

Embargoed for release at 07.00 hours, Friday 19 February 2010

CHARTER INTERNATIONAL PLC
Announcement of unaudited results for the year ended 31 December 2009

| | | <u>2009</u> <u>£m</u> | <u>2008</u> <u>£m</u> | |
|---|-----------------------|--------------------------|--------------------------|----------------|
| Revenue | | 1,659.2 | 1,887.0 | (12.1%) |
| Adjusted operating profit ₁ | | 125.6 | 211.2 | (40.5%) |
| Adjusted profit before tax ₂ | | 126.0 | 213.2 | (40.9%) |
| Profit before tax | | 92.7 | 197.7 | (53.1%) |
| Cash flow from operations | | 171.5 | 159.5 | +7.5% |
| Net cash | | 50.9 | 51.8 | (1.5%) |
| | | <u>pence</u> | <u>pence</u> | |
| Earnings per share | Adjusted ₂ | 55.0 | 99.2 | (44.6%) |
| | Basic | 38.1 | 90.1 | (57.7%) |
| Dividend per share | Second interim | 14.5 | 14.0 | +3.6% |
| | Total for the year | 21.5 | 21.0 | +2.4% |

¹ before amortisation and impairment of acquired intangibles and goodwill, acquisition costs and exceptional items

² before amortisation and impairment of acquired intangibles and goodwill, acquisition costs, exceptional items, net financing charge on retirement benefit obligations and gains/(losses) on retranslation of intercompany loan balances

- Adjusted earnings per share of 55.0 pence
- Operating cash flow of £171.5 million
- Proposed second interim dividend of 14.5 pence per share, making a total for the year of 21.5 pence (2008: 21.0 pence), an increase of 2.4 per cent
- ESAB operating profit (before exceptional items) of £64.5 million, taking into account over £50 million of cost savings
- Howden operating profit (before exceptional items) of £70.5 million and margin of 11.2 per cent
- Howden year-end order book of £441 million
- Balance sheet remains strong with net assets of £550 million and net cash of £51 million

Michael Foster, Chief Executive, commented:

“2009 was a challenging year during which Charter acted quickly and resolutely to ensure both ESAB and Howden addressed the challenges of recession and dislocation in the financial markets, whilst continuing to invest in both businesses and to position them for future growth.

We believe that the worst of the recession is behind us but the recovery is expected to be uneven across the many different regions in which Charter operates. ESAB is well positioned to benefit from any recovery in steel consumption and, whilst we expect Howden's results in 2010 to be a little softer than 2009, we expect growth to resume in 2011.

Our decision to propose an increased dividend reflects Charter's robust performance in 2009, its strong balance sheet and the Board's confidence that both ESAB and Howden will make further progress in 2010."

The financial results set out in this announcement are unaudited. Audited accounts will be published following clarification of matters that the Company has recently discovered relating to the possibility that irregular payments may have been made in connection with an attempt to obtain business by an overseas Howden subsidiary in an emerging market. The Company has immediately commenced an investigation to determine the nature and extent of the issue and the financial results set out herein may be adjusted in the audited accounts of the Company to reflect the findings of that investigation. Accordingly, the Company's auditors are not at this stage in a position to approve these financial results or to finalise the audit and these results do not constitute a preliminary statement of the Company's annual results.

Contact

Andrew Fenwick; Sophie Brand, Brunswick +44 (0) 20 7404 5959
Michael Foster, Chief Executive; Robert Careless, Finance Director
Aidan Wallis, Head of Investor Relations +44 (0) 20 7404 5959

There will be an analyst and investor meeting at 09.30 hours this morning at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2.

A video webcast and slide presentation of the event will be available later today on <http://www.charter.ie>.

Internet users will be able to view this announcement, together with other information about Charter International plc at the company's website

Cautionary statement

Certain sections of this announcement contain forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Company and its subsidiaries and associates operate. It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Chairman's statement

Dear Shareholder

I am pleased to be able to report that, despite the very challenging economic and financial conditions which prevailed during 2009, Charter traded profitably through the year and generated increased operating cash flow. This was largely due to the strength of the group's businesses and the speed with which they were able to respond to the change in trading conditions. Full details of Charter's results are presented below.

Board changes

During the year, there have been a number of Board changes.

We were delighted to welcome Manfred Wennemer who was appointed as a Non-Executive Director with effect from 26 March 2009. Until recently, he was Chief Executive of Continental AG, the international manufacturer of tyres and equipment for the automotive and transport industry. With his wide experience of international business, he is already making a valuable contribution to the Board and the future direction of the Company.

James Bruce stood down as Senior Independent Non-Executive Director and Chairman of the Remuneration Committee at the Company's Annual General Meeting in April 2009. I am sure that Shareholders will join me and the rest of the Board in thanking James for his contribution and wishing him well for the future. Grey Denham has replaced him as the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee.

There have also been some changes amongst the responsibilities of the Executive Directors. In order to more closely manage the restructuring of ESAB and its response to the economic downturn, Michael Foster took direct responsibility for ESAB in April 2009. James Deeley, previously Legal Director, became the Company's Commercial Director with effect from 26 March 2009, and in April also took on responsibility for ESAB's Standard Equipment, Automation and Cutting activities.

On 21 October 2009, Michael Hampson joined Charter as Company Secretary and General Counsel. He has previously worked with a number of other companies listed on the London Stock Exchange including Anglian Water Group plc and Whitbread plc.

Total shareholder return and dividend

After the dramatic end to 2008 in the financial markets during which the Charter share price suffered along with those of many other companies, I am pleased to note that there was a marked recovery in 2009. Our share price appreciated from 330 pence at the start of the year to 722 pence at the end which, together with the dividends paid during the year of 21.0 pence, generated a total shareholder return for the year of 128.6 per cent.

In recognition of the Company's robust performance during 2009, its strong balance sheet and our confidence that both ESAB and Howden will make further progress in 2010, the Board is proposing to declare a second interim dividend of 14.5 pence per share which would increase the total dividend in respect of 2009 to 21.5 pence. This compares with the total dividend of 21.0 pence per share which was paid in respect of 2008. It is anticipated that the dividend will be paid on 7 May 2010 to holders of ordinary shares registered on 16 April 2010.

Going forwards, the Board will look to maintain and grow the dividend in a way which reflects the overall performance of the Company and the general economic and financial conditions in the principal markets in which the Company and its subsidiaries operate.

Concluding comments

The Board's review of the Company's strategy confirmed that Charter will continue to focus on the development of ESAB and Howden as a means of generating long term value for shareholders. A key part of this will be to maintain Charter's financial strength, which will allow it to continue to invest in the growth of the businesses and, where the opportunity arises, to make acquisitions.

The Board remains confident that the Company will make further progress in 2010 and that the long-term prospects of both businesses and the industries in which they operate remain strong.

Lars Emilson
Chairman
18 February 2010

| Summary of unaudited results | | 2009 | 2008 |
|--|--|----------------|---------|
| | | £m | £m |
| Revenue | | 1,659.2 | 1,887.0 |
| Adjusted operating profit¹ | | 125.6 | 211.2 |
| Exceptional items | | (26.8) | (8.3) |
| Other adjusting items | | (2.8) | (1.9) |
| Operating profit | | 96.0 | 201.0 |
| Net financing charge – retirement benefit obligations | | (7.7) | (0.7) |
| Other financing charge before retranslation of intercompany loan balances | | (3.1) | (1.2) |
| Net gain/(loss) on retranslation of intercompany loan balances | | 4.0 | (4.6) |
| Net financing charge | | (6.8) | (6.5) |
| Share of post tax profits of associates | | 3.5 | 3.2 |
| Profit before tax | | 92.7 | 197.7 |
| Profit before tax | | 92.7 | 197.7 |
| Add/(deduct) adjustments: | | | |
| Exceptional items | | 26.8 | 8.3 |
| Net financing charge – retirement benefit obligations | | 7.7 | 0.7 |
| Net (gain)/loss on retranslation of intercompany loan balances | | (4.0) | 4.6 |
| Other adjusting items | | 2.8 | 1.9 |
| Adjusted profit before tax | | 126.0 | 213.2 |
| Tax charge on profit on ordinary activities (before the items set out below) | | (22.7) | (38.5) |
| Taxation on exceptional items | | 4.2 | 1.5 |
| Taxation on net financing charge – retirement benefit obligations | | 1.1 | - |
| Taxation on net gain/(loss) on retranslation of intercompany loan balances | | (1.2) | (2.4) |
| Taxation on other adjusting items | | 0.7 | 0.4 |
| Taxation | | (17.9) | (39.0) |
| Profit after tax | | 74.8 | 158.7 |
| Attributed to: Equity shareholders | | 63.5 | 150.2 |
| Minority interests | | 11.3 | 8.5 |
| | | 74.8 | 158.7 |
| Cash flow from operations | | 171.5 | 159.5 |
| Earnings per share | | Pence | pence |
| Adjusted ² | | 55.0 | 99.2 |
| Basic | | 38.1 | 90.1 |
| Dividend per share | | | |
| Proposed second interim | | 14.5 | 14.0 |
| Total for the year | | 21.5 | 21.0 |

The financial results set out in this announcement are unaudited. Audited accounts will be published following clarification of matters that the Company has recently discovered relating to the possibility that irregular payments may have been made in connection with an attempt to obtain business by an overseas Howden subsidiary in an emerging market. The Company has immediately commenced an investigation to determine the nature and extent of the issue and the financial results set out herein may be adjusted in the audited accounts of the Company to reflect the findings of that investigation. Accordingly, the Company's auditors are not at this stage in a position to approve these financial results or to finalise the audit and these results do not constitute a preliminary statement of the Company's annual results.

¹ before amortisation and impairment of acquired intangibles and goodwill, acquisition costs and exceptional items
² before amortisation and impairment of acquired intangibles and goodwill, acquisition costs, exceptional items, net financing charge on retirement benefit obligations and gains/(losses) on retranslation of intercompany loan balances

Chief Executive's statement

Charter demonstrated resilience and flexibility as it responded to the difficult financial and trading conditions of 2009 in which both businesses demonstrated their ability to continue to generate profits and cash.

In 2009, revenue was £1,659.2 million (2008: £1,887.0 million) and operating profit before exceptional items was £122.8 million (2008: £209.3 million). Adjusted earnings per share were 55.0 pence (2008: 99.2 pence). Cash flow from operations was £171.5 million (2008: £159.5 million), an increase of 7.5 per cent.

Our determination to continue investing in our businesses was illustrated by capital expenditure of £60 million compared with depreciation of £26 million, and total expenditure on research and development of £17 million (2008: £13 million).

Summary of results and performance

The results for the year are summarised below.

| | 2009 | 2008 | Change |
|--|-----------------------|-----------------------|--------------------------------|
| | £m | £m | % |
| Revenue | | | |
| ESAB | 1,031.4 | 1,259.8 | (18.1) |
| Howden | 627.8 | 627.2 | +0.1 |
| | <u>1,659.2</u> | <u>1,887.0</u> | (12.1) |
| Howden order book | <u>441.1</u> | <u>499.3</u> | (11.7) |
| Operating profit before exceptional items | | | |
| ESAB | 64.5 | 148.6 | (56.6) |
| Howden | 70.5 | 73.1 | (3.6) |
| Central operations | (12.2) | (12.4) | |
| | <u>122.8</u> | <u>209.3</u> | (41.3) |
| Operating margin | | | |
| ESAB | 6.3% | 11.8% | - 5.5 percentage points |
| Howden | 11.2% | 11.7% | - 0.5 percentage points |
| Charter | | | |
| Adjusted earnings per share | 55.0p | 99.2p | (44.6) |
| Cash flow from operations | £171.5m | £159.5m | +7.5 |

The Board was extremely pleased with the manner in which the businesses responded to 2009, addressing unfolding events and circumstances with appropriate rapid responses and determination. It bodes well for the future of the Charter group of companies that the morale in the businesses remained high and that the staff were able to sustain the effort to effect long-term improvement in operations whilst simultaneously meeting severe short-term pressures.

In 2009, as the engineering and manufacturing sectors contracted at unprecedented rates in Western Europe and North America, in particular, ESAB's revenue and operating profit decreased compared with 2008. In an uncertain economic climate, forward visibility was clouded but the overall result for the year was in line with the revised forecasts that were prepared during the second quarter of the year.

During the year, Howden successfully executed the strong order book with which it started the year, booked new orders and continued to grow its aftermarket business. As a result, it achieved an operating profit which was broadly in line with the budget set by the Board at the start of the year.

The Board considers that the best measure of the extent to which Charter is generating shareholder value is adjusted earnings per share, which excludes exceptional and other items considered by the Board to be not directly related to underlying performance. Adjusted earnings per share in the year of 55.0 pence were slightly ahead of the revised forecast prepared during the second quarter of the year, but behind the original budget. The Board is also focussed on the cash generated from operations during the year which amounted to £171.5 million (2008: £159.5 million), an increase of 7.5 per cent.

Charter's strategy

Charter recognises that both ESAB and Howden are market leaders in their respective industries with the potential for further development.

In the current economic environment, we will drive operational improvement and cost management, whilst investing in the technology and infrastructure which these businesses need to maintain their positions of leadership and to deliver increasing value to their customers as the recovery unfolds.

We believe that both businesses have been growing their shares of the principal markets in which they operate and have the capability to continue to do so through continued emphasis on customer service, technical competence and increasingly global footprints.

By maintaining a strong balance sheet, Charter will ensure that ESAB and Howden will have the financial resources which the businesses need in order to meet their goal of returning to the strong growth achieved before the onset of the recession towards the end of 2008.

Review of 2009

2009 saw dramatic reductions in levels of industrial activity in many regions around the world. The impact of this was heightened by the continuing shortage of credit as the financial markets struggled to recover. Towards the end of the year, there were signs that the worst is behind us, but various regions, including the USA and Western Europe, remained generally weak throughout the year and the timing and extent of widespread economic recovery remains uncertain.

Within this economic environment, the impact on ESAB was more immediate and, whilst Howden was generally able to maintain levels of activity, it suffered from a falling order intake.

ESAB

The severe economic downturn had a significant impact on the results for the year with revenue down by 18 per cent and operating profit before exceptional items down by 57 per cent, or by 28 per cent and 65 per cent respectively at constant currencies. Despite this, ESAB remained profitable in every major region and generated significant cash flow.

Volumes of welding consumables for the year as a whole were down by around one-quarter compared with 2008. After a sharp reversal in the fourth quarter of 2008, volumes were generally stable in the first quarter of 2009 but then slipped again in the second quarter. Volumes in the second half of the year did not show any sustained improvement. Average net selling prices trended downwards during the year, generally reflecting the pass through of lower steel prices but on average for the year as a whole remained slightly ahead of 2008.

Whilst average net selling prices of consumables trended downwards during the year, generally reflecting the pass through of lower steel costs, ESAB's pro-active product and brand management enabled it to maintain premium pricing for its products in many of the markets in which it operates. On average for the year as a whole prices remained slightly ahead of 2008.

Revenue in the standard equipment business was down by around 40 per cent for the year as a whole, and finished the year without any real signs of recovery in the key European and North American markets, although various emerging markets did start to recover as the year progressed. Engineered automation had a generally stable year, reflecting the relatively large proportion of its sales which are made to the energy industry. In the first half of the year, the cutting business reported higher revenues than in 2008, but with lower margins, whilst markedly lower order intake led to much reduced levels of activity in the second half of the year and a consequent negative impact on the business's profitability. Low levels of activity are likely to continue in cutting for some time to come.

We responded to the lower levels of demand by implementing restructuring measures to reduce capacity and to achieve lasting improvements in the operational efficiency of the business. These measures saved over £50 million of costs during the year, and resulted in exceptional charges in ESAB for the year of £24 million. Some £6 million of exceptional costs, which we previously envisaged being incurred in 2009 have been carried over into 2010.

