



ESAB Laser-hybrid welding machine in action

ESAB is a world-leading manufacturer and supplier of welding consumables and equipment ('welding'), and cutting and automation solutions.

Through its worldwide network of manufacturing plants, sales and distribution facilities and well-trained staff, ESAB is able to offer cost effective global solutions to local customers.

ESAB has a very broad range of welding consumables, which includes electrodes, cored wires, solid wires and fluxes for submerged arc welding, and covers welding processes for a variety of materials from mild steels to advanced alloys. ESAB's welding equipment range is similarly comprehensive, from simple welding transformers or inverters to fully programmable welding power sources.

The cutting and automation business provides complete cutting and welding solutions, particularly for customers requiring the most advanced technology or large turn-key systems and production lines.

ESAB has a leading position in processes and technologies, including cored and solid wire welding, aluminium welding, submerged arc welding, friction stir welding and advanced cutting solutions.

Europe accounts for almost one-half of ESAB's revenue. ESAB also has significant operations in North and South America, and is increasing its presence in China and elsewhere in Asia.

► What does the ESAB brand stand for?

The ESAB brand, with its Swedish engineering heritage, is synonymous with good designs, reliability and over 100 years of experience since Oscar Kjellberg first invented the coated welding electrode back in 1904. Since then, ESAB has become a world leader in welding and cutting with sales, technical support and know-how available across the world, providing customers with complete confidence.

Today, ESAB produces consumables and equipment for virtually every welding and cutting process and application. ESAB's subsidiaries and distributors work in partnership to find the optimum solution for customers' businesses wherever in the world that may be and however large or small the requirement.



2006 highlights

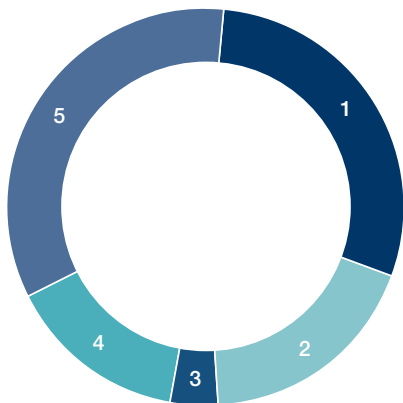
	2006 £m	2005 £m	Increase %
Welding	698.6	607.8	14.9
Cutting and automation	129.8	112.3	15.6
Revenue	828.4	720.1	15.0
Welding	88.7	65.5	35.4
Cutting and automation	10.2	8.9	14.6
Operating profit	98.9	74.4	32.9
Share of profits of associates (post tax)	4.3	3.4	
Capital expenditure	20.6	16.8	
Depreciation	(10.5)	(11.9)	
Operating margin	11.9%	10.3%	
Employees	6,788	6,507	

- Turnover for the year was £828.4 million (2005: £720.1 million), an increase of 15.0 per cent, reflecting strong volume growth.
- ESAB achieved an operating profit in 2006 of £98.9 million (2005: £74.4 million), an increase of 32.9 per cent, and its operating margin increased from 10.3 per cent in 2005 to 11.9 per cent in 2006.
- As part of a programme to increase its capacity for the production of welding consumables by 20 per cent between mid 2006 and mid 2007, ESAB:
 - opened a new consumables plant in the Jiangsu province of China in July 2006; and
 - added further capacity to existing factories in Central Europe and South America.
- Good progress was made in growing the equipment business during the year.
- ESAB opened a new research and development centre in Chennai, India.
- New sales offices were established in the Ukraine, Kazakhstan and the Baltics (Latvia, Lithuania and Estonia).

Global welding and cutting sales by region

Market size \$15.5 billion

- 1 Europe (inc. Russia and CIS)
- 2 North America
- 3 South America
- 4 China
- 5 Rest of world



Source: ESAB estimates

Global welding and cutting sales by end-user segments

Market size \$15.5 billion

- 1 Shipbuilding and offshore
- 2 Construction
- 3 Transport
- 4 Pipeline and pipe mills
- 5 Energy
- 6 Oil, gas and process
- 7 All other



Source: ESAB estimates

Overview of performance

ESAB recorded another excellent performance in 2006 with sales of £828.4 million (2005: £720.1 million), an increase of 15.0 per cent, and operating profit of £98.9 million (2005: £74.4 million), an increase of 32.9 per cent. Operating margin improved to 11.9 per cent (2005: 10.3 per cent).

