



Pat Brennan (left), lab technologist, and Dennis Crockett, vice president of Consumable Research & Development, conduct a borate fusion for chemical analysis.

increasing shareholder value

Consolidated Balance Sheets

<i>(In thousands of dollars)</i>	December 31	
	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 11,319	\$ 8,675
Accounts receivable (less allowances of \$4,708 in 2000; \$3,687 in 1999)	153,253	169,986
Inventories		
Raw materials and in-process	82,398	82,451
Finished goods	101,775	109,161
	184,173	191,612
Deferred income taxes	25,767	23,311
Other current assets	41,570	33,011
TOTAL CURRENT ASSETS	416,082	426,595
Property, Plant and Equipment		
Land	12,564	11,050
Buildings	130,632	119,519
Machinery and equipment	416,502	419,831
	559,698	550,400
Less: accumulated depreciation and amortization	290,685	279,610
	269,013	270,790
Other Assets		
Goodwill	41,173	33,263
Other	64,011	44,751
	105,184	78,014
TOTAL ASSETS	\$790,279	\$775,399

	December 31	
<i>(In thousands of dollars, except share data)</i>	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	\$ 42,549	\$ 16,425
Trade accounts payable	62,736	64,482
Accrued employee compensation and benefits	33,260	32,326
Accrued expenses	14,608	15,202
Taxes, including income taxes	47,882	41,326
Dividend payable	6,351	6,228
Other current liabilities	28,369	28,882
Current portion of long-term debt	12,593	11,503
TOTAL CURRENT LIABILITIES	248,348	216,374
Long-term debt, less current portion	38,550	47,207
Deferred income taxes	28,963	28,771
Other long-term liabilities	27,117	31,532
Shareholders' Equity		
Preferred Shares, without par value – at stated capital amount:		
Authorized – 5,000,000 shares in 2000 and 1999;		
Issued and Outstanding – none	—	—
Common Shares, without par value – at stated capital amount:		
Authorized – 120,000,000 shares in 2000 and 1999;		
Issued – 49,282,306 shares in 2000 and 49,283,950 shares in 1999;		
Outstanding – 42,338,803 shares in 2000 and 44,483,366 shares in 1999	4,928	4,928
Additional paid-in capital	104,893	104,891
Retained earnings	537,271	483,463
Accumulated other comprehensive income	(59,988)	(43,524)
Treasury shares, at cost – 6,943,503 shares in 2000 and 4,800,584 in 1999	(139,803)	(98,243)
TOTAL SHAREHOLDERS' EQUITY	447,301	451,515
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$790,279	\$775,399

See notes to these consolidated financial statements.

Consolidated Statements of Income

	Year Ended December 31		
<i>(In thousands of dollars, except per share data)</i>	2000	1999	1998
Net sales	\$1,058,601	\$1,086,176	\$1,186,679
Cost of goods sold	703,503	714,397	789,690
Gross profit	355,098	371,779	396,989
Selling, general & administrative expenses	216,217	223,761	249,581
Loss on disposal of motor business	—	32,015	—
Operating income	138,881	116,003	147,408
Other income (expense):			
Interest income	732	1,413	4,119
Other income (expense)	(10,553)	2,352	1,213
Interest expense	(7,383)	(5,517)	(5,676)
	(17,204)	(1,752)	(344)
Income before income taxes	121,677	114,251	147,064
Income taxes	43,585	40,311	53,345
Net income	\$ 78,092	\$ 73,940	\$ 93,719
Basic earnings per share	\$ 1.83	\$ 1.63	\$ 1.92
Diluted earnings per share	\$ 1.83	\$ 1.62	\$ 1.91

See notes to these consolidated financial statements.

Consolidated Statements of Shareholders' Equity

<i>(In thousands of dollars, except per share data)</i>	Common Shares	Class A Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Shares	Total
Balance, January 1, 1998	\$ 2,154	\$ 2,768	\$ 103,722	\$ 359,639	\$ (31,112)	\$ —	\$ 437,171
Comprehensive income:							
Net income				93,719			93,719
Currency translation adjustment					2,861		2,861
Total comprehensive income							96,580
Cash dividends declared – \$0.42 per share				(20,442)			(20,442)
Net shares issued under certain benefit plans	2	4	1,698	(633)		1,155	2,226
Purchase of shares for treasury						(23,823)	(23,823)
Conversion of Class A Common Shares to Common Shares	2,772	(2,772)	(779)				(779)
Balance, December 31, 1998	4,928	—	104,641	432,283	(28,251)	(22,668)	490,933
Comprehensive income:							
Net income				73,940			73,940
Minimum pension liability adjustment					(792)		(792)
Currency translation adjustment					(14,481)		(14,481)
Total comprehensive income							58,667
Cash dividends declared – \$0.50 per share				(22,520)			(22,520)
Net shares issued under certain benefit plans			250	(240)		1,530	1,540
Purchase of shares for treasury						(77,105)	(77,105)
Balance, December 31, 1999	4,928	—	104,891	483,463	(43,524)	(98,243)	451,515
Comprehensive income:							
Net income				78,092			78,092
Minimum pension liability adjustment					(429)		(429)
Currency translation adjustment					(16,035)		(16,035)
Total comprehensive income							61,628
Cash dividends declared – \$0.57 per share				(24,157)			(24,157)
Net shares issued under certain benefit plans			2	(127)		645	520
Purchase of shares for treasury						(42,205)	(42,205)
Balance, December 31, 2000	\$ 4,928	\$ —	\$ 104,893	\$ 537,271	\$ (59,988)	\$(139,803)	\$ 447,301

