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Bespak plc

Interim Results for the 26 weeks to 1 November 2003

Bespak plc (LSE: BPK), an innovator in drug delivery, today announces its interim results for the 26 weeks to 1 November 2003 (2002: 26 weeks to 1 November 2002).

KEY POINTS

- Recovery from prior year in line with plan, showing strong volume growth of HFA valves and Device & Manufacturing Services (DMS) products
- Sales of products and services decreased 4% to £39.9m (2002: £41.4m) and, including sales of tooling and equipment, turnover decreased 9% to £40.4m (2002: £44.2m re-presented)
- Group operating profit before exceptional items increased 43% to £5.0m (2002: £3.5m).
- Profit before tax and exceptional items increased 24% to £5.1m (2002: £4.1m) and, after exceptional costs of £2.0m arising from the continuing restructuring (2002: £1.5m exceptional gain), profit before tax decreased 45% to £3.1m (2002: £5.6m)
- Earnings per share before exceptional items increased 20% to 13.7p (2002: 11.4p) and, after exceptional items, declined 52% to 8.1p (2002: 17.0p)
- Interim dividend of 7.0p maintained (2002: 7.0p)
- Balance sheet remains strong - net cash of £8.4m
- John Robinson today appointed as Chairman to replace Sir David Cooksey – see separate release.

Mark Throdahl, Chief Executive of Bespak, commented:

"Last summer we said that we would return Bespak to previous levels of performance and that we were encouraged by the strong fundamentals in our businesses. Since that time the Company's recovery has continued in line with our plan. Implementation of the restructuring programme is expected to be completed this financial year and we expect to benefit from the full year impact of these cost savings next financial year. Finally, we are delighted to welcome John Robinson as Chairman of the Board."

For further information please call:

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Bespak plc

Interim Results for the 26 weeks to 1 November 2003

Summary

During the first half, Bespak's financial performance was in line with plan as a result of significant cost reduction measures, solid trading in Respiratory and exceptional volumes in Device & Manufacturing Services. Implementation of the restructuring programme announced in April has proceeded on schedule and is expected to generate previously indicated annualised savings, which will be fully reflected in our next financial year. The Group's overall performance continues in line with the Board's expectations.

Sales of products and services decreased 4% to £39.9m (2002: £41.4m) and, including sales of tooling and equipment, turnover decreased 9% to £40.4m (2002: £44.2m re-presented). Group operating profit before exceptional items increased 43% to £5.0m (2002: £3.5m). Expenses were controlled well in the first half and the Group's operating profit margin before exceptional items increased to 12.4% (2002: 7.9%). Profit before tax and exceptional items increased 24% to £5.1m (2002: £4.1m) and, after exceptional costs of £2.0m arising from the continuing restructuring (2002: £1.5m exceptional gain), profit before tax decreased 45% to £3.1m (2002: £5.6m). Earnings per share before exceptional items increased 20% to 13.7p (2002: 11.4p) and, after exceptional items, declined 52% to 8.1p (2002: 17.0p).

The Board is maintaining an interim dividend of 7.0 pence per share, which is payable on 20 February 2004 to those on the shareholder register on 30 January 2004.

Net cash was £8.4m as at 1 November 2003, exceeding expectations due to lower than budgeted capital expenditure and better than expected working capital movements.

Operational Review

Respiratory Drug Delivery

Respiratory sales, comprising metered dose inhaler valves, actuators, medical check valves and nasal delivery devices, equalled last year's level of £17.7m. We experienced strong HFA growth to European customers, offset by decreased sales of CFC valves.

Bespak's valves for use with environmentally friendly HFA propellants are replacing CFC-based formulations in Europe. For the time being, no such trend is evident in the US, which remains predominantly a CFC market. Our 357 and Easifill HFA valves are under active consideration by a number of current and prospective customers, and Bespak believes it has won the valve contracts for nearly two-thirds of the HFA formulations approved around the world. HFA sales were 37% of valve sales whereas, in the comparable period last year, HFA sales were 21% of valve sales.

