For the year ended 31 December 2006

1 Accounting policies

(i) Basis of preparation

The financial information in this report has been prepared on the basis of accounting policies set out below in accordance with International Financial Reporting Standards ('IFRS'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations as endorsed by the European Union and implemented in the UK as well as those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

Use of adjusted measures

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 and excluded from adjusted earnings per share.

Adjusted earnings per share also excludes foreign currency exchange differences on the retranslation of intercompany loans, which are determined by reference to movements in exchange rates. These amounts are likely to be volatile and are unrelated to underlying performance.

The principal accounting policies set out below have been consistently applied to all the periods presented in respect of the Company, its subsidiaries and associated undertakings.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The application of accounting principles requires the Group to make estimates, judgements and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the financial statements. On an ongoing basis, estimates are evaluated using historical experience, consultation with experts and other methods that are considered reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from these estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

Critical accounting policies

Certain of the Group's accounting policies have been identified as critical accounting policies, as these policies involve particularly complex or subjective decisions or assessments. These are detailed below.

Estimated fixed asset economic lives

The reported amounts for amortisation of intangible fixed assets and depreciation of property, plant and equipment can be materially affected by the judgements exercised in determining their estimated economic lives. Intangible asset amortisation and depreciation of property, plant and equipment for continuing operations amounted to £1.9 million and £13.5 million respectively in 2006 and £1.2 million and £14.7 million respectively in 2005.

Provisions

Provision is made for liabilities that are uncertain in timing or amount of settlement. These include provisions for disposal and restructuring costs, warranty and product liabilities and legal and environmental claims. Calculations of these provisions are based on estimated cash flows relating to these costs, discounted at an appropriate rate where the impact of discounting is material. The total costs and timing of cash flows relating to legal and environmental claims are based on management estimates supported by the use of external consultants. At 31 December 2006 provisions amounted to £50.9 million (2005: £40.7 million).

Tax estimates

The Group's tax charge is based on the profit for the year and tax rates in effect. The determination of appropriate provisions for taxation requires the Group to take into account anticipated decisions of tax authorities and estimate the Group's ability to utilise tax benefits through future earnings and tax planning. These estimates and assumptions may differ from future events.

Changes to accounting standards

Amendments to published standards effective in 2006

The amendment to IAS 19 'Employee benefits' is mandatory for the Group's accounting periods beginning on or after 1 January 2006. This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group has not changed its accounting policy adopted for recognition of actuarial gains and losses and in 2006 an additional liability of £0.2 million has been recognised in respect of the Group's multi-employer plans. The required additional disclosures of information about plan assets and liabilities and the assumptions underlying the components of the defined benefit cost have been included for both 2006 and 2005.

1 Accounting policies (continued)

Standards, amendments and interpretations effective in 2006 but not relevant or have an insignificant impact on the Group's financial statements

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but they are not relevant or have an insignificant impact on the Group's financial statements:

- IAS 21 (Amendment), Net investment in a foreign operation;
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions;
- IAS 39 (Amendment), The fair value option;
- IAS 39 and IFRS 4 (Amendment), Financial guarantee contracts;
- IFRS 1, (Amendment), First-time adoption of international financial reporting standards and IFRS 6, (Amendment), exploration for and evaluation of mineral resources;
- IFRS 6, Exploration for and evaluation of mineral resources;
- IFRIC 4, Determining whether an arrangement contains a lease;
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds; and
- IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment.

Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted:

- IFRIC 8, 'Scope of IFRS 2' (effective from annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any significant impact on the Group's financial statements.
- IFRIC 10, 'Interim financial reporting and impairment' (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007 but it is not expected to have any significant impact on the Group's financial statements.

New accounting standards that are not yet effective and have not been early adopted by the Group

The following new accounting standards have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted, are as follows:

- IFRS 7 'Financial Instruments: Disclosures', introduces new disclosures about financial instruments. It requires the disclosure of information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in IAS 32.
- IAS 1 (amendment) 'Presentation of financial statements – Capital disclosures' introduces disclosures about the level of an entity's capital and how it manages capital.

(ii) Basis of consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies of the entity. A shareholding of more than one-half of the voting rights will normally be the basis of such control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus the costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, including all separately identifiable intangible assets, is goodwill which has been recorded as an intangible asset since 1 January 1998 (see Goodwill below). Where additional shareholdings in associate entities are acquired any fair value adjustments related to the shareholdings prior to the increase are taken directly to equity.

Associates are entities over which the Group has significant influence but not control, normally on the basis of a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recorded at cost.

The Group's share of its associates' post acquisition profits or losses, net of interest and tax, is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

The Group has taken advantage of the business combinations exemption in IFRS 1 and has not restated business combinations that took place before 1 January 2004.

(iii) Segmental reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from other business segments. Segmental assets comprise total assets excluding income tax assets. Segmental liabilities comprise total liabilities excluding income tax liabilities and borrowings other than bank overdrafts. A geographical segment is engaged in providing products within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

1 Accounting policies (continued)

(iv) Foreign currencies
Items included in the financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, the functional currency and presentation currency of Charter plc.

Foreign currency transactions are translated into the functional currency of Group entities 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 except where deferred in equity as qualifying cash flow hedges. The results and net assets of all Group companies that have non-sterling functional currency are included in the consolidated financial statements as follows:

(a) Assets and liabilities are translated at the exchange rate at the balance sheet date;

(b) Income and expenses are translated at average exchange rates for the relevant period; and

(c) All resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences arising since 1 January 2004 are recognised in the income statement as part of the gain or loss on sale.

(v) Financial instruments
Derivative financial instruments, principally forward foreign exchange contracts and foreign currency swaps, are used as hedges in the financing and financial risk management of the Group and are initially measured at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair value at each balance sheet date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

For fair value hedges, any gain or loss from re-measuring the hedging instrument at fair value is recognised in the consolidated income statement together with any gain or loss on the hedged item attributable to the hedged risk.

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, with any ineffective portion recognised in the income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in shareholders' equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. For net investment hedges gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised in the income statement.

(vi) Property, plant and equipment
The Group's policy is to carry property, plant and equipment at historic cost less accumulated depreciation and impairment losses except that certain properties were revalued on transition to IFRS at 1 January 2004. These revaluations are treated as deemed cost as at 1 January 2004 as allowed by IFRS 1.

In accordance with the benchmark treatment under IFRS, borrowing costs associated with expenditure on property, plant and equipment are not capitalised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method spreading the difference between cost and residual value over the estimated useful life as follows:

Buildings	30-50 years
Plant, machinery and equipment	8-14 years
Vehicles	5 years
IT equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. A review of useful lives of plant, machinery and equipment was performed during the year. This resulted in a reduction of the depreciation charge of £1.6 million for the year, which is expected to recur over the remaining life of the plant, machinery and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see (viii) Impairment of assets below).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

1 Accounting policies (continued)

(vii) Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiary or associate acquired.

Goodwill represented by the carrying value at 1 January 2004 under the Group's previous accounting policy together with additional amounts arising since that date is no longer amortised and is carried at cost less accumulated impairment losses. Goodwill is included in intangible assets in relation to subsidiaries and in investments in associates in relation to associates. In respect of acquisitions prior to 1 January 2004, the classification and accounting treatment of business combinations has not been restated on transition to IFRS, as permitted by IFRS 1.

Goodwill arising prior to 1 January 1998 was written off directly to reserves. Goodwill arising in the period 1 January 1998 to 31 December 2003 was capitalised as an intangible asset in relation to subsidiaries and amortised on a straight line basis over its estimated useful life, a period not exceeding 20 years or included as part of the carrying value of associates.

Goodwill acquired in business combinations and carried in the balance sheet is allocated to the cash-generating units ('CGUs') that are expected to benefit from the business combination.

(b) Research and development

Research expenditure is charged to income in the year in which it is incurred.

Internal development expenditure is charged to income in the year in which it is incurred, unless it meets the recognition criteria of IAS 38 'Intangible assets', in which case such costs are capitalised and amortised over the estimated useful life of the asset created, usually between three and ten years.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred and amortised on a straight line basis over the estimated useful life of the licence, usually between 3 and 5 years.

Internal expenditure associated with developing or maintaining computer software programmes is charged to income in the year in which it is incurred, except costs directly associated with the production of identifiable and unique software products controlled by the Group that are likely to generate benefits exceeding costs beyond one year, in which case such costs are capitalised and amortised on a straight line basis over the estimated useful life of the software product, usually less than 3 years.

(d) Intangibles arising on acquisitions

In establishing the fair value of assets and liabilities arising on acquisitions the Group identifies the fair values attributable to intangible assets. The intangible assets recognised include the value in respect of brands and trademarks, intellectual property rights, customer contracts and relationships and proprietary technology rights and know-how. All intangibles recognised on business combinations are amortised over the expected useful economic lives, usually between 3 and 10 years.

(viii) Impairment of assets

Assets that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(ix) Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in first-out ('FIFO') basis or the average cost basis. Cost includes expenditure which is incurred in the normal course of business in bringing the product to its present location and condition. Net realisable value is the estimated selling price less all disposal costs to be incurred.

(x) Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the asset is available for immediate sale in its present condition and the sale is highly probable within one year from the date of classification.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and cease to be depreciated from the date of classification.

(xi) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement. Trade receivables are discounted when the time value of money is considered material. Amounts due after more than 12 months from the balance sheet date are classified in the balance sheet as 'non-current'.

(xii) Cash, cash equivalents and bank overdrafts

For the purpose of the cash flow statement, cash, cash equivalents and bank overdrafts includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(xiii) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(xiv) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Where borrowings are used to hedge the Group's interest in the net assets of foreign operations, the portion of the gain or loss on the borrowings that are determined to be an effective hedge is recognised in shareholders' equity. Gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1 Accounting policies (continued)

(xv) Taxation
Taxation is that chargeable on the profits for the period, together with deferred taxation. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity including share-based payments (see (xvii) Share-based payments below), in which case it is recognised in equity.

