interim report 2004

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.

2004 interim results

	2004	2003	Change
Turnover	**£157.7m**	£154.0m	+2.4%
Operating profit	**£23.4m**	£20.3m	+15.6%
Operating profit margin	**14.9%**	13.2%	
Profit before taxation	**£23.1m**	£19.6m	+18.2%
Earnings per share	**19.6p**	17.2p	+14.0%
Dividend per share	**6.3p**	6.0p	+5.0%
Operating cash inflow	**£26.2m**	£20.6m	

- Good organic sales growth of 7%
- Strong performances in Asia and Americas
- Margin increased to 14.9%
- Good cash flow and reduced net debt
- Interim dividend up 5%

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.

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

group profit and loss account

	Six months to 30th June 2004 £000	Six months to 30th June 2003 £000	Year ended 31st Dec 2003 £000
Turnover (note 2)	**157,740**	154,026	314,087
Operating profit (note 3)	**23,427**	20,257	45,750
Net interest payable	**(304)**	(688)	(1,186)
Profit before taxation	**23,123**	19,569	44,564
Taxation (note 5)	**(7,887)**	(6,420)	(15,138)
Profit after taxation	**15,236**	13,149	29,426
Minority interests - equity	**(608)**	(399)	(788)
Attributable profit	**14,628**	12,750	28,638
Dividends	**(4,729)**	(4,463)	(15,028)
Retained profit	**9,899**	8,287	13,610
Earnings per share (note 6)	**19.6p**	17.2p	38.5p
Dividends per share	**6.3p**	6.0p	20.1p

See notes on page 7 and 8

group statement of total recognised gains and losses

	Six months to 30th June 2004 £000	Six months to 30th June 2003 £000	Year ended 31st Dec 2003 £000
Profit for the period	**14,628**	12,750	28,638
Currency translation difference on foreign currency net investments	**(2,631)**	2,514	(1,022)
Total recognised gains and losses relating to the period	**11,997**	15,264	27,616

group balance sheet

	30th June 2004 £000	30th June 2003 £000	31st December 2003 £000
Fixed assets			
Intangible assets	**10,671**	11,305	11,123
Tangible assets	**86,010**	90,600	88,089
	96,681	101,905	99,212
Current assets			
Stocks	**58,868**	62,305	60,695
Debtors	**96,449**	91,390	90,515
Cash deposits and short term investments	**39,434**	26,265	38,197
Cash at bank and in hand	**3,662**	3,772	4,977
	198,413	183,732	194,384
Creditors			
Amounts falling due within one year	**(68,984)**	(67,991)	(86,727)
Net current assets	**129,429**	115,741	107,657
Total assets less current liabilities	**226,110**	217,646	206,869
Creditors			
Amounts falling due after more than one year	**(36,112)**	(39,996)	(25,376)
Provisions for liabilities and charges	**(17,871)**	(17,089)	(17,677)
Net assets	**172,127**	160,561	163,816
Capital and reserves			
Called up share capital	**18,725**	18,589	18,690
Share premium account	**36,588**	34,584	35,996
Revaluation reserve	**4,259**	4,391	4,350
Capital redemption reserve	**1,832**	1,832	1,832
Profit and loss account	**107,141**	97,953	99,782
Shareholders' funds - equity	**168,545**	157,349	160,650
Minority interests - equity	**3,582**	3,212	3,166
	172,127	160,561	163,816

