

Corporate governance

1 Compliance with the Financial Reporting Council's Combined Code on Corporate Governance (the 'Code')

The Board monitors its compliance with the requirements of the Code on a continuous basis. This report, in addition to the Remuneration Report on pages 44 to 49, the Directors' report on pages 37 and 38, and the Audit Committee Report on page 43, describes how the Company has applied and complied with the principles, supporting principles and provisions contained in the Code that was published on 1 July 2003 and the subsequent amendments published in June 2006.

Throughout the year ended 31 December 2006, the Board is of the opinion that the Company has been in compliance with the provisions set out in Section 1 of the Code except for the following items:

- A.2.1 The posts of Chairman and Chief Executive were both held by David Gawler for the first half of the year under review. This position was originally approved by shareholders following his appointment in 2001. David Gawler stepped down as Chief Executive on 30 June 2006 and assumed the role of Executive Chairman. At that time the Board agreed a clear division of responsibilities between the Chairman and the Chief Executive and the documents summarising their different roles are available from the Company Secretary at the Registered Office or on the Company's website at www.charterplc.com.
- B.1.5 The service contracts of Michael Foster and Robert Careless contain liquidated damages clauses which are in contrast to the Code requirements for outgoing directors to mitigate their loss. The Board feels that these arrangements are not excessive and balance the interests of shareholders with the need to ensure the retention of these individuals. This policy has been revised regarding the service contracts of new Executive Directors and therefore James Deeley's service contract does not contain any such provision.
- C.3.4 The Board has delegated authority to the Audit Committee to review arrangements by which staff of the Company and its subsidiaries may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Arrangements were formalised and approved by the Audit Committee and implemented in March 2006. As a result the Company has complied with this provision of the Code since April 2006.

2 Directors

(a) The Board and Board committees

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

The Board currently comprises four Executive Directors and five Non-Executive Directors:

- the Executive Chairman is David Gawler. He was Chairman and Chief Executive until he stood down as Chief Executive on 1 July 2006;
- the Chief Executive is Michael Foster. He was the Commercial Director until he became Chief Executive on 1 July 2006; and
- the Senior Independent Director is The Hon. James Bruce who held this position throughout the year under review.

The Board operates under a Management and Governance Framework (the 'Framework') which has been approved and adopted by the Board, and which sets out a framework for the management and governance of the Company and its subsidiaries and its affiliates. The Framework (a) details the specific powers that the Board has retained, (b) describes the formal committees that the Board has established (details of which can be found below) and the powers and terms of reference of such committees (copies of which are available, unless otherwise indicated, on request from the Company Secretary or on the Company's website) and (c) addresses certain fundamental policies that the Board has adopted for the good governance of the Company and its subsidiaries and affiliates. The Framework is kept under regular review and is modified as and when new situations, requirements or practices arise. The Board ensures that the membership of its committees is refreshed so that undue reliance is not placed on individual Directors. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The powers retained by the Board include the approval of annual and interim results and associated announcements, the membership, authority and terms of reference of Board committees, corporate strategy, significant financing arrangements, matters relating to share capital (including employee share schemes and share options), contracts or expenditures that exceed certain monetary thresholds and the adoption of annual budgets. A number of matters have been delegated to the Executive Committee under the Framework which are summarised below. Any concerns that the Non-Executive Directors may have concerning either the administration of the Company or its subsidiaries and affiliates, or any proposed actions, are recorded in the minutes of the Company where an alternative resolution cannot be found.

The Company has provided its Directors with appropriate insurance cover in respect of legal proceedings and other claims against them. Further details can be found in the Directors' Report on page 37.

The Board meets regularly and held 11 meetings during the course of 2006. Details of attendance at meetings of the Board and its Nominations, Audit and Remuneration Committees are shown in the table below. There are 11 Board meetings scheduled to take place in 2007. Agendas and supporting papers are distributed to Directors in advance of each meeting so that the meeting can benefit from informed debate. No individuals other than the committee chairman and the members are entitled to be present at meetings of the Nominations, Audit and Remuneration Committees, although others including the Executive Directors, Head of Internal Audit, Head of Taxation and the external Auditors may attend at the prior invitation of the relevant committee.

