

# Interim Report

## 2000

**spirax**  
**/sarco**

## Spirax-Sarco Engineering plc

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Spirax Sarco provides knowledge, service and products worldwide for the control and efficient use of steam and other industrial fluids.

### 2000 INTERIM RESULTS

	2000	1999	Change
Turnover	<b>£133.5m</b>	£126.5m	+6%
Operating profit	<b>£19.2m</b>	£19.1m	+1%
Operating profit margin	<b>14.4%</b>	15.1%	
Profit before taxation and the loss on disposal of fixed assets	<b>£18.2m</b>	£18.6m	-2%
Earnings per share before the loss on disposal of fixed assets	<b>16.0p</b>	15.3p	+5%
Dividend per share	<b>5.4p</b>	5.2p	+4%

- Good underlying performance, offset by impact of weak euro
- Organic sales up 7%
- Strong sales and profit growth in Asia
- Growth in USA and Continental Europe, difficult trading in UK
- 5% EPS growth

## 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 style with a long horizontal line above the first name.

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

## GROUP PROFIT AND LOSS ACCOUNT

	Six months to 30th June 2000 £'000	Six months to 30th June 1999 £'000	Year ended 31st Dec 1999 £'000
<b>Turnover</b>	<b>133,486</b>	126,511	258,942
<b>Operating profit</b>	<b>19,183</b>	19,083	42,721
Loss on disposal of fixed assets	<b>(926)</b>	-	-
Profit before interest	<b>18,257</b>	19,083	42,721
Net interest payable	<b>(961)</b>	(469)	(970)
<b>Profit before taxation</b>	<b>17,296</b>	18,614	41,751
Taxation (note 3)	<b>(5,498)</b>	(6,142)	(12,693)
<b>Profit after taxation</b>	<b>11,798</b>	12,472	29,058
Minority interests - equity	<b>(494)</b>	(439)	(943)
<b>Attributable profit</b>	<b>11,304</b>	12,033	28,115
Dividends	<b>(4,028)</b>	(4,031)	(13,102)
<b>Retained profit</b>	<b>7,276</b>	8,002	15,013
<b>Earnings per share</b> (note 4)			
Before the non-operating item	<b>16.0p</b>	15.3p	36.1p
After the non-operating item	<b>15.1p</b>	15.3p	36.1p
<b>Dividends per share</b>	<b>5.4p</b>	5.2p	17.3p

See notes on page 7

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months to 30th June 2000 £'000	Six months to 30th June 1999 £'000	Year ended 31st Dec 1999 £'000
Profit for the period	<b>11,304</b>	12,033	28,115
Currency translation difference on foreign currency net investments	<b>2,976</b>	(400)	(1,857)
<b>Total recognised gains and losses relating to the period</b>	<b>14,280</b>	11,633	26,258

## GROUP BALANCE SHEET

	30th June 2000 £'000	30th June 1999 £'000	31st December 1999 £'000
<b>Fixed assets</b>			
Intangible assets	6,273	4,706	4,484
Tangible assets	85,367	81,613	84,668
	<b>91,640</b>	86,319	89,152
<b>Current assets</b>			
Stocks	61,527	56,048	57,799
Debtors	82,668	80,209	76,884
Cash deposits and short term investments	16,770	30,580	22,863
Cash at bank and in hand	3,785	5,750	2,345
	<b>164,750</b>	172,587	159,891
<b>Creditors</b>			
Amounts falling due within one year	(69,036)	(74,014)	(70,128)
<b>Net current assets</b>	<b>95,714</b>	98,573	89,763
<b>Total assets less current liabilities</b>	<b>187,354</b>	184,892	178,915
<b>Creditors</b>			
Amounts falling due after more than one year	(38,439)	(37,713)	(39,960)
<b>Provisions for liabilities and charges</b>	<b>(11,245)</b>	(10,095)	(10,218)
<b>Net assets</b>	<b>137,670</b>	137,084	128,737
<b>Capital and reserves</b>			
Called up share capital	18,648	19,480	18,751
Capital redemption reserve	1,582	678	1,416
Share premium account	32,096	31,156	31,263
Revaluation reserve	4,645	4,535	4,558
Profit and loss account	77,528	78,474	69,775
<b>Shareholders' funds - equity</b>	<b>134,499</b>	134,323	125,763
<b>Minority interests - equity</b>	<b>3,171</b>	2,761	2,974
	<b>137,670</b>	137,084	128,737

