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Who we are

We are a multi-national industrial engineering group with two focused niche businesses that are the world leaders: Spirax Sarco for steam specialties and Watson-Marlow for peristaltic pumps.

What we do

We assist our customers to achieve environmentally friendly solutions for process efficiency improvements, energy savings and plant health, safety and regulatory compliance.

Our principal objective

Our prime financial objective is to provide enhanced value to shareholders through consistent growth in earnings and dividends per share. We have proudly achieved this objective for over 40 years.

Group - at a glance

SPIRAX SARCO

84%

Revenue

£434.9m

Operating profit

£72.6m

Operating profit margin

16.7%

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What we do

Spirax Sarco is the global leader in the supply of engineered solutions for the efficient design, maintenance and operation

of industrial and commercial steam systems. As a heat source, steam is the natural choice in most industrial processes due to its high heat-carrying capacity, controllability, sterility and efficiency as a heat transfer fluid. With our specialist knowledge, technical expertise and wide range of products, as well as our extensive global presence, Spirax Sarco is uniquely positioned to provide a broad range of environmentally-friendly engineered solutions to the many industries using steam.

Our customers face a variety of challenges including high energy costs, pressure to improve the efficiency and capacity of existing processes and the need to comply with increasingly stringent health, safety and environmental legislation. Our direct sales force is trained at length in product application, system performance and troubleshooting of steam systems. The Spirax Sarco offering is very wide, from single products through to complete turnkey bespoke packages that can include design, fabrication, installation, commissioning and maintenance. All of this creates a compelling and attractive one-stop approach for our customers.

EMEA

Revenue

£225.5m

Operating profit Operating profit margin

£35.6m 15.8%

Highlights of the year

- Difficult market conditions
- Favourable exchange benefits from 13% weaker sterling against the euro
- Good performance from large operators in France, Germany and Italy
- Improved demand and sales in Russia in H2 after a very slow start in H1
- Difficult year in the domestic UK market but good project wins in December
- Reduced volumes at our manufacturing plants contributed to profit decline
- Headcount down 8%

Americas

Revenue

£104.6m

Operating profit Operating profit margin

£13.9m 13.2%

Highlights of the year

- End markets stabilised in H2 but continuing weakness in Canada
- Favourable exchange benefits from 19% weaker sterling against the US dollar
- Good trading margin of 13.2% versus 11.9% in 2008
- Profit increase from 2008 closure of UltraPure
- Lower profits in Brazil from strong currency impacting export market customers
- Headcount down 13%

Asia Pacific

Revenue

£104.7m

Operating profit Operating profit margin

£23.1m 22.1%

Highlights of the year

- Market conditions mixed but improving
- Favourable exchange benefits from 21% stronger renminbi
- Strong shipments in Q4 from backlog
- Added new sales people in China
- Pre-fabricated heat exchange package sales up 30%
- Significant improvement in Japan trading profit from FX benefit
- Headcount down 3%

WATSON MARLOW

Percentage of Group revenue

16%

Revenue

£83.8m

Operating profit

£22.3m

Operating profit margin

26.6%

What we do

Watson-Marlow is the global leader in peristaltic pumping and specialises not only in the design and manufacture of the most advanced peristaltic pumps, but also in the application of those pumps to customers' processes. Our peristaltic pumps are ideal for difficult pumping applications. They are highly accurate and controllable and virtually maintenance-free, making them a very reliable and cost-effective solution.

Operating a make-to-order manufacturing system and uniquely extruding our own pump tubing, we have the leading position in the supply of peristaltic pumps to the biotechnology, pharmaceuticals, wastewater treatment, mining and food industries. The peristaltic pumping market is a small part of the global pump market but it is one of the fastest growing segments.

Highlights of the year

- End markets stabilised and improving
- Favourable benefits from the strong US dollar

- Good Q1 project orders in the US contributed to H2 shipments
 - Good underlying project activity in pharmaceuticals and biotechnology
 - Strong sales growth in Asia
 - Increased demand for Flexicon products
 - Sales declined at Bredel from difficult mining and general industrial markets
- MasoSine acquisition integration proceeding well
 - Headcount down 2%

Our performance at a glance

Adjusted* Year to 31st December	2009	2008	Change
Revenue	£518.7m	£502.3m	+3%
Operating profit	£89.9m	£85.7m	+5%
Operating profit %	17.3%	17.1%	
Profit before taxation	£90.2m	£90.1m	0%
Earnings per share	82.2p	83.4p	-1%
Dividends per share	36.1p	33.3p	+8%

Total Year to 31st December	2009	2008	Change
Revenue	£518.7m	£502.3m	+3%
Operating profit	£76.5m	£81.0m	-6%
Profit before taxation	£76.4m	£85.2m	-10%
Earnings per share	69.6p	78.0p	-11%
Dividends per share	36.1p	33.3p	+8%

Revenue

£518.7m +3%

Highlights

- Sales up 3% and down 7% at constant currency
- Sales performance broadly similar across all geographic regions and business segments
- Acquisitions added less than 1% to sales

Operating profit*

£89.9m +5%

Highlights

- Adjusted operating profit up 5% and down 12% at constant currency
- Profit increase from management actions to reduce costs pricing, resourcing materials and favourable currency
- Adjusted operating profit margin increased to 17.3%
- Eighth year of profit margin improvement

Dividend

36.1p +8%

Highlights

- Final proposed dividend up 10% to 25.6p
- Dividend cover 2.3 times

10 year record highlights

- 7% growth pa over last ten years

10 year record highlights

- 8% growth pa over last ten years

10 year record highlights

- 8% growth pa over last ten years

Chairman's statement

Bill Whiteley

Given the challenging global economic environment, I am pleased to report a good result for 2009, with record sales and profits that demonstrate the quality and resilience of our business, and reflect the investments and improvements we have continued to make. We generated a significant underlying cash inflow and the dividend has again been increased.

Sales at £518.7 million were up 3% from £502.3 million in 2008, with improving year-on-year comparisons in the last few months of the year in all segments. Sales included a small contribution from acquisitions and a benefit of over 10% from favourable average exchange rates.

Adjusted operating profit at £89.9 million increased by 5% from £85.7 million in 2008 due to reduced headcount and costs, especially in the second half-year, good pricing dynamics and the benefit of favourable exchange rates. This was reflected in the trading margin that improved to 17.3% (2008: 17.1%). Operating profit was ahead in all segments except Europe, Middle East and Africa (EMEA).

Net finance charges were £2.5 million compared with net income of £1.7 million in 2008, with the deterioration due largely to the impact of a turnaround in the net finance income related to defined benefit pension funds. The Group's share of the after-tax profits of our Associate companies was unchanged at £2.8 million.

Adjusted pre-tax profit increased to £90.2 million (2008: £90.1 million) and earnings per share were 82.2p (2008: 83.4p). Cost reduction actions included reducing the total employee headcount by 7% during the year and, in December, we also announced a reduction in our French factory.

As a result the total headcount reduction costs charged in 2009 were £11.4 million with further efficiency gains expected in 2010. The pre-tax profit after charging these costs and including the amortisation of acquisition-related intangible assets was £76.4 million (2008: £85.2 million).

As previously reported, in October 2009 the Group completed the acquisition of the Maso and Sine business from Maso Process-Pumpen GmbH (MasoSine) for £21.9 million and the integration into Watson-Marlow Pumps is progressing well. In October we also completed the acquisition of our Turkish distributor, Inter Valf, for an initial consideration of £2.8 million. We are pleased with the performance of these businesses since acquisition and with their small positive contributions to our earnings per share for the year.

The Board is recommending a 10% increase in the final dividend of 25 6p per share payable on 21st May 2010 to shareholders on the register at the close of business on 16th April 2010. This, together with the interim dividend of 10 5p per share paid in November 2009, makes a total dividend for the year of 36 1p per share. This compares with a total dividend of 33 3p per share last year, an increase of 8%. The cost of the interim and final dividends is £27 6 million which is covered 2 3 times by earnings. No scrip alternative to the cash dividend is being offered.

Mike Townsend retired as Chairman following the AGM in May 2009 and we thank him for his contribution over his 12 years on the Board as a non-executive director. I have succeeded Mike as Chairman on 1st July 2009 following seven years as a non-executive director. Upon the retirement of Einar Lindh at the end of 2008, Dr Krishnamurthy Rajagopal was appointed as an independent non-executive director on 10th February 2009. Executive director Alan Black retired from the Board on 30th April 2009. Mike Gibbin joined the Board as an executive director on 1st May 2009, with responsibility for our Supply operations and our North American steam business companies. Clive Watson joined the Board as an independent non-executive director on 17th July 2009 and is Chairman of the Audit Committee. We thank our retiring Board members and welcome the new members to the Board.

Prospects

There is increasing evidence that the global economy has started to recover. Industrial production rates are now positive across most of Asia and are improving in Europe and the Americas. However, in our view the economic upturn remains fragile and we are not expecting a rapid rebound in our markets.

We have continued to invest in the business through the recession to improve manufacturing efficiency, accelerate new product development and increase penetration of our markets. In 2010, we will capture the full-year benefit of last year's cost reductions, but will reinvest some of these savings to increase investment in the business to enhance future growth and margin prospects.

We have made a positive start to the year. In the first two months of 2010, sales in constant currency have increased by 2% compared with 2009. We remain vigilant and given no renewed weakness in our markets or significant negative currency impact, we expect to make further progress in 2010.

Bill Whiteley Chairman



Unless otherwise stated, all profit measures exclude exceptional headcount reduction costs of £11 4 million (2008: £nil), the amortisation of acquisition related intangible assets of £2 4 million (2008: £1 9 million), of which £0 4 million (2008: £0 3 million) relates to Associates, and the impairment of goodwill and intangible assets of £nil (2008: £3 1 million).

An interview with Mark Vernon Chief Executive Officer

Sharpening our edge

What makes Spirax Sarco different?

We are a niche industrial engineering group that supplies a very broad base of customers around the world in a wide range of industries. We concentrate on assisting our customers achieve process efficiency, increased production output, energy savings and regulatory compliance. We go to market through an extensive network of outstanding local sales and service engineers that are highly trained and singularly focused on providing the knowledge and expertise to understand the challenges facing steam and pump users. Our application and systems knowledge, breadth of products and services, experience and global presence all enable us to offer the most extensive range of engineered solutions to our customers. The position of Spirax Sarco and Watson-Marlow as world leaders is founded on our long-held strategy of investing for growth both organically and by complementary acquisitions.

The Group is very international. We have 49 operating companies in 34 countries around the world. Our headquarters are based in the UK and we have sizeable manufacturing and selling operations on nearly every continent. Our manufacturing operations are strategically located in all key market regions with major facilities in the UK, France, Italy, USA, Brazil, Argentina, and China. We also manufacture in South Africa, Mexico, Netherlands, India, Germany, Sweden, Korea and

Denmark. Amongst our competitors, we have generally been first to build a direct selling and trading organisation in new markets and, within the past year, we acquired our Turkish distributor, giving us a direct presence in this important country that boasts the world's 16th largest economy.

The resilience of our business was readily visible in the past year, as our total sales at constant currency declined less than 7%, as compared to falls of typically 15% to 20% or more for many other international industrial engineering businesses. This resilience stems from a large portion of our revenues being derived from product replacements and spares, the diverse range of industries served, the breadth of product solutions we bring to our customers and good geographic distribution of sales, well spread between developing and developed markets.

We serve a very broad range of industries including foods, brewing & distilling, dairies, oil refining & petrochemicals, chemicals, pharmaceuticals, textiles, fine chemicals, mining, printing, water & wastewater treatment and many other general process industries. We also work with hospitals and commercial buildings by supplying solutions for sterilisation, space heating, hot water generation and laundering. It is important to note that no single industry represents more than 10% of sales and no single customer accounts for more than 1% of sales – in short, our sales are very well spread.

We have remained focused on our niche businesses and their development through geographic expansion, new product developments, acquisitions and expanding our range of products and service solutions. This has enabled us to increase market share and to generate steady, profitable growth for a long period of time, evidenced by our excellent 42 year dividend record. Although we are the market leader in both our businesses, there remain considerable opportunities available to us in our fragmented markets.

How does Spirax Sarco create value?

The Spirax Sarco and Watson-Marlow businesses are anchored on the philosophy of understanding the detail of the customers' processes and the ability to apply the properly engineered solutions. To do this we go to market using mostly direct sales people – about 70% of our sales are generated through our direct selling approach. In doing so we form strong, long-term customer relationships. The Group employs nearly 1,200 direct sales and service people working in 56 countries in the world.

Our sales people are highly skilled in both product applications and, perhaps even more importantly, in system understanding and troubleshooting for unique customer applications and industrial processes. We train our sales engineers in our 38 training centres located around the world, most of which are equipped with live steam that facilitates hands-on training. These centres are also used to train our customers' technical staff.

This product and systems application knowledge, combined with local availability of products, engineered packages and on-site services, enables our customers to achieve meaningful energy savings, comply with increasingly stringent health, safety and environmental regulations, reduce emissions and achieve more efficient processes.