	Board	Committees		
		Audit	Remuneration	Nominations
Meetings held	11	4	9	4

Meetings attended:

David Gawler	11	n/a	n/a	4
Michael Foster	11	n/a	n/a	4
Robert Careless	11	n/a	n/a	4
James Deeley ⁽¹⁾	5	n/a	n/a	n/a
John Biles ⁽²⁾	11	4	9	0
The Hon. James Bruce	10	4	9	4
Grey Denham	9	4	8	3
John Neill ⁽³⁾	9	n/a	n/a	n/a
Andrew Osborne	11	4	9	4

(1) James Deeley was appointed on 10 July 2006 and attended all remaining meetings during the year.

(2) John Biles was appointed to the Nominations Committee in June 2006. There were no further meetings of the Nominations Committee in 2006 following his appointment.

(3) John Neill was not a member of the Audit, Remuneration or Nominations Committees during the year under review.

(i) Nominations Committee

The Committee currently comprises David Gawler (Chairman), Michael Foster, John Biles, The Hon James Bruce, Grey Denham and Andrew Osborne. With the exception of John Biles and Michael Foster, who were appointed to the Committee on 27 June 2006 and 24 January 2007 respectively, all were members throughout the year. All of the members of the Committee, with the exception of David Gawler and Michael Foster, are considered independent Non-Executive Directors pursuant to the Code and accordingly a majority of the members of the Committee are independent. The Committee is responsible for making recommendations to the Board concerning appointments to the Board, including the evaluation of the skills, knowledge and experience required and the preparation of a job description for specific appointments. During the year the Committee led the process to appoint Michael Foster as Chief Executive following the change in the role of David Gawler and also recommended the appointment of James Deeley as Legal Director and Company Secretary following a rigorous process involving external executive recruitment consultants. Under the terms of reference of the Committee, the Chairman is not entitled to chair the Committee on matters regarding the appointment of a successor to the chairmanship.

The Board reviewed plans for orderly management succession in relation to both Board and senior management appointments at the Company's annual strategy conference in September 2006. As a result of this review, the Board believes that appropriate plans have been adopted to ensure that the correct balance of skills and experience are maintained on the Board and within the senior management of the Company and its subsidiaries and affiliates. The terms and conditions of appointment of the Non-Executive Directors are available for inspection during normal business hours at the registered office of the Company, in addition to being available at the AGM for 15 minutes prior to and during the meeting.

(ii) Remuneration Committee

Throughout the year the Committee comprised The Hon. James Bruce (Chairman), John Biles, Grey Denham and Andrew Osborne, all of whom are considered independent Non-Executive Directors pursuant to the Code.

A detailed explanation of the role and activities of the Remuneration Committee can be found in the Remuneration report on pages 44 to 49.

(iii) Executive Committee

The Committee comprises the four Executive Directors, being David Gawler, Michael Foster, Robert Careless and James Deeley, and the Chief Executive Officers of ESAB Global and Howden Global, being Jon Templeman and Bob Cleland respectively. Jon Templeman and Bob Cleland were appointed to the Committee on 1 March 2006 and James Deeley became a member on his appointment to the Board of the Company on 10 July 2006. The remaining Executive Directors were members of the Committee throughout the year. Meetings of the Committee generally take place twice a month.

The Board has delegated the necessary powers and authority to the Executive Committee for the day to day management of the affairs of the Company and its subsidiaries and affiliates (other than Anderson Group Inc (see paragraph (b) below)), subject to powers that the Board has either retained or explicitly delegated to the various other Board committees. The Committee operates in accordance with detailed terms of reference that form part of the Framework.

