



Interim report **2006**

spirax
/sarco

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 Engineering plc Interim Results

30th June	2006	2005	Change
Revenue	£185.9m	£166.6m	+12%
Operating profit	£28.2m	£25.0m	+13%
Operating profit margin	15.2%	15.0%	
Profit before taxation	£30.0m	£26.0m	+16%
Earnings per share	26.2p	23.0p	+14%
Dividends per share	7.5p	6.8p	+10%
Net cash	£2.2m	£1.5m	

- Continuing good growth in Asia and North America
- Noticeable improvement in Continental Europe
- Margin growth despite higher material and energy costs and the Brazilian result
- Pre-tax profit up 16%
- Interim dividend up 10%
- Continuing bolt-on acquisitions

CHAIRMAN'S STATEMENT

I am pleased to report another good set of results reflecting a continuation of the positive start to the year that we reported in March. The growth has been based on the underlying strengths of our specialised businesses, which have been operating in a mainly healthy global economic environment. There was sales growth in Asia, North America, Europe and the Rest of the World, but demand in the UK market was weaker. We increased our investments to take advantage of the identified growth opportunities for our industrial steam and peristaltic pumping businesses, improving the knowledge and service provided to our customers to improve the efficiency of their plants.

Sales in the first half were £185.9 million, up from £166.6 million; an increase of 12%. This comprised organic growth of 6%, exchange gains which contributed 4%, and the extra sales from the three small acquisitions that we made in South Africa and the USA in 2005 and 2006 accounted for the balance.

Operating profit increased by 13% from £25.0 million in the first half of 2005 to £28.2 million in 2006. The operating margin was 15.2% compared with 15.0% in the first half of 2005. The benefits of the organic growth and exchange gains were reduced by higher material and energy input costs, a lower margin in Brazil and increased IFRS costs, chiefly share-based payments and the amortisation of acquired intangible assets.

Net finance income increased to £1.2 million from £0.6 million in 2005 as a result of the strong cash flow over the last year, as well as from stronger net finance income relating to pension funds. The Group's share of profits of Associates increased to £0.6 million in 2006 from £0.4 million in 2005. Pre-tax profit increased by 16% to £30.0 million including £2.2 million due to favourable exchange rate movements.

The tax charge of 32.7% was the same as 2005 and the profit attributable to equity shareholders increased by 16% to £20.1 million. Earnings per share increased by 14% to 26.2p compared with 23.0p in the corresponding period last year.

TRADING

Our Spirax Sarco and Watson-Marlow Bredel businesses are focused on their respective steam specialty and peristaltic pumping markets. They lead the world in the provision of knowledge, service and products to their target markets and have a diverse range of customers across the globe, working with them to improve the quality of their output and to reduce costs.

CHAIRMAN'S STATEMENT *(continued)*

The UK market remains subdued; industrial production and investment showed no sign of improvement, with only a few exceptions such as the pharmaceutical and oil & petrochemical industries. Sales declined by 3% to £20.5 million. The operating profit of £5.7 million was 15% lower than the prior year as the factories invested in longer term efficiency improvements and incurred higher material and energy costs.

The Continental European economies generally improved in the first half of 2006 and confidence among our industrial customers strengthened. Our companies performed well as the various sales initiatives and recent product releases allowed both Spirax Sarco and Watson-Marlow Bredel to increase market penetration and sales rose by 10% to £68.5 million. There were particularly strong results in the Czech Republic, Germany and Spain, and in Alitea's pump sales to OEMs. Belgium, Italy and the Hygromatik humidifier business all produced good growth although sales were lower in Sweden and in Norway following exceptional project sales in 2005. The factories in Europe also benefited from strong demand from our Asian sales operations. Although the French market remains weak, our companies increased sales and profits. Our young company in Russia generated strong sales growth and good profits, which promises well. Operating profit in Continental Europe increased by 19% to £10.2 million. The impact from exchange rate movements was small.

There was a continuation of the strong performance in Asia with good sales to the oil & petrochemical and pharmaceutical markets. The regional sales increased by 20% to £36.3 million and operating profit rose by 53% to £6.5 million from £4.2 million. Good increases in shipments and profits were delivered in China, India (an Associate), Korea, Malaysia and the other South East Asian markets; sales in Japan also improved. The relatively new Watson-Marlow Bredel operations in China and Korea performed well. At constant exchange rates, sales increased by 13% and profit by 26%, the sterling figures being particularly influenced by the continued strength of the Korean Won.