## GROUP CASH FLOW STATEMENT

	Six months to 30th June 2000 £'000	Six months to 30th June 1999 £'000	Year ended 31st December 1999 £'000
Operating profit	<b>19,183</b>	19,083	42,721
Depreciation charges	<b>5,562</b>	5,435	10,571
Increase in stocks	<b>(1,787)</b>	(2,653)	(4,718)
Increase in debtors	<b>(1,821)</b>	(4,583)	(6,549)
Increase in creditors and provisions	<b>124</b>	1,327	84
Cash flow from operating activities	<b>21,261</b>	18,609	42,109
Net interest paid	<b>(853)</b>	(427)	(875)
Dividends paid by subsidiary undertakings to minority interests	<b>(419)</b>	(196)	(500)
Taxation	<b>(5,877)</b>	(5,919)	(10,583)
Purchase of tangible fixed assets	<b>(9,343)</b>	(5,708)	(15,750)
Sales of tangible fixed assets	<b>3,226</b>	185	1,368
Acquisitions	<b>(1,852)</b>	(1,111)	(1,519)
Equity dividends paid	<b>(9,076)</b>	(9,083)	(13,523)
Cash outflow before use of liquid resources and financing	<b>(2,933)</b>	(3,650)	727
Management of liquid resources	<b>6,423</b>	5,624	12,772
	<b>3,490</b>	1,974	13,499
Financing - Issue of ordinary share capital	<b>897</b>	1,251	1,367
Share buy-back	<b>(2,478)</b>	(8,373)	(22,604)
Increase in debt	<b>296</b>	(2,442)	5,119
	<b>(1,285)</b>	(9,564)	(16,118)
<b>Increase/(decrease) in cash in the period</b>	<b>2,205</b>	(7,590)	(2,619)
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
Increase/(decrease) in cash in the period	<b>2,205</b>	(7,590)	(2,619)
Cash inflow from increase in debt and lease financing	<b>(296)</b>	2,442	(5,119)
Cash inflow from decrease in liquid resources	<b>(6,423)</b>	(5,624)	(12,772)
Change in net debt resulting from cash flows	<b>(4,514)</b>	(10,772)	(20,510)
Amortisation of loan expenses	<b>(12)</b>	(12)	(23)
Translation difference	<b>(2,855)</b>	726	1,828
Movement in net debt in the period	<b>(7,381)</b>	(10,058)	(18,705)
Opening net debt	<b>(34,803)</b>	(16,098)	(16,098)
<b>Closing net debt</b>	<b>(42,184)</b>	(26,156)	(34,803)

## NOTES

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1. Overseas results and cash flows have been translated into sterling at average rates of exchange for each period. Foreign currency assets and liabilities have been translated at period end rates.

2. In accordance with Financial Reporting Standard 10, purchased goodwill arising on consolidation in respect of acquisitions since 1 January 1999 has been capitalised and is being amortised over 20 years.

3. Taxation has been estimated at the rate expected to be incurred in the full year.

	Six months to 30th June 2000 £'000	Six months to 30th June 1999 £'000	Year ended 31st December 1999 £'000
United Kingdom corporation tax	1,245	1,604	3,142
Overseas taxation	4,192	4,290	9,126
Deferred taxation	20	290	445
Adjustment in respect of previous years	41	(42)	(20)
	<b>5,498</b>	6,142	12,693
Tax on non-operating item	<b>278</b>	-	-
	<b>5,776</b>	6,142	12,693

4. The calculation of earnings per share before the non-operating item is based on earnings of £11,952,000 (1999: £12,033,000) and the calculation of earnings per share after the non-operating item is based on earnings of £11,304,000 (1999: £12,033,000) together with the weighted average number of shares in issue during the half year of 74,913,269 (1999: 78,687,786).

