

CHAIRMAN'S STATEMENT

I am pleased to report further progress during the first half of 2001, despite the less stable state of a number of the world's economies. We achieved growth in our sales and profits by building on the strengths of our global coverage, unique technical knowledge and support for our focused industrial and commercial steam and peristaltic pumping markets. The overall effect of exchange rate movements was relatively small, with a strengthening of the US dollar and, to a smaller extent, the euro, partially offset by the weakness of some Asian currencies (notably the Korean Won) and the Brazilian Real.

Sales in the first half year were £146 million compared with £133 million in the first half of 2000, an increase of 9%, reflecting growth in most markets but lower sales in Latin America. Exchange rate movements added 2% to turnover. M&M, the small Italian based manufacturer of solenoid and piston actuated valves, which was acquired in October 2000, also added 2% to Group sales. Organic growth, excluding acquisitions and exchange movements, was 5%.

Operating profit was £19.9 million in the first half, an increase of 4% on 2000. The operating profit margin was reduced from 14.4% in 2000 to 13.7% in 2001 due largely to the weak market in Mexico, excluding which, the Group's operating profit would have been up 8%. The charge for amortisation of goodwill was £0.3 million (2000: £0.2 million). During the first half of 2001 a non-operating profit of £0.6 million was realised on disposal of fixed assets. The first half of 2000 included a £0.9m non-operating loss on disposal of fixed assets.

Net interest payable for the first half was £1.5 million, an increase of £0.5 million on the same period in 2000, mainly due to the higher borrowings arising from the share buy-back programme and the acquisition of M&M. Profit before tax and before the non-operating item was £18.4 million (2000: £18.2 million), and after the non-operating item was £19.0 million (2000: £17.3 million). The tax charge was 31% (2000: 32%). The profit attributable to minority interests fell by £0.2 million. Earnings per share before the non-operating item were 16.6p, which compares with 16.0p in 2000, an increase of 4%. After the non-operating item, earnings per share were 17.5p (2000: 15.1p).

TRADING

The Spirax Sarco and Watson-Marlow Bredel businesses are the world leaders in providing knowledge, service and products in their respective industrial steam and peristaltic pumping markets. Our specialist knowledge is available globally and is aimed specifically at helping to improve customers' performance in energy conservation and process efficiency.

During the half year, the trading environment in the UK became steadily more difficult, with the manufacturing sector under increasing pressure. However, our sales companies performed creditably, increasing both sales and profits. The factories remained busy, but there were signs of reducing demand from Asia and the Americas in the second quarter. Further investments in sales development and IT initiatives were undertaken in 2001 which will benefit the long term growth of the Group.

In Continental Europe as a whole, we grew sales and profits including last year's acquisition of M&M and small exchange rate gains. In Belgium, Germany, Scandinavia, Spain and Switzerland, our sales operations made good gains in sales and profits. Against this, our companies in Italy and Portugal found conditions testing, where results and margins were lower. By contrast, in Eastern Europe, our companies increased margins within economies that are still depressed. The factory in France saw continuing good demand, but the Bredel factory in Holland encountered lower demand from the USA.

The economic conditions in the Americas were generally weak, with Argentina and Mexico stuck in recession but the strong US dollar generated exchange rate gains. Overall, our companies managed to increase sales but profits were unchanged due to a severe drop in Mexico where the steep fall in activity in the second half of 2000 continued in 2001 and led to a significant drop in sales and profit margin; steps to counter the situation were taken. In the USA, although industrial confidence declined, our companies grew sales and overall profits moved ahead well. The Spirax operation in South Carolina, in particular, continued to improve sales and profits.

International operations outside Europe and the Americas, started the year strongly but there was a definite slow-down in growth in the second quarter due to the increasing caution of Asian manufacturers in the light of weaker economies in Japan and the USA. However, for the first half, most of our Asian companies grew their sales, although prices were restrained in the difficult economic conditions and some local currencies, including the Korean Won, have been weak this year. Our Japanese company made progress and our Chinese operation continued its strong growth in sales and profits. The Australian and New Zealand sales companies experienced tough market conditions and sales and profits were down. Overall, profits in the region were unchanged from the first half of 2000.

BALANCE SHEET & CASH FLOW

Capital employed (net assets excluding goodwill and net debt) increased during the first half reflecting the general increase in business levels and a reduction in creditors. The cash inflow from operating activities was £20.0 million (2000: £21.3 million) and net

capital expenditure rose to £6.9 million from £6.1 million as we continued to invest in improved manufacturing efficiency. Net debt increased to £48.0 million from £45.6 million at the end of last year. Net gearing at 33% was marginally lower than at the start of the year.

DIVIDEND

The directors have declared an interim dividend for 2001 of 5.6p (2000: 5.4p) per ordinary share, an increase of 4% which will be paid on 9th November 2001 to shareholders on the register at the close of business on 12th October 2001. No scrip alternative to the cash dividend is being offered in respect of the 2001 interim dividend.

PROSPECTS

Our technical selling and support philosophy, which brings considerable added value to our customers, underpins long term growth in sales. Sales have continued to be positive since June although the weakness in Asia and Latin America has continued. While we expect to make further progress in the second half of 2001, the economic environment in which we are operating is becoming increasingly difficult to predict.



Tim Fortune, **Chairman**
6th September 2001