In November, we formally opened our new valve manufacturing plant in King's Lynn. This £10m facility offers our customers the latest valve moulding and assembly infrastructure and provides us with highly efficient manufacturing capacity for future market share growth. During the past five years we have committed over £55m of capital expenditure to the expansion and renewal of our manufacturing facilities, culminating in completion of the King's Lynn valve plant. We are achieving productivity improvements from this investment.

Devices & Manufacturing Services (DMS)

This business provides a comprehensive range of device-related services to pharmaceutical and drug delivery companies. Sales decreased 3% to £19.4m (2002: £20.1m). This reflects lower pricing on our lead contract manufactured product partly offset by exceptional volume growth. Additionally, we enjoyed significant sales to Abbott Laboratories on a product begun a year ago.

Over the last six months, DMS has achieved its cost reduction and throughput goals for its largest product, and expected gross margins are now being achieved.

Working in close collaboration with Nektar Therapeutics of San Carlos, California, we have finalised the manufacturing process for the inhaler device that will deliver the world's first inhaled insulin. This exciting new product, Exubera®, should benefit millions of diabetic patients around the world. Nektar is in a collaboration with Pfizer Inc. to develop the inhalation device and formulation process for Exubera®. Pfizer has also entered into an agreement with Aventis to co-develop, co-promote and co-manufacture Exubera®.

In October, we announced a collaboration with Britannia Pharmaceuticals to develop a novel clinical approach to prevent the formation of surgical adhesions; post-surgical scar tissue that in the US alone requires nearly $2 billion in hospital and surgical costs to correct. Under the terms of a development agreement, Bespak will develop at its own expense the delivery device for Britannia's AdSurf®, which is now in Phase III clinical trials. We will together seek a licensing partner to manage world-wide sales of the product, and Bespak and Britannia will share in royalties from Adsurf® sales and milestone payments.

We also entered into a development agreement on Intraject™ with Aradigm, the drug delivery company in Hayward, California which acquired the needle-free injector technology from Weston Medical last year. Bespak was Weston Medical's development partner prior to the sale.

Consumer Dispensers

This business manufactures pumps for consumer household products, toiletries and fragrances. As a result of weak demand from a number of customers, sales declined 22% to £2.8m (2002: £3.7m). Development of a new proprietary spray pump is now entering its final stage and we plan to launch this product in the Spring together with other product line extensions.

Cost Saving Programmes

In April, we announced a series of significant actions to reduce our cost base and return the Group to previous levels of performance. We are now confident that these programmes will generate targeted full year savings, which will be fully reflected in our performance in the next financial year.

There have been three elements of cost-saving. First, in April last year we curtailed Nasal formulation development programmes, which were meeting technical milestones but could not provide short-term financial returns. Second, in June we removed 25 positions in North America with the objective of eliminating long-running losses. Third, we identified 105 positions to be eliminated from UK operations. Most of these positions were removed in July and November, with the remainder going this month.

New Chairman

Sir David Cooksey has been a director of Bespak for ten years and has served as Chairman for the past eight years. It is with deep appreciation that we bid him farewell after a long and fruitful association with our Company.

Sir David will step down as Chairman from the Board of Bespak today and we are delighted to announce the appointment of John Robinson as the new Chairman of the Company. From 1990 to 1997 John was Chief Executive of Smith & Nephew plc, the largest UK-based medical technology company. He was subsequently Chairman until 2000. John is Chairman of George Wimpey plc, Paragon Healthcare Group and Chairman and Pro-Chancellor of the University of Hull. He will bring outstanding industry experience and stature to our Company.

Outlook

In Respiratory, we expect that a reduction in CFC valve sales will be offset by the continuing growth of HFA valve sales. While we anticipate CFC demand to continue for some years in the US, we cannot forecast precisely its duration or level.

In the second half, the DMS business will continue to benefit from exceptional volumes of its lead product. However, it is not anticipated that volumes of this product will be maintained in the following year. We remain optimistic about the prospects for the Exubera® inhaler device, although we cannot predict when full-scale production will commence.

We are confident that our Consumer Dispensers business will benefit next financial year from the introduction of a new proprietary spray pump and other product line extensions.

