

## chairman's statement

I am pleased to report a good set of results for the first half of 2004, we made strong progress in Asia and the Americas but market conditions in Western Europe were subdued. We achieved progress by building on the strengths of our specialist businesses in the industrial and commercial steam and peristaltic pumping markets and on our wide customer and geographic spread.

Sales increased by 2.4% to £157.7 million. Organic growth of 7% was partially offset by adverse exchange movements of over 4% primarily caused by the weakness of the US dollar and related currencies in Asia.

Operating profit increased by 15.6% to £23.4 million, with a corresponding increase in margin from 13.2% to 14.9%. The 2003 comparative figure includes the one-off charge of £1.5 million for closure of the Hydra factory in Spain, excluding which the profit increase is 8%. The adverse movement of exchange rates in 2004 as compared with the first half of 2003 amounted to £1.3 million. This comprised £0.9 million for translation and £0.4 million for transaction effects. The operating profit increase therefore reflects a strong underlying performance attributable to the organic sales growth and firm management controls.

The interest charge for the first half year was £0.3 million compared with £0.7 million in the first half of last year reflecting good cash generation.

The profit before tax increased by £3.6 million to £23.1 million, an increase of 18.2%. The tax charge was 34% (2003: 33%).

The minority interest increased, attributable profit therefore improved by 15% to £14.6 million and earnings per share increased by 14% to 19.6p (2003: 17.2p).

## trading

Spirax Sarco is the world leader in the provision of knowledge, service and products to improve the performance of customers' plants in our niche markets which cover users of steam and peristaltic pumps in industrial and commercial applications. The superior qualities of steam as a heat transfer medium, and of the peristaltic principle as a solution to pumping problems, result in them being used in many production processes by diverse industries across the world. Spirax Sarco supplies a wide range of technical products and focuses on providing high levels of customer service and advice worldwide.

In the UK, operating profit improved by 6% due to increased demand on the factories from overseas markets. UK domestic demand by comparison remains quiet although we largely protected our position through a combination of new product releases and focused marketing. We extended the resourcing of raw materials in Asia, the benefit of which was partly offset by increased steel prices.

In Continental Europe, an organic sales increase of 3% was reduced to only 1% in sterling as a result of the weakening of the euro and most other European currencies versus sterling as compared to the first half of 2003. The European markets were generally weak and we concentrated on our own growth opportunities. We made sales gains in local currency across most of the region, including France, Holland, Portugal, Spain and most of Scandinavia both in the Spirax Sarco and Watson-Marlow Bredel businesses. Germany and Italy were broadly flat and in the Czech Republic and Norway sales were lower against exceptionally strong performances in 2003. Notwithstanding weak European markets, demand on our European factories increased, reflecting the sales activity worldwide. Profits in Europe were well ahead of 2003 due mainly to the non-repeat of the Hydra factory closure costs of £1.5 million incurred in the first half of 2003. At constant exchange, and after excluding the impact of the Hydra costs, the Continental European profits were 1% ahead of 2003.

In the Americas, good local currency sales growth of 11% was reduced to a flat result in sterling by the weakness of the US dollar. In the USA, sales were increased and profits of our Spirax Sarco company were well ahead. However, the margin in Watson-Marlow Bredel USA was lower as a result of the impact of exchange on products sourced from the UK and Holland. We also produced good results in Canada, Brazil and Argentina. Operating profits in the Americas increased by 10%; at constant currency the increase was 34%, which was achieved through sales growth and close control of costs.

Our operations in Asia, Australasia and Africa performed strongly with overall sales growth of 16% in local currency and 10% in sterling. The economies were generally good, although the Chinese government's actions to limit overheating of the economy seem to be beginning to temper their rate of growth. Our operations in China, India, Japan, Korea, Malaysia, Taiwan and Thailand all performed well, but the markets in Singapore and South Africa were tough and their results were lower. Overall, this region produced a strong result for the half year and profits were up 19% in sterling (31% at constant exchange), driven chiefly by the sales increases.

## balance sheet & cash flow

Capital employed (net assets excluding goodwill and net debt) increased by £7 million to £174 million in the first half. Debtors rose by £6 million, driven by the extra sales but stocks have been tightly controlled and fell marginally during the six month period. Capital expenditure of £6.2 million (2003: £6.6 million) was slightly below depreciation and the value of fixed assets was therefore broadly unchanged.

The cash flow in the first half of the year was good with a reduction in net debt of £1.8 million in spite of the normal relatively high outgoings that occur in any first half year, notably the final dividend payment. The net debt reduction included £0.8 million on translation due to the weakness of the US dollar and euro in which our debt is largely denominated. Net debt at 30th June 2004 was therefore £12.6 million compared with £14.4 million at the end of 2003 and £30.4 million at 30th June 2003. Net gearing at the end of the period was 7%.

## dividend

The directors have declared an interim dividend of 6.3p (2003: 6.0p) per ordinary share, an increase of 5% which will be paid on 12th November 2004 to shareholders on the register at the close of business on 15th October 2004. No scrip alternative to the cash dividend is being offered in respect of the 2004 interim dividend.

## prospects

The Group has achieved a good result in the first six months of 2004 even though exchange rates moved against us and show little sign of easing; the contribution to the profit increase which arose from the non-recurrence of the Hydra factory closure costs will not, of course, be repeated in the second half of the year. We are continuing to invest in our world leading businesses and to build on our market development opportunities. Assuming that there is no marked deterioration in the Americas and Asian trading conditions or in exchange rates, we expect to make further progress in the second half of the year.

A handwritten signature in blue ink that reads "Tim Fortune". The signature is written in a cursive style with a long horizontal line above the first few letters.

Tim Fortune, **Chairman**  
9th September 2004