It is not our products alone that provide the value to our customers, it is the application of our extensive knowledge.

How is Spirax Sarco managing the business through this difficult economic period?

Like other industrial businesses, we took early action and made the appropriate decisions to reduce our operating costs. Whilst needing to address the abrupt decline in economic activity, we largely protected our global network of highly skilled and trained sales engineers.

As a result, we reduced our workforce by 7% through the year, most of which came as part of an announced 5% headcount reduction in early 2009, with the balance coming from natural attrition throughout the year. Most of the headcount reductions were in back-office support functions and manufacturing. Additionally, our local operating company management teams were vigilant in controlling other operating costs. The announced general headcount reduction was the first ever for Spirax Sarco – indicative of the unprecedented global economic downturn – but it was managed effectively by our management teams around the world.

We took steps to size our manufacturing operation in Cheltenham, not only for the decline in volume resulting from the global economic recession but also in anticipation of the volume transfer to our new manufacturing plant in China. Additionally, we recently announced a reduction in our manufacturing footprint at Châtelleraut, France, also in line with our global manufacturing strategy.

We continued to invest in key growth programmes for the future. In China, we selectively added sales people for the steam business. We also invested in our Watson-Marlow business to continue developing new markets, adding sales people in Russia and Mexico. We believe that our sales teams are well positioned to handle the eventual rebound in our end markets. Also, we increased the amount of direct R&D investment, virtually the only area of the business that was allowed increased expenditure.

New product development is a key activity that will drive longer-term growth and therefore we have continued to invest through the downturn. We have also sustained capital expenditure at a high level in the year as we invest in delivering our manufacturing strategy.

What are the key business drivers and trends?

Our business is well spread geographically, across the product range and over a diverse range of industries. The following key factors have the primary influence on the underlying demand in our markets:

Global economic growth

Industrial production and investment

Capacity utilisation

Energy costs

Increasing customer outsourcing of design and maintenance

Regulatory legislation (eg, emissions, hygienic standards, plant safety)

Looking ahead how do you plan to take the business forward?

Our business strategy remains focused on achieving long-term, steady and profitable sales growth. The industrial and commercial steam-using market is highly fragmented and although Spirax Sarco is the market leader, we still have significant growth opportunities.

We believe the underlying industry drivers are favourable for long-term growth. For the steam business, energy prices are at historic highs and the emphasis on reducing emissions is becoming increasingly important, these factors provide a nice tailwind. We are reaping the benefits of our solutions approach to problem solving as customers increase the outsourcing of design and maintenance, customers are looking for simple, single-source transactions to solve their local maintenance, operations, product quality and capacity expansion issues. Our ability to effectively bundle a wide range of products and pre-fabricated engineered packages backed up by our installation and commissioning services, is simply the best and is unmatched by any competitor.

We increasingly expand on a simple troubleshooting sales call, to audit an entire steam system and provide a range of engineered solutions in a single transaction that customers value.

We are widening our range of products and site services to expand our market reach. Our technically expert direct sales force allows us to leverage our brands into new products and applications. This increases the amount of plant spend that we can capture in small-scale capital projects and maintenance activities that are at the heart of our business. There remains good growth potential, whether in the developing economies of Asia and South America or in the large and more mature markets of western Europe and North America, as we apply tailored market development strategies.

One of our major tasks at our Watson-Marlow business is to educate customers about the intrinsic advantages of peristaltic pumps so that they will increasingly be used to solve difficult pumping problems. The product range is being progressively widened and developed, making use of improved electronics and materials to broaden the addressable market by taking business from other pump types. All these factors make peristaltics one of the fastest growing sectors of the global positive displacement pump market. As we widen the possible applications for our pumps, we see increasing opportunities, including hygienic applications in pharmaceuticals, biotechnology and the food industries.

We continue to make complementary bolt-on acquisitions to build our product portfolio, introduce new technologies and speed access to geographic markets. During 2009 we acquired MasoSine, a supplier of unique sinusoidal pumps that extends the application range of our existing line of Watson-Marlow hygienic pumps. We also acquired the business of our Turkish distributor, Inter Valf Sanaya ve Ticaret, to build a direct presence in this important and developing market.

How is Spirax Sarco sharpening its edge?

The Group is making a significant investment in modernising its manufacturing processes and facilities to improve efficiency and reduce operating costs. We are midway through a four-year £50 million capital investment programme, having recently completed the new tube extrusion facility in Falmouth, England. The new manufacturing plant in China will begin production late Q2 2010. The consolidation of the three manufacturing facilities onto one site at our major manufacturing location in Cheltenham, England will be mostly completed by year-end 2010. Some production has already been transferred into the first refurbished buildings and we should see the cost reduction, efficiency and stock reduction benefits from this site consolidation starting in 2011.

Despite the challenging market environment in 2009, we increased our investment in R&D by over 20% and have begun to generate a stronger flow of new products whilst shortening the time to market. There are a number of exciting new product development programmes underway in both the steam business and Watson-Marlow, and we expect new products to make an increasing contribution to sales growth. We were particularly pleased to win the UK's IChemE 2009 'Innovation and Excellence Award in Energy' with a packaged Flash Recovery Energy Management Equipment system. The Board has approved the creation of a new R&D development and test centre at our Cheltenham manufacturing site that will increase our testing capability to much higher live steam temperatures, pressures and flow rates – we believe this new test centre will be the world's largest and most advanced facility of its type.

We are taking advantage of our global purchasing power to consolidate purchasing volumes with fewer key suppliers of our cast, wrought and forged metals. This has resulted in material cost benefits in the past several years, and we expect further benefit in 2010 to our materials and freight costs.

We have developed online based tools to improve the technical training of our sales engineers around the world and speed up their development process. Additionally, we are implementing information collection and sharing software to improve our ability to utilise application knowledge and provide a forum to accommodate greater knowledge sharing amongst work groups across our global sales network.

People lie at the core of every business and we have high expectations of performance from our people. We have taken steps to upgrade the quality of professional human resource leadership in guiding our progression to a more performance-

based culture throughout the organisation. We have articulated a concise set of core values and leadership competencies that are being implemented worldwide.



Mark Vernon Chief Executive Officer

Sharpening our edge increasing our investment in research and development

Our new R&D Centre being created in Cheltenham, will enhance our capability to offer customers innovative solutions for controlling and conditioning steam.

Sharpening our edge through being the best in our field

Spirax Sarco beat international competition to win the 2009 IChemE Innovation and Excellence Award in Energy, with a Flash Recovery Energy Management Equipment (FREME) system that enables customers to recover waste heat.

Sharpening our edge by investing in our manufacturing processes

We completed the construction of a completely sterile £6.3 million silicone tubing extrusion plant in Falmouth, enabling Watson-Marlow to offer high purity pumping solutions to its customers in the biopharm sector.

Business review

Note

Unless otherwise stated, all profit measures exclude exceptional headcount reduction costs of £11.4 million (2008: £nil), the amortisation of acquisition-related intangible assets of £2.4 million (2008: £1.9 million), of which £0.4 million (2008: £0.3 million) relates to Associates, and the impairment of goodwill and intangible assets of £nil (2008: £3.1 million).

Current environment

The abrupt decline in world economic activity impacted our business starting in late 2008 and the rate of sales decline accelerated until mid-year 2009. Since then, market conditions in most geographic regions have generally stabilised and in recent months sales growth has turned positive versus the early months of 2009. Whilst conditions vary considerably from market to market, taken as a whole, market conditions have slowly improved throughout much of Asia, South America and the USA but conditions in Europe continue to be challenging.

Energy prices remain comparatively high and we are encouraged that our energy saving initiatives and, perhaps more importantly, the companion emissions reductions that are achieved through improved system efficiency, continue to be of value to our customers.

Trading

Total Group sales increased by 3% to £518.7 million (2008: £502.3 million). The Group benefited from favourable movements in exchange rates. Sales

at constant currency declined less than 7% for the year, recovering from the 9% decline reported in the 9th November 2009 Interim Management Statement covering sales year-to-date through October. The constant currency sales decline was widespread across all geographic regions, indicative of the wide-ranging impacts of the global economic recession. Acquisitions contributed less than 1% to sales growth.

For the Spirax Sarco steam business, sales increased 2% (down 8% at constant currency). Sales increased in both the Asia Pacific region and the Americas, although sales declined slightly in the Europe, Middle East and Africa (EMEA) geographic segment. In constant currency, sales declined across all geographies and nearly all product segments. However, we achieved constant currency sales growth in our heat exchange solutions business by refocusing our sales engineers and from winning good projects in China, Korea and Italy. Watson-Marlow sales increased 11% for the year (down 1% at constant currency), benefiting from currency movements and a 3% contribution from the acquisition of MasoSine in late August.

The Group's adjusted operating profit was £89.9 million (2008: £85.7 million), giving an increase of 5% in sterling and down 12% at constant currency – a very good overall result against the record operating profit achieved in 2008. The increase in operating profit arose from cost reductions, pricing, limited pay increases, global resourcing of materials and favourable exchange rates, offset by decreased manufacturing efficiency from lower volumes. Higher material prices in the first half-year

were matched by falling prices in the second half, leaving material prices broadly flat for the year. All of this resulted in the adjusted operating profit margin improving to 17.3% from 17.1% in 2008.

Europe, Middle East and Africa (EMEA)

	2009	2008	Change
Revenue	£225.5m	£226.1m	0%
Operating profit	£35.6m	£39.2m	-9%
Operating margin	15.8%	17.3%	

Sales were broadly unchanged at £225.5 million (down 8% at constant currency) as deteriorating market conditions impacted virtually all our companies in the region. Exchange movements had a positive effect with the average sterling exchange rate 13% weaker against the euro than in 2008. Our larger companies in Italy, France and Germany did well and increased sales in sterling terms due to good day-to-day maintenance activities and the shipment of several projects from backlog in Italy that carried over from the prior year. Additionally, after a slow start in the first half-year for our Russian company, market activity improved markedly in the second half-year and for the full year we saw sales growth in local currency. Sales in the UK domestic market suffered from a decline in spending by the National Health Service but there were some good project wins in December. The decline in the global export markets served by many of our European OEM customers impacted sales at several of our companies that depend more heavily on OEMs.

Shipments from our main factories in the UK and France fell more sharply early in the year due to lower demand from our sales operations worldwide as they reduced local inventories, but improved in the second half-year as market conditions stabilised.

Operating profit of £35.6 million was down 9% from £39.2 million in 2008.

At constant currency the operating profit was down 18%, spread across most companies but mitigated by tight cost control and temporary government employment support measures. The performance in South Africa improved markedly following the restructuring in late 2008. Operating profit fell at our major factories due to lower volumes, although this was somewhat offset by the cost reduction actions and the benefit of our global materials resourcing programme. The operating margin was 15.8% (2008 17.3%). The underlying headcount, excluding acquired businesses, was down 8% across the EMEA segment at year-end 2009 compared with the prior year.

Amencas

	2009	2008	Change
Revenue	£104.6m	£101.9m	+3%
Operating profit	£13.9m	£12.1m	+14%
Operating margin	13.2%	11.9%	

Sales in the Amencas increased modestly in sterling by 3% to £104.6 million from £101.9 million in 2008. Sales benefited from average sterling exchange rates weakening by 19% against the US dollar and by 7% against the Brazilian real. At constant currency, sales declined 9% from 2008 spread across all our operations in the region. Sales in the US did relatively well from stabilising market conditions and higher shipments from backlog in the second half-year, although market conditions have remained weak in Canada. Sales in South America were down from the effects of the decline in demand from export-oriented customers.

Operating profit in the Amencas increased 14% to £13.9 million, which compares with £12.1 million in 2008, at constant exchange the operating profit was down just 5%. Year-on-year, operating profit was buoyed by favourable exchange transaction benefits on imports into the region, cost reduction actions taken early in the year and the elimination of the closure costs of UltraPure (£1.1 million in 2008) and its operating losses. Profit declined in Brazil from competitive pressures as the currency strengthened in the second half-year. For the region, the operating profit margin improved to 13.2% as against 11.9% in 2008. Headcount in the Amencas was down 13% at year-end 2009 as compared with the prior year.

Asia Pacific

	2009	2008	Change
Revenue	£104.7m	£98.9m	+6%
Operating profit	£23.1m	£21.1m	+9%
Operating margin	22.1%	21.4%	

Sales increased in Asia Pacific by 6% to £104.7 million (2008 £98.9 million). Favourable exchange rates had a positive effect on sales, as the Chinese renminbi strengthened 21% on average against sterling, the Japanese yen was 32% stronger. At constant exchange, Asia Pacific sales were down 5%. Market activity in the region was mixed, although local currency sales increases were achieved in China, Korea and Malaysia. As expected, the second half-year benefited from higher shipments,

particularly in Korea, and the backlog was reduced at our Chinese operation. We have continued to increase sales coverage in China by adding a number of new sales people.