group cash flow statement

	Six months to 30th June 2004 £000	Six months to 30th June 2003 £000	Year ended 31st December 2003 £000
RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW			
Operating profit	**23,427**	20,257	45,750
Depreciation and amortisation charges	**6,371**	6,842	13,824
Decrease in stocks	**246**	(2,696)	(2,558)
Increase in debtors	**(8,074)**	(2,210)	(1,677)
Increase in creditors and provisions	**4,268**	(1,587)	(1,913)
Cash inflow from operating activities	**26,238**	20,606	53,426
GROUP CASH FLOW STATEMENT			
Cash inflow from operating activities	**26,238**	20,606	53,426
Net interest paid	**(303)**	(615)	(1,181)
Dividends paid by subsidiary undertakings to minority interests	**(108)**	(182)	(312)
Taxation	**(9,052)**	(9,014)	(16,269)
Purchase of tangible fixed assets	**(6,225)**	(6,602)	(12,571)
Sales of tangible fixed assets	**325**	170	659
Acquisitions (net of disposals)	**-**	(1,245)	(1,909)
Equity dividends paid	**(10,552)**	(10,033)	(14,517)
Cash inflow before use of liquid resources and financing	**323**	(6,915)	7,326
Management of liquid resources	**(1,917)**	6,162	(6,012)
	(1,594)	(753)	1,314
Financing - Issue of ordinary share capital	**627**	218	1,731
- Decrease in debt	**(1,555)**	647	(8,759)
	(928)	865	(7,028)
Decrease in cash in the period	**(2,522)**	112	(5,714)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (note 7)			
Decrease in cash in the period	**(2,522)**	112	(5,714)
Cash outflow from decrease in debt	**1,555**	(647)	8,759
Cash outflow from increase in liquid resources	**1,917**	(6,162)	6,012
Change in net debt resulting from cash flows	**950**	(6,697)	9,057
Translation difference	**761**	(1,014)	(748)
Movement in net debt in the period	**1,711**	(7,711)	8,309
Opening net debt	**(14,357)**	(22,666)	(22,666)
Closing net debt	**(12,646)**	(30,377)	(14,357)

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. The analysis of turnover by reference to the geographical location of customers is as follows:

	Six months to 30th June 2004 £000	Six months to 30th June 2003 £000	Year ended 31st December 2003 £000
United Kingdom	**20,183**	20,562	39,215
Continental Europe	**60,532**	60,137	117,390
The Americas	**39,458**	39,222	84,207
Asia, Australasia and Africa	**37,567**	34,105	73,275
	157,740	154,026	314,087

The analysis of turnover by reference to the geographical location of the Group's operations is as follows:

	Six months to 30th June 2004 £000	Six months to 30th June 2003 £000	Year ended 31st December 2003 £000
United Kingdom	**49,082**	47,085	92,370
Continental Europe	**74,190**	74,615	146,408
The Americas	**41,553**	41,453	87,962
Asia, Australasia and Africa	**34,045**	30,998	67,145
	198,870	194,151	393,885
Intra-group sales	**(41,130)**	(40,125)	(79,798)
Sales to third parties	**157,740**	154,026	314,087

3. The analysis of operating profit by reference to the geographical location of the Group's operations is as follows:

	Six months to 30th June 2004 £000	Six months to 30th June 2003 £000	Year ended 31st December 2003 £000
United Kingdom	**4,133**	3,885	8,021
Continental Europe	**9,253**	7,604	16,439
The Americas	**4,710**	4,300	10,335
Asia, Australasia and Africa	**5,331**	4,468	10,955
	23,427	20,257	45,750

4. 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 2004 was £336,000 (2003: £319,000).

notes (continued)

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

	Six months to 30th June 2004 £000	Six months to 30th June 2003 £000	Year ended 31st December 2003 £000
United Kingdom corporation tax	**1,491**	1,514	2,759
Overseas taxation	**6,235**	5,206	12,810
Deferred taxation	**202**	(103)	66
Adjustment in respect of previous years	**(41)**	(197)	(497)
	7,887	6,420	15,138

6. The calculation of earnings per share is based on earnings of £14,628,000 (2003: £12,750,000) together with the weighted average number of shares in issue during the half year of 74,817,348 (2003: 74,316,269). For the full year 2003 the calculation is based on earnings of £28,638,000 together with the weighted average number of shares in issue during the full year of 74,432,975.

7. Analysis of changes in net debt

	At 1st Jan 2004 £000	Cash flow £000	Exchange movement £000	At 30th June 2004 £000
Cash in hand and at bank	4,977	(1,188)	(127)	3,662
Overdrafts	(12,602)	(1,334)	407	(13,529)
		(2,522)		
Debt due within a year	(19,714)	13,401	149	(6,164)
Debt due beyond a year	(23,986)	(12,011)	955	(35,042)
Finance leases	(1,229)	165	57	(1,007)
		1,555		
Current asset investments	38,197	1,917	(680)	39,434
Total	**(14,357)**	**950**	**761**	**(12,646)**

8. The financial information on pages 4 to 8, 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 2003 with an unqualified audit report have been filed with the Registrar of Companies.

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.
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 S.A. (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.

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