

Interim Report 2001

spirax
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Spirax-Sarco Engineering plc

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

2001 INTERIM RESULTS

	2001	2000	Change
Turnover	£145.6m	£133.5m	+9%
Operating profit	£19.9m	£19.2m	+4%
Operating profit margin	13.7%	14.4%	
Profit before taxation and before the profit on disposal of fixed assets	£18.4m	£18.2m	+1%
Earnings per share before the profit on disposal of fixed assets	16.6p	16.0p	+4%
Dividend per share	5.6p	5.4p	+4%

- Organic sales up 5%
- Growth broadly based
- Difficult trading in Latin America
- Signs of reducing momentum in Asia
- EPS and Dividends up 4%

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

GROUP PROFIT AND LOSS ACCOUNT

	Six months to 30th June 2001 £'000	Six months to 30th June 2000 £'000	Year ended 31st Dec 2000 £'000
Turnover	145,592	133,486	278,148
Operating profit	19,876	19,183	43,370
Profit/(loss) on disposal of fixed assets	616	(926)	(990)
Profit before interest	20,492	18,257	42,380
Net interest payable	(1,487)	(961)	(2,213)
Profit before taxation	19,005	17,296	40,167
Taxation (note 3)	(5,872)	(5,498)	(12,867)
Profit after taxation	13,133	11,798	27,300
Minority interests - equity	(269)	(494)	(933)
Attributable profit	12,864	11,304	26,367
Dividends	(4,138)	(4,028)	(13,301)
Retained profit	8,726	7,276	13,066
Earnings per share (note 4)			
Before the non-operating item	16.6p	16.0p	37.4p
After the non-operating item	17.5p	15.1p	35.4p
Dividends per share	5.6p	5.4p	18.0p

See notes on page 7

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months to 30th June 2001 £'000	Six months to 30th June 2000 £'000	Year ended 31st Dec 2000 £'000
Profit for the period	12,864	11,304	26,367
Currency translation difference on foreign currency net investments	568	2,976	1,049
Total recognised gains and losses relating to the period	13,432	14,280	27,416

GROUP BALANCE SHEET

	30th June 2001 £'000	30th June 2000 £'000	31st December 2000 £'000
Fixed assets			
Intangible assets	9,146	6,273	9,299
Tangible assets	91,141	85,367	89,114
	100,287	91,640	98,413
Current assets			
Stocks	68,234	61,527	64,166
Debtors	87,035	82,668	88,768
Cash deposits and short term investments	22,996	16,770	18,111
Cash at bank and in hand	3,298	3,785	2,961
	181,563	164,750	174,006
Creditors			
Amounts falling due within one year	(79,682)	(69,036)	(81,204)
Net current assets	101,881	95,714	92,802
Total assets less current liabilities	202,168	187,354	191,215
Creditors			
Amounts falling due after more than one year	(42,084)	(38,439)	(42,060)
Provisions for liabilities and charges	(11,069)	(11,245)	(10,891)
Net assets	149,015	137,670	138,264
Capital and reserves			
Called up share capital	18,472	18,648	18,398
Share premium account	33,208	32,096	32,097
Revaluation reserve	4,492	4,645	4,653
Capital redemption reserve	1,832	1,582	1,832
Profit and loss account	87,400	77,528	77,944
Shareholders' funds - equity	145,404	134,499	134,924
Minority interests - equity	3,611	3,171	3,340
	149,015	137,670	138,264

GROUP CASH FLOW STATEMENT

	Six months to 30th June 2001 £'000	Six months to 30th June 2000 £'000	Year ended 31st December 2000 £'000
Operating profit	19,876	19,183	43,370
Depreciation charges	5,985	5,562	11,216
Increase in stocks	(3,860)	(1,787)	(4,220)
Decrease in debtors	1,311	(1,821)	(10,046)
Decrease in creditors and provisions	(3,274)	124	3,073
Cash flow from operating activities	20,038	21,261	43,393
Net interest paid	(1,443)	(853)	(2,129)
Dividends paid by subsidiary undertakings to minority interests	(304)	(419)	(749)
Taxation	(5,984)	(5,877)	(11,993)
Purchase of tangible fixed assets	(8,350)	(9,343)	(16,151)
Sales of tangible fixed assets	1,451	3,226	5,903
Acquisitions	-	(1,852)	(7,408)
Equity dividends paid	(9,273)	(9,076)	(13,104)
Cash outflow before use of liquid resources and financing	(3,865)	(2,933)	(2,238)
Management of liquid resources	(5,113)	6,423	4,877
	(8,978)	3,490	2,639
Financing - Issue of ordinary share capital	1,186	897	897
- Share buy-back	-	(2,478)	(5,851)
- Increase in debt	8,112	296	1,840
	9,298	(1,285)	(3,114)
Increase/(decrease) in cash in the period	320	2,205	(475)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Increase/(decrease) in cash in the period	320	2,205	(475)
Cash inflow from increase in debt	(8,112)	(296)	(1,840)
Cash outflow from increase in liquid resources	5,113	(6,423)	(4,877)
Change in net debt resulting from cash flows	(2,679)	(4,514)	(7,192)
Amortisation of loan expenses	(13)	(12)	(25)
Finance leases	-	-	(732)
Finance lease acquired with subsidiary	-	-	(619)
Translation difference	293	(2,855)	(2,237)
Movement in net debt in the period	(2,399)	(7,381)	(10,805)
Opening net debt	(45,608)	(34,803)	(34,803)
Closing net debt	(48,007)	(42,184)	(45,608)

NOTES

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 2001 £'000	Six months to 30th June 2000 £'000	Year ended 31st December 2000 £'000
United Kingdom corporation tax	1,162	1,245	3,258
Overseas taxation	4,690	4,470	8,246
Deferred taxation	2	20	1,108
Adjustment in respect of previous years	18	41	(233)
	5,872	5,776	12,379
Tax on non-operating item	-	(278)	488
	5,872	5,498	12,867

4. The calculation of earnings per share before the non-operating item is based on earnings of £12,248,000 (2000: £11,952,000) and the calculation of earnings per share after the non-operating item is based on earnings of £12,864,000 (2000: £11,304,000) together with the weighted average number of shares in issue during the half year of 73,691,340 (2000: 74,913,269).
5. Capital employed is represented by net assets excluding goodwill and 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 2000 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

UNITED KINGDOM

Spirax-Sarco Ltd.
Spirax-Sarco Investments Ltd.
Spirax-Sarco Overseas Ltd.
Watson-Marlow Ltd.
M&M International (UK) Ltd. (85%)

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
M&M International GmbH

Italy

Spirax-Sarco S.r.l.
Watson-Marlow S.r.l.
M&M International S.r.l.
Continental Real Estate 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.
M&M Iberia S.L. (67%)

Sweden

Spirax-Sarco A.B.
WM 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.
M&M International USA, 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 Sch. Bhd.

New Zealand

Spirax Sarco Ltd.

Singapore

Spirax-Sarco (Private) Ltd.

South Africa

Spirax-Sarco South Africa (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.