ESAB's adjusted operating margin for the year was 6.3 per cent. After a difficult second quarter, margin performance generally improved during the second half of the year, led by the consumables business, but was offset by the deterioration in the cutting business. The outcome for the year, whilst appreciably below the level achieved in 2008, was ahead of the trough margin of 5.7 per cent recorded in 2001, despite the much larger volume reductions seen in 2009.

During 2009, various senior management changes were implemented within ESAB. In order to more directly oversee ESAB's restructuring and response to the downturn, I took over executive responsibilities for ESAB in April at which time Jon Templeman stood down from his position as CEO of ESAB Global and left the business. Also at that time, James Deeley, Charter's Commercial Director, additionally took on the responsibility for ESAB's Standard Equipment, Automation and Cutting activities. We are taking additional steps to strengthen certain of ESAB's central functions to further improve its ability to respond to changes in its markets and to deliver customer focussed solutions as well as levels of customer service.

Further details on ESAB's 2009 performance are given in the business review below.

Howden

Against a difficult economic and financial backdrop, Howden delivered another strong set of results with almost unchanged revenue of £627.8 million (2008: £627.2 million) and operating profit before exceptional items of £70.5 million (2008: £73.1 million), a decrease of 4 per cent. The results were assisted by favourable exchange rate movements; at constant currencies, revenue and operating profit before exceptional items fell by 13 per cent and 19 per cent respectively.

A particular feature of the results was the strong growth in the aftermarket business, where revenues increased by 17 per cent to £189 million, representing 30 per cent of Howden's total revenues.

The opening order book proved to be robust, with order cancellations during the year amounting to only £11 million.

Order intake during the year of £503 million was down by 24 per cent compared with 2008. This primarily reflected weak order intake from the power sector in China, where electricity demand in the early part of the year was lower than in 2008, and in the USA, where weak economic and financial conditions combined with uncertainty over the new administration's policies on energy and environmental protection.

Howden's order book gives it good visibility over future levels of activity and allows it to manage changes in levels of manned capacity. During 2009, restructuring measures, which are expected to lead to cost savings in 2010 of £8 million, led to an exceptional charge of £2 million. As a result of these measures, manned capacity has been brought into line with the levels of demand which the business expects to see during 2010.

I am delighted that Howden's successes in recent years have been recognised by the business community. Howden was named by the British Chamber of Commerce as the UK Company of the Year 2009.

Further details on Howden's 2009 performance are given in the business review below.

Balance sheet and cash flow

As at 31 December 2009, shareholders' funds were £550 million and Charter had net cash balances of £51 million. It remains our intention to maintain the Company's balance sheet strength.

The prevailing economic and financial conditions increased focus on cash generation and control of working capital. During the year, cash inflow from operations was £171.5 million (2008: £159.5 million).

During the year, Charter extended its financing facilities and presently has committed facilities of £170 million with maturity dates between 2011 and 2013, which were undrawn at the end of the year.

2010 outlook

ESAB

ESAB has started the year with overall volumes of consumables generally in line with the volumes seen in the comparable period in 2009. There are some signs of modest improvements in volumes, but the performance between regions varies. Europe is generally patchy with no clear trends yet emerging; Southern Europe is weak and Western Europe remains flat but sales to Russia are recovering; Central Europe is benefitting from higher levels of activity in the automotive sector, but weakness in shipbuilding is expected to impact sales to Germany, Poland and elsewhere. We are seeing an improving performance in India and South America, led by Brazil. We expect South-East Asia to trend positively, but performance between individual countries will vary. Oil and gas projects will drive the Middle East and we expect ESAB's sales into Africa will continue to grow. The economy in North America remains amongst the weaker performers, although ESAB's presence there is supported by strong positions in sectors which are proving to be more resilient, such as energy.

In October 2009, The World Steel Association ('WSA') published a forecast for 2010 growth of 13.1 per cent in the consumption of steel for the world excluding China, which, if achieved, should lead to a similar increase in the demand for welding consumables. We have reinstated certain amounts of capacity in response to an improved outlook, but at present this is limited to specific geographies and products. Generally, we believe that ESAB's manned capacity is in line with current levels of demand, and ESAB has the flexibility to restore manned capacity quickly and cheaply as and when levels of demand warrant it.

Selling prices of welding consumables are being maintained and, as demand for steel recovers, we expect to see some price escalation later in the year.

On the equipment side, we see demand for standard equipment taking longer to recover, despite the more positive trends we are seeing in some developing markets. During the year, ESAB will introduce a new range of standard equipment. We see good prospects for engineered automation, with its significant exposure to the energy industry, despite some softening in order intake at the end of 2009. We do not expect any discernable recovery in the cutting business to be seen before 2011.

We will continue to take steps to ensure that ESAB emerges from the downturn as a stronger company. We will maintain capital expenditure at levels well ahead of depreciation, but with the focus on improving customer service and business efficiency. Additions to capacity will be selective and in response to specific opportunities. We will also continue to invest in research and development.

Overall, we believe that the restructuring measures already taken in response to the economic downturn will bring long term benefits to the business and result in permanent cost savings of around £10 million, representing additional margin of about 1 per cent.

During 2010, we envisage further restructuring measures, including in relation to the European supply chain and the Cutting business where demand conditions remain depressed. Taking these into account and, as noted above, the charge of £6 million carried over from 2009, we expect the total exceptional charge in 2010 to be around £15 million.

Howden

After a very robust business performance in 2009, Howden's order book at 1 January 2010 stood at £441 million, of which £340 million is for delivery in 2010 and the remaining £101 million thereafter. Allowing for some element of 'book and bill', we anticipate new equipment sales being slightly below the record levels seen in 2008 and 2009. We have taken steps to reduce manned capacity in Howden accordingly.

Growth in Howden's aftermarket activities, is expected to continue in 2010. This will partially offset lower sales of new equipment and, together with the flexibility of its business model, means that Howden's margin in 2010 should be only slightly lower than the level achieved in 2008 and 2009.

Towards the end of 2009, enquiry levels showed signs of picking up which we hope will be reflected in higher bookings in 2010 and lead to a resumption of growth in new equipment sales in 2011.

Concluding comments

2009 was a challenging year during which Charter acted quickly and resolutely to ensure both ESAB and Howden addressed the challenges of recession and dislocation in the financial markets, whilst continuing to invest in both businesses and to position them for future recovery and growth.

We believe that the worst of the recession is behind us although we do not expect the recovery to be smooth or even across the many different regions in which Charter operates. We expect both ESAB and Howden to make further progress in 2010 and to perform well against the principal markets in which they operate. ESAB is well positioned to benefit from any recovery in steel consumption and, whilst we expect Howden's results in 2010 to be a little softer than 2009, we expect bookings to recover and growth to resume in 2011.

Looking further ahead, we expect the long-term dynamics of rising energy demand and steel usage to prevail, and ESAB and Howden each have the market positions, people and assets required to continue to deliver superior value to Charter shareholders in the future.

Michael Foster
Chief Executive
18 February 2010

Business and financial review - ESAB

2009 highlights

| | 2009 | 2008 | Change |
|--|----------------|----------------|----------------|
| | £m | £m | % |
| Welding | 846.7 | 1,042.2 | (18.8%) |
| Cutting and automation | 184.7 | 217.6 | (15.1%) |
| Revenue | 1,031.4 | 1,259.8 | (18.1%) |
| Welding | 54.7 | 122.7 | (55.4%) |
| Cutting and automation | 9.8 | 25.9 | (62.2%) |
| Operating profit before exceptional items | 64.5 | 148.6 | (56.6%) |
| Share of profits of associates (post tax) | 3.5 | 3.1 | 12.9% |
| Operating margin | 6.3% | 11.8% | |
| Capital expenditure | 39.8 | 49.7 | |
| Depreciation | (20.1) | (16.1) | |
| Research and development expenditure | 15.5 | 12.1 | |
| Average number of employees | 8,581 | 9,372 | |

- Restructuring measures reduced headcount by 17 per cent and led to cost savings in excess of £50 million
- Continued capital expenditure and investment in research and development expenditure
- Revenue for the year of £1,031.4 million (2008: £1,259.8 million) and operating profit before exceptional items of £64.5 million (2008: £148.6 million)
- Operating margin of 6.3 per cent, with an improving performance in consumables offset by a progressive deterioration in cutting
- The welding consumables and equipment businesses are well placed to recover during 2010 but further restructuring may be required in cutting.

ESAB strategy

ESAB's strategic objective is to generate significant growth in revenue and profit over the next five years through building upon its position as the world's leading company in welding consumables and its strong global positions in welding and cutting equipment.

In pursuit of this objective, ESAB will pursue the following measures:

- ESAB will enhance its market leadership by leveraging its broad product range in all its markets globally as well as further investment in brand recognition and customer service. ESAB is recognised as "the welding authority" and, in support of this, will continue to develop initiatives such as its worldwide network of process centres;
- ESAB will use its research and development facilities to develop highly customer focused products to enhance its leading position in welding technology, in particular through the development of new welding materials and equipment, such as, the telescopic boom and robotic friction stir welding;
- ESAB will build upon its leading position in Europe and other developed markets to achieve growth at above market rates through continued customer focus, improved supply infrastructure and new products, particularly for the energy sector;

- In relation to developing markets, ESAB is the market leader in South America and India, and will continue to grow in Russia where it is the leading international welding company. ESAB has a new strategy to build a meaningful presence in China, and will target other markets in Asia and elsewhere, such as Africa;
- ESAB will target specifically those welding-intensive end-user segments, such as nuclear, pipelines, wind energy, off-shore and transport, which are seen as offering particular growth opportunities; and
- ESAB will look to act as a consolidator in the global welding industry, using acquisitions to strengthen market positions, enter new markets and improve its technology base.

ESAB's physical manufacturing capacity is generally seen as being sufficient for ESAB's immediate requirements, but selective capacity increases may be required to meet specific product or geographic shortages. Investment will also be made in increasing manufacturing efficiencies and in measures to improve customer service.

Overview of performance

In a year of unprecedented declines in industrial production in virtually every economy, ESAB saw reductions in revenue and profit, but, due to a series of strong measures undertaken to reduce costs, remained profitable and cash generative.

In 2009, ESAB generated revenue of £1,031.4 million (2008: £1,259.8 million), a reduction of 18.1 per cent. Of this reduction, 22.9 per cent came from the welding business (consumables and standard equipment) and 4.8 per cent from the cutting and automation businesses, whilst currency movements, in particular the weakening of sterling against the euro and the US dollar, added 9.6 per cent.

Operating profit before exceptional items was £64.5 million (2008: £148.6 million), a reduction of 56.6 per cent (64.9 per cent at constant currency). The operating margin for the year was 6.3 per cent (2008: 11.8 per cent).

Restructuring measures, which led to a restructuring charge for the year of £24 million, were progressively implemented from October 2008 onwards. This reduced headcount by some 1,600 employees (equivalent to 17 per cent of ESAB's workforce at that time) and saved in excess of £50 million. Towards the end of the year, some headcount was selectively restored in response to the improving outlook in certain markets.

Volumes of welding consumables for the year as a whole were down by around one-quarter compared with 2008. After a sharp reversal in the fourth quarter of 2008, volumes were generally stable in the first quarter of 2009. There were further general declines in volume during the second quarter, but thereafter volumes generally stabilised. A number of customers in Europe and North America took longer than usual Christmas breaks which adversely impacted December volumes.

Whilst average net selling prices of consumables trended downwards during the year, generally reflecting the pass through of lower steel costs, ESAB's pro-active product and brand management enabled it to maintain premium pricing for its products in many of the markets in which it operates and on average for the year as a whole prices remained slightly ahead of 2008.

The strength of demand from different end user segments varied with energy remaining reasonably strong throughout the year, automotive being very weak in the first half of the year but showing some signs of recovery in the second half, and shipbuilding, especially in Europe, declining markedly in the second half of the year.

Volumes of standard equipment were generally weak throughout the year, with revenues down by about 40 per cent compared with 2008, in response to which manned capacity was cut by around one-half. However, towards the end of the year, there were some signs of recovery in South America, India and other emerging markets. The engineered automation business, which makes a significant proportion of its sales into the energy industry, maintained revenues and, despite a dip in its order book at the year-end, has a reasonable outlook.

The cutting business had increased revenue in the first half of the year, albeit with lower margins, as a consequence of the order book with which it started the year. However, a significant deterioration in the market for cutting equipment led to sharply lower order intake and to a fall in revenue in the second half of the year which severely impacted profitability. With order intake remaining weak, the cutting business is likely to remain difficult throughout 2010 and further restructuring measures will be required.

ESAB's overall margin performance, having been adequate in the first quarter, slipped during the second quarter as consumables volumes, especially in Europe, fell and there was some short-term weakness in pricing. In the second half of the year, margins recovered, led by the consumables business, but offset by the deterioration in the cutting business and, to a lesser extent, the extended Christmas shutdowns amongst customers in Europe and North America.

By the end of the year, most regions in which ESAB operates appeared to have been through the bottom of the cycle, although the economies of some regions, such as Western and Southern Europe and the USA, continued to suffer varying degrees of weakness. Signs of recovery were patchy, with South America, India and Russia amongst the more positive regions.

Despite the economic conditions, ESAB has continued to invest in its business. Capital expenditure amounted to £40 million, slightly below the level seen in 2008 but still well ahead of depreciation. Significant expenditure during the year took place in relation to selective re-equipping and additions to various factories, a new warehouse in the Middle East, land purchase and upgrades to IT systems. Research and development expenditure increased to £15.5 million (2008: £12.1 million), representing 1.5 per cent of revenue.

ESAB restructuring

In the face of the economic downturn and significant reductions in the demand for welding consumables and equipment which first took place in October 2008, ESAB took significant steps to restructure its business, in particular through reductions in manned capacity, factory closures and mothballing, improved procurement of materials and services, and reductions in overheads, whilst protecting the longer term potential of the business.

Following the downturn of demand which started in October 2008, some 1,600 employees (representing 17 per cent of ESAB's permanent workforce at that time) left the company. By the middle of the year, manned capacity had been reduced by around one-third in consumables and by around one-half in equipment to bring it into line with the levels of prevailing demand.

As part of this process, three consumables factories (in Finland, Sweden and Italy) were closed during the year. Equipment from the closed factories is being re-installed in other ESAB factories, meaning that physical capacity will be little changed. Two further factories (an equipment factory in China and a consumables factory in Italy) were mothballed.

However, by the end of the year, to reflect the improving outlook in certain markets, some manned capacity had been restored and steps had been taken to resume production at the mothballed Italian consumables factory.

The opportunity is also being taken to restructure ESAB's equipment factory in the USA, with the production being transferred to other ESAB factories where spare capacity can be utilised. Customer service and marketing facilities for the North American market are being retained locally.

Overall, the restructuring measures achieved cost savings of over £50 million in 2009. The extent to which these cost savings recur in 2010 will depend on how much manned capacity is restored during the year to meet higher levels of demand, but it is expected that the measures will lead to permanent margin enhancement of around 1 per cent. The restructuring measures resulted in an exceptional charge for the year of £24 million, together with a further £6 million of costs to be incurred in 2010.

ESAB management will continue to monitor capacity levels against demand and make further capacity adjustments where necessary. Manned capacity can be restored quickly and at relatively low cost, for example through overtime, new shifts or the introduction of contract labour. On the basis that the worst of the recession has passed, further general reductions in capacity are not anticipated except in the cutting business which is expected to continue to face difficult trading conditions.

During 2010, ESAB will take further steps to ensure that it emerges from the downturn as a stronger company, including a programme of capital expenditure and continued investment in research and development. ESAB will continue to restructure its European supply chain and take other measures to improve business efficiency. Within the Cutting business, certain additional restructuring is likely to be necessary as demand is expected to remain depressed. As noted above, restructuring charges of £6 million have been carried over from 2009. Taking all these into account, it is expected that there will be a total exceptional charge in 2010 of around £15 million.