5. Capital employed is represented by net assets excluding net debt.

6. The financial information on pages 4 to 7, which is unaudited, does not amount to full accounts within the meaning of Section 240 of the Companies Act 1985 (as amended). Full accounts for 1999 with an unqualified audit report have been filed with the Registrar of Companies.

**Spirax Sarco provides knowledge, service and products worldwide for the control and efficient use of steam and other industrial fluids.**

**Spirax Sarco's position as the world leader is founded on its long held strategy of investing for growth.**

**The Group's prime financial objective is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends.**

## **SPIRAX SARCO WORLDWIDE**

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### **UNITED KINGDOM**

Spirax-Sarco Ltd.  
Spirax-Sarco Investments Ltd.  
Spirax-Sarco Overseas Ltd.  
Watson-Marlow Ltd.

### **CONTINENTAL EUROPE**

#### **Austria**

Spirax Sarco Ges. mbH

#### **Belgium**

Spirax-Sarco N.V.  
Watson-Marlow N.V.

#### **Czech Republic**

Spirax Sarco spol. s r.o.

#### **Denmark**

Spirax-Sarco Ltd. (Branch)

#### **Finland**

Spirax Oy

#### **France**

Spirax-Sarco S.A.  
Byvap Technology S.A.S.  
Watson-Marlow S.A.

#### **Germany**

Spirax-Sarco GmbH  
Hygromatik Lt. A. GmbH  
Watson-Marlow GmbH

#### **Italy**

Spirax-Sarco S.r.l.  
Watson-Marlow S.r.l.

#### **Netherlands**

Bredel Hose Pumps B.V.  
Spirax-Sarco Engineering B.V.  
Spirax-Sarco Investments B.V.  
Watson-Marlow B.V.

#### **Norway**

Spirax-Sarco Ltd. (Branch)

#### **Poland**

Spirax Sarco Sp. z o.o.

#### **Portugal**

Spirax Sarco Equip. Ind. Lda.

#### **Spain**

Spirax Sarco S.A. (95.1%)  
Especialidades Hydra S.L.

#### **Sweden**

Spirax-Sarco A.B.  
Watson-Marlow Alitea A.B.

#### **Switzerland**

Spirax-Sarco A.G.

### **AMERICAS**

#### **Argentina**

Spirax Sarco S.A.

#### **Brazil**

Spirax Sarco Ind. e Com. Ltda.

#### **Canada**

Spirax Sarco Canada Ltd.

#### **Mexico**

Spirax-Sarco Mexicana S.A. (49%)

#### **USA**

Spirax Sarco, Inc.  
Sarco International, Corp.  
Watson-Marlow, Inc.

### **INTERNATIONAL**

#### **Australia**

Spirax-Sarco Pty. Ltd.

#### **China**

Spirax Sarco Engineering (China) Ltd.

#### **India**

Spirax-Marshall Ltd. (40%)

#### **Japan**

Spirax-Sarco Ltd. (Branch)

#### **Malaysia**

Spirax-Sarco Sdn. Bhd.

#### **New Zealand**

Spirax Sarco Ltd. (80%)

#### **Singapore**

Spirax-Sarco (Private) Ltd.

#### **South Africa**

Spirax-Sarco (Pty.) Ltd.

#### **South Korea**

Spirax-Sarco (Korea) Ltd. (97.5%)

#### **Taiwan**

Spirax Sarco Co. Ltd.

#### **Thailand**

Spirax Sarco (Thailand) Ltd.

100% owned except where indicated.

**Spirax-Sarco Engineering plc**

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