See notes to these consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31		
<i>(In thousands of dollars)</i>	2000	1999	1998
OPERATING ACTIVITIES			
Net income	\$ 78,092	\$ 73,940	\$ 93,719
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	34,712	29,122	28,079
Deferred income taxes	(2,286)	862	10,199
(Gain) loss on sale of fixed assets and motor business	(520)	31,276	(292)
Changes in operating assets and liabilities net of effects from acquisitions:			
Decrease (increase) in accounts receivable	1,905	(16,077)	(2,167)
Decrease (increase) in inventories	6,005	(30,169)	(6,007)
(Increase) in other current assets	(8,845)	(8,228)	(6,120)
(Decrease) increase in accounts payable	(4,963)	6,286	5,768
Increase (decrease) in other current liabilities	12,030	(7,445)	(1,467)
Gross change in other long-term assets and liabilities	(3,342)	3,145	1,770
Other, net	8,046	(1,640)	(1,397)
NET CASH PROVIDED BY OPERATING ACTIVITIES	120,834	81,072	122,085
INVESTING ACTIVITIES			
Capital expenditures	(34,800)	(63,323)	(81,411)
Acquisitions of businesses and equity investments	(18,903)	—	(10,820)
Purchases of marketable securities and other investments	—	(1,666)	(910)
Proceeds from sale of marketable securities	6	1,930	10,872
Proceeds from sale of fixed assets and businesses	1,627	36,356	4,577
NET CASH (USED) BY INVESTING ACTIVITIES	(52,070)	(26,703)	(77,692)
FINANCING ACTIVITIES			
Proceeds from short-term borrowings	47,046	124,392	49,147
Payments on short-term borrowings	(48,972)	(121,036)	(49,147)
Notes payable to banks – net	29,270	10,087	(87)
Proceeds from long-term borrowings	54,294	46,925	320
Payments on long-term borrowings	(80,266)	(46,129)	(11,324)
Purchase of shares for treasury	(41,560)	(75,575)	(22,668)
Cash dividends paid	(24,034)	(22,063)	(19,594)
Other	(442)	(707)	124
NET CASH (USED) BY FINANCING ACTIVITIES	(64,664)	(84,106)	(53,229)
Effect of exchange rate changes on cash and cash equivalents	(1,456)	(683)	1,369
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,644	(30,420)	(7,467)
Cash and cash equivalents at beginning of year	8,675	39,095	46,562
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 11,319	\$ 8,675	\$ 39,095

See notes to these consolidated financial statements.

Notes to Consolidated Financial Statements

(In thousands of dollars except share and per share data)

December 31, 2000

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Lincoln Electric Holdings, Inc. and its wholly owned and majority-owned subsidiaries (the "Company") after elimination of all significant intercompany accounts, transactions and profits. Minority ownership interest in consolidated subsidiaries, which is not material, is recorded in Other long-term liabilities.

Cash Equivalents and Marketable Securities: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments with maturities between three and twelve months are considered to be marketable securities classified as held-to-maturity. Marketable securities are carried at cost, with realized gains and losses recorded to income.

Inventories: Inventories are valued at the lower of cost or market. For domestic inventories, cost is determined principally by the last-in, first-out (LIFO) method, and for non-U.S. inventories, cost is determined by the first-in, first-out (FIFO) method. At December 31, 2000 and 1999, approximately 59% and 64%, respectively, of total inventories were valued using the LIFO method. The excess of current cost over LIFO cost amounted to \$39,746 at December 31, 2000 and \$40,365 at December 31, 1999.

Equity Investments: Investments in businesses in which the Company holds between a 20% and 50% ownership interest are accounted for using the equity method of accounting. Under the equity method, the investment is carried at cost plus the Company's proportionate share of the net income or loss of the business since the date of acquisition.

Property, Plant and Equipment: Property, plant and equipment are stated at cost and include improvements which significantly extend the useful lives of existing plant and equipment. Depreciation and amortization are computed by both accelerated and straight-line methods over useful lives ranging from 3 to 20 years for machinery, tools and equipment, and up to 50 years for buildings. Net gains or losses related to asset dispositions are recognized in earnings in the period in which dispositions occur.

