

## chairman's statement

I am pleased to announce a good set of results for the first half of 2002 in difficult trading conditions. We maintained the solid start to the year, underlining the value of our comprehensive service and support, the broad customer base and the international strengths of our business.

Group turnover at £145 million was marginally below the first six months of 2001. The overall effect of exchange rate movements was again negative, but the effect was relatively small at less than 1% of sales. We have benefited from the investments we have made in a number of sales developments, these have protected sales levels and, in spite of the trading environment, turnover was marginally ahead at constant exchange rates.

The operating profit of £20.0 million was 1% higher than the first half of 2001 and the operating profit margin increased slightly to 13.8%. The charge for amortisation of goodwill included in the above figure was unchanged at £0.3 million. There were no non-operating items during this period, although in the first half of 2001 there was a non-operating profit of £0.6 million on disposal of fixed assets.

The net interest charge was down by nearly 30% at £1.1 million (2001: £1.5 million) due to the positive cash flow and lower interest rates. Profit before tax was £18.9 million compared with £18.4 million last year before the non-operating item, an increase of 3%.

The tax charge was 33.1% compared with 32.6% in the first half of 2001. We have adopted FRS19-Deferred Tax and the comparative tax charge and earnings per share figures have been restated accordingly; the effect of this change is minimal.

Earnings per share were 16.7p, which compares with 16.4p in 2001 (17.3p including the non-operating item), an increase of 2%.

## trading

The market leading position that we have in our niche markets of industrial and commercial steam systems and peristaltic pumping has enabled us to produce a good set of results in a trading environment which was both challenging and unpredictable. A combination of the expertise in our large salesforce and the identifiable benefits which our customers receive through our products and support was central to the achievement of these results.

In the UK, the economy remained depressed with reduced industrial production and industrial investment, and sales were flat. Third party exports were strong, particularly

our embryonic business in Russia. As anticipated, demand on our UK factories improved against the second half of 2001 but was still below the first half of 2001. Operating profits in the UK were somewhat lower than the same period in 2001, reflecting the trading environment, higher pension and insurance costs and, more particularly, stock reduction. We also increased our investment in IT systems. These were mitigated by profit protection measures applied not only in the UK but Group-wide.

The Continental European economies remained in the doldrums in spite of the weak euro and projects were at a lower level. The Watson-Marlow Bredel companies across Europe and the Spirax Sarco companies in Denmark, Italy, Portugal and Spain continued to make good progress, as did M&M, acquired at the end of 2000. Trading was weak in Belgium, Czech, France and Switzerland, and demand on our factories was lower. Overall, sales and profits were broadly maintained.

Our performance in the Americas improved in spite of the weak economic conditions. The US economy appears to have paused and it is now less clear that a sustained recovery is underway; this has had a knock-on effect to some of the other economies in the Americas. The economic collapse in Argentina has naturally severely affected the domestic market, and there is still a risk of "contagion" elsewhere in Latin America. Nevertheless, we made progress in the USA and Brazil, and Canada produced a strong performance. In Argentina, the weak domestic business has been more than outweighed by the increased profitability of exports by our company, which manufactures ball valves for the Group. Taking the Americas as a whole, for the first half of 2002 there was a good improvement in profits and margins.

In Asia, Australasia and Africa, our industrial and commercial markets have been heavily influenced by the weaknesses in the US and Japanese economies and activity was generally quiet with a lower level of project business. Japan and Korea suffered from currency weakness and sales and profits were lower. On the other hand, our Chinese company continued to make excellent progress. Profits also grew in most of the other companies in the region, including in Australia where the integration of Marford, the water treatment company acquired at the beginning of 2002, is proceeding well. Overall profits in the region improved, as did the margin, in spite of the weak local currencies in Korea, South Africa and Japan.

## balance sheet & cash flow

Cash flow in the first half of 2002 was strong. Capital employed (net assets excluding goodwill and net debt) was up marginally which resulted from a small increase in working capital less a reduction in net fixed assets. The 2001 net assets have been restated downwards by £1.0 million following the adoption of FRS19-Deferred Tax. The cash inflow from operating activities was £24.6 million (2001: £20.0 million) and capital

expenditure was held at £5.3 million (2001: £8.4 million) as we balanced caution with the need to continue to invest in improvements in efficiency and quality in the business. The acquisition of Marford in January and the Swedish Watson-Marlow distributorship of Christian Berner in June resulted in an outflow of £1.2 million.

Overall there was a cash inflow of £1.7 million but this was cancelled out by an adverse exchange translation effect on net debt of £2.0 million, so that net debt was £40.8 million at 30th June 2002 compared with £40.5 million at the end of 2001 and £48.0 million at 30th June 2001. Net gearing at 28% was virtually unchanged from the start of the year. Net interest expense was covered 18 times by operating profit.

## dividend

The directors have declared an interim dividend for 2002 of 5.8p (2001: 5.6p) per ordinary share, an increase of 4% which will be paid on 8th November 2002 to shareholders on the register at the close of business on 11th October 2002. No scrip alternative to the cash dividend is being offered in respect of the 2002 interim dividend.

## board changes

Chris Sneath retired from the Board with effect from 26th July 2002. His decision was accepted with regret 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's advice and guidance throughout his time at KPMG and on the Board.

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

## prospects

The fundamental strengths of the Spirax Sarco Group are its broad customer base, its large technically trained salesforce, its comprehensive product range and the benefits customers derive from the use of our steam system equipment and peristaltic pumps. Assuming that trading conditions do not deteriorate, we expect a satisfactory outcome for the full year.



Tim Fortune, **Chairman**  
6th September 2002