(iv) Disclosure Committee

The Committee comprises David Gawler (Chairman), Michael Foster, Robert Careless and James Deeley. With the exception of James Deeley who was appointed as an Executive Director on 10 July 2006, all were members throughout the year. The Committee is primarily responsible for the creation and maintenance of appropriate procedures, systems and controls to ensure compliance by the Company with its obligations under the Disclosure and Transparency Rules and the Listing Rules of the FSA. In particular, it has responsibility for the determination, on a timely basis, of the disclosure treatment of material information, and assisting in, and where appropriate, carrying out the design, implementation and periodic evaluation of disclosure controls and procedures that operate within the Company and its subsidiaries and affiliates. The Committee also has responsibility for the identification of inside information, for the purpose of maintaining the Company's insider lists as required by the FSA's Disclosure and Transparency Rules.

(v) Audit Committee

Details regarding the membership, role, responsibilities and work of the Audit Committee during the year under review can be found in the Audit Committee Report on page 43.

(b) Anderson Group Inc

The operations of ESAB and Howden in North America are managed by Anderson Group Inc ('AGI'), a subsidiary of the Company. AGI's Board is responsible for all aspects of the management of its affairs and for the corporate governance framework of the businesses that are operated by its subsidiaries. The Company exercises its rights as shareholder of AGI by appointing two nominees as Non-Executive Directors to the Board of AGI and they, on behalf of the Company, review matters of significance relating to its ownership interest in AGI such as board appointments, financial results, corporate strategy, major investments and divestments and corporate governance issues.

(c) Chairman and Chief Executive

Whilst the roles of Chairman and Chief Executive were combined for the first half of 2006, with effect from 1 July 2006 David Gawler's role in the Company changed to Executive Chairman when he stood down as Chief Executive. Michael Foster was appointed as Chief Executive with effect from that date. At that time the Board approved a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman now has the primary responsibility for leading the Board and ensuring its effectiveness, and for ensuring that good communications are maintained with shareholders, whilst the Chief Executive has the responsibility for running the Company's businesses. At its meeting on 27 June 2006 the Board approved separate documents that set out the respective responsibilities of the Chairman and the Chief Executive, copies of which are available from the Company Secretary or on the Company's website. David Gawler has no significant commitments that require disclosure in relation to his chairmanship.

The Chairman periodically meets the Non-Executive Directors without the other Executive Directors present and maintains contact should they wish to raise any issues with him outside of the formal setting of the monthly board meetings.

(d) Board balance and independence

The Board currently comprises nine directors, four of whom are Executive and five of whom are Non-Executive. The Board believes that this structure provides the correct balance of skills and experience appropriate for the business and would allow for any changes to the Board's composition to be managed without undue disruption, whilst ensuring that the presence of five Non-Executive Directors prevents a concentration of power and influence in a small number of individuals.

The Board has determined that, with the exception of John Neill who is no longer considered to be independent by virtue of his length of service on the Board and his relationship with the Unipart Group of Companies which is summarised further below, all of the Non-Executive Directors are regarded as independent. The Board does not consider that there exist any relationships or circumstances likely to affect the judgment of any Non-Executive Director.

John Neill is Group Chief Executive of the Unipart Group of Companies, whose subsidiary, Unipart Logistics Limited, provides Lean-manufacturing and logistics consultancy services to ESAB Holdings Limited in accordance with arm's length consultancy agreements. The Board greatly values the contribution and experience of John Neill and recommends his re-election at the forthcoming AGM as a Non-Executive Director.

No Executive Directors currently hold any external Non-Executive Directorships of any FTSE 100 company

(e) Information and professional development

The Company Secretary, under the guidance of the Executive Chairman, is responsible for ensuring good information flows within the Board and its committees. All Directors of the Company have access to the advice and services of the Company Secretary and may take independent professional advice on any matter relating to the Company at the Company's expense. In advance of Board and committee meetings, Directors and relevant committee members receive detailed papers on the matters to be considered, enabling them to request further clarification or additional information and to participate fully in discussions. The Company Secretary is responsible for advising the Board, through the Executive Chairman, on all governance matters and best practice.