Goodwill: The excess of the purchase price over the fair value of net assets acquired is amortized on a straight-line basis over periods not exceeding 40 years. Amounts are stated net of accumulated amortization of \$12,552 and \$11,163 in 2000 and 1999, respectively.

Long-lived Assets: The carrying value of long-lived assets is reviewed if facts and circumstances indicate a potential impairment of carrying value may have occurred utilizing relevant cash flow and profitability information. Impairment losses are recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amounts.

Revenue Recognition: The Company recognizes revenue at the time of product shipment.

Distribution Costs: Distribution costs, including warehousing and freight related to product shipments, are included in Cost of goods sold.

Translation of Foreign Currencies: Asset and liability accounts are translated into U.S. dollars using exchange rates in effect at the date of the consolidated balance sheet; revenue and expense accounts are translated at monthly exchange rates. Translation adjustments are reflected as a component of shareholders' equity. For subsidiaries operating in highly inflationary economies, both historical and current exchange rates are used in translating balance sheet accounts, and translation adjustments are included in net income. Transaction gains and losses are included in Selling, general & administrative expenses and were not material.

Financial Instruments: The Company, on a limited basis, uses forward exchange contracts to hedge exposure to exchange rate fluctuations on certain intercompany loans, purchase and sales transactions and other intercompany commitments. Contracts are written on a short-term basis and are not held for trading or speculation purposes. Gains and losses on all forward exchange contracts are recognized in the consolidated statements of income.

Research and Development: Research and development costs, which are expensed as incurred, were \$16,604 in 2000, \$15,403 in 1999 and \$17,719 in 1998.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from these estimates.

Earnings per Share: The following table sets forth the computation of basic and diluted earnings per share (dollars and shares in thousands, except per share amounts).

	2000	1999	1998
Numerator:			
Net income	\$78,092	\$73,940	\$93,719
Denominator:			
Denominator for basic earnings per share –			
Weighted-average shares outstanding	42,670	45,445	48,935
Effect of dilutive securities – Employee stock options	20	130	135
Denominator for diluted earnings per share –			
Adjusted weighted-average shares outstanding	42,690	45,575	49,070
Basic earnings per share	\$ 1.83	\$ 1.63	\$ 1.92
Diluted earnings per share	\$ 1.83	\$ 1.62	\$ 1.91

Reclassification: Certain reclassifications have been made to prior-year financial statements to conform to current year classifications.

New Accounting Pronouncement: The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This Statement, along with its amendments SFAS No. 137 and SFAS No. 138, will become effective for the Company for fiscal year 2001. The Company has evaluated the effect of these Statements, and the adoption of the Statement will not have a material impact on the Company's consolidated financial statements.

Other: Included in Selling, general & administrative expenses are the costs related to the Company's discretionary employee bonus, net of hospitalization costs, of \$54,509 in 2000, \$60,074 in 1999 and \$76,491 in 1998.

NOTE B — SHAREHOLDERS' EQUITY

In 1999, the Board of Directors authorized an additional share repurchase program of up to 5,000,000 shares of the Company's outstanding Common Shares to satisfy obligations under its stock option plans. This share repurchase program is in addition to the 5,000,000 shares authorized for repurchase by the Board of Directors in September 1998. In May 2000, the Company suspended the share repurchase program, pending the outcome of the proposed Charter plc acquisition (see Note H), but reinstated the program in December 2000 subsequent to the lapse of the offer. In 2000, the Company purchased 2,178,130 shares at an average cost of \$19.38 per share, bringing the total shares purchased through December 31, 2000, to 7,125,380 at an average cost of \$20.09 per share.

On May 19, 1998, shareholders approved a reorganization of the capital and corporate structure of The Lincoln Electric Company (the "reorganization"). As a result of the reorganization, a new holding company, Lincoln Electric Holdings, Inc., was created. Each Common Share and each Class A Common Share (non-voting) of The Lincoln Electric Company was converted into two voting common shares of Lincoln Electric Holdings, Inc., which also had the economic effect of a two-for-one stock split. The reorganization also resulted in the authorization of 5,000,000 Preferred Shares, none of which were issued or outstanding at December 31, 2000 or 1999. The Preferred Shares were authorized to provide the Company flexibility in future financing or acquisitions, and to render more difficult or discourage an attempt by another person or entity to obtain control of the Company. The Company's Articles of Incorporation allow the Board of Directors the discretion to issue one or more series of Preferred Shares with terms that meet the needs of a particular transaction. Each issuance of Preferred Shares may have distinct dividend rights, conversion rights and liquidation preferences.