Industry overview

Demand for welding and cutting products is determined largely by the consumption of steel and, to a lesser but growing extent, of other metals, such as aluminium and advanced alloys. China is the largest producer and consumer of steel but accounts for only around 3 per cent of ESAB's revenues.

Accordingly, ESAB management typically considers the demand environment for ESAB products by reviewing worldwide production and consumption of steel excluding China.

The most recent estimate by the World Steel Association ('WSA') is that, excluding China, worldwide consumption of steel in 2009 was 577 mmt (2008: 764 mmt), a reduction of 24 per cent which is unprecedented. All major regions suffered significant falls, with EU - 27 and the USA down by 33 per cent and 39 per cent respectively. Apart from China, where consumption is estimated to have increased by 19 per cent to 526 mmt (representing 48 per cent of worldwide steel consumption) and India, no major country recorded an increase in consumption.

The WSA's most recent forecast is that steel consumption in 2010 will recover but not by enough to offset the reductions experienced during 2009, with worldwide consumption (excluding China) expected to increase by 13 per cent. Consumption in EU - 27 and the USA is expected to increase by 12 per cent and 19 per cent respectively compared to 2009. By contrast, the growth of steel consumption in China is forecast to slow to 5 per cent.

ESAB expects that, as a general rule, any recovery in steel consumption would lead to a similar percentage increase in the demand for welding consumables. On the basis of the WSA forecasts, ESAB would also expect that demand for standard welding equipment would start to show generalised signs of recovery during 2010. The market for cutting equipment is seen as longer cycle and is expected to remain weak beyond 2010. Demand for engineered automation equipment from the oil and gas, nuclear and renewables segments of the energy industry will reflect the long-term dynamics of rising energy demand.

Regional overview of performance

ESAB's revenue by destination is summarised in the table below. Revenue is split broadly equally between the developed economies of Western and Northern Europe and North America and the developing economies of Central, Southern and Eastern Europe, Asia and South America. Revenue fell in all regions due to the impact of the global recession, although the full impact of these falls on ESAB's financial results was partly offset by exchange movements.

ESAB: revenue by destination

| | 2009 | 2008 | Change | Change at constant exchange rates |
|---------------|----------------|----------------|---------------|-----------------------------------|
| | £m | £m | % | % |
| Europe | 424.6 | 594.7 | (28.6) | (35.4) |
| North America | 218.6 | 238.6 | (8.4) | (22.9) |
| South America | 171.9 | 198.0 | (13.2) | (19.4) |
| China | 27.1 | 36.4 | (25.5) | (45.9) |
| Rest of world | 189.2 | 192.1 | (1.5) | (14.7) |
| Total | 1,031.4 | 1,259.8 | (18.1) | (27.7) |

Regional markets

Europe

Europe remains ESAB's most important region, where it is the leading welding company. Europe as a region accounted for 41 per cent of ESAB's total revenue during the year.

Following sharp reductions in volumes in the fourth quarter of 2008, the first quarter of the year saw generally stable trading conditions albeit at levels appreciably below those of the previous year. The second quarter saw further slippages in both the consumables and equipment businesses as industrial production in Europe continued to deteriorate, whilst ESAB's margins were also impacted by short-term price discounting.

During the second half of the year, overall trading conditions generally stabilised. Summer shutdowns were less severe than had been feared, and there were some tentative signs of recovery, for example in the automotive industry and Russia, although generally these were patchy and the benefit of these was offset by certain industries, particularly shipbuilding, declining markedly. Christmas shutdowns amongst end-users were generally longer than usual.

In response to the lower levels of demand seen during the year, steps were taken to reduce costs including the closure of three consumables factories. A further factory was mothballed, although by the end of the year steps had been taken to return this factory to production. Reductions in workforce were made across the business.

Margins in the second half of the year showed some recovery, despite further deteriorations in the cutting business.

North America

ESAB recorded sales in North America of £218.6 million (2008: £238.6 million), a decrease of 8.4 per cent.

The North American welding market moved into recession during 2008, ahead of Western Europe, and the further reductions in volumes of consumables and equipment seen during 2009 were less pronounced than in other regions. During this time, ESAB has performed credibly and stayed profitable throughout the year, albeit at lower margins. ESAB's performance benefitted from its strong market positions in the energy and naval shipbuilding sectors, and the measures which it took to reduce headcount and other costs.

As part of the restructuring of its welding and cutting equipment business, ESAB's equipment factory in the USA is being significantly downsized with production of most equipment being transferred to ESAB factories in China, Europe and South America. Marketing, aftermarket and other customer-facing functions will be retained in the USA.

By the end of the year, there was little evidence that the economy or the welding market in the USA had commenced any meaningful recovery although ESAB believes that it is well placed to at least maintain its position in the market and it will also benefit from the launch of a new range of standard equipment during 2010.

South America

ESAB has a strong market presence in Brazil and Argentina which goes back for over 50 years.

After a relatively quiet start to the year, trading performance improved in the second half of the year, reflecting a recovery in the export sectors of the Brazilian economy in particular. Whilst volumes have fallen during the worldwide recession, overall percentage reductions have been smaller than seen in Europe and North America.

China

ESAB's sales to customers in China were £27.1 million (2008: £36.4 million), a decrease of 25.5 per cent.

A new strategy has been formulated which will see ESAB progressively increase volumes and generate a margin consistent with those being earned elsewhere in ESAB.

During the year, ESAB made progress towards its objective of increasing sales of welding consumables to domestic Chinese customers. Production is being increased at the consumables factory in Weihai with the energy and shipbuilding industries being targeted. Falling levels of demand in Europe and North America during the early part of the year meant that the amount of product exported by ESAB factories in China reduced considerably, although there were marked improvements later in the year. Equipment sales were low in the early months of the year, leading to the mothballing of the equipment factory at Zhangjiagang.

Rest of world

Asia Pacific (excluding China)

During the year, ESAB experienced mixed trading conditions in the region, with a stronger performance in Indonesia, but less strong in Singapore, Malaysia and the Philippines.

India

ESAB India, in which ESAB holds a 56 per cent shareholding, has seen reduced revenues as lower selling prices for its welding consumables more than offset modestly higher sales volumes. Margins were generally maintained.

Middle East and Africa

There were mixed trading conditions in the Middle East during the year, reflecting continued investment in the energy industry but lower levels of activity in construction.

ESAB's sales in Africa, which has been targeted as an area where ESAB has previously been under-represented, increased markedly, albeit from a low level. Further progress is expected in 2010.

Associated undertaking

ESAB owns 50 per cent of ESAB SeAH Corporation, situated in South Korea. ESAB's share of the post tax profits of that company increased to £3.5 million (2008: £3.1 million).

Business and financial review - Howden

2009 highlights

| | 2009 | 2008 | Change |
|--|--------------|-------|----------------|
| | £m | £m | % |
| New equipment | 438.6 | 465.0 | (5.7%) |
| Aftermarket | 189.2 | 162.2 | 16.6% |
| Revenue | 627.8 | 627.2 | 0.1% |
| Order book | 441.1 | 499.3 | (11.7%) |
| Operating profit before exceptional items | 70.5 | 73.1 | (3.6%) |
| Operating margin | 11.2% | 11.7% | |
| Capital expenditure | 18.4 | 14.1 | |
| Depreciation | (5.9) | (4.6) | |
| Research and development expenditure | 1.6 | 1.1 | |
| Average number of employees | 3,819 | 3,856 | |

- Howden's result for 2009 demonstrates the resilience of its order book and the flexibility of its operating model
- Revenue of £627.8 million (2008: £627.2 million) and operating profit before exceptional items of £70.5 million (2008: £73.1 million)
- Operating margin remained in excess of 11 per cent.
- Strong performances in respect of compressors and aftermarket revenues offset relative weakness in sales of fans to the power industry
- Headcount reduction in anticipation of a slowdown in new equipment sales will result in cost savings of over £8 million in 2010
- Howden's year-end order book was £441 million (2008: £499 million), including £341 million for delivery in 2010. Enquiry levels are encouraging and suggest a pick-up in bookings in 2010.

Howden strategy

Howden's strategic objective is to generate significant growth in revenue and profit over the next five years through building upon its current world-leading position as an applications engineer which designs, manufactures, installs and maintains performance critical components for air and gas handling.

In pursuit of this objective, Howden will pursue the following initiatives:

- Howden will maintain and enhance its position in all those regions where there is expected to be significant new build of coal-fired generating capacity and emission control equipment; Howden already has strong market positions in Europe, China, North America and South Africa, and will look to build its presence in India, Russia and South America;
- Howden will develop further its position in the oil and gas and petrochemicals industries, in particular through enhancing its position in the compressor industry which it will do through an increased range of products and exploitation of market niches;
- Howden will look to enhance its presence in other industries where its technology and expertise can be used to advantage; these include bio-fuels and waste water treatment;
- Howden will continue to develop its aftermarket business, in particular in China, with the objective of consistently generating one-third of its annual revenue through aftermarket sales; and
- Howden will consider growing the business through acquisitions that will strengthen its market position and improve its technology base.

To achieve this uplift in revenue will require continued development of Howden's supply chain which will be achieved through increased plant utilisation, moderate amounts of targeted capital expenditure on plant expansion and IT, continued initiatives to ensure that Howden has access to sufficient trained engineers, and continued use of Lean techniques across all aspects of its business. A critical part of Howden's supply chain is its global network of sub-contractors which Howden will continue to monitor and develop.

Overview of performance

Against a difficult economic and financial backdrop, Howden achieved another strong set of results in 2009 with almost unchanged revenue of £627.8 million (2008: £627.2 million), representing a decrease of 12.9 per cent at constant exchange rates.

Operating profit before exceptional items was £70.5 million (2008: £73.1 million), a decrease of 3.6 per cent (18.7 per cent decrease at constant exchange rates). The operating margin was 11.2 per cent (2008: 11.7 per cent).

The outstanding feature of the results was the growth in the aftermarket business, where revenues increased by 16.6 per cent to £189 million, representing 30 per cent of Howden's total revenues for the year. Revenue from new equipment sales fell by 6 per cent, with continued strength in the sales of Howden compressors partly offsetting weaker sales of fans to customers in the power, steel and cement industries.

Order book

The strength of Howden's order book at the start of the year meant that Howden's trading results in 2009 were comparatively unaffected by the difficult economic and financial conditions prevailing during the year. Total order cancellations during the year were £11 million, out of an order book of £499 million on 1 January 2009.

As at 31 December 2009, the order book stood at £441 million (31 December 2008: £499 million), a decrease of 11.7 per cent (22.0 per cent at constant exchange rates), spread broadly equally between Europe, China, North America and other emerging economies. The order book at 31 December 2009 included some £340 million for delivery in 2010 and £101 million for delivery in 2011 or beyond.

Orders booked in the year were £502.7 million (2008: £659.0 million), a reduction of 24 per cent. There was a marked weakening in the ordering of power generation and emission control equipment by customers in China and the USA due to economic and financial conditions and, specifically in the USA, uncertainty over energy policy and emission control legislation. Orders from customers in the metals and cement industries continued to be weak, reflecting the impact of the global recession on the steel and construction sectors. Orders for compressors from customers in the oil and gas industry remained strong.

In recent months, new enquiries from the power industry in particular have shown some improvement and some longer term prospects appear to be reaching the point at which orders should be placed. In addition, the placing of certain orders may have been deferred from late 2009 into 2010. Financing constraints, which were a feature of certain markets during 2009, have also generally eased. On this basis, Howden management expects that order bookings in 2010 should increase compared with 2009.

Restructuring

An important feature of Howden's growth in recent years has been the flexibility which it has built into its supply chains, including the extensive use of sub-contractors and relatively low levels of fixed cost.

During 2009, Howden management took steps to adjust the manned capacity of its new equipment business. Certain potentially surplus capacity has been re-deployed, with engineering resource and expertise being transferred from new equipment businesses to focus on the aftermarket, certain work being retained in-house as opposed to being passed to sub-contractors, and workload being shared between factories. Overtime working and the use of external contractors has been reduced at Howden facilities, and short time working was introduced at four factories, although full time working was subsequently re-introduced at two of these units.

Nevertheless, it was necessary during the year to take steps to terminate the employment of around 270 employees, representing about 8 per cent of the workforce, at a cost of £2 million; these measures are expected to result in cost savings of over £8 million in 2010.

Industry overview

Demand – new equipment

Demand for new Howden equipment is strongly influenced by the construction of new coal-fired power stations, environmental legislation (which impacts demand for emission control equipment for coal-fired power stations and other heavy industrial plant) and the construction of new refineries, steel plant and cement factories. As with many capital goods industries, the aftermarket represents an important part of the total market.

Howden's order book at any time gives it reasonable visibility over new equipment revenue over the next 12 to 18 months, although in any financial year there is an element of 'book and bill', that is, orders which are booked and delivered in the same year.

Over the longer term, Howden continues to believe that demand for its products from the power generation industry, its largest end-user segment, will provide a basis for its future growth. Overall, the demand for electricity is expected to continue to grow at a rate at least in line with global GDP, and coal is generally expected to maintain or increase the percentage of electricity generation for which it accounts.

Demand for Howden products will arise from the construction of new generating plant and the replacement of life-expired generating plant. According to the International Energy Authority ('IEA'), construction of new coal-fired generating plant will average 53 GW per annum for at least the next 20 years, of which more than half will be built in China, where Howden has a leading market position. It is estimated that around 750 GW of coal-fired generating capacity, primarily in the developed world, is currently over 30 years old and will progressively fall due for replacement over the next decade or so.

As noted above, orders booked during 2009 from customers in the power industry, especially in China and the USA, were below those booked in 2008. There is some evidence that, during 2009, the placing of new orders for Howden equipment was delayed by the general economic conditions and the shortage of credit; this includes various power generation projects in China, where demand for power fell in the final quarter of 2008 and early 2009. However, power usage in China increased towards the end of the year leading to higher enquiry levels which should be reflected in order bookings during 2010.

Howden also supplies equipment for use in processes which reduce atmospheric pollution generated by coal-fired power stations and industrial plant. Governments generally recognise the need to limit the environmental impact of generating plant, although uncertainty over the strategies to be followed and the nature and timing of legislation is somewhat slowing this market at present. In the EU, legislation on NOx reduction from large power plants to meet a 2016 deadline is creating a market for Howden emission control products, whilst in the USA, continued uncertainty over legislation to replace the Clean Air Interstate Rules has led to a deferral in the placing of orders for such equipment.

Howden compressors are mainly sold into the oil and gas and petrochemicals industries, in particular for use in refineries and related applications, and also into other industries, including refrigeration and waste-water treatment. In recent years, notable sales have been made to customers in Europe, the Middle East and South America. Order bookings and sales are influenced by the amount of exploration and refinery construction in progress which themselves are influenced by the strength of demand for petroleum products and also the availability of finance.

Demand - aftermarket

The aftermarket is Howden's single biggest opportunity for growth. During 2009, the aftermarket accounted for 30 per cent of Howden's total revenues. With the opportunity to increase this further in future years, Howden has allocated increased resources internally to pursuing aftermarket opportunities globally. Each delivery of new equipment creates a potential aftermarket revenue stream over the operating life of the equipment which is typically 30 to 40 years. Aftermarket services are provided by Howden to the equipment operator (usually an electricity utility in the case of the power industry), as opposed to one of the lead contractors in the construction process (usually the boiler maker in relation to fans supplied to the power industry) who is normally the customer for new equipment. Whilst there is no contractual obligation on the operator to employ Howden to provide aftermarket services on equipment which it originally supplied, Howden believes that it is able to optimise the long-term performance of any such equipment which it continues to service.