Deferred taxation liabilities are provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated balance sheet.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred taxation is not provided on the unremitted earnings of subsidiaries where the timing of the reversal of the resulting temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future or where the remittance would not give rise to incremental tax liabilities or is otherwise not taxable.

(xvi) Employee benefits
The Group accounts for pensions and similar post-employment benefits (principally healthcare) under IAS 19 'Employee benefits'.

In respect of defined benefit pension plans, where the amount of pension benefit that an employee will receive on retirement is defined by the plan, the liability recorded in the balance sheet is the present value of the defined obligation at that date less the fair value of the plan assets, together with an adjustment for any unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

As permitted under IFRS 1 all actuarial gains and losses as at 1 January 2004, the date of transition to IFRS, were recognised for each plan. To the extent that cumulative actuarial gains and losses arising subsequent to 1 January 2004 exceed 10 per cent of the higher of plan assets or liabilities as at the end of the previous year, this excess is normally amortised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the accumulated actuarial gains and losses are not recognised.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period, in which case the past service costs are spread over that period.

For defined benefit schemes, the amount charged to operating profit in the income statement comprises the current service cost, interest on plan liabilities, the expected return on plan assets, past service cost, the impact of any settlements or curtailments and actuarial gains or losses to the extent they are recognised.

For defined contribution plans, where the Group pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further contributions irrespective of whether or not the fund has sufficient assets to pay all employees the benefits relating to service in the current and prior periods, the contributions are recognised as an expense when they are due.

For other defined benefit post-employment obligations, principally post-employment medical arrangements in the US, a similar accounting methodology to that for defined benefit pension plans is used.

Where the actuarial valuation of a scheme demonstrates that the scheme is in surplus, the recognised asset is limited to the extent that the Group can benefit in future, for example, by refunds or a reduction in contributions.

(xvii) Share-based payments
The Group operates both equity-settled and cash-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.

In the case of equity-settled plans 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. Taxation attributable to the fair value of employee service is taken 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.

Cash-settled plans are measured on a similar basis except that the fair value of the liability is re-measured at each reporting date, with changes recognised in the income statement. For cash-settled plans the corresponding entry is included as a liability.

(xviii) Government grants
Grants receivable from governments or similar bodies are credited to the balance sheet in the period in which the conditions relating to the grant are met. Where they relate to specific assets they are amortised on a straight line basis over the same period as the asset is depreciated. Where they relate to revenue expenditure and/or non-asset criteria they are taken to the income statement to match the period in which the expenditure is incurred and criteria met.

(xix) Provisions
Provisions for disposal and restructuring costs, warranty and product liability, and legal and environmental liability are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If all these conditions are not met then no provision is recognised. Incurred but not reported ('IBNR') amounts are included in provisions. Provisions are not recognised for future operating losses. 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.

1 Accounting policies (continued)

(xx) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for goods and services and the value of work executed during the year in respect of construction contracts. Revenue, which is recorded net of value-added tax, rebates and discounts, and after eliminating intra-group sales, is recognised as follows:

(a) Sales of goods and services

The majority of the Group's revenues relate to the sale of goods and services which are recognised when a Group entity has fulfilled its contractual obligations to a customer and has obtained the right to receive consideration. In respect of the sale of goods this is usually on despatch but is dependent upon the contractual terms that have been agreed with a customer.

(b) Construction contracts

Revenue is recognised by a Group entity in accordance with the stage of completion of its contractual obligations to the customer. The stage of completion is usually based on the proportion of costs incurred compared to the total expected costs to complete the contract, where this also represents a right to receive consideration, and provided the outcome of the contract can be assessed with reasonable certainty.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

(xxi) Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in property, plant and equipment and the capital element of the leasing commitments is shown as an obligation under finance leases. The lease rentals are treated as consisting of capital and interest repayment elements. The capital element is applied to reduce the outstanding obligations and the interest element charged to income so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

(xxii) 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.

2 Segment analysis

Primary reporting format – business segments
The Group is organised into two principal businesses, ESAB (welding, cutting and automation) and Howden (air and gas handling). For the purposes of IAS 14 '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, results, assets and liabilities for the period analysed by business segment, the Group's primary basis of segmentation.

	Welding £m	Cutting and automation £m	Welding, cutting and automation £m	Air and gas handling £m	Food equipment £m	Central operations £m	Total £m
Year ended 31 December 2006							
Total revenue	698.6	129.8	828.4	429.5	–	–	1,257.9
Segment result (before profit on sale of a property)	88.7	10.2	98.9	49.3	–	(9.8)	138.4
Profit on sale of a property	–	–	–	4.8	–	–	4.8
Operating profit	88.7	10.2	98.9	54.1	–	(9.8)	143.2
Share of post tax profits of associates	4.3	–	4.3	1.5	–	–	5.8
	93.0	10.2	103.2	55.6	–	(9.8)	149.0
Net financing charge							(4.4)
Profit before tax							144.6
Tax							(16.9)
Profit for the year							127.7
Minority interests							(5.7)
Profit attributable to equity shareholders							122.0
Investments in associates	15.8	–	15.8	3.6	–	0.2	19.6
Other segment assets	378.9	62.3	441.2	248.9	–	22.0	712.1
Segment assets	394.7	62.3	457.0	252.5	–	22.2	731.7
Unallocated assets: Deferred income tax							34.0
Total assets							765.7
Segment liabilities	(188.2)	(36.1)	(224.3)	(209.5)	–	(19.6)	(453.4)
Unallocated liabilities: Income tax							(22.0)
: Deferred income tax							(19.6)
: Borrowings (excluding bank overdrafts)							(9.7)
Total liabilities							(504.7)
Other segment items							
Capital expenditure on property, plant, equipment and computer software	20.2	0.4	20.6	4.4	–	0.2	25.2
Depreciation	(9.7)	(0.8)	(10.5)	(2.8)	–	(0.2)	(13.5)
Amortisation of intangible assets	(1.1)	(0.2)	(1.3)	(0.6)	–	–	(1.9)

2 Segment analysis (continued)

Primary reporting format – business segments (continued)

	Welding £m	Cutting and automation £m	Welding, cutting and automation £m	Air and gas handling £m	Food equipment £m	Central operations £m	Total £m
Year ended 31 December 2005							
Total revenue	607.8	112.3	720.1	345.1	0.5	–	1,065.7
Segment result (before sale of a property and exceptional items)	65.5	8.9	74.4	33.5	(1.0)	(9.4)	97.5
Profit on sale of a property	–	–	–	–	–	–	–
Exceptional items (note 5)	–	–	–	–	–	4.2	4.2
Operating profit	65.5	8.9	74.4	33.5	(1.0)	(5.2)	101.7
Share of post tax profits of associates	3.4	–	3.4	1.1	–	–	4.5
	68.9	8.9	77.8	34.6	(1.0)	(5.2)	106.2
Net financing charge							(2.7)
Profit before tax							103.5
Tax							(20.0)
Profit for the year							83.5
Minority interests							(9.5)
Profit attributable to equity shareholders							74.0
Investments in associates	16.4	–	16.4	8.1	–	0.2	24.7
Other segment assets	346.0	57.3	403.3	213.6	–	45.2	662.1
Segment assets	362.4	57.3	419.7	221.7	–	45.4	686.8
Unallocated assets: Deferred income tax							17.1
Total assets							703.9
Segment liabilities	(188.4)	(35.8)	(224.2)	(199.6)	–	(25.4)	(449.2)
Unallocated liabilities: Income tax							(17.6)
: Deferred income tax							(14.6)
: Borrowings (excluding bank overdrafts)							(73.9)
Total liabilities							(555.3)
Other segment items							
Capital expenditure on property, plant, equipment and computer software	16.0	0.8	16.8	3.6	–	–	20.4
Depreciation	(11.0)	(0.9)	(11.9)	(2.6)	–	(0.2)	(14.7)
Amortisation of intangible assets	(0.9)	(0.1)	(1.0)	(0.2)	–	–	(1.2)

Secondary reporting format – geographical segments

The Group's operations are based in five principal geographic areas.

	Revenue		Assets		Capital expenditure	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Europe	**499.4**	442.1	**348.8**	326.9	**10.3**	5.5
North America	**297.8**	258.2	**133.6**	122.2	**5.0**	3.3
South America	**118.8**	99.2	**70.7**	65.9	**2.3**	5.0
China	**169.8**	112.0	**105.6**	93.4	**6.5**	5.6
Rest of world	**172.1**	154.2	**53.4**	53.7	**1.1**	1.0
	1,257.9	1,065.7	**712.1**	662.1	**25.2**	20.4
Investment in associates	**–**	–	**19.6**	24.7	**–**	–
Unallocated assets – deferred income tax	**–**	–	**34.0**	17.1	**–**	–
	1,257.9	1,065.7	**765.7**	703.9	**25.2**	20.4

3 Analysis of revenue by category

	2006 £m	2005 £m
Sales of goods (including spare parts)	**900.1**	806.6
Revenue from construction contracts	**329.5**	228.4
Revenue from services	**28.3**	30.7
	1,257.9	1,065.7

4 Operating profit

	2006 £m	2005 £m
The following amounts have been charged/(credited) in arriving at operating profit:		
Staff costs (note 8)	**260.0**	240.0
Depreciation of property, plant and equipment (note 11)		
– Owned assets	**12.9**	14.2
– Finance leases	**0.6**	0.5
Amortisation of intangibles (note 10)	**1.9**	1.2
Profit on disposal of property, plant and equipment	**(6.2)**	(0.8)
Operating lease rentals payable	**12.3**	7.3
Repairs and maintenance expenditure on property, plant and equipment	**14.5**	15.8
Research and development expenditure	**6.7**	5.3
Inventories recognised as expense (note 13)	**815.3**	699.9
Trade receivables impairment (note 14)	**1.1**	1.3
Other receivables impairment (note 14)	**(0.2)**	0.9
Amortisation of government grants	**(0.4)**	(0.4)
Restructuring costs	**0.7**	1.1
Net exchange losses/(gains)	**0.7**	(0.2)

	Group 2006 £m	Associated pension schemes 2006 £m	Group 2005 £m	Associated pension schemes 2005 £m
Services provided by the Group's auditor and network firms				
Audit services				
Fees payable to Company auditor for the audit of the parent company and consolidated accounts	**0.5**	**–**	0.5	–
Non-audit services				
Fees payable to the Company's auditor and its associates for other services:				
The auditing of the Company's subsidiaries pursuant to legislation	**1.7**	**0.1**	1.4	0.1
Other services pursuant to legislation	**0.1**	**–**	0.1	–
Other services relating to taxation	**0.4**	**–**	0.5	–
Other services relating to corporate finance transactions	**0.1**	**–**	–	–
All other services	**0.1**	**–**	0.7	–
	2.9	**0.1**	3.2	0.1

5 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 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 has been reduced by £10.5 million.