The operating profit was £23.1 million, which compares with £21.1 million in 2008, an increase of 9%. At constant currency operating profit declined 14%. We saw good profit gains from China, which again produced the largest profit in the region, and from Malaysia. The good second half in Korea recovered the profit decline seen in the first half-year. Our India operation (reported as an Associate) achieved both a sales and profit increase, and did well to improve the volume of small ticket maintenance purchases to replace the sales value of the large Reliance refinery project shipped in the prior year. The overall operating profit margin in Asia Pacific was therefore 22.1% in 2009 (2008 21.4%). Headcount in Asia Pacific was down 3% at year-end 2009 as compared with the prior year, despite a 7% increase in employees in China.

Watson-Marlow

	2009	2008	Change
Revenue	£83.8m	£75.4m	+11%
Operating profit	£22.3m	£18.4m	+21%
Operating margin	26.6%	24.4%	

Sales increased at Watson-Marlow by 11% to £83.8 million (2008 £75.4 million). Sales benefited from the weakness of sterling against the US dollar and were down 1% at constant currency. The acquisition of MasoSine in late August 2009 added 3% to sales. The geographic sales trends at Watson-Marlow were similar to the steam business, with sales growth weakest within the EMEA region but with similarly good performances from the French and German operations. Strong year-on-year growth in tubing shipments contributed positively to EMEA sales and provides a good base for the new tubing extrusion plant completed in December 2009. Bredel product shipments were particularly impacted by exposure to the weaker mining and general industrial markets. Sales in the Americas region of Watson-Marlow benefited from several biopharmaceutical projects in the US. Our developing sales teams in the Asia Pacific region performed strongly, with sales well ahead on a relatively small base, highlighting the good opportunities for growth in China and Korea in particular.

The operating profit was £22.3 million, which compares with £18.4 million in 2008, an increase of 21%. At constant currency, operating profit was down 3%, including a small contribution from the MasoSine acquisition. Operating profit benefited from exchange transaction effects of weaker sterling and the stronger US dollar. Constant currency operating profit was nicely ahead in the US and in Asia. The operating profit margin was 26.6% in 2009 (2008 24.4%). Underlying headcount at Watson-Marlow, excluding acquisitions, was 2% lower at year-end 2009 as compared with the prior year.

Spirax Sarco helps Campil to reduce energy consumption, down time and maintenance costs.

The customer

Campil is based in Portugal and makes tomato pastes at a tomato pulp plant.

The challenge

The plant has several water evaporators that use steam to concentrate tomato pulp.

Peak loads made it difficult to achieve the stringent steam quality required and at times the boilers tripped out causing shut down of the entire plant.

Our solution

We provided a complete control sequencing and supervision system, including steam meters, control valves, controllers, modulating feed water controls and other equipment to improve steam quality, all linked by central software supervision.

Results

The plant now runs efficiently with improved steam quality, lower fuel consumption and reduced maintenance costs. The expected payback period is two years.

Sharpening our edge through consolidation of manufacturing sites

We are investing to develop a world-class manufacturing and supply facility, consolidating three sites in Cheltenham into one unified site to ensure a leaner and more efficient operation.

Sharpening our edge through improved sales tools

The application knowledge and skills of our 1,200 sales and service engineers are central to our customer service. An online, benchmarked skills assessment programme, creates tailored development plans for every sales engineer and we will use this to strengthen our market leadership.

Watson-Marlow MasoSine replaces gear pumps at chocolate factory

The customer

Kinnerton, part of Zetar plc, is a confectionery specialist based in Norfolk, UK

The challenge

Like many other ingredients, caramel is very viscous when cool and Kinnerton required pumps which would perform effectively in a new line for caramel production

Our solution

In place of the gear pumps already used by Kinnerton in similar applications we recommended the MasoSine SPS2 sanitary pump, which is part of a range that can handle flow rates up to 90,000 litres per hour and pressures up to 10 bar. MasoSine pumps have a very gentle pumping action which is frequently used in sanitary applications to handle chocolate, cheese curd, yogurt, concentrates, yeast, batter and stews

Results

Kinnerton have now standardised on MasoSine pumps. "Not only does the SPS2 handle all its pumping requirements without problem", says plant engineering supervisor Phil Barwick, "once again ease of cleaning is very impressive. Even after pumping glucose a simple but thorough flush-through is all that is required."

This means that hygiene standards are consistently met

Financial review

David Meredith FCMA

	2009 £'000	2008 £'000
Capital employed		
Property, plant and equipment	135,383	122,897
Inventories	86,479	102,382
Trade receivables	118,835	124,595
Prepayments and other current assets/(liabilities)	(72,861)	(78,050)
Capital employed	267,836	271,824
Intangibles and investments in associates	83,177	62,225
Post-retirement benefits	(73,763)	(73,717)
Deferred tax	23,522	19,466
Provisions	(1,441)	(1,182)
Net cash/(borrowings)	8,033	17,390
Net assets	307,364	296,006
Return on capital employed		
Operating profit	76,522	81,028
Acquisition intangibles amortisation and goodwill impairment	13,416	4,641
Adjusted operating profit	89,938	85,669

Average capital employed	269,830	241,093
Return on capital employed	33.3%	35.5%

2009 was another good performance against the background of a world economic recession. We achieved record sales and adjusted pre-tax profit, and delivered an improved operating profit margin and good cash generation.

Spirax Sarco uses adjusted figures as key performance measures in addition to those reported under IFRS. Adjusted figures are used unless otherwise stated and they exclude the amortisation or impairment of acquisition-related intangible assets and exceptional headcount reduction costs, including the associated tax effects. We have adopted the new accounting standard IFRS 8 Segmental Reporting for 2009. The new segmental disclosure gives greater visibility and is more consistent with management reporting. The new segments comprise the Steam Specialties business, geographically split into Europe, Middle East and Africa (EMEA), Americas (North and South America) and Asia Pacific, and the Watson-Marlow Pumps business. Restated disclosures for the full year 2007, half-year 2008 and full year 2008 were published in August 2009.

Sales of £518.7 million were a record and up 3% compared with £502.3 million in the prior year.

Currency movements were favourable and added over 10% to sales on translation. Average exchange rates for sterling were weaker against most

currencies and in particular versus the US dollar, euro and Chinese renminbi which are important currencies for the Group. Acquisitions during the year added less than 1% to sales. Underlying sales, excluding currency and acquisition effects, were down 7% for the year but with improving year-on-year comparisons in the last few months of the year.

Adjusted operating profit of £89.9 million increased by 5% over the previous year profit of £85.7 million. We acted early in the year to reduce operating costs, including a reduction in our global workforce of 7% during the year, largely in back-office, support functions and manufacturing, a further reduction in our French manufacturing unit will take effect in 2010. These actions benefited the second half of 2009 and we expect further benefit in 2010. Favourable currency movements improved the profit on translation and also on transaction, where the Group gained from the weakness of sterling against most other currencies. At constant exchange rates, the operating profit was down 12%. The adjusted operating profit margin increased from 17.1% to 17.3%, despite the impact of lower sales volumes and some internal destocking by our sales companies that reduced the demand on our manufacturing plants.

Interest

Net finance expense of £2.5 million compares with net finance income of £1.7 million in the prior year. As expected and previously reported,

the net finance income in respect

of defined benefit pension schemes deteriorated, mainly due to a reduction in the expected return on pension fund assets in 2009 (under IAS 19) following the drop in pension asset values in 2008. Net bank interest deteriorated due to the fall in interest rates on cash deposits and the funding cost

of acquisitions.

Associates

We have minority shareholdings in our operations in India and Mexico, which means that our share of the after tax profits is reported as Associates outside the operating profit. Associates' profit was overall unchanged at £2.8 million, comprising an increased contribution

in India offset by slightly lower profit in Mexico.

Profit before tax

The adjusted pre-tax profit increased to £90.2 million (2008: £90.1 million). The actions to reduce our global workforce necessitated a one-off charge against the 2009 profit of £11.4 million, which includes the cost of the recently announced reduction in France. About £3.5 million of this charge will be a cash outflow in 2010. The pre-tax profit after charging these costs and including the amortisation of acquisition-related intangible assets was £76.4 million (2008: £85.2 million).

Taxation

The tax charge, excluding Associates, was 31.4% compared with 30.0% in 2008. The increase reflects an unfavourable change in the mix of taxable profits, exchange rate movements and the introduction of withholding tax in relation to dividends from China. The tax rate in 2010 is expected to be broadly in line with 2009.

Earnings and dividends per share

The Group's prime financial objective is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends per share. Adjusted earnings per share were 82.2p (2008: 83.4p). Earnings per share including exceptional headcount reduction costs and the amortisation of acquisition-related intangible assets were 69.6p (2008: 78.0p).

The proposed final dividend is increased by 10% to 25.6p per share which, together with the interim dividend of 10.5p per share paid in November 2009, makes a total dividend for the year of 36.1p per share. This represents an increase of 8% over the 33.3p per share last year and continues the Group's very long history of increasing dividends. The compound annual growth in dividends over the last 42 years has been 11%.

Acquisitions

As previously reported, in October 2009 the Group completed the acquisition of the Maso and Sine business from Maso Process-Pumpen GmbH ("MasoSine") based in Germany for £21.9 million. MasoSine extends the application range of our existing Watson-Marlow hygienic pumps and the integration into Watson-Marlow Pumps is progressing well. In October we also completed the acquisition of our Turkish distributor, Inter Valf based in Istanbul, for an initial consideration of £2.8 million. We are pleased with the performance of these businesses since acquisition and with their small positive contributions to our earnings per share for the year. Intangible assets amounting to £14.8 million were recognised in respect of acquisitions during the year, largely relating to MasoSine, which will be amortised over the respective useful lives of the individual assets. Goodwill amounting to £9.8 million was also recognised. Amortisation of total acquisition-related intangible assets was £2.4 million (2008: £1.9 million) of which £0.4 million (2008: £0.3 million) related to Associates. In the prior year there was also an impairment of goodwill and intangible assets of £3.1 million.

Research and development

Despite the economic downturn, we have continued to invest in the business and increased R&D spending by over 20% to £8.0 million for the year, including capitalised development costs under IFRS increasing to £2.1 million (2008: £1.5 million). We plan again to increase our investment in 2010 to take advantage of the development opportunities available and to accelerate the flow of new products to the market.

Capital employed

Capital employed at £267.8 million increased by only 2% during the year (at constant currency and excluding acquisitions), despite the substantial investments in capital expenditure. Currency movements, using year-end exchange rates, lowered capital employed on translation by £12.0 million. Working capital was brought down by £11.4 million at constant currency and excluding acquisitions, largely due to the reduction we achieved in stock levels, which were down by 13%. Acquisitions during the year added £1.7 million to capital employed.

Investment in fixed assets continued at a historically high level and net capital expenditure at £32.6 million was two times depreciation. Significant investment projects included the completion of our new premises in Korea and the new tubing extrusion plant at Watson-Marlow in Falmouth. The investment in new premises and manufacturing plant in China is progressing well, as is the project to consolidate onto one expanded manufacturing site in Cheltenham.

Return on capital employed

The return on capital employed (ROCE), which is a key performance indicator, declined from 35.5% to 33.3%. Average capital employed (using the average of the opening and closing sterling balance sheets for the year) increased by 12% whereas adjusted operating profit was ahead 5%. Capital investment is planned to continue at a high level in 2010 and these investments will deliver good benefits in future years including scope for progressive reductions in stock levels.

Post-retirement benefits

The net post-retirement benefits liability shown on the balance sheet was broadly unchanged for the year at £73.8 million (£53.2 million net of deferred tax) but was lower than the £90.7 million net liability at the half-year. Pension fund asset value increased strongly reflecting the recovery in equity markets and also the payment of special deficit reduction payments of £7 million. However, liability values rose by a similar amount due to an increase in inflation expectations and a fall in corporate bond yields that pushed up the discounted present value of liabilities.

Most of the asset and liability values relate to the main UK defined benefit pension schemes. The triennial valuations of these schemes were carried out as at 31st December 2007 and resulted in agreed additional cash contributions of £3.7 million per annum for up to six years that commenced in the second half of 2008. The interim actuarial valuation as at 31st December 2008 resulted in further additional cash contributions of £4.2 million per annum for up to 12 years that commenced in the second half of 2009. The interim actuarial valuation as at 31st December 2009 is not yet complete but is expected to show a reduction in the deficit of the main UK schemes.

Cash flow

There was an excellent cash flow performance for the year. Adjusted operating cash flow increased to £117.9 million (2008: £91.1 million) reflecting an inflow from working capital with stocks reduced by 13% in the year. Taxation payments were higher at £29.9 million (2008: £22.1 million) reflecting currency movements and the settlement of higher 2008 tax liabilities following the profit increase that year. Capital expenditure, including capitalised development costs, increased to £34.7 million (2008: £26.5 million). Free cash flow was broadly unchanged at £37.7 million even after the cash outflow of nearly £8 million in respect of headcount reduction costs and £7 million of special pension contributions.

