

# Directors' report

## Activities and review of operations

The Chairman and Chief Executive's statement on pages 2 to 5, the Operating reviews on pages 6 to 9 and Financial review on pages 10 to 11 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 13 and their interests in the shares of the Company are shown on page 22.

Mr Gawler and Mr Neill retire by rotation under the Company's Articles of Association and offer themselves for re-election. Mr Denham and Mr Osborne retire and offer themselves for re-election following their initial appointments as non-executive directors of the Company on 7 February 2005. Mr Foster retires and offers himself for re-election following his appointment as Commercial Director on 1 January 2005.

During the year, Mr Mullan, Independent Non-executive Deputy Chairman, resigned as a director.

It was announced on 23 March 2005 that Mr Biles would be joining the board as a non-executive director on 1 April 2005 and, accordingly, he will be standing for re-election at the annual general meeting.

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 20 to 23. Resolution 10 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 25 June 2004. Approval of shareholders will be sought at the annual general meeting by the passing of an ordinary resolution (resolution 11) whereby your directors will be authorised to allot authorised but unissued ordinary shares of the Company, representing approximately one third of the issued share capital. The total number of shares in respect of which this authority is sought will be set out in the note to resolution 11 in the notice of annual general meeting. This new authority will expire at the 2006 annual general meeting.

Shareholders are being invited to authorise the directors to allot equity securities as if the pre-emption provisions in section 89(1) of the Companies Act 1985 did not apply in respect of rights issues and other pre-emptive issues, or otherwise for cash up to an amount equal to 5 per cent. of the issued share capital of the Company, 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 12), which will be proposed as a special resolution, is set out in the notice of annual general meeting. The total number of shares in respect of which this authority is sought will be set out in the note to resolution 12. This authority will expire at the 2006 annual general meeting.

## Authority to purchase own shares

Your directors wish to be given, until the earlier of the 2006 annual general meeting or 23 September 2006, the authority to allow the Company to purchase its own ordinary shares on a recognised investment exchange and resolution 13 set out in the notice of annual general meeting seeks this. The authority is restricted to 15,000,000 ordinary shares, which is less than 10% of the current issued share capital. The resolution also sets out 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 not held in treasury will be cancelled and the number of shares in issue will be accordingly reduced. Other than in relation to shares bought back and held in treasury as described above, 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.

## Amendment to the Articles of Association

### Article 82 (Directors' Remuneration)

Resolution 14 is a special resolution to amend Article 82 of the Articles of Association of the Company. The current Article 82 limits to £30,000 the fee that the Company may pay to each non-executive director. Article 83 allows any director who serves on any committee of the directors, or who otherwise performs services which are outside the scope of the ordinary duties of a director, to be paid such additional remuneration as the directors may determine. It is now current practice for companies to express their limit on fees paid to non-executive directors by reference to the aggregate of fees paid to all non-executive directors. The proposed amendment adopts such an aggregate and sets a more appropriate ceiling, allowing the Company to pay non-executive directors' fees which are in line with today's market practices. The proposed limit on non-executive directors' fees is linked to the Retail Price Index so that it does not become outdated, avoiding the need for repeated changes to Article 82 in future.

### Article 84 (Directors) and article 153 (Indemnity)

Resolution 14 is a special resolution to amend articles 84 and 153 of the Articles of Association of the Company. The proposed amendments to articles 84 and 153 incorporate the amendments necessary to reflect the changes to the Companies Act 1985 in respect of directors' liability that come into effect on 6 April 2005.

Under article 84, the Company may fund expenditure incurred by directors in defending proceedings against them. This amendment reflects the changes to the Companies Act 1985 in respect of directors' liability (implemented by sections 19 and 20 of the Companies (Audit, Investigations and Enterprise) Act 2004) that comes into effect on 6 April 2005.

Under article 153, the Company may indemnify any director of the Company or of any associated company against any liability and may maintain for any director of the Company or any associated company insurance against any liability. This amendment reflects the changes to the Companies Act 1985 (implemented by sections 19 and 20 of the Companies (Audit, Investigations and Enterprise) Act 2004) in respect of directors' liability that comes into effect on 6 April 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.

## 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 donated £50,000 (2003: £66,000) to charities of which £5,000 (2003: £6,000) was in the United Kingdom mainly for educational, community support and medical purposes. There were no political donations made during the year (2003: £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, which excludes engineering and production support costs, totalled £6.8 million (2003: £8.6 million) for the year and has been charged to the profit and loss account for the year.

## Substantial shareholdings

As at 23 March 2005, the Company has been notified of the following interests in its ordinary shares: Hermes Pensions Management Limited 5.78 per cent; Legal & General Group PLC 3.02 per cent and Ennismore Fund Management 3.75 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.

Efficient environmental management systems are important to properly manage risks and to ensure continuous improvements. In 1999, Esab certified the first production plants in accordance with the international standard ISO 14001. During 2004, Esab has begun the implementation of environmental management systems at all remaining plants. The target is to have all plants certifiable before the end of 2005.

## Auditors

A resolution (resolution 8) to reappoint PricewaterhouseCoopers LLP as auditors to the Company and a resolution (resolution 9) to authorise the board to fix the auditors' remuneration, will be proposed at the annual general meeting.

By order of the board  
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23 March 2005  
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