In the year ended 31 December 2005, there was exceptional income of £4.2 million, arising from the settlement of an action brought against City Index in respect of losses incurred as a consequence of certain unauthorised payments having been made by a former employee. The proceeds of the settlement, earlier recoveries from the Company's insurers and realisations of a former employee's assets have resulted in a full recovery except for a £200,000 insurance policy deductible.

6 Net financing charge

	2006 £m	2005 £m
Interest payable on bank borrowings	**(3.2)**	(2.1)
Interest payable on bank borrowings – fees	**(0.3)**	(0.5)
	(3.5)	(2.6)
Interest payable on other loans	**(3.1)**	(6.7)
Interest payable on other loans – 'make whole' payment on repayment of US$ loan notes (note 16)	**(2.1)**	–
Interest payable on finance leases	**(0.2)**	(0.2)
Unwinding of discount on provisions (note 18)	**(0.4)**	(0.4)
Finance charge before exchange losses on retranslation of intercompany loan balances	**(9.3)**	(9.9)
Interest income on bank accounts and deposits	**4.1**	2.9
Interest income on financial assets not held at fair value	**0.2**	–
Other	**0.4**	0.7
Finance income before exchange gains on retranslation of intercompany loan balances	**4.7**	3.6
Net financing charge before exchange gains on retranslation of intercompany loan balances	**(4.6)**	(6.3)
Net exchange gains on retranslation of intercompany loan balances	**0.2**	3.6
Net financing charge	**(4.4)**	(2.7)

7 Taxation

	2006 £m	2005 £m
Tax charge before gains on intercompany loans and exceptional tax credit	**27.1**	19.5
Taxation on net gains on retranslation of intercompany loan balances	**0.3**	0.5
Exceptional tax credit (note 5)	**(10.5)**	–
Tax on profit on ordinary activities	**16.9**	20.0

	2006 £m	2005 £m
Current taxation		
United Kingdom:		
Corporation tax at 30 per cent (2005: 30 per cent)	**2.0**	–
Adjustments in respect of previous years	**1.4**	–
	3.4	–
Overseas:		
Current year	**30.8**	21.3
Adjustments in respect of previous years	**(1.8)**	1.4
Total current tax charge	**32.4**	22.7
Deferred taxation		
United Kingdom:		
Current year	**0.7**	–
Adjustments in respect of previous years	**(2.5)**	–
	(1.8)	–
Overseas:		
Current year	**0.9**	0.7
Adjustments in respect of previous years	**(4.1)**	(3.4)
Exceptional tax credit (note 5)	**(10.5)**	–
	(13.7)	(2.7)
Total deferred tax charge (note 19)	**(15.5)**	(2.7)
Total tax charge	**16.9**	20.0

7 Taxation (continued)

Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30 per cent. The differences are explained below:

	2006 £m	2005 £m
Profit on ordinary activities before tax	**144.6**	103.5
Profit multiplied by rate of corporation tax in the UK of 30 per cent (2005: 30 per cent)	**43.4**	31.0
Effects of:		
Adjustment to tax in respect of prior periods	**(7.0)**	4.6
Benefit of lower foreign tax rates	**(9.0)**	(7.5)
Other taxes (primarily US state taxes)	**2.3**	1.3
Tax incentives	**(0.2)**	(0.2)
Non-taxable expenses	**4.0**	3.9
Movement on deferred tax assets not recognised – exceptional tax credit	**(10.5)**	–
Movement on deferred tax assets not recognised – other	**(3.0)**	(10.0)
Difference between book profit and chargeable gains	**(1.0)**	–
Share of associates' post tax profits not taxable	**(1.8)**	(1.4)
Non-taxable exchange gains/(losses) on intercompany balances	**(0.3)**	(0.5)
Non-taxable exceptional items	**–**	(1.2)
Tax charge for the year	**16.9**	20.0

8 Employees and directors

		2006 £m	2005 £m
(i)	Aggregate amounts payable:		
	Wages and salaries	**206.8**	187.8
	Long-term incentive plan costs	**2.1**	2.0
	Social security costs	**44.9**	40.0
	Post-retirement costs		
	Defined benefit schemes and overseas medical costs (note 20)	**3.2**	7.6
	Defined contribution schemes	**3.0**	2.6
		260.0	240.0

		2006	2005
(ii)	Average number of persons employed by the Group:		
	Welding	**5,931**	5,722
	Cutting and automation	**857**	785
	Welding, cutting and automation	**6,788**	6,507
	Air and gas handling	**3,015**	2,804
	Food equipment	**–**	15
	Corporate	**43**	36
		9,846	9,362

At the year end the number of employees was 10,420 (2005: 9,521).

(iii) Information covering Directors' remuneration, interests in shares and interests in share options is included in the Remuneration report on pages 44 to 49.

		2006 £m	2005 £m
(iv)	Key management compensation:		
	Salaries and short-term employee benefits	**4.0**	3.7
	Post-retirement benefits	**0.3**	0.3
	Share-based payments	**1.3**	1.7
		5.6	5.7

Amounts disclosed above for key management compensation comprise amounts in respect of the Directors of the Company and the Chief Executives of ESAB Global, Howden Global and Anderson Group Inc.

9 Earnings per share

Basic headline earnings per share is calculated on an average of 165,952,056 shares (2005: 157,739,159 shares).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of 1,101,560 (2005: 2,208,746) 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, exceptional items and exchange gains and losses on retranslation of intercompany loans (including attributable tax) 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.

	2006 pence	2005 pence	2006 £m	2005 £m
Basic earnings per share				
Earnings attributable to equity shareholders	**73.5**	46.9	**122.0**	74.0
Items not relating to underlying business performance				
Exceptional items (note 5)	**(6.4)**	(2.7)	**(10.5)**	(4.2)
Gains on retranslation of intercompany loan balances	**(0.1)**	(2.3)	**(0.2)**	(3.6)
Taxation on retranslation of intercompany loan balances	**0.2**	0.3	**0.3**	0.5
Minority share of retranslation of intercompany loan balances	**-**	0.8	**–**	1.2
Adjusted earnings attributable to equity shareholders	**67.2**	43.0	**111.6**	67.9

	2006 pence	2005 pence	2006 £m	2005 £m
Fully diluted earnings per share				
Earnings attributable to equity shareholders	**73.0**	46.3	**122.0**	74.0
Items not relating to underlying business performance				
Exceptional items (note 5)	**(6.3)**	(2.6)	**(10.5)**	(4.2)
Gains on retranslation of intercompany loan balances	**(0.1)**	(2.3)	**(0.2)**	(3.6)
Taxation on retranslation of intercompany loan balances	**0.2**	0.3	**0.3**	0.5
Minority share of retranslation of intercompany loan balances	**–**	0.8	**–**	1.2
Adjusted earnings attributable to equity shareholders	**66.8**	42.5	**111.6**	67.9

10 Intangible assets

	Goodwill £m	Computer software £m	Development costs £m	Other £m	Total £m
Cost					
At 1 January 2006	**38.8**	**7.2**	**5.0**	**–**	**51.0**
Exchange adjustments	**(1.0)**	**0.3**	**(0.1)**	**–**	**(0.8)**
Additions	**–**	**0.6**	**–**	**–**	**0.6**
Acquired (note 29)	**7.2**	**–**	**–**	**1.4**	**8.6**
Disposals	**–**	**(0.2)**	**–**	**–**	**(0.2)**
Internally generated	**–**	**–**	**2.4**	**–**	**2.4**
At 31 December 2006	**45.0**	**7.9**	**7.3**	**1.4**	**61.6**
Amortisation					
At 1 January 2006	**5.7**	**3.7**	**1.4**	**–**	**10.8**
Exchange adjustments	**–**	**0.2**	**0.2**	**–**	**0.4**
Charge for the year	**–**	**1.0**	**0.9**	**–**	**1.9**
Disposals	**–**	**(0.2)**	**–**	**–**	**(0.2)**
At 31 December 2006	**5.7**	**4.7**	**2.5**	**–**	**12.9**
Net book amount					
At 1 January 2006	**33.1**	**3.5**	**3.6**	**–**	**40.2**
At 31 December 2006	**39.3**	**3.2**	**4.8**	**1.4**	**48.7**

