rate is calculated as follows:

	2006 £m	2005 £m
Profit before tax	144.6	103.5
Deduct: Exceptional items	–	(4.2)
Net gains on retranslation of intercompany loan balances	(0.2)	(3.6)
Share of post tax profits of associates	(5.8)	(4.5)
Adjusted profit before tax	138.6	91.2
Tax charge before taxation on gains on inter-company loans and exceptional tax credit	27.1	19.5
Adjusted effective tax rate	19.6%	21.4%

Minority interests

The profit for the year attributable to minority interests was £5.7 million (2005: £9.5 million).

As at 31 December 2006, the total equity attributable to minority interests reduced to £10.3 million (2005: £13.5 million) given that distributions made to minorities exceeded their share of profits arising in the year.

Following the acquisition of the outstanding minority interest in the South American welding and cutting businesses in September 2005, the only remaining minority interests that are significant are the 30 per cent interest in Howden Hua Engineering Co Limited and the 45 per cent interest in Howden Africa Holdings Limited.

Balance sheet

During the year, total equity shareholders' funds increased to £250.7 million (2005: £135.1 million), an increase of £115.6 million.

The principal component of this increase was the profit for the financial period attributable to Charter shareholders of £122.0 million, which was partially reduced by exchange translation losses of £13.2 million.

The following table shows a summary of the balance sheet.

	2006 £m	2005 £m
Non-current assets (excluding retirement benefit assets)	236.1	204.3
Inventory	132.0	119.5
Trade and other receivables	323.7	292.9
Trade and other payables	(274.1)	(261.8)
Other	(17.6)	(13.2)
Net current assets (excluding net cash/debt and provisions)	164.0	137.4
Net retirement benefit obligations	(108.6)	(127.1)
Net cash/(debt)	43.1	(6.5)
Provisions	(50.9)	(40.7)
Other long-term liabilities (excluding net debt)	(22.7)	(18.8)
	261.0	148.6
Equity shareholders' funds	250.7	135.1
Minority interests	10.3	13.5
	261.0	148.6

Retirement benefit obligations

The table below shows a summary of retirement benefit obligations.

	2006 £m	2005 £m
Total plan assets	557.5	538.9
Defined benefit obligations	(663.2)	(690.5)
Net deficit	(105.7)	(151.6)
Amount not recognised	0.5	26.3
Amount not recoverable	(3.4)	(1.8)
Net retirement benefit obligation recognised	(108.6)	(127.1)
The following amounts are included in operating profit in the income statement:		
Defined benefit pension schemes and overseas medical schemes	(3.2)	(7.6)
Defined contribution pension schemes	(3.0)	(2.6)
	(6.2)	(10.2)

Net retirement benefit obligations, as provided for in the consolidated balance sheet, amounted to £108.6 million (2005: £127.1 million), a reduction of £18.5 million.

As permitted under IAS 19, the cumulative actuarial gains and losses arising subsequent to 1 January 2004 which fall within a 'corridor', calculated by reference to the greater of 10 per cent of plan assets or liabilities, are not recognised on the balance sheet. At 31 December 2006 the amount of the actuarial losses not recognised was £0.5 million (2005: £26.3 million).

In respect of 2006, an amount of £3.2 million (2005: £7.6 million) was charged against operating profit in respect of defined benefit schemes and overseas medical costs. The cash contribution into the schemes during the year was £17.5 million (2005: £18.4 million).

Provisions

At 31 December 2006, provisions were £50.9 million (2005: £40.7 million). Of this amount, £29.7 million (2005: £21.7 million) was in respect of legal and environmental claims and disputes. Of the remainder, £3.0 million (2005: £4.6 million) was in respect of disposals and restructurings, £14.6 million (2005: £10.4 million) was in respect of warranty and product liability and £3.6 million (2005: £4.0 million) was in respect of other items.

Business and financial review – Financial review (continued)

Cash flow and net debt

Cash flows during the year and the resulting movement in net cash/(debt) are summarised below.

