

## NOTES

### 1 Basis of preparation and accounting policies

The consolidated financial statements of Charter plc have been prepared in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU) and implemented in the UK as well as those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The consolidated income statement, consolidated cash flow statement and consolidated statement of recognised income and expense for the year ended 31 December 2007 and the consolidated balance sheet at 31 December 2007 herein do not constitute statutory accounts as defined by section 240 of the Companies Act 1985. They are extracted from the full statutory accounts for the year ended 31 December 2007 which have been approved by a duly constituted Committee of the Board of Directors on 12 March 2008, but which have not been delivered to the Registrar of Companies. The report of the auditors on those accounts is unqualified and does not contain a statement under either section 237(2) or section 237(3) of the Companies Act 1985 concerning accounting records or failure to obtain necessary information and explanations.

#### Change in accounting policy

##### Employee benefits - recognition of actuarial gains and losses and classification of income statement charge

All actuarial gains and losses are now recognised immediately directly in equity, in the statement of recognised income and expense. Previously actuarial gains and losses below a certain threshold were not recognised and those above this threshold were recognised in the income statement prospectively over the expected average remaining working lives of the employees participating in the plan.

A statement of recognised income and expense is now presented as a primary statement instead of a statement of changes in equity.

The classification of the income statement charge has been changed such that the expected return on schemes' assets and interest on schemes' liabilities are now included within the net financing credit. Previously these items were included in arriving at operating profit.

These changes have been implemented with effect from 1 January 2007 and the 2006 comparatives have been restated to reflect these changes. The Directors consider these changes align the Group more closely with general UK accounting practice under IFRS.

	2006		
	As reported	As restated	Amount of restatement
	£m	£m	£m
Operating profit	143.2	144.6	1.4
Net financing charge	(4.4)	(4.4)	-
Profit for the year	127.7	129.1	1.4
Retirement benefit assets	6.4	21.7	15.3
Retirement benefit obligations	(115.0)	(130.5)	(15.5)
Deferred income tax assets	34.0	34.6	0.6
Deferred income tax liabilities	(19.6)	(24.6)	(5.0)
Exchange translation losses taken to group equity	(13.2)	(12.0)	1.2
Actuarial gains on retirement benefit obligations	-	23.2	23.2
Tax on actuarial gains on retirement benefit obligations	-	(2.4)	(2.4)
Opening equity shareholders' funds	135.1	107.1	(28.0)
Closing equity shareholders' funds	250.7	246.1	(4.6)
	pence	pence	pence
Earnings per share - basic	73.5	74.4	0.9
Earnings per share - adjusted	67.2	68.1	0.9
Diluted earnings per share - basic	73.0	73.9	0.9
Diluted earnings per share - adjusted	66.8	67.6	0.8

### 2 Segment analysis

The Group is organised into two principal businesses: ESAB (welding, cutting and automation) and Howden (air and gas handling). For the purposes of IAS14 'Segment Reporting', ESAB is split into two segments: (i) welding; and (ii) cutting and automation. Inter-segmental revenue is not significant.

The following is an analysis of the revenue and results for the year, analysed by business segment, the Group's primary basis of segmentation.

	Welding	Cutting and automation	Welding, cutting and automation	Air and gas handling	Central operations	Total
	£m	£m	£m	£m	£m	£m
<b>Year ended 31 December 2007</b>						
<b>Total revenue</b>	<b>813.1</b>	<b>157.7</b>	<b>970.8</b>	<b>480.3</b>	<b>-</b>	<b>1,451.1</b>
Segment result (before profit on sale of a property)	112.5	14.1	126.6	57.6	(10.9)	173.3
Profit on sale of a property	-	-	-	-	-	-
<b>Operating profit</b>	<b>112.5</b>	<b>14.1</b>	<b>126.6</b>	<b>57.6</b>	<b>(10.9)</b>	<b>173.3</b>
Share of post tax profits of associates	3.0	-	3.0	0.2	-	3.2
	<b>115.5</b>	<b>14.1</b>	<b>129.6</b>	<b>57.8</b>	<b>(10.9)</b>	<b>176.5</b>
Net financing credit						1.6
<b>Profit before tax</b>						<b>178.1</b>
Tax						(33.3)
<b>Profit for the year</b>						<b>144.8</b>
Minority interests						(7.0)
<b>Profit attributable to equity shareholders</b>						<b>137.8</b>