Implementation of the restructuring programmes will be completed this financial year so that we will benefit from full year cost savings next financial year. With completion of the King's Lynn valve plant, capital spending will be substantially reduced.

Around 10% of the Group's sales from the UK are denominated in US dollars. Therefore, continuing weakness of the US dollar will impact our performance next financial year, subject to compensatory actions.

Having achieved performance in line with our plan in the first half, we are looking forward to driving our business forward with continuing profit improvement.

Mark C. Throdahl
Chief Executive
19 January 2004

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Consolidated Profit and Loss Account

	Note	**Unaudited 26 weeks to 1 November 2003 Before exceptional items £000**	**Unaudited 26 weeks to 1 November 2003 Exceptional items £000**	**Unaudited 26 weeks to 1 November 2003 Total £000**	Unaudited 26 weeks to 1 November 2002 Total Re-presented (Note 1) £000	Audited 52 weeks to 3 May 2003 Total £000
Sales of products and services		**39,931**	**-**	**39,931**	41,397	79,887
Sales of tooling and equipment		**428**	**-**	**428**	2,814	8,423
Turnover	2	**40,359**	**-**	**40,359**	44,211	88,310
Operating expenses	3	**(35,361)**	**(2,029)**	**(37,390)**	(40,724)	(87,180)
Group operating profit	2	**4,998**	**(2,029)**	**2,969**	3,487	1,130
Share of joint ventures and associates		**(69)**	**-**	**(69)**	367	325
Total operating profit		**4,929**	**(2,029)**	**2,900**	3,854	1,455
Profit on sale of associate	3	**-**	**-**	**-**	1,502	1,439
Net interest receivable	4	**191**	**-**	**191**	285	391
Profit on ordinary activities before taxation		**5,120**	**(2,029)**	**3,091**	5,641	3,285
Taxation	5	**(1,477)**	**525**	**(952)**	(1,118)	(499)
Profit for the financial period		**3,643**	**(1,504)**	**2,139**	4,523	2,786
Dividends				**(1,866)**	(1,859)	(5,071)
Retained profit/(loss)				**273**	2,664	(2,285)
Basic and diluted earnings per share before exceptional items (pence)	6			**13.7p**	11.4p	11.5p
Basic and diluted (loss)/earnings per share on exceptional items (pence)	6			**(5.6p)**	5.6p	(1.0p)
Basic and diluted earnings per share (pence)	6			**8.1p**	17.0p	10.5p
Dividends per share (pence)	7			**7.0p**	7.0p	19.1p

Operating expenses for the 52 weeks to 3 May 2003 include £2,365,000 for exceptional charges (see note 3).

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Consolidated Balance Sheet

	Note	**Unaudited 1 November 2003 £000**	Unaudited 1 November 2002 £000	Audited 3 May 2003 £000
Fixed assets				
Intangible assets		**-**	540	-
Tangible assets		**63,219**	62,273	64,132
Investments		**1,276**	1,631	1,397
		64,495	64,444	65,529
Current assets				
Stocks		**4,684**	3,729	3,514
Debtors		**11,821**	11,904	12,729
Short-term investments		**16,743**	22,206	16,365
Cash at bank and in hand		**928**	1,929	1,678
		34,176	39,768	34,286
Creditors: Amounts falling due within one year	8	**(24,627)**	(26,252)	(25,786)
Net current assets		**9,549**	13,516	8,500
Total assets less current liabilities		**74,044**	77,960	74,029
Creditors: Amounts falling due after more than one year	8	**(795)**	-	(731)
Provisions for liabilities and charges	9	**(6,061)**	(5,889)	(6,265)
Net assets		**67,188**	72,071	67,033
Capital and reserves				
Called up share capital		**2,681**	2,679	2,679
Share premium account		**23,054**	23,010	23,010
Profit and loss account		**41,453**	46,382	41,344
Equity shareholders' funds		**67,188**	72,071	67,033