	2006 £m	2005 £m
Operating profit	143.2	101.7
Depreciation	13.5	14.7
Amortisation	1.5	0.8
Charge for share-based incentives	0.6	0.8
Profit on sale of property, plant and equipment	(6.2)	(0.8)
Increase in inventories	(19.9)	(9.9)
Increase in receivables	(58.2)	(57.6)
Increase in payables	29.5	45.6
Movement in working capital	(48.6)	(21.9)
Movement in provisions	14.3	5.9
Movement in net retirement benefit obligations	(14.3)	(10.8)
Exceptional items – amount recognised in year	–	(4.2)
– amount received/(paid) in year	2.8	(1.7)
Cash flow from operations	106.8	84.5
Capital expenditure	(24.5)	(20.0)
Capitalised development costs	(2.4)	(2.2)
Loan repayment received from associate	1.5	–
Acquisitions (net of cash acquired)	(13.5)	(1.9)
	(38.9)	(24.1)
Disposals	–	0.4
Sale of property, plant and equipment	12.2	3.3
	(26.7)	(20.4)
Dividends from associates	2.6	3.0
Financing costs (net)	(5.1)	(6.0)
Dividends paid to minority interests	(7.2)	(2.8)
Tax paid	(23.9)	(14.9)
Share issues	0.6	20.2
Net cash flow	47.1	63.6
New finance leases	(0.4)	(0.2)
Movement in interest payable accrual	0.9	0.3
Foreign exchange adjustments	2.0	(2.3)
Reduction in net debt	49.6	61.4
Opening net (debt)	(6.5)	(66.3)
Opening interest payable accrual at 1 January 2005	–	(1.6)
Closing net cash/(debt)	43.1	(6.5)

During the year, the net debt of £6.5 million at 31 December 2005 was eliminated and at the year end there was net cash of £43.1 million. Cash flow from operations generated £106.8 million (2005: £84.5 million), an increase of 26.4 per cent. Capital expenditure was £24.5 million (2005: £20.0 million), an increase of 22.5 per cent, compared with the depreciation charge of £13.5 million (2005: £14.7 million). The amount spent on acquisitions primarily related to the purchase of the outstanding shares in Howden Compressors Limited.

During 2006, the net movement in working capital absorbed £48.6 million. Inventories and receivables grew by a broadly similar amount to the increase in revenue, whilst payables grew slightly less quickly. The increase in general provisions reflected an increase in the provision for warranty costs and legal and environmental liabilities. This was partly offset by an increase in respect of recoveries from insurers which are included in receivables.

During the year, the Company issued a total of 1,434,950 new ordinary shares. Of these:

- 1,120,579 new ordinary shares were issued to the Chairman, David Gawler, as more fully described below under ‘Long term incentive plan’.
- 314,371 new ordinary shares were issued for cash of £0.6 million on the exercise of options under various employee share option schemes.

Cash, borrowings and interest

As at 31 December 2006, cash balances were £62.3 million (2005: £75.7 million) partly held in the UK, with the balance held overseas for local working capital purposes or pending dividend payments. Of the cash held overseas, £4.5 million (2005: £7.5 million) is retained as cash collateral in connection with certain local trading practices or banking facilities. The credit status of institutions where cash is held is kept under review with credit limits being set and monitored accordingly.

As at 31 December 2006, gross borrowings were £19.2 million (2005: £82.2 million).

In certain instances, borrowings are denominated in the currencies of the Company’s net investments overseas which provides a hedge against currency fluctuations. Gains and losses arising from borrowings or forward exchange contracts which are used to hedge foreign currency exposures are recognised as required under IFRS in the consolidated statement of changes in equity until the items being hedged have impacted on the income statement.

Charter’s central treasury department is responsible for ensuring the availability of suitable and sufficient borrowing and other financing facilities. In addition, it is responsible for managing the interest rate risks, liquidity risks and balance sheet foreign exchange translation risks. Foreign exchange transaction exposures are generally managed by operating subsidiaries within strict guidelines and controls established by the management of their parent companies and overseen by the central treasury department. It is the Company’s policy not to hedge profit and loss account translation exposures.

In March 2006, the Company agreed a new five year committed £50 million revolving credit facility with HSBC expiring on 31 March 2011, which replaced an earlier facility which was due to expire on 31 March 2007.

In August 2006, the Company retired the US \$120 million (£65.0 million) loan notes which would otherwise have fallen due for repayment in October 2007 and October 2009. The costs of the early repayment, being the make-whole amount payable to the note holders of £2.1 million, was included in the financing charge for the year.

In the year to 31 December 2006, net financing charges payable (before gains on retranslation of intercompany balances) of £4.6 million (2005: £6.3 million) were covered 31.1 times (2005: 15.5 times) by profit before net financing charges, exceptional items and share of post tax profits of associates.

Contingent liabilities

Details of contingent liabilities are set out in Note 26 to the consolidated financial statements.

Long term incentive plan

Mr Gawler had a long term incentive plan which had previously been approved by shareholders and which vested on 30 June 2006. Mr Gawler received the maximum gross amount payable under this award of £8,987,040 as the average share price for the 20 dealing days following the announcement of the annual results for the year ended 31 December 2005, which took place on 16 March 2006, was above 395 pence throughout the period.

The Board resolved that this amount would be settled by the issue of shares in the Company, and accordingly 1,120,579 new ordinary shares in the Company were issued to Mr Gawler on 3 July 2006. These shares were subsequently sold on his behalf at a price of 802 pence each.