## 2 Segment analysis (continued)

	Welding	Cutting and automation	Welding, cutting and automation	Air and gas handling	Central operations	Total
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2006 (restated)						
<b>Total revenue</b>	<u>698.6</u>	<u>129.8</u>	<u>828.4</u>	<u>429.5</u>	<u>-</u>	<u>1,257.9</u>
Segment result (before profit on sale of a property)	91.4	10.7	102.1	50.3	(12.6)	139.8
Profit on sale of a property	-	-	-	4.8	-	4.8
<b>Operating profit</b>	<u>91.4</u>	<u>10.7</u>	<u>102.1</u>	<u>55.1</u>	<u>(12.6)</u>	<u>144.6</u>
Share of post tax profits of associates	4.3	-	4.3	1.5	-	5.8
	<u>95.7</u>	<u>10.7</u>	<u>106.4</u>	<u>56.6</u>	<u>(12.6)</u>	<u>150.4</u>
Net financing charge						(4.4)
<b>Profit before tax</b>						<u>146.0</u>
Tax						(16.9)
<b>Profit for the year</b>						<u>129.1</u>
Minority interests						(5.7)
<b>Profit attributable to equity shareholders</b>						<u>123.4</u>

## 3 Exceptional items

To help provide a better indication of the Group's underlying business performance, items which are both material and non-recurring are presented as exceptional items.

In the year ended 31 December 2006, there was an exceptional credit to the tax charge of £10.5 million on the recognition of a deferred income tax asset in respect of unrecognised tax losses in North America that arose in prior years that will be utilised in future periods. As a consequence of this, the tax charge for the year ended 31 December 2006 was reduced by £10.5 million.

## 4 Net financing credit/(charge)

	2007	2006 (restated)
	£m	£m
Net financing credit - retirement benefit obligations :		
Interest on schemes' liabilities	(33.5)	(32.1)
Expected return on schemes' assets	35.8	32.1
	<u>2.3</u>	<u>-</u>
Interest payable on bank borrowings	(2.1)	(3.2)
Interest payable on bank borrowings - fees	(0.2)	(0.3)
	<u>(2.3)</u>	<u>(3.5)</u>
Interest payable on other loans	(1.4)	(3.1)
Interest payable on other loans - 'make whole' payment on repayment of US\$ loan notes	-	(2.1)
Interest payable on finance leases	(0.1)	(0.2)
Unwinding of discount on provisions (note 10)	(0.5)	(0.4)
	<u>(4.3)</u>	<u>(9.3)</u>
Other financing charge before exchange losses on retranslation of intercompany loan balances		
Interest income on bank accounts and deposits	5.2	4.1
Interest income on financial assets not held at fair value	0.3	0.2
Other	0.6	0.4
	<u>6.1</u>	<u>4.7</u>
Other financing income before exchange gains on retranslation of intercompany loan balances		
Net exchange (losses)/gains on retranslation of intercompany loan balances	(2.5)	0.2
	<u>1.6</u>	<u>(4.4)</u>
Net financing credit/(charge)		

## 5 Tax on profit on ordinary activities

The share of associated undertakings' profit included in the income statement includes a share of associates' tax charge of £1.5 million (2006: £2.4 million).

## 6 Earnings per share

Basic headline earnings per share is calculated on an average of 166,693,787 shares (2006: 165,952,056 shares).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of 458,103 (2006 : 1,101,560) dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the potentially issuable shares under the Group's long-term incentive plans.

To help provide a better indication of the Group's underlying business performance, amortisation and impairment of acquired intangibles and goodwill, exceptional items and exchange gains and losses on retranslation of intercompany loans, including attributable tax and minority interests, are excluded from the calculations of adjusted earnings per share as set out in the following table. It should be noted that the term 'adjusted' is not defined under IFRS and may not therefore be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measures of profit.

