

## CHAIRMAN'S STATEMENT

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The results for the first half of 1999 represent a sound performance by our worldwide businesses generally. We achieved growth in our underlying sales and profits, which was offset by the effects of delays in the build-up of output from our new plant in the USA, as indicated in my statement in March. The long term investment in our steam and peristaltic pumping business, together with our fundamental strengths, has allowed us to take advantage of those markets where opportunities for growth have arisen in a generally difficult world economy.

Turnover in the first half was £127 million compared with £123 million in the first half of 1998, an increase of 3%. The net effect of exchange rates on both turnover and profits as compared with the first half of 1998 has been negligible, although sterling remains essentially strong.

On a like-for-like basis, excluding the effects of exchange rate movements and acquisitions, turnover was up 1%.

Operating profit was £19.1 million in the first half of 1999, as against operating profit before exceptional items of £20.2 million in 1998, a reduction of 5%, and representing an operating profit margin of 15.1%. If the effect of the reduced performance in the USA were excluded, the underlying operating profit increased by 2%, and the operating profit margin was broadly unchanged from the 16.4% pre-exceptional operating profit margin in the first half of 1998.

Net interest payable was £0.5 million, compared with £0.1 million in the first half of 1998, principally due to the increase in net debt arising from the share buy-back, to which I refer later. The charge in the first half of 1999 for amortisation of goodwill on acquisitions was £0.1 million. Profit before tax was £18.6 million, compared with profit before tax and exceptional items of £20.1 million in the first half of last year. The tax charge was 33.0% (1998 pre-exceptional: 33.6%). Earnings per share were 15.3p (1998 pre-exceptional: 16.2p).

### TRADING

Our niche businesses address their markets in similar ways, by providing support and expertise to end users directly, and through distributors, OEMs and contractors. This is achieved by offering levels of knowledge, service and product which our product based competitors cannot match. The steam speciality market, supplied by Spirax Sarco, and the peristaltic pumping market supplied by Watson-Marlow Bredel, are present worldwide in a diverse range of industries and customers. We cover these markets by employing over 800 skilled sales engineers, who are able to analyse customers' requirements and offer complete solutions, which are aimed at helping customers to improve the quality of their product, to improve the consistency of their processes, and to reduce costs, which often take the form of energy savings with the attendant environmental benefits.

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Our sales operations in the UK have encountered difficult market conditions, in which industrial activity continues to be adversely affected by the strength of sterling. Sales and profits were flat.

In Continental Europe, our markets have been slower overall than in 1998, although the performances have been mixed. Our companies in France, Belgium, Poland, Portugal and Sweden pushed ahead well in sales and profits terms. In April we acquired Byvap, a small French steam trap manufacturer, for a total cost of £1.1 million, and integration into our French company is progressing well. In Germany, the market was particularly difficult, as it was in Italy and Denmark. Bredel performed strongly on the back of good demand. There are signs that confidence may be beginning to return in some of the Continental European economies.

In the USA, as we explained in March, it is taking longer than we had anticipated to build up the rate of production in our new Spirax Sarco plant in South Carolina. We continue to invest in new technology and have seconded experienced management support from the UK to assist our US management team in the build-up of the new workforce and infrastructure. The production delays have affected product supply, and we have taken steps to mitigate the effect on the market. Good progress has been made, and customer service levels will be restored by the end of the year. The USA profits have, however, been much lower in the first six months of 1999 than in the same period in 1998. The underlying cost savings are, nevertheless, much in line with expectations, and benefits will be felt in 2000 following the restoration of manufacturing and sales volumes.

Our Watson-Marlow Bredel operation in North America continues to expand its presence and its sales, and has been picking up some good orders for shipment in the second half. Our Brazilian company performed well, increasing profits under difficult circumstances; although depressed, the economy has been surprisingly resilient following the devaluation of the Real. Our Canadian company also had a good half year. Our Argentinian and Mexican companies have encountered tough trading conditions, and the Argentinian domestic market has been affected by the increased competitiveness of the Brazilian economy.

In our International markets (those outside Europe and the Americas), there has been an improved performance, with a recovery in sales and profits as compared with the first half of 1998. There are signs of an up-turn in Asia generally, although it is mixed and still fragile. Our Korean company pushed ahead with sales and profits, as did Taiwan. Our developing Chinese operation continued its profitable expansion. The Japanese, Malaysian and South African economies remain weak, which was reflected in the results of our local companies. Nevertheless, there was good progress overall in the region, and, unless there is another shock to the system, the gradual recovery seems likely to continue.

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Our Supply organisations in the UK and France performed well in the first half of 1999, and demand is returning following the de-stocking in 1998 by our Asian companies associated with the Far Eastern crisis. We continue to develop and release additions and modifications to our product ranges. We have also made progress with improving productivity and with reducing material costs, either through re-design or resourcing.

#### BALANCE SHEET AND CASH FLOW

Capital employed (net assets plus net debt) increased during the period, reflecting the growth in sales, acquisitions and a small rise in stocks. Capital expenditure was £5.7 million as against £8.3 million in the first half of last year. In line with FRS10, goodwill on acquisitions since 1st January 1998 is being amortised over twenty years, giving a non-cash charge of £0.1 million in the first half. There was an increase in net debt in the period of £10.1 million, which included £1.1 million in respect of the Byvap acquisition and £8.4 million in respect of a further 1.6 million shares purchased and cancelled under the share buy-back programme. Since announcing our intentions last October, we have bought back 2.7 million shares for £14.4 million. Net debt at 30th June was £26.2 million, which compares with £16.1 million at 31st December 1998.

#### MILLENNIUM COMPLIANCE

The task of ensuring millennium compliance of all critical elements of Group systems is nearing completion. The Group has applied a planned programme to cover material risks in both IT systems and general business operations. The work includes minimisation of risks of third party (mainly supplier) non-compliance, and creation of contingency plans.

#### DIVIDEND

The Board has declared an interim dividend of 5.2p (1998: 5.0p) per ordinary share, an increase of 4%, which will be paid on 12th November 1999 to shareholders on the register at the close of business on 24th September 1999. No scrip alternative to the cash dividend is being offered in respect of the 1999 interim dividend.

#### PROSPECTS

We continue to work to restore customer service levels in the USA by the end of the year, and to develop sales growth in our steam specialty and peristaltic pumping businesses worldwide. Bearing in mind the fundamental strengths of our business, and assuming that both the recovery in Asia and returning confidence in Europe continue, we expect to make progress in the full year.



Tim Fortune, Chairman  
9th September 1999