Regional overview of performance

Howden's revenue by destination is summarised in the table below. As in previous years, Howden has maintained a general balance between sales to customers in developed and emerging economies.

Howden: revenue by destination

| | 2009 | 2008 | Change | Change at constant exchange rates |
|---------------|--------------|--------------|------------|-----------------------------------|
| | £m | £m | % | % |
| Europe | 171.1 | 165.3 | 3.5 | (4.2) |
| North America | 149.0 | 181.5 | (17.9) | (34.0) |
| China | 123.1 | 136.6 | (9.9) | (28.1) |
| South America | 31.7 | 30.3 | 4.6 | (1.0) |
| Rest of world | 152.9 | 113.5 | 34.7 | 23.5 |
| Total | 627.8 | 627.2 | 0.1 | (12.9) |

Regional markets

Europe

Revenue in Europe was £171.1 million (2008: £165.3 million), an increase of 3.5 per cent, reflecting robust sales of Howden new equipment to customers in the power, oil and gas and other industrial sectors and also growth in revenues from aftermarket services. A particular feature of Howden's performance was continued high levels of order intake and sales at Howden BC Compressors in France which supplies new equipment to customers in Europe, the Middle East and South America.

Howden continues to build a presence in the important Russian market with further orders being booked despite the difficult financial conditions in the Russian economy for much of the year.

North America

Sales to customers in North America were £149.0 million, a decrease of 17.9 per cent. This reflected the strong order book with which Howden started the year, primarily for emission control equipment, but orders placed for shipment during the year were relatively weak. The aftermarket business made further progress.

During the year, order intake from customers in North America showed a marked reduction compared with 2008, reflecting uncertainty over environmental protection legislation, continued weakness in the US economy generally and financial constraints. This led to outstanding orders to customers in North America falling to £88 million as at 31 December 2009 (2008: £122 million).

China

Sales to customers in China amounted to £123.1 million (2008: £136.6 million), a reduction of 9.9 per cent. This primarily reflected reduced demand from the power industry as electricity usage contracted sharply towards the end of 2008 and in the early part of 2009.

Order intake during the year was much reduced, although in the latter parts of the year, as the Chinese economy resumed growth, enquiry levels picked up and this is expected to result in some recovery in bookings in 2010.

The aftermarket in China is seen as offering significant opportunities for Howden, as equipment delivered during the last few years reaches the point where major servicing is required. During 2009, Howden's aftermarket revenues in China showed considerable growth, albeit from relatively modest levels, and the business remains on track to achieve its longer term objectives.

The compressor factory in Weihai has continued to develop, with increasing sales to the water treatment and petrochemical industries in China and elsewhere in the region.

South America

Following the acquisition in 2008 of Aeolus Industria e Comercio, one of the region's leading designers and manufacturers of industrial fans, Howden has taken further steps to increase its presence in the South American market. This includes the construction of a new and much enhanced facility, due to be completed in mid 2010, which will enable an increased range of Howden products to be manufactured locally. Revenue for the year was £31.7 million (2008: £30.3 million), an increase of 4.6 per cent which also reflected the supply of new equipment to a major customer in the oil industry in Brazil.

Rest of the world

Africa

Howden Africa Holdings Limited, in which Howden has a holding of some 55 per cent, achieved increased revenue driven by new equipment sales to the power and mining sectors in South Africa. Aftermarket revenues also increased as Eskom accelerated programmes ahead of the 2010 FIFA world cup.

Bookings during the year remained reasonably strong, reflecting the company's participation in the Eskom new build and refurbishment programmes and general strength in the mining sector.

Middle East

Howden's sales of compressors in the Middle East benefited from continued high levels of investment in the oil and gas and petrochemical sectors. In recognition of the long term potential of the region, Howden has recently opened a sales office in Dubai.

Asia-Pacific

Howden's presence in India continues to strengthen with a current focus on the petrochemical and power industries.

In Australia, Howden performed well with the industries served generally avoiding the global economic downturn.

Business and financial review – Financial review

Trading results for the year

A detailed review of the trading results for the year is set out in the Chairman's statement, Chief Executive's statement and the business reviews of ESAB and Howden.

Exceptional items

In order to help provide a better indication of the Group's underlying business performance, Charter presents items that are both material and non-recurring as exceptional items and excludes them from adjusted operating profit and adjusted earnings per share.

The results for the year to 31 December 2009 include exceptional costs of £26.8 million, comprising restructuring costs of £26.3 million, of which £24.3 million was incurred by ESAB and £2.0 million was incurred by Howden, and the loss on the disposal of a business of £0.5 million.

The restructuring costs relate to the measures being taken by ESAB and Howden to bring manned capacity into line with demand and, in the case of ESAB, to reduce distribution and administration costs. Restructuring costs comprise headcount reductions of £13.8 million, impairment of intangibles, property plant and equipment, inventory and receivables of £9.2 million and closure and other costs of £3.3 million.

On 13 May, ESAB completed the disposal of HD Engineering Limited, a manufacturer of drilling equipment, consumables and accessories, for a cash consideration of £1.7 million. The loss on disposal was £0.5 million, net of exchange gains transferred from reserves of £0.9 million.

Earnings per share

Basic earnings per share were 38.1 pence (2008: 90.1 pence). However, adjusted earnings per share are considered a better indication of the Group's underlying business performance.

Adjusted earnings per share are calculated by adjusting basic earnings per share for items not relating to underlying business performance. Previously, amortisation and impairment of acquired intangibles and goodwill, exceptional items and exchange gains and losses on retranslation of intercompany loans, including attributable tax and minority interests, were excluded from basic earnings in calculating adjusted earnings per share.

In 2009, acquisition costs and the non-cash net financing costs attributable to retirement benefit obligations have also been excluded as these amounts are not considered to relate to underlying business performance. The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from adjusted earnings per share for 2008 year is not significant and therefore 2008 adjusted earnings per share have not been restated.

Adjusted earnings per share decreased by 44.6 per cent to 55.0 pence (2008: 99.2 pence) and were derived from basic earnings per share as set out below:

| | <u>Per share</u> | | <u>Total earnings</u> | |
|---|------------------|------------------|-----------------------|------------------|
| | <u>2009</u> | 2008 | <u>2009</u> | 2008 |
| | <u>pence</u> | pence | <u>£m</u> | £m |
| Basic earnings | 38.1 | 90.1 | 63.5 | 150.2 |
| Items not relating to underlying business performance: | | | | |
| Exceptional items | 16.0 | 5.0 | 26.8 | 8.3 |
| Amortisation and impairment of acquired intangibles and goodwill | 1.5 | 1.1 | 2.5 | 1.9 |
| Acquisition costs | 0.2 | - ⁽ⁱ⁾ | 0.3 | - ⁽ⁱ⁾ |
| Net financing charge – retirement benefit obligations | 4.6 | - ⁽ⁱ⁾ | 7.7 | - ⁽ⁱ⁾ |
| (Gains)/losses on retranslation of intercompany loan balances | (2.4) | 2.8 | (4.0) | 4.6 |
| Taxation on items not relating to underlying business performance | (2.9) | 0.3 | (4.8) | 0.5 |
| Minority share of items not relating to underlying business performance | (0.1) | (0.1) | (0.2) | (0.2) |
| Adjusted earnings attributable to equity shareholders | 55.0 | 99.2 | 91.8 | 165.3 |

⁽ⁱ⁾The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from adjusted earnings per share for 2008 is not significant and therefore these amounts have not been restated.

Net financing charge

The net financing charge, before taking into account the net finance charge attributable to retirement benefit obligations and the retranslation of intercompany loan balances, was £3.1 million (2008: £1.2 million) and comprised interest payable of £2.7 million (2008: £5.4 million), fair value loss on derivative financial instruments of £1.5 million (2008: £1.0 million), exchange losses on cash and borrowings £1.1 million (2008: £nil), other charges of £2.0 million (2008: £nil) and the unwinding of discounts on provisions of £0.3 million (2008: £0.4 million), offset by interest and other financing credits of £4.5 million (2008: £5.6 million).

Taxation

In 2009, the total tax on profit on ordinary activities was £17.9 million (2008: £39.0 million), which comprised:

| | 2009 | 2008 |
|--|--------------------|--------------------|
| | £m | £m |
| Current tax charge | 48.9 | 54.0 |
| Deferred tax credit | <u>(26.2)</u> | <u>(15.5)</u> |
| Tax charge on adjusted profit before tax, before share of post tax profits of associates | 22.7 | 38.5 |
| Tax on exceptional items | (4.2) | (1.5) |
| Tax on amortisation and impairment of acquired intangibles and goodwill | (0.7) | (0.4) |
| Tax on net financing charge-retirement benefit obligations | (1.1) | - |
| Taxation on net gains on retranslation of intercompany loan balances | <u>1.2</u> | <u>2.4</u> |
| Tax charge | <u>17.9</u> | <u>39.0</u> |

The tax charge of £17.9 million compares with tax paid in the year of £46.0 million. The tax charge is lower than the actual tax paid in the year primarily due to the recognition of additional deferred tax assets in the US and the settlement of a number of prior year tax liabilities.

The adjusted effective tax rate for the year was 18.5 per cent (2008: 18.4 per cent), calculated as follows:

| | 2009 | 2008 |
|---|---------------------|--------------|
| | £m | £m |
| Profit before tax | <u>92.7</u> | <u>197.7</u> |
| Add/(deduct) adjustments: | | |
| - exceptional items | 26.8 | 8.3 |
| - aborted acquisition costs | 0.3 | - (i) |
| - amortisation of acquired intangibles and goodwill | 2.5 | 1.9 |
| - net financing charge-retirement benefit obligations | 7.7 | - (i) |
| - net losses on retranslation of intercompany loan balances | (4.0) | 4.6 |
| - share of post tax profits of associates and joint ventures | <u>(3.5)</u> | <u>(3.2)</u> |
| Adjusted profit before tax, before share of post tax profits of associates and joint ventures | <u>122.5</u> | <u>209.3</u> |
| Tax charge before taxation on adjustments above | <u>22.7</u> | <u>38.5</u> |
| Adjusted effective tax rate ⁽ⁱ⁾ | <u>18.5%</u> | <u>18.4%</u> |

⁽ⁱ⁾The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from the calculation of the adjusted effective tax rate for 2008 is not significant and therefore the adjusted effective tax rate has not been restated.

The adjusted effective tax rate for the year is 18.5%. The Group continues to benefit from profits being generated in relatively low tax jurisdictions, such as China and Eastern Europe, together with the recognition and utilisation of previously unrecognised tax losses. The adjusted effective tax rate is likely to remain at approximately the same level in the medium term.

Currency

Charter's results are sensitive to movements in exchange rates. The translation impact of exchange rate movements on segmental sales and operating profits before exceptional items in 2009 is set out overleaf:

| | 2009 | Underlying movement at constant exchange rates | 2008 Translated at 2009 exchange rates | Currency fluctuations | 2008 |
|--|---------|--|--|-----------------------|---------|
| | £m | £m | £m | £m | £m |
| Sales | | | | | |
| ESAB | 1,031.4 | (348.8) | 1,380.2 | 120.4 | 1,259.8 |
| Howden | 627.8 | (80.6) | 708.4 | 81.2 | 627.2 |
| Total | 1,659.2 | (429.4) | 2,088.6 | 201.6 | 1,887.0 |
| Operating profit (before exceptional items) | | | | | |
| ESAB | 64.5 | (96.4) | 160.9 | 12.3 | 148.6 |
| Howden | 70.5 | (13.7) | 84.2 | 11.1 | 73.1 |
| Central operations | (12.2) | 0.2 | (12.4) | - | (12.4) |
| Total | 122.8 | (109.9) | 232.7 | 23.4 | 209.3 |

Currency movements had a favourable impact on the 2009 results, increasing sales and operating profits by 10.7 percent and 11.2 per cent respectively, compared with the prior year. However, this is only the translation impact of currency movements. It excludes the impact of currency movements on transactions when products are manufactured in one currency zone and sold in another. The transaction impact of currency movements is difficult to quantify but the overall impact on the 2009 results is not considered significant.

Trading results and cash flow of overseas operations have been converted into sterling at average rates of exchange whereas the balance sheets were converted at year-end rates. The most significant rates for the group were as follows:

| Rates of exchange to £1 | At 31 | Average rate | At 31 | Average rate |
|-------------------------|---------------|--------------|---------------|--------------|
| | December 2009 | for 2009 | December 2008 | for 2008 |
| US Dollar | 1.61 | 1.56 | 1.44 | 1.85 |
| Euro | 1.13 | 1.12 | 1.03 | 1.26 |
| Chinese Renminbi | 11.02 | 10.65 | 9.81 | 12.9 |
| Brazilian Real | 2.82 | 3.12 | 3.35 | 3.34 |
| Czech Koruna | 29.72 | 29.70 | 27.77 | 31.64 |
| Polish Zloty | 4.62 | 4.84 | 4.26 | 4.42 |

Balance sheet

The following table shows a summary of the balance sheet:

| | 2009 | 2008 |
|---|---------|---------|
| | £m | £m |
| Non current assets (excluding retirement benefits assets) | 547.2 | 529.0 |
| Inventories | 238.5 | 292.0 |
| Trade and other receivables | 426.5 | 573.2 |
| Trade and other payables | (378.8) | (512.2) |
| Other | (23.7) | (55.7) |
| Working capital | 262.5 | 297.3 |
| Net retirement benefit obligations | (162.2) | (139.3) |
| Provisions | (73.9) | (74.9) |
| Other long-term liabilities | (33.2) | (45.6) |
| Net cash | 50.9 | 51.8 |
| | 591.3 | 618.3 |
| Equity shareholders' funds | 549.9 | 578.3 |
| Minority interests | 41.4 | 40.0 |
| | 591.3 | 618.3 |

During the year, total equity shareholders' funds decreased by £28.4 million to £549.9 million (2008: £578.3 million).

The principal components of this decrease were the profit for the year attributable to Charter shareholders of £63.5 million and net after tax gains on cash flow and net investment hedges of £13.7 million, offset by net after tax actuarial losses on retirement benefit obligations of £37.0 million, net translation exchange losses of £33.8 million and dividends paid of £35.0 million.

As at 31 December 2009, the total equity attributable to minority interests increased by £1.4 million to £41.4 million (2008: £40.0 million), reflecting profit attributable to minority interests of £11.3 million, offset by net translation losses of £3.0 million and dividends payable of £6.9 million. The significant minority interests are the 30 per cent interest in Howden Hua Engineering Co Limited, the 45 per cent interest in Howden Africa Holdings Limited and the 44 per cent interest in ESAB India.

Working capital has reduced by £34.8 million to £262.5 million, a decrease of 11.7 per cent. Included within trade and other receivables are amounts receivable under construction contracts of £41.9 million (2008: £71.9 million). Included within trade and other payables are amounts payable under construction contracts of £45.5 million (2008: £115.7 million). The net liability in respect of construction contracts has therefore reduced by £40.2 million in the year, £12.4 million in ESAB and £27.8 million in Howden. The reduction in Howden reflects a lower level of payments on account from customers due to lower order intake. Excluding construction contracts, working capital has reduced by 21.0 per cent.

Retirement benefit obligations

As shown in the table below, the net obligation in respect of pensions and other post-retirement benefits increased by £22.9 million in the year to £162.2 million.

| | 2009 | 2008 |
|--|----------------|----------------|
| | £m | £m |
| Fair value of plan assets | 549.4 | 517.6 |
| Present value of funded and unfunded defined benefit obligations | (709.6) | (656.6) |
| | (160.2) | (139.0) |
| Unrecognised past service costs | 0.1 | 0.2 |
| Surplus not recoverable | (2.1) | (0.5) |
| Net liability recognised on the balance sheet | (162.2) | (139.3) |

The £22.9 million increase in the net retirement benefit obligation comprises asset returns of £61.2 million, contributions of £20.0 million and net exchange gains of £9.3 million, offset by interest on liabilities of £37.8 million, actuarial losses of £71.8 million, principally due to lower discount rates and higher inflation rates, and other adjustments of £3.8 million.

