

# chairman's statement



T.B. Fortune, *Chairman*

I am pleased to report a robust performance in 2004 despite exchange rates again moving against us. Group turnover increased by 4% to £326 million, which included an adverse exchange movement of 4%, so the underlying organic growth was 8%, spread widely across the globe but with the major increases coming from the Americas, Asia and Australasia. This good result arose from our continuing to focus the Group's resources on growing our steam specialty and peristaltic pumping businesses in a mixed but mainly positive trading environment.

The Group operating profit increased by 12% to a record £51.1 million, the increase benefiting from the non-repeat of the factory closure costs in 2003 of £1.5 million. The effect of exchange rate movements was to reduce the 2004 profit by £3.75 million, so we achieved a strong underlying like for like profit increase. The operating profit margin rose again to 15.7% compared with 14.6% in 2003.

Continuing good cash flow eliminated net debt during the year and reduced the net interest charge to £0.3 million in 2004 from £1.2 million in 2003. The Group's pre-tax profit rose to £50.8 million, as against £44.6 million the previous year; an increase of 14%. Amortisation of goodwill was £0.7 million (2003: £0.7 million).

The tax charge at 34% was similar to the charge in 2003 and represents the expected normal rate. Minority interests were 44% ahead of 2003 as a result of strong results in India in particular and Mexico. Earnings per share rose by 13% to 43.4p from 38.5p. The Board is recommending a final dividend of 15.1p, which, with the interim dividend of 6.3p per share,

gives a total for the year of 21.4p, an increase of 6.5%. The cost of the interim and final dividends is £16.1million, which is covered 2.0 times by earnings. No scrip alternative to the cash dividend is being offered.

Net capital expenditure for the year was £14.1 million (2003: £11.9 million). We are maintaining our policy of investment in equipment and systems for sales, manufacturing and product development to support our aim of long term growth.

The Group has a history of good cash generation and, as already noted, 2004 was no exception with a strong inflow of £17 million, which arose from both the good profit and tight control of capital employed. The year finished with net cash of £2.9 million, having started the year with net debt of £14.4 million.

On 4th October, we announced that we had acquired 80% of Eirdata Environmental Services, based in the Republic of Ireland, for an initial consideration of €1.2 million. Eirdata provides utility services to the pharmaceutical industry and complements our growing steam system service business.

As previously announced, Chris Ball and I will be retiring from the Board on 29th April and 12th May respectively. Chris has been with Spirax Sarco virtually all his working life. He is a natural salesman and motivator and, after starting work in the UK Sales company, has worked in Kenya, Korea, Japan, Australia and Canada before returning to the UK to take up his Board position in 1992. He has given unstintingly of his time and enthusiasm and he has been a significant contributor to the Group's success over these many years, and I thank him on behalf of the Board and shareholders for his achievements which have benefited the company so much.

We will be pleased to welcome Tony Scrivin as an executive director and Gareth Bullock as a non-executive director to the Board on 2nd May. Tony has worked at Spirax since 1963 and has wide experience in most areas of the business, both sales and manufacturing, including running Spirax Sarco, Inc. in the USA. Gareth is a director of Standard Chartered Bank and will bring a wealth of experience not only of financial matters generally but also specifically of Asia and Africa.

During my time with the Group, with the help of my colleagues, we have built on the foundations laid down by our predecessors a flourishing business with clear strategies for the future. At the conclusion of the AGM on the 12th May, I will be handing over the Chairmanship of the Board to Mike Townsend. Mike understands the business well and in his care I am confident the Group will continue to prosper. Bill Whiteley will replace Mike Townsend as Senior Independent Director and will chair the Remuneration and Audit Committees.

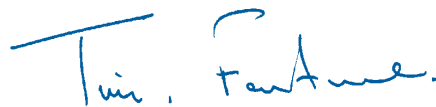
The Group has complied with the Combined Code throughout 2004, with the exception of the balance on the Board between executive and non-executive directors. We continue to believe that this Board structure is right for the Group and has contributed to its long record of good results. This is covered in more detail on pages 22 to 25.

The robust 2004 trading performance was based on our sales and marketing philosophy of providing excellent knowledge, service, products and support to customers wherever they are. This requires well trained and enthusiastic people right through the organisation,

and I would like to record my personal thanks and the thanks of the whole Board for the hard work and dedication of all our people who make the Group the high quality business that it is.

## prospects

The 2005 world economic outlook appears positive, although there are few signs of any significant improvements in Continental Europe or the UK. The Asian economies remain strong; the Americas have also started well in 2005 but there must be doubts about sustainability. Given the underlying strengths of the Group's business and its global coverage, and assuming no economic shocks or major adverse exchange movements, we expect further growth in 2005.



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