

Notes to the financial statements of the Company

For the year ended 31 December 2006

1 Basis of preparation

The financial information in this report for the Company has been prepared on the basis of accounting policies set out in note 2 using accounting principles generally accepted in the UK (UK GAAP) and the Companies Act 1985. As permitted by Section 230 of the Companies Act 1985, the profit and loss account is not presented. Details of auditor's remuneration payable by the Company is disclosed in note 4 to the consolidated accounts on page 64.

2 Principal accounting policies

The principal accounting policies set out below have been consistently applied to all the periods presented.

Foreign currencies

Foreign currency transactions are translated 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 profit and loss account.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are included at cost less provision for any impairment in value.

Deferred taxation

Deferred taxation is provided on the incremental liability approach in respect of timing differences giving rise to an asset or liability. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred taxation assets and liabilities are not discounted.

Share-based payments

The Company operates equity-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 profit and loss account.

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.

Interest

Interest on cash and cash equivalents and borrowings held at amortised cost is recognised in the profit and loss account using the effective interest method. Interest includes exchange differences arising on cash and cash equivalents and borrowings.

Dividends

Dividend distributions to the Company's shareholders are recognised in the period when paid or, if earlier, in which the dividends are approved by the Company's shareholders. Dividends receivable are recognised when the Company's right to receive payment has been established and is unconditional.

3 Investment in subsidiary undertakings

| | 2006 £m | 2005 £m |
|----------------|----------------|----------------|
| At 1 January | 1,327.5 | 1,009.1 |
| Additions | - | 343.9 |
| Disposal | - | (25.5) |
| At 31 December | <u>1,327.5</u> | <u>1,327.5</u> |

Principal interests in Group undertakings are shown on page 86.

Loans due by the Company to subsidiary undertakings amounting to £1,168.5 million (2005: £1,092.0 million) are interest bearing with interest payable based on commercial rates.

4 Investment in associated undertaking

| | 2006 £m | 2005 £m |
|----------------|------------|------------|
| At 1 January | - | 12.4 |
| Addition | - | - |
| Disposal | - | (12.4) |
| At 31 December | <u>-</u> | <u>-</u> |

In December 2004 the Company acquired an unlisted investment in an associated undertaking from a subsidiary undertaking for a cash consideration of £12.4 million.

In July 2005 the Company transferred its shareholding in this investment to a subsidiary undertaking for a cash consideration of £13.6 million.

5 Deferred income tax

In 2006 £0.3 million was credited to the profit and loss account on the recognition of a deferred tax asset of the same amount.

Notes to the financial statements of the Company (continued)

6 Called up share capital

| | 2006 Number of ordinary shares of 2 pence each | 2006 £ | 2005 Number of ordinary shares of 2 pence each | 2005 £ |
|-------------------|---|------------------|---|-----------|
| Authorised: | 230,000,000 | 4,600,000 | 215,000,000 | 4,300,000 |
| Issued: | | | | |
| Fully paid shares | 166,688,855 | 3,333,777 | 165,253,905 | 3,305,078 |

At the Annual General Meeting held on 27 June 2006, the shareholders approved an increase in the authorised share capital to £4,600,000.

In 2006, 314,371 ordinary shares were issued for cash of £580,390 on the exercise of employee share options, 1,120,579 ordinary shares were allotted to David Gawler in settlement of his entitlement under the terms of the DG (2004) incentive plan and 72,786 options over ordinary shares were surrendered for cash consideration of £485,710.

At 31 December 2006 5 participants held options over a total of 242,146 ordinary shares of the Company. These options were granted under various employee share option schemes and are exercisable during various periods up to 29 March 2011 at prices ranging from 139.9 pence to 641.2 pence. Included in the above, under the terms of the Equity Partnership Plan approved by shareholders in 1997, are deferred rights to acquire shares. This plan has not operated since 2001. At 31 December 2006, 1 participant held rights over 13,004 shares. As none of the performance targets associated with any of the awards has been met, the awards would only be of value in the event of a change of control of the Company. The exercise price of these awards would be funded by a cash bonus payable at the date of exercise and therefore the effective cost to the allottee would be nil.