A detailed breakdown of the movement is provided below:

| | Pension obligation -defined benefit schemes | Unrecognised past service costs and surplus not recoverable | Pension obligation -net liability recognised in the balance sheet | Post employment medical benefits | Total |
|---|--|---|--|---|---------|
| | £m | £m | £m | £m | £m |
| At 1 January 2009 | (117.5) | (0.3) | (117.8) | (21.5) | (139.3) |
| Exchange adjustments | 6.8 | (0.1) | 6.7 | 2.4 | 9.1 |
| Income statement charge | | | | | |
| - operating profit | (1.0) | (0.1) | (1.1) | (1.0) | (2.1) |
| - financing | (6.5) | - | (6.5) | (1.2) | (7.7) |
| Taken to equity - actuarial (losses)/gains | (41.1) | (1.5) | (42.6) | 0.4 | (42.2) |
| Contributions paid | 18.6 | - | 18.6 | 1.4 | 20.0 |
| At 31 December 2009 | (140.7) | (2.0) | (142.7) | (19.5) | (162.2) |

A breakdown of the charge to operating profit of £2.1 million (2008: £2.2 million) in respect of defined benefit pension schemes and overseas medical schemes is set out below. In addition, £7.4 million (2008: £7.4 million) was charged against operating profit in respect of defined contribution pension schemes.

| | 2009 | 2008 |
|---|--------------|-------|
| | £m | £m |
| Defined benefit pension schemes and overseas medical schemes: | | |
| Current service cost | (1.9) | (1.9) |
| Past service cost | (0.1) | (0.1) |
| Losses on settlement and curtailment | (0.1) | (0.2) |
| | (2.1) | (2.2) |
| Defined contribution pension schemes | (7.4) | (7.4) |
| | (9.5) | (9.6) |

Provisions

At 31 December 2009, provisions were £73.9 million (2008: £74.9 million). Of this amount, £30.6 million (2008: £35.5 million) was in respect of legal and environmental claims and disputes. Of the remainder, £7.9 million (2008: £6.1 million) was in respect of disposals and restructuring, £30.5 million (2008: £28.0 million) was in respect of warranty and product liability, and £4.9 million (2008: £5.3 million) was in respect of other items.

Cash flow

During the year, the net cash of £51.8 million at 31 December 2008 reduced by £0.9 million to £50.9 million at 31 December 2009. Cash flows during the year are summarised below.

| | 2009 £m | 2008 £m |
|---|----------------|------------|
| Operating profit before exceptional items | 122.8 | 209.3 |
| Exceptional items | (26.8) | (8.3) |
| Operating profit | 96.0 | 201.0 |
| Depreciation and impairment | 28.3 | 21.7 |
| Amortisation and impairment | 9.0 | 5.2 |
| Charge for share based incentives | 1.0 | 0.9 |
| Loss on disposal of business | 0.5 | - |
| (Profit)/loss on sale of property, plant and equipment | (0.1) | 0.2 |
| Decrease/(increase) in inventories | 37.7 | (57.4) |
| Decrease/(increase) in receivables | 132.1 | (28.1) |
| (Decrease)/increase in payables | (119.1) | 29.8 |
| Movement in working capital | 50.7 | (55.7) |
| Movement in provisions | 4.0 | 2.2 |
| Movement in net retirement benefit obligations | (17.9) | (16.0) |
| Cash flow from operations | 171.5 | 159.5 |
| Capital expenditure | (60.0) | (66.5) |
| Capitalised development costs | (5.7) | (4.4) |
| Acquisitions | (2.6) | (39.4) |
| Investment in associates and joint ventures | (1.9) | - |
| | (70.2) | (110.3) |
| Disposals | 1.3 | - |
| Sale of property, plant and equipment | 0.9 | 1.7 |
| | (68.0) | (108.6) |
| Dividends from associates and joint ventures | 4.3 | 1.6 |
| Net financing expense | (0.5) | (2.0) |
| Cash settlement of US dollar and euro net investment hedges | (13.7) | - |
| Dividends paid to minority interests | (6.9) | (4.3) |
| Dividends paid to equity shareholders | (35.0) | (31.7) |
| Tax paid | (46.0) | (49.7) |
| Share issue costs | 0.3 | (1.6) |
| Purchase of treasury shares | (0.2) | (0.2) |
| Net cash flow | 5.8 | (37.0) |
| New finance leases | (1.3) | (0.4) |
| Movement in interest payable accrual | - | (0.1) |
| Foreign exchange adjustments | (5.4) | 1.1 |
| Decrease in net cash | (0.9) | (36.4) |
| Opening net cash | 51.8 | 88.2 |
| Closing net cash | 50.9 | 51.8 |

Cash flow from operations generated £171.5 million (2008: £159.5 million), an increase of 7.5 per cent over the previous year. This represents cash conversion after exceptional items of 178.6 per cent compared with 79.4 per cent in 2008.

Free cash flow for the year was £64.5 million compared with £40.2 million in 2008, and reflects a significant investment of £64.8 million (2008: £69.2 million) on capital expenditure and development costs, net of disposal proceeds.

| | 2009 | 2008 |
|--|---------------|--------|
| | £m | £m |
| Cash flow from operations | 171.5 | 159.5 |
| Net financing expense | (0.5) | (2.0) |
| Tax paid | (46.0) | (49.7) |
| Net cash flow from operating activities | 125.0 | 107.8 |
| Net capital expenditure (including software and development costs) | (64.8) | (69.2) |
| Dividends from associates and joint ventures | 4.3 | 1.6 |
| Free cash flow | 64.5 | 40.2 |
| Property, plant and equipment additions | 52.1 | 57.3 |
| Depreciation | 26.2 | 20.9 |
| Ratio | 2.0 | 2.7 |

Capital expenditure on property, plant and equipment of £52.1 million exceeded depreciation by £25.9 million (2008: £36.4 million). Capital expenditure reflects the acquisition of an existing ESAB manufacturing plant in North America for £9.5 million, which was previously leased, together with the continued investment in new manufacturing facilities, new equipment and new computer systems in both businesses.

Cash and borrowings

As at 31 December 2009, cash balances were £75.6 million (2008: £95.7 million), of which the majority was held overseas for local working capital purposes or pending dividend payments. Of the cash held overseas, £3.2 million (2008: £4.1 million) is retained as cash collateral in connection with certain local trading practices or banking facilities. The credit status of institutions where cash is held is kept under review with credit limits being set and monitored accordingly.

As at 31 December 2009, gross borrowings were £24.7 million (2008: £43.9 million).

Going concern

At 31 December 2009, in addition to net cash balances of £50.9 million, the Group had undrawn centrally held committed borrowing facilities of £170 million, which are due to expire (unless otherwise extended or renewed) between 2011 and 2013. All facilities are unsecured. Whilst these facilities have certain financial and other covenants, the financial strength of the Charter Group means that the covenants attaching to these facilities are not expected to prevent the full utilisation of the facilities if required.

In addition, various other members of the Charter Group have uncommitted and committed bank facilities in place, some of which are secured, to meet local funding requirements.

At 31 December 2009, the Group had £257.5 million of uncommitted bonding facilities, of which £113.8 million were provided by its principal bankers. Bonds and guarantees totalling £131.2 million had been issued under these facilities.

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing both the consolidated financial statements for the Group and the financial statements of the Company.

In reaching this conclusion, the Directors have considered carefully the risks to the Group's trading performance and cash flows as a result of the current global economic and financial environment. The Directors have also had regard to the Group's operating plan and budget for 2010 and have considered the principal risks to which the Group is exposed, including those summarised below.

The Directors monitor the expected outturn for the full year on an ongoing basis both in terms of profit and cash and appropriate mitigating action would be taken if it became apparent that there was a risk that the Group might miss its previous forecasts.

Contingent liabilities

Details of contingent liabilities are set out in Note 13 to the consolidated financial statements.

Significant accounting policies

The financial statements have been prepared in accordance with IFRS and the accounting policies set out in note 1. Applying accounting policies requires the use of certain judgements, assumptions and estimates. The following accounting policies have been identified as being the most significant and where there is most risk of a material adjustment to the carrying value of the Group's assets and liabilities within the next financial year.

- goodwill impairment
- construction contracts
- deferred tax
- warranty and legal liabilities
- retirement benefits

Principal risks and uncertainties

Charter, both directly and through ESAB and Howden, is exposed to a wide variety of markets and geographies and seeks to manage the risks and uncertainties that arise from this. In certain instances, and where it is cost-effective to do so, exposures can be transferred to third parties, for example through insurance or through currency hedging.

The principal risks and uncertainties faced by Charter, and the ways in which they are being managed, are set out below.

Economic recession

Many regions in which Charter companies operate entered recession in the second half of 2008 and remained in recession during 2009; these regions include in particular Europe and North America, which together account for well over half of Charter's total revenue. The consumption of steel, which is a key macro-economic indicator of demand for ESAB products, saw unprecedented falls in 2009 across all major economic regions (apart from China).

Whilst there are presently a number of leading economic indicators that suggest that the world economy is through its low point and starting to recover, it remains unclear how strong and sustained any recovery will be.

ESAB experienced a sharp reduction in the demand for its products in late 2008 and 2009. In response, it took significant steps to reduce output and manned capacity. Whilst it believes that these steps were appropriate in the light of prevailing levels of demand, there can be no certainty that additional steps will not be required and that additional exceptional costs will not be incurred.

In 2009, Howden's revenue was broadly in line with that achieved in 2008. However, during the year, order intake was down markedly and in response Howden implemented measures to reduce headcount in anticipation of lower sales of new equipment. These measures are considered to be appropriate in the light of expected levels of demand for its products, but any further fall in the level of order intake could require additional steps to be taken which is likely to involve additional exceptional charges. During 2009, Howden experienced only limited order cancellations and deferrals, but it is possible that the incidence of cancellations may increase in 2010; whilst Howden's position is protected by a number of measures, including customer deposits which Howden could use to offset any costs or losses incurred as a consequence of a cancellation, there could still be a detrimental impact on Howden's business should the incidence of cancellations increase.

Financing

During the final quarter of 2008, there was a significant reduction across most regions in the availability of banking facilities and other forms of financing, and availability remained generally weak throughout 2009. The direct impact on Charter was limited, as Charter had previously negotiated sufficient committed bank facilities for its requirements.

In the light of the prevailing financial conditions, Charter reviewed certain aspects of the ways in which it conducts its business, including the credit-worthiness of customers which was continuously monitored and, where necessary, changes were made to the way in which Charter companies conducted business with them.

If economic recession and weak conditions in financial markets remain, there may also be disruption to supplies of goods and services to Charter companies. Additional steps have been taken to monitor the financial condition and performance of suppliers and to mitigate any risk of failure by identifying alternative suppliers where possible.

The reduced availability of financing facilities may also have the effect of causing the power station, refinery or major construction projects with which Howden is involved to be delayed or cancelled. To date, it is not believed that this had a significant impact on Howden's business, but it may become a factor in the future if financial conditions remain volatile.

Actions of competitors

ESAB and Howden both operate in competitive markets and are exposed to market behaviour such as aggressive pricing by a competitor seeking to enter a new market, or to maintain or grow sales in a weakening market.

As set out in the business review, both businesses have established strong market positions through measures such as technological leadership, strong brands and through providing cost effective solutions to their customers' needs. Throughout the economic downturn, both ESAB and Howden have maintained capital expenditure at levels well in excess of depreciation and continued to invest in research and development, product innovation and customer service. These measures are considered the most effective means to prevent competitors from gaining market share at the expense of ESAB or Howden.

Competitor action may result initially in reductions in profit, although these are more likely to be specific to particular product areas or geographies. To date, there has been no evidence of widespread price-cutting by competitors of either ESAB or Howden, although there remains the possibility that this might happen in the future, especially if market conditions do not improve.

Foreign exchange: transaction risk

Transaction risk arises from product being manufactured in one currency zone and sold in another.

In ESAB, manufacturing tends to be relatively close to the end-user, which naturally reduces currency exposures. The principal transactional exposures arising within ESAB do so on account of the manufacture of product in Central Europe and Sweden which is exported to the euro-zone and other parts of Europe and elsewhere. ESAB's general policy is not to hedge currency exposures unless they relate to a significant specific contract. In 2009, ESAB benefitted from transactional gains resulting from the depreciation of most Central European currencies against the euro and most other currencies, which partly offset the downward pressure on margins caused by lower volumes passing through the factories.

In relation to Howden, exposure is principally in relation to the US dollar, the euro and the Chinese renimbi. Howden substantially covers forward its committed trading exposures.

Foreign exchange: translation risk

Translation risk arises from the profits and net assets of non-sterling businesses being translated into a sterling value which depends upon the exchange rate.

Charter's operations in the UK are limited and principally comprise Howden's manufacturing operations in Scotland and Northern Ireland and various managerial and administrative functions in London. Customers in the UK account for less than 5 per cent of Charter's revenue. The largest profit translation exposures are in relation to the US dollar and the euro. Generally, it is Charter's policy not to hedge profit translation exposures; this may give rise to unexpected fluctuations in Charter's reported profit.

The Company has significant investments in operations outside the UK; as a result, movements in exchange rates can significantly affect the consolidated balance sheet. In 2009, exchange translation losses reduced equity shareholders' funds by £33.8 million. In certain circumstances, currency borrowings, forward foreign exchange contracts or other derivatives may be used to hedge balance sheet exposures. Gains and losses arising on such hedges are recognised as required under IFRS in the consolidated statement of changes in equity until the items being hedged have impacted the income statement. During 2009, Charter paid £13.7 million in respect of the cash settlement of US dollar and euro net investment hedges.

Certain liabilities are denominated in foreign currencies. These include working capital items, which naturally offset corresponding working capital assets, and retirement benefit obligations. Charter does not have any meaningful amounts of debt denominated in foreign currencies. Movements in exchange rates can cause the sterling values of these liabilities to fluctuate.

Litigation

Charter, ESAB and Howden are subject to litigation in the ordinary course of their business; further details are contained in Note 13.

Pension risk

There are various post retirement benefit schemes in place within Charter, ESAB and Howden.

The assets held by the various schemes are invested by the trustees primarily in equities and bonds. During 2009, the values of equities have recovered a proportion of the falls suffered during 2008. The liabilities of each scheme are subject to movements in variables such as corporate bond yields, changes in life expectancy and forecasts of future rates of inflation. The net liability which appears on Charter's balance sheet relating to overseas schemes is also subject to movements in exchange rates; the depreciation of sterling against the US dollar and against European currencies in general contributed to the increase in the net liability which took place during 2009 and may reoccur in the future.

The level of cash contributions by the Company to the schemes are determined through periodic negotiations between the pension trustees and the Company, and also potentially to changes in legislation. To date, increases in the level of cash contributions has been relatively modest, but uplifts may be larger in the future.

Raw material prices

Most products manufactured by ESAB and Howden contain steel or other metals whose prices are generally determined on world markets but subject to regional differences.

Prices can fluctuate significantly. After significant increases in the prices of various commodities, including steel, during the first three quarters of 2008, prices generally eased during the first half of 2009 and generally stabilised in the second half of the year. During this time, ESAB was able to protect itself against price fluctuations through forward purchase contracts and by increasing its stocks of raw materials. Historically, ESAB has generally been able to pass through the higher steel prices to its customers, although any future increases in raw material prices may lead to pressure on its margins.

