

## CHAIRMAN'S STATEMENT

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The results for the first half of 2000 reflect a continuation of the positive start to the year that was reported in March. They represent good progress based upon the underlying strengths of our niche businesses, which have been operating in a mixed economic environment and with pressure on some margins arising from the weak euro. Stronger business levels in Asia, the USA, and parts of Continental Europe were partially offset by weaker demand in the UK. We continued to invest in the identified growth opportunities for our steam related and peristaltic pumping businesses, particularly by improving the knowledge and service provided to our customers and extending our product offerings; these create added value for our customers which goes beyond pure product specification.

The first half turnover was £133 million compared with £127 million in the same period in 1999, an increase of 6%. This included 0.6% in respect of the acquisition on 10th January of Alitea, a small Swedish peristaltic pump manufacturer. Excluding acquisitions, and at constant exchange rates, organic turnover increased by 7%.

Operating profit increased by 1% to £19.2 million despite adverse exchange rate effects of £1¼ million, which also accounted for virtually all of the reduction in the operating profit margin to 14.4% from 15.1%. On a like for like basis, excluding the effects of exchange rates and acquisitions, operating profits were up 7%. The charge for amortisation of goodwill in the first six months of 2000 was £0.2 million, compared with £0.1 million in the same period last year. During the period, the sales of the site in Allentown, USA, was completed for a value of £2.7m and a loss on disposal of £0.9m was incurred.

The net interest charge was £1.0 million, an increase from £0.5 million in the first half of 1999, due to the extra debt arising from the continuing share buy-back programme. Profit before tax and before the loss on disposal of fixed assets was £18.2 million, a reduction of £0.4 million on the first half of last year. The tax charge was 32% (1999: 33%). Earnings per share before the loss on disposal of fixed assets were 16.0p compared with 15.3p last year, an increase of 5%. After the loss on disposal of fixed assets, earnings per share were 15.1p

### TRADING

Our focused specialist businesses have a presence worldwide and serve their customers by providing solutions and technical support, together with excellent service and product availability anywhere in the world. This is usually achieved by direct contact with customers and by visiting and advising at their plants. Customers for Spirax Sarco's steam and related process control equipment or Watson-Marlow Bredel's peristaltic pumps are present in virtually all industrial sectors and vary in size from small companies to the very large industrial groups.

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Our sales engineers, of whom there are 800 worldwide, are equipped to give advice to customers on how to improve plant efficiency, process repeatability, energy conservation and quality. Within our chosen specialties of steam for process and peristaltic pumping, we are the market leaders and able to provide the full range of equipment as a single source supplier to solve our customers' problems. Electronic communication is playing an increasingly important part in supporting our sales engineers with the provision of knowledge and service to our customers, and we continue to invest in our commercial communication and web sites. We also continued the development of the Spirax Sarco and Watson-Marlow Bredel ranges, and a number of new products were released during the first half of 2000 and product alliances have progressed well.

Our UK domestic sales operations encountered difficult market conditions, with the gradual run down of industrial capacity, attributed partly to the persistent strengthening of sterling, particularly as against the weak euro. Although the range of products and services has been expanded, sales and operating profits were lower in the first half of 2000. Our UK Supply operations benefited from a higher level of demand from our companies overseas and pursued their ongoing strategy to reduce costs, including moving material sourcing outside Europe and improving productivity.

Trading conditions in Continental Europe generally improved during the period, boosted by increasing demand from export orientated customers, although the project business remained low. The Watson-Marlow Bredel companies continued their overall growth record, and Alitea (acquired on 10th January 2000) performed well, as expected. In the Spirax Sarco markets there was growth in turnover in local currency in most of our European markets, although our French company found market conditions tough, and the Czech and Slovak economies were weak. Our operations in Finland, Norway, Portugal, Spain and Switzerland all made good sales gains, and the Italian and German companies started to improve after a tough year in 1999. Our Supply companies in France, Germany, the Netherlands and Spain all experienced a good level of demand and, like the UK factories, are taking actions to reduce total manufacturing costs. Overall, the weakness of the euro meant that the adverse exchange rate effect on turnover from translation was 9%. The operating profits in Continental Europe declined due to the impact of exchange rate movements, both in respect of products sourced from the UK and on translation; at constant exchange rates, operating profits were up.

In the Americas, there was overall growth in turnover and operating profits. In North America, our companies in the USA and Mexico made progress, especially the Watson-Marlow Bredel sales organisation in the USA, which won some large orders for shipment in the second half of the year. Our new factory in South Carolina continued to improve its delivery performance and customer service, and contributed an improved profit; it is making the progress outlined in March and grew sales in the first half of 2000. In South America, operating profits were down, with the Argentinian economy remaining depressed and little improvement yet in our market in Brazil.

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The good improvement in the International markets (those countries outside Europe and the Americas), which started in 1999, has continued in the first six months of 2000, with strong growth in sales and profits overall. Our Korean company pushed ahead particularly strongly, and our companies in Australia, Malaysia, New Zealand and Thailand made gains, as did our Japanese operation, even though the economy remained weak. In China, there was good underlying growth, offset by the non-repeat of a large pharmaceutical order in 1999, and we continued to make a healthy profit. The Taiwanese economy does not seem to have recovered from the after-effects of the earthquake last year and recent political nervousness; business remains weak.

### **BALANCE SHEET & CASH FLOW**

Capital employed (net assets plus net debt) increased during the period, reflecting the general increase in business levels. Cash inflow from operating activities was £21.3 million (1999: £18.6 million) and net capital expenditure of £6.1 million was marginally higher than the first half of last year. Net debt increased from £34.8 million to £42.2 million during the period. The increase of £7.4 million included £1.9 million in respect of the acquisition of Alitea in January and a further £2.5 million to purchase 665,000 shares under the share buy-back programme. In addition, exchange rate movements added £2.9 million to net debt. Net gearing as at 30th June was 31%, compared with 28% at the end of 1999.

### **DIVIDEND**

The Board has declared an interim dividend of 5.4p (1999: 5.2p) per ordinary share, an increase of 4%, which will be paid on 10th November 2000 to shareholders on the register at the close of business on 22nd September 2000. No scrip alternative to the cash dividend is being offered in respect of the 2000 interim dividend.

### **PROSPECTS**

We are continuing to develop our sales opportunities, building on the strengths and the reputation of our businesses and improving efficiency. We expect that the growth achieved in the first half will continue in the second half of 2000, which, assuming that the current world trading environment does not deteriorate, should give a solid result for the full year.

A handwritten signature in blue ink that reads "Tim Fortune". The signature is written in a cursive, flowing style.

Tim Fortune, **Chairman**  
7th September 2000