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 to 49.

7 Reserves

| | Share premium £m | Merger reserve £m | Profit and loss account £m | Total £m |
|--|------------------------|-------------------------|-------------------------------------|---------------|
| At 1 January 2005 | 49.4 | – | 190.1 | 239.5 |
| Loss for the year | – | – | (36.1) | (36.1) |
| Charge for share-based payments | – | – | 0.8 | 0.8 |
| Issue of shares (net of expenses) | 20.0 | 21.1 | – | 41.1 |
| At 31 December 2005 | 69.4 | 21.1 | 154.8 | 245.3 |
| Loss for the year | – | – | (47.7) | (47.7) |
| Share-based payments – charge for the year | – | – | 0.6 | 0.6 |
| – shares issued | 1.4 | – | (1.4) | – |
| Issue of shares | 0.6 | – | – | 0.6 |
| At 31 December 2006 | 71.4 | 21.1 | 106.3 | 198.8 |

In accordance with the provisions of Section 131 of the Companies Act 1985 the premium arising on the issue of shares in 2005 as part consideration for the acquisition of the minority interest in the Company's South American welding, cutting and automation businesses has been included as a merger reserve.

Under the provisions of the Companies Act 1985, a separate profit and loss account for the Company is not presented. The Company's reconciliation of movements in equity shareholders' funds was as follows:

| | 2006 £m | 2005 £m |
|--|---------------|------------|
| Loss for the financial year | (47.7) | (36.1) |
| Share-based payments | 0.6 | 0.8 |
| Dividends for the financial year | – | – |
| Total recognised gains and losses | (47.1) | (35.3) |
| Issue of shares (net of expenses) | 0.6 | 41.4 |
| Net (decrease)/increase in shareholders' funds | (46.5) | 6.1 |
| Opening shareholders' funds | 248.6 | 242.5 |
| Closing shareholders' funds | 202.1 | 248.6 |

8 Share-based payments

Share-based compensation arrangements established since 7 November 2002 for the Executive Directors and selected other senior executives are set out in the Remuneration report on pages 44 to 49.

2006 awards

Awards were granted under the Charter 2005 Long Term Incentive Plan ('LTIP') on 24 March 2006 and 10 July 2006 of 113,525 shares and 19,257 shares respectively. The awards were valued using the Stochastic ('Monte Carlo') model as follows:

| | Grant date | |
|---------------------------|---------------|--------------|
| | 24 March 2006 | 10 July 2006 |
| Fair value – £ | 591,125 | 95,072 |
| – pence per share | 520.7 | 493.7 |
| Expected volatility % | 42.6 | 41.1 |
| Risk-free interest rate % | 4.4 | 4.8 |
| Dividend yield % | – | – |

2005 awards

Mr Foster's award was valued using the Stochastic ('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 ('Monte Carlo') 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.

9 Contingent liabilities

Since about 1985, Charter, its principal subsidiary Charter Consolidated PLC, and certain of their wholly owned subsidiaries have been named as defendants in asbestos-related actions in the United States. These lawsuits have alleged that the Charter defendants were liable for the acts of Cape PLC, a former partly owned subsidiary of Charter. Between 1985 and 1987, the issue was tried in several matters, each of which was resolved in Charter's favour either at trial or on appeal. In subsequent years, Charter and its subsidiaries have continued to be named in asbestos-related lawsuits. Charter has contested these actions and, in most cases, has obtained dismissals. Charter has settled some of the cases brought in Mississippi. Currently, the only pending cases against Charter are in Mississippi, which cases are dormant and are not actively being pursued by plaintiffs. 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. The defence costs and other expenses charged against Charter's operating profits in 2006 were negligible. 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 for any liability in respect of such actions.

10 Guarantees

| | 2006 £m | 2005 £m |
|-------------------------------|------------|-------------|
| Subsidiary company borrowings | 3.0 | 73.0 |
| Other | 0.5 | 1.1 |
| | <u>3.5</u> | <u>74.1</u> |