The sales growth of 15.0 per cent reflected continued strong demand for ESAB products. Volumes were up in most product areas, particularly welding consumables and standard equipment, continuing the trend seen in the first half of the year with increased demand from shipbuilding, oil and gas and other industries. Currency movements accounted for less than 1 per cent of this increase. Sales growth was underpinned by a robust performance in Europe, with faster growth occurring in certain emerging markets. The substantial increase in operating profit and margin achieved by ESAB in 2006 reflected the strong underlying demand for ESAB products and ongoing operational efficiency gains, including recent capacity additions in lower cost locations around the world.

Industries and segmentation

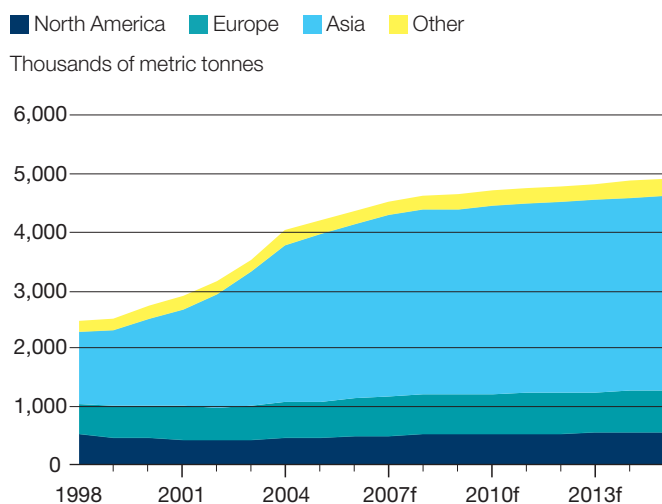
The global welding and cutting market revenues are estimated to amount to in excess of US \$15.5 billion per annum. The more mature markets of Europe and North America account for just under half of the global market, but this is matched by the share of the more rapidly growing emerging markets within China and the rest of the world.

The welding and cutting of steel and other metals takes place to some extent in most industries. The most familiar applications for ESAB's products are in the production of capital goods and infrastructure assets such as ships, trains and bridges. Process industries such as food, drink, paper, plastics and energy make extensive use of plant and machinery, the manufacture of which can involve a significant amount of welding. Although steel remains the most widely used metal, advanced alloys are being increasingly used in the shipbuilding, automotive and certain other industries.

Major global end-user segments are:

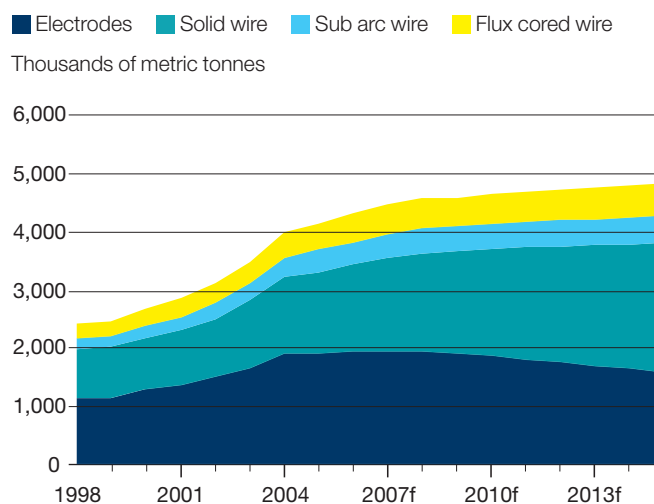
- shipbuilding and offshore industries, which are amongst the largest and most demanding users of both welding and cutting products;
- construction, where welding plays an important role in the fabrication of buildings, bridges, railways, and everything needed to support expanding infrastructure. This is particularly growing in the world's emerging markets;
- transport (including automotive and mobile machinery), which requires technically demanding welding solutions within highly automated production environments. This sector also includes 'off-road' vehicles such as excavators, dumpers, and agricultural equipment, which also require high levels of welding;
- oil and gas and process industries, which include refineries, petrochemicals, pulp and paper and food. These use many types of material, including stainless steels and alloy materials that require technically demanding welding solutions;
- the energy sector, which uses considerable quantities of welding consumables in the construction of nuclear and other energy generating plants. Wind towers are a rapidly growing sub-segment of the electricity generating industry, the construction of which uses relatively high levels of welding consumables; and
- pipelines and pipe mills. This industry segment is related to the oil and gas industry, but is focussed on the production and installation of oil and gas pipeline networks across countries and continents, for example from Siberia to Europe.