	Per share		Total earnings	
	2007	2006 (restated)	2007	2006 (restated)
	pence	pence	£m	£m
<b>Basic earnings per share</b>				
Profit attributable to equity shareholders of the Company	82.7	74.4	137.8	123.4
Items not relating to underlying business performance				
Amortisation and impairment of acquired intangibles and goodwill <sup>(i)</sup>	0.2	-	0.3	-
Exceptional items (note 3)	-	(6.4)	-	(10.5)
Losses/(gains) on retranslation of intercompany loan balances	1.4	(0.1)	2.5	(0.2)
Taxation on retranslation of intercompany loan balances	0.4	0.2	0.6	0.3
Adjusted basic earnings attributable to equity shareholders of the Company	<u>84.7</u>	<u>68.1</u>	<u>141.2</u>	<u>113.0</u>
<b>Fully diluted earnings per share</b>				
Profit attributable to equity shareholders of the Company	82.5	73.9	137.8	123.4
Items not relating to underlying business performance				
Amortisation and impairment of acquired intangibles and goodwill <sup>(i)</sup>	0.2	-	0.3	-
Exceptional items (note 3)	-	(6.4)	-	(10.5)
Losses/(gains) on retranslation of intercompany loan balances	1.4	(0.1)	2.5	(0.2)
Taxation on retranslation of intercompany loan balances	0.4	0.2	0.6	0.3
Adjusted diluted earnings attributable to equity shareholders of the Company	<u>84.5</u>	<u>67.6</u>	<u>141.2</u>	<u>113.0</u>

(i) The amortisation and impairment of acquired intangibles and goodwill of £0.3million is after deducting £0.1 million of attributable tax and £0.1 million attributable to minority interests.

## 7 Retirement benefit obligations

The valuation of United Kingdom and overseas defined benefit pension schemes and the liability for United States post employment medical costs are assessed by professionally qualified independent actuaries using the projected unit credit method.

All actuarial gains and losses are recognised immediately directly in equity.

(i) The movement on the net retirement benefit asset/(obligation) is set out below:

	2007	2006 (restated)
	£m	£m
At 1 January	(108.8)	(153.1)
Exchange adjustments	(1.8)	6.4
Income statement credit/(charge) - operating profit	1.6	(1.8)
- financing credit	2.3	-
Taken to equity - actuarial gains	10.9	23.2
Contributions paid	19.5	17.5
Acquisitions	(0.3)	(1.0)
At 31 December	<u>(76.6)</u>	<u>(108.8)</u>
Included in the balance sheet as follows :		
Non-current assets	30.9	21.7
Non-current liabilities	<u>(107.5)</u>	<u>(130.5)</u>
	<u>(76.6)</u>	<u>(108.8)</u>

## 7 Retirement benefit obligations (continued)

(ii) The position at 31 December 2007 and 31 December 2006 (restated) is set out below:-

	2007				
	UK pension schemes	Overseas pension schemes	Total pension schemes	Overseas medical costs liability	Total
	£m	£m	£m	£m	£m
Present value of funded obligations	(470.2)	(117.9)	(588.1)	-	(588.1)
Fair value of plan assets	459.4	106.2	565.6	-	565.6
	(10.8)	(11.7)	(22.5)	-	(22.5)
Present value of unfunded obligations	-	(35.6)	(35.6)	(15.6)	(51.2)
Unrecognised past service costs	-	0.2	0.2	-	0.2
Surplus not recoverable	-	(3.1)	(3.1)	-	(3.1)
Net liability recognised in the balance sheet	(10.8)	(50.2)	(61.0)	(15.6)	(76.6)

  

	2006 (restated)				
	UK pension schemes	Overseas pension schemes	Total pension schemes	Overseas medical costs liability	Total
	£m	£m	£m	£m	£m
Present value of funded obligations	(494.1)	(115.9)	(610.0)	-	(610.0)
Fair value of plan assets	459.5	98.0	557.5	-	557.5
	(34.6)	(17.9)	(52.5)	-	(52.5)
Present value of unfunded obligations	-	(33.9)	(33.9)	(19.3)	(53.2)
Unrecognised past service costs	-	0.3	0.3	-	0.3
Surplus not recoverable	-	(3.4)	(3.4)	-	(3.4)
Net liability recognised in the balance sheet	(34.6)	(54.9)	(89.5)	(19.3)	(108.8)

