

interim report 2003



spirax
/ **sarco**

Spirax-Sarco Engineering plc

Spirax Sarco provides knowledge, service and products worldwide for the control and efficient use of steam and other industrial fluids.

2003 interim results

	2003	2002	Change
Turnover	£154.0m	£144.9m	+6%
Operating profit	£20.3m	£20.0m	+1%
Operating profit margin	13.2%	13.8%	
Profit before taxation	£19.6m	£18.9m	+4%
Earnings per share	17.2p	16.7p	+3%
Dividend per share	6.0p	5.8p	+3%
Operating cash inflow	£20.6m	£24.6m	

- Sales up 6%
- Sales growth in all regions
- Operating profit up 1% after charging production transfer costs of £1½m
- Underlying operating profit margin up to 14.1%
- EPS and dividend up 3%

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

group profit and loss account

	Six months to 30th June 2003 £'000	Six months to 30th June 2002 £'000	Year ended 31st Dec 2002 £'000
Turnover	154,026	144,879	296,363
Operating profit	20,257	19,993	42,674
Net interest payable	(688)	(1,088)	(1,981)
Profit before taxation	19,569	18,905	40,693
Taxation (note 3)	(6,420)	(6,254)	(13,887)
Profit after taxation	13,149	12,651	26,806
Minority interests - equity	(399)	(286)	(681)
Attributable profit	12,750	12,365	26,125
Dividends	(4,463)	(4,304)	(14,350)
Retained profit	8,287	8,061	11,775
Earnings per share (note 4)	17.2p	16.7p	35.3p
Dividends per share	6.0p	5.8p	19.3p

See notes on page 7

group statement of total recognised gains and losses

	Six months to 30th June 2003 £'000	Six months to 30th June 2002 £'000	Year ended 31st Dec 2002 £'000
Profit for the period	12,750	12,365	26,125
Currency translation difference on foreign currency net investments	2,514	(4,893)	(8,475)
Total recognised gains and losses relating to the period	15,264	7,472	17,650
Prior year adjustment in respect of the adoption of FRS 19		(959)	(959)
Total recognised gains and losses		6,513	16,691

group balance sheet

	30th June 2003 £'000	30th June 2002 £'000	31st December 2002 £'000
Fixed assets			
Intangible assets	11,305	9,919	10,384
Tangible assets	90,600	89,542	88,593
	101,905	99,461	98,977
Current assets			
Stocks	62,305	60,478	57,588
Debtors	91,390	91,098	87,130
Cash deposits and short term investments	26,265	17,611	31,796
Cash at bank and in hand	3,772	4,909	4,882
	183,732	174,096	181,396
Creditors			
Amounts falling due within one year	(67,991)	(68,386)	(73,859)
Net current assets	115,741	105,710	107,537
Total assets less current liabilities	217,646	205,171	206,514
Creditors			
Amounts falling due after more than one year	(39,996)	(40,792)	(41,035)
Provisions for liabilities and charges	(17,089)	(16,075)	(16,186)
Net assets	160,561	148,304	149,293
Capital and reserves			
Called up share capital	18,589	18,507	18,575
Share premium account	34,584	33,578	34,380
Revaluation reserve	4,391	4,399	4,216
Capital redemption reserve	1,832	1,832	1,832
Profit and loss account	97,953	87,014	87,328
Shareholders' funds - equity	157,349	145,330	146,331
Minority interests - equity	3,212	2,974	2,962
	160,561	148,304	149,293

group cash flow statement

	Six months to 30th June 2003 £'000	Six months to 30th June 2002 £'000	Year ended 31st December 2002 £'000
RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW			
Operating profit	20,257	19,993	42,674
Depreciation and amortisation charges	6,842	6,271	12,492
Increase in stocks	(2,696)	1,701	3,858
Increase in debtors	(2,210)	(2,720)	(2,241)
Decrease in creditors and provisions	(1,587)	(628)	1,779
Cash inflow from operating activities	20,606	24,617	58,562
GROUP CASH FLOW STATEMENT			
Cash inflow from operating activities	20,606	24,617	58,562
Net interest paid	(615)	(1,129)	(1,914)
Dividends paid by subsidiary undertakings to minority interests	(182)	(255)	(527)
Taxation	(9,014)	(5,784)	(11,605)
Purchase of tangible fixed assets	(6,602)	(5,317)	(11,684)
Sales of tangible fixed assets	170	153	345
Acquisitions (net of disposals)	(1,245)	(1,213)	(1,386)
Equity dividends paid	(10,033)	(9,622)	(13,930)
Cash outflow before use of liquid resources and financing	(6,915)	1,450	17,861
Management of liquid resources	6,162	(1,737)	(15,918)
	(753)	(287)	1,943
Financing - Issue of ordinary share capital	218	275	1,144
Increase in debt	647	863	(4,492)
	865	1,138	(3,348)
Increase in cash in the period	112	851	(1,405)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (note 5)			
Increase in cash in the period	112	851	(1,405)
Cash inflow from increase in debt	(647)	(863)	4,492
Cash inflow from decrease in liquid resources	(6,162)	1,737	15,918
Change in net debt resulting from cash flows	(6,697)	1,725	19,005
Amortisation of loan expenses	-	(11)	(21)
Translation difference	(1,014)	(2,045)	(1,177)
Movement in net debt in the period	(7,711)	(331)	17,807
Opening net debt	(22,666)	(40,473)	(40,473)
Closing net debt	(30,377)	(40,804)	(22,666)

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. 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 2003 was £319,000 (2002: £266,000).

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

	Six months to 30th June 2003 £'000	Six months to 30th June 2002 £'000	Year ended 31st December 2002 £'000
United Kingdom corporation tax	1,514	852	2,815
Overseas taxation	5,206	5,313	11,357
Deferred taxation	(103)	104	(102)
Adjustment in respect of previous years	(197)	(15)	(183)
	6,420	6,254	13,887

4. The calculation of earnings per share is based on earnings of £12,750,000 (2002: £12,365,000) together with the weighted average number of shares in issue during the half year of 74,316,269 (2002: 73,979,877). For the full year 2002 the calculation is based on earnings of £26,125,000 together with the weighted average number of shares in issue during the full year of 74,072,923.

5. Analysis of changes in net debt

	At 1st Jan 2003 £'000	Cash flow £'000	Exchange movement £'000	At 30th June 2003 £'000
Cash in hand and at bank	4,882	(1,337)	227	3,772
Overdrafts	(6,794)	1,449	(356)	(5,701)
		112		
Debt due within a year	(12,542)	(2,420)	(365)	(15,327)
Debt due beyond a year	(38,491)	1,593	(1,051)	(37,949)
Finance leases	(1,517)	180	(100)	(1,437)
		(647)		
Current asset investments	31,796	(6,162)	631	26,265
Total	(22,666)	(6,697)	(1,014)	(30,377)

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 year accounts for 2002 with an unqualified audit report have been filed with the Registrar of Companies.

Spirax Sarco provides **knowledge, service** and **products** for the control and efficient use of **steam** and other industrial fluids worldwide. 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 and dividends per share.

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.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.
Ampe 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.
Watson Marlow Bredel SA (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.

The background of the page is a vertical gradient from light blue at the top to a darker blue at the bottom. On the right side, there are numerous water droplets of various sizes, some in sharp focus and others blurred, creating a textured, organic feel.

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