10 Intangible assets (continued)

	Goodwill £m	Computer software £m	Development costs £m	Total £m
Cost				
At 1 January 2005	24.1	4.6	2.8	31.5
Exchange adjustments	0.9	0.3	–	1.2
Additions	13.9	2.4	–	16.3
Disposals	(0.1)	(0.1)	–	(0.2)
Internally generated	–	–	2.2	2.2
At 31 December 2005	38.8	7.2	5.0	51.0
Amortisation				
At 1 January 2005	5.7	2.9	1.2	9.8
Exchange adjustments	–	–	(0.1)	(0.1)
Charge for the year	–	0.9	0.3	1.2
Disposals	–	(0.1)	–	(0.1)
At 31 December 2005	5.7	3.7	1.4	10.8
Net book amount				
At 1 January 2005	18.4	1.7	1.6	21.7
At 31 December 2005	33.1	3.5	3.6	40.2

Goodwill acquired in business combinations and carried in the balance sheet is allocated to the cash-generating units ('CGUs') that are expected to benefit from that business combination. The carrying amounts of goodwill have been allocated as follows:

	2006 £m	2005 £m
Welding		
Alcotec (single CGU)	**10.4**	10.4
ESAB Sp z.o.o (single CGU)	**5.8**	5.8
Eutectic (single CGU)	**0.9**	0.9
ESAB South America (several CGUs)	**14.1**	15.1
	31.2	32.2
Air and gas handling		
Howden South Africa (several CGUs)	**0.9**	0.9
Howden Compressors (several CGUs) (note 29)	**7.2**	–
	39.3	33.1

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates, expected sales prices and direct costs during the period. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts and internal forecasts. Selling prices and direct costs are based on past experience and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next two years and extrapolates cash flows for the following years based on estimated growth rates of up to 5 per cent. This does not exceed the average long-term growth rate for the relevant markets.

The rates used to discount the forecast cash flows were 9.2 to 22.0 per cent (2005: 11.6 to 20.5 per cent).

Other intangible assets have finite lives, over which the assets are amortised. The amortisation periods are set out in the accounting policies on page 59.

Amortisation has been included in the income statement as follows:

	Computer software		**Development costs**		**Total**	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Cost of sales	**0.3**	0.5	**0.6**	0.2	**0.9**	0.7
Selling and distribution costs	**0.1**	–	**–**	–	**0.1**	–
Administrative expenses	**0.6**	0.4	**0.3**	0.1	**0.9**	0.5
Total	**1.0**	0.9	**0.9**	0.3	**1.9**	1.2

Development costs are amortised once the asset is brought into use. The Group tests development costs for assets not yet brought into use at least annually for impairment.

No impairment losses have been recognised in either 2006 or 2005.

11(a) Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Total £m
Cost				
At 1 January 2006	**70.3**	**129.3**	**32.0**	**231.6**
Exchange adjustments	**(2.8)**	**(6.5)**	**(1.7)**	**(11.0)**
Additions	**3.2**	**17.1**	**4.3**	**24.6**
Disposals	**(0.3)**	**(4.0)**	**(2.0)**	**(6.3)**
Acquisitions	**–**	**12.0**	**–**	**12.0**
Reclassified as assets held for sale	**(4.4)**	**–**	**–**	**(4.4)**
At 31 December 2006	**66.0**	**147.9**	**32.6**	**246.5**
Depreciation				
At 1 January 2006	**10.7**	**84.5**	**25.9**	**121.1**
Exchange adjustments	**(0.8)**	**(3.9)**	**(0.7)**	**(5.4)**
Charge for the year	**2.5**	**8.4**	**2.6**	**13.5**
Disposals	**(0.2)**	**(3.8)**	**(1.9)**	**(5.9)**
Acquisitions	**–**	**8.4**	**–**	**8.4**
Reclassified as assets held for sale	**(1.8)**	**–**	**–**	**(1.8)**
At 31 December 2006	**10.4**	**93.6**	**25.9**	**129.9**
Net book amount				
At 1 January 2006	**59.6**	**44.8**	**6.1**	**110.5**
At 31 December 2006	**55.6**	**54.3**	**6.7**	**116.6**
Net book amount includes the following in respect of assets held under finance leases				
At 1 January 2006	**0.7**	**–**	**0.6**	**1.3**
At 31 December 2006	**0.4**	**–**	**0.5**	**0.9**

	Land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Total £m
Cost				
At 1 January 2005	86.3	120.9	31.4	238.6
Exchange adjustments	2.4	5.9	0.6	8.9
Additions	4.7	10.1	3.2	18.0
Disposals	(13.9)	(7.6)	(3.2)	(24.7)
Reclassified as assets held for sale	(9.2)	–	–	(9.2)
At 31 December 2005	70.3	129.3	32.0	231.6
Depreciation				
At 1 January 2005	22.6	78.3	26.4	127.3
Exchange adjustments	0.9	3.9	0.5	5.3
Charge for the year	2.4	10.3	2.0	14.7
Disposals	(11.3)	(8.0)	(3.0)	(22.3)
Reclassified as assets held for sale	(3.9)	–	–	(3.9)
At 31 December 2005	10.7	84.5	25.9	121.1
Net book amount				
At 1 January 2005	63.7	42.6	5.0	111.3
At 31 December 2005	59.6	44.8	6.1	110.5
Net book amount includes the following in respect of assets held under finance leases				
At 1 January 2005	0.9	–	0.5	1.4
At 31 December 2005	0.7	–	0.6	1.3

On transition to IFRS, certain freehold land and buildings were revalued upwards by £16.0 million to £25.7 million as at 1 January 2004 based on advice received from independent professional valuers.

11(b) Assets held for sale

As at 31 December 2006 a property within the welding, cutting and automation business with a carrying value of £2.6 million has been reclassified from 'property, plant and equipment' to 'assets held for sale'. The estimated net sale proceeds are in excess of the carrying value.

As at 31 December 2005 three properties with a carrying value of £5.3 million (welding, cutting and automation £3.5 million; air and gas handling £1.8 million) which were sold subsequent to the balance sheet date for proceeds in excess of the carrying amount were reclassified from 'property, plant and equipment' to 'assets held for sale'.

12 Investments in associated undertakings

	2006 £m	2005 £m
At 1 January	**24.7**	22.1
Exchange adjustments	**(2.0)**	1.5
Transfer to investment in subsidiary (note 29)	**(4.8)**	–
Disposals	**–**	(0.4)
Loans repaid	**(1.5)**	–
Share of net profits retained	**3.2**	1.5
At 31 December	**19.6**	24.7
Share of net assets excluding goodwill	**19.6**	24.7
Goodwill	**–**	–
	19.6	24.7

Investments in associated undertakings include a listed investment of £3.2 million (2005: £3.8 million). The fair value of this investment, based on quoted market prices, was £24.6 million (2005: £32.6 million).

The Group's share of the net assets of associated undertakings comprises:

	2006 £m	2005 £m
Non-current assets	**11.7**	12.0
Current assets	**17.7**	21.8
Current liabilities	**(8.8)**	(9.3)
Non-current liabilities	**(1.0)**	(1.3)
Share of net assets	**19.6**	23.2
Loans to associated undertakings	**–**	1.5
	19.6	24.7

The Group's share of revenue, profit and dividends of associated undertakings is as follows:

	2006 £m	2005 £m
Revenue	**62.5**	52.0
Operating profit	**8.0**	5.9
Interest	**0.2**	0.1
Profit before tax	**8.2**	6.0
Tax	**(2.4)**	(1.5)
Share of profits	**5.8**	4.5
Dividends received from associated undertakings	**(2.6)**	(3.0)
	3.2	1.5

The Group's share of capital commitments and operating lease commitments of associated undertakings were £0.5 million (2005: £0.2 million) and £0.3 million (2005: £0.4 million) respectively.

The Group's share of contingent liabilities of associated undertakings amounted to £0.4 million (2005: £0.5 million) in relation to disputed taxes and duties and a claim for salaries and retirement benefits from a former employee.

There are currently no restrictions in place that might impact the Group's associated undertakings ability to remit funds.

13 Inventory

	2006 £m	2005 £m
Raw materials, components and consumables	**44.1**	38.1
Work in progress	**20.3**	17.7
Finished goods	**67.6**	63.7
	132.0	119.5
Inventory carried at net realisable value	**7.2**	6.5
Carrying amount of inventory pledged as security for liabilities	**–**	0.1

The cost of inventories recognised as an expense and included in cost of sales amounted to £815.3 million (2005: £699.9 million).

£4.1 million (2005: £3.9 million) was recognised as an expense in the year for the write-down of inventory to net realisable value.

£2.9 million (2005: £4.7 million) of amounts recognised as an expense in earlier periods for the write-down of inventory to net realisable value was reversed in the period.

14 Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**264.6**	246.0
Less: Provision for impairment of receivables	**(10.0)**	(10.2)
Trade receivables – net	**254.6**	235.8
Amounts receivable under construction contracts	**38.4**	26.2
Prepayments	**11.8**	13.0
Other receivables	**35.8**	29.7
	340.6	304.7
Less: Non-current portion		
Trade receivables – net	**11.8**	9.2
Other receivables	**5.1**	2.6
	16.9	11.8
Current portion	**323.7**	292.9

There is no significant difference between the net book amount and the fair value of current trade and other receivables due to their short-term nature.

The fair values of non-current receivables are as follows:

	2006 £m	2005 £m
Trade receivables – net	**11.8**	9.2
Other receivables	**5.1**	2.6
	16.9	11.8

The effective interest rate on non-current receivables was as follows:

	2006 %	2005 %
Trade receivables – net	**1.7**	1.5

The creation and release of provision for impaired receivables has been included in the income statement as follows:

	2006 £m	2005 £m
Cost of sales	**0.1**	–
Selling and distribution costs	**0.9**	1.5
Administrative expenses	**(0.1)**	0.7
Total	**0.9**	2.2

There is no particular concentration of credit risks to trade receivables, as the Group has a large number of internationally dispersed customers.

