

ESAB and Howden are both market leaders in their chosen fields, whose technological strengths and heritage are recognised by their customers. Both businesses benefit from their brand strengths which have enabled them to deliver customer benefits which are reflected in the margin improvements that they have achieved.

Dear Shareholder,

I am pleased to be able to present to you another excellent set of results in my first report as Chief Executive. Building upon the restructuring efforts of recent years, both of Charter's businesses, ESAB and Howden, have made the most of opportunities presented by strong markets. In 2006, volume growth has been significant in both businesses, and further progress has been made in improving margins.

Business development

Both businesses are committed to further improvement and have significant development opportunities. ESAB has achieved volume growth in 2006 and, in many consumables markets, capacity utilisation is already close to being maximised. To respond to this, and in recognition of the development of the customer base in emerging markets (especially China, the remainder of Asia and Eastern Europe, including Russia), ESAB has committed to expand its consumable production capacity by some 20 per cent between June 2006 and June 2007. The opening of the consumables factory near Shanghai, new flux capacity in Eastern Europe and other measures currently underway mean that the achievement of this objective is now in sight. Continued market strength, and the growth of new industrial markets, indicate that further increases in capacity will be required. Financial performance is being increasingly underpinned by operational improvements, as progress is made in lean manufacturing, supply chain development and investment in lower cost economies. In North America, the business weathered a strike at its main production facility in Hanover, Pennsylvania. Following the strike, productivity has improved and production levels are recovering.

As for Howden, the order book grew strongly during the first half of 2006. Whilst the value of outstanding orders accounted for by customers in China has reduced as power plant production slows to return to the trend rate of growth of the Chinese economy as a whole, new opportunities in Europe and North America have enabled the order book to remain strong in the second half of the year. Order intake in the first two months of 2007 has been strong. As with most capital goods businesses, the aftermarket represents a major opportunity. After a year of consolidation in which low margin service work was eliminated, aftermarket growth is expected to continue with strong margins, with the Chinese aftermarket representing a significant

Business results

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

	2006 £m	2005 £m
Welding, cutting and automation	828.4	720.1
Air and gas handling	429.5	345.1
Food equipment	–	0.5
Revenue	1,257.9	1,065.7
Welding, cutting and automation ₃	11.9% 98.9	10.3% 74.4
Air and gas handling _{1,3}	11.5% 49.3	9.7% 33.5
Air and gas handling – profit on sale of property	4.8	–
Food equipment	–	(1.0)
Central operations ₂	(9.8)	(9.4)
Adjusted operating profit	143.2	97.5
Welding, cutting and automation	4.3	3.4
Air and gas handling	1.5	1.1
Share of post tax profits of associates	5.8	4.5

¹ excluding profit on the sale of property

² before exceptional items (2005)

³ adjusted operating margins shown as a percentage of sales

ESAB achieved sales of £828.4 million (2005: £720.1 million), an increase of 15 per cent, operating profits of £98.9 million (2005: £74.4 million), an increase of 33 per cent, and operating margins of 11.9 per cent (2005: 10.3 per cent), an increase of 16 per cent.

Howden sales totalled £429.5 million (2005: £345.1 million), an increase of 24 per cent, operating profits were £49.3 million, before taking into account profit on the sale of property of £4.8 million, (2005: £33.5 million), an increase of 47 per cent, and operating margins increased to 11.5 per cent as compared with 9.7 per cent last year. Howden's order intake was strong in 2006 and at year end it had orders in hand of £361 million (2005: £304 million), an increase of 19 per cent.

The food equipment business ceased trading in 2005 and its assets were sold. Central costs were £9.8 million (2005: £9.4 million), an increase of £0.4 million.

The Company's share of post tax profits of associates in 2006 was £5.8 million (2005: £4.5 million).



opportunity. Howden is also in the process of introducing new products into China. Geographically, we see opportunities from the expansion of Howden's business in South America and are taking steps to ensure we are active in the potentially significant Indian and Russian markets. We are pleased to have acquired the outstanding shares in Howden Compressors, which will enable us to re-focus this business and in turn this will support our efforts to expand in the important petrochemical market. Operating efficiencies have improved as volume growth has been supported almost entirely by increased sub-contracting activity rather than in-house manufacture. Continuous product development and improvements in execution and application engineering continue to enable Howden to stand out as the leading business in its field.

The last few years have resulted in the creation of a culture in Charter where performance is kept continuously in focus. In relation to ESAB and Howden, the principal key performance indicators monitored by the Board relate to growth in revenue and operating profit and changes in operating margin. At the

Charter level, the Board focuses on growth in earnings per share and cash generation.

The table sets out the financial key performance indicators in use during the year and the outcomes for 2006 against those for 2005.

In relation to each indicator, the outcome for the year is considered against the outcome for the previous year and budget, taking into account internal and external factors and any unusual or non-recurring items, which might otherwise have a distorting effect on the outcome.

It is recognised that financial performance is not sufficient on its own and non-financial key performance indicators are being progressively rolled out. These include health and safety and environmental measures which are monitored and measured with robust plans in place to continuously improve performance. These matters, together with risk management and business continuity planning, receive regular focus both from management and the Board. In addition to the economic risks and competitive pressures which Charter's businesses continuously face and manage, Charter has faced significant litigation which continues to be addressed as referred to in the Chairman's statement and more fully described elsewhere.

Charter will remain focussed on its two core businesses, both of which are capable of further significant development. The welding and cutting markets should grow in line with global economic activity and increasing steel consumption. This remains a fragmented industry and it is likely that further consolidation will take place in the coming years. Charter intends that ESAB will remain at the forefront of the industry and will play a part in this trend provided always that any acquisitions provide the opportunity to increase shareholder value. The continued and growing needs of the power market and ongoing pressures for environmental improvement will continue to provide Howden with the scope for further development.

Robust industrial markets and the need to improve power infrastructure mean that both businesses continue to benefit from good market conditions, and are well placed to make further progress as their plans for development are progressively implemented.

Michael Foster
Chief Executive
14 March 2007

Key performance indicators

	2006	2005	Movement
ESAB:			
Revenue	£828.4m	£720.1m	+15%
Operating profit	£98.9m	£74.4m	+33%
Operating margin	11.9%	10.3%	+1.6 percentage points
Howden:			
Revenue	£429.5m	£345.1m	+24%
Operating profit	£49.3m	£33.5m	+47%
Operating margin	11.5%	9.7%	+1.8 percentage points
Order book	£361m	£304m	+19%
Charter plc:			
Adjusted earnings per share	67.2p	43.0p	+56%
Cashflow from operations	£106.8m	£84.5m	+26%

Note: the 2006 operating profit and operating margin for Howden exclude profit arising on the sale of property.