Notes to the financial statements of the Company

For the year ended 31 December 2005

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.

2 Principal accounting policies

The principal accounting policies set out below have been consistently applied to all the periods presented except in relation to share-based payments as noted below.

The Company has adopted FRS 17 'Retirement benefits', FRS 21 'Events after the balance sheet date', the presentation elements of FRS 25 'Financial instruments: disclosure and presentation', and FRS 28 'Corresponding amounts'. The adoption of these standards has had no impact on either this year's figures or the comparative figures.

The Company has also adopted FRS 20 'Share-based payments' during the year. The effect of adopting FRS 20 was to increase operating costs by £1.6 million, increase creditors by £0.8 million and to credit £0.8 million to reserves in the balance sheet. The charge in 2004 of £0.4 million was similar to that under the previous accounting policy but there is a reduction in liabilities of £0.4 million at 31 December 2004 because the credit entry is taken to equity under FRS 20 rather than being treated as a liability.

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 income statement.

Fixed asset investments
Fixed asset investments 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 income statement.

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.

3 Investment in subsidiary undertakings

	2005 £m	2004 £m
At 1 January	**1,009.1**	1,009.1
Additions	**343.9**	–
Disposal	**(25.5)**	–
At 31 December	**1,327.5**	1,009.1

Principal interests in group undertakings are shown on page 77.

Loans due by the Company to subsidiary undertakings amounting to £1,092.0 million (2004: £782.8 million) are interest bearing with interest payable based on commercial rates. In the previous year these loans were interest free.

4 Investment in associated undertaking

	2005 £m	2004 £m
At 1 January	**12.4**	–
Addition	**–**	12.4
Disposal	**(12.4)**	–
At 31 December	**–**	12.4

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 this investment to a subsidiary undertaking for a cash consideration of £13.6 million.

5 Called up share capital

	2005 Number of ordinary shares of 2 pence each	2005 £	2004 Number of ordinary shares of 2 pence each	2004 £
Authorised:	**215,000,000**	**4,300,000**	215,000,000	4,300,000
Issued:				
Fully paid shares	**165,253,905**	**3,305,078**	150,636,773	3,012,735

On 3 May 2005, 7,531,800 new ordinary shares were issued for cash of £19.1 million net of expenses. The shares were issued credited as fully paid and rank pari-passu in all respects with the existing shares of 2 pence each.

As explained in note 29 to the consolidated financial statements, on 13 September 2005 6,424,914 ordinary shares were issued as part consideration for the acquisition of the minority interest in the Company's South American welding and cutting businesses with a fair value of £21.2 million.

In 2005, 660,418 ordinary shares were issued for cash of £1.1 million on the exercise of employee share options.

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 and 45.

6 Reserves

	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2004	5.9	–	196.5	202.4
Loss for the year	–	–	(6.8)	(6.8)
Charge for share-based payments	–	–	0.4	0.4
Issue of shares (net of expenses)	43.5	–	–	43.5
At 31 December 2004 (as restated)	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**

In accordance with the provisions of Section 131 of the Companies Act 1985 the premium arising on the issue of shares as part consideration for the acquisition of the minority interest in the Company's South American welding and cutting 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:

	2005 £m	2004 (as restated) £m
Loss for the financial year	**(36.1)**	(6.8)
Charge for share-based payments	**0.8**	0.4
Dividends for the financial year	**–**	–
Total recognised gains and losses	**(35.3)**	(6.4)
Issue of shares (net of expenses)	**41.4**	44.6
Net increase in shareholders' funds	**6.1**	38.2
Opening shareholders' funds	**242.5**	204.3
Closing shareholders' funds	**248.6**	242.5

7 Share-based payments

Share-based compensation arrangements established since 7 November 2002 for the Executive Directors, Mr Gawler, Mr Foster and Mr Careless are set out in the Remuneration report on pages 42 to 45.

The awards to Mr Foster and Mr Careless were both made during 2005. Mr Foster's award was valued using the 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 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.

8 Contingent liabilities

Charter, together with certain of its wholly-owned subsidiaries, has been named as defendant in a number of asbestos-related actions in the United States on the basis that it is allegedly liable for the acts of a former subsidiary Cape PLC. Charter contests the existence of any such liability. The issue went to trial in three cases involving the Company's principal subsidiary, Charter Consolidated P.L.C., and other wholly-owned subsidiaries, between 1985 and 1987. In the first of these cases, tried in Pennsylvania, after an adverse lower court decision the appeal court gave judgement in the Charter defendants' favour. In the second case, in New Jersey, judgement was also given for the Charter defendants. The third case, in South Carolina, was dismissed for lack of subject matter jurisdiction, without a decision having been rendered on the issue. During recent years, Charter and/or certain of its subsidiaries have been served in a number of cases in Mississippi, Illinois and a few other states. Currently the cases against Charter are confined to Mississippi. Charter is seeking dismissals in these pending cases. Upon advice of counsel, Charter has settled some of the cases brought in Mississippi and will continue to pursue dismissals in the remainder. 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. In 2005, £0.1 million was charged against Charter's operating profits in respect of defence costs and other expenses. 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 in respect of such actions.

9 Guarantees

	2005 £m	2004 £m
Subsidiary company borrowings	**73.0**	106.4
Other	**1.1**	1.4
	74.1	107.8