The North American operations' sales increased by 16% to £37.6 million; at constant exchange rates the increase was 9%, half of which came from our two new metering businesses - EMCO acquired in June 2005 and AFTCO in April 2006. Both these businesses are being integrated into the Spirax Sarco business in the USA, where combined sales and operating profits increased well. The Watson-Marlow Bredel sales in the USA were flat mainly due to the non-repeat of a large OEM project in 2005; the underlying business was up, with good sales to the industrial sector. Our Mexican operation, which is accounted for as an Associate, continued its good progress with both sales and profits increasing strongly. The North American operating profit increased by 38% to £3.6 million; at constant exchange rates the increase was 16%.

In the Rest of the World (mainly South America, Africa and Australasia), sales increased by 12% to £22.9 million, which includes the benefit of exchange movements and the South African acquisition. In Brazil, as we indicated in March, the market was difficult and, despite our sales initiatives there, turnover fell and profits were sharply lower. Sales in Argentina held up despite a fragile domestic market. While global demand for ball valves made in Argentina helped overall sales, profits were flat. In South Africa, the integration of the Mitech control valve business, acquired in June 2005, is proceeding on plan and overall sales and profits were ahead, as they were in New Zealand. Operating profit in the Rest of the World was £2.2 million compared with £2.9 million in the first half of 2005, the reduction being due to the lower profit in Brazil.

BALANCE SHEET AND CASH FLOW

Capital employed in the business increased by 5% from a year earlier to £196 million. Capital expenditure was £7.0 million, which is close to the long-term norm. We are continuing to invest in the Spirax Sarco and Watson-Marlow Bredel businesses to ensure their future expansion and improved efficiency. Dividend payments were £13.0 million during the half year. In April, we completed the acquisition of AFTCO, the small metering business in the USA, for £1.6 million. We also made £1.0 million extra contributions to the Group's pension funds in the period. Since the end of the half year we have, as indicated in March, made a special pension contribution of £14.5 million and we have acquired 80% of Ultrapure in the USA for £2.7 million.

At the time of the 2005 results in March we announced our intention to buy back up to 2 million shares, to be used to satisfy all outstanding share based remuneration requirements. By the end of June we had acquired 1.5 million shares for £13.7 million.

At 30th June, the net cash position was therefore £2.2 million as against £19.0 million at 31st December 2005 and £1.5 million at 30th June 2005. The net liability in respect of post-retirement benefits decreased by £14 million in the first half of the year to £32 million due to higher bond yields and improved investment performance; the special contribution, mentioned above, will further enhance the funding position.

DIVIDEND

The Board has declared an interim dividend of 7.5p (2005: 6.8p) per ordinary share, an increase of 10%, which will be paid on 10th November 2006 to shareholders on the register at the close of business on 13th October 2006. No scrip alternative to the cash dividend is being offered in respect of the 2006 interim dividend.

CHAIRMAN'S STATEMENT *(continued)*

BOARD CHANGES

On 30th June, Graham Marchand retired from the Board. He joined the company in 1987 and, at various times, has overseen our Spirax Sarco operations in Europe, the Americas and the UK. We thank Graham for his excellent and consistent contribution to the Group's performance over that time and his retirement has been well earned.

We welcomed Mark Vernon, who has been General Manager of Spirax Sarco Inc. in the USA, to the Board on 1st July. Mark joined the Group in 2003 and brought with him a wealth of experience in the controls industry. We look forward to Mark's contribution to the future prosperity of the Group.

PROSPECTS

The good results in the first half of the year were achieved against a relatively positive market background and favourable currency movements. If the US dollar remains weak, as seems likely, the exchange gains would largely unwind in the second half of 2006 and there are some doubts about the sustainability of the current positive business environment, particularly in the USA. Nevertheless there continue to be good sales prospects for the second half of the year and we expect a further good performance.