The Company has a comprehensive induction process for all Non-Executive Directors when they join the Board. This includes a detailed information pack which combines publicly available information such as the report and accounts and product information, in addition to organised briefings with key members of the Board and senior management and visits to the Company's businesses.

(f) Performance evaluation

Evaluation of the Board and its principal committees is conducted by gathering feedback from the relevant members of the Board and committees on bespoke questionnaires, the results of which are collated and presented to the Board by the Chairman. The Chairman is responsible for conducting the performance evaluation of the Chief Executive, whilst the Non-Executive Directors, led by the Senior Independent Director, are responsible for evaluating the performance of the Chairman, also taking into account the views of the Executive Directors. The Chief Executive conducts individual evaluations of the Executive Directors (with the exception of the Executive Chairman) against a number of pre-agreed performance objectives.

The results of the evaluations were discussed by the Board and used to consider opportunities for improvement. Minor changes to Board and committee procedures have been identified and are in the process of being implemented.

(g) Reappointment

Under article 91 of the articles of association of the Company, up to one-third of the Directors are required to submit themselves for re-election each year. At this year's AGM, Grey Denham and Andrew Osborne retire by rotation and will offer themselves for re-election. John Neill also offers himself for re-election pursuant to the Code as he has served on the Board of the Company for more than 9 years. In addition, the appointment of James Deeley as Legal Director and Company Secretary on 10 July 2006 means that, in accordance with Article 97 of the Company's Articles of Association, he must offer himself for election at the AGM. The Board considers that these Directors continue to make an effective contribution to the business of the Company and as a result recommends their re-election.

3 Accountability and Audit

(i) Financial reporting

Statement of Directors' responsibilities

The following statement sets out the responsibilities of the Directors in relation to the consolidated financial statements and those of the Company. The reports of the external Auditors, shown on pages 50 and 51, set out their responsibilities in relation to those financial statements.

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

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

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

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

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

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

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

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

Going concern

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

(ii) Internal control

The Board has overall responsibility for the maintenance of a system of internal control. The Audit Committee has been formally delegated responsibility for reviewing the effectiveness of the system of internal control.

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

Detailed policies and procedures have been established by the Board or the Executive Committee dealing with numerous issues, including internal controls. Examples of internal control procedures are summarised below.

Assessment of business risk

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

Control environment

Under the Framework described on page 39, the Board sets overall policy and delegates the authority to implement that policy to the Executive Committee, which is empowered to appoint nominees to the Board of AGI and to sub-delegate authority to the operating businesses and operating units of ESAB Global and Howden Global. A well-defined organisational structure with clear operating procedures, lines of responsibility and delegated authority has been established. There are procedures for appraisal, review and authorisation of matters of significance, including investments, capital expenditure, borrowings, guarantees, indemnities and material contracts.

Information and communication

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

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

Control procedures

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

Corporate governance (continued)

Monitoring process

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

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

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

- As part of their ongoing reviews of the businesses, the Executive Directors and key management reviewed the effectiveness of strategic, operational and compliance internal controls and risk management. This involved considering reports on key risk areas (concentrating on significant changes in the risk profile) and in the light of such reviews making appropriate amendments to policies and procedures to control risks; and
- The Board considered reports from the Audit Committee and the Executive Directors on these areas during the year and, at the time of approving the Annual Report and Accounts, considered a summary of the assessments of the effectiveness of the key risks and controls identified.

4 Relations with shareholders

The Company has a policy of maintaining an active dialogue with institutional shareholders through individual meetings. Communications with private shareholders are conducted through the annual report, presentations at the AGM and the Company's website that includes descriptions of the Company's business operations.

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

The Senior Independent Director is available to shareholders if they have concerns that cannot be addressed through the regular channels such as the Executive Chairman, Chief Executive or Finance Director.

The Board is proposing a resolution at the forthcoming AGM to allow communication with shareholders via the publication of shareholder communications on its website following the legislative changes introduced by the Companies Act 2006 and the FSA's Disclosure and Transparency Rules. This will enable quicker and more cost effective communication with shareholders.