

Chairman's statement

The results achieved in 2006 show that both of Charter's businesses, ESAB and Howden, have successfully built upon the restructuring efforts of recent years and made the most of opportunities presented by strong markets. In doing so, both businesses have achieved significant volume growth and improvements in operating margins.

Dear Shareholder,

I am pleased to report that 2006 has been another successful year for Charter. The Company has achieved excellent results with operating profits having increased by 41 per cent to £143.2 million, pre tax profits by 40 per cent to £144.6 million and adjusted earnings per share by 56 per cent to 67.2 pence per share.

In 2006, ESAB's and Howden's operating margins were 11.9 per cent (2005: 10.3 per cent) and 11.5 per cent (2005: 9.7 per cent) respectively.

As shown in the table opposite, in 2006 Charter generated sales of £1,257.9 million (2005: £1,065.7 million), an increase of 18 per cent, and operating profit of £143.2 million (2005: £101.7 million), an increase of 41 per cent. Profit before tax was £144.6 million (2005: £103.5 million), an increase of 40 per cent, and profit attributable to equity shareholders was £122.0 million (2005: £74.0 million), an increase of 65 per cent. Adjusted earnings per share were 67.2 pence (2005: 43.0 pence), an increase of 56 per cent.

Tax

The tax charge fell, despite increased profits, to £16.9 million (2005: £20.0 million) due to a reduction in the adjusted effective tax rate for the year to 19.6 per cent (2005: 21.4 per cent), mainly as a consequence of increased profits generated in low tax jurisdictions, and an exceptional tax credit of £10.5 million (2005: nil) arising from the recognition of deferred tax assets in North America.

Cash flow

During the year, cash generated from operations was £106.8 million (2005: £84.5 million), an increase of 26 per cent. Capital expenditure was £26.9 million (2005: £22.2 million), an increase of 21 per cent, whereas the depreciation charge amounted to only £13.5 million (2005: £14.7 million). Net debt, which stood at £6.5 million at the end of 2005, was eliminated and at 31 December 2006 there was net cash of £43.1 million.

Summary of results

	2006 £m	2005 £m
Revenue	1,257.9	1,065.7
Adjusted operating profit,	143.2	97.5
Exceptional items	–	4.2
Operating profit	143.2	101.7
Net financing charge before retranslation of intercompany loan balances	(4.6)	(6.3)
Net gains on retranslation of intercompany loan balances	0.2	3.6
Net financing charge	(4.4)	(2.7)
Share of post tax profits of associates	5.8	4.5
Profit before tax	144.6	103.5
Tax charge on profit on ordinary activities (before the items set out below)	(27.1)	(19.5)
Tax charge on gains on retranslation of intercompany loan balances	(0.3)	(0.5)
Exceptional tax credit	10.5	–
Taxation	(16.9)	(20.0)
Profit after tax	127.7	83.5
Attributed to: Equity shareholders	122.0	74.0
Minority interests	5.7	9.5
	127.7	83.5
Net cash/(debt)	43.1	(6.5)
	pence	pence
Earnings per share Adjusted ₂	67.2	43.0
Basic	73.5	46.9

¹ before exceptional items

² before exceptional items and gains on retranslation of inter-company loan balances



Board

On 1 July 2006 Michael Foster, who had previously been Commercial Director, succeeded me as Chief Executive and I assumed a transitional role as part-time Executive Chairman.

James Deeley joined the Board of the Company as Legal Director and Company Secretary on 10 July 2006.

Retirement benefit obligations

As at 31 December 2006, net retirement benefit obligations, as provided for in the consolidated balance sheet, amounted to £108.6 million (2005: £127.1 million) and gross defined benefit liabilities are £663.2 million (2005: £690.5 million), the great majority of which are in respect of past employees.

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 obligations are 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.

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

Contingent liabilities

As previously disclosed, the Company and certain of its subsidiary undertakings are named as defendants in a number of lawsuits in the United States. These claims continue to be vigorously defended and further details are set out in Note 26 to the consolidated financial statements.

Equity shareholders' funds

Shareholders will be aware that at 31 December 2004 equity shareholders' funds were only £11.5 million and indeed were in deficit a few years earlier. During the past two years, the balance sheet has been strengthened in part through the rights issue in 2004 which raised £44.6 million and in part through retained earnings, such that, by 31 December 2006, equity shareholders' funds had grown to £250.7 million.

Despite the substantial improvement in equity shareholders' funds that has been achieved over the past two years, the Board believes that the scale and geographic spread of the Company's business activities necessitate a further strengthening of equity shareholders' funds through the retention of profit.

Dividend

In light of the above, the Board has decided not to recommend a final dividend for the year ended 31 December 2006 but intends to review dividend policy later in the year and envisages that the Company will declare a final dividend in respect of the financial year ending 31 December 2007, provided that the general economic environment and the trading and financial condition of the Company and its businesses are broadly in line with the Board's current expectations.

Prospects

The trading in ESAB and Howden in the first two months of 2007 has been encouraging and continues to benefit from favourable market conditions. Demand for ESAB's products generally remains strong in the key markets in which it operates, and particularly so in emerging markets. For Howden, order intake in the first two months of the year has been strong, especially from the power market in North America.

For these reasons, and in the light of the excellent results achieved in 2006, the Board views the trading prospects of the Company and its businesses for 2007 with increasing confidence.

David Gawler

Chairman

14 March 2007