£22.1 million (2005: £15.4 million) is included within amounts receivable under construction contracts in relation to contract retentions held by customers.

15 Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**36.6**	34.8
Short-term bank deposits	**20.8**	35.7
Bank deposits over three months	**4.9**	5.2
Cash and cash equivalents in the balance sheet	**62.3**	75.7
Less : Bank deposits over three months	**(4.9)**	(5.2)
: Bank overdrafts (see note 16)	**(9.5)**	(8.3)
Cash, cash equivalents and bank overdrafts in the statement of cash flows	**47.9**	62.2

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. The bank overdrafts are excluded from the definitions of cash and cash equivalents disclosed in the balance sheet.

The effective interest rate on bank deposits was 3.7 per cent (2005: 3.7 per cent). These deposits have an average maturity of 9 days (2005: 23 days).

The carrying amounts of cash and cash equivalents approximate to their fair values.

Cash and cash equivalents of £62.3 million (2005: £75.7 million) includes balances of £4.5 million (2005: £7.5 million) held as cash collateral in connection with certain local trading practices or banking facilities.

At 31 December 2006 cash at bank and in hand is distributed over a large number of banks located in the countries where the Group operates. Other cash deposits are mainly held in the UK with a limited number of banks. The credit status of institutions where cash is held is kept under review with credit limits being set and monitored accordingly.

16 Borrowings

	2006 £m	2005 £m
Non-current		
US$85.0 million 7.38 per cent loan notes due 21.10.07	–	49.4
US$35.0 million 7.46 per cent loan notes due 21.10.09	–	20.3
Bank loans – secured	6.0	–
Other loans – unsecured	1.1	0.9
Finance lease obligations	0.7	1.2
	7.8	71.8
Current		
US$85.0 million 7.38 per cent loan notes due 21.10.07 – accrued interest as at balance sheet date	–	0.7
US$35.0 million 7.46 per cent loan notes due 21.10.09 – accrued interest as at balance sheet date	–	0.3
Other bank loans – secured	0.6	0.1
Other bank loans – unsecured	0.5	–
Bank overdrafts – secured	0.1	1.3
Bank overdrafts – unsecured	9.4	7.0
Finance lease obligations	0.8	1.0
	11.4	10.4
Total borrowings	19.2	82.2

On 25 August 2006 the US$120 million loan notes were repaid. The 'make whole' payment of £2.1 million has been included within the financing charge as interest payable (note 6).

Secured bank loans at 31 December 2006 are in respect of facilities made available to Howden Africa (Pty) Ltd and are secured on amounts due from trade receivables and bank account balances of Howden Africa (Pty) Ltd and certain of its subsidiary companies.

Secured bank overdrafts at 31 December 2006 and 2005 relate to an overdraft of £0.1 million (2005: £1.3 million) secured on certain receivables.

The interest rate risk profile of the Group's borrowings as at 31 December 2006 was:

	Total		Floating rate borrowings		Fixed rate borrowings		Fixed rate analysis: Weighted average interest rate		Fixed rate analysis: Weighted average period for which rate is fixed	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 %	2005 %	2006 Years	2005 Years
Currencies										
Euro	2.2	3.4	2.2	3.4	–	–	–	–	–	–
US dollar	2.1	74.2	1.2	2.5	0.9	71.7	11.5	7.5	1.2	2.4
Other	8.9	1.3	8.9	1.3	–	–	–	–	–	–
Total currency	13.2	78.9	12.3	7.2	0.9	71.7				
Sterling	6.0	3.3	6.0	3.3	–	–	–	–	–	–
Total	19.2	82.2	18.3	10.5	0.9	71.7				

The effective interest rate on total borrowings was 9.4 per cent (2005: 6.5 per cent)

The maturity of non-current borrowings is as follows:

	Loan notes 2006 £m	Bank loans 2006 £m	Finance leases 2006 £m	Other loans 2006 £m	Total 2006 £m
Between one and two years	–	0.4	0.6	0.9	1.9
Between two and five years	–	1.7	0.1	–	1.8
Over five years	–	3.9	–	0.2	4.1
	–	6.0	0.7	1.1	7.8

The maturity of non-current borrowings in the prior year was as follows:

	Loan notes 2005 £m	Bank loans 2005 £m	Finance leases 2005 £m	Other loans 2005 £m	Total 2005 £m
Between one and two years	49.4	–	1.1	–	50.5
Between two and five years	20.3	–	0.1	0.9	21.3
Over five years	–	–	–	–	–
	69.7	–	1.2	0.9	71.8

16 Borrowings (continued)

The minimum lease payments under finance leases are as follows:

	2006 £m	2005 £m
Within one year	**0.9**	1.1
In the second to fifth years inclusive	**0.8**	1.4
	1.7	2.5
Less: Future finance charges	**(0.2)**	(0.3)
Present value of lease obligations	**1.5**	2.2

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006 £m	2005 £m
Sterling	**6.0**	3.3
US dollar	**2.1**	74.2
Euro	**2.2**	3.4
Other	**8.9**	1.3
	19.2	82.2

The US dollar borrowings as at 31 December 2005 included $120 million loan notes that were swapped into sterling.

The Group has the following undrawn committed borrowing facilities:

	2006 £m	2005 £m
Expiring beyond one year	**50.0**	50.0

17 Trade and other payables

	2006 £m	2005 £m
Trade payables	**126.9**	108.1
Construction contracts	**53.6**	52.6
Other payables	**28.2**	38.9
Other taxation and social security	**16.0**	16.6
Government grants	**2.7**	3.0
Accruals and deferred income	**49.7**	46.6
	277.1	265.8
Less: Non-current portion		
Other payables	**0.2**	1.3
Government grants	**2.2**	2.4
Accruals and deferred income	**0.6**	0.3
	3.0	4.0
Current portion	**274.1**	261.8

There is no significant difference between the net book amount and the fair value of trade and other payables due to their short-term nature.

18 Provisions

	Disposal and restructuring £m	Warranty and product liability £m	Legal and environ-mental £m	Other £m	Total £m
At 1 January 2006	**4.6**	**10.4**	**21.7**	**4.0**	**40.7**
Exchange adjustments	**(0.1)**	**(0.8)**	**(2.6)**	**(0.3)**	**(3.8)**
Acquisitions	**–**	**0.2**	**–**	**–**	**0.2**
Amounts provided	**1.5**	**11.6**	**22.7**	**1.3**	**37.1**
Amounts released	**(0.5)**	**(3.0)**	**(1.3)**	**(0.2)**	**(5.0)**
Utilised in the year	**(2.5)**	**(3.8)**	**(11.2)**	**(1.2)**	**(18.7)**
Amortisation of discount	**–**	**–**	**0.4**	**–**	**0.4**
At 31 December 2006	**3.0**	**14.6**	**29.7**	**3.6**	**50.9**

Provisions have been analysed between current and non-current as follows:

	2006 £m	2005 £m
Current	**29.6**	25.6
Non-current	**21.3**	15.1
	50.9	40.7

(i) Disposal and restructuring costs include £1.6 million (2005: £3.1 million) in respect of employee severance costs, of which £0.6 million (2005: £0.5 million) is in the welding, cutting and automation business and £1.0 million (2005: £nil) is in the air and gas handling business, and £0.3 million (2005: £0.5 million) in respect of property costs in the welding, cutting and automation business. This is expected to result in cash expenditure in the next 12 months. The remaining provisions in this category are expected to be utilised over the next one to two years.

(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.

(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 2006 these amounted to £6.9 million (2005: £1.7 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 £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 million to £2 million.

19 Deferred tax

The movement on the net deferred tax asset/(liability) is set out below:

	2006 £m	2005 £m
At 1 January	**2.5**	(0.6)
Adjustment on adoption of IAS 39	**–**	(0.2)
Exchange adjustments	**(0.8)**	(0.1)
Income statement credit (including exceptional credit of £10.5 million (2005: £nil))	**15.5**	2.7
Reclassification to income tax liabilities	**(1.2)**	–
Acquisitions	**(0.7)**	–
Taken to equity – attributable to hedging reserve	**(1.1)**	0.7
– attributable to share-based payments	**0.2**	–
At 31 December	**14.4**	2.5

19 Deferred tax (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent to which the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £53.0 million (2005: £70.6 million) in respect of taxable losses of £173.4 million (2005: £223.8 million) that can be carried forward against taxable profits. Of these losses £113.9 million have no expiry date and £59.5 million in respect of the US Group and China expire as follows:

Date of expiry	2006 £m
31 December 2010	11.2
31 December 2011	0.8
31 December 2019	6.0
31 December 2020	4.8
31 December 2021	1.1
31 December 2022	20.2
31 December 2023	10.9
31 December 2024	4.5
	59.5

In addition the Group has an unrecognised deferred tax asset in respect of its provision for post-retirement benefits under IAS 19 of £24.3 million (2005: £37.4 million).

No deferred tax is provided on the unremitted earnings of overseas subsidiary undertakings as the Group is able to control the remittance of such earnings and has no intention of making any such remittance.

A deferred tax liability of £1.5 million (2005: £1.4 million) is provided in respect of the tax that would be payable on the remittance of the retained earnings of associates.