(iii) The principal actuarial assumptions used were as follows:-

	2007		2006	
	UK	Overseas	UK	Overseas
Discount rate	5.80%	6.00%	5.10%	5.50%
Inflation rate	3.40%	2.60%	3.10%	2.50%
Expected return on plan assets- equities	8.00%	9.00%	7.90%	8.90%
- bonds	4.80%	5.60%	4.70%	5.50%
- property	7.50%		7.40%	
- other	5.75%	6.10%	5.25%	5.40%
- total	6.30%	7.25%	6.40%	7.20%
Future salary increases	4.40%	4.00%	3.50%	3.70%
Future pension increases	3.45%	2.25%	3.20%	2.10%
Medical costs inflation (ultimate rate)		5.00%		5.00%

The mortality assumptions for the UK schemes are based on either the PA92 or PA00 standard mortality tables after retirement with allowance for future mortality improvements and scheme specific factors. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 26 years (2006 : 25 years) after retirement if they are male and for a further 29 years (2006 : 28 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 25 years (2006 : 24 years) if they are male and for a further 28 years (2006 : 27 years) if they are female.

The overseas schemes are principally in the United States. The mortality assumptions for the United States schemes have been derived from the RP-2000 table with allowance for future mortality improvements. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 24 years (2006 : 22 years) after retirement if they are male and for a further 26 years (2006 : 24 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 23 years (2006 : 22 years) if they are male and for a further 25 years (2006 : 24 years) if they are female. Mortality assumptions for schemes in Sweden and Germany have been derived from the FFFS 2007 tables and the Heubeck 2005 G tables respectively.

(iv) The amounts included in operating profit in the income statement are analysed as follows:

	2007	2006
	£m	(restated) £m
<b>Defined benefit schemes and overseas medical costs</b>		
Current service cost	(2.1)	(4.2)
Past service credit/(cost)	3.1	(0.3)
Gains on settlement and curtailment	0.6	2.7
Defined benefit schemes and overseas medical costs	1.6	(1.8)
Defined contribution schemes	(6.9)	(3.0)
	(5.3)	(4.8)

## 8 Cash and cash equivalents

	2007	2006
	£m	£m
Cash at bank and on hand	58.7	36.6
Short-term bank deposits	54.5	20.8
Bank deposits with original maturity of more than three months and balances held as cash collateral	5.3	4.9
Cash and cash equivalents in the balance sheet	118.5	62.3
Less: Bank deposits with original maturity of more than three months and balances held as cash collateral	(5.3)	(4.9)
: Bank overdrafts	(23.4)	(9.5)
Cash, cash equivalents and bank overdrafts in the statement of cash flows	<u>89.8</u>	<u>47.9</u>

For the purposes of the cash flow statement, cash, cash equivalents and bank overdrafts includes bank overdrafts repayable on demand and excludes bank deposits with an agreed maturity of more than three months.

Cash and cash equivalents in the balance sheet includes balances of £3.3 million (2006: £4.5 million) held as cash collateral in connection with certain local trading practices or banking facilities.

## 9 Cash generated from operations

	2007	2006
	£m	(restated) £m
Operating profit	173.3	144.6
Depreciation	14.7	13.5
Amortisation of intangible assets	2.4	1.9
Amortisation of government grants	(0.5)	(0.4)
Charge for share-based payments	0.5	0.6
Profit on sale of property, plant and equipment	(0.3)	(6.2)
Increase in inventories	(30.5)	(19.9)
Increase in receivables	(62.4)	(58.2)
Increase in payables	70.0	29.5
Movements in provisions	3.0	14.3
Movements in net retirement benefit obligations	(21.1)	(15.7)
Exceptional items		
Recovery of unauthorised payments	-	4.4
Restructuring - amount paid in year	-	(1.6)
	<u>149.1</u>	<u>106.8</u>