NOTE C — STOCK PLANS

The 1998 Stock Option Plan ("Stock Option Plan") was adopted by the shareholders to replace The Lincoln Electric Company 1988 Incentive Equity Plan ("Incentive Equity Plan"), which expired in May 1998. The Stock Option Plan provides for the grant of

options for 5,000,000 shares of Company stock to key employees over a ten-year period. The following table summarizes the option activity for the three years ended December 31, 2000, under both the Stock Option Plan and the Incentive Equity Plan:

	2000		1999		1998	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted Average Exercise Price
Balance, beginning of year	1,567,334	\$18.13	1,186,530	\$17.27	1,044,580	\$15.56
Options granted	787,375	\$13.60	459,100	\$19.88	294,700	\$22.38
Options exercised	(29,876)	\$14.08	(78,296)	\$15.26	(144,416)	\$15.43
Options canceled	(106,040)	\$14.36	—	—	(8,334)	\$15.79
Balance, end of year	2,218,793	\$16.76	1,567,334	\$18.13	1,186,530	\$17.27
Exercisable at end of year	1,065,512	\$17.82	864,405	\$16.30	654,466	\$15.25

During 1996, options for 335,180 shares were granted to employees in settlement of a lawsuit over performance awards relating to prior years. Exercise prices are \$15.00 and \$17.00 per share. These options are exercisable over five- and ten-year periods and are fully vested, non-qualified and non-transferable. At December 31, 2000 and 1999, there were 169,982 and 202,198, respectively, of these options outstanding.

All other options granted under both the Stock Option Plan and the Incentive Equity Plan are outstanding for a term of ten years from the date of grant. The majority of the options granted under both plans vest ratably over a period of three years from the grant date. The exercise prices of all options were equal to the fair market value of the Company's shares at the date of grant. As permitted under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), the Company has continued to record stock-based compensation in accordance with the intrinsic value method established by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the intrinsic value method, compensation expense is measured as the excess, if any, of the market price at the date of grant over the exercise price of the options. Accordingly, no compensation expense was recognized upon the award of these stock options.

SFAS 123 requires pro forma disclosure of the effect on net income and earnings per share when applying the fair value method of valuing stock-based compensation. The following table sets forth the pro forma disclosure of net income and earnings per share using the Black-Scholes option pricing model. For purposes of this pro forma disclosure, the estimated fair value of the options is amortized ratably over the vesting periods.

	2000		1999		1998	
	Pro Forma	Reported	Pro Forma	Reported	Pro Forma	Reported
Net income	\$ 76,413	\$ 78,092	\$ 72,513	\$ 73,940	\$ 92,763	\$ 93,719
Basic earnings per share	1.79	1.83	1.60	1.63	1.90	1.92
Diluted earnings per share	1.79	1.83	1.59	1.62	1.89	1.91
Weighted-average fair value of options granted during the year	5.59	—	7.83	—	8.07	—

In estimating the fair value of options granted, an expected option life of ten years was used. The other weighted-average assumptions were as follows:

	2000	1999	1998
Expected volatility	42.60%	34.90%	30.80%
Dividend yield	2.90%	2.72%	2.16%
Risk-free interest rate	5.17%	6.41%	4.66%

The Stock Option Plan for Non-Employee Directors ("Directors Stock Option Plan") was adopted in May 2000 to replace The Lincoln Non-Employee Directors Restricted Stock Plan, which was terminated. The Directors Stock Option Plan provides for the grant of stock options for the purchase of up to an aggregate of 500,000 Common Shares. Options issued under the Directors Stock Option Plan were 18,000 in 2000. Shares issued in connection with The Lincoln Non-Employee Directors' Restricted Stock Plan were 5,335 in 2000, 5,174 in 1999 and 5,654 in 1998. In 2000, 1,644 shares were forfeited under the service requirements of the plan.

At December 31, 2000, there were 3,958,825 shares of common stock available for future grant under all plans, and the weighted-average remaining contractual life of outstanding options was 8.1 years. The price range of all outstanding options was \$13.50 to \$22.38.

The 1995 Lincoln Stock Purchase Plan provides employees the ability to purchase open market shares on a commission-free basis up to a limit of ten thousand dollars annually. Under this plan, there were 26,559 shares purchased in 2000, 18,313 shares purchased in 1999 and 7,619 shares purchased in 1998.

NOTE D — SHORT-TERM AND LONG-TERM DEBT

At December 31, 2000 and 1999, long-term debt consisted of the following:

	2000	1999
8.73% Senior Note due 2003 (three equal annual principal payments remaining)	\$28,125	\$37,500
Credit Agreement, interest at 6.35% in 1999	—	10,000
Foreign borrowings, interest at 1.5% to 12.4% (3.0% to 12.4% in 1999)	14,430	2,447
Other borrowings due through 2023, interest at 2.0% to 6.2%	8,588	8,763
	51,143	58,710
Less current portion	12,593	11,503
Total	\$38,550	\$47,207

The Company's \$200 million unsecured, multi-currency Credit Agreement expires June 30, 2002. The terms of the Credit Agreement provide for annual extensions. The interest rate on outstanding borrowings is determined based upon defined leverage rates for the pricing options selected. The interest rate can range from the London Interbank Offered Rate ("LIBOR") plus 0.165% to LIBOR plus 0.25% depending upon the defined leverage rate. The agreement also provides for a facility fee ranging from 0.085% to 0.15% per annum based upon the daily aggregate amount of the commitment. The Credit Agreement and the 8.73% Senior Note due in 2003 contain financial covenants that require the same interest coverage and funded debt-to-capital ratios.

