

interim report 2002



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.

2002 interim results

	2002	2001*	Change
Turnover	£144.9m	£145.6m	-
Operating profit	£20.0m	£19.9m	+1%
Operating profit margin	13.8%	13.7%	
Profit before taxation	£18.9m	£18.4m	+3%
Earnings per share	16.7p	16.4p	+2%
Dividend per share	5.8p	5.6p	+4%
Operating cash inflow	£24.6m	£20.0m	

* 2001 figures exclude the profit on disposal of fixed assets and have been restated for FRS19 Deferred Tax.

- Sales maintained in difficult trading conditions
- Pre-tax profit up 3%
- Progress in Americas and Asia, Africa and Australasia, offset by the UK
- Good cashflow continues
- Dividend up 4%

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

group profit and loss account

	Six months to 30th June 2002 £'000	Six months to 30th June 2001 (Restated) £'000	Year ended 31st Dec 2001 (Restated) £'000
Turnover	144,879	145,592	291,942
Operating profit	19,993	19,876	40,803
Profit on disposal of fixed assets	-	616	616
Profit before interest	19,993	20,492	41,419
Net interest payable	(1,088)	(1,487)	(2,778)
Profit before taxation	18,905	19,005	38,641
Taxation (note 4)	(6,254)	(6,002)	(12,016)
Profit after taxation	12,651	13,003	26,625
Minority interests - equity	(286)	(269)	(585)
Attributable profit	12,365	12,734	26,040
Dividends	(4,304)	(4,138)	(13,752)
Retained profit	8,061	8,596	12,288
Earnings per share (note 5)			
Before the non-operating item	16.7p	16.4p	34.4p
After the non-operating item	16.7p	17.3p	35.3p
Dividends per share	5.8p	5.6p	18.6p

See notes on page 7

group statement of total recognised gains and losses

	Six months to 30th June 2002 £'000	Six months to 30th June 2001 (Restated) £'000	Year ended 31st Dec 2001 (Restated) £'000
Profit for the period	12,365	12,734	26,040
Currency translation difference on foreign currency net investments	(4,893)	568	(5,772)
Total recognised gains and losses relating to the period	7,472	13,302	20,268
Prior year adjustment in respect of the adoption of FRS 19 (note 2)	(959)		
Total recognised gains and losses	6,513		

group balance sheet

	30th June 2002	30th June 2001 (Restated)	31st December 2001 (Restated)
	£'000	£'000	£'000
Fixed assets			
Intangible assets	9,919	9,146	8,958
Tangible assets	89,542	91,141	91,906
	99,461	100,287	100,864
Current assets			
Stocks	60,478	68,234	62,840
Debtors	91,098	89,178	88,385
Cash deposits and short term investments	17,611	22,996	16,147
Cash at bank and in hand	4,909	3,298	4,312
	174,096	183,706	171,684
Creditors			
Amounts falling due within one year	(68,386)	(79,682)	(72,013)
Net current assets	105,710	104,024	99,671
Total assets less current liabilities	205,171	204,311	200,535
Creditors			
Amounts falling due after more than one year	(40,792)	(42,084)	(40,084)
Provisions for liabilities and charges	(16,075)	(14,214)	(15,336)
Net assets	148,304	148,013	145,115
Capital and reserves			
Called up share capital	18,507	18,472	18,484
Share premium account	33,578	33,208	33,327
Revaluation reserve	4,399	4,492	4,618
Capital redemption reserve	1,832	1,832	1,832
Profit and loss account	87,014	86,398	83,626
Shareholders' funds - equity	145,330	144,402	141,887
Minority interests - equity	2,974	3,611	3,228
	148,304	148,013	145,115

group cash flow statement

	Six months to 30th June 2002 £'000	Six months to 30th June 2001 £'000	Year ended 31st December 2001 £'000
RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW			
Operating profit	19,993	19,876	40,803
Depreciation charges	6,271	5,985	12,303
Decrease in stocks	1,701	(3,860)	(435)
Increase in debtors	(2,720)	1,311	873
Decrease in creditors and provisions	(628)	(3,274)	(3,573)
Cash inflow from operating activities	24,617	20,038	49,971
GROUP CASH FLOW STATEMENT			
Cash inflow from operating activities	24,617	20,038	49,971
Net interest paid	(1,129)	(1,443)	(2,720)
Dividends paid by subsidiary undertakings to minority interests	(255)	(304)	(534)
Taxation	(5,784)	(5,984)	(12,429)
Purchase of tangible fixed assets	(5,317)	(8,350)	(18,584)
Sales of tangible fixed assets	153	1,451	1,750
Acquisitions (net of disposals)	(1,213)	-	(404)
Equity dividends paid	(9,622)	(9,273)	(13,412)
Cash inflow before use of liquid resources and financing	1,450	(3,865)	3,638
Management of liquid resources	(1,737)	(5,113)	1,735
	(287)	(8,978)	5,373
Financing - Issue of ordinary share capital	275	1,186	1,316
- Increase in debt	863	8,112	(5,477)
	1,138	9,298	(4,161)
Increase in cash in the period	851	320	1,212
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase in cash in the period	851	320	1,212
Cash inflow from increase in debt	(863)	(8,112)	5,477
Cash outflow from increase in liquid resources	1,737	5,113	(1,735)
Change in net debt resulting from cash flows	1,725	(2,679)	4,954
Amortisation of loan expenses	(11)	(13)	(25)
Translation difference	(2,045)	293	206
Movement in net debt in the period	(331)	(2,399)	5,135
Opening net debt	(40,473)	(45,608)	(45,608)
Closing net debt	(40,804)	(48,007)	(40,473)

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. The company has this year adopted Financial Reporting Standard 19 - Deferred Tax and, as a consequence, 2001 half year and full year results have been restated.

3. 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. The charge for amortisation in the six months to 30th June 2002 was £266,000 (2001: £250,000).

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

	Six months to 30th June 2002	Six months to 30th June 2001 (Restated)	Year ended 31st December 2001 (Restated)
	£'000	£'000	£'000
United Kingdom corporation tax	852	1,162	1,895
Overseas taxation	5,313	4,690	9,639
Deferred taxation	104	132	587
Adjustment in respect of previous years	(15)	18	(105)
	6,254	6,002	12,016

5. The calculation of earnings per share before the non-operating item is based on earnings of £12,365,000 (2001: £12,118,000) and the calculation of earnings per share after the non-operating item is based on earnings of £12,365,000 (2001: £12,734,000) together with the weighted average number of shares in issue during the half year of 73,979,877 (2001: 73,691,340). For the full year 2001 the calculation is based on earnings before the non-operating item of £25,424,000 and after the non-operating item of £26,040,000 together with the weighted average number of shares in issue during the full year of 73,808,317.

6. Capital employed is represented by net assets excluding goodwill and net debt.

7. 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 2001 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.

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.
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 Bredel Holdings 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%)
Spirax-Sarco Engineering S.L.
Especialidades Hydra S.L.
M&M Iberica 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.

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.

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.

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