

chairman's statement

I am pleased to report satisfactory progress in the first half of 2003. Our business is built on providing a full value-added package of knowledge, service and products to our customers across many industrial sectors and all regions of the world who use steam or peristaltic pumping in their processes. These attributes allowed the firm start to the year to be continued through the first half.

Group sales of £154 million increased by 6% with organic growth in all regions. Exchange rate movements have had a small net negative effect on sales of around 1%, with the weakness of the American and Asian currencies mitigated by the stronger euro.

The operating profit of £20.3 million increased by 1% as against the first half of 2002, including an adverse exchange effect. As explained in March, we have transferred the production out of our small Spanish factory as part of our efficiency improvements; the one-off cost of £1½ million has been included in operating profit in the first half of 2003. Excluding this cost, the operating profit margin showed a further improvement from 13.8% to 14.1%.

The net interest charge was down nearly 40% to £0.7 million (2002: £1.1 million) mainly due to the lower level of net debt versus the first half of 2002. Profit before tax was £19.6 million, an increase of 4% compared with £18.9 million last year.

The tax charge was 33% (2002: 33%) and the attributable profit increased by 3% to £12.8 million. Earnings per share improved by 3% to 17.2p (2002: 16.7p).

trading

Our industrial steam system and specialist peristaltic pumping businesses serve global markets across most industrial sectors and our business is therefore geographically well spread with over 85% of our sales being outside the UK. The sales growth has come from a combination of increased sales coverage, implementation of sales developments, contributions from new products and building on the strength of our customer relationships. Our 900 sales and service engineers worldwide provide knowledge and support in the application of our products in order to improve the efficiency of our customers' plant, to save cost or improve quality. The technical expertise in our salesforce is central to the service we provide for our customers, and we are the world leaders in our focused markets.

The trading environment in the UK remained difficult with industrial production and investment depressed. Nevertheless, our sales organisations performed well and

increased sales. The UK factories continued to be busy and, overall, UK profits grew modestly as compared with the first half of 2002.

In Continental Europe, the economic conditions were mixed and generally weak. However, the performance of our French company improved markedly following the reorganisation at the end of 2002 and good progress was also made in Spain, Italy, Czech Republic, Norway, Poland, Portugal, Sweden and generally in the Watson-Marlow Bredel companies. Business in Germany was tough, and our underlying results were flat. Overall in Continental Europe, sales increased in the first half of the year. Operating profits increased as a result of the higher sales and the stronger euro, partly offset by the Spanish factory closure cost of £1½ million. Ampe, the small Italian plant which we acquired at the end of 2002 for £1.4 million, made a good contribution performing in line with expectations.

The performance in the Americas was resilient given the lack-lustre economic conditions. The US economy remained weak, with some investment decisions being delayed. However, both our Spirax Sarco and Watson-Marlow Bredel operations grew sales marginally in local currency but profits and margins were down due to higher pension costs and the weakness of the US dollar. Although recent signals relating to economic activity in the USA appear encouraging, there is little sign of increased industrial activity in our markets. Good progress was made in Argentina and Brazil but our Canadian and Mexican companies faced more challenging trading conditions and Mexico, in particular, saw further declines. Overall in the Americas, underlying progress with sales and profits was impacted by unfavourable currency movements and results were lower in sterling.

Sales improved in Asia, Australasia and Africa. The effect on our business of SARS was limited and the after-effects seem to be minimal. We achieved good sales growth in China, India, Japan and Korea but in Australia, Malaysia, Taiwan and Thailand business was slower. Operating profits in the region were only slightly ahead as weaker Asian currencies reduced margins. The acquisition of the Watson-Marlow Bredel distribution business in South Africa was completed in April and the business has performed as expected and made a small contribution to the improved results in the region.

balance sheet & cash flow

Working capital increased in the first half of 2003, reflecting the increase in business levels. Capital expenditure at £6.6 million (2002: £5.3 million) was in line with depreciation. There was a cash outflow of £1.2 million for the acquisition in South Africa. Tax payments were higher at £9.0 million reflecting the higher tax charge in 2002 and the timing of tax payments.

The cash flow followed the usual profile with higher outgoings in the first half, notably the final dividend payment. The higher working capital, increased taxation payments and the acquisition resulted in an overall cash outflow of £6.7 million. In addition, the exchange movements in the half year increased net debt on translation by a further £1.0 million. Net debt at 30th June 2003 was therefore £30.4 million compared with £22.7 million at the end of 2002 and £40.8 million at 30th June 2002. Net gearing was 19% at the end of the period but is expected to be lower by the year end.

dividend

The directors have declared an interim dividend for 2003 of 6.0p (2002: 5.8p) per ordinary share, an increase of 3% which will be paid on 14th November 2003 to shareholders on the register at the close of business on 17th October 2003. No scrip alternative to the cash dividend is being offered in respect of the 2003 interim dividend.

board changes

P. Michael Smith retired from the Board with effect from 31st May 2003. Michael has many years of experience in the manufacturing industry and brought an incisiveness and clarity of purpose to the Group which was greatly appreciated. The Board wishes to put on record its thanks for Michael's contributions to the Group's performance over the last 17 years.

The Board is delighted to welcome Neil Daws as Director-Supply. He started with Spirax Sarco as an apprentice and has gained experience in all aspects of product design and development, as well as production and customer service. His appointment was effective from 1st June 2003.

prospects

The Group has achieved a satisfactory performance in the first half of the year. Our diverse customer base, wide product range, geographical spread and dedicated people remain the fundamental strengths which underpin our world leading businesses. Assuming that there is no deterioration in world trading conditions, we expect to make further progress this year.



Tim Fortune, **Chairman**
11th September 2003