At December 31, 2000, the Company had no borrowings under short-term credit lines in the United States, with uncommitted borrowing capacity of \$35,000. Short-term borrowings of foreign subsidiaries were \$42,549 and \$6,425 at December 31, 2000 and 1999, at weighted-average interest rates of 7.4% and 6.8%, respectively. Uncommitted additional borrowing capacity of foreign subsidiaries was \$13,878 at December 31, 2000.

In August 1997, the Company entered into an interest rate swap agreement to convert its fixed rate 8.73% Senior Note due 2003 to a floating rate based on a three-month LIBOR basket swap plus a spread of 381 basis points. The agreement caps the floating rate, including the spread, at 10%. The floating rate in effect at December 31, 2000 was 9.55%. The arrangement provides for the receipt or payment of interest, on a quarterly basis, through the loan expiration date. The notional value of the agreement, which decreases in future years with annual debt payments on the Senior Note, was \$28,125 at December 31, 2000. Net receipts or payments under the agreement are recognized as an adjustment to interest expense.

Maturities of long-term debt for the five years succeeding December 31, 2000 are \$12,593 in 2001, \$14,399 in 2002, \$13,674 in 2003, \$4,039 in 2004, \$1,178 in 2005 and \$5,260 thereafter. Total interest paid was \$6,957 in 2000, \$5,534 in 1999 and \$5,593 in 1998.

NOTE E — INCOME TAXES

The components of income before income taxes are as follows:

	2000	1999	1998
U.S.	\$105,181	\$ 91,236	\$123,586
Non-U.S.	16,496	23,015	23,478
Total	\$121,677	\$114,251	\$147,064

Components of income tax expense (benefit) are as follows:

	2000	1999	1998
Current:			
Federal	\$32,159	\$28,620	\$26,724
Non-U.S.	9,278	4,838	9,020
State and local	3,866	5,991	7,402
	45,303	39,449	43,146
Deferred:			
Federal	333	(2,463)	11,016
Non-U.S.	(2,051)	3,325	(817)
	(1,718)	862	10,199
Total	\$43,585	\$40,311	\$53,345

The differences between total income tax expense and the amount computed by applying the statutory Federal income tax rate to income before income taxes were as follows:

	2000	1999	1998
Statutory rate of 35% applied to pre-tax income	\$42,587	\$39,988	\$51,472
Effect of state and local income taxes, net of Federal tax benefit	2,513	3,894	4,811
Taxes in excess of (less than) the U.S. tax rate on non-U.S. earnings, including utilization of tax loss carryforwards and losses with no benefit	1,454	218	(14)
Foreign sales corporation	(1,437)	(1,460)	(1,975)
Other – net	(1,532)	(2,329)	(949)
Total	\$43,585	\$40,311	\$53,345
Effective tax rate	35.8%	35.3%	36.3%

Total income tax payments, net of refunds, were \$35,699 in 2000, \$34,361 in 1999 and \$44,432 in 1998.

At December 31, 2000, certain non-U.S. subsidiaries had tax loss carryforwards of approximately \$54,072 that expire in various years from 2001 through 2010, except for \$24,717 for which there is no expiration date.

Significant components of deferred tax assets and liabilities at December 31, 2000 and 1999, were as follows:

	2000	1999
Deferred tax assets:		
Tax loss and credit carryforwards	\$19,140	\$17,849
State income taxes	2,765	2,614
Inventory	7,566	7,081
Other accruals	17,996	15,509
Employee benefits	7,131	5,194
Pension obligations	5,013	3,633
Other	13,199	14,075
	72,810	65,955
Valuation allowance	(16,093)	(16,623)
	56,717	49,332
Deferred tax liabilities:		
Property, plant and equipment	(22,902)	(24,101)
Pension obligations	(11,920)	(10,748)
Other	(25,091)	(19,943)
	(59,913)	(54,792)
Total	\$ (3,196)	\$ (5,460)

The Company does not provide deferred income taxes on unremitted earnings of non-U.S. subsidiaries, as such funds are deemed permanently reinvested in properties, plant and working capital. It is not practicable to calculate the deferred taxes associated with the remittance of these investments.

NOTE F — RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS

The Company and its subsidiaries maintain a number of defined benefit and defined contribution plans to provide retirement benefits for employees in the United States as well as employees outside the U.S. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974, local statutory law or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for a supplemental executive retirement plan for certain key employees. Substantially all U.S. employees are covered under a 401(k) savings plan in which they may invest 1% or more of eligible compensation, limited to maximum amounts as determined by the Internal Revenue Service. As the result of a revision made to the plan in the fourth quarter of 2000, the plan provides for Company matching contributions of 35% of the first 6% of employee compensation contributed to the plan. This was an increase over the 25% of the first 6% of employee compensation contributed to the plan under the original plan document. The plan includes a feature in which participants could elect to receive an annual Company contribution of 2% of their base pay in exchange for forfeiting accelerated benefits under the pension plan.

