

chairman's statement



T.B. FORTUNE *Chairman*

I am pleased to report a good set of results for 2002. Profit before tax increased by 7% (before the profit on disposal of fixed assets in 2001), a robust performance given the continuing difficult global trading environment. Following the solid sales performance in the first half, sales progressed in the second half which, together with efficiency improvements and cost controls, underpinned the profit margin increase and the strong cash flow.

In 2002, the economies of the Americas, and most of Europe, including the UK, were weak, whereas Asia was better but generally grew only slowly with the major exception of Japan, which remained very depressed. Industrial output and investment were subdued in most parts of the world. In spite of this background and an adverse exchange rate effect of 2%, our turnover increased by 2% in the year to £296 million, as compared with £292 million in 2001. Organic sales growth was 4%, which was well spread with increases in Continental Europe, the Americas, and Asia, Australasia and Africa; in the UK, sales were flat. The sales increase was achieved through the technical support that we provide to our customers and progress with sales plans and product developments, which are targeted at specific market opportunities and which have good growth potential.

The operating profit for the year increased by 5% from £40.8 million to £42.7 million. The adverse effect of movements in exchange rates was £1/2 million for the year due to weakness of the US dollar, Brazilian Real and some Asian currencies, mitigated by the slightly stronger euro and, despite the collapse of the Peso, gains in Argentina from where we export in US dollars. The profit increase was mainly in the Americas, where higher local currency sales, improved efficiencies and cost controls gave better margins, and in Asia, Australasia and Africa, where increased sales in most markets, with the exception of Japan and Korea, led to improved profits and trading margins. In the UK profits were down, being affected by increased pension and insurance costs, and in Continental Europe profits were flat, reflecting mixed but overall rather quiet markets. The operating profit margin for the Group, therefore, increased to 14.4% (2001: 14.0%) and return on capital employed was 26%, an increase from 24% in 2001.

The net interest charge of £2.0 million decreased from £2.8 million in 2001 mainly due to the good cash generation during the year. The net interest expense was covered twenty-one times by operating profit. Profit before tax for the year was £40.7 million

compared with £38.0 million last year before the non-operating item, an increase of 7%. The non-operating item in 2001 was a profit of £0.6 million on the disposal of fixed assets. Amortisation of goodwill was £0.6 million (2001: £0.5 million).

The tax charge increased to 34.1%, closer to the underlying rate, compared with 31.6% in 2001 before the non-operating item. We have adopted FRS 19 - Deferred Tax and the comparative tax charge and earnings per share figures have been restated accordingly; the effect of this change is minimal. Minority interests were higher at £0.7 million due to increased profits in India. Earnings per share rose by 3% to 35.3p from 34.4p before the non-operating item (2001: 35.3p including the non-operating item). The Board is recommending a final dividend of 13.5p per share which, with the interim dividend of 5.8p per share, gives a total for the year of 19.3p, an increase of 4%. The cost of the interim and final dividends is £14.4 million, which is covered 1.8 times by earnings. No scrip alternative to the cash dividend is being offered.

Net capital expenditure for the year was £11.3 million (2001: £16.8 million). We restrained expenditure during 2002 but we are continuing to invest to improve our sales, marketing and manufacturing activities to support future growth.

Cash flow was strong in the year and net debt reduced to £22.7 million from £40.5 million at the end of 2001. Gearing at 31st December 2002 improved to 15% compared with 29% a year earlier.

Following the previously reported acquisition in January 2002 of Marford Engineering in Australia for £1 million, on 31st December 2002 we completed the acquisition, for £1 million (including assumed liabilities), of Ampe Srl, a small Italian manufacturer of pneumatic and electronic instrumentation and actuators.

As previously announced, Chris Sneath retired from the Board with effect from 26th July 2002 following a great many years of association with Spirax Sarco, firstly at

KPMG and, for the last eight years, as non-executive director. The Board wishes to put on record its thanks for Chris' advice and guidance throughout his time with us.

The Board was pleased to welcome, as an independent non-executive director, Bill Whiteley, Chief Executive of Rotork plc and a non-executive director of The Roxboro Group plc, with effect from 26th July 2002.

The good result for 2002 springs from the resilience of the Group, the determination of our employees and our continuing focus on our niche Spirax Sarco and Watson-Marlow Bredel businesses. Both businesses provide high quality products and significant benefits to customers, which are delivered by our dedicated workforce who make, sell and deliver the products and services to the customer, and, on behalf of the Board, I thank all of them for their contribution to the 2002 performance.

prospects

We have made a firm start to 2003 although currency movements continue to affect Group profits over three-quarters of which are earned outside the UK. We are investing to grow our market leading positions and expect that we will see the benefits continue to come through in the future. It seems likely that 2003 will be another difficult year for large parts of the world economy; however, provided that there is no major disruption to the trading environment, we look forward to another year of progress for the Group.



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