

DIRECTORS' REPORT

Activities and review of operations

The Chairman and Chief Executive's statement on pages 3 to 7, the Operating reviews on pages 8 to 10 and Financial review on page 11 outline the activities and operations of the group.

Rights Issue

Following approval by the Company's shareholders at the Extraordinary General Meeting held on 8 March 2004 the Company's authorised share capital was increased to £3,319,788 and 56,487,752 shares were provisionally allotted in connection with the Rights Issue that was announced on 20 February 2004. The net proceeds of the Rights Issue amount to approximately £44.6 million.

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 13 and their interests in the shares of the Company are shown on page 21.

Mr Mullan, Mr Neill, Mr Foster and The Hon. James Bruce retire and offer themselves for 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 19 to 21. Resolution 4 asks shareholders to approve the Remuneration Report.

Increase in authorised share capital

In order to give the Company greater flexibility regarding future funding your directors wish to increase the Company's authorised share capital from £3,319,788 (being the authorised share capital of the Company following the passing of the resolution at the extraordinary general meeting of the Company held on 8 March 2004) to £4,300,000 and resolution 5 in the notice of meeting seeks to do this. Such an increase would represent an increase in the Company's authorised share capital of approximately 30 per cent.

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 subject to the passing of resolution 5, the general authority granted to them on 22 July 2003. Approval of shareholders will be sought at the annual general meeting by the passing of an Ordinary Resolution (resolution 6) whereby your directors will be authorised to allot authorised but unissued ordinary shares of the Company, up to a total of 50,212,250 shares representing approximately one third of the issued share capital. This new authority will expire at the 2005 annual general meeting.

Shareholders are being invited, subject to the aforementioned resolutions 5 and 6 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 per cent. of the issued share capital of the Company following the issue of the shares provisionally allotted in respect of the Rights Issue (namely in respect of 7,531,800 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 7), which will be proposed as a Special Resolution, is set out in the notice of meeting. This authority will expire at the 2005 annual general meeting or, if earlier, 24 September 2005.

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.

DIRECTORS' REPORT

Continued

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 (2002: £0.1 million). No political contributions were made during the year (2002: 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 £14.2 million (2002: £13.7 million) for the year and has been charged to the profit and loss account for the year.

Substantial shareholdings

As at 9 March 2004, the Company has been notified of the following interests in its ordinary shares: Guinness Peat Group plc 19.26 per cent; Sterling Investment Group Limited 16.39 per cent; UBS Global Asset Management (UK) Limited and UBS Global Asset Management Life Limited 10.64 per cent; Hermes Pensions Management Limited 3.22 per cent; and Legal & General Group PLC 3.19 per cent. 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 2003, Esab has taken many steps towards achieving these targets.

Auditors

A resolution (resolution 3) 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
9 March 2004

Registered office

52 Grosvenor Gardens
London SW1W 0AU

Registered in England Number 2794949