Dividend payments were up 7% in line with the increased dividends per share. Acquisitions absorbed £27.2 million of cash due largely to the purchase of MasoSine in August for £21.9 million. We also acquired our Turkish distributor, Inter Valf, in October for an initial consideration of £2.8 million.

Overall there was a net cash outflow of £11.8 million. Excluding acquisitions, shares issued, headcount reduction costs and special pension contributions, there was a strong underlying cash inflow of £28.4 million (2008: £19.0 million). Exchange gains on translation were £2.5 million, which means we finished the year with a net cash balance of £8.0 million (2008: net cash £17.4 million).

Capital structure

We continue to operate with a very strong balance sheet. In addition to the net cash balance, the Group had various undrawn, committed borrowing facilities at year-end of £28.6 million. Treasury and currency exchange exposures are handled by the Group Treasury function in the UK which manages the exposures from our worldwide geographic spread. This is not a profit centre and no speculative transactions are undertaken, typically, simple forward contracts are used when appropriate to match known cash flows. The Group has operations around the globe and therefore its balance sheet can be significantly affected by movements in exchange rates, particularly in relation to the euro, US dollar, Chinese renminbi and Korean won. Where appropriate, the Group uses local currency borrowings to mitigate this structural currency exposure, consistent with maintaining a low cost of debt. The Group keeps the structure of its balance sheet under regular review.

	2009 £'000	2008 £'000
Adjusted cash flow		
Adjusted operating profit	89,938	85,669
Depreciation and amortisation	16,528	15,218
Equity settled share plans	1,929	1,519
Adjusted working capital changes	9,554	(11,353)
Adjusted cash from operations	117,949	91,053
Net interest paid	(736)	(189)
Income taxes paid	(29,877)	(22,087)
Net capital expenditure, including development	(34,654)	(26,543)
Net dividends paid	(24,265)	(23,189)
Underlying cash flow	28,417	19,045
Exceptional headcount reduction costs	(7,957)	-
Post-retirement deficit reduction payments, and provisions	(7,072)	(3,236)
Proceeds from issue of shares	1,966	(2,812)
Acquisitions	(27,192)	(13,939)
Cash flow for the year	(11,838)	(942)
Exchange movement	2,481	2,501
Opening net cash	17,390	15,831
Closing net cash at 31st December	8,033	17,390

Risks and uncertainties

The Group has well established risk management processes, including insurance cover, which are an integral part of the operation of our business and which are outlined in the Corporate Governance report on pages 35 to 38. Whilst risk can never be eliminated, our processes allow us to identify and appropriately manage and mitigate risks and uncertainties. These mainly arise from the inherent risks of operating a worldwide business largely using our own local sales companies to sell in local currency, direct to end-user customers, distributors, OEMs and contractors, a very wide range of products, mostly designed and manufactured in our own facilities in a number of different countries. The business is well spread geographically, across tens of thousands of customers and across most industrial and commercial sectors. This means that we do not rely excessively on any one customer, product application or industrial sector.

The principal risks and uncertainties are strategic, commercial, operational and financial. Ultimately these affect our ability to deliver our prime financial objective, which is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends per share as a result of maintaining our world leading position and investing in our businesses for growth.

Strategic risks and uncertainties include customer relationships, the competitive environment, political and economic upheaval, technological changes, the regulatory and legal environment, and investment in acquisitions. These relate to maintaining our market and technological leadership including branding and reputation.

Commercial risks and uncertainties include issues such as product design and performance, product liability, competitor activity, relations with customers and suppliers, pricing and profit margins. Our employees are key to managing and mitigating risks and uncertainties and we therefore invest significant resources in the training and development of our people.

Operational risks and uncertainties include health and safety and environmental issues, employee relations, mitigation of, and recovery from, major disasters, product quality and customer service. We have for many years complied with recognised quality, health and safety and environmental standards and regulations and have applied project management disciplines in our business. The Group's approach to the health and safety of employees is more fully described on page 28. Appropriate measures are implemented locally, particularly in the manufacturing companies, and there were further improvements in health and safety in our operations in the year. The environmental benefits from the use of Group products are more fully described on pages 23 and 24. General managers of operating companies are responsible for local compliance with the Group's policy and with local legislation, and are required to report regularly.

The Group is committed to observing the highest standards of ethics in all its dealings with customers, suppliers, employees and all other stakeholders in the business. The Group Business Code sets out very clearly the standards expected of all employees and it is the responsibility of all managers within the Group's businesses both to abide by those standards and to ensure that employees for whom they are responsible adhere to the standards. The Chief Executive writes annually to all general managers of Group businesses to remind them of the importance which the Group attaches to the Code and of their obligations to ensure compliance with the Code. Additionally, general managers are regularly required to certify compliance with the Code.

Financial risks and uncertainties include exchange rate exposures, interest rate movements, financial instruments, financial irregularities and protection of assets including pension fund assets. The Group has a comprehensive Treasury Policy covering many of these issues and defining our approach to

Corporate social responsibility

The objective of the Group's Spirax Sarco business is to provide steam users with energy efficient, safe, environmentally friendly and cost-effective solutions for the use of steam and other related industrial fluids.

Steam itself is an environmentally friendly medium, being non-toxic and non-flammable. Although system leaks are avoidable, when they do occur, they pollute the environment less than, for example, oil, gas and refrigerants. Steam is still the prime medium used for power generation and for product processing across a significant range of industries.

The Group's technical advice and expertise on the application of its products, services and engineered solutions in relation to steam systems and services is the key to maximising the benefit of the products we supply.

These benefits include improved overall boiler efficiency, improved energy efficiency of plant processes, reduced consumption of water and water treatment chemicals and lower production of effluent and emissions, all of which have a significant and positive impact on the environment.

The Group has always believed that this significant and positive impact outweighs the environmental issues associated with the production of the products and, in 2009, more work was done to measure the environmental benefits achieved by our customers in using our products. The focus was on the energy saving aspect of those products which, if not installed, would result in a significant increase in energy consumption and hence CO₂ production.

The results indicated a potential saving of 2,540,000 tonnes of CO₂, far in excess of the quantity produced in manufacture. The methodology used to determine this external impact has been independently assessed with the assistance of the AEA Group, a world leading energy and climate change consultancy. The methodology remains unchanged but is reviewed annually by the Group, taking revised emission factors into account. The calculation is based on a selected range of energy saving products. The overall impact, taking into account all products and services supplied, will be higher.

An example of a newer product that has a major impact on energy consumption / CO₂ production is Flash Recovery Energy Management Equipment (FREME). This is a packaged solution to recover valuable heat from flash steam and use it to pre-heat boiler water. In 2009, FREME was awarded the Institute of Chemical Engineering's 'Innovation and Excellence Award in Energy' prize as "the best project or process to demonstrate innovation in renewable energy, alternative energy sources, efficient energy use or the development of energy production methods that reduce energy and water intensity".

The Group's Product Research and Development programme has been assisted through collaboration with the UK's Carbon Trust, which aims to bring new and innovative energy saving solutions to customers globally, enabling their CO₂ emissions to be further reduced. Design engineers are constantly challenged to enhance the environmental performance of future products both in manufacture and lifetime use.

Many applications for Watson-Marlow pumps are those where environmental improvement is the main aim. These pumps are particularly well suited to applications such as wastewater treatment, where difficult fluids must be handled safely and reliably.

The Board has continued to embrace and apply the general Corporate Social Responsibility (CSR) principles in conducting its business in a socially acceptable and sustainable way having due regard to the relationship of the Company to its employees, customers, investors, suppliers and society generally. In particular the Board focuses on social, ethical and environmental (SEE) matters and health and safety issues.

This report follows the practice in recent years of illustrating the Board's commitment to meeting the requirements laid down by the Association of British Insurers and the reporting procedures and actions taken within the Group in this connection. The Group has developed further its awareness of CSR issues and has continued to make improvements, particularly in the areas of health and safety and environmental matters.

The Board achieves compliance with the principles of CSR by the management of the risks concerned within the normal operations of the Group such that the necessary policies, systems and procedures are embedded in Group practice. The importance of involvement of employees and suppliers in meeting the standards required by the Board is inherent in the day-to-day business operations. Meeting the standards required in the operation of our business as it affects communities and customers is also a specific objective reflected in our strategic plans and annual planning.

The Group's operations are carried out under the Group's long standing Business Code with which general managers are required to certify compliance. A copy of this is posted on the Group website www.SpiraxSarcoEngineering.com.

This Code formalises policies followed over many years by the Group, the main areas being

- Compliance with all applicable laws and regulations
- Operation of the internal controls established by the Group
- Having proper regard for all stakeholders in the business
- Prohibition of bribery or corrupt practices
- Commitment to fair treatment of all employees
- Recognition and improvement of all health, safety and environmental matters

The standards required in the practical management of the Group are set out in a separate Management Code issued by the Chief Executive with which general managers and the finance managers in each Group company provide written confirmation of compliance for each year.

The Group also recognises that the achievement of good quality products and services, the maintenance of health and safety, and the achievement of good environmental practices are an integral part of running the business and require consideration as part of the day-to-day operations of the Group and are reflected in the Group's performance.

The responsibility held by Board members for the entirety of the Group's operations, including the implementation of its policies, enables the Group's Business Code and Group policies to be applied on a consistent basis. The Group's decentralised structure provides for detailed local management of SEE matters by the general manager in each Group company, who reports to, and is monitored by, the appropriate executive director and regional general manager. These reporting procedures within the Group enable the executive directors, who have direct responsibility for implementing policy, to monitor, report and take any appropriate action. SEE training is provided for newly appointed directors appropriate to their experience, knowledge and previous training.

As part of the risk management process explained on pages 37 and 38, the risks involved in not achieving appropriate SEE standards are assessed and any significant risk is monitored by the Board following half yearly reports from all Group companies.

The Group considers and applies appropriate policies through the Group's Business Code in the following areas

(i) Employment policies

The Group supports and applies the principles of human rights in its operations including equal opportunities for employees regardless of sex, race, religion, age or disability. Board members and Human Resources satisfy themselves that the terms of employment in Group companies worldwide are appropriate. The Group has a policy of non-discrimination and does not tolerate bullying and/or harassment in any form. The recruitment procedures throughout the Group avoid employment of underage staff. Care has been taken to provide for a culture of openness and honesty. The Group operates personnel policies designed to meet the needs of its Group companies and employees around the world. Channels of communication appropriate to the local operation have been established to allow employees to be properly informed and voice their views and concerns. Recognition is given to individual employees' needs and requirements throughout the Group and, where possible, flexible working arrangements are considered where the circumstances are justified. Employees are encouraged to apply their skills, knowledge and energy.

The Group recognises the importance of its employees and their training as a competitive advantage.

The Group is committed to equality of opportunity for all regardless of gender, race, age, disability, religion or sexual orientation. This applies equally to recruitment and to the promotion, development and training of people who are already

part of the Group

The Group takes seriously its obligations to the disabled and gives full and fair consideration to applications for new positions or employment from current or prospective employees regardless of any disability and having due regard to the individual's particular aptitudes and abilities

The Group is willing to make reasonable adjustments to premises or employment arrangements if these substantially disadvantage a disabled employee or prospective employee. Every effort is made to find a suitable alternative job and, as necessary, training for those who are unable to continue in their existing role due to disability

The Group's newsletter is distributed by electronic mail to all Group companies monthly and is made available to employees. Individual Group companies have either a local newsletter, intranet site or a regular communication informing employees on the progress of their company

The Group encourages the growth of employee share ownership

(ii) Community involvement

The Group has a Charitable Trust which makes donations both to registered charities and in response to appropriate requests for support from bodies which are not registered charities both in the UK and overseas. In the case of overseas donations the decision to donate is made by the local general manager. In total in the UK the Group donated approximately £86,250 in 2009 to registered charities and other good causes, including the National Star College, the County Air Ambulance, the Alzheimer's Society, Winston's Wish, the Parkinson's Disease Society and Sue Ryder Care

The operating companies in the Group are encouraged to provide support to local communities through company donations, employee organised charitable activities, donation of equipment no longer required and through provision of information

By way of examples

- As part of its spend on Broad Based Black Economic Empowerment, Spirax-Sarco South Africa (Pty) Ltd pays the school fees of children whose parents are employees of the company and who qualify for such assistance. In addition the South African company has sponsored the expansion of a small contractor's business who is used as a sub-contractor when the company requires installation work to be carried out
- Spirax-Sarco (Private) Ltd, Singapore, donated the sum of US \$5,000 to the ABS-CBN Foundation Sagip Kapamilya to assist in humanitarian efforts to alleviate the effects of flooding in the Philippines

Spirax-Sarco (Korea) Ltd contributes to local social welfare institutions, including those helping the aged, and supports a small group within the company whose purpose is to help a local community by, for example, delivering briquettes for heating to poor neighbourhoods

- In India the local company continues to support a hospital it established many years ago making provision for both company employees and the local community. Both benefit from an established welfare programme based in company provided premises supporting community initiatives, particularly for women and pre-school provision for children
- Spirax-Sarco Ltd continues to support the National Star College in Cheltenham
- Watson-Marlow Ltd is a sponsor of Falmouth Maritime Museum and the Royal Cornwall Polytechnic Society, a Wildlife Guardian of the Cornwall Wildlife Trust and made charitable donations totalling £10,000 during the year
- Watson-Marlow Inc, USA, supports local charities including The Wilmington Firefighters Association and the Dana Farber Cancer Institute
- In the Netherlands, Watson-Marlow Breda supports the Annual International Wheelchair Games in Delden

(iii) Supplier relations

The Company policy is to use suppliers of goods and services which maintain appropriate quality standards in their operations. Suppliers must consistently achieve the standards required by ISO 9001

(iv) Product stewardship

Information and support is given through appropriate technical advice to provide a solution to customers' needs with installation and after-sales service being integral to the Group's business. The proper application of products with due regard to environmental and safety considerations are dealt with in detail in the technical literature made freely available by the Group

(v) Corruption

The Company's policy prohibits bribery or corrupt or anti-competitive practices. In addition to provisions within service contracts, general managers, who head Group companies, are required to certify personally that all laws and regulations have been met in their territory

(vi) Health and safety

The Company has a clear attitude to health and safety, which is that each operation will maintain a healthy and safe environment. The Group is committed to managing its activities around the world so as to safeguard the health and safety of its employees, customers and local community

In the first instance the general manager of each company has the responsibility for ensuring that this is effectively managed at the local level. Each major manufacturing site has its own Health and Safety Committee advised by a safety officer.