The changes in the pension plans' benefit obligations were as follows:

	2000	1999
Obligation at January 1	\$423,132	\$438,704
Service cost	12,321	13,955
Interest cost	31,077	29,618
Participant contributions	397	476
Plan amendments	278	492
Actuarial loss (gain)	8,918	(39,620)
Benefit payments	(25,453)	(21,171)
Currency translation	(5,036)	678
Obligation at December 31	\$445,634	\$423,132

The changes in the fair values of the pension plans' assets were as follows:

	2000	1999
Plan assets at January 1	\$475,811	\$431,161
Actual return on plan assets	491	59,680
Employer contributions	7,223	4,736
Participant contributions	397	476
Benefit payments	(25,453)	(21,171)
Currency translation	(5,772)	929
Plan assets at December 31	\$452,697	\$475,811

The funded status of the pension plans at December 31, 2000 and 1999, was as follows:

	2000	1999
Plan assets in excess of projected benefit obligations	\$ 7,064	\$52,679
Unrecognized net loss (gain)	5,320	(44,604)
Unrecognized prior service cost	9,673	10,696
Unrecognized transition assets, net	(1,313)	(1,830)
Prepaid pension expense recognized in the balance sheet	\$20,744	\$16,941

The prepaid pension expense recognized in the consolidated balance sheets was composed of:

	2000	1999
Prepaid pension cost	\$30,685	\$26,279
Accrued pension liability	(13,055)	(12,010)
Intangible asset	1,893	1,880
Other comprehensive income	1,221	792
Prepaid pension expense recognized in the balance sheet	\$20,744	\$16,941

A domestic non-qualified pension plan comprised the largest portion of the pension plans in which the accumulated benefit obligation (ABO) exceeded plan assets at December 31, 2000 and 1999. The aggregate ABO of such plans at December 31, 2000 and 1999, was \$12,316 and \$11,998, respectively; the aggregate fair value of plan assets was \$0 at December 31, 2000 and 1999.

A summary of the components of total pension expense was as follows:

	2000	1999	1998
Service cost – benefits earned during the year	\$12,321	\$13,955	\$13,013
Interest cost on projected benefit obligation	31,077	29,618	28,180
Expected return on plan assets	(40,733)	(37,148)	(34,494)
Amortization of transition asset	(436)	(453)	(452)
Amortization of prior service cost	1,177	1,272	1,123
Amortization of net (gain) loss	(209)	347	318
Net pension cost of defined benefit plans	3,197	7,591	7,688
Settlement, curtailments and special termination benefits	—	—	178
Defined contribution plans	2,040	2,393	2,090
Total pension expense	\$ 5,237	\$ 9,984	\$ 9,956

Weighted-average assumptions used in accounting for the defined benefit plans as of December 31, 2000 and 1999, were as follows:

	2000	1999
Discount rate	7.4%	7.6%
Rate of increase in compensation	4.9%	4.9%
Expected return on plan assets	8.9%	8.9%

U.S. plan assets consist of fixed income and equity securities. Non-U.S. plan assets are invested in non-U.S. insurance contracts and non-U.S. equity and fixed income securities. The company does not have, and does not provide for, any post-retirement or postemployment benefits other than pensions.

The Cleveland, Ohio, area operations have a Guaranteed Continuous Employment Plan covering substantially all employees which, in general, provides that the Company will provide work for at least 75% of every standard work week (presently 40 hours). This plan does not guarantee employment when the Company's ability to continue normal operations is seriously restricted by events beyond the control of the Company. The Company has reserved the right to terminate this plan effective at the end of a calendar year by giving notice of such termination not less than six months prior to the end of such year.

NOTE G — SEGMENT INFORMATION

The Company's primary business is the design, manufacture and sale, in the U.S. and international markets, of arc, cutting and other welding products. The Company manages its operations by geographic location and has three reportable segments: the United States, Europe and all other foreign countries. Each operating unit is managed separately because each faces a distinct economic environment, a different customer base and a varying level of competition and market sophistication. Segment performance and resource allocation is measured based on income before interest and income taxes. The accounting policies of the reportable segments are the same as those described in Note A – Significant Accounting Policies. Financial information for the reportable segments follows:

	United States	Europe	Other Countries	Eliminations	Consolidated
2000:					
Net sales to unaffiliated customers	\$705,086	\$185,340	\$168,175	\$ —	\$1,058,601
Inter-segment sales	70,146	12,108	21,936	(104,190)	—
Total	\$775,232	\$197,448	\$190,111	\$(104,190)	\$1,058,601
Income before interest and income taxes	\$109,202	\$ 9,571	\$ 8,574	\$ 981	\$ 128,328
Interest income					732
Interest expense					(7,383)
Income before income taxes					\$ 121,677
Total assets	\$507,826	\$184,703	\$189,253	\$ (91,503)	\$ 790,279
Capital expenditures	20,742	3,545	10,425	88	34,800
Depreciation and amortization	23,806	6,191	5,381	(666)	34,712
1999:					
Net sales to unaffiliated customers	\$744,035	\$186,615	\$155,526	\$ —	\$1,086,176
Inter-segment sales	62,439	9,668	16,378	(88,485)	—
Total	\$806,474	\$196,283	\$171,904	\$(88,485)	\$1,086,176
Income before interest and income taxes	\$ 99,870	\$ 10,599	\$ 8,090	\$ (204)	\$ 118,355
Interest income					1,413
Interest expense					(5,517)
Income before income taxes					\$ 114,251
Total assets	\$543,948	\$164,978	\$140,064	\$ (73,591)	\$ 775,399
Capital expenditures	38,996	7,045	19,008	(1,726)	63,323
Depreciation and amortization	18,645	6,847	4,255	(625)	29,122

	United States	Europe	Other Countries	Eliminations	Consolidated
1998:					
Net sales to unaffiliated customers	\$816,562	\$208,782	\$161,335	\$ —	\$1,186,679
Inter-segment sales	69,586	9,775	12,030	(91,391)	—
Total	\$886,148	\$218,557	\$173,365	\$(91,391)	\$1,186,679
Income before interest and income taxes	\$125,693	\$ 14,935	\$ 10,191	\$ (2,198)	\$ 148,621
Interest income					4,119
Interest expense					(5,676)
Income before income taxes					\$ 147,064
Total assets	\$542,462	\$186,666	\$119,344	\$(65,566)	\$ 782,906
Capital expenditures	52,632	11,109	19,542	(1,872)	81,411
Depreciation and amortization	18,431	6,704	3,485	(541)	28,079

The United States segment for 2000 included a net charge of \$13,399 for costs associated with the lapsed Charter plc offer, net of proceeds from settlement of a dispute with one of the Company's product liability insurance carriers. The United States segment for 1999 included a \$32,015 charge related to the sale of the motor business. See Note H for further information.

Inter-segment sales between reportable segments are accounted for at prices comparable to normal, customer sales and are eliminated in consolidation. Export sales (excluding intercompany sales) from the United States were \$60,223 in 2000, \$66,019 in 1999 and \$92,461 in 1998. No individual customer comprised more than 10% of the Company's total revenues for the three years ended December 31, 2000.

The geographic split of the Company's revenues, based on customer location, and property, plant and equipment was as follows:

	2000	1999	1998
Revenues:			
United States	\$ 644,863	\$ 678,017	\$ 724,101
Foreign countries	413,738	408,159	462,578
Total	\$1,058,601	\$1,086,176	\$1,186,679
Property, plant and equipment:			
United States	\$ 172,838	\$ 176,256	\$ 174,188
Foreign countries	99,706	99,494	89,375
Eliminations	(3,531)	(4,960)	(3,772)
Total	\$ 269,013	\$ 270,790	\$ 259,791

Revenues derived from customers and property, plant and equipment in any individual foreign country were not material for disclosure.

NOTE H — ACQUISITIONS AND DIVESTITURE

On April 26, 2000, the Company made a cash offer in the United Kingdom to purchase all of the outstanding shares of Charter plc, a British industrial holding company. In October 2000, the Company's offer to purchase Charter plc lapsed. As a result, the acquisition was not completed and the Company recorded an additional after-tax charge of \$11,608 (\$0.27 per diluted share) during the fourth quarter of 2000, representing remaining costs associated with the lapsed bid. For the year, the Company recorded total non-recurring charges of \$13,399 (\$8,126 after-tax) in Other income and expense. Of this amount, the quarter ended June 30, 2000, included a net gain of \$10,183 (\$6,273 after-tax) principally related to proceeds received in settlement of a dispute with one of the Company's product liability insurance carriers. In addition, the quarter ended September 30, 2000, included a net charge of \$4,396 (\$2,791 after-tax) principally related to costs of foreign currency options purchased in connection with the lapsed Charter plc bid. During the period in which the Charter acquisition was pending, the Company had suspended dividend payments and its share repurchase program; both were reinstated in December 2000 upon lapse of the offer.

During the first quarter of 2000, the Company acquired a 35% equity interest in Kuang Tai, a Taiwan-based manufacturer of welding wire, for \$16.7 million and 100% of C.I.F.E. S.r.l., an Italian-based manufacturer of MIG wire, for \$2.5 million, plus assumed debt of \$10.1 million, which was accounted for as a purchase.