Howden may also make use of forward purchase contracts to lock in margin. In times of raw material price inflation, it has the opportunity to include cost price accelerator clauses in its sale contracts.

Pandemics

In the light of recent worldwide concerns about swine flu and other pandemics, Charter businesses around the world have put in place a series of measures to monitor the health of employees and to prevent the spread of disease; these include programmes to alert employees to the dangers of swine flu and steps which can be taken to prevent it spreading. Despite these measures, a worldwide pandemic could severely disrupt Charter's businesses, the markets in which they operate and the financial system generally.

Internal controls

Charter has in place a system of internal controls covering its own activities and those of ESAB and Howden. These controls are essential for the effective management of such geographically diverse businesses.

The Company's Audit Committee has been delegated formal responsibility for reviewing the effectiveness of the system of internal control. A failure of the system of internal controls could have a material impact on the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

| | 2009 | 2008 |
|--------------------------------|--|---------------|
| | £m | £m |
| Note | | |
| Continuing operations | | |
| 3 Revenue | 1,659.2 | 1,887.0 |
| Cost of sales | (1,206.5) | (1,353.2) |
| Gross profit | 452.7 | 533.8 |
| Selling and distribution costs | (191.6) | (182.7) |
| Administrative expenses | (165.1) | (150.1) |
| 3 Operating profit | 96.0 | 201.0 |
| Analysed as: | | |
| | Operating profit before exceptional items, acquisition costs, amortisation and impairment of acquired intangibles and goodwill | 211.2 |
| 7 | Acquisition costs | - |
| 7 | Amortisation and impairment of acquired intangibles and goodwill | (1.9) |
| | Operating profit before exceptional items | 209.3 |
| 5 | Exceptional items - restructuring | (6.2) |
| | - loss on disposal of business | - |
| | - change in holding company | (2.1) |
| | 96.0 | 201.0 |
| 4 | Net financing charge - retirement benefit obligations | (0.7) |
| 4 | Other financing charge before losses on retranslation of intercompany loan balances | (6.8) |
| 4 | Other financing income before gains on retranslation of intercompany loan balances | 5.6 |
| 4 | Net gains/(losses) on retranslation of intercompany loan balances | (4.6) |
| 4 | Net financing charge | (6.5) |
| 3 | Share of post tax profits of associates and joint ventures | 3.2 |
| | Profit before tax | 197.7 |
| 6 | Taxation charge on underlying profits | (38.5) |
| 6 | Taxation on exceptional items | 1.5 |
| 6 | Taxation on amortisation and impairment of acquired intangibles and goodwill | 0.4 |
| 6 | Taxation on net financing charge - retirement benefit obligations | - |
| 6 | Taxation on net gains/(losses) on retranslation of intercompany loan balances | (2.4) |
| 6 | Taxation charge | (39.0) |
| | Profit for the year | 158.7 |
| Attributable to: | | |
| | - Equity shareholders | 150.2 |
| | - Minority interests | 8.5 |
| | 74.8 | 158.7 |
| 7 Earnings per share | | |
| | <i>Basic</i> | <i>90.1 p</i> |
| | <i>Diluted</i> | <i>90.0 p</i> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

| | 2009 £m | 2008 £m |
|---|-------------------|------------|
| Profit for the year | 74.8 | 158.7 |
| Other comprehensive income and expenditure | | |
| Exchange translation | (36.8) | 124.6 |
| Exchange translation - transfer to income statement on disposal | (0.9) | - |
| Actuarial losses on retirement benefit obligations | (42.2) | (54.0) |
| Tax on actuarial losses on retirement benefit obligations | 5.2 | 8.1 |
| Change in fair value of outstanding cash flow hedges | 2.7 | (9.1) |
| Net transfer to income statement - hedges | 7.9 | (2.4) |
| Net investment hedges | 5.7 | (27.3) |
| Net deferred income tax movement for the year - hedges | (2.6) | 2.8 |
| Total other comprehensive income and expenditure | (61.0) | 42.7 |
| Total comprehensive income for the year | 13.8 | 201.4 |
| Total comprehensive income attributable to: | | |
| - Equity shareholders of the Company | 5.5 | 184.7 |
| - Minority interests | 8.3 | 16.7 |
| | 13.8 | 201.4 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

| | Attributable to owners of the Company | | | | | Minority interests | Total equity |
|---|---------------------------------------|---------------|-------------------|----------------|--------------|--------------------|--------------|
| | Share capital | Share premium | Retained earnings | Other reserves | Total | | |
| | £m | £m | £m | £m | £m | | |
| At 1 January 2008 | 3.3 | 646.4 | 296.9 | (520.2) | 426.4 | 27.6 | 454.0 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | 150.2 | - | 150.2 | 8.5 | 158.7 |
| Other comprehensive income and expenditure | | | | | | | |
| Exchange translation | - | - | - | 116.3 | 116.3 | 8.3 | 124.6 |
| Actuarial losses on retirement benefit obligations | - | - | (53.9) | - | (53.9) | (0.1) | (54.0) |
| Tax on actuarial losses on retirement benefit obligations | - | - | 8.1 | - | 8.1 | - | 8.1 |
| Change in fair value of outstanding cash flow hedges | - | - | - | (9.1) | (9.1) | - | (9.1) |
| Net transfer to income statement - hedges | - | - | - | (2.4) | (2.4) | - | (2.4) |
| Net investment hedges | - | - | - | (27.3) | (27.3) | - | (27.3) |
| Net deferred income tax movement for the year - hedges | - | - | - | 2.8 | 2.8 | - | 2.8 |
| Total other comprehensive income and expenditure | - | - | (45.8) | 80.3 | 34.5 | 8.2 | 42.7 |
| Total comprehensive income for the year | - | - | 104.4 | 80.3 | 184.7 | 16.7 | 201.4 |
| Capital reorganisation - share issue costs | - | - | (1.6) | - | (1.6) | - | (1.6) |
| - reduction in capital | - | (646.6) | 646.6 | - | - | - | - |
| Purchase of treasury shares (note 16) | - | - | (0.2) | - | (0.2) | - | (0.2) |
| Share-based payments - charge for year | - | - | 0.9 | - | 0.9 | - | 0.9 |
| - attributable tax | - | - | (0.2) | - | (0.2) | - | (0.2) |
| - shares issued | - | 0.2 | (0.2) | - | - | - | - |
| Dividends paid | - | - | (31.7) | - | (31.7) | (4.3) | (36.0) |
| At 31 December 2008 | <u>3.3</u> | <u>-</u> | <u>1,014.9</u> | <u>(439.9)</u> | <u>578.3</u> | <u>40.0</u> | <u>618.3</u> |
| At 1 January 2009 | 3.3 | - | 1,014.9 | (439.9) | 578.3 | 40.0 | 618.3 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | 63.5 | - | 63.5 | 11.3 | 74.8 |
| Other comprehensive income and expenditure | | | | | | | |
| Exchange translation | - | - | - | (33.8) | (33.8) | (3.0) | (36.8) |
| Exchange translation - transfer to income statement on disposal | - | - | - | (0.9) | (0.9) | - | (0.9) |
| Actuarial losses on retirement benefit obligations | - | - | (42.2) | - | (42.2) | - | (42.2) |
| Tax on actuarial losses on retirement benefit obligations | - | - | 5.2 | - | 5.2 | - | 5.2 |
| Change in fair value of outstanding cash flow hedges | - | - | - | 2.7 | 2.7 | - | 2.7 |
| Net transfer to income statement - hedges | - | - | - | 7.9 | 7.9 | - | 7.9 |
| Net investment hedges | - | - | - | 5.7 | 5.7 | - | 5.7 |
| Net deferred income tax movement for the year - hedges | - | - | - | (2.6) | (2.6) | - | (2.6) |
| Total other comprehensive income and expenditure | - | - | (37.0) | (21.0) | (58.0) | (3.0) | (61.0) |
| Total comprehensive income for the year | - | - | 26.5 | (21.0) | 5.5 | 8.3 | 13.8 |
| Purchase of treasury shares (note 16) | - | - | (0.2) | - | (0.2) | - | (0.2) |
| Share-based payments - charge for year | - | - | 1.0 | - | 1.0 | - | 1.0 |
| - shares issued | - | 0.8 | (0.5) | - | 0.3 | - | 0.3 |
| Dividends paid | - | - | (35.0) | - | (35.0) | (6.9) | (41.9) |
| At 31 December 2009 | <u>3.3</u> | <u>0.8</u> | <u>1,006.7</u> | <u>(460.9)</u> | <u>549.9</u> | <u>41.4</u> | <u>591.3</u> |

CONSOLIDATED BALANCE SHEET

At 31 December 2009

| Note | 2009 £m | As restated 2008 £m |
|---|----------------|---------------------------|
| Non-current assets | | |
| 8 Intangible assets | 139.1 | 136.0 |
| 8 Property, plant and equipment | 280.2 | 275.0 |
| Investments in associates and joint ventures | 18.0 | 17.7 |
| 9 Retirement benefit assets | 15.9 | 35.1 |
| Deferred income tax assets | 88.5 | 69.7 |
| Trade and other receivables | 21.3 | 30.5 |
| Derivative financial instruments | 0.1 | 0.1 |
| | <u>563.1</u> | <u>564.1</u> |
| Current assets | | |
| Inventories | 238.5 | 292.0 |
| Trade and other receivables | 426.5 | 573.2 |
| Derivative financial instruments | 1.7 | 2.4 |
| Current income tax receivables | 10.0 | 6.0 |
| 10 Cash and cash deposits | 75.6 | 95.7 |
| | <u>752.3</u> | <u>969.3</u> |
| Total assets | 1,315.4 | 1,533.4 |
| Current liabilities | | |
| Borrowings | (19.8) | (37.2) |
| Trade and other payables | (378.8) | (512.2) |
| Derivative financial instruments | (2.0) | (32.0) |
| Current income tax liabilities | (33.4) | (32.1) |
| 12 Provisions for other liabilities and charges | (52.3) | (48.2) |
| | <u>(486.3)</u> | <u>(661.7)</u> |
| Non-current liabilities | | |
| Borrowings | (4.9) | (6.7) |
| Deferred income tax liabilities | (29.7) | (35.1) |
| 9 Retirement benefit obligations | (178.1) | (174.4) |
| 12 Provisions for other liabilities and charges | (21.6) | (26.7) |
| Derivative financial instruments | (0.5) | (2.8) |
| Other payables | (3.0) | (7.7) |
| | <u>(237.8)</u> | <u>(253.4)</u> |
| Total liabilities | (724.1) | (915.1) |
| Net assets | 591.3 | 618.3 |
| Equity | | |
| Ordinary share capital | 3.3 | 3.3 |
| Share premium | 0.8 | - |
| Retained earnings | 1,006.7 | 1,014.9 |
| Other reserves | (460.9) | (439.9) |
| Total equity shareholders' funds | 549.9 | 578.3 |
| Minority interests | 41.4 | 40.0 |
| Total equity | 591.3 | 618.3 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

| Note | 2009 £m | 2008 £m |
|--|--|----------------|
| Cash flow from operating activities | | |
| 11 | 171.5 | 159.5 |
| | Interest received | 4.5 |
| | Interest paid | (6.5) |
| | Taxation paid | (49.7) |
| | Net cash flow from operating activities | 107.8 |
| Cash flow from investing activities | | |
| | Purchase of subsidiary undertakings, net of cash acquired | (39.4) |
| | Investment in associates and joint ventures | - |
| 14 | Disposal of subsidiary undertaking | - |
| | Expenditure on development costs | (4.4) |
| | Purchase of property, plant and equipment and computer software | (66.5) |
| | Sale of property, plant and equipment and computer software | 1.7 |
| | Dividends received from associates and joint ventures | 1.6 |
| | Net cash flow from investing activities | (107.0) |
| Cash flow from financing activities | | |
| | Increase in short-term borrowings (other than those repayable on demand) | 3.8 |
| | Decrease in short-term borrowings (other than those repayable on demand) | (2.4) |
| | Increase in long-term borrowings | 13.2 |
| | Decrease in long-term borrowings | (9.0) |
| | Repayment of capital element of finance leases | (0.8) |
| | Cash (outflow)/inflow from debt and lease financing | 4.8 |
| | (Increase)/decrease in cash on deposit | 0.8 |
| | Cash settlement of net investment hedges | - |
| | Dividends paid to equity shareholders of the Company | (31.7) |
| | Dividends paid to minority interests | (4.3) |
| | Issue of ordinary share capital | - |
| | Share issue costs | (1.6) |
| | Purchase of treasury shares | (0.2) |
| | Net cash flow from financing activities | (32.2) |
| | Net decrease in cash, cash equivalents and bank overdrafts | (31.4) |
| | Cash, cash equivalents and bank overdrafts at beginning of the year | 89.8 |
| | Currency variations on cash, cash equivalents and bank overdrafts | 3.0 |
| 10 | Cash, cash equivalents and bank overdrafts at end of the year | 61.4 |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

| | 2009 £m | 2008 £m |
|--|--------------|---------------|
| Net movement in cash, cash equivalents and bank overdrafts | (8.3) | (28.4) |
| Cash outflow/(inflow) from debt and lease financing | 4.4 | (4.8) |
| Increase/(decrease) in cash on deposit | 4.0 | (0.8) |
| Change in net cash resulting from cash flows | 0.1 | (34.0) |
| New finance leases | (1.3) | (0.4) |
| Movement in interest accrual | - | (0.1) |
| Currency variations on borrowings and cash deposits | 0.3 | (1.9) |
| Movement in net cash in the year | (0.9) | (36.4) |
| Opening net cash | 51.8 | 88.2 |
| Closing net cash | 50.9 | 51.8 |
| Gross borrowings | (24.7) | (43.9) |
| Cash at bank and in hand (including cash on deposit) | 75.6 | 95.7 |
| Closing net cash | 50.9 | 51.8 |

NOTES

1 Basis of preparation

The financial results set out in this announcement are unaudited. Audited accounts will be published following clarification of matters that the Company has recently discovered relating to the possibility that irregular payments may have been made in connection with an attempt to obtain business by an overseas Howden subsidiary in an emerging market. The Company has immediately commenced an investigation to determine the nature and extent of the issue and the financial results set out herein may be adjusted in the audited accounts of the Company to reflect the findings of that investigation. Accordingly, the Company's auditors are not at this stage in a position to approve these financial results or to finalise the audit and these results do not constitute a preliminary statement of the Company's annual results.

The unaudited consolidated financial statements of Charter International plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU) and implemented in the United Kingdom (UK) and in compliance with the Companies (Jersey) Law 1991. Although Charter International plc is incorporated and registered in Jersey under the Jersey Companies Law, the consolidated financial statements include disclosures sufficient to comply with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS.

Acquisition accounting adjustments have been finalised in relation to the acquisition of Aeolus Industria e Comercio Ltda by Howden on 22 August 2008. The comparative information for 2008 has been restated in accordance with IFRS 3 'Business combinations'. The impact of this restatement is to increase goodwill and deferred income tax liabilities by £2.6 million. The impact on the 2008 income statement is not significant. In addition, income tax receivable of £6.0 million as at 31 December 2008 that was previously netted off within "Income tax liabilities" has been included as "Current income tax receivables" and the comparative information for 2008 has been restated accordingly.

The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2009 and the consolidated balance sheet at 31 December 2009 herein do not constitute statutory accounts and are unaudited. Statutory accounts for the year ended 31 December 2008 were approved by the Board of Directors on 26 February 2009 and have been delivered to the Jersey Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Article 111(2) or Article 111(5) of the Companies (Jersey) Law 1991 concerning accounting records or failure to obtain necessary information and explanations.

2 Accounting policies

The accounting policies applied are consistent with those adopted and disclosed in the annual financial statements for the year ended 31 December 2008 with the exception of the adoption of IAS 1 (revised), IAS 23 (revised), IFRS 8, IFRS 2 (amendment) and IFRS 7 (amendment) as explained below.

