

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