On May 28, 1999, the Company sold its motor business to Regal-Beloit, Inc. The Company recorded a pre-tax charge of \$32,015 (\$19,721 after-tax, or \$0.43 per diluted share) reflecting the loss on the sale of motor business assets. The results of operations from the motor business were not material to the Company for the years ended December 31, 1999 and 1998.

NOTE I — FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company has various financial instruments, including cash, cash equivalents, marketable securities, short- and long-term debt, forward contracts and an interest rate swap. The Company has determined the estimated fair value of these financial instruments by using available market information and appropriate valuation methodologies that require judgment.

The Company enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. This hedging minimizes the impact of foreign exchange rate movements on the Company's operating results. The total notional value of forward currency exchange contracts was \$28,312 at December 31, 2000, and \$50,030 at December 31, 1999, which approximated fair value.

The carrying amounts and estimated fair value of the Company's significant financial instruments at December 31, 2000 and 1999, were as follows:

	December 31, 2000		December 31, 1999	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Cash and cash equivalents	\$11,319	\$11,319	\$ 8,675	\$ 8,675
Notes payable to banks	42,549	42,549	16,425	16,425
Long-term debt (including current portion)	51,143	51,286	58,710	58,342
Interest rate swap agreements payable	—	234	—	561

NOTE J — OPERATING LEASES

The Company leases sales offices, warehouses and distribution centers, office equipment and data processing equipment. Such leases, some of which are noncancelable and, in many cases, include renewals, expire at various dates. The Company pays most maintenance, insurance and taxes relating to leased assets. Rental expense was \$8,931 in 2000, \$8,902 in 1999 and \$7,297 in 1998.

At December 31, 2000, total minimum lease payments for noncancelable operating leases were \$6,740 in 2001, \$5,000 in 2002, \$3,795 in 2003, \$2,213 in 2004, \$1,653 in 2005 and \$1,302 thereafter.

NOTE K — CONTINGENCIES

The Company is subject, from time to time, to a variety of civil and administrative proceedings arising out of its normal operations, including, without limitation, product liability claims and health, safety and environmental claims. The Company believes it has meritorious defenses to these claims and intends to contest such suits vigorously. All costs associated with these claims, including defense and settlements, have been immaterial to the Company's consolidated financial statements. Based on the Company's historical experience in litigating these claims, including a significant number of dismissals, summary judgments and defense verdicts in many cases and immaterial settlement amounts, the Company believes resolution of these claims and proceedings, individually or in the aggregate, will not have a material adverse impact upon the Company's consolidated financial statements.

NOTE L — QUARTERLY FINANCIAL DATA (UNAUDITED)

2000	Mar 31	Jun 30	Sep 30	Dec 31
Net sales	\$281,804	\$274,238	\$251,198	\$251,361
Gross profit	96,115	91,973	81,151	85,859
Income before income taxes	38,373	46,268	24,682	12,354
Net income	24,398	29,358	15,675	8,661
Basic earnings per share	\$ 0.56	\$ 0.69	\$ 0.37	\$ 0.20
Diluted earnings per share	\$ 0.56	\$ 0.69	\$ 0.37	\$ 0.20
1999	Mar 31	Jun 30	Sep 30	Dec 31
Net sales	\$282,868	\$273,498	\$265,937	\$263,873
Gross profit	96,567	93,588	91,233	90,391
Income before income taxes	5,661	36,376	36,411	35,803
Net income	4,307	23,335	23,303	22,995
Basic earnings per share	\$ 0.09	\$ 0.51	\$ 0.52	\$ 0.51
Diluted earnings per share	\$ 0.09	\$ 0.51	\$ 0.51	\$ 0.51

The quarter ended June 30, 2000, includes a net gain of \$10,183 (\$6,273 after-tax) principally related to proceeds received in settlement of a dispute with one of the Company's product liability insurance carriers.

The quarter ended September 30, 2000, includes a net charge of \$4,396 (\$2,791 after-tax) principally related to costs of foreign currency options purchased in connection with the lapsed Charter plc bid.

The quarter ended December 31, 2000, includes a charge of \$19,186 (\$11,608 after-tax) related to costs associated with the lapsed Charter plc bid.

The quarter ended March 31, 1999, includes a \$32,015 pre-tax charge (\$19,721 after-tax or \$0.43 per diluted share) related to the sale of the motor business. See Note H for further information.

The quarterly earnings per share (EPS) amounts are each calculated independently. Therefore, the sum of the quarterly EPS amounts may not equal the annual totals due to share transactions that occurred during the years presented.

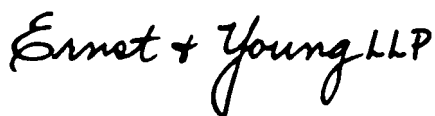
Report of Independent Auditors

SHAREHOLDERS AND BOARD OF DIRECTORS LINCOLN ELECTRIC HOLDINGS, INC.

We have audited the consolidated balance sheets of Lincoln Electric Holdings, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln Electric Holdings, Inc. and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Cleveland, Ohio
January 31, 2001