Mike Townsend, **Chairman**

7th September 2006

GROUP INCOME STATEMENT

for the half year ended 30th June 2006

		Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Revenue	2	185,855	166,611	349,100
Operating costs		(157,643)	(141,580)	(293,930)
Operating profit	2	28,212	25,031	55,170
Financial expenses		(5,798)	(5,613)	(11,450)
Financial income		6,967	6,180	12,378
Net financing income	3	1,169	567	928
Share of profit of associates		636	384	861
Profit before taxation		30,017	25,982	56,959
Taxation	4	(9,804)	(8,488)	(18,772)
Profit for the period		20,213	17,494	38,187
Attributable to:				
Equity holders of the parent		20,099	17,392	38,036
Minority interest		114	102	151
Profit for the period		20,213	17,494	38,187
Earnings per share				
Basic earnings per share	5	26.2p	23.0p	50.0p
Diluted earnings per share	5	26.0p	22.8p	49.6p
Dividends				
Dividend paid per share		17.0p	15.1p	21.9p
Dividend proposed per share		7.5p	6.8p	17.0p
		£000	£000	£000
Dividend paid		13,047	11,459	16,684
Dividend proposed		5,685	5,188	13,093

GROUP BALANCE SHEET

as at 30th June 2006

	30th June 2006 £000	30th June 2005 £000	31st December 2005 £000
ASSETS			
Non-current assets			
Property, plant and equipment	85,349	84,306	85,752
Goodwill	15,328	14,122	15,033
Other intangible assets	8,187	8,411	8,357
Prepayments	443	356	396
Investment in associates	3,498	3,061	3,371
Deferred tax	13,922	20,972	18,536
	126,727	131,228	131,445
Current assets			
Inventories	68,512	61,186	64,216
Trade receivables	81,623	78,978	83,303
Other current assets	11,081	10,376	8,688
Cash and cash equivalents	6 21,498	46,799	56,929
	182,714	197,339	213,136
Total assets	309,441	328,567	344,581
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	45,050	44,157	46,843
Bank overdrafts	6 8,366	7,953	3,836
Short term borrowing	6 1,881	-	1,498
Current portion of long term borrowings	6 6,688	7,605	25,010
Current tax payable	6,423	5,063	7,326
	68,408	64,778	84,513
Net current assets	114,306	132,561	128,623
Non-current liabilities			
Long term borrowings	6 2,374	29,765	7,540
Tax payable	-	60	-
Deferred tax	8,044	7,966	7,728
Post retirement benefits	32,080	54,059	45,807
Provisions	759	715	747
	43,257	92,565	61,822
Total liabilities	111,665	157,343	146,335
Net assets	197,776	171,224	198,246
Equity			
Share capital	19,292	19,053	19,238
Share premium account	47,128	42,289	46,154
Other reserves	1,833	6,139	7,554
Retained earnings	128,847	102,880	124,672
Equity attributable to equity holders of the parent	7 197,100	170,361	197,618
Minority interest	676	863	628
Total equity	197,776	171,224	198,246
Total equity and liabilities	309,441	328,567	344,581

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the half year ended 30th June 2006

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Actuarial gain on post retirement benefits	8,154	(8,403)	(6,032)
Foreign exchange translation differences	(4,541)	2,652	6,907
Gains on cash flow hedges	263	(23)	6
Income and expense recognised directly in equity	3,876	(5,774)	881
Profit for the period	20,213	17,494	38,187
Total recognised income and expense for the period	24,089	11,720	39,068
Attributable to			
Equity holders of the parent	23,975	11,618	38,917
Minority interest	114	102	151
Total recognised income and expense for the period	24,089	11,720	39,068