General managers report the health and safety record of each Group company in a standard form to the responsible executive director in an exercise co-ordinated and monitored by Mr M E Gibbin who is responsible for overseeing all health and safety matters. In addition to the site Health and Safety Committees referred to above, a separate UK Health and Safety Audit Committee composed of UK based directors and senior managers meets every six months to verify the performance of the UK Spirax Sarco business on health and safety and environmental issues.

The Group ensures that the necessary resources are available for health and safety training and companies within the Group seek, as necessary, professional advice regarding the implementation of safety programmes. For example, in the UK Spirax Sarco has an established training programme which is provided to new shop floor employees and refresher courses are provided to all existing shop floor employees.

Regular reviews are conducted to ensure that employees have up-to-date knowledge of health and safety matters relevant to them.

In the UK Spirax Sarco has carried out various reviews and in particular has extended the measures for the welfare of employees by providing

- Automatic external defibrillators for use in heart attack situations – all first aiders have been trained in their use
- Training for all managers in the recognition and prevention of work related stress
- Yearly risk review of all processes and support functions
- The appointment of an occupational health service including the regular attendance of an on-site health adviser to support managers and employees on health related matters

(vii) Environmental

Commensurate with its commitment to CSR and in line with its strategic competence in energy management, the Group is proactive worldwide in environmental energy best practice.

An Energy Manager has been appointed to ensure Group operational energy efficiency.

The Group is externally and internally benchmarking its energy performance. Since 2007, the Group has had a policy of reporting its carbon footprint to the Carbon Disclosure Project and has been awarded a Carbon Disclosure Leadership Index of 54. This score represents a slightly above average performance for the disclosure and management of energy. The carbon disclosure reporting by industrial companies is a relatively new metric and in 2009, only 67% of companies in the industrial sector (Global 500, S&P 500 and FTSE 350) published this data.

The Group's annual review of the greenhouse gas emissions are shown on page 26.

Examples of actions to support national initiatives include

- Actively participating in the UK's first Low Carbon Partnership Scheme run by the Cheltenham Borough Council
- In the USA, participation by Spirax Sarco Inc. in the US Department of Energy's Save Energy New Leadership pledge, committing to reducing energy intensity by 25% over ten years.

As a manufacturing company, production resources generate 65% of the business's carbon footprint and are a target for greater efficiency. Examples of actions taken in 2009 include

- The consolidation of three UK manufacturing sites to reduce unnecessary transportation of people and products. Features of the refurbished building include

– New roofs and wall cladding surpassing building regulations by 25% – excellent thermal properties and skylights reduce the need for space heating, forced ventilation and artificial light, whilst providing an improved working environment for employees.

– Additional electricity sub metering, which will ensure the measurement and management of energy usage and the use of Spirax products will efficiently control steam usage and waste heat recycling in our processes.

– A rainwater harvesting system, which will save over 1 million litres of water per annum.

Southern Cross Hospital Group improves steam quality by 7% with the help of Spirax Sarco.

The customer

Southern Cross Hospital Group is New Zealand's largest private hospital network.

The challenge

To improve steam quality and upgrade steriliser steam reticulation systems to ensure full compliance with Australasian steam dryness standards

Our solution

Spirax Sarco upgraded the Central Sterile Services Department (CSSD) system by designing and installing a new steam reticulation system including steam generation plant. This feeds steam to the steriliser at a guaranteed dryness value of 97% or better

Results

Final steam quality tests confirmed full compliance with Australasian standards, with a dryness value of 98%. Steriliser validation was completed without problem and the refurbished CSSD can now operate under full load without affecting steam quality. The elimination of system failures and downtime has boosted steriliser productivity and improved staff morale

Spirax Sarco provides QuickHeat heat exchange system to biopharm company Gilead.

The customer

Gilead Alberta based in Canada is a world leader in the provision of therapies for life-threatening diseases such as HIV/AIDS and serious cardiovascular conditions

The challenge

The customer required a compact heat transfer solution for a glycol heating system servicing a critical air handling installation. It was essential to have easy access for future maintenance purposes

Our solution

In detailed discussions with the customer we identified fundamental design parameters that changed the initial specification. Making use of our cutting-edge 3-D design technology we configured a packaged, skid-mounted QuickHeat system to meet the precise system requirements, pre-assembled for easy installation and efficient use of space

Results

The customer required a competitive and reliable solution for this critical process and these needs were fully met. Spirax Sarco's total steam system capability enabled it to engineer a unique design that fully accommodated the complex and challenging operating conditions

Board of directors

Bill Whiteley BSc, FCMA, Deng

(61) joined the Group as an independent non-executive director in 2002 and was appointed Chairman in July 2009. Until his retirement in 2008 he was Chief Executive of Rotork plc. He is Chairman of the Nomination and Finance Committees. He is a non-executive director of Brammer plc and Renishaw plc, Chairman of The British Valve and Actuator Association and, with effect from January 2010, Chairman of Hill & Smith Holdings plc

Mark E. Vernon BSc (Hons)

(57) joined Spirax Sarco Inc in the USA in 2003 as President. He was appointed to the Board in 2006 and became Chief Operating Officer in 2007. He was appointed as Chief Executive in April 2008. He is a member of the Nomination and Finance Committees and Chairman of the Risk Management Committee

Gareth Bullock MA

(56) joined the Group as an independent non-executive director in 2005. He is currently a director of Standard Chartered PLC but he has announced that he will retire from this position in April 2010. He is Chairman of the Remuneration Committee, a member of the Audit and Nomination Committees and Senior Independent Director

Neil Daws CEng, FIMechE

(47) joined Spirax-Sarco Limited in 1978. He was appointed to the Board in 2003 and is now responsible for Asia Pacific and South America. He is a member of the Risk Management Committee

Mike Gibbin BSc (Eng), CEng, IMechE

(47) joined Spirax-Sarco Limited in 2007 as UK Supply Director. He was appointed to the Board in May 2009 and is responsible for the Group's Supply operations, for North America, and the Group's health, safety and environmental matters. He is a member of the Risk Management Committee

David Meredith FCMA

(50) joined the Group in 1988 as Group Accountant. He was appointed to the Board as Finance Director in 1992. He is also responsible for Watson-Marlow. He is a member of the Finance and Risk Management Committees.

Krishnamurthy Rajagopal FEng, CEng, FIET, FIMech E, FIE, FCMI, PhD

(56) joined the Group as an independent non-executive director in February 2009. He is a member of the Audit, Nomination and Remuneration Committees. He is a non-executive director of W. S. Atkins plc and Bodycote plc. He is also an Audit Commissioner. He was previously an executive director of BOC Group plc

Tony Scrvin

(62) joined Spirax-Sarco Limited in 1963. He was appointed to the Board in 2005 and is now responsible for operations in Europe, the Middle East and Africa. He is a member of the Risk Management Committee.

Clive Watson B Comm (Acc), ACA, CTA

(52) joined the Group as an independent non-executive director in July 2009. He is an executive director and Group Finance Director of Spectris plc. He is Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Directors' report

Company No 596337

The directors of Spirax-Sarco Engineering plc have pleasure in presenting their report and the audited accounts for the year ended 31st December 2009

Results

The results of the Group for the year, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, are explained in the Chairman's Statement and the Business Review and Financial Review on pages 2, 3 and 10 to 21 and are set out in the Group income statement on page 49

Dividend

An interim cash dividend of 10 5p per share (2008 10 0p) was paid in November 2009. The directors now recommend the payment of a final dividend of 25 6p per share (2008 23 3p). If approved at the annual general meeting the final dividend will be paid on 21st May 2010 to shareholders on the register on 16th April 2010. The total distribution for the year will be 36 1p per share (2008 33 3p).

Business review

A review of the development and performance of the business of the Group, including the financial performance during the year, the position at the end of year, key performance indicators and a description of the principal risks and uncertainties facing the Group, are set out on pages 10 to 21.

The following cautionary statement applies to the Business Review and Financial Review which are set out on pages 10 to 21 and which are incorporated in this Directors' Report by reference.

This Annual Report and Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility for any other purpose or to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Principal activities

Spirax Sarco is a UK-based multi-national engineering group tightly focused on its two niche businesses of steam system specialties and peristaltic pumps.

Spirax Sarco is uniquely positioned to provide a broad range of engineered solutions to the many industries using steam. With specialist knowledge, technical expertise, range of products, prefabricated engineered packages and site services, as well as a global spread in local markets, customers are assisted to improve the efficiency of their process heating, increase the output of the process, reduce running costs (most notably energy consumption) and lower their emissions.

The Watson-Marlow Pumps Group and its brands, which also include Bredel, Alitea, Flexicon and MasoSine, is the global leader in peristaltic pumping. It manufactures and markets products and systems for widely differing market sectors. Their unique action, ease of use, controllability and low maintenance make them cost and energy saving solutions to a growing range of applications.

A more detailed description of the Group's activities is set out on pages 10 to 17.

Board of directors

The directors of the Company are those listed on pages 30 and 31. As previously announced, Dr K Rajagopal was appointed to the Board as an independent non-executive director on 10th February 2009 and Mr M E Gibbin was appointed to the Board as an executive director on 1st May 2009. Mr C G Watson was appointed to the Board on 17th July 2009 as an independent non-executive director. In addition, Mr A D H Black was an executive director until 30th April 2009 when he retired. Mr M Townsend was the Chairman until 30th June 2009 when he too retired.

In accordance with the articles of association:

- (i) Following his appointment since the last meeting, Mr C G Watson retires at the annual general meeting and, being eligible, offers himself for re-appointment. As an independent non-executive director, Mr C G Watson has a letter of appointment.
- (ii) Mr N H Daws, Mr D J Meredith and Mr M E Vernon retire and, being eligible, offer themselves for re-appointment. Mr N H Daws, Mr D J Meredith and Mr M E Vernon have service contracts determinable on 12 months' notice.

Biographical details of each of the directors retiring at the forthcoming annual general meeting are set out on page 31.

Directors' interests and remuneration

The interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2009 are set out below. The number of shares over which directors hold options, together with their remuneration, is detailed in the Directors' Remuneration Report on pages 39 to 45.

	01.01.09 (or date of appointment if later ⁽¹⁾)	Ordinary Shares of 25p each 31.12.09 (or date of retirement if earlier ⁽²⁾)	04.03.10 ⁽³⁾ (or date of retirement if earlier ⁽³⁾)
W H Whiteley	7,434	10,434	10,434
M E Vernon	14,890	34,615	63,441
A D H Black ⁽²⁾	46,794	59,294	59,294
N H Daws	7,906	19,776	31,663
M E Gibbin ⁽¹⁾	0	4,890	4,890
D J Meredith	43,833	52,507	66,394
A J Scrvin	22,736	33,380	44,266
M Townsend ⁽²⁾	2,879	2,879	2,879
G Bullock	1,250	1,250	1,250
C G Watson ⁽¹⁾	0	0	0
K Rajagopal ⁽¹⁾	0	1,000	1,000

(1) Dr K Rajagopal was appointed to the Board on 10th February 2009. Mr M E Gibbin was appointed to the Board on 1st May 2009. Mr C G Watson was appointed to the Board on 17th July 2009.

(2) Mr A D H Black and Mr M Townsend retired from the Board on 30th April 2009 and 30th June 2009 respectively.

(3) The increase in the executive directors' shareholding is as a result of the vesting of the 2007 Performance Share Plan award.

Mr A D H Black purchased a motor car from the Company at the then current market value of £10,000.