Adjusted earnings per share are calculated after certain adjustments to basic earnings per share so as to help provide a better indication of the Group's underlying business performance. Previously, amortisation and impairment of acquired intangibles and goodwill, exceptional items and exchange gains and losses on retranslation of intercompany loans, including attributable tax and minority interests, were excluded in calculating adjusted earnings per share.

For 2009, acquisition costs and the non-cash net financing costs attributable to retirement benefit obligations have also been excluded in calculating adjusted earnings per share as these amounts do not relate to underlying business performance. The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from adjusted earnings per share for 2008 is not significant and therefore these amounts have not been restated.

The preparation of financial statements 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. 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.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009:

IAS 1 (revised) 'Presentation of financial statements'. The revised standard requires owner changes in equity such as dividends and issue of share capital to be shown in a separate statement. Other items of income and expenditure are required to be included in a statement of comprehensive income comprising either a single statement or two statements: an income statement and a statement of comprehensive income. The Group has elected to follow the latter approach and present two statements.

IAS 23 (revised) 'Borrowing costs'. Borrowing costs directly attributable to expenditure on a qualifying asset where expenditure in relation to that asset commenced after 1 January 2009 are included in the cost of that asset. There has been no impact on the Group's financial statements as a consequence of adopting the revised standard.

IFRS 8 'Operating segments'. IFRS 8 replaces IAS 14 'Segment Reporting'. It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes to the chief operating decision-maker. There have been no changes to the reportable segments presented following the adoption of IFRS 8.

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.

IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures, there is no other impact.

NOTES (CONTINUED)

3 Segment analysis

The Group is organised into two principal businesses: ESAB (welding, cutting and automation) and Howden (air and gas handling). For the purposes of IFRS 8 'Operating segments', ESAB is split into two segments: (i) welding; and (ii) cutting and automation. Inter-segmental revenue is not significant.

Amounts included under the heading 'Other' comprises Central operations.

The following is an analysis of the revenue, results and assets analysed by segment:

| | Welding £m | Cutting and automation £m | Welding, cutting and automation £m | Air and gas handling £m | Other £m | Total £m |
|--|---------------|---------------------------------|---|-------------------------------|---------------|----------------|
| Year ended 31 December 2009 | | | | | | |
| Total revenue | 846.7 | 184.7 | 1,031.4 | 627.8 | - | 1,659.2 |
| Segment result (before exceptional items) | 54.7 | 9.8 | 64.5 | 70.5 | (12.2) | 122.8 |
| Exceptional items - restructuring | (18.0) | (6.3) | (24.3) | (2.0) | - | (26.3) |
| - loss on disposal of business | - | (0.5) | (0.5) | - | - | (0.5) |
| Operating profit | 36.7 | 3.0 | 39.7 | 68.5 | (12.2) | 96.0 |
| Share of post tax profits of associates and joint ventures | 3.5 | - | 3.5 | - | - | 3.5 |
| | 40.2 | 3.0 | 43.2 | 68.5 | (12.2) | 99.5 |
| Net financing charge | | | | | | (6.8) |
| Profit before tax | | | | | | 92.7 |
| Tax | | | | | | (17.9) |
| Profit for the year | | | | | | 74.8 |
| Minority interests | | | | | | (11.3) |
| Profit attributable to equity shareholders | | | | | | 63.5 |
| Investments in associates and joint ventures | 17.0 | - | 17.0 | 0.8 | 0.2 | 18.0 |
| Other segment assets | 629.3 | 124.2 | 753.5 | 421.9 | 23.5 | 1,198.9 |
| Segment assets | 646.3 | 124.2 | 770.5 | 422.7 | 23.7 | 1,216.9 |
| Year ended 31 December 2008 | | | | | | |
| Total revenue | 1,042.2 | 217.6 | 1,259.8 | 627.2 | - | 1,887.0 |
| Segment result (before exceptional items) | 122.7 | 25.9 | 148.6 | 73.1 | (12.4) | 209.3 |
| Exceptional items - restructuring | (5.6) | (0.6) | (6.2) | - | - | (6.2) |
| - change in holding company | - | - | - | - | (2.1) | (2.1) |
| Operating profit | 117.1 | 25.3 | 142.4 | 73.1 | (14.5) | 201.0 |
| Share of post tax profits of associates and joint ventures | 3.1 | - | 3.1 | 0.1 | - | 3.2 |
| | 120.2 | 25.3 | 145.5 | 73.2 | (14.5) | 204.2 |
| Net financing charge | | | | | | (6.5) |
| Profit before tax | | | | | | 197.7 |
| Tax | | | | | | (39.0) |
| Profit for the year | | | | | | 158.7 |
| Minority interests | | | | | | (8.5) |
| Profit attributable to equity shareholders | | | | | | 150.2 |
| Investments in associates and joint ventures | 16.5 | - | 16.5 | 1.0 | 0.2 | 17.7 |
| Other segment assets ⁽ⁱ⁾ | 745.0 | 181.4 | 926.4 | 467.5 | 46.1 | 1,440.0 |
| Segment assets | 761.5 | 181.4 | 942.9 | 468.5 | 46.3 | 1,457.7 |

Reportable segment assets are reconciled to total assets as follows:

| | Year ended 31.12.09 £m | As restated Year ended 31.12.08 £m |
|--------------------------------|------------------------------|---|
| Segment assets ⁽ⁱ⁾ | 1,216.9 | 1,457.7 |
| Deferred income tax | 88.5 | 69.7 |
| Current income tax receivables | 10.0 | 6.0 |
| Total assets | 1,315.4 | 1,533.4 |

(i) The comparative information for 2008 has been restated following the finalisation of acquisition accounting adjustments as explained in note 1. The impact of this restatement is to increase goodwill included in the air and gas handling segment assets by £2.6 million.

NOTES (CONTINUED)

4 Net financing charge

| | 2009 £m | 2008 £m |
|--|---------------|--------------|
| Net financing charge - retirement benefit obligations: | | |
| Interest on schemes' liabilities | (37.8) | (37.3) |
| Expected return on schemes' assets | 30.1 | 36.6 |
| | <u>(7.7)</u> | <u>(0.7)</u> |
| Interest payable on bank borrowings | (1.8) | (3.7) |
| Interest payable on bank borrowings - fees | (0.7) | (0.8) |
| | <u>(2.5)</u> | <u>(4.5)</u> |
| Interest payable on other loans | (0.1) | (0.8) |
| Interest payable on finance leases | (0.1) | (0.1) |
| Fair value losses on derivative financial instruments | (1.5) | (1.0) |
| Exchange losses on cash and borrowings | (1.1) | - |
| Other | (2.0) | - |
| Unwinding of discount on provisions (note 12) | (0.3) | (0.4) |
| Other financing charge before exchange losses on retranslation of intercompany loan balances | (7.6) | (6.8) |
| Interest income on bank accounts and deposits | 1.9 | 3.3 |
| Interest income on financial assets not held at fair value | 0.2 | 0.4 |
| Fair value gains on derivative financial instruments | 0.1 | 1.2 |
| Other | 2.3 | 0.7 |
| Other financing income before exchange gains on retranslation of intercompany loan balances | 4.5 | 5.6 |
| Net financing charge before exchange gains/(losses) on intercompany loan balances | <u>(10.8)</u> | <u>(1.9)</u> |
| Net exchange gains/(losses) on retranslation of intercompany loan balances | 4.0 | (4.6) |
| Net financing charge | <u>(6.8)</u> | <u>(6.5)</u> |

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.

The following items have been classified as exceptional:

| | 2009 £m | 2008 £m |
|--|-------------|------------|
| Restructuring costs | | |
| Headcount reductions | 13.8 | 5.4 |
| Impairment of intangibles and property, plant and equipment | 3.5 | 0.8 |
| Impairment of inventory | 4.8 | - |
| Impairment of receivables | 0.9 | - |
| Other restructuring costs | 3.3 | - |
| | <u>26.3</u> | <u>6.2</u> |
| Loss on disposal of business (note 14) | | |
| Loss on disposal before exchange gains transferred from reserves | 1.4 | - |
| Exchange gains transferred from reserves | (0.9) | - |
| | <u>0.5</u> | <u>-</u> |
| Change in holding company | - | 2.1 |
| | <u>26.8</u> | <u>8.3</u> |

A tax credit of £4.2 million (2008: £1.5 million) is attributable to the exceptional items. There is no minority interest attributable to the exceptional items in any of the periods presented.

NOTES (CONTINUED)

6 Taxation charge

| | 2009 £m | 2008 £m |
|--|--------------|--------------|
| Tax charge on underlying profits | 22.7 | 38.5 |
| Taxation on exceptional items | (4.2) | (1.5) |
| Taxation on amortisation and impairment of acquired intangibles and goodwill | (0.7) | (0.4) |
| Taxation on net financing charge - retirement benefit obligations | (1.1) | - |
| Taxation on retranslation of intercompany loan balances | 1.2 | 2.4 |
| Taxation charge | 17.9 | 39.0 |
| | | |
| | 2009 £m | 2008 £m |
| Profit before tax | 92.7 | 197.7 |
| Add/(deduct) adjustments | | |
| Exceptional items | 26.8 | 8.3 |
| Acquisition costs | 0.3 | note (i) |
| Amortisation of acquired intangibles and goodwill | 2.5 | 1.9 |
| Net financing charge - retirement benefit obligations | 7.7 | note (i) |
| Retranslation of intercompany loan balances | (4.0) | 4.6 |
| Share of post tax profits of associates and joint ventures (i) | (3.5) | (3.2) |
| | 122.5 | 209.3 |
| Tax charge before taxation on adjustments above | 22.7 | 38.5 |
| Adjusted effective tax rate (ii) | 18.5% | 18.4% |

(i) The share of post tax profits of associates and joint ventures included in the income statement is after a tax charge of £1.2 million (2008: £1.1 million).

(ii) The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from the adjusted effective tax rate for 2008 is not significant and therefore these amounts have not been restated.

7 Earnings per share

Basic earnings per share is calculated on an average of 166.8 million shares (2008: 166.7 million shares).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of 0.7 million (2008: 0.2 million) 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.

Adjusted earnings per share are calculated after certain adjustments to basic earnings per share so as to help provide a better indication of the Group's underlying business performance. Previously, amortisation and impairment of acquired intangibles and goodwill, exceptional items and exchange gains and losses on retranslation of intercompany loans, including attributable tax and minority interests, were excluded in calculating adjusted earnings per share as set out in the table below.

For 2009, acquisition costs and the non-cash net financing costs attributable to retirement benefit obligations have also been excluded in calculating adjusted earnings per share as these amounts do not relate to underlying business performance. The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from adjusted earnings per share for 2008 is not significant and therefore these amounts have not been restated.

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 be superior to, IFRS measures of profit.

| | Per share | | Total earnings | |
|---|---------------|---------------|----------------|--------------|
| | 2009 pence | 2008 pence | 2009 £m | 2008 £m |
| Basic earnings per share | | | | |
| Profit attributable to equity shareholders of the Company | 38.1 | 90.1 | 63.5 | 150.2 |
| Items not relating to underlying business performance | | | | |
| Exceptional items | 16.0 | 5.0 | 26.8 | 8.3 |
| Amortisation and impairment of acquired intangibles and goodwill | 1.5 | 1.1 | 2.5 | 1.9 |
| Acquisition costs | 0.2 | note (i) | 0.3 | note (i) |
| Net financing charge - retirement benefit obligations | 4.6 | note (i) | 7.7 | note (i) |
| Retranslation of intercompany loan balances | (2.4) | 2.8 | (4.0) | 4.6 |
| Taxation on items not relating to underlying business performance | (2.9) | 0.3 | (4.8) | 0.5 |
| Minority share of items not relating to underlying business performance | (0.1) | (0.1) | (0.2) | (0.2) |
| Adjusted basic earnings attributable to equity shareholders of the Company | 55.0 | 99.2 | 91.8 | 165.3 |

NOTES (CONTINUED)

7 Earnings per share (continued)

| | Per share | | Total earnings | |
|--|-------------|-------------|----------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| | pence | pence | £m | £m |
| Fully diluted earnings per share | | | | |
| Profit attributable to equity shareholders of the Company | 37.9 | 90.0 | 63.5 | 150.2 |
| Items not relating to underlying business performance | | | | |
| Exceptional items | 16.0 | 5.0 | 26.8 | 8.3 |
| Amortisation and impairment of acquired intangibles and goodwill | 1.5 | 1.1 | 2.5 | 1.9 |
| Acquisition costs | 0.2 | note (i) | 0.3 | note (i) |
| Net financing charge - retirement benefit obligations | 4.6 | note (i) | 7.7 | note (i) |
| Retranslation of intercompany loan balances | (2.4) | 2.7 | (4.0) | 4.6 |
| Taxation on items not relating to underlying business performance | (2.9) | 0.3 | (4.8) | 0.5 |
| Minority share of items not relating to underlying business performance | (0.1) | (0.1) | (0.2) | (0.2) |
| Adjusted diluted earnings attributable to equity shareholders of the Company | <u>54.8</u> | <u>99.0</u> | <u>91.8</u> | <u>165.3</u> |

(i) The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from adjusted earnings per share for 2008 is not significant and therefore these amounts have not been restated.

8 Property, plant and equipment and intangible assets

The movement on the net book amount is set out below:

| | Property, plant and equipment | | Intangible assets | |
|--|-------------------------------|--------------|-------------------|---------------------|
| | 2009 | 2008 | 2009 | As restated 2008 |
| | £m | £m | £m | £m |
| Opening net book amount | 275.0 | 182.7 | 136.0 | 80.2 |
| Exchange adjustments | (17.3) | 52.2 | 0.5 | 12.2 |
| Additions | 52.1 | 57.3 | 1.8 | 3.0 |
| Acquisitions | - | 6.5 | - | 36.6 |
| Disposal of business | (0.5) | - | - | - |
| Internally generated | - | - | 10.8 | 9.8 |
| Disposals | (0.8) | (2.0) | (0.4) | (0.1) |
| Depreciation and amortisation | (26.2) | (20.9) | (8.2) | (5.4) |
| Impairment | (2.1) | (0.8) | (1.4) | (0.3) |
| Closing net book amount | <u>280.2</u> | <u>275.0</u> | <u>139.1</u> | <u>136.0</u> |
| Committed capital expenditure not provided for | <u>11.0</u> | <u>17.5</u> | <u>0.1</u> | <u>0.8</u> |

(i) The comparative information for 2008 has been restated following the finalisation of acquisition accounting adjustments as explained in note 1. The impact of this restatement is to increase goodwill on acquisition by £3.0 million and to decrease exchange adjustments by £0.4 million resulting in an increase of £2.6 million at 31 December 2008.

9 Retirement benefit obligations

The valuation of United Kingdom and overseas defined benefit pension schemes and the liability for United States post employment medical costs are assessed by professionally qualified independent actuaries using the projected unit credit method. All actuarial gains and losses are recognised immediately directly in equity.

