

# CHAIRMAN'S STATEMENT



**M. Townsend**, Chairman

This is the first full year's results to have been prepared under International Financial Reporting Standards (IFRS) and all comparisons are with 2004 results which have been restated to comply with IFRS.

Group sales were £349.1 million which compares with £316.0 million in 2004. Sterling was weaker against most currencies in 2005 which increased turnover on translation by £8.1 million. At constant exchange rates turnover grew by 8%; excluding acquisitions the underlying increase was 6%.

Operating profit increased to £55.2 million from £48.0 million in 2004, an increase of 15%. The effect of exchange rate movements was to increase operating profits by £2.1 million. The Group operating profit margin improved to 15.8% compared with 15.2% in 2004, the improvement largely arising from the higher sales. We strengthened our position as the world leader in providing advice and products for the efficient use of both steam and peristaltic pumps. Our businesses in the Americas and Asia made good progress but the markets in the UK and Continental Europe were, for the most part, quiet and our progress in those economies was, therefore, constrained.

I am pleased to report a further good set of results for 2005. Following the progress in the first half of the year, the momentum was maintained through the second half. Sales increased 10% in the full year, operating profit was 15% ahead and pre-tax profit rose by 17% to a record £57.0 million, which includes favourable exchange movements and a small contribution from acquisitions. These trading results together with control of the balance sheet are reflected in the improved return on capital employed, the strong cash flow and the recommended 11% increase in dividend for the year.

Net finance income was £0.9 million which compares with a figure close to zero in 2004. This increased income results partly from the strong cash flow in the year and partly from an improved net finance income in respect of defined benefit pension funds.

The Group's share of profits of Associates increased to £0.9 million (2004: £0.7 million). The Group pre-tax profit increased by 17% to £57.0 million (2004: £48.7 million).

The tax charge at 33% was similar to 2004 and earnings per share rose to 50.0p from 43.1p, an increase of 16%.

The Board has decided to recommend a final dividend of 17.0p per share which, together with the interim dividend of 6.8p per share paid in November, makes a total dividend for the year of 23.8p. This compares with a total dividend of 21.4p per share last year, an increase of 11%. The cost of the interim and final dividends is £18.3 million, which is covered 2.1 times by earnings. No scrip alternative to the cash dividend is being offered.

On 9th June 2005 we announced the acquisition of Actuators and Controls (Pty) Limited and Proportional Control Technology (Pty) Limited, manufacturers of control valves and actuators for steam and high pressure industrial processes. Both businesses are based in Johannesburg, South Africa. The consideration was R28.9 million (£2.3 million).

On 27th June 2005 we announced the acquisition, for a consideration of US\$4.5 million (£2.5 million), of the assets and business of EMCO Flow Systems of Longmont, Colorado. EMCO is a provider of flow measurement products for HVAC, industrial and commercial applications. The trading performance of these companies and the process of their integration has started well.

The Group's record of good cash generation continued and net cash balances increased by £17.7 million to £19.0 million at 31st December 2005. Net capital expenditure in the year amounted to £12.0 million which compares with £13.8 million in 2004. We continue to invest in our workforce, equipment and systems to improve our efficiency and to support our long-term growth plans. We also improved the utilisation of our existing plant. We intend, in 2006, to accelerate our contributions to the defined benefit pension schemes and to buy in some shares to help satisfy the requirements of the share-based payment schemes.

We recently announced that Graham Marchand will be retiring from the Board on 30th June 2006. Graham started work at Spirax in 1987 and came onto the Board in 1992. Throughout his time at Spirax, Graham has been responsible for many of our operating companies at first in Europe and, later, the Americas. He has helped to develop those businesses and we have to thank him for much of the growth and development in those markets in recent years.

We have also announced that we will be welcoming Mark Vernon to the Board from 1st July 2006 with responsibility for the Americas and Group Marketing. Mark, who is a US citizen, joined Spirax in 2003 to run the Spirax Sarco business in the USA. Mark has a great deal of relevant experience having worked for many years in the controls industry. We look forward to Mark making a strong contribution to the future development of the Group.

Chris Ball and Tim Fortune retired from the Board on 29th April and 12th May 2005 respectively. Both Tim and Chris gave generously of their time and talents

over many years, and their energy and experience were major contributors to the Group's long and successful history of growth and profitability. The Board wishes to put on record its thanks to Tim and Chris for their contribution to the performance of the Group. I was pleased to take over the chairmanship of the Board from Tim Fortune on 12th May, at which time Bill Whiteley succeeded me as Senior Independent Director and now chairs the Remuneration and Audit Committees.

The Board was pleased to welcome Tony Scrivin as Director-Europe from 1st May 2005. Tony has many years' experience with Spirax in commercial, logistics, manufacturing and sales positions, most recently as President of Spirax Sarco Inc. in the USA and then as Controls Product Unit director.

We are also delighted that Gareth Bullock joined the Board as a non-executive director on 2nd May 2005. Gareth is a director of Standard Chartered Bank. We look forward to benefiting from his wide experience of doing business around the world, notably in Africa and Asia.

The Group's performance reflects continued management focus on our core businesses and I would like to thank, on behalf of the Board, all the teams of dedicated people in all parts of the world who have delivered the good results of the Group not only in 2005 but consistently over many years.

## PROSPECTS

The results for 2005 were helped by favourable exchange movements and a broadly positive trading environment. We invested in the growth of the business and will continue to invest in sales and marketing resources and to improve efficiency. The current year has started satisfactorily and, assuming that there is no disruption to the major world economies and that currency movements do not go significantly against us, we expect that the Group will make still further progress in 2006.



**M Townsend**, Chairman