Consolidated Cash Flow Statement

	Note	**Unaudited 26 weeks to 1 November 2003 £000**	Unaudited 26 weeks to 1 November 2002 £000	Audited 52 weeks to 3 May 2003 £000
Net cash inflow/(outflow) from operating activities	10	**5,668**	(325)	2,975
Dividends received from associates		**-**	-	9
Returns on investment and servicing of finance				
Interest received		**318**	556	866
Interest paid		**(144)**	(255)	(443)
		174	301	423
Taxation				
UK corporation tax		**(322)**	(1,495)	(2,088)
Overseas tax		**(26)**	14	41
		(348)	(1,481)	(2,047)
Capital expenditure and financial instruments				
Payments to acquire intangible fixed assets		**-**	(133)	(70)
Payments to acquire tangible fixed assets		**(3,430)**	(8,459)	(15,703)
Receipts from sales of tangible fixed assets		**33**	542	597
		(3,397)	(8,050)	(15,176)
Acquisitions and disposals				
Purchase of fixed asset investments		**(39)**	(61)	(122)
Receipts from sale of associate		**-**	2,440	2,379
		(39)	2,379	2,257
Equity dividends paid		**(3,214)**	(3,212)	(5,070)
Net cash outflow before management of liquid resources and financing		**(1,156)**	(10,388)	(16,629)
Management of liquid resources				
(Decrease)/increase in short-term investments		**(378)**	9,267	15,108
Financing				
Payment for shares		**289**	22	22
Net decrease in loans		**(1,840)**	(1,995)	(1,971)
Net cash outflow from financing		**(1,551)**	(1,973)	(1,949)
Decrease in net cash		**(3,085)**	(3,094)	(3,470)

Statement of Total Recognised Gains and Losses

	Unaudited 26 weeks to 1 November 2003 £000	Unaudited 26 weeks to 1 November 2002 £000	Audited 52 weeks to 3 May 2003 £000
Profit for the financial period	**2,139**	4,523	2,786
Exchange movements on foreign currency net investments	**(164)**	(318)	(415)
Total recognised gains and losses for the period	**1,975**	4,205	2,371

Reconciliation of Movements in Equity Shareholders' Funds

	Unaudited 26 weeks to 1 November 2003 £000	Unaudited 26 weeks to 1 November 2002 £000	Audited 52 weeks to 3 May 2003 £000
Equity shareholders' funds brought forward	**67,033**	69,703	69,703
Profit for the financial period	**2,139**	4,523	2,786
Dividends	**(1,866)**	(1,859)	(5,071)
Exchange movements on foreign currency net investments	**(164)**	(318)	(415)
Movement relating to QUEST	**-**	-	8
Issue of ordinary share capital	**46**	22	22
Equity shareholders' funds carried forward	**67,188**	72,071	67,033

Notes to the Accounts

1. Basis of preparation and accounting policies

The unaudited results for the 26 weeks to 1 November 2003 have been prepared in accordance with UK Generally Accepted Accounting Principles. The accounting policies applied are those set out in the Group's Annual Report and Accounts for the 52 weeks to 3 May 2003.

In accordance with the change in accounting policy for turnover that was implemented for the 52 weeks to 3 May 2003, turnover for the 26 weeks to 1 November 2002 has been re-presented on the same basis to include sales of tooling and equipment within turnover and related costs within operating expenses. The effect on the comparative 26 weeks to 1 November 2002 is to increase turnover and operating expenses by £2,814,000. This reclassification does not affect the operating profit or net assets.

The charge for taxation on the profits for the 26 weeks to 1 November 2003 has been calculated by reference to the estimated effective tax rate for the 52 weeks to 1 May 2004.

The consolidated profit and loss account and consolidated cash flow statement for the 52 weeks to, and the balance sheet at, 3 May 2003 are an abridged statement of the full Group Accounts for that period which have been delivered to the Registrar of Companies. The report of the Auditors on the Accounts for the 52 weeks to 3 May 2003 was unqualified and did not contain a statement under either section 237(2) or section 237(3) of the Companies Act 1985.