GROUP CASH FLOW

for the half year ended 30th June 2006

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
	<i>notes</i>		
Cash flows from operating activities			
Profit before taxation	30,017	25,982	56,959
Depreciation and amortisation	6,794	6,142	13,151
Share of profit of associates	(636)	(384)	(861)
Equity settled share plans	664	436	576
Net finance income	(1,169)	(567)	(928)
Operating profit before changes in working capital and provisions	35,670	31,609	68,897
Increase in trade and other receivables	(3,267)	(3,701)	(2,814)
Increase in inventories	(5,651)	(1,899)	(3,224)
Decrease in provisions and post-retirement benefits	(1,014)	436	(4,045)
Decrease in trade and other payables	(775)	242	1,371
Cash generated from operations	24,963	26,687	60,185
Interest paid	(395)	(759)	(1,677)
Income taxes paid	(8,416)	(9,529)	(16,789)
Net cash from operating activities	16,152	16,399	41,719
Cash flows from investing activities			
Purchase of property, plant and equipment	(6,751)	(5,861)	(11,692)
Proceeds from sale of property, plant and equipment	409	492	850
Purchase of software	(227)	(111)	(1,139)
Development expenditure capitalised	(543)	(600)	(1,070)
Acquisition of businesses	(1,601)	(4,943)	(5,866)
Interest received	634	896	1,860
Dividends received	126	47	351
Net cash used in investing activities	(7,953)	(10,080)	(16,706)
Cash flows from financing activities			
Proceeds from issue of share capital	1,611	4,518	8,568
Treasury shares purchased	(13,721)	-	-
Repayment of borrowings	6 (22,814)	(3,917)	(7,728)
Payment of finance lease liabilities	6 (110)	(187)	(372)
Dividends paid	(13,047)	(11,537)	(16,796)
Net cash used in financing activities	(48,081)	(11,123)	(16,328)
Net decrease in cash and cash equivalents	6 (39,882)	(4,804)	8,685
Cash and cash equivalents at beginning of period	6 53,093	43,914	43,914
Exchange movement	6 (79)	(264)	494
Cash and cash equivalents at end of period	6 13,132	38,846	53,093
Borrowings and finance leases	6 (10,943)	(37,370)	(34,048)
Net cash	6 2,189	1,476	19,045

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION

The interim consolidated financial statements of Spirax-Sarco Engineering plc and its subsidiaries (the 'Group') have been prepared on the basis of the accounting policies set out in the 2005 Spirax-Sarco Engineering plc Annual Report.

The comparative figures for the year ended 31st December 2005 do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The consolidated statutory accounts for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2005 have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985. The interim financial statements for the six months ended 30th June 2006 were authorised for issue by the Board on 7th September 2006.

2 SEGMENTAL REPORTING

Primary segment

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Analysis by operation						
		Revenue		Profit from operations		
UK & Republic of Ireland	53,484	51,754	102,479	5,721	6,728	10,881
Continental Europe	85,197	77,503	156,050	10,179	8,550	18,733
North America	37,743	32,990	73,220	3,578	2,599	7,938
Asia	34,198	27,518	61,263	6,496	4,234	11,430
Rest of the world	24,228	20,775	45,949	2,238	2,920	6,188
Intra-Group sales	(48,995)	(43,929)	(89,861)	-	-	-
	185,855	166,611	349,100	28,212	25,031	55,170

Profit from operations figures reflect the allocation of UK incurred central support costs to the segments to which the expenses relate. Segmental profits for the six months to June 2005 were prepared on a different basis and have now been restated to reflect this change.

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Revenue by geographical location of customers			
UK & Republic of Ireland	20,468	21,040	40,084
Continental Europe	68,529	62,356	125,343
North America	37,647	32,583	73,056
Asia	36,305	30,146	65,841
Rest of the world	22,906	20,486	44,776
	185,855	166,611	349,100

Secondary segment

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Revenue by business operation			
Spirax Sarco	161,225	144,219	302,627
Watson-Marlow Bredel	24,630	22,392	46,473
Group revenue	185,855	166,611	349,100

NOTES TO THE ACCOUNTS *(continued)*

3 NET FINANCING INCOME

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Financial expenses			
Bank and other borrowing interest payable	(398)	(787)	(1,704)
Interest on pension scheme liabilities	(5,400)	(4,826)	(9,746)
	(5,798)	(5,613)	(11,450)
Financial income			
Bank interest receivable	635	899	1,869
Expected return on pension scheme assets	6,332	5,281	10,509
	6,967	6,180	12,378
Net financing income	1,169	567	928
Net pension scheme financial income	932	455	763
Net bank interest	237	112	165
Net financing income	1,169	567	928

4 TAXATION

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

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
United Kingdom corporation tax	1,196	1,304	2,947
Overseas taxation	7,959	6,601	15,565
Deferred taxation	669	576	575
Prior year adjustment	(20)	7	(315)
	9,804	8,488	18,772

5 EARNINGS PER SHARE

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Earnings	20,099	17,392	38,036
Weighted average shares in issue	76,669,026	75,619,180	76,119,005
Dilution	772,879	638,139	577,169
Diluted weighted average shares in issue	77,441,905	76,257,319	76,696,174
Basic earnings per share	26.2p	23.0p	50.0p
Diluted earnings per share	26.0p	22.8p	49.6p

The dilution is in respect of unexercised share options and the performance share plan.