## 10 Provisions for other liabilities

	Disposal & restructuring £m	Warranty & product liability £m	Legal & environmental £m	Other £m	Total £m
At 1 January 2007	3.0	14.6	29.7	3.6	50.9
Exchange adjustments	0.1	1.3	(0.1)	0.3	1.6
Acquisitions	-	-	-	0.1	0.1
Amounts provided	0.1	15.2	10.1	1.4	26.8
Amounts released	(0.8)	(2.6)	(1.5)	(0.3)	(5.2)
Utilised in the year	(1.4)	(7.2)	(9.0)	(1.5)	(19.1)
Unwinding of discount	-	-	0.5	-	0.5
At 31 December 2007	<u>1.0</u>	<u>21.3</u>	<u>29.7</u>	<u>3.6</u>	<u>55.6</u>

	2007	2006
	£m	£m
Analysed as :		
Current	33.5	29.6
Non-current	22.1	21.3
	<u>55.6</u>	<u>50.9</u>

- (i) Disposal and restructuring costs include £0.6 million (2006: £1.6 million) in respect of employee severance costs, of which £0.5 million (2006: £0.6 million) is in the welding, cutting and automation business and £0.1 million (2006: £1.0 million) is in the air and gas handling business, and £0.3 million (2006: £0.3 million) in respect of property costs in the welding, cutting and automation business. This is expected to result in cash expenditure in the next one to two years. The remaining provisions in this category are also expected to be utilised over the next one to two years. The effect of discounting these provisions is not material.
- (ii) Warranty and product liability provisions relate to continuing businesses and are expected to be utilised over a period of one to two years dependent on the warranty period provided but will also be replaced by comparable amounts as they are utilised. The effect of discounting these provisions is not material.
- (iii) Provision has been made for the probable exposure arising from legal and environmental claims and disputes, both existing and threatened, in some cases arising from warranties given on disposal of businesses. Provisions have been made representing the best estimate of the outcome of the claims including costs before taking account of insurance recoveries. Where the outcome of a claim is uncertain the legal costs of defence have been provided for to the extent that they are reliably measurable. Where appropriate, insurance recoveries are recognised in 'receivables'. At 31 December 2007, these receivables amounted to £6.7 million (2006: £6.9 million). If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Due to their nature, it is not possible to predict precisely when these provisions will be utilised though most are expected to be utilised over the short to medium term with utilisation in the next year expected to be in the region of £11 million (2006: £10 million) before taking account of insurance recoveries.
- (iv) Other provisions include various amounts which are not individually material. Due to their nature it is not possible to predict precisely when these provisions will be utilised but utilisation in the next year is expected to be in the region of £1 to £2 million. (2006: £1 to £2 million)