2. Segmental information

Turnover by business	**26 weeks to 1 November 2003**	26 weeks to 1 November 2002 Re-presented (Note 1)	52 weeks to 3 May 2003
	£000	£000	£000
Respiratory	**17,651**	17,622	35,409
Device & Manufacturing Services	**19,449**	20,123	37,751
Consumer Dispensers	**2,831**	3,652	6,727
Sales of products and services	**39,931**	41,397	79,887
Sales of tooling and equipment	**428**	2,814	8,423
	40,359	44,211	88,310

Turnover by destination	**26 weeks to 1 November 2003**	26 weeks to 1 November 2002 Re-presented (Note 1)	52 weeks to 3 May 2003
	£000	£000	£000
United Kingdom	**16,748**	20,166	37,017
United States of America	**12,025**	14,776	31,184
Europe	**8,581**	5,449	12,664
Rest of the World	**3,005**	3,820	7,445
	40,359	44,211	88,310

Notes to the Accounts

2. Segmental information (continued)

Turnover by origin	26 weeks to 1 November 2003 £000	26 weeks to 1 November 2002 Re-presented (Note 1) £000	52 weeks to 3 May 2003 £000
United Kingdom	**35,334**	39,011	78,224
United States of America	**7,987**	10,953	22,254
Total sales	**43,321**	49,964	100,478
Intra-group sales	**(2,962)**	(5,753)	(12,168)
	40,359	44,211	88,310

Group operating profit by origin	26 weeks to 1 November 2003 £000	26 weeks to 1 November 2002 Re-presented (Note 1) £000	52 weeks to 3 May 2003 £000
United Kingdom			
Group operating profit before exceptional operating expenses	**5,489**	3,502	4,058
Exceptional operating expenses	**(1,749)**	-	(2,208)
	3,740	3,502	1,850
United States of America			
Group operating loss before exceptional operating expenses	**(491)**	(15)	(563)
Exceptional operating expenses	**(280)**	-	(157)
	(771)	(15)	(720)
Group			
Group operating profit before exceptional operating expenses	**4,998**	3,487	3,495
Exceptional operating expenses	**(2,029)**	-	(2,365)
	2,969	3,487	1,130

Net assets by origin	1 November 2003 £000	1 November 2002 £000	3 May 2003 £000
United Kingdom	**55,935**	52,542	51,293
United States of America	**10,677**	12,613	15,745
Allocated net assets	**66,612**	65,155	67,038
Unallocated net assets/(liabilities)	**576**	6,916	(5)
	67,188	72,071	67,033
Average rate of exchange £1 Sterling : US $	**1.63**	1.52	1.56
Closing rate of exchange £1 Sterling : US $	**1.69**	1.56	1.60

3. Exceptional items

	26 weeks to 1 November 2003 £000	26 weeks to 1 November 2002 £000	52 weeks to 3 May 2003 £000
Exceptional operating expenses	**(2,029)**	-	(2,365)
Profit on sale of associate	**-**	1,502	1,439
Exceptional items before taxation	**(2,029)**	1,502	(926)
Taxation	**525**	-	648
Exceptional items after taxation	**(1,504)**	1,502	(278)

The exceptional operating expenses comprise employee severance costs, curtailment of nasal formulation activities, and costs incurred with the profit forecast and bid approaches.

Notes to the Accounts

4. Net interest receivable

	26 weeks to 1 November 2003 £000	26 weeks to 1 November 2002 £000	52 weeks to 3 May 2003 £000
Interest receivable			
Interest receivable on deposits	**284**	537	842
Interest receivable other	**-**	-	29
Associates	**1**	-	-
	285	537	871
Interest payable			
Bank overdrafts and loans	**(94)**	(239)	(469)
Associates	**-**	(13)	(11)
	(94)	(252)	(480)
Net interest receivable	**191**	285	391

5. Taxation

	26 weeks to 1 November 2003 £000	26 weeks to 1 November 2002 £000	52 weeks to 3 May 2003 £000
Current taxation	**1,112**	791	6
Deferred taxation	**(140)**	166	327
Share of taxation of associates	**(20)**	161	166
	952	1,118	499