Worldwide weld metal consumption – by region



Source: ESAB estimates and forecasts

Worldwide weld metal consumption – by weld process



Source: ESAB estimates and forecasts

Industry overview

Demand

Demand for welding and cutting products is determined largely by worldwide consumption of steel and, to a lesser but growing extent, of other metals, such as aluminium, which is increasingly used in shipbuilding, transport and the fabrication of capital equipment.

The International Iron and Steel Institute estimates world output of crude steel in 2006 at 1,239.5 million metric tonnes ('mmt'), an increase of 8.8 per cent compared with 2005. China produced 418.8 mmt (2005: 353.4 mmt), an increase of 18.5 per cent, and accounted for 33.8 per cent of global steel production (2005: 31.0 per cent). The rest of the world increased production by 4.4 per cent with North America and the European Union registering increases of 3.0 per cent and 5.9 per cent respectively.

ESAB estimates that worldwide consumption of weld metal amounted to in excess of 4 mmt in 2006, of which some 70 per cent was consumed in Asia. Worldwide growth is expected to continue for the foreseeable future, led by increased consumption in Asia and particularly China.

The welding market continues to experience 'process conversion' whereby end users migrate from the use of welding electrodes and simple power sources to higher productivity welding processes, which use continuous consumables such as solid or flux cored welding wires, and require more advanced power sources. Whilst this conversion process has reached close to maturity in markets such as Europe, North America and Japan, it will continue for the foreseeable future at varying rates within the world's emerging markets, particularly in China and elsewhere in Asia.

Competitive environment

ESAB operates in a competitive environment, consisting of a relatively small number of companies that operate on a multinational basis, and a much larger number of smaller companies which operate in regional or product niches.

ESAB estimates that it has an 11 per cent share of worldwide sales of the welding and cutting industry. Globally, ESAB is one of the two leading suppliers of welding consumables and, excluding North America (where it ranks behind the two market leaders), it is the clear industry leader.

ESAB aims to maintain and strengthen its competitive position by being able to provide comprehensive, technically advanced and cost effective solutions to customers' welding and cutting demands. ESAB's brand and its Swedish engineering heritage are important factors underpinning ESAB's relationships with existing and new customers. Given the relatively high costs of transporting welding and cutting materials, the location of welding consumables and equipment factories close to end-users is also an important factor in maintaining competitiveness.



► Russia and the CIS – continued growth

ESAB has been supplying equipment for welding automation and specialised consumables into Russia for many decades. At the end of the 1990s, it established a sales company in Moscow and acquired its first Russian electrode production unit, a joint venture based in St Petersburg. Subsequently, ESAB established a widespread distribution network, which has helped to more than double sales revenues since the turn of the millennium.

ESAB is now one of the biggest foreign participants in the Russian welding equipment and consumables market, and is the only global welding company with a manufacturing base in Russia. ESAB has strong distribution coverage, customer relations management and sales and marketing programmes. New sales offices were established in the Ukraine and Kazakhstan in 2006.

Future plans to increase market share in Russia include continuing to develop electrode manufacturing capacity, opening a new flux plant in St Petersburg in 2007 and continuing to expand the distribution network.

ESAB supply chain

Manufacturing locations

Europe remains ESAB's most important region in terms of production capacity, as well as sales. In recent years some of the welding consumables production lines, and the manufacturing of certain standard equipment ranges, have been relocated within Europe from higher cost Western European locations to Central and Eastern Europe, which are conveniently situated in relation to end users and where production costs are lower. In North America, some production has also been relocated from the USA to Mexico. ESAB is increasing its welding and cutting manufacturing capacity in Asia, with new factories having been opened in China in 2005 and 2006, and with further increases in capacity planned in future years.

All of ESAB's automated welding installations are manufactured at Laxå in Sweden. Cutting machines are manufactured at Karben in Germany, Florence in the USA and at the recently opened cutting factory in Shanghai, China.

