

The company's goal is to become a leading provider of fluid handling solutions by offering a broad range of products, components, and systems – ultimately, transforming into a one-stop resource for system solutions in the global fluid handling market. Denali is a leader in containment with piping systems, ducting, vessels and tanks, and has almost unlimited potential to grow into technology fields involving valves, pumps, separation and filtration equipment, and process instrumentation.

As a result, the company's growth strategy is geared towards leveraging the current critical mass through strategic acquisitions and internal initiatives to: (1) expand our products and technology into new areas; (2) expand the geographic coverage and product offerings of existing businesses; (3) continue to improve operating practices across all businesses; and (4) improve the company's ability to combine components and product offerings in order to deliver systems. Given that the fluid handling products industry is highly fragmented and composed of thousands of different companies around the world, we believe that there are numerous acquisition targets that the company can use to increase its geographic presence and expand its product offerings – all while keeping in line with our strategy to become a leading global supplier of fluid handling systems.

It's all about performance. Did our opportunities translate into financial performance in fiscal year 1999? Absolutely! As noted before, Denali's net income\* increased 99 percent, earnings\* per diluted share jumped 60 percent, and revenues grew

by 49 percent. In addition to these financial highlights, Denali's net income\* was \$4.8 million for the fiscal year, or \$0.99 per diluted share on \$149 million in revenues. EBITDA\* jumped from \$7.1 million to \$14.5 million on a year-over-year comparison. Over the last four years, revenues and EBITDA have grown at a compound annual growth rate of over 44 percent and 65 percent, respectively. Also making impressive gains were gross margin, which increased from 22.6 to 25.4 percent of revenues, and operating income,\* which increased from 4.8 to 7.1 percent of revenues. These record financial results can be attributed to the company's strong internal revenue growth, operational improvements, and the success of its acquisition program.

Fiscal 1999 was a good year, and we believe Denali is well-positioned to continue to grow and build company value. Our company's performance is the direct result of the hard work and effort put forth by everyone associated with it, and we appreciate all of your efforts. Also, our thanks go to our customers, without whom none of this could be possible.

We look forward to adding to the company's performance and growth. A bright future lies ahead for all of Denali's employees, clients and shareholders.

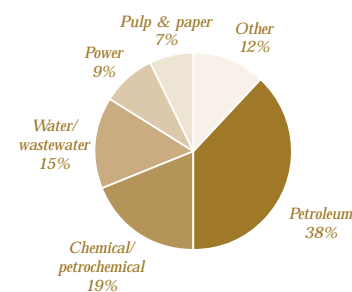
  
Richard Volk

  
Edward de Boer

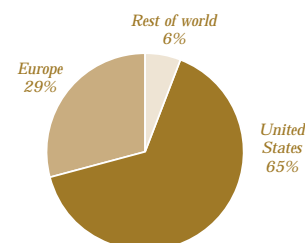
\* 1999 excludes a nonrecurring compensation expense of \$0.7 million (\$0.09 per diluted share) associated with a salary continuation agreement and an extraordinary loss from the early retirement of debt of \$0.3 million (\$0.06 per diluted share). 1998 excludes a nonrecurring compensation expense of \$2.3 million (\$0.60 per diluted share) and an extraordinary gain from the early retirement of debt of \$0.2 million (\$0.06 per diluted share). See notes to consolidated financial statements.

\*\* For more information on Welná, please see page 10.

## End-use markets



## World markets



*Denali's fiscal year 1999 business profile assuming full year effect of acquisitions*

*In ancient times, the only remedy for the floods that regularly plagued the Dutch countryside was to flee to higher land. These naturally occurring mounds were called "terps." Gradually, people began to build higher, bigger mounds of earth, moving their homes and barns atop these artificial terps to spare them from being flooded. Terps continued to grow in size until entire villages were built upon them. In developing countries, many of these methods are still in use today.*