

Chairman's statement

I have pleasure in reporting a strong set of results for the first half of 2007. Global trading conditions have remained positive although, as indicated in March, the continued strength of sterling exerted downward pressure on the results, which were nevertheless another record with a 12% operating profit increase in sterling. The US dollar, together with currencies in Asia, remained weak against sterling and the euro.

We have continued to focus on the development of our two specialist businesses in the industrial steam using market and the peristaltic pumping market. Both businesses produced good growth in sales and profits in sterling terms, and the growth at constant exchange rates is better still.

Group sales in the half year were £200.1 million, up 8% from £185.9 million in 2006. Within this increase, organic sales growth was 12%, the negative exchange effect was 5% and there was a contribution from the small acquisition we made in July 2006.

We increased operating profits by 12% (21% at constant currency) from £28.3 million to £31.6 million in 2007. The operating profit margin in the first half increased from 15.2% in 2006 to 15.8% in 2007 despite the adverse exchange transaction impact, which reduced the margin by about $\frac{3}{4}$ %. We also continue to experience higher material and energy costs, but these were more than offset by the effects of the organic sales growth and efficiency gains.

The net finance income was £0.9 million in 2007, which compares with £1.2 million in the same period in 2006. The reduction arises mainly as a result of the share buy-back in 2006 amounting to £18 million. The profit from Associates was £0.6 million in the period (2006: £0.6 million). Profit before tax was £33.1 million as against £30.1 million in 2006, an increase of 10%, which includes an adverse exchange movement effect of £2.8 million.

The tax charge was 34% (2006: 33%) and the profit attributable to shareholders increased by 9% to £22.1 million. Earnings per share in the period were 29.1p, which compares with 26.3p in the first half of 2006, an increase of 11%.

TRADING

Our two businesses, the industrial steam business and peristaltic pumping business, are world leaders in their niche markets. Spirax Sarco and Watson-Marlow Bredel are continuously developing their product offerings and both are recognised experts in the application of their products to customers' processes in order to improve plant performance, generally by a combination of reducing energy consumption, increasing output and improving quality. Our

Chairman's statement continued

philosophy of partnership with our customers has enabled us to deliver a robust performance in the first half of 2007, with record sales and profits.

We achieved good organic sales growth of 10% to £22.4 million in the UK market, although manufacturing output remains subdued in the economy as a whole. The growth came from targeted opportunities, such as sales of services and heat exchange systems, and energy saving projects for our customers. The UK operating profit of £7.6 million compares with £5.7 million in a quiet first half of 2006, with a strong profit increase in our factories where there was healthy demand from worldwide markets.

The business momentum continued in Continental Europe, where economic conditions have been benign and sales growth has been widespread. The Spirax Sarco operations increased sales of packaged solutions and controls, and sales to the pulp and paper industry amongst others were strong. We also increased sales coverage in a number of countries. Sales in the region increased by 10% to £75.7 million and by 13% at constant exchange rates. The Spirax Sarco operating companies in Germany, Italy, Norway, Spain and Sweden all produced good growth. Our expanding young company in Russia continued its strong growth and profit record. The Watson-Marlow Bredel business grew sales and profits in most markets. Operating profit in Continental Europe increased by 19% (24% at constant currency) to £12.1 million.

The good growth performance continued in Asia, although the comparison with 2006 has been adversely affected by exchange rate movements, with sterling being stronger against most of the Asian currencies, particularly the Yen. Sales in the region were £39.3 million, an increase of 8% (15% at constant exchange rates). Our operating companies in China, Japan, Korea and Malaysia all grew well with some good orders from the oil and petrochemicals industry. Sales in India (an Associate) were flat and profits lower, although some significant shipments are due to be made in the second half of the year. Operating profit in Asia was 3% ahead at £6.7 million, although at constant currency the increase was 18%. The operating profit margin was held back by the impact of the exchange transaction effect.

In North America, sales increased by 2% in sterling to £38.4 million, including a small contribution following the acquisition of UltraPure in the USA completed in July 2006. The weakness of the US dollar has had a substantial effect on the figures and the underlying growth was a good 10%. The economic background in North America was broadly favourable. The Spirax Sarco business in the USA increased sales and profits with growth in sales of newer products and increased business with the pharmaceutical industry. Sales growth by Watson-Marlow Bredel was held back as a result of fewer projects and profits were lower due to the

exchange effect on the cost of products purchased from our factories in Europe. Our operation in Canada made good gains and in Mexico (an Associate) we made excellent progress in the period. The operating profit in North America at £2.8 million was 23% lower than in the same period in 2006 but 8% ahead at constant exchange rates. The 2007 profit was also impacted by losses associated with the integration of UltraPure, the small pure steam business acquired in 2006.

Sales in the Rest of the World (South America, Africa and Australasia) increased by 6% to £24.3 million. Here, too, exchange movements have had a noticeable effect with the Argentine Peso and South African Rand being relatively weak; the sales growth in constant currency was 13%. All the operations increased sales, particularly of controls and services, and in boiler water treatment. Australia and New Zealand increased sales and profits, as did Brazil following a weak first half of 2006. Despite solid sales growth, profits in Argentina were down slightly as increasing inflationary pressures pushed up costs. There was a weak performance in Spirax Sarco South Africa, not helped by softness of the Rand. Operating profits in the region increased by 7% to £2.5 million; at constant currency, the profit increase was 25%.

BALANCE SHEET AND CASH FLOW

Capital employed increased during the first half of 2007 by only 2% to £204 million. This arose from a 5% increase in working capital and roughly unchanged net fixed assets. Capital expenditure in the half year was £6.4 million; the figure in the second half of the year is expected to be higher as we continue to invest to underwrite future development both in terms of sales and efficiency. Most of the £9 million outflow associated with the new plant in China will take place in 2008. The post-retirement benefits liability recognised in the balance sheet decreased by £27 million in the first half year to £2.5 million at 30th June. The improvement reflects the benefit from favourable investment returns, bond yield movements and the final special pension contribution of £5.5 million, completing the £20 million special contribution to the main defined benefit pension funds started in 2006. Despite this and after payment of the 2006 final dividend, with the strong underlying cash flow, net debt was virtually unchanged in the half year and at 30th June was £7.2 million.

DIVIDEND

The Board has declared an interim dividend of 8.3p (2006: 7.5p) per ordinary share, an increase of 11%, which will be paid on 9th November 2007 to shareholders on the register at the close of business on 12th October 2007. No scrip alternative to the cash dividend is being offered in respect of the 2007 interim dividend.

Chairman's statement continued

PROSPECTS

The successful performance during the first half of the year was affected by adverse currency movements and there is currently expected to be an additional, though smaller, effect in the second half of the year. Despite this, given continuing favourable trading conditions, we look forward to further progress, albeit against a stronger second half in 2006.

A handwritten signature in blue ink, appearing to read "Mike L.", with a long horizontal stroke extending to the right.

Mike Townsend, **Chairman**
7th September 2007

Note: Operating profit, pre-tax profit and EPS figures exclude the amortisation of acquired intangible assets of £0.2 million in 2007 (2006: £0.1 million).