**11 Movements in equity**

	Attributable to equity shareholders of Charter plc						Total equity £m
	Share capital	Share premium	Merger reserve	Retained earnings	Other reserves	Minority interests	
	£m	£m	£m	£m	£m	£m	
<b>At 31 December 2005 - as reported</b>	3.3	69.4	21.1	28.1	13.2	13.5	148.6
Prior year adjustment - change in accounting policy (note 1)	-	-	-	(27.3)	(0.7)	-	(28.0)
<b>At 1 January 2006 - as restated</b>	3.3	69.4	21.1	0.8	12.5	13.5	120.6
Exchange translation - as restated	-	-	-	-	(12.0)	(2.2)	(14.2)
Actuarial gains on retirement benefit obligations - as restated	-	-	-	23.2	-	-	23.2
Tax on actuarial gains on retirement benefit obligations - as restated	-	-	-	(2.4)	-	-	(2.4)
Share-based payments - attributable tax	-	-	-	2.2	-	-	2.2
Change in fair value of outstanding cash flow hedges	-	-	-	-	4.5	-	4.5
Net transfer to income statement - hedges	-	-	-	-	(0.7)	-	(0.7)
Net deferred income tax movement for the year - hedges	-	-	-	-	(1.1)	-	(1.1)
Share of fair value adjustment on transfer of associates to subsidiaries	-	-	-	-	0.7	-	0.7
<b>Net income recognised directly in equity - as restated</b>	-	-	-	23.0	(8.6)	(2.2)	12.2
Profit for the year - as restated	-	-	-	123.4	-	5.7	129.1
<b>Total recognised income for the year - as restated</b>	-	-	-	146.4	(8.6)	3.5	141.3
Issue of share capital	-	0.6	-	-	-	-	0.6
Share-based payments - charge for year	-	-	-	0.6	-	-	0.6
Share-based payments - shares issued	-	1.4	-	(1.4)	-	-	-
Dividends paid to minority interests	-	-	-	-	-	(6.7)	(6.7)
<b>At 31 December 2006 - as restated</b>	<u>3.3</u>	<u>71.4</u>	<u>21.1</u>	<u>146.4</u>	<u>3.9</u>	<u>10.3</u>	<u>256.4</u>
<b>At 1 January 2007 - as restated</b>	3.3	71.4	21.1	146.4	3.9	10.3	256.4
Exchange translation	-	-	-	-	25.1	1.5	26.6
Actuarial gains on retirement benefit obligations	-	-	-	11.0	-	(0.1)	10.9
Actuarial gains on retirement benefit obligations- associates	-	-	-	0.4	-	-	0.4
Tax on actuarial gains on retirement benefit obligations	-	-	-	0.6	-	-	0.6
Tax on actuarial gains on retirement benefit obligations - associates	-	-	-	(0.1)	-	-	(0.1)
Share-based payments - attributable tax	-	-	-	0.1	-	-	0.1
Change in fair value of outstanding cash flow hedges	-	-	-	-	(1.6)	-	(1.6)
Net transfer to income statement - hedges	-	-	-	-	0.5	-	0.5
Net investment hedges	-	-	-	-	(0.1)	-	(0.1)
Net deferred income tax movement for the year - hedges	-	-	-	-	0.5	-	0.5
Share of fair value adjustment on transfer of associates to subsidiaries	-	-	-	-	5.6	-	5.6
<b>Net income recognised directly in equity</b>	-	-	-	12.0	30.0	1.4	43.4
Profit for the year	-	-	-	137.8	-	7.0	144.8
<b>Total recognised income for the year</b>	-	-	-	149.8	30.0	8.4	188.2
Issue of share capital	-	-	-	-	-	-	-
Share-based payments - charge for year	-	-	-	0.5	-	-	0.5
Minority interests arising on acquisitions	-	-	-	-	-	12.0	12.0
Dividends paid to minority interests	-	-	-	-	-	(3.1)	(3.1)
<b>At 31 December 2007</b>	<u>3.3</u>	<u>71.4</u>	<u>21.1</u>	<u>296.7</u>	<u>33.9</u>	<u>27.6</u>	<u>454.0</u>

## 12 Acquisitions

### Current year acquisitions

#### (a) ESAB India Limited

On 5 September 2007, a further 18.3 per cent of the issued share capital of ESAB India Limited was acquired for a cash consideration of £17.9 million.

Following the acquisition the total holding of 55.6 per cent has been fully consolidated as a subsidiary. Prior to 5 September 2007, the 37.3 per cent holding was consolidated as an associate.

The revenue and profit after tax of ESAB India for the year ended 31 December 2007 was £41.0 million and £5.8 million respectively of which £26.7 million and £3.9 million respectively was for the period prior to acquisition.

The value attributed to the assets acquired represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of ESAB India Limited may be revised as further information becomes available.

#### (b) Other acquisitions

(i) In July 2007, the business of ATAS Anlagentechnik und Anwendungssoftware GmbH ('ATAS'), a software control business located in Germany, was acquired for cash of £2.0 million.

(ii) In July 2007, the welding business of Air Liquide Argentina was acquired for cash of £4.2 million.

(iii) In July 2007, the 50 per cent minority shareholding of Bateman Howden South Africa (Proprietary) Limited not owned by the Group was acquired for a cash consideration of £1.9 million.

(iv) In October 2007, the group acquired 95.11% of Electrodi AD for cash of £5.3 million.

The revenue and profit after tax of ATAS, Air Liquide Argentina and Electrodi AD combined for the year ended 31 December 2007 was £6.9 million and £2.6 million respectively of which £4.5 million and £1.3 million respectively was for the period prior to acquisition.

The value attributed to the assets acquired represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of ATAS, Air Liquide Argentina and Electrodi AD may be revised as further information becomes available.