The movements in deferred tax assets and liabilities during the year are shown below:

Deferred tax assets

	Provisions £m	Tax losses £m	Post-retirement benefits £m	Other £m	Total £m
At 1 January 2006	6.1	8.6	0.9	1.5	17.1
Exchange adjustments	(0.6)	(1.0)	–	(0.1)	(1.7)
Income statement credit (including exceptional tax credit of £10.5 million)	2.3	18.2	(0.9)	–	19.6
Reclassification to income tax liabilities	–	(1.2)	–	–	(1.2)
Taken to equity – attributable to share-based payments	0.2	–	–	–	0.2
At 31 December 2006	8.0	24.6	–	1.4	34.0
Deferred income tax asset to be recovered within 12 months					17.9
Deferred income tax asset to be recovered after more than 12 months					16.1
					34.0

Deferred tax liabilities

	Accelerated capital allowances £m	Held over capital gains £m	Other £m	Total £m
At 1 January 2006	(5.4)	(6.5)	(2.7)	(14.6)
Exchange adjustments	0.5	0.2	0.2	0.9
Income statement charge	(0.2)	(0.7)	(3.2)	(4.1)
Taken to equity – attributable to hedging reserve	–	–	(1.1)	(1.1)
Acquisitions	(0.3)	–	(0.4)	(0.7)
At 31 December 2006	(5.4)	(7.0)	(7.2)	(19.6)
Deferred income tax liabilities to be settled within 12 months				(4.7)
Deferred income tax liabilities to be settled after more than 12 months				(14.9)
				(19.6)

Net deferred tax assets

At 31 December 2006	14.4
At 31 December 2005	2.5

19 Deferred tax (continued)

The movements in deferred tax assets and liabilities during the prior year are shown below:

Deferred tax assets

	Provisions £m	Tax losses £m	Post-retirement benefits £m	Other £m	Total £m
At 1 January 2005	5.4	5.7	0.9	0.2	12.2
Exchange adjustments	(0.3)	(0.3)	–	–	(0.6)
Income statement credit	1.0	3.2	–	0.8	5.0
Taken to equity – attributable to hedging reserve	–	–	–	0.5	0.5
At 31 December 2005	6.1	8.6	0.9	1.5	17.1
Deferred income tax assets to be recovered within 12 months					8.2
Deferred income tax assets to be recovered after more than 12 months					8.9
					17.1

Deferred tax liabilities

	Accelerated capital allowances £m	Held over capital gains £m	Other £m	Total £m
At 1 January 2005	(4.6)	(6.8)	(1.4)	(12.8)
Adjustment on adoption of IAS 39	–	–	(0.2)	(0.2)
Exchange adjustments	0.2	0.3	–	0.5
Income statement charge	(1.0)	–	(1.3)	(2.3)
Taken to equity – attributable to hedging reserve	–	–	0.2	0.2
At 31 December 2005	(5.4)	(6.5)	(2.7)	(14.6)
Deferred income tax liabilities to be settled within 12 months				(1.6)
Deferred income tax liabilities to be settled after more than 12 months				(13.0)
				(14.6)

Net deferred tax assets/(liabilities)	
At 31 December 2005	2.5
At 31 December 2004	(0.6)

20 Retirement benefit obligations

The major pension schemes operated by the Group are in the United Kingdom and are of the defined benefit type, the assets of which are held in trustee administered funds. The Group also provides post-employment medical benefits in the United States.

In accordance with the transitional rules in IFRS 1 all cumulative surpluses and deficits were recognised in the balance sheet at 1 January 2004. Subsequent to that date IAS 19 allows a smoothing approach in which some of the movement in surpluses and deficits is deferred and recognised over time commencing in the following accounting period (the 'corridor approach'). Any surplus or deficit arising as a consequence of actuarial gains and losses arising subsequent to 1 January 2004 is not fully recognised in the balance sheet.

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

The principal actuarial assumptions used were as follows:

	2006		2005	
	UK %	**Overseas %**	UK %	Overseas %
Discount rate	**5.10**	**5.50**	4.70	5.30
Inflation rate	**3.10**	**2.50**	2.85	2.50
Expected return on plan assets – equities	**7.90**	**8.90**	7.50	8.90
– bonds	**4.70**	**5.50**	4.50	5.30
– property	**7.40**		7.00	
– other	**5.25**	**5.40**	4.50	6.00
– total	**6.40**	**7.20**	5.90	7.20
Future salary increases	**3.50**	**3.70**	3.10	3.60
Future pension increases	**3.20**	**2.10**	3.00	2.30
Medical costs inflation (ultimate rate)		**5.00**		5.00

The mortality assumptions for the UK schemes are based on the PA92 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 25 years (2005: 24 years) after retirement if they are male and for a further 28 years (2005: 27 years) after retirement 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. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 22 years (2005: 22 years) after retirement if they are male and for a further 24 years (2005: 24 years) after retirement if they are female. Mortality assumptions for schemes in Sweden and Germany have been derived from the P94 tables and the Heubeck 2005 G tables respectively.

20 Retirement benefit obligations (continued)

The expected return on plan assets is a blended average of projected long-term results for the various asset classes. Equity returns are developed based on the selection of the equity risk premium above the risk-free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the schemes' holdings of these instruments. Other class asset returns are determined by reference to current experience.

A 1% increase in the inflation assumption on medical costs would increase the total service cost and interest cost by £0.2 million and the liability by £1.9 million. A 1% decrease in the inflation assumption on medical costs would reduce the total service cost and interest cost by £0.2 million and the liability by £1.8 million.

	2006 £m	2005 £m
Income statement charge		
Pension benefits – defined benefit schemes	**(5.2)**	(6.5)
Post-employment medical benefits	**2.0**	(1.1)
	(3.2)	(7.6)
Balance sheet obligation		
Pension benefits – defined benefit schemes	**(90.3)**	(103.0)
Post-employment medical benefits	**(18.3)**	(24.1)
	(108.6)	(127.1)

Pension benefits – defined benefit schemes

The amounts recognised in the income statement are as follows:

	2006			2005		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Current service cost	**(2.0)**	**(1.7)**	**(3.7)**	(2.1)	(1.7)	(3.8)
Interest cost	**(22.7)**	**(8.1)**	**(30.8)**	(23.4)	(8.5)	(31.9)
Expected return on plan assets	**25.5**	**6.6**	**32.1**	23.6	6.1	29.7
Net actuarial gains/(losses) recognised during the year	**–**	**0.8**	**0.8**	–	(0.6)	(0.6)
Past service cost	**–**	**(0.3)**	**(0.3)**	–	(0.2)	(0.2)
(Losses)/gains on settlement and curtailment	**(1.2)**	**–**	**(1.2)**	–	(0.1)	(0.1)
Adjustment for surplus not recoverable	**–**	**(2.1)**	**(2.1)**	–	0.4	0.4
Total	**(0.4)**	**(4.8)**	**(5.2)**	(1.9)	(4.6)	(6.5)
Included in the income statement as follows:						
Cost of sales	**(0.5)**	**(1.1)**	**(1.6)**	(0.7)	(1.3)	(2.0)
Selling and distribution costs	**(0.1)**	**(0.7)**	**(0.8)**	(0.9)	(1.1)	(2.0)
Administrative expenses	**0.2**	**(3.0)**	**(2.8)**	(0.3)	(2.2)	(2.5)
Total	**(0.4)**	**(4.8)**	**(5.2)**	(1.9)	(4.6)	(6.5)

The actual return on plan assets was £38.4 million (2005: £65.4 million).

The amounts recognised in the balance sheet are as follows:

	2006			2005		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	**(494.1)**	**(115.9)**	**(610.0)**	(494.0)	(130.2)	(624.2)
Fair value of plan assets	**459.5**	**98.0**	**557.5**	439.4	99.5	538.9
	(34.6)	**(17.9)**	**(52.5)**	(54.6)	(30.7)	(85.3)
Present value of unfunded obligations	**–**	**(33.9)**	**(33.9)**	–	(39.9)	(39.9)
Unrecognised actuarial (gains)/losses (under the corridor approach)	**(6.1)**	**5.3**	**(0.8)**	7.9	15.8	23.7
Unrecognised past service costs	**–**	**0.3**	**0.3**	–	0.3	0.3
Surplus not recoverable	**–**	**(3.4)**	**(3.4)**	–	(1.8)	(1.8)
Net liability recognised in the balance sheet	**(40.7)**	**(49.6)**	**(90.3)**	(46.7)	(56.3)	(103.0)
Included in the balance sheet as follows:						
Non-current assets	**6.3**	**0.1**	**6.4**	4.0	0.1	4.1
Non-current liabilities	**(47.0)**	**(49.7)**	**(96.7)**	(50.7)	(56.4)	(107.1)
	(40.7)	**(49.6)**	**(90.3)**	(46.7)	(56.3)	(103.0)

The contribution expected to be paid by the Group during 2007 to UK schemes is £10.9 million and to overseas schemes is £8.7 million. The contribution paid in 2006 by the Group was £16.5 million (2005: £17.3 million).

