

Activities and review of operations

The Chairman and Chief Executive's statement on pages 4 to 7, the Operating reviews on pages 8 to 12 and Financial review on page 13 outline the activities and operations of the group.

Dividends

The directors have not declared a dividend for the year. No dividend was declared in the previous year.

Directors

A list of the directors appears on page 15 and their interests in the shares of the Company are shown on page 25.

Mr Gawler and Mr Neill retire by rotation and offer themselves for re-election.

During the year Mr Taylor and Mr Johnson, formerly non-executive directors of the Company, retired at the conclusion of the annual general meeting on 24 April 2002 and did not seek re-election.

No director had any interest in any contract with the companies in the group at any time during the period, other than service contracts. Information covering directors' remuneration, interests in shares and interests in share options is included in the Remuneration Report on pages 22 to 25. Resolution 3 asks shareholders to approve the Remuneration Report.

Authority to allot shares and disapplication of pre-emption rights

The articles of association of the Company place unissued shares generally at the disposal of the directors but, under the provisions of the Companies Act 1985, directors cannot allot any new shares until they have shareholders' authority to do so. Whilst they have no present intention of utilising such authority (other than with respect to the issue of shares upon the exercise of share options), your directors wish to renew, for a further year, the general authority granted to them on 24 April 2002. Approval of shareholders will be sought at the annual general meeting by the passing of an Ordinary Resolution (resolution 4) whereby your directors will be authorised to allot authorised but unissued ordinary shares of the Company, up to a total of 13,164,174 shares representing approximately 14.0% of the issued share capital. This new authority will expire at the 2004 annual general meeting.

Shareholders are being invited, subject to the aforementioned resolution being approved, to authorise the directors to allot

equity securities in respect of rights issues or otherwise for cash other than to existing shareholders up to an amount equal to 5% of the issued share capital of the Company at 31 December 2002 (namely in respect of 4,707,451 shares), the level permitted by the current guidelines of the investment committees of the Association of British Insurers and the National Association of Pension Funds. A resolution to this effect (resolution 5), which will be proposed as a Special Resolution, is set out in the notice of meeting. This authority will expire at the 2004 annual general meeting or, if earlier, 21 October 2004.

Authority to purchase own shares

Your directors wish to renew, until the earlier of the 2004 annual general meeting or 21 October 2004, the authority to the directors to allow the Company to purchase its own ordinary shares on a recognised investment exchange and resolution 6 set out in the notice of meeting seeks this. The authority is restricted to 9,400,000 ordinary shares which is less than 10% of the current issued share capital. The resolution also sets the maximum and minimum prices at which the shares may be bought. Purchases will only be made if the directors expect them to result in an increase in the Company's earnings per share and consider them in the best interests of shareholders generally. Any shares purchased in this way will be cancelled and the number of shares in issue will be accordingly reduced. It is not the directors' current intention to offer to purchase shares in the market for any particular period.

The directors intend to seek renewal of this power at subsequent annual general meetings.

Employees

The group's policy is to encourage effective communication and consultation between employees and management. Subsidiary undertakings develop their own consultative and communication procedures as part of their employment practices.

The Company and its subsidiary undertakings give full consideration to applications for employment made by disabled people, having regard to their aptitudes and abilities. Should employees become disabled during employment they would be considered for any necessary retraining and available work within their capabilities. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees.

Creditor payment policy

The group's creditor payment policy observes the local practice in the countries in which it operates – standard payment terms in each country may also be varied by negotiation with individual suppliers. It is the group's policy to settle in accordance with agreed terms. The Company had no trade creditors at the year end.

Charitable and political contributions

During the year the group made charitable contributions of £0.1 million (2001: £0.2 million). No political contributions were made during the year (2001: £nil).

Research and development

The companies in the group continue to place strong emphasis on research and development to meet the changing needs of the markets they serve. Research and development expenditure totalled £13.7 million (2001: £12.7 million) for the year and has been charged to the profit and loss account for the year.

Substantial shareholdings

As at 7 March 2003, the Company has been notified of the following non-beneficial interests in its ordinary shares: Guinness Peat Group plc 18.5%; UBS Asset Management Limited 10.2%; Sterling Investment Group Limited 9.4%; J O Hambro Capital Management 9.3% and Fidelity International Limited 5.5%. An update will be given in the notice of the annual general meeting.

The Environment

Group companies are encouraged to adopt a responsible approach to environmental management. Esab and Howden have issued environmental policy statements.

Esab has a strong commitment to sustainable development and has therefore had a global environmental management system in place since 1997. Examples of global targets include significant reductions in energy and water use, waste generation and greenhouse gas emissions. Another global target aims to implement certifiable ISO 14001 systems at every plant before the end of 2005. During 2002, Esab has taken many steps towards achieving these targets.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership ("LLP") from 1 January 2003, PricewaterhouseCoopers resigned on 5 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution (resolution 7) to reappoint PricewaterhouseCoopers LLP as auditors to the Company and authorise the board to fix their remuneration will be proposed at the annual general meeting.

By order of the board

A R Yapp Secretary
7 March 2003

Registered office

7 Hobart Place
London SW1W 0HH

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