The assets and liabilities acquired were as follows:

	ESAB India			Other acquisitions			Total
	Carrying amount before fair value adjustment	Fair value adjustment	Fair value	Carrying amount before fair value adjustment	Fair value adjustment	Fair value	Fair value
	£m	£m	£m	£m	£m	£m	£m
Intangible assets	-	2.9	2.9	-	2.6	2.6	5.5
Property, plant and equipment	7.4	16.2	23.6	2.6	-	2.6	26.2
Investments in associates transferred to subsidiaries	(4.5)	(5.6)	(10.1)	-	-	-	(10.1)
Deferred income tax assets	0.1	(0.1)	-	-	-	-	-
Inventories	3.9	-	3.9	2.7	-	2.7	6.6
Trade and other receivables	2.5	0.1	2.6	1.0	-	1.0	3.6
Cash and cash equivalents	4.7	-	4.7	0.8	-	0.8	5.5
Trade and other payables	(5.9)	-	(5.9)	(0.1)	(0.1)	(0.2)	(6.1)
Income tax liabilities	(1.1)	-	(1.1)	-	-	-	(1.1)
Provisions	-	-	-	-	(0.1)	(0.1)	(0.1)
Deferred income tax liabilities	-	(4.1)	(4.1)	(0.1)	(0.4)	(0.5)	(4.6)
Retirement benefit assets/(obligations)	0.4	-	0.4	(0.2)	(0.5)	(0.7)	(0.3)
Minority interest	(5.3)	(6.7)	(12.0)	-	-	-	(12.0)
<b>Net assets</b>	<b>2.2</b>	<b>2.7</b>	<b>4.9</b>	<b>6.7</b>	<b>1.5</b>	<b>8.2</b>	<b>13.1</b>
Goodwill – on acquisition			13.0			5.2	18.2
			<u>17.9</u>			<u>13.4</u>	<u>31.3</u>
Satisfied by:							
Net cash consideration paid (including costs and excluding cash acquired)			18.0			12.7	30.7
Consideration and costs to be paid in subsequent years (net)			-			0.5	0.5
Exchange adjustments			(0.1)			0.2	0.1
			<u>17.9</u>			<u>13.4</u>	<u>31.3</u>

The goodwill arising principally reflects the anticipated profitability of the new markets to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets.

#### Prior year acquisitions

On 22 December 2006, the 51% shareholdings in Howden Compressors Limited and Howden Compressors LLC not owned by the Group were acquired for a cash consideration of £12.9 million (including costs of £0.3 million).

The value attributed to the assets acquired represents the Directors' current estimate of the fair value of the net assets acquired.

The profit from the date of acquisition (22 December 2006) to 31 December 2006 is not significant.

#### Cash consideration paid

The total net cash consideration paid during the year, as shown in the cash flow statement, includes amounts paid in respect of current and prior year acquisitions of subsidiary undertakings as follows:

	2007 £m	2006 £m
Current year acquisitions – consideration paid	30.7	12.7
Current year acquisitions – cash acquired	(5.5)	(5.0)
Prior year acquisitions	1.0	5.8
	<u>26.2</u>	<u>13.5</u>

## 13 Contingent liabilities

### (i) Central operations

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 2007 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 provision for any liability in respect of such actions.

### (ii) Air and gas handling

Howden Buffalo Inc., an indirect subsidiary of Charter, has been named as a defendant in a number of asbestos-related actions in the United States. On the advice of counsel, Howden Buffalo is vigorously defending all the cases that have been filed against it. Over the past few years, Howden Buffalo has sought and received dismissals in 10,024 cases and has, on the advice of counsel, settled 313 cases. These cases were all settled for nuisance value amounts, much less than the cost of defending the cases at trial. Howden Buffalo has received legal advice indicating that it should be able to continue to defend successfully the actions that are brought. At this time, it is not practical to estimate the amount of any potential damages or to provide details of the current stage of proceedings in particular cases, as the majority of cases do not specify the amount of damages sought and the cases are at varying stages in the litigation process. However, legal fees associated with the defence of these claims and the cost of the settlements have been covered by applicable insurance. The Directors believe, based on legal advice, that the majority of asbestos-related lawsuits against Howden Buffalo, including those resulting from the historical operations of a predecessor of Howden Buffalo known as Buffalo Forge Company, will continue to be covered, in substantial part, by applicable insurance. The situation is reviewed regularly and based on the most recent review and legal advice obtained by Howden Buffalo, the Directors believe that the aggregate of any potential liability is unlikely to have a material effect on Charter's financial position.