Directors' report continued

Employment policies

Details of the Group's employment policies are set out on pages 25 to 28

Annual general meeting

The notice of meeting and an explanation of resolutions 9 to 15 to be proposed at the annual general meeting are set out in the enclosed circular

Share capital

The maximum number of treasury shares held by the Company during the year, with a nominal value of £313,886, was 1,255,542, which represented 1.63% of the called up share capital at that time

Details of shares issued during the year are set out in Note 24 on page 66

As at 31st December 2009 the Company's share capital was made up of ordinary shares each carrying one vote at general meetings of the Company. Save as set out in the articles of association or in applicable legislation there are no restrictions on the transfer of shares in the Company. There are no restrictions on the voting rights in the Company's shares.

The Company is not aware of any agreements entered into between any shareholders in the Company which restrict the transfer of shares or the exercise of any voting rights attached to the shares.

The Company is not party to any significant agreements that might terminate upon a change of control of the Company.

Purchase of own shares

There was no purchase of shares by the Company during the year. At 31st December 2009 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2009 was 7,603,267 and the total number of shares in issue was 77,238,516.

Shareholdings of 3% or more

As at 26th February 2010, the Company had an issued share capital of 77,289,941 shares of which 846,847 shares were held in treasury. Of the 76,443,094 ordinary shares with voting rights in issue, as at this date, the Company received notice of material interests in 3% or more of the voting rights (calculated on the issued share capital less the shares held in treasury).

The information received is set out below

	Ordinary Shares	%
Schroders Investment Management Ltd	7,129,817	9.33
Blackrock Investment Management	6,948,139	9.09
Baillie Gifford & Co	5,122,498	6.70
Sprucegrove Investment Management Ltd	4,604,844	6.02
First Eagle Investment Management LLC	3,128,831	4.09
Majedie Asset Management	2,934,172	3.84
NFU Mutual Insurance Society	2,741,815	3.59
Legal & General Investment Management	2,717,239	3.55

Financial instrument risk management

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. More detail is set out in Note 32 on pages 77 to 81.

Statement of the policy and practice on the payment of suppliers

It is the Group's policy to meet the terms of all individual supply contracts and in the UK to make payment to suppliers at the end of the month following receipt of goods. In view of this, the Group does not follow any particular prescribed code.

Spirax-Sarco Engineering plc had no trade creditors as at 31st December 2009 and consequently creditor days have not been presented.

Research and development

The Group continues to devote significant resources to the updating and expansion of its range of products and engineered packages in order to remain at the forefront of its world markets. Expenditure in 2009 on research and development amounted to £8,018,000 (2008 £6,529,000), of which £2,082,000 (2008 £1,640,000) is capitalised as explained in Note 1 on page 54. During the year the Group has taken steps to increase its research and development capability by the creation of a separate research and development function based in Cheltenham. This function is tasked with improving the Group's pipeline of new products and decreasing the time to launch.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Group exceeds the book value of those assets at 31st December 2009 by approximately £12,000,000 (2008 £12,000,000).

Group charitable and political donations

Charitable donations during the year amounted to £86,250 divided amongst 73 organisations (2008 £81,156). There were no political donations (2008 nil).

Auditors

As at the date of this report, as far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all such steps as he should have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. A resolution to re-appoint the auditors, KPMG Audit Plc, will be proposed at the annual general meeting.

Going concern

The Company continues to adopt the going concern basis in preparing the Annual Report and Accounts. More detail is set out on page 38.

Capital gains tax

For capital gains tax purposes the market value of the Company's ordinary shares at 31st March 1982 was 140,375p.

Company information

Further information on the Company is available on the Group website www.SpiraxSarcoEngineering.com

By order of the Board

W.G Stebbings

Company Secretary and Solicitor
4th March 2010



Charlton House, Cirencester Road,
Cheltenham, Glos GL53 8ER

Corporate governance

Compliance

Corporate governance has been and remains the responsibility of the whole Board. This statement describes how the Company applies the principles and complies with the provisions of the Combined Code on Corporate Governance published in June 2008 (the Combined Code), which applied to the Company in respect of the financial year ended 31st December 2009 and is publicly available at www.frc.org.uk. The Listing Rules of the Financial Services Authority require UK listed companies to report on the manner in which they apply the Combined Code. The Board considers that, subject to the ratio of executive and non-executive directors and the composition of the audit and remuneration committees from the beginning of the year until 9th February 2009 and from 1st July to 16th July (each of which is explained below), the Company met the requirements of the Combined Code throughout the year ended 31st December 2009. The Board assesses on an on-going basis its practices to ensure continued compliance with the Combined Code and has allocated responsibility for compliance to appropriate directors or officers. Contact has been made with major shareholders to allow discussion of the Company's governance policy and strategy with the Chairman and three major shareholders availed themselves of the opportunity to meet the Chairman.

Disclosures required under DTR 7.2.6 can be found on page 34.

Board composition and procedures

During the year the Board comprised the non-executive Chairman, three independent non-executive directors, including a Senior Independent Director, and five executive directors, details of whom are set out on pages 30 and 31. During the year the positions of Chairman, Chief Executive and Senior Independent Director were held by separate individuals. There is a clear written division of responsibility between the Chairman and the Chief Executive. The ratio of executive to non-executive directors is currently considered to be the best structure for the Company. The Board is responsible for the Group's business operations and five executive directors are present on the Board in order to provide first-hand information and contributions to the running of the business. The executive directors control the Group's devolved management structure which requires local management initiative across the Group's global spread of operating companies, its broad product range and wide customer base. Board membership of the executives is key to the overall management of the Group which employs a relatively flat management structure. This also provides the non-executive directors with regular direct access to the full executive management team. The Company views this to be a very appropriate and successful mix, appointing additional non-executive directors would make the Board more cumbersome and would not add to the quality of the Board's performance. The divisional structure will be retained with regional general managers providing support in each of the divisions.

The Board applies an appropriate policy in the recruitment of independent non-executive directors to meet the particular requirements of the Board. Each of the non-executive directors has a letter of appointment which meets the requirements of the Combined Code. The non-executive directors all have or have had senior executive experience and offer independent judgement on Board matters. The non-executive directors of the Company, including the Chairman, do not participate in any bonus, share option or share ownership schemes and their appointments are non-pensionable.

The Board met six times in the year to consider strategic developments and to review trading results and operational and business issues. All directors attended all meetings either in person or by telephone in 2009, with the exception of Mr C G Watson who was unavailable for two meetings. In particular the Board deals with those matters reserved to it for decision, details of which are posted on the Group website www.SpiraxSarcoEngineering.com and are as follows:

(i) Accounts and audit

- Approval of preliminary and annual reports and accounts, half-yearly reports and interim management statements
- Accounting policies and practices and any changes thereto, the use of any off-balance sheet structures
- Acceptance of any proposed audit qualification of the accounts
- Approval of Audit Committee's recommendations for appointment or removal of external auditors

(ii) Strategic and policy considerations

- Review and approve the Group's overall corporate strategy and annual business plan
- Changes related to the Company's status as a listed company or major structural changes to the Group
- Agreement of codes of ethics and business practice, in light of the directors' duty to promote the success of the Company for the benefit of the members as a whole, and in doing so having regard (amongst others) to
 - the likely consequences of any decision in the long term,
 - the interests of the Company's employees,
 - the need to foster the Company's business relationships with suppliers, customers and others,
 - the impact of the Company's operations on the community and the environment,
 - the desirability of the Company maintaining a reputation for high standards of business conduct, and
 - the need to act fairly as between members of the Company
- Appointment of, or changes to, principal professional advisers
- Environmental policy
- Health and safety policy
- Any matter which could reasonably be expected to have a material effect on the reputation or standing of the Group

(iii) Risk management

- Reviewing the effectiveness of risk management and internal control on an ongoing basis, including receiving and reviewing regular reports on internal control
- Carrying out an assessment (at least annually) of significant risks and effectiveness of risk management and internal control policies, and reporting to shareholders on such matters
- Prosecution, defence or settlement of litigation, arbitration or other proceedings material to the Company/Group and, for this purpose, litigation, arbitration or other proceedings shall be deemed material if the proceedings are for an amount in excess of £5 million or if the penalty likely to be suffered may exceed £5 million

(iv) Transactions

- Major investment and capital projects in excess of £1 million. Investments or projects in excess of £500,000 sanctioned by the Executive team will be reported to the Board
- Acquisitions and disposals of subsidiaries
- Acquisitions and disposals of other assets or liabilities above £1 million
- Material contracts which are in the ordinary course of business with a value of above £1 million
- Contracts not in the ordinary course of business
- Contracts in which a director or other related party is interested
- Any binding commitment to enter into a material strategic alliance, joint venture, partnership or profit sharing arrangement
- Giving security over significant assets

(v) Finance

- Approval of Treasury Policy or amendments thereto
- Approval of any financing or currency arrangement above the limit of the Finance Committee

Corporate governance continued

(vi) Regulatory requirements

- Ensuring compliance with the Listing, Prospectus, Disclosure and Transparency Rules
- Approval of all circulars, prospectuses and equivalent documents (save that approval of routine documents may be delegated to a committee)
- Approval of announcements concerning matters decided by the Board
- Delegation of authority to issue an urgent announcement without the need to call a Board meeting, in order to comply with the Company's regulatory obligation to announce inside information as soon as possible
- Dividend policy, approval of the interim dividend and recommendation of the final dividend
- Calling general meetings of shareholders
- Setting of general Group policy on charitable and political donations
- Issue of shares or other securities (other than on notice of exercise of employee share options) or repurchase of shares
- Changes relating to the Company's share capital

(vii) Directors and senior employees

- Approval of Nomination Committee's recommendations on
 - Board appointments and removals,
 - Board succession,
 - appointment of Chairman and terms of engagement (other than remuneration) for Chairman,
 - terms of engagement (other than remuneration) of non-executive directors,
 - the re-appointment of any non-executive director at the end of the specified term of office,
 - the re-election by shareholders of any director, and
 - any matters concerning the continuation in office of any director at any time
- Remuneration of non-executive directors
- Terms of engagement (other than remuneration package) of executive directors
- Appointment and removal of Company Secretary
- Board policy on the duration of contracts with directors (both executive and non-executive)
- The procedures in place (or to be put in place) for the authorisation of directors' conflict matters falling within section 175 of the Companies Act 2006 and any changes to these procedures
- The authorisation of any conflict matter arising for any director of the Company under section 175 of the Companies Act 2006 and the terms and conditions attaching to such authorisation
- Terms of reference and membership of Board committees
- Delegation of the Board's powers
- Procedure for directors in the furtherance of their duties to take independent professional advice, at the Company's expense
- Assessment of which non-executive directors are independent
- Approval of training and development programmes for directors as relating to their duties as directors
- Approval of performance evaluation programmes for Board, committees and individual directors

(viii) Employment issues

- Major changes in the rules or funding of the pension schemes
- Major changes in employee or directors' share schemes and major changes in the allocation of share options

All directors receive detailed Board papers and reports one week prior to each Board meeting. There is provision for the non-executive directors to meet together without any executive directors present (both with and without the Chairman)

All other matters not reserved to the Board for decision are delegated appropriately

Utilising a format created with the advice of Towers Perrin (now Towers Watson), the Board again carried out a rigorous evaluation of Board performance in accordance with the Combined Code requirements which confirmed the effective operation of the Board and reflected the importance of strategic matters. The evaluation process comprises a review conducted by the Company Secretary and reported to the Chairman of all directors' views on the operation of the Board and the performance of the Chairman, the Chairman's and Chief Executive's review of the Board performance of each director, the Chairman's review of the non-executive directors and the review by Committee members and attendees of the operations of the Audit, Nomination and Remuneration Committees and the performance of the Chairman of each of those Committees. The evaluation confirmed a continued high rating for the Board's operations and encompassed Board constitution, Board meetings, Board functionality, communication and knowledge management, Company secretariat performance, assessment of the Chairman's performance and the effectiveness of the Board's Committees. Improvements are made to the Board's operation as a result of the evaluation.

There are procedures for individual Board members to receive induction and training as appropriate and provision to solicit independent professional advice at the Company's expense where specific expertise is required in the course of exercising their duties. All directors have access to the Company Secretary, who is responsible for ensuring compliance with applicable legislative and regulatory requirements.

The Company provides directors' and officers' insurance for Board members and the directors of Group companies, together with senior officers.

All directors are subject to re-appointment by shareholders at the first opportunity after their appointment and thereafter at intervals of no more than three years.

Conflicts

From 1st October 2008, the directors became subject to a statutory duty under the Companies Act 2006 to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. Directors of public companies may authorise conflicts and potential conflicts where appropriate, if the articles of association contain a provision to this effect. The Company amended its articles of association in May 2008 to deal with, amongst other things, the provisions on conflicts of interest in the Companies Act 2006. The Company has established formal procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the directors may have and for the authorisation of such conflict matters by the Board. In deciding whether to authorise a conflict or potential conflict the directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, may be reviewed at any time and will be reviewed formally by the Board on an annual basis. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

Senior independent director

Mr G Bullock succeeded Mr W H Whiteley as the Senior Independent Director on 1st July 2009.

