

C hairman's Statement

I am pleased to report a solid set of results for the Group. The good growth achieved in the first half continued through the second half of 2000. Turnover for the year was £278 million, as against £259 million in 1999, an increase of 7% which included organic growth of 6%. The sales growth was relatively widespread, and was particularly strong in Asia, although this was offset by weakness in the UK and Latin America. Sales advances in Europe were negated by adverse exchange rate movements, resulting in little change in sterling terms. With our concentration on the niche markets in which we operate and our high level of sales support and customer service, we have clear plans for continued growth through new products and improved market developments which we are currently implementing.

The Group's operating profit for the year was up 2% from £42.7 million in 1999 to £43.4 million despite an adverse exchange rate effect of £1½ million. The good underlying results, particularly in Asia, and the improvement, in line with expectations, in Spirax Sarco Inc. were offset by lower profits in the weak UK and Latin American markets together with the exchange rate impact in Europe. During the year we increased our investments in sales, IT and product development to realise the future growth of which we are confident. The operating profit margin was slightly lower but remained strong at 15.6%, and the return on capital employed remained high, at 26%.

On 10th January 2000 we acquired Alitea, a small Swedish manufacturer of high precision peristaltic pumps, for £1.9 million. On 31st October 2000 we acquired M&M International for £6.9 million; this company is based in Italy and manufactures solenoid valves and piston actuated valves. These acquisitions added about 1% to the Group's turnover, and have performed in line with our expectations.

The net interest charge rose from £1.0 million in 1999 to £2.2 million in 2000 due to the extra debt arising from the acquisitions and the cost of buying back a further 1.7 million shares, the overall net benefit of

which is reflected in earnings per share. During the year there was a non-operating item which was a loss on disposal of property in the USA of £1.0 million. Profit before tax for the year was £40.2 million and excluding the non-operating item was £41.2 million, compared with £41.8 million in 1999. Amortisation of goodwill was £0.4 million (1999: £0.2 million).

The tax charge, excluding the non-operating item, was 30.1% compared with 30.4% in 1999 and minority interests were marginally lower at £0.9 million. Earnings per share were 35.4p and, excluding the non-operating item, were 37.4p compared with 36.1p in 1999, an increase of 4%. The Board is recommending a final dividend of 12.6p which, with the 5.4p interim dividend, makes a total for the year of 18.0p compared with 17.3p in 1999, an increase of 4%. The combined cost of the interim and final dividends is £13.3 million which is covered 2.1 times by adjusted earnings. No scrip dividend alternative will be offered.

Capital expenditure for the year was £16.2 million compared with £15.8 million in 1999. The company will continue to maintain a healthy level of investment in order to develop the business further. In addition to the asset purchases, there were capital disposals in the year of £5.9 million (1999: £1.4 million), including property in the USA.

Operating cash flow was again strong in 2000. However, net debt increased by £10.8 million to £45.6 million at 31st December 2000 due to the acquisition of Alitea and M&M International for a total of £8.0 million, the outflow of £5.9 million in respect of the repurchase of shares and an adverse exchange translation effect of £2.2 million. Gearing at 31st December 2000 was 34% (1999: 28%).

Since 1992, the Group has operated employee share schemes which are coming to the end of their term. The Board is clear that these schemes are beneficial to the operation of the Group and provide motivation to UK employees and to the Group's senior management around the world. We are therefore seeking shareholder approval for broadly similar schemes at the forthcoming Annual General Meeting in April.

Chairman's Statement

The Spirax Sarco Group is spread widely across the world, with teams of people focusing on specific markets and product ranges. There are many developments within our markets which are leading to the increasing need for change, for improvement and for teams to work together. Right across the Group, our people are rising with enthusiasm to these challenges and my thanks go to all our employees for their dedication and willingness to change.

PROSPECTS

The industrial and commercial world continues to rely on the unique properties of steam in heat using processes and space heating requirements, and an increasing number of organisations are discovering the benefits that peristaltic pumps offer over other pump principles. This, together with the opportunities presented by technological advances, environmental and health & safety requirements and the addition of new products to our ranges, means that we have good potential for growth. Given stable world economic conditions, we expect a good performance in 2001 as we use the fundamental strengths of our technical selling and customer support structure to capitalise on our recent investments in products and marketing capabilities.



T.B. FORTUNE *Chairman*



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