



Growing global expertise

Growing global expertise

Flomerics continues to develop its position as a global expert in the development of 'virtual prototyping' solutions – enabling engineers and designers to assess product performance by design analysis before the construction of physical prototypes. Our strategy focuses on leveraging the expertise of our employees, many of whom are global leaders in their field of expertise.

contents

	2	Chairman's Statement
4		Consolidated Profit and Loss Account
4		Statement of Total Recognised Gains and Losses
	5	Consolidated Balance Sheet
6		Consolidated Cash Flow Statement
6		Reconciliation of Net Cash Flow to Movement in Net Funds
	7	Notes to the Interim Report
	9	Directors and Company Advisers

Introduction

Flomerics has made a good start to the year with sales reaching £5.7 million and strong performances in the US and Asia Pacific. We have also made an adjusted profit for the period of £238,000, which was subject to a 13% increase in administrative costs mainly due to key recruitment. While our European operations saw a decline, due in part to relatively flat economic conditions in the region, our integration of Nika GmbH, acquired in July 2006, brings considerable extra resources in the region as well as exposure to significant new markets around the world.

Results

Turnover was £5.7 million (2005: £5.3 million) achieving growth of 8%.

Profit before taxation, amortisation of goodwill and share-based payment was £238,000. While this is down on the 2005 figure of £380,000 the period saw administrative costs increase by 13% on a like-for-like basis, including an exceptional charge of £58,000.

Our cash balance continues to be strong with £4.0 million at 30 June 2006, compared with £3.5 million a year earlier.

In order to compare like-with-like, the comparisons made below with the same period last year are all at constant rates of exchange. Similarly, the figures for the regions exclude the contribution from MicReD, which was acquired in April 2005.

The US had very strong growth (29% with strong contributions from both the thermal and electromagnetic). Asia Pacific also performed well (up 16%) with particularly strong performances from our thermal products in China and Japan. In contrast European sales were down 13% partly attributable to the relatively flat economy in the region's markets. A key objective for Flomerics during the next 12 months is to increase sales productivity in Europe. This will partly be achieved through pursuing synergies between our existing and acquired businesses.

Looking at sales by product, our electronics thermal line of business grew by 10% (2005: 16%), FLOVENT by 6% (2005: 14%) and the electromagnetics line of business by 4% (2005: 8%). In order to drive our electromagnetics products more aggressively, we have recently hired an experienced sales professional with a background in EM software to take complete responsibility for this line of business. In addition, and in order to improve profitability in this area, we have committed to moving FLO/EMC and Micro-Stripes to a common development platform.

MicReD contributed £128,000 to first half turnover (2005: £264,000). We are delighted with the performance in the US, where we achieved the first sales of T3Ster to open up this very significant market. There was some slippage of MicReD sales in Europe and Asia Pacific, but there continue to be good prospects in both regions.

NIKA

In June we announced the proposed acquisition of NIKA GmbH, which was completed on 6 July 2006. NIKA develop and sell a suite of software tools for the simulation of fluid flow that are tightly integrated with leading Mechanical Computer-Aided Design (MCAD) tools. The NIKA organisation is headquartered in Germany, and has other operations in France and Russia, with all software development taking place in Moscow. Over the coming months we will be working to integrate the organisations and take full and rapid advantage of the significant opportunities facing the new combined group. In particular we will be investing in sales organisations in the US and in the UK where NIKA has had minimal presence up to now.

Dividend

Having carefully considered the dividend policy, the board has decided that it is appropriate for the Company to continue to pay only a final dividend. Therefore, as in previous years, we will not be paying an interim dividend.

Outlook

Flomerics' strategy has been to continue to maximise the sales opportunities associated with the growth in the electronics industries through our market leading products and our global presence. At the same time we have been looking to widen the range of applications and markets we address which we have been able to do by the 2005 acquisition of MicReD and now the addition of the NIKA business to the Flomerics organisation. We see the latter as bringing a transformation in the growth of the business over the next few years.