Committees

The Board delegates specific responsibility to Board Committees, notably the Audit, Nomination and Remuneration Committees, in line with best practice. The terms of reference for these Committees are posted on the Group website www.SpiraxSarcoEngineering.com. In the period from the beginning of the year until 30th June 2009 the Finance Committee comprised Mr M Townsend (Chairman), Mr M E Vernon and Mr D J Meredith. With effect from 1st July 2009 the Finance Committee comprised Mr W H Whiteley (Chairman), Mr M E Vernon and Mr D J Meredith. The Risk Management Committee is composed of the five executive directors and the Company Secretary.

(i) Audit committee

From 1st January until 9th February 2009, the Audit Committee comprised Mr W H Whiteley (Chairman) and Mr G Bullock, from 10th February until 30th June, the Committee comprised Mr W H Whiteley (Chairman), Mr G Bullock and Dr K Rajagopal. From 1st July to 16th July, the Committee comprised Mr G Bullock and Dr K Rajagopal and from 17th July to 31st December 2009, the Committee comprised Mr C G Watson (Chairman), Mr G Bullock and Dr K Rajagopal.

During the periods 1st January to 9th February and 1st July to 16th July 2009 the Company did not fully comply with provision C 3.1 of the Combined Code as the Audit Committee comprised two independent non-executive directors. There were three meetings of the Audit Committee during the year and all members attended all meetings, with the exception of Mr C G Watson who was unavailable for one meeting. All members are independent in accordance with the independence criteria set out in the Combined Code.

A summary of the Audit Committee's duties and responsibilities is set out on page 38.

(ii) Nomination committee

From 1st January until 9th February 2009, the Nomination Committee comprised Mr M Townsend (Chairman), Mr G Bullock, Mr M E Vernon and Mr W H Whiteley, from 10th February until 30th June, the Committee comprised Mr M Townsend (Chairman), Mr G Bullock, Dr K Rajagopal, Mr M E Vernon and Mr W H Whiteley. From 1st July to 16th July, the Committee comprised Mr W H Whiteley (Chairman), Mr G Bullock, Dr K Rajagopal and Mr M E Vernon and from 17th July to 31st December 2009, the Committee comprised Mr W H Whiteley (Chairman), Mr G Bullock, Dr K Rajagopal and Mr C G Watson. There were three meetings of the Nomination Committee and all members attended all meetings, with the exception of Dr K Rajagopal who was unavailable for one meeting.

The Nomination Committee proposes to the Board new appointments for both executive and non-executive directors and determines on an individual basis the most appropriate method of identifying suitable applicants. The Nomination Committee arranges for the executive directors' views to be assessed before an appointment decision is made. The Nomination Committee fully followed this process in the appointment of Mr C G Watson as non-executive director.

(iii) Remuneration committee

From 1st January until 9th February 2009, the Remuneration Committee comprised Mr W H Whiteley (Chairman) and Mr G Bullock, from 10th February until 30th June, the Committee comprised Mr W H Whiteley (Chairman), Mr G Bullock and Dr K Rajagopal. From 1st July to 16th July, the Committee comprised Mr G Bullock (Chairman) and Dr K Rajagopal and from 17th July to 31st December 2009, the Committee comprised Mr G Bullock (Chairman), Dr K Rajagopal and Mr C G Watson.

During the periods 1st January to 9th February and 1st July to 16th July 2009 the Company did not fully comply with provision B 2.1 of the Combined Code as the Remuneration Committee comprised two independent non-executive directors. There were two meetings of the Remuneration Committee and all members attended both meetings. All members are independent in accordance with the independence criteria set out in the Combined Code.

In determining the remuneration paid to directors, the Remuneration Committee was advised by Towers Perrin.

The Directors' Remuneration Report presented by the Board of Directors is set out on pages 39 to 45.

(iv) Risk management committee

In the period from the beginning of the year until 30th April 2009, the Risk Management Committee comprised Mr M E Vernon, Mr A D H Black, Mr N H Daws, Mr D J Meredith, Mr A J Scrvin and Mr W G Stebbings. With effect from 1st May 2009, the Risk Management Committee comprised Mr M E Vernon, Mr N H Daws, Mr M E Gibbin, Mr D J Meredith, Mr A J Scrvin and Mr W G Stebbings.

There were three meetings of the Risk Management Committee and all members attended all meetings with the exception of Mr M E Gibbin who was unavailable for one meeting. Prior to his appointment, Mr M E Gibbin attended two meetings on the invitation of the Committee. In addition to reviewing the risk management returns provided by Group companies at 30th June 2009 and 31st December 2009 and reporting on the results of these returns to the Board, the Committee also conducted a review of the Group's risk registers to ensure the continuing applicability and relevance of the registers.

The terms of reference for each of the Audit, Nomination and Remuneration Committees can be viewed in the Corporate Governance section of the Group website www.SpiraxSarcoEngineering.com.

The Company Secretary acts as Secretary to the Audit, Nomination and Remuneration Committees.

Shareholder relations

The Group conducts regular dialogue with institutional shareholders and provides such information as is permitted within the guidelines of the Listing Rules. In particular major shareholders have been approached with a view to discussing the Company's governance and strategy with the Chairman and Mr G Bullock, the Senior Independent Director. As required by major shareholders, the Senior Independent Director is available to listen to their views on any areas of concern they may have. Following his appointment as Chairman, Mr W H Whiteley offered major shareholders the opportunity of a meeting and, as a result, meetings were held with three major shareholders. Reports are made to the Board of all meetings with major shareholders and analysts including, in particular, briefings after half year and final results.

The preliminary results announcement may be accessed by investors on the Group website www.SpiraxSarcoEngineering.com. The Annual Report and Accounts is also posted on the website www.SpiraxSarcoEngineering.com.

All shareholders are invited to participate in the annual general meeting, where the chairmen of the Audit, Nomination and Remuneration Committees will be available to answer questions. The results of proxy votes are declared at annual general meetings after each resolution has been dealt with on a show of hands. Details of the proxy votes received will be published on the Group website www.SpiraxSarcoEngineering.com following the annual general meeting.

Internal controls

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. There is an ongoing process for identifying and managing risks faced by the Group which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. The reviews cover, and assess the effectiveness of, all material controls, including financial, operational and compliance controls and risk management systems. This ensures that proper accounting records have been maintained, that financial information used within the business is reliable and that the consolidated accounts preparation and financial reporting process comply with all relevant regulatory reporting requirements. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

The Board believes from its annual reviews that the system of internal controls is embedded in the business and regular review allows for assessment of new and changing risks in the Group's business.

In pursuing these objectives, internal controls can provide only reasonable and not absolute assurance against material misstatement or loss.

As required by the UK Listing Authority, the Company has complied throughout the year and up to the date of this report with the Combined Code provisions on internal controls having established the procedures necessary to implement the guidance issued by the Turnbull Committee and by reporting in accordance with that guidance (which is publicly available at www.frc.org.uk).

(i) Risk management

The Group has operated procedures for considering risks in the normal operations of the Group and with regard to significant transactions. Strategic and annual planning also encompass consideration of business risks. The Risk Management Committee specifically reviews any risks facing the business which could give rise to a material loss.

The Risk Management Committee carried out a review with external consultants, Marsh Ltd, of the risk register and risk management process in the context of the current business structure and operations with the aim of validating the risk register and the general risk management process and

Corporate governance continued

identifying any additional new risks which could involve a significant risk to the Group's business. This exercise was completed early in 2008 and consisted of a review of the risk magnitude and risk likelihood. Significant potential new risks were assessed and countermeasures established. The Board, on Marsh Ltd's advice, is satisfied that the system of management for significant risks is appropriate for the Group and is properly executed. The Board plans to conduct an updated externally facilitated risk review in 2010.

As part of the risk management process, Group companies are required to report on a six monthly basis their position with regard to implementing identified countermeasures to address the Group's significant business risks. The six monthly returns are assessed by the Risk Management Committee and the results of that assessment are reported by the Company Secretary to the Board. The Risk Management Committee carries out an annual review of the business risks. The Board monitors the system of reporting and its effectiveness as a whole and reviews the assessments made by the Risk Management Committee and any recommendations for improvements to the process.

In the UK the operation of the Incident Management Team, which deals with the situation immediately after any major incident, was reviewed and the Team strengthened. Spirax Sarco Inc. in the USA has successfully completed its business continuity planning exercise.

(i) Financial

The Finance Committee of the Board considers financing and investment decisions concerning the Group, including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk within the limits laid down by the Board.

Financial reporting systems include comprehensive annual plans approved by the Board and monthly reporting of actual results with appropriate comparisons against plan and previous year's results. Forecast operating results for the year are regularly updated. Capital investment is subject to approval under a clear policy. This includes annual plans, appropriate authorisation, detailed investment appraisal, post-investment review and due diligence requirements where businesses are being acquired. Forward currency contracts are implemented centrally under the control of the Group Treasury Function.

(ii) Operational

All Group companies are required annually to complete self-certification questionnaires regarding compliance with the policies, procedures and minimum requirements for an effective system of internal controls. Self-certification is given by both the general manager and the finance manager of the operation.

(iv) Audit committee

The Audit Committee considers the appropriateness and effectiveness of the Group's internal controls, policies and procedures and the outcome of the external audit for the year. The Committee also reviewed the outcome of internal audit reports during the year. Its meetings are normally attended by the Finance Director, the external auditors and, at the invitation of the Committee, the Chairman. There is provision for the Committee to confer with the auditors without the attendance of executive directors. The Audit Committee reviews the independence of the external auditors on an annual basis.

The Committee considers in detail reports prepared by the auditors in relation to the final accounts and accounting practices and developments. It also considers reports and explanations provided by the Finance Director.

The Board has approved terms of reference for the Audit Committee meeting the requirements of the Combined Code. The Audit Committee's responsibilities include:

- monitoring the integrity of the accounts and in particular reviewing the Group's internal controls, risk management framework and internal audit reports,
- reviewing the scope and results of the auditors' work, their independence and objectivity particularly relating to the provision of additional services to the Company and audit fee,
- recommending the appointment, re-appointment or removal of external auditors, and
- reviewing the accounting policies and practices of the Company and, at the end of the annual audit cycle, assessing the effectiveness of the audit process.

The Audit Committee reviewed and noted compliance with the good practice list of matters established by the Audit Committee Institute in all material matters.

(v) Non-audit services

A policy on non-audit services provided by the auditors in line with professional practice has been established and approved by the Audit Committee. The external auditors have undertaken non-audit work (in regard to taxation and acquisition due diligence) and the fees paid by the Company for it are set out in Note 6 on page 59. The scope and extent of non-audit work undertaken by the Company's auditors is carefully controlled in line with the written terms provided by the Company to the auditors with the objective of avoiding impact on their independence and objectivity. In particular, the auditors are prohibited from providing services in relation to valuations, recruitment, dispute resolution and accounting services. The Audit Committee monitors the scope of the auditors' work, and specific approval from the Committee Chairman or the full Audit Committee is required for fees over established thresholds.

(vi) Whistle blowing

If any employee in the Group has reasonable grounds for believing that the Group Business Code or Management Code is being breached by any person or group of people and does not feel able to voice the matter with his or her manager, he or she is able to contact the Company Secretary in Cheltenham with full details. The Company Secretary will ensure that (a) the circumstances are properly investigated and (b) the employment of the person contacting the Company Secretary will be protected appropriately.

Internal audit

Following a review in 2006, the Board established an enhanced internal audit function which allows each of the Group companies to be audited at least every four years. All businesses acquired by the Group are subject to internal audit within one year from the date of acquisition. Internal audit resource is supplemented by experienced qualified accounting staff from principal Group companies and a professional auditing firm, BDO Stoy Hayward LLP. Reports are made to the Audit Committee and the Board as a whole. No significant matters were raised in the reports made in the 11 operating companies audited during the year.

Going concern

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are set out in the Business Review and Financial Review on pages 10 to 21. In addition Note 32 on pages 77 to 81 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with contracts with a diverse range of customers and suppliers across different geographic areas and industries. No one customer accounts for more than 1% of Group turnover. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries and after conducting a formal review of the Group's financial resources at their March Board Meeting, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Directors' responsibilities

The Statement of Directors' Responsibilities is set out on page 46.

The directors' remuneration report

The Board presents the following report on directors' remuneration and the work and responsibilities of the Remuneration Committee

Remuneration committee

This Committee has been established for many years and operates under terms of reference agreed by the Board and which can be found on the Group website www.SpiraxSarcoEngineering.com

From 1st January until 9th February 2009, the Committee comprised Mr W H Whiteley (Chairman) and Mr G Bullock, from 10th February until 30th June, the Committee comprised Mr W H Whiteley (Chairman), Mr G Bullock and Dr K Rajagopal. From 1st July to 16th July, the Committee comprised Mr G Bullock (Chairman) and Dr K Rajagopal and from 17th July to 31st December 2009, the Committee comprised Mr G Bullock (Chairman), Dr K Rajagopal and Mr C G Watson. Each Committee member is an independent non-executive director. They bring independence to all aspects of Board remuneration and in the application of professional advice to matters of remuneration.