6 ANALYSIS OF CHANGES IN NET CASH

	At 1st January 2006 £000	Cash flow £000	Exchange movement £000	At 30th June 2006 £000
Current portion of long term borrowings	(25,010)			(6,688)
Non-current portion of long term borrowings	(7,540)			(2,374)
Short term borrowing	(1,498)			(1,881)
Total borrowings	(34,048)			(10,943)
Comprising:				
Borrowings	(33,600)	22,814	184	(10,602)
Finance Leases	(448)	110	(3)	(341)
	(34,048)	22,924	181	(10,943)
Cash and cash equivalents	56,929	(34,930)	(501)	21,498
Bank overdrafts	(3,836)	(4,952)	422	(8,366)
Net cash and cash equivalents	53,093	(39,882)	(79)	13,132
Net cash	19,045	(16,958)	102	2,189

7 GROUP STATEMENT OF CHANGES IN EQUITY

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Shareholders' funds at beginning of period as previously reported	-	163,913	-
IFRS adjustment to deferred tax	-	1,509	-
Shareholders' funds at beginning of period as adjusted	197,618	165,422	165,422
Total recognised income and expense for the period	23,975	11,618	38,917
Dividends paid	(13,047)	(11,459)	(16,684)
Net proceeds of issue of shares	1,611	4,518	8,568
Treasury shares purchased	(13,721)	-	-
Equity settled share plans	664	262	1,395
Equity attributable to equity holders of parent at end of period	197,100	170,361	197,618

NOTES TO THE ACCOUNTS *(continued)*

8 CAPITAL EMPLOYED

An analysis of the components of capital employed is as follows:

	30th June 2006 £000	30th June 2005 £000	31st December 2005 £000
Property, plant and equipment	85,349	84,306	85,752
Prepayments	443	356	396
Inventories	68,512	61,186	64,216
Trade receivables	81,623	78,978	83,303
Other current assets	11,081	10,376	8,688
Trade and other payables	(45,050)	(44,157)	(46,843)
Current tax payable	(6,423)	(5,063)	(7,326)
Non-current tax payable	-	(60)	-
	195,535	185,922	188,186

SPIRAX SARCO WORLDWIDE

UNITED KINGDOM AND REPUBLIC OF IRELAND

Spirax-Sarco Ltd.

Spirax-Sarco Investments Ltd.

Spirax-Sarco Overseas Ltd.

Watson-Marlow Ltd.

Eirdata Environmental Services Ltd.

NORTH AMERICA

Canada

Spirax Sarco Canada Ltd.

Mexico

Spirax-Sarco Mexicana S.A. (49%)

USA

Spirax Sarco, Inc.

Sarco International, Corp.

Watson-Marlow, Inc.

ASIA

China

Spirax Sarco Engineering (China) Ltd.

India

Spirax-Marshall Ltd. (40%)

Japan

Spirax-Sarco Ltd. (Branch)

Malaysia

Spirax-Sarco Sdn. Bhd.

Singapore

Spirax-Sarco (Private) Ltd.

South Korea

Spirax-Sarco (Korea) Ltd. (97.5%)

Taiwan

Spirax Sarco Co. Ltd.

Thailand

Spirax Sarco (Thailand) Ltd.

REST OF THE WORLD

Argentina

Spirax Sarco S.A.

Australia

Spirax-Sarco Pty. Ltd.

Brazil

Spirax Sarco Ind. e Com. Ltda.

New Zealand

Spirax Sarco Ltd.

South Africa

Spirax-Sarco South Africa (Pty) Ltd.

Watson Marlow Bredel S.A. (Pty) Ltd.

Actuators and Controls (Pty) Ltd.

Proportional Control Technology (Pty) 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

Spirax-Sarco Engineering B.V.

Spirax-Sarco Investments B.V.

Bredel Hose Pumps 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.

Russia

Spirax-Sarco Engineering LLC

Spain

Spirax Sarco S.A. (95.1%)

Spirax-Sarco Engineering S.L.

M&M Iberica S.L. (67%)

Sweden

Spirax-Sarco A.B.

WM Alltea A.B.

Switzerland

Spirax-Sarco A.G.

Spirax-Sarco Engineering plc
Charlton House, Cirencester Road
Cheltenham, Gloucestershire GL53 8ER UK