Risks and uncertainties

Charter, both directly and through ESAB and Howden, is exposed to a wide variety of markets and geographies and seeks to manage the risks and uncertainties which arise from this. In certain instances and where it is cost-effective to do so, exposures can be transferred to third parties, for example through insurance or through currency hedging.

The principal risks and uncertainties faced by Charter, and the ways in which they are being managed, are set out below.

Economic recession

Economic recession in a particular region may be created by internal factors, such as declining consumer expenditure, or external factors, such as changes in exchange rates.

Both ESAB and Howden have improved their operating efficiencies, which should assist in protecting their profitability even if an economic recession were to lead to falling sales volumes and product prices. In response to the recent high demand for its products globally, Howden has increased its capacity principally through the extensive use of sub-contractors. In the event that market conditions change, Howden should be able to reduce this capacity without incurring significant costs.

Actions of competitors

ESAB and Howden both operate in competitive markets and are exposed to market behaviour such as aggressive pricing by a low cost manufacturer looking to enter a new market.

As set out in the business and financial review, both businesses have established strong market positions through technological leadership, strong brands and through providing cost effective solutions to their customers' needs. These positions are being maintained through measures such as continued expenditure on research and development, the lean manufacturing initiative and customer service.

Competitor action may result initially in reductions in profit, although these are more likely to be specific to particular product areas or geographies. The businesses' strong market positions should assist them in maintaining their longer term performance.

Foreign exchange: transaction risk

Transaction risk arises from product being manufactured in one currency zone and sold in another.

In ESAB, manufacturing tends to be relatively close to the end-user, which naturally reduces currency exposures. The principal exposures which arise do so on account of manufacturing of product in Central Europe and Sweden which is exported to the euro-zone. ESAB's policy is not to hedge currency exposures unless they relate to a significant specific contract, as customer prices, particularly for consumables, are generally able to be changed at relatively short notice to reflect cost changes.

In relation to Howden, exposure is principally in relation to the US Dollar and pegged currencies such as the Chinese Yuan. Howden substantially covers forward its committed trading exposures.

The exposure of Charter's balance sheet to movements in exchange rates is reduced by certain borrowings being denominated in foreign currencies.

Foreign exchange: translation risk

Translation risk arises from the profits and net assets of non-UK businesses being translated into a Sterling value which depends upon the exchange rate.

Apart from Howden's operations in Scotland and Northern Ireland, ESAB's head office and its own headquarters, Charter has minimal operations in the UK. The largest single profit translation exposure is in relation to the US Dollar. It is Charter's policy not to hedge profit translation exposures; this may give rise to fluctuations in Charter's reported profit.

The Company has significant investments in overseas operations; as a result, movements in exchange rates can significantly affect the consolidated balance sheet. In certain circumstances, currency borrowings, forward foreign exchange contracts or other derivatives may be used to hedge balance sheet exposures. Gains and losses arising on such hedges are recognised as required under IFRS in the consolidated statement of changes in equity until the items being hedged have impacted on the income statement.

Litigation

Charter, ESAB and Howden are subject to litigation in the ordinary course of their business.

Certain comments on current litigation are set out in the Chairman's statement and further details are contained in Note 26.

Pension risk

There are various post retirement benefit schemes in place within Charter, ESAB and Howden.

As at 31 December 2006, the net retirement benefit obligations, as provided for in its consolidated balance sheet, amounted to £108.6 million. This sum represents 43.3 per cent of equity shareholders' funds as at that date.

The assets held by the various schemes are invested by the trustees primarily in equities and bonds. A level of contributions payable by the Company, ESAB and Howden into the schemes has been agreed with respective trustees.

Business and financial review – Financial review (continued)

The liabilities in respect of retirement benefits are subject to movements in long term interest rates and changes in life expectancy. The net retirement benefit obligation is also subject to movements in the value of assets held by the schemes, which are principally shares and bonds. Future cash contributions to the schemes will also depend on other factors, such as the outcome of negotiations with the pension trustees and changes in legislation.

Raw material prices

Most products manufactured by ESAB and Howden contain steel or other metals whose prices are determined on world markets and can fluctuate significantly.

This risk is addressed by the use of long-term contracts with suppliers where available and appropriate and, subject to market conditions and other factors, the passing through to customers of increases in underlying costs.

Internal controls

Charter has in place a system of internal controls covering its own activities and those of ESAB and Howden. These controls are essential for the effective management of such geographically diverse businesses.

The Company's Audit Committee has been delegated formal responsibility for reviewing the effectiveness of the system of internal control. A failure of the system of internal controls could have a material impact on the Company.