20 Retirement benefit obligations (continued)

The movement in the present value of the plans' obligations (funded and unfunded) during the year was as follows:

	2006 UK schemes £m	2006 Overseas schemes £m	2006 Total £m	2005 UK schemes £m	2005 Overseas schemes £m	2005 Total £m
At 1 January	**(494.0)**	**(170.1)**	**(664.1)**	(455.6)	(157.1)	(612.7)
Exchange adjustments	**–**	**15.3**	**15.3**	–	(8.7)	(8.7)
Current service cost	**(2.0)**	**(1.7)**	**(3.7)**	(2.1)	(1.7)	(3.8)
Interest cost	**(22.7)**	**(8.1)**	**(30.8)**	(23.4)	(8.5)	(31.9)
Contributions by plan participants	**(0.5)**	**(0.2)**	**(0.7)**	(0.6)	(0.2)	(0.8)
Net actuarial gains/(losses)	**12.6**	**5.5**	**18.1**	(35.0)	(8.8)	(43.8)
Benefits and expenses paid	**23.7**	**8.8**	**32.5**	22.7	8.7	31.4
Past service cost	**–**	**(0.3)**	**(0.3)**	–	(0.3)	(0.3)
Curtailment (losses)/gains	**(1.2)**	**0.2**	**(1.0)**	–	0.1	0.1
Settlements	**–**	**1.0**	**1.0**	–	6.4	6.4
Termination benefits	**–**	**(0.2)**	**(0.2)**	–	–	–
Acquisitions	**(10.0)**	**–**	**(10.0)**	–	–	–
At 31 December	**(494.1)**	**(149.8)**	**(643.9)**	(494.0)	(170.1)	(664.1)

The movement in the fair value of plan assets during the year was as follows:

	2006 UK schemes £m	2006 Overseas schemes £m	2006 Total £m	2005 UK schemes £m	2005 Overseas schemes £m	2005 Total £m
At 1 January	**439.4**	**99.5**	**538.9**	398.0	88.1	486.1
Exchange adjustments	**–**	**(12.5)**	**(12.5)**	–	7.3	7.3
Expected return on plan assets	**25.5**	**6.6**	**32.1**	23.6	6.1	29.7
Net actuarial gains	**1.4**	**4.9**	**6.3**	34.7	1.0	35.7
Contributions by employer	**7.4**	**9.1**	**16.5**	5.2	12.1	17.3
Contributions by plan participants	**0.5**	**0.2**	**0.7**	0.6	0.2	0.8
Benefits and expenses paid	**(23.7)**	**(8.8)**	**(32.5)**	(22.7)	(8.7)	(31.4)
Settlements	**–**	**(1.0)**	**(1.0)**	–	(6.6)	(6.6)
Acquisitions	**9.0**	**–**	**9.0**	–	–	–
At 31 December	**459.5**	**98.0**	**557.5**	439.4	99.5	538.9

The fair value of assets in the plans was:

	2006 UK schemes £m	2006 Overseas schemes £m	2006 Total £m	2005 UK schemes £m	2005 Overseas schemes £m	2005 Total £m
Equities	**225.6**	**51.2**	**276.8**	201.7	52.6	254.3
Bonds	**201.7**	**35.0**	**236.7**	214.0	34.1	248.1
Property	**9.1**	**–**	**9.1**	8.2	–	8.2
Other	**23.1**	**11.8**	**34.9**	15.5	12.8	28.3
Total	**459.5**	**98.0**	**557.5**	439.4	99.5	538.9

There are no interests in the Group's financial instruments, nor any property or other assets used by the Group included in the fair value of assets in the plans.

History of experience gains and losses

	2006 £m	2005 £m
Present value of obligations	**(643.9)**	(664.1)
Fair value of plan assets	**557.5**	538.9
	(86.4)	(125.2)
Experience adjustments arising on plan assets:		
Gain – £m	**6.3**	35.7
– Percentage of plan assets	**1.1%**	6.6%
Experience adjustments arising on plan liabilities:		
Loss – £m	**(0.3)**	(6.3)
– Percentage of plan liabilities	**–%**	0.9%

20 Retirement benefit obligations (continued)

Post-employment medical benefits (United States)

The amounts recognised in the income statement were as follows:

	2006 £m	2005 £m
Current service cost	**(0.5)**	(0.5)
Interest cost	**(1.3)**	(1.3)
Past service credit	**–**	0.7
Net gains on settlement and curtailment	**3.8**	–
Total	**2.0**	(1.1)

The amounts recognised in the balance sheet were as follows:

	2006 £m	2005 £m
Present value of unfunded obligations	**(19.3)**	(26.4)
Unrecognised actuarial losses (under the corridor approach)	**1.0**	2.3
Liability in the balance sheet – non-current liabilities	**(18.3)**	(24.1)

The contribution expected to be paid by the Group during 2007 is £0.7 million.

The contribution paid by the Group in 2006 was £1.0 million (2005: £1.1 million).

The movement in the present value of the plans' obligations during the year was as follows:

	2006 £m	2005 £m
At 1 January	**(26.4)**	(23.5)
Exchange adjustments	**3.0**	(2.8)
Current service cost	**(0.5)**	(0.5)
Interest cost	**(1.3)**	(1.3)
Contributions by plan participants	**–**	–
Actuarial gains/(losses)	**0.9**	(0.1)
Benefits and expenses paid by employer	**1.0**	1.1
Past service cost	**–**	0.7
Curtailment gain	**5.2**	–
Termination benefits	**(1.2)**	–
At 31 December	**(19.3)**	(26.4)

History of experience gains and losses

	2006 £m	2005 £m
Present value of obligations	**(19.3)**	(26.4)
Experience adjustments arising on plan liabilities:		
Amount – £m	**0.5**	0.2
– Percentage of plan liabilities	**2.6%**	0.8%

21 Financial instruments and risk management

(a) Treasury management

Charter's central treasury department is responsible for ensuring the availability and flexibility of funding arrangements in order to meet the ongoing requirements of the Group. In addition, it is responsible for managing the interest rate risks, liquidity risks and balance sheet foreign exchange translation risks of the Group. Foreign exchange transaction exposures are generally managed directly by operating subsidiaries within strict guidelines and controls established by their divisional management and overseen by Charter treasury. It is the Group's policy not to hedge profit and loss account translation exposure.

(b) Interest rate risk

The Group finances its operations through a mix of equity and borrowings. Borrowings are made in the desired currencies at both fixed and floating rates of interest. It is the Group's objective to minimise the cost of borrowings whilst retaining the flexibility of funding opportunities. When considered appropriate, the Group uses interest rate swaps, interest rate caps and collars and forward rate agreements to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

(c) Currency risks

The Group has significant investments in overseas operations. As a result, movements in exchange rates can significantly affect the Group's balance sheet. In certain circumstances, currency borrowings, forward foreign exchange contracts or other derivatives may be used to hedge balance sheet exposures. Forward foreign exchange contracts are used to hedge currency flows within its operating units. The Group seeks to comply with the requirements of hedge accounting where considered appropriate. Until the underlying hedged item affects the consolidated income statement, the revaluation gains and losses arising from such hedges are recognised in the consolidated statement of changes in equity to the extent that they are effective. The ineffective portion of any hedge is recognised directly in the consolidated income statement.

21 Financial instruments and risk management (continued)

(d) Credit risk
The credit status of dealing counterparties and institutions where cash is held is kept under review with credit limits being set and monitored accordingly.

(e) Liquidity management
Together with the management of interest rate and balance sheet translation risks, the Group's objective is to achieve a balance between continuity and flexibility of funding by maintaining a range of maturities on its borrowings and deposits.

Net fair values of derivative financial instruments that qualify for hedge accounting:

	Assets		Liabilities	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Forward foreign currency contracts – cash flow hedges	**2.5**	0.3	**(0.7)**	(2.9)
Less: Non-current portion	**(0.2)**	–	**(0.1)**	(0.2)
Current portion	**2.3**	0.3	**(0.6)**	(2.7)

At 31 December 2006, the Group has outstanding foreign currency contracts designated as cash flow hedges having a net principal amount of £116 million (2005: £99 million). The majority of hedge contracts (approximately 85%) will mature within the next 12 months.

The net fair value gains on the above open forward foreign exchange contracts are expected to be transferred to the income statement as follows:

	2006 £m	2005 £m
Gains/(losses) already recognised in the year	**0.1**	(0.7)
Gains/(losses) expected to be recognised in the next year	**1.5**	(1.8)
Gains/(losses) expected to be recognised in subsequent years	**0.2**	(0.1)
	1.8	(2.6)

There were no derivatives outstanding at the balance sheet date that were designated as fair value hedges (2005: nil).

Net fair values of derivative financial instruments that do not qualify for hedge accounting:

	Assets		Liabilities	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Embedded derivatives within contracts	**0.4**	–	**(0.2)**	(0.3)
Forward foreign currency contracts relating to the hedging or management of foreign currency cash or debt position	**–**	1.8	**–**	–
	0.4	1.8	**(0.2)**	(0.3)
Less: Non-current portion	**(0.1)**	–	**–**	–
Current portion	**0.3**	1.8	**(0.2)**	(0.3)

Interest rate swaps
There were no outstanding interest rate swap contracts at 31 December 2006 or at 31 December 2005.

Hedge of net investment in foreign operations
A forward foreign exchange contract of US$12.0 million was designated as a hedge of the Group's US$ denominated investments in foreign operations at 31 December 2006. No net investment hedges were outstanding as at 31 December 2005.

Fair values of financial liabilities
Set out below is a comparison by category of book values and fair values of all the Group's financial liabilities at the year end:

	Book value		Fair value	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings and current portion of long-term borrowings	**(11.4)**	(10.4)	**(11.4)**	(10.4)
Long-term borrowings	**(7.8)**	(71.8)	**(7.8)**	(75.7)

The fair values of foreign exchange contracts have been calculated by reference to the prices available from the market on which the instruments are traded. All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates. The fair values of short-term deposits and borrowings approximate to the carrying amount because of the short maturity of these instruments.

Market price risk
On the basis of the Group's analysis, it is estimated that a rise of one percentage point in the principal interest rates to which the Group's borrowings and cash balances are exposed would increase profit before tax by approximately £0.3 million.

On the basis of the Group's analysis, it is estimated that a fall of one percentage point in the principal interest rates to which the Group's borrowings and cash balances are exposed would decrease profit before tax by approximately £0.3 million.