The directors believe that investment in sales and the recent acquisitions have created increasing momentum in the business. There is now a strong platform for growth and there are good prospects for the remainder of this year and beyond.

consolidated profit and loss account

interim results for the six months to 30 June 2006

	30 Jun 06 (Unaudited) £'000	30 Jun 05* (Unaudited) £'000	31 Dec 05* (Audited) £'000
Turnover	5,677	5,256	11,424
Cost of sales	(159)	(238)	(291)
Gross profit	5,518	5,018	11,133
Administrative expenses	(5,367)	(4,752)	(10,197)
Amortisation of goodwill	(98)	(59)	(158)
Other operating income	30	35	66
Operating profit	83	242	844
Interest receivable and other income	54	72	92
Interest payable and similar charges	(46)	(19)	(36)
Profit on ordinary activities before taxation	91	295	900
Tax on profit on ordinary activities	(18)	(66)	(37)
Profit on ordinary activities after taxation	73	229	863
Earnings per share	0.49	1.55	5.83
Diluted earnings per share	0.46	1.49	5.59

*As restated – see Note 7

statement of total recognised gains and losses

	30 Jun 06 (Unaudited) £'000	30 Jun 05* (Unaudited) £'000	31 Dec 05* (Audited) £'000
Profit for the period	73	229	863
Unrealised (loss) / gain on translation of foreign currency investments	(23)	31	124
Total recognised gain	50	260	987

*As restated – see Note 7

consolidated balance sheet

at 30 June 2006

	30 Jun 06 (Unaudited) £'000	30 Jun 05* (Unaudited) £'000	31 Dec 05* (Audited) £'000
Fixed assets			
Intangible assets	1,255	1,448	1,353
Tangible assets	1,754	1,756	1,726
	3,009	3,204	3,079
Current assets			
Stock	51	10	59
Debtors	3,671	3,338	3,953
Cash at bank and in hand	3,976	3,504	4,081
	7,698	6,852	8,093
Creditors: amounts falling due within one year	(3,842)	(3,582)	(4,386)
Net current assets	3,856	3,270	3,707
Total assets less current liabilities	6,865	6,474	6,786
Creditors: amounts falling due after one year	(350)	(617)	(377)
Net assets	6,515	5,857	6,409
Capital and reserves			
Called up share capital	150	148	148
Shares to be issued account	108	249	33
Share premium account	1,727	1,734	1,602
Merger reserve	892	759	892
Profit and loss account	3,638	2,967	3,734
Equity shareholders' funds	6,515	5,857	6,409

*As restated – see Note 7

consolidated cash flow statement

for the six months to 30 June 2006

	30 Jun 06 (Unaudited) £'000	30 Jun 05* (Unaudited) £'000	31 Dec 05* (Audited) £'000
Operating activities			
Operating profit	83	242	844
Depreciation and amortisation charges	264	211	492
Gains on disposal of fixed assets	–	–	(1)
Exchange differences	(23)	22	113
Share based payment	49	26	66
Increase in stock	8	43	(6)
Decrease in debtors	282	584	53
(Decrease) / increase in creditors	(323)	(170)	283
Net cash inflow from operating activities	340	958	1,844
Investing activities			
Net cashflow from returns on investments and servicing of finance	8	53	56
Taxation paid	(30)	(23)	(126)
Net cashflow from capital expenditure	(194)	(247)	(376)
Net cash paid for acquisition	–	(360)	(405)
Equity dividend paid	(195)	(161)	(161)
Net cashflow before financing	(71)	220	832
Net cashflow from financing	(34)	(30)	(65)
(Decrease) / increase in cash in the period	(105)	190	767

*As restated – see Note 7

reconciliation of net cash flow to movement in net fund

	30 Jun 06 (Unaudited) £'000	30 Jun 05* (Unaudited) £'000	30 Dec 05 (Audited) £'000
(Decrease) / increase in cash in the period	(105)	190	767
Cash outflow from decrease in debt and lease financing	34	30	65
Movement in net funds in the period	(71)	220	832
Net funds at beginning of period	3,637	2,805	2,805
Net funds at end of period	3,566	3,025	3,637

*As restated – see Note 7

notes to the interim report

1. Accounting policies

The financial information contained in this Interim Report does not constitute statutory accounts. The interim results, which have not been audited, have been prepared using accounting policies consistent with those used in the preparation of the Annual Report and Accounts for the year ended 31 December 2005 with one exception: in accordance with FRS 20, 'Share based payments', the group has now recognised the cost of share based payments in these financial statements.

The accounts for the year ended 31 December 2005 have been filed with the Registrar of Companies and received an unqualified audit report.

2. Taxation

Taxation for the six months to 30 June 2006 is based on the effective rate of taxation that is estimated to apply to the year ending 31 December 2006.