Raw materials

The principal raw materials used in the manufacture of welding consumables are various grades of steel and, to a lesser extent, aluminium alloys, chemicals and minerals, most of which are normally available on the open market. However, certain of ESAB's more specialised welding wires require bespoke orders from the steel mill.

In the case of welding equipment, automation and cutting, the most significant items purchased are electronic components, copper and aluminium alloys.

Whilst energy costs are less significant than raw material costs in ESAB's own manufacturing process, they are significant costs in the production of steel, aluminium and copper, and therefore indirectly impact upon the cost of goods sold.

Human resources

ESAB has been strengthening its management team and key technical roles in the last 12 months by identifying opportunities to bring on board talented individuals and to enable the company to achieve its long term goals.

ESAB has worked with Henley Management College to develop a leadership development programme designed to provide ESAB's high potential employees with the opportunity to develop their careers and to resource growth ambitions from within. In total 31 staff from around the organisation have now been enrolled in the programme since its launch in 2005.

ESAB recruits specialist technical staff and engineers from around the world. For ESAB's new R&D centre in Chennai, India, a team of 22 researchers, engineers, and technicians were hired to work on ESAB's global technology initiatives.

Throughout the period ESAB recruited a number of production personnel to meet the increase in production levels. ESAB provides its production employees with a high level of job specific training, for example through apprenticeship schemes.

Intellectual property

A key component of ESAB's supply chain is its technology. For example, the formulation of the electrode coating or cored wire filling produces the unique welding properties of each individual product. ESAB's international development team has a market leading competence and significant experience in these areas. Similarly, manufacturing process knowledge is critical to achieving optimal product characteristics as well as maximising production efficiency, by which the customer benefits through superior products and lower manufacturing costs.

ESAB is strongly focused on providing customers with complete process solutions, and has built a number of process centres throughout the world where experienced welding engineers combine their knowledge with ESAB's broad range of welding and cutting products to develop the optimal solution for each customer.

► **QSet**

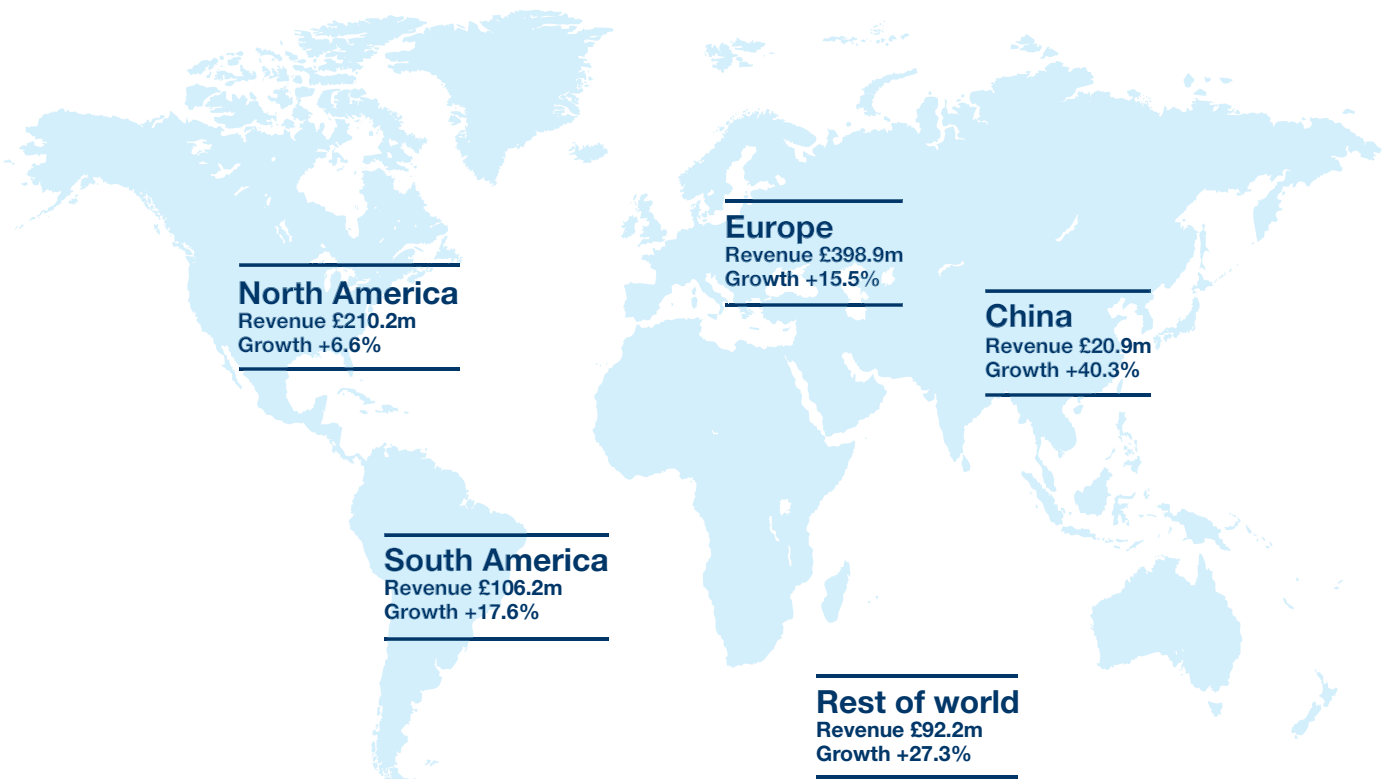
ESAB launched a new technology that is revolutionising the way welding parameters are optimised for short-arc welding. When changing to weld different objects, often with different angles, thicknesses of material or different shielding gases, traditional MIG/MAG welding equipment normally requires significant welder intervention to select a suitable program including welding currents and wire feed speeds. ESAB's response is the intelligent QSet system, which after the press of a single button and a short test weld, automatically optimises the welding parameters. All the operator has to do the next time is select a wire feed speed and QSet will do the rest.