21 Financial instruments and risk management (continued)
The following financial assets and liabilities are not directly exposed to interest rate risk:

	2006 £m	2005 £m
Non-current trade and other receivables	**16.8**	11.8
Current trade and other receivables	**323.7**	292.9
Non-current trade and other payables	**(3.0)**	(2.8)
Current trade and other payables	**(269.0)**	(257.7)
	68.5	44.2

Currency risk
Financial instruments within individual Group companies that are not denominated in the functional currency of the company concerned as at 31 December 2006 were as follows:

	Net foreign currency monetary assets/(liabilities)									
	Sterling		Euro		US Dollar		Other		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Functional currency of group operation										
Sterling	**–**	–	**14.6**	12.0	**(9.5)**	4.7	**1.5**	1.3	**6.6**	18.0
Euro	**(2.1)**	(1.6)	**–**	–	**(1.4)**	(0.1)	**0.5**	(0.4)	**(3.0)**	(2.1)
US Dollar	**–**	(0.1)	**(1.0)**	(0.5)	**–**	–	**0.4**	0.1	**(0.6)**	(0.5)
Other	**(0.1)**	1.7	**0.3**	1.1	**3.3**	2.0	**5.5**	2.1	**9.0**	6.9
Total	**(2.2)**	–	**13.9**	12.6	**(7.6)**	6.6	**7.9**	3.1	**12.0**	22.3

22 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 £489,710.

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.

23 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.

24 Reserves

	Share premium £m	Merger reserve £m	Other reserves: Translation reserve £m	Other reserves: Hedging reserve £m	Other reserves: Surplus on revaluation £m	Retained earnings £m	Total £m
At 1 January 2005	49.4	–	5.8	0.6	–	(46.7)	9.1
Exchange adjustments, net of tax	–	–	8.8	–	–	–	8.8
Profit for the year	–	–	–	–	–	74.0	74.0
Change in fair value on outstanding cash flow hedges	–	–	–	(3.4)	–	–	(3.4)
Net transfer from income statement	–	–	–	0.7	–	–	0.7
Net deferred tax movement for the year	–	–	–	0.7	–	–	0.7
Issue of share capital, net of expenses	20.0	21.1	–	–	–	–	41.1
Charge for share-based payments	–	–	–	–	–	0.8	0.8
At 31 December 2005	69.4	21.1	14.6	(1.4)	–	28.1	131.8
At 1 January 2006	**69.4**	**21.1**	**14.6**	**(1.4)**	**–**	**28.1**	**131.8**
Exchange adjustments, net of tax	**–**	**–**	**(13.2)**	**–**	**–**	**–**	**(13.2)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**122.0**	**122.0**
Change in fair value on outstanding cash flow hedges	**–**	**–**	**–**	**4.5**	**–**	**–**	**4.5**
Net transfer from income statement	**–**	**–**	**–**	**(0.7)**	**–**	**–**	**(0.7)**
Net deferred tax movement for the year	**–**	**–**	**–**	**(1.1)**	**–**	**–**	**(1.1)**
Revaluation adjustment on transfer of associates to subsidiaries	**–**	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Issue of share capital	**0.6**	**–**	**–**	**–**	**–**	**–**	**0.6**
Share-based payments – charge for the year	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
– attributable tax	**–**	**–**	**–**	**–**	**–**	**2.2**	**2.2**
– shares issued	**1.4**	**–**	**–**	**–**	**–**	**(1.4)**	**–**
At 31 December 2006	**71.4**	**21.1**	**1.4**	**1.3**	**0.7**	**151.5**	**247.4**

The tax attributable to share-based payments in 2006 comprises a reduction in income tax liabilities of £2.0 million and the recognition of a deferred tax asset of £0.2 million.

In 2005 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, cutting and automation businesses has been included as a merger reserve.

25 Operating lease commitments – minimum lease payments

	2006 Land and buildings £m	**2006** Other £m	2005 Land and buildings £m	2005 Other £m
Commitments under non-cancellable operating leases amounts payable:				
Within one year	**7.1**	**3.5**	4.4	3.3
Between two and five years	**13.5**	**3.6**	6.7	3.1
After five years	**11.0**	**–**	8.3	–
	31.6	**7.1**	19.4	6.4

26 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 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 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 7,781 cases and has, on the advice of counsel, settled 228 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.

26 Contingent liabilities (continued)

(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 trade associations, including the American Welding Society, the National Electrical Manufacturers Association, the Ferroalloys Association, 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 co-ordinate pre-trial proceedings in the federal court cases. Last year, EGI was a defendant in two trials in the federal court involving three claimants. The juries found for the defence and against each claimant. No further trials are currently scheduled in the federal court. EGI was also a defendant in three state trials, each involving one claimant. All of these trials resulted in defence verdicts. Over 15 state court trials, most involving EGI, are scheduled for 2007, but it is not anticipated that they will all begin as 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$16 million, which is reflected in EGI's balance sheet at 31 December 2006. 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.

27 Capital and other financial commitments

	2006 £m	2005 £m
Committed capital expenditure not provided in the financial statements	**9.9**	3.1

28 Cash generated from operations

	2006 £m	2005 £m
Operating profit	**143.2**	101.7
Depreciation	**13.5**	14.7
Amortisation of intangible assets	**1.9**	1.2
Amortisation of government grants	**(0.4)**	(0.4)
Charge for share-based payments	**0.6**	0.8
Profit on sale of property, plant and equipment	**(6.2)**	(0.8)
Increase in inventories	**(19.9)**	(9.9)
Increase in receivables	**(58.2)**	(57.6)
Increase in payables	**29.5**	45.6
Movements in provisions	**14.3**	5.9
Movement in net retirement benefit obligations	**(14.3)**	(10.8)
Exceptional items:		
Recovery of unauthorised payments – credit recognised in year	**–**	(4.2)
– amount recovered in year	**4.4**	4.9
Restructuring (excluding associated undertakings) – amounts paid in year	**(1.6)**	(6.6)
	106.8	84.5

29 Acquisitions

Current 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. In accordance with IFRS 3, the values attributable to the acquisition made on 22 December 2006 may be revised as further information becomes available.

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

29 Acquisitions (continued)

Prior year acquisitions

On 13 September 2005, following approval by shareholders at an extraordinary general meeting, the Company completed the acquisition of the 49 per cent minority interest in the South American welding, cutting and automation businesses from the Acevedo family. Part of the purchase consideration was satisfied on 13 September 2005 by the issue of 6,424,914 new ordinary shares in the Company, being 3.9 per cent of the enlarged share capital with a fair value of £21.2 million based on the share price. This acquisition was classified as a related party transaction by the UK Listing Authority. Costs of £0.9 million were directly attributable to the acquisition.

In January 2006 the vendors received £4.4 million in cash in lieu of dividends not paid in respect of the period from 1 January 2004 to 13 September 2005.

The assets and liabilities acquired were as follows:

	Carrying amount before fair value adjustments 2006 £m	Fair value adjustments 2006 £m	Fair value 2006 £m	Fair value and carrying amount 2005 £m
Intangible assets	**–**	**1.4**	**1.4**	–
Property, plant and equipment	**2.4**	**1.2**	**3.6**	–
Investments in associates transferred to subsidiaries	**(4.8)**	**(0.7)**	**(5.5)**	–
Deferred income tax assets	**–**	**–**	**–**	–
Inventory	**1.1**	**0.2**	**1.3**	–
Trade and other receivables	**4.7**	**–**	**4.7**	–
Cash and cash equivalents	**5.0**	**–**	**5.0**	–
Trade and other payables	**(2.7)**	**–**	**(2.7)**	(3.3)
Income tax liabilities	**(0.2)**	**–**	**(0.2)**	–
Provisions	**(0.2)**	**–**	**(0.2)**	–
Deferred income tax liabilities	**(0.3)**	**(0.4)**	**(0.7)**	–
Retirement benefit obligations	**–**	**(1.0)**	**(1.0)**	–
Minority interest	**–**	**–**	**–**	15.8
Net assets	**5.0**	**0.7**	**5.7**	12.5
Goodwill – on acquisition			**7.2**	13.9
			12.9	26.4
Satisfied by:				
Net cash consideration paid (including costs and excluding cash acquired)			**12.7**	0.9
Fair value of shares issued			**–**	21.2
Consideration and costs to be paid in subsequent years (net)			**0.2**	4.4
Exchange adjustments			**–**	(0.1)
			12.9	26.4

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:

	2006 £m	2005 £m
Current year acquisitions – consideration paid	**12.7**	0.9
Current year acquisitions – cash acquired	**(5.0)**	–
Prior year acquisitions	**5.8**	1.0
	13.5	1.9

30 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions
During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group.

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Associates	**4.5**	2.5	**8.7**	6.0	**1.0**	2.2	**2.3**	1.9

Other related party transactions
During the year ESAB Holdings Limited, a subsidiary of the Company, entered into an arm's length consultancy agreement with Unipart Logistics Limited ('Unipart Logistics') for the provision of lean manufacturing and logistics consultancy services to ESAB Global. Mr Neill, a Non-Executive Director of the Company, is currently Group Chief Executive of the Unipart Group of Companies. The total charges paid to Unipart Logistics during the year were £0.7 million. At 31 December 2006 £0.1 million was payable to Unipart Logistics.

In addition, Hoeganaes Corporation ('Hoeganaes Corp'), a wholly owned subsidiary of GKN plc supplied powdered metal to two subsidiaries of the Company, being ESAB Group Inc and ESAB Mexico SA de CV, during the year under review with a total sales value of $1.8 million. There was a further trading transaction between Hoeganaes Corporation Europe SA ('Hoeganaes Europe'), a wholly owned subsidiary of GKN plc and ESAB Kft, a subsidiary of the Company, at arm's length and for a value of approximately €12,000. The relationship between both GKN subsidiaries and the Company's subsidiaries is ongoing, on an arm's length basis and in the ordinary course of trade. Mr Denham, a Non-Executive Director of the Company, is Company Secretary of GKN plc but has no day-to-day involvement in the management of Hoeganaes Corp or Hoeganaes Europe.

In 2005, there was an unsecured loan due from ESAB India Limited of £1.5 million which was repaid in full on 8 November 2006.

On 13 September 2005, Charter acquired the outstanding 49 per cent of the shares in the South American welding, cutting and automation businesses which it did not already own. Details of this transaction are set out in note 29.