

# chairman's statement



**T.B. Fortune, Chairman**

**I am pleased to announce another good set of results in 2003. Sales increased by 6% to £314 million and profit before tax increased by 10% to £44.6m; a good performance, achieved after charging a £1¼ million net cost of closing the Spanish factory and a £1 million negative exchange impact. Earnings per share improved by 9% to 38.5p and cash flow was also strong.**

Organic sales growth of 5% was spread across all regions and was strongest in Asia and the Americas. The overall increase in business resulted from expanding our sales coverage, particularly in Asia, and continuing the implementation of various sales initiatives which are based on the technical expertise of our salesforce and our ability to help customers to improve their plant performance.

The Group benefited from its broad global spread despite the business trading environment in 2003 being geographically mixed. However, the large exchange rate movements had a negative effect on overall profits. The industrial sectors in the UK remained weak, as did much of Continental Europe where there were few signs of any pick up; however, the euro's strength boosted the region's results in sterling. In North America, the markets were flat with little customer confidence, although in the South American economies there was increased activity, especially from the exporting sectors. In Asia, the economies were more active, most notably in China, which is a good contributor to the Group's results. Against this background, our turnover increased by 6% in the year to £314 million from £296 million in 2002.

The operating profit for the year increased by 7% to £45.8 million from £42.7 million in 2002. The large divergence in the exchange rates adversely affected the profits in the Americas and Asia, but increased the profits in Europe; the wide geographical spread of our business limited the overall negative effect on profit to around £1 million. The operating profit increase in sterling arose mainly in Europe and in Asia but in the Americas, although there was a good increase in currency, profits were lower in sterling. In the UK, profits were flat, with a small underlying increase being offset by the extra cost of imported products. The operating profit margin for the Group increased to 14.6% from 14.4% and excluding the factory closure cost there was a significant improvement to 15.0%.

The net interest charge for the year fell to £1.2 million from £2.0 million in 2002 as a result of the good cash

flow and the resultant lower net debt. Profit before tax for the year was £44.6 million compared with £40.7 million last year, an increase of nearly 10%. Amortisation of goodwill was £0.7 million (2002: £0.6 million).

The tax charge at 34% was similar to the charge in 2002. Minority interests were slightly higher at £0.8 million (2002: £0.7 million) due to increased profits from India, partly offset by lower profits in Mexico. Earnings per share rose by 9% to 38.5p from 35.3p. The Board is recommending a final dividend of 14.1p per share which, with the interim dividend of 6.0p per share, gives a total for the year of 20.1p, an increase of 4%. The cost of the interim and final dividends is £15.0 million, which is covered 1.9 times by earnings. No scrip alternative to the cash dividend is being offered.

Net capital expenditure for the year was £11.9 million (2002: £11.3 million). We continued to invest in the business to improve our sales and marketing systems, the productivity of the factories and the development of the product, all of which underwrite future growth.

The Group's history of good cash generation continued in 2003, although not at the exceptional rate that was achieved in 2002. Net debt was reduced during the year to £14.4 million from £22.7 million at the end of 2002. Gearing at 31st December 2003 improved to 9% as against 15% a year earlier.

Following the acquisition in December 2002 of Ampe Srl in Italy for £1.4 million, on 1st April 2003 we completed the acquisition of the Watson-Marlow Bredel distribution business in South Africa for £1.2 million. Since acquisition, both businesses have performed ahead of expectations.

As previously announced, Michael Smith retired from the Board with effect from 31st May 2003. Michael brought a great depth of experience and understanding of manufacturing to Spirax. The Board wishes to put on record its thanks for Michael's contribution during his 17 years with the company.

The Board was pleased to welcome Neil Daws as Director-Supply from 1st June 2003. Neil has many years experience as an engineer with Spirax Sarco, having started as an apprentice and worked in many parts of the business including production, product design and development, and customer service. We look forward to Neil making a significant contribution to the Group's future growth and prosperity.

The Board has given considerable thought to the July 2003 Combined Code and is taking steps to ensure that the Group complies with the requirements of the Code throughout 2004 or, where we consider it inappropriate to comply, to provide a full explanation. This is covered in more detail on pages 20 to 25.

These good results and the consistent performance we have achieved in the past reflect the fundamental strengths of the Group - our broad geographical spread, the wide industrial applications for our focused but comprehensive product range and the technical knowledge of our salesforce and all those people who make the product and support the business worldwide. My thanks go to all these dedicated people without whose skills and hard work the Group could not operate.

#### prospects

Although some indicators are showing signs of economic recovery, in many places the evidence on the ground is tenuous, particularly in Europe. Nevertheless, our sales development initiatives are progressing and business levels in our companies around the world have started the year in line with expectations. In recent months, exchange rate movements have been unfavourable which, if maintained, will naturally affect our profits in 2004. Subject to exchange rates, given the fundamental strengths of the Group, we expect to make further progress in 2004.



**T.B. FORTUNE** *Chairman*