3. Earnings per share

Basic earnings per share is calculated by dividing the profit on ordinary activities after taxation in the period by the weighted average number of shares in issue in the period as follows:

	Unaudited 6 months ended 30 Jun 2006	Unaudited 6 months ended 30 Jun 2005*	Audited 12 months ended 31 Dec 2005*
Profit for the period (£'000)	73	229	863
Weighted average number of shares in issue ('000)	14,932	14,717	14,783
Earnings per share (p)	0.49	1.55	5.83
Diluted weighted average number of shares ('000)	15,714	15,356	15,439
Diluted earnings per share (p)	0.46	1.49	5.59

The diluted earnings per share calculation is based on a fair value of 99p per share (30 June 2005: 68p).

*As restated – see Note 7

4. Segmental information

The group's turnover for each geographic area of operation is:

	30 Jun 06 £'000	30 Jun 05 £'000	31 Dec 05 £'000
United States of America	2,796	2,032	4,609
Europe	1,730	2,062	4,438
Asia Pacific	1,151	1,162	2,377
	5,677	5,256	11,424

Segmental information on profit before tax and net assets is disclosed in the Annual Report.

5. Analysis of net funds

	30 Jun 06 £'000	30 Jun 05 £'000	31 Dec 05 £'000
Cash in hand and at bank	3,976	3,504	4,081
Debt due after one year	(343)	(416)	(377)
Debt due within one year	(67)	(63)	(67)
Total	3,566	3,025	3,637

Debt represents a mortgage that was taken out on a property acquired in 2001.

6. Reserves

	Share capital £'000	Shares to be issued £'000	Shares premium account £'000	Merger reserve £'000	Profit and loss account £'000	30 Jun 06 £'000	31 Dec 05* £'000
Issue of new shares	2	(33)	125	–	–	94	135
Profit for the year	–	–	–	–	73	73	863
Dividend paid	–	–	–	–	(195)	(195)	(161)
Currency translation movement	–	–	–	–	(23)	(23)	124
Acquisition of MicReD	–	108	–	–	–	108	33
Share based payment	–	–	–	–	49	49	66
Net addition to shareholders funds	2	75	125	–	(96)	106	1,060
Opening shareholders funds	148	33	1,602	892	3,734	6,409	5,349
Closing shareholders funds	150	108	1,727	892	3,368	6,515	6,409

*As restated – see Note 7.

7. Prior year adjustment

Share based payments

In order to conform with the requirements of FRS 20, 'Share Based Payments', share options that have been granted to employees have been recognised as an expense as part of employee remuneration. The cost is spread over the vesting period and has been calculated using a Black-Scholes valuation model.

The effect on the comparatives of this change in accounting policy is that administrative expenses have increased by £26,000 for the six months to 30 June 2005 and by £66,000 for the year to 31 December 2005. In the six months ended 30 June 2006 the charge was £49,000.

Dividends paid

In order to conform with the requirements of FRS 21 'Events after the Balance Sheet Date', dividends have been restated and are recorded in the profit and loss account in the period that they have been declared.

The effect of this change in accounting policy on the comparatives is that dividends have increased by £161,000 for the six months to 30 June 2005.

Contact Point

The Company welcomes contacts with its shareholders. If you have any queries about the Company or its services, please contact Chris Ogle at the Company's headquarters, or at the following e-mail address: chris.ogle@flomerics.co.uk

Website

www.flomerics.com

Directors

David Mann
Gary Carter
Chris Ogle
David Tatchell
Tom Rowbotham
Tim Morris
Wolfgang Biedermann

Investor Relations

Our Corporate Website at www.flomerics.com has a comprehensive Investor Relations Section. It gives the share price updated every 15 minutes along with graphs, share volumes and other investor information. It is also possible to download the Annual Reports from the website going back to 1999.

The Company is keen to maintain a dialogue with shareholders. In 2001, the Company's efforts were recognised with the award of Best Communications at the prestigious Aim Awards.

In 2003, the Company was one of four companies nominated for the AIM award for Best Technology.

We like to hear from our shareholders and both Gary Carter and Chris Ogle are pleased to receive calls or respond to e-mails: (gary.carter@flomerics.co.uk and chris.ogle@flomerics.co.uk).

Registered Office

81 Bridge Road,
Hampton Court, Surrey,
KT8 9HH

Nominated Broker and Nominated Adviser

Oriel Securities Limited,
125 Wood Street, London,
EC2V 7AN

Financial PR

Conduit PR,
76 Cannon Street, London,
EC4N 6AE

Registrars

Capita IRG Plc, The Registry,
34 Beckenham Road,
Beckenham, Kent, BR3 4TU

Flomerics

81 Bridge Road
Hampton Court
Surrey KT8 9HH
United Kingdom

Tel +44 (20) 8487 3000
Fax +44 (20) 8487 3001

www.flomerics.com