6. Earnings per share

	26 weeks to 1 November 2003	26 weeks to 1 November 2002	52 weeks to 3 May 2003
Profit for the financial period before exceptional items (£000)	**3,643**	3,021	3,064
Exceptional items after taxation (£000) (Note 3)	**(1,504)**	1,502	(278)
Profit for the financial period (£000)	**2,139**	4,523	2,786
Weighted average number of shares in issue	**26,802,153**	26,789,515	26,790,505
Shares owned by Employee Share Ownership Trusts	**(238,936)**	(249,466)	(245,793)
Average number of shares in issue for basic earnings	**26,563,217**	26,540,049	26,544,712
Dilutive impact of share options outstanding	**95**	124,709	95
Diluted average number of shares in issue	**26,563,312**	26,664,758	26,544,807
Basic and diluted earnings per share before exceptional items (pence)	**13.7**	11.4	11.5
Basic and diluted (loss)/earnings per share on exceptional items (pence)	**(5.6)**	5.6	(1.0)
Basic and diluted earnings per share (pence)	**8.1**	17.0	10.5

7. Dividends

The interim dividend of 7.0p (2002: 7.0p) will be paid on 20 February 2004 to shareholders on the register on 30 January 2004.

Notes to the Accounts

8. Creditors

	1 November 2003 £000	1 November 2002 £000	3 May 2003 £000
Amounts falling due within one year			
Loans falling due within one year	**-**	1,945	1,873
Bank overdrafts & loans – unsecured	**9,279**	7,406	7,350
Proposed dividend	**1,864**	1,858	3,212
Corporate taxation	**1,181**	1,870	761
Other creditors	**12,303**	13,173	12,590
	24,627	26,252	25,786
Amounts falling due after more than one year			
Other creditors	**795**	-	731
	795	-	731

9. Provisions for liabilities and charges

	Deferred taxation £000	Post retirement benefits £000	Total £000
At 4 May 2003	5,727	538	6,265
Profit and loss account	(140)	(47)	(187)
Exchange rate adjustments	-	(17)	(17)
At 1 November 2003	**5,587**	**474**	**6,061**

10. Cash flow from operating activities

	26 weeks to 1 November 2003 £000	26 weeks to 1 November 2002 £000	52 weeks to 3 May 2003 £000
Group operating profit	**2,969**	3,487	1,130
Depreciation	**3,743**	3,516	7,116
Amortisation of intangible fixed assets	**-**	30	507
(Decrease)/increase in amount provided against investment in own shares	**(197)**	128	264
Amount provided on revaluation of fixed asset investment	**-**	-	78
(Profit)/loss on sale of tangible fixed assets	**(11)**	155	484
Profit on sale of fixed asset investment	**(83)**	-	-
Increase in stocks	**(1,216)**	(386)	(187)
Decrease/(increase) in debtors	**650**	(1,932)	(2,655)
Decrease in creditors	**(140)**	(5,337)	(3,998)
(Decrease)/increase in provisions	**(47)**	14	236
Net cash inflow/(outflow) from operating activities	**5,668**	(325)	2,975

Operating cash flow in the 26 weeks to 1 November 2003 includes an outflow of £1,775,000 relating to exceptional operating expenses in the 26 weeks to 1 November 2003 and an outflow of £1,195,000 relating to exceptional operating expenses in the 52 weeks to 3 May 2003.

Operating cash flow in the 52 weeks to 3 May 2003 includes an outflow of £725,000 relating to exceptional operating expenses in the 52 weeks to 3 May 2003.

Notes to the Accounts

11. Reconciliation of net cash flow to movement in net funds

	4 May 2003 £000	Cash flow £000	Exchange Movements £000	**1 November 2003 £000**
Cash at bank and in hand	1,678	(736)	(14)	**928**
Overdrafts and short-term loans	(7,350)	(2,349)	420	**(9,279)**
Net overdrafts and short-term loans	(5,672)	(3,085)	406	**(8,351)**
Loans and leasing obligations	(1,873)	1,840	33	**-**
Short-term investments	16,365	378	-	**16,743**
Net funds	8,820	(867)	439	**8,392**
Financing items included in cash flow movements				
Payment for shares		(289)		
Net cash outflow before management of liquid resources and financing		**(1,156)**		