To the customer, QSet offers significant set up savings, improved and repeatable weld quality and reduced post weld cleaning, all of which help to ensure maximum levels of productivity.



ESAB: revenue by destination

	2006 £m	2005 £m	Increase %
Europe	398.9	345.4	15.5
North America	210.2	197.1	6.6
South America	106.2	90.3	17.6
China	20.9	14.9	40.3
Rest of world	92.2	72.4	27.3
Total	828.4	720.1	15.0



► Why do customers buy ESAB products?

A recent customer survey identified the following reasons:

- ESAB is able to solve customers' welding problems.
- ESAB provides innovative and dependable solutions.
- ESAB's Swedish engineering heritage.
- The reliability of ESAB's products provides customers with peace of mind.
- ESAB provides excellent technical support to customers worldwide.
- ESAB's ISO 14001 accreditation underlines its environmental responsibility.



TIG welding using a ESAB Caddy™ TIG 150i

Revenue and cost analysis

During 2006, ESAB's sales were £828.4 million (2005: £720.1 million), an increase of 15.0 per cent.

Of this amount, welding sales, which comprise predominantly welding consumables and welding equipment, were £698.6 million (2005: £607.8 million), an increase of 14.9 per cent, and represented 84.3 per cent (2005: 84.4 per cent) of ESAB's total sales. Cutting and automation sales were £129.8 million (2005: £112.3 million), an increase of 15.6 per cent, and represented 15.7 per cent (2005: 15.6 per cent) of ESAB's total sales.

The selling prices of ESAB's products remained generally stable throughout the year. ESAB increased its operating margins due to the strong underlying demand for its products. This demand led to higher utilisation rates at its factories and better overhead recovery rates. Margins also benefited from ongoing operational efficiency gains, including recent capacity additions in lower cost locations around the world.

In respect of raw materials, prices for wire rod were flat in the first half of the year and showed a slight increase in the second half. ESAB was able to mitigate increases in the market price of stainless products through fixed price contracts. Energy and transport costs rose during the year due to oil price movements.

Regional overview of performance

In 2006, Europe and North America together accounted for 73.5 per cent of its total sales (2005: 75.3 per cent). During 2006, ESAB once again experienced sales growth in all five regions.

Regional markets

Europe

Europe (including Russia and the Commonwealth of Independent States ('CIS')) remains ESAB's most important region, representing 48.2 per cent of its total sales during the year.

In Europe, ESAB experienced sales growth in 2006 of 15.5 per cent, with particularly strong growth in the Nordic and Germanic regions, and also in France. Russia and other emerging European markets also performed extremely well, and ESAB continues to expand its sales presence and strengthen its manufacturing and logistics operations in these markets. The shipbuilding, offshore, energy and industrial segments continue to grow strongly, whilst in emerging European markets, continued investment in infrastructure meant that construction and related industries also performed well.