### (iii) Welding

The Esab Group Inc. ('EGI'), an indirect subsidiary of Charter, has been named as a defendant in a number of lawsuits in state and federal courts in the United States alleging personal injuries from exposure to manganese in the fumes of welding consumables. Other current and former manufacturers of welding consumables have also been named as defendants as well as various other defendants such as distributors, trade associations and others. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts. A multi-district litigation proceeding has been established to consolidate and coordinate pre-trial proceedings in the federal court cases. Last year, the federal court denied a motion to certify a class action of welders who were seeking medical monitoring relief on behalf of all welders in eight states who were exposed to welding fumes. Subsequently, the named plaintiffs filed a motion to dismiss their individual claims. In addition, EGI and four other welding companies were defendants in a federal court trial involving a single claimant. The jury returned a verdict of US\$20.5 million against the five defendants, including EGI, which, if upheld on appeal, would be shared among the defendants. Since the year end, EG two other welding companies were defendants in a further federal court trial involving a single claimant. The jury returned a verdict of US\$0.72 million by way of compensatory damages (after a 40 per cent reduction to take account of the contributory negligence of the plaintiff) which, if upheld on appeal, would be shared among the defendants. In addition the jury awarded punitive damages of US\$1.7 million of which EGI's share is US\$0.75 million. Post-trial motions seeking to overturn these verdicts have been or will be filed, and it is anticipated that in each case an appeal will be filed if the post-trial motions are denied. With the exception of the punitive damage award, if upheld on appeal, these verdicts would be covered in substantial part by insurance.

EGI was also a defendant in a number of state court trials. However, all of those cases were either dismissed or postponed. There are 10 manganese trials scheduled for the balance of 2008, although it is not anticipated that they will all involve EGI or that they will proceed to trial as scheduled. Additional trials could also be scheduled.

Whilst litigation is notoriously uncertain and the risk of an adverse jury verdict in any trial exists, having considered the advice of EGI's counsel in the United States, the Directors believe that EGI has meritorious defences to these claims, most of which should be covered in whole or in part by insurance. EGI, in conjunction with other current and former US manufacturers of welding consumables, is defending these claims vigorously. The defence costs, net of insurance recoveries, are estimated to be of the order of US\$20 million, which is reflected in EGI's balance sheet at 31 December 2007. In view of the foregoing and, in particular, the legal advice received in the United States, the Directors do not consider that such claims will have a material adverse effect on Charter's financial position.

EGI has also been named as a defendant in a small number of lawsuits in Massachusetts and Pennsylvania in which claimants allege asbestos-induced personal injuries. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts from EGI, other welding consumable manufacturers and other defendants who manufactured a variety of asbestos products. Several cases are listed for trial this year; however, EGI has been dismissed prior to trial in the previous cases in which it was named as a defendant. Upon the advice of counsel, the Directors believe that EGI has meritorious defences to these claims and EGI intends vigorously to defend these lawsuits, which should be covered in whole or in part by insurance. In addition, the majority of defence costs are being borne by EGI's insurers.

### (iv) Other

In addition there are contingent liabilities entered into in the normal course of business from which no liability is expected to arise.

## 14 Approval and publication of Annual Report

The Annual Report was approved by the Board on 12 March 2008. Following changes in company law introduced by the Companies Act 2006 and the passing of a related resolution at the Company's Annual General Meeting on 26 June 2007, shareholder documents and information are now only sent in hard copy to those shareholders who have either made an express election to receive documents in this form or to those that became shareholders of the Company after this date. Those shareholders who did not elect to receive documents in hard copy will receive a letter at the time that such documents and information are dispatched advising them that these are available electronically on the Company's website and how to access them. This allows the Company to reduce costs and its impact on the environment.

## 15 Annual General Meeting

The Annual General Meeting is to be held on 16 May 2008.