



In 1999 we saw the start of a recovery in Asian and Far Eastern markets, steady progress in the industrial markets of North America and slow markets in Europe generally. We had a stronger result in the second half of 1999, with higher growth of sales and profits over the second half of 1998 than in the first half year. Operating profits at £42.7 million were marginally up on 1998 (pre-exceptional), most notably in Korea, China, Brazil and Watson-Marlow Bredel USA. Profits were significantly lower in the Spirax Sarco operation in South Carolina, USA, where additional costs were incurred in restoring the service to the market following our factory move. Excluding Spirax Sarco, Inc., the operating profits of the Group increased by 7% in 1999. Our focus on the steam and peristaltic pump markets and our wide customer base have allowed us to increase our sales during 1999, and we have many opportunities to broaden our product offering, to continue to improve the way we operate through IT and internet applications, and to strengthen our approach in selected market areas. We continue to pursue these actively.

Following the stronger second half year, the turnover for the Group in the full year was £258.9 million, which compares with £249.0 million in 1998, an increase of 4%, mainly due to a good recovery in sales in Asia from the depressed 1998 levels. A small 1% contribution to sales growth from acquisitions was matched by a similar disbenefit from exchange rate movements.

The operating profit for the year was £42.7 million, which represents an increase of 1% on the 1998 pre-exceptional profit of £42.4 million (£32.3million after exceptional items relating to the factory move in the USA). The effect of exchange rate movements on the 1999 profit was small. The Group's operating profit margin at 16.5% remained at a healthy level in 1999 and compares with 17.0% in 1998.

In April 1999 we acquired Byvap, a small French steam trap manufacturer, for £1.2 million and it has traded in line with our expectations. On 10th January 2000 we acquired Alitea, a specialist peristaltic pump manufacturer in Sweden, for £1.9 million and trading has started well.

Net interest payable was £1.0 million (1998: £0.2 million), the increase arises from the extra debt associated with the share buy-back. Profit before tax was therefore £41.8 million and compares with £42.3 million in 1998 (£30.6 million after the exceptional item).

The tax charge in 1999 was 30.4%, which compares with a pre-exceptional tax charge in 1998 of 32.7%. Earnings per share were 36.1p, which is an increase of 5% compared with the pre-exceptional 34.5p in 1998, (24.1p after the exceptional item). The Board has decided to recommend a final dividend of 12.1p per share, which, together with the interim dividend of 5.2p per share, makes a total dividend for the year of 17.3p per share. This compares with a total dividend of 16.5p per share in 1998, an increase of 5%. The total dividend cost is £13.1 million and is covered 2.1 times by earnings.

In October 1998, we announced that, in order to improve the efficiency of our balance sheet, we would buy back in the market up to 5%

of the issued shares of the company. In November 1999 we announced the intention to buy back a further 5%, and this latter programme was only partially completed before the end of the year. During 1999, 4,505,032 shares were purchased and cancelled for a total consideration of £22.6 million (including costs), at an average price of 498.2p per share. The total shares bought back in both years represent 7.1% of the shares in issue. Consistent with this policy, no scrip alternative to the cash dividend will be offered.

Capital expenditure was £15.7 million, compared with £17.3 million in 1998, which included £5.3 million relating to the new plant in South Carolina.

The Group's solid underlying cash flow continued in 1999, although net debt increased by £18.7 million to £34.8 million during 1999 due to the share buy-back. Net gearing at 31st December 1999 was 28% (1998: 12%) and interest was covered forty-four times.

The Board has reviewed the Group's system of internal controls, including financial, operational, compliance and risk management, and has established procedures necessary to comply with the requirements of the Combined Code.

On 31st December 1999, Bob Dodsworth retired as a non-executive director after serving on the Board for nine years; he was also senior independent director. During that time, he was a source of wise advice, and I would like to record the Board's gratitude for his contribution.

Mike Townsend became the senior independent director in place of Bob Dodsworth. The Board was pleased to welcome Einar Lindh, an executive director of Smiths Industries plc, when he joined the Board, on 1st January 2000, as an independent non-executive director.

In 1999 we have been making the continuing changes that are needed to push through the development of the Group's business and to take advantage of the substantial potential that

is open to us. Everyone in the Group has risen with enthusiasm to the challenge presented by all these changes, and I thank them for their contribution.

PROSPECTS

There is good potential for the Spirax Sarco and Watson-Marlow Bredel businesses to grow through the increase of both geographical and product market share. Sales increased in the second half of 1999, and 2000 has started positively. Given continuation of the recent trading environment, we would expect to see good growth in 2000 by building on our technical and commercial strengths, from the resilience of our steam and peristaltic pump businesses, through progress in the USA and by capitalising on our recent investments.



T.B. FORTUNE *Chairman*