Increased volumes were seen across most types of welding consumables. The ESAB Marathon Pac™ system and the AristoRod™ copper free wires showed particularly strong growth.

Sales offices have been established in the Ukraine, Kazakhstan and the Baltics (Latvia, Lithuania and Estonia). In addition, a Romanian office will be opened in early 2007.

A number of new product launches during 2006 in MIG and TIG welding machines and a new marketing initiative focussed on Germany and Poland contributed significantly to the growth in standard equipment sales.

Demand for fully automated welding processes remained robust, whilst the cutting business generally performed well, and experienced particularly good growth in medium range machines and the aftermarket.

► Providing fresh water in the Middle East

As the world's population grows, so does the demand for fresh water. As a result those areas, like the Middle East, that do not have enough sources of fresh water depend on industrial desalination of seawater. In building desalination plants, specialist welding consumables and welding procedures have to be selected to ensure metal joints are corrosion resistant to the salt water used in the desalination process. ESAB has developed a full range of welding products to meet the demands of this growing market.



North America

ESAB Group Inc. has a leading presence in the North American welding and cutting industry. In 2006, sales in North America were £210.2 million (2005: £197.1 million), an increase of 6.6 per cent.

Sales of welding consumables and equipment generally performed ahead of 2005. Most industries that are significant users of welding products have been strong, the principal exception being the domestic automotive industry that is experiencing well documented trading difficulties.

This result was achieved notwithstanding a strike over working practices at the plant in Hanover, Pennsylvania, resolved in November 2006, which disrupted production. The facility continued to operate throughout the strike period and production levels are recovering. Significant management attention is being paid to customer service to avoid any significant long term impact on market share.

The equipment and cutting businesses continued to grow at generally the same rate as seen in 2005.

South America

During the year sales grew by some 17.6 per cent, reflecting increased volumes and also an appreciation of the Brazilian Real against Sterling, partly offset by weakening selling prices in some product areas.

The appreciation of the Brazilian Real against the US Dollar and other key currencies reduced the international competitiveness of the Brazilian economy and led to a general softening of demand and price erosion in certain product areas. In the light of these developments, ESAB has increased production of certain items at its Argentinean facilities, which saw improved results as a consequence.

Despite economic factors, certain market sectors, including sugar and alcohol and the Brazilian automotive industry, remained relatively strong. However, shipbuilding, the offshore energy industry and agricultural equipment weakened during the year.

Production capacity for welding wire is being further increased in Argentina with new equipment set to be commissioned in spring 2007.

Sales of Eutectic products, which are made under licence by ESAB in Brazil, increased markedly in some part due to a large contract signed with one of the largest iron ore producers in the region.

China

2006 saw significant progress in ESAB's strategy of establishing a meaningful manufacturing and sales presence in the country. Sales for the year were £20.9 million, up 40.2 per cent from 2005.

In July, ESAB's newest consumables factory was officially opened in Zhangjiagang in Jiangsu province. Capacity at the Zhangjiagang facility has been commissioned since July in line with the plan. Sales to local customers have commenced as well as sales to the wider Asian region. Product from the new factory is also being exported to meet high levels of demand in Europe and elsewhere.

Further expansion of ESAB's capacity to manufacture welding consumables is being planned to meet the continuing growth in the Chinese manufacturing and construction industries and global demand.

ESAB's cutting operation in China has provided significantly increased sales in 2006, and the volume of cutting machines shipped in 2006 also increased significantly compared to the previous year. At the end of the year orders on hand were at record levels.

Rest of world

Asia (excluding China)

In 2006, ESAB performed well, mainly due to volume driven sales growth from key shipbuilding and oil and gas customers. ESAB's future growth will target the most dynamic industries such as the automotive, shipbuilding and energy sectors. Particularly strong performance was seen in Singapore, Malaysia and Australia.

► ESAB opens new research and development centre

In October 2006, ESAB officially opened its new research and development centre in Chennai, India. This state-of-the-art facility supports ESAB's worldwide research and innovation programmes. Researchers and engineers work with their global partners in areas like welding equipment, cutting systems, welding processes and consumables to further enhance ESAB's technology.



Middle East and Africa

In the Middle East, ESAB's revenue has seen continued strong growth in 2006, led principally by increasing sales to the UAE and Qatar, reflecting the strength of the energy and construction sectors in those areas.