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

| | 2009 | 2008 |
|--|----------------|----------------|
| | £m | £m |
| Opening balance | (139.3) | (76.6) |
| Exchange adjustments | 9.1 | (24.0) |
| Income statement charge - operating profit | (2.1) | (2.2) |
| - financing charge (note 4) | (7.7) | (0.7) |
| Taken to equity - actuarial losses | (42.2) | (54.0) |
| Contributions paid | 20.0 | 18.2 |
| Closing balance | <u>(162.2)</u> | <u>(139.3)</u> |
| Included in the balance sheet as follows: | | |
| Non-current assets | 15.9 | 35.1 |
| Non-current liabilities | (178.1) | (174.4) |
| | <u>(162.2)</u> | <u>(139.3)</u> |

NOTES (CONTINUED)

9 Retirement benefit obligations (continued)

(ii) The position at 31 December 2009 and 31 December 2008 is set out below:

| | 31 December 2009 | | | | |
|---|--------------------------|--------------------------------|-----------------------------|--|-------------|
| | UK pension schemes £m | Overseas pension schemes £m | Total pension schemes £m | Overseas medical costs liability £m | Total £m |
| Present value of funded obligations | (495.5) | (147.8) | (643.3) | - | (643.3) |
| Fair value of plan assets | 436.9 | 112.5 | 549.4 | - | 549.4 |
| | (58.6) | (35.3) | (93.9) | - | (93.9) |
| Present value of unfunded obligations | - | (46.8) | (46.8) | (19.5) | (66.3) |
| Unrecognised past service costs | - | 0.1 | 0.1 | - | 0.1 |
| Surplus not recoverable | - | (2.1) | (2.1) | - | (2.1) |
| Net liability recognised in the balance sheet | (58.6) | (84.1) | (142.7) | (19.5) | (162.2) |

| | 31 December 2008 | | | | |
|---|--------------------------|--------------------------------|-----------------------------|--|-------------|
| | UK pension schemes £m | Overseas pension schemes £m | Total pension schemes £m | Overseas medical costs liability £m | Total £m |
| Present value of funded obligations | (424.6) | (160.3) | (584.9) | - | (584.9) |
| Fair value of plan assets | 399.5 | 118.1 | 517.6 | - | 517.6 |
| | (25.1) | (42.2) | (67.3) | - | (67.3) |
| Present value of unfunded obligations | - | (50.2) | (50.2) | (21.5) | (71.7) |
| Unrecognised past service costs | - | 0.2 | 0.2 | - | 0.2 |
| Surplus not recoverable | - | (0.5) | (0.5) | - | (0.5) |
| Net liability recognised in the balance sheet | (25.1) | (92.7) | (117.8) | (21.5) | (139.3) |

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

| | 31 December 2009 | | 31 December 2008 | |
|---|------------------|----------|------------------|----------|
| | UK | Overseas | UK | Overseas |
| Discount rate | 5.70% | 5.60% | 6.30% | 5.60% |
| Inflation rate | 3.60% | 2.80% | 2.60% | 2.60% |
| Expected return on plan assets - equities | 8.00% | 9.10% | 7.50% | 8.80% |
| - bonds | 4.90% | 5.30% | 4.50% | 5.60% |
| - property | 7.50% | | 7.00% | |
| - other | 4.25% | 5.60% | 3.00% | 5.15% |
| - total | 6.20% | 7.20% | 5.70% | 7.00% |
| Future salary increases | 4.60% | 4.00% | 3.60% | 3.45% |
| Future pension increases | 3.55% | 2.30% | 2.80% | 1.95% |
| Medical costs inflation (ultimate rate) | | 5.00% | | 5.00% |

The mortality assumptions for the UK schemes are based on either the PA92 or PA00 standard mortality tables after retirement with allowance for future mortality improvements and scheme specific factors. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 27 years (2008: 27 years) after retirement if they are male and for a further 30 years (2008: 30 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 26 years (2008: 26 years) if they are male and for a further 29 years (2008: 29 years) if they are female.

The overseas schemes are principally in the United States. The mortality assumptions for the United States schemes have been derived from the RP-2000 table with allowance for future mortality improvements. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 24 years (2008: 24 years) after retirement if they are male and for a further 26 years (2008: 26 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 23 years (2008: 23 years) if they are male and for a further 25 years (2008: 25 years) if they are female. Mortality assumptions for schemes in Sweden and Germany have been derived from the FFFS 2007 tables and the Heubeck 2005 G tables respectively.

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

| | 2009 £m | 2008 £m |
|---|------------|------------|
| Defined benefit schemes and overseas medical costs | | |
| Current service cost | (1.9) | (1.9) |
| Past service cost | (0.1) | (0.1) |
| Losses on settlement and curtailment | (0.1) | (0.2) |
| Defined benefit schemes and overseas medical costs | (2.1) | (2.2) |
| Defined contribution schemes | (7.4) | (7.4) |
| | (9.5) | (9.6) |

NOTES (CONTINUED)

10 Cash and cash deposits

| | 2009 £m | 2008 £m |
|---|------------|------------|
| Cash at bank and on hand | 65.5 | 76.1 |
| Short-term bank deposits | 0.6 | 13.8 |
| Bank deposits with original maturity of more than three months and balances held as cash collateral | 9.5 | 5.8 |
| Cash and cash deposits in the balance sheet | 75.6 | 95.7 |
| Less: Bank deposits with original maturity of more than three months and balances held as cash collateral | (9.5) | (5.8) |
| : Bank overdrafts | (13.0) | (28.5) |
| Cash, cash equivalents and bank overdrafts in the statement of cash flows | 53.1 | 61.4 |

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

Cash and cash deposits in the balance sheet includes balances of £3.2 million (2008: £4.1 million) held as cash collateral in connection with certain local trading practices or banking facilities.

11 Cash generated from operations

| | 2009 £m | 2008 £m |
|---|------------|------------|
| Operating profit | 96.0 | 201.0 |
| Depreciation and impairment of property plant and equipment | 28.3 | 21.7 |
| Amortisation and impairment of intangible assets | 9.6 | 5.7 |
| Amortisation of government grants | (0.6) | (0.5) |
| Charge for share-based payments | 1.0 | 0.9 |
| Loss on disposal of business | 0.5 | - |
| (Profit)/loss on sale of property, plant and equipment | (0.1) | 0.2 |
| Decrease/(increase) in inventories | 37.7 | (57.4) |
| Decrease/(increase) in receivables | 132.1 | (28.1) |
| (Decrease)/increase in payables | (119.1) | 29.8 |
| Movements in provisions | 4.0 | 2.2 |
| Movements in net retirement benefit obligations | (17.9) | (16.0) |
| | 171.5 | 159.5 |

12 Provisions for other liabilities and charges

| | Disposal and restructuring £m | Warranty and product liability £m | Legal and environ- mental £m | Other £m | Total £m |
|-----------------------|-------------------------------------|---|---------------------------------------|-------------|-------------|
| At 1 January 2009 | 6.1 | 28.0 | 35.5 | 5.3 | 74.9 |
| Exchange adjustments | (0.5) | (1.9) | (2.8) | (0.1) | (5.3) |
| Amounts provided | 18.1 | 24.2 | 8.6 | 1.1 | 52.0 |
| Amounts released | (1.2) | (11.2) | (2.2) | (0.3) | (14.9) |
| Utilised in the year | (14.6) | (8.6) | (8.8) | (1.1) | (33.1) |
| Unwinding of discount | - | - | 0.3 | - | 0.3 |
| At 31 December 2009 | 7.9 | 30.5 | 30.6 | 4.9 | 73.9 |

| | 2009 £m | 2008 £m |
|---------------------|------------|------------|
| Analysed as: | | |
| Current | 52.3 | 48.2 |
| Non-current | 21.6 | 26.7 |
| | 73.9 | 74.9 |

- (i) Disposal and restructuring costs include £7.3 million (2008: £6.1 million) in respect of employee severance costs, of which £6.6 million (2008: £6.1 million) is in the welding, cutting and automation business and £0.7 million (2008: £nil) is in the air and gas handling business, and £0.6 million (2008: £nil) in respect of other closure costs in the welding, cutting and automation business. This is expected to result in cash expenditure in the next one to two years. The effect of discounting these provisions is not material.
- (ii) Warranty and product liability provisions relate to continuing businesses and are expected to be utilised over a period of one to two years dependent on the warranty period provided but will also be replaced by comparable amounts as they are utilised. The effect of discounting these provisions is not material.
- (iii) Provision has been made for the probable exposure arising from legal and environmental claims and disputes, both existing and threatened, in some cases arising from warranties given on disposal of businesses. Provisions have been made representing the best estimate of the outcome of the claims including costs before taking account of insurance recoveries. Where the outcome of a claim is uncertain the legal costs of defence have been provided for to the extent that they are reliably measurable. Where appropriate, insurance recoveries are recognised in 'receivables'. At 31 December 2009, these receivables amounted to £7.9 million (2008: £10.0 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 £12 million (2008: £13 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 £2 million (2008: £1 million to £2 million).

NOTES (CONTINUED)

13 Contingent liabilities

(i) Central operations

Since about 1985, certain subsidiaries of Charter, including Charter Limited (formerly Charter plc) and Charter Consolidated P.L.C., and certain of their wholly owned subsidiaries have been named as defendants (the "defendants") in asbestos-related actions in the United States. These lawsuits have alleged that the defendants were liable for the acts of Cape PLC, a former partly owned subsidiary of Charter Limited. Between 1985 and 1987, the issue was tried in several matters, each of which was resolved in the defendants' favour either at trial or on appeal. In subsequent years, the defendants have continued to be named in asbestos-related lawsuits. The defendants have contested these actions and, in most cases, have obtained dismissals. The defendants have settled some of the cases brought in Mississippi. Currently, the only pending cases against the defendants in which they have received service of process are in Mississippi, which cases are dormant and are not actively being pursued by plaintiffs. The Directors have received legal advice that the defendants and their 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 any of the defendants. The defence costs and other expenses charged against Charter's operating profits in 2009 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 11,116 cases and has, on the advice of counsel, settled 406 cases. These cases were typically 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, in substantial part, by applicable insurance. The Directors believe, based on legal advice, that the majority of asbestos-related lawsuits against Howden Buffalo, including those resulting from the historical operations of a predecessor of Howden Buffalo known as Buffalo Forge Company, will continue to be covered, in substantial part, by applicable insurance. The situation is reviewed regularly and based on the most recent review and legal advice obtained by Howden Buffalo, the Directors believe that the aggregate of any potential liability is unlikely to have a material effect on Charter's financial position.

(iii) Welding

The ESAB Group Inc. ("EGI"), an indirect subsidiary of Charter, has been named as a defendant in a number of lawsuits in state and federal courts in the United States alleging personal injuries from exposure to manganese in the fumes of welding consumables. Other current and former manufacturers of welding consumables have also been named as defendants as well as various other defendants such as distributors, trade associations and others. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts. A multi-district litigation proceeding has been established to consolidate and co-ordinate pre-trial proceedings in the federal court cases.

A summary of recent cases tried to jury verdict in which EGI was a defendant are set out below:

| Date of verdict | Court | Nature of verdict | Number of claimants | Compensatory damages US\$m | Punitive damages US\$m | Number of defendants sharing award | Post trial motions or appeal in progress |
|-----------------|---------|-------------------|---------------------|----------------------------|------------------------|------------------------------------|--|
| December 2007 | Federal | Plaintiff | 1 | 20.5 | - | 4 | Yes |
| March 2008 | Federal | Plaintiff | 1 | 0.7 | 1.7 (i) | 3 | Yes |
| March 2008 | State | Defendants | 4 | - | - | - | Yes |
| November 2008 | State | Plaintiff | 1 | 1.9 | - | 2 | Yes |
| November 2008 | Federal | Defendants | 1 | - | - | - | No |
| February 2009 | State | Defendants | 1 | - | - | - | Yes |
| August 2009 | State | Defendants | 1 | - | - | - | No |
| October 2009 | Federal | Plaintiff | 1 | 0.8 | 5.0 (ii) | 4 | Yes |

(i) EGI's share is US\$0.75 million

(ii) EGI's share is US\$1.75 million

EGI was also a defendant in a number of other state court cases set for trial in 2009. However, all of those cases were either dismissed or postponed.

With the exception of the punitive damage award, if upheld on appeal, EGI's share of the adverse verdicts rendered in December 2007, March and November 2008, and October 2009 should be covered in substantial part by insurance. EGI, together with its co-defendants, is appealing all of the plaintiffs' verdicts noted above. There is, however, no guarantee that an appeal of an adverse verdict will be successful.

There are 8 manganese trials scheduled for the balance of 2010, although it is not anticipated that they will all proceed to trial as scheduled. Additional trials could also be scheduled.

Over the last 18 years, the Welding Industry Defense group, which was established to represent a number of the welding company defendants, including EGI, in this and other litigation, has succeeded in obtaining defence verdicts in the vast majority of cases in which one or more of its members have been named as a defendant.

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. EGI's defence costs, net of insurance recoveries, are estimated to be of the order of US\$18.2 million, which is reflected in EGI's balance sheet at 31 December 2009. 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. EGI has no asbestos cases listed for trial in 2010. EGI has been dismissed prior to trial in the previous cases in which it was named as a defendant. Upon the advice of counsel, the Directors believe that EGI has meritorious defences to these claims and EGI intends vigorously to defend these lawsuits, which should be covered in whole or in part by insurance. In addition, the majority of defence costs are being borne by EGI's insurers.

(iv) Other

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

NOTES (CONTINUED)

14 Acquisitions and disposals

During the year ended 31 December 2009, the Group made no acquisitions of subsidiaries. Costs of £0.3 million in relation to a potential acquisition have been charged to the income statement. As explained in note 1, acquisition accounting adjustments have been finalised in relation to the acquisition of Aeolus Industria e Comercio Ltda by Howden on 22 August 2008 and the 2008 comparatives have been restated accordingly (see note 8). During the year ended 31 December 2009, no adjustments have been made to the estimated fair value of the net assets of the other businesses acquired in 2008.

On 13 May 2009, ESAB completed the disposal of HD Engineering Limited, a manufacturer of drilling equipment, consumables and accessories, with net assets of £3.1 million for a cash consideration, net of disposal costs, of £1.7 million resulting in a loss of £1.4 million. Cumulative exchange translation gains previously taken directly to equity of £0.9 million have been recycled through the income statement following this disposal. The cash inflow of £1.3 million, included in the cash flow statement, comprises the net cash consideration of £1.7 million less cash disposed of £0.4 million.

15 Dividends

A dividend of 14.0 pence per share for the year ended 31 December 2008, totalling £23.4 million, was paid on 5 May 2009 and an interim dividend of 7.0 pence per share for 2009, totalling £11.7 million, was paid on 9 September 2009.

The Board is proposing to declare a second interim dividend of 14.5 pence per share in respect of the year ended 31 December 2009. It is anticipated that the dividend will be paid on 7 May 2010 to holders of ordinary shares registered on 16 April 2010. This dividend, totalling £24.2 million, has not been included as a liability as at 31 December 2009.

A dividend of 12.0 pence per share for the year ended 31 December 2007, totalling £20.0 million, was paid on 23 May 2008 and an interim dividend of 7.0 pence per share for 2008, totalling £11.7 million, was paid on 10 October 2008.

Income Access Share arrangements have been put in place to enable shareholders in the Company to elect to receive their dividends from a UK source (the 'IAS election'). All elections remain in force indefinitely unless revoked. Unless shareholders make an IAS election, dividends will be received from an Irish source and will be taxed accordingly.

The Charter Employee Trust has waived its entitlement to receive dividends on its holding of 74,120 ordinary shares in the Company.

16 Share capital

In 2009, 149,089 ordinary shares were issued for consideration of £324,999 on the vesting of awards under the MF Long-Term Incentive Plan and 54,497 (2008: 52,439) ordinary shares were issued for nil consideration on the vesting of awards under the Charter 2005 Long-Term Incentive Plan.

In connection with the Deferred Bonus Plan (details of which were disclosed in the 2008 annual report), during the year the Group acquired 44,502 (2008: 29,618) of its own shares with an aggregate nominal value of £890.04 (2008: £592.36) through purchases on the London Stock Exchange by the Charter Employee Trust. The consideration paid of £0.2 million (2008: £0.2 million) has been deducted from retained earnings. At 31 December 2009 the Charter Employee Trust held 74,120 (2008: 29,618) ordinary shares with a market value of £0.5 million (2008: £0.1 million).