ESAB delivered a substantial quantity of stainless materials for large liquefied natural gas projects in Qatar and is supplying both welding consumables and equipment to a high profile offshore contract in Dubai. Considerable efforts and resources were focussed on expanding the ESAB business in Saudi Arabia with substantial success in 2006.

Sales to certain countries were affected by political uncertainties in the region.

Associated undertakings

ESAB's share of the post tax profits of associates was £4.3 million (2005: £3.4 million), an increase of 26.5 per cent.

India

ESAB owns 38 per cent of ESAB India Limited which reported improved revenues and profits in favourable market conditions.

A new equipment assembly factory is being built by ESAB India in Irungattukottai, Chennai, which should be fully operational in 2007.

South Korea

ESAB owns 50 per cent of ESAB SeAH Corporation, which made an increased contribution to the results for the year.

2006 technical developments and new products

Welding

Consumables product development for cored wires, solid wires, fluxes and stick electrodes resulted in new product offerings and a large number of upgrades. The cored wire product range has been expanded with a number of products for use particularly in the repair of concast rollers in steel mills and a broadened range of robotic quality wires with superior operability. The flux development programme produced new products for pipe mills and for high speed welding.

In relation to welding equipment, ESAB introduced a number of new products related to the tungsten inert gas ('TIG') welding process, including a number of power sources supplying up to 300 amperes and a new range of TIG torches which provide better arc performance, easier operation and better ergonomics for the welder. ESAB also launched specialised equipment for welding the frames for wind tower manholes at far greater weld deposit rates than possible before.

During the year, ESAB opened a research and development facility in Chennai, India for consumables and process centre activities and for welding equipment and cutting systems.

Cutting and automation

In 2006, the key cutting developments focussed on improving value and productivity for the end user. These included reducing the M³ Plasma cutting and marking machines' start up time and Production Profiling Software for planning, tracking, reporting and monitoring which allows the user to control numerous control functions in real time.

ESAB is already a leader in welding equipment for integration with robots and other welding automation systems. ESAB's new design of automated welding packages for robotic applications brings productivity benefits to customers from the higher volume production of manual inverter based welding power sources.

Future developments and longer term growth prospects

Market expansion

To support longer term growth, ESAB is developing its presence in certain key markets, in particular China, Central and Eastern Europe, South America and South East Asia, where it sees excellent prospects for the full range of its welding, cutting and automation products. The completion of a programme of projects in these areas, which will increase ESAB's total capacity for the manufacture of welding consumables by around 20 per cent between June 2006 and June 2007, is in sight. Beyond that, further expansion in capacity, particularly in China, is anticipated which will be utilised to meet demand for ESAB's products in Europe and North America as well as throughout Asia. In other developing markets, such as certain former CIS countries and the Middle East, ESAB's presence is being enhanced through the opening of new sales offices and distribution centres.

Global demand is strong and ESAB's factories are operating at high levels of capacity utilisation. To meet this demand, the capacity of existing facilities has been raised through the introduction of additional shifts and increased manning levels, and through targeted investment programmes. The growing demand will increasingly be supplied with product manufactured in ESAB's factories in lower cost locations.

New products and applications

A key element in ESAB's growth plans is the continuous development of new welding products which reflect trends in the global industry, and in particular customers seeking higher productivity from a generally less skilled workforce. This often involves the welding of increasingly sophisticated materials which require suitably stronger welding materials of the same composition.

A number of new welding consumable products have recently entered the customer testing phase, including new submerged arc welding fluxes for high speed welding and new cored wires and hand welding electrodes for the offshore and shipyard sectors. ESAB is also developing new products for applications including nuclear power, offshore wind-farms and desalination plants.

Co-operation continues with various institutes, universities and steel producers in the search for weld metals to match properties of new materials, with fields of research ranging from high strength steels to advanced corrosion resistant alloys and high temperature grades.

Lean manufacturing

Following the success of the pilot programmes in 2005, ESAB accelerated the drive to become a Lean-manufacturing organisation. During the first half of the year, model lines were set up at Vamberk, Czech Republic and Laxå, Sweden. The new consumables plant in China is being started up as a Lean facility.

The programme is being rolled out to all ESAB factories globally. In 2007, additional manufacturing sites, along with some support functions, will be added to the programme.