The Committee is responsible for determining, on behalf of the Board, the Company's remuneration policy, the employment conditions and remuneration packages (comprising salary and benefits) of individual executive directors and the fees for the Chairman. The Committee also administers and determines the grant of options under the Group's share option schemes for senior employees and administers and determines the grants of awards under the Performance Share Plan.

The Committee obtains independent professional advice from Towers Perrin (now Towers Watson) to ensure that the Company's remuneration policy is appropriate and competitive. Towers Perrin was appointed by the Committee and has not provided other services to the Company during the year. The Chairman (Mr M Townsend up to 30th June 2009 and Mr W H Whiteley since that date) and Mr M E Vernon, the Chief Executive, attend meetings at the invitation of the Committee to provide information requested by it. However, the invitees do not participate in any discussions involving their own remuneration. The Company Secretary acts as Secretary to the Committee.

The Committee consulted with Towers Perrin in arriving at the remuneration packages paid to directors during 2009.

The Company has throughout the year complied with the provisions of the Combined Code with regard to directors' remuneration. The Committee has given full consideration to the Combined Code in establishing the remuneration policy and packages for directors.

Policy on executive directors' remuneration

The Company's policy is to reward directors competitively and on the broad principle that their remuneration should be comparable with remuneration in other similar public companies. Further, the total remuneration package is designed in a way which is appropriate and necessary to attract, retain and motivate directors of the calibre required to achieve the Company's strategic objectives. It is anticipated that this policy will continue to govern the Company's approach to executive directors' remuneration in subsequent financial years.

In order to align the interests of directors and shareholders, the Committee has structured the total remuneration package to provide a material performance-related element through the annual bonus and the Group's Performance Share Plan.

The structure of the directors' remuneration package has been established, subject to appropriate modifications, for many years and has regard to pay and conditions elsewhere in the Group.

The Company's policy on directors' remuneration and the structure of their remuneration package are kept under review to ensure the directors' overall package remains competitive and shareholders will be informed of any resulting change. The remuneration package comprises:

Basic salary

The Committee obtained independent professional advice from Towers Perrin using published information for comparable public companies. Salaries are reviewed annually as at 1st January taking into account the experience, responsibility and performance of the individual.

Benefits

The Company operates company car, life assurance and private health insurance schemes in which the executive directors are eligible to participate. These benefits are reviewed annually to ensure they remain comparable with benefits provided by other similar public companies and to ensure they are purchased by the Company at a competitive market rate.

Annual bonus

The Company operates a non-pensionable annual bonus scheme for executive directors. The bonus is determined as a percentage of salary. For 2009, maximum available bonus remained at 100% of salary (as in prior years).

The bonus was made up as follows:

- (i) a component of up to 65% of salary was determined on a sliding scale by reference to the operating profit of the Group including the Group's associate companies in India and Mexico, and
- (ii) a component of up to 35% of salary was determined on a sliding scale by reference to the return on capital employed (ROCE).

The application of the above formula resulted in a bonus equal to 37% of salary being payable to all executive directors in respect of the Group's 2009 performance. The auditors confirmed the calculation was made in line with the rules.

For 2010, the Committee plans to base the bonus for Mr M E Vernon and Mr D J Meredith on the same two measures with the same relative weight as in 2009 and the maximum bonus payable will remain a sum equal to 100% of base salary. For Mr N H Daws, Mr M E Gibbin and Mr A J Scrvin, the maximum profit component of the bonus will be split so that 35% of salary will be paid based on Group operating profit and 30% of salary will be paid based on their respective divisional profit performances, for a total maximum bonus of 65% of salary based on the profit component.

The Committee has offered to executive directors in a UK defined benefit scheme a cash alternative to pension contributions equal to 25% of pensionable salary. The level of this cash alternative was confirmed by Watson Wyatt LLC (now Towers Watson). The cost of the alternative to the Company would be no greater than the cost of the pension contributions. The cash alternative has not so far been adopted by any of the executive directors in the scheme.

The directors' remuneration report

continued

Options

Spirax-Sarco Engineering 1992 UK and global share option schemes

Spirax-Sarco Engineering approved and global share option schemes

The Company operates share option schemes administered by the Committee which determines the grant of options under the schemes, usually once per year. These are designed to align the longer term interests of participants with those of shareholders by giving an incentive linked to added shareholder value. Following the introduction of the performance share plan in 2005, it is intended that, ordinarily, executive directors will be granted awards under that plan rather than be granted options.

Executive directors, senior executives and management hold options granted in previous years and it is currently intended that options will continue to be granted to senior executives and management. Options granted to each director from 1997 are subject to a performance condition which is described below.

Performance condition for share option schemes

In accordance with market practice, options granted are normally specified to be exercisable between three and ten years from the date of grant and, for grants from 1997, only if a specified performance condition is satisfied. In line with the then established market practice, the performance condition for options granted from 1997 up to 2001 requires an increase in earnings per share (EPS) of more than 6% greater than the increase in the UK retail prices index over a period of three consecutive years between grant and ten years from grant. For options granted from and including 2002 the performance condition requires an increase in EPS of more than 9% greater than the increase in the UK retail prices index over a period of three consecutive years between grant and ten years from grant. For grants from and including 2005, the performance condition will, ordinarily, need to be met over the three-year period from the 1st January prior to the date of grant in order for the option to become exercisable. If the condition is not met at the end of the three-year period, the option will lapse. The same performance condition applies to each director. The performance condition chosen was considered appropriate because it ensured increases in the EPS were achieved having taken account of UK inflation. The auditors are asked to confirm whether the performance condition has been met. The method of assessment is considered appropriate to confirm compliance with the condition. The performance condition requires a comparison with a factor external to the Company, namely the growth in the UK retail prices index over the performance period.

Details of total share options outstanding are set out in Note 24 on page 66. The above performance conditions apply to other relevant options granted to all other participants in the share option schemes.

Spirax-Sarco performance share plan (PSP)

The PSP for executive directors, senior executives and management was adopted at the 2005 annual general meeting. Following the introduction of this PSP no further option grants have been made to executive directors. Details of options that were awarded prior to this and which remain outstanding are provided on page 43.

The PSP allows for awards to be made each year with a market value of up to 150% of base salary although in practice the market value of awards has been limited in previous years to 100% of base salary. The market value of awards made to executive directors in 2009 was limited to 75% of base salary. Details are set out on pages 43 and 44. Awards take the form of contingent rights to acquire shares, subject to the satisfaction of performance targets. To the extent they vest, awards may be satisfied in cash, in shares or an option over shares at the discretion of the Company.

The performance target applied to awards granted in 2006, 2007 and 2008 was based on the Company's Total Shareholder Return (TSR) relative to the TSR of other companies included in the FTSE All-Share Industrial Engineering Index over the three-year periods commencing with effect from 1st January 2006, 1st January 2007 and 1st January 2008. For awards made in 2009, the Committee decided to amend the comparator group of companies against which the Company's TSR would be measured to encompass a group of the 27 companies within the overall Industrial Goods and Services super sector of FTSE 350. TSR was chosen as the measure of performance as the Committee felt that this achieved an appropriate alignment of the interests of the directors with those of the Company's shareholders. For full vesting, the Company's TSR must be at or above the upper quartile, with 25% of the shares subject to an award vesting if the Company's TSR is at the median relative to the comparator group. Awards vest on a straight line pro-rata basis between median and upper quartile performance. In respect of the awards made in 2007, the Company's relative TSR performance resulted in 100% of the awards vesting.

Following a review of the operation of the PSP and the market competitiveness of awards, the Committee decided in 2008 to adopt a second performance measure to determine vesting under the PSP. Although relative TSR was retained as one of the measures to determine the vesting of part of the award, a second, separate element of the award was based upon EPS growth. The decision to adopt EPS as a specific measure to determine the vesting of part of the future awards was a reflection of the importance the Company gives to continuing growth in earnings.

Specifically, for awards made in 2009, the award was split into two separate parts amounting to 60% and 40% of award respectively.

The vesting of each part of the overall award will be subject to the satisfaction of separate performance targets as follows:

- (i) vesting of the first part, amounting to 45% of salary, will be based on the TSR measure as described above, and
- (ii) vesting of the second part, amounting to 30% of salary, will be subject to achievement of a target based on aggregate EPS over the whole of the three-year performance period, with growth measured relative to EPS in the year prior to that in which the award is made. For the awards made in 2009, 25% of this element of the award will vest if the compound annual growth in EPS over the three-year period 2009 to 2011 is equal to 5%, and 100% of the award will vest if the compound annual growth in EPS is equal to or exceeds 11%, there will be pro-rata vesting for actual growth between these two rates.

No award will vest if the Company's TSR is below the median. TSR calculations are performed by Towers Perrin. The method of assessment is considered appropriate to confirm compliance with the condition.

The Committee reviews the measures annually and is maintaining the same measures and the same performance standards for awards made in 2010.

The auditors are asked to confirm whether the EPS performance condition has been met. The method of assessment is considered appropriate to confirm compliance with the condition.

Spirax-Sarco Engineering plc employee share ownership plan (the plan)

The executive directors, with the exception of Mr M E Vernon, participate in the plan, as described on page 44. Participation in the plan is open to all eligible UK employees. No employee's entitlement under the plan is subject to performance conditions, as the aim of the plan is to encourage increased shareholding in the Company by all eligible UK employees.

There are no other long-term incentives or share-based arrangements provided to directors.

Share ownership policy

It is the policy of the Board of Spirax-Sarco Engineering plc that executive directors should have a significant shareholding in the Company. The Board expects that executive directors will accumulate, following appointment to the Board, a shareholding equivalent to at least 100% of basic salary and should retain a shareholding of at least this amount whilst remaining on the Board.

To achieve this level of share ownership the Board expects that executive directors will retain shares acquired under the Company's share-based incentive schemes (after sales of such shares as are needed to settle relevant tax and national insurance charges) until the required level of shareholding is achieved. Any shares held in trust for an executive director or in the name of a connected person, e.g. spouse, will be considered as part of an executive director's shareholding.

The Board will exercise discretion in implementing this policy where the personal circumstances of an individual executive director make that appropriate.

The policy does not require any shareholdings by non-executive directors.

Pensions

The UK executive directors, other than Mr M E Vernon and Mr M E Gibbin, are members of an HMRC-registered, non-contributory defined benefit pension scheme based on 1/60th of pensionable salary, for each year of pensionable service. Up to 31st March 2010, the maximum pension is two-thirds of pensionable salary. Mr N H Daws and Mr D J Meredith accrue pro-rata additional service at a rate which gives a further two and a half years of service at age 62½ although their normal retirement age is 65. The same provision applied to Mr A D H Black who retired on 30th April 2009. This additional service provision does not apply to Mr M E Vernon, Mr M E Gibbin and Mr A J Scrvin who have a normal retirement age of 65.

In April 2010 the terms of the defined benefit pension scheme will change in that the scheme will no longer be non-contributory. The change allows members to choose to:

- (i) continue to build up future benefits as previously in return for sharing some of the cost by way of making member contributions. Under this option members retain the 1/60th rate of accrual and contribute 3% of their pensionable salary from 1st April 2010 to 31st March 2011 and then 6% of their pensionable salary from 1st April 2011 onwards, or
- (ii) build up future benefits at a lower rate of 1/80th accrual without having to make contributions.

The UK scheme also provides lump sum death-in-service benefit of four times pensionable salary and spouses' pensions are payable where death occurs in service or in retirement.

Mr M E Vernon, in addition to membership of the Spirax Sarco Inc defined benefit scheme, has a defined contributions pension scheme as set out on page 45. In total, pension contributions at the rate of 25% of pensionable pay were payable from 12th June 2007. A lump sum death-in-service benefit of four times salary is also provided for Mr M E Vernon.

Mr M E Gibbin has a defined contributions pension scheme as set out on page 45. From 1st January 2009 to 30th April 2009 contributions at the rate of 10% of pensionable pay were payable, increasing to 25% of pensionable pay with effect from 1st May 2009. A lump sum death-in-service benefit of four times salary is also provided for Mr M E Gibbin.

Non-executive directors

The remuneration of non-executive directors is approved by the full Board within the limits set out in the Company's articles of association. Their remuneration reflects the amount of time spent on the Company's business. The non-executive directors do not participate in the bonus, share option or share ownership schemes and do not participate in the Performance Share Plan. Non-executive directors' appointments are non-pensionable.

Service contracts

The Committee applies a policy on directors' contracts reflecting established practice and reviews the content from time-to-time on professional advice. The executive directors have rolling service contracts with no fixed expiry dates which are subject to 12 months' notice.

	Date of Contract	Notice Period
M E Vernon	10 12 08	12 months
A D H Black ⁽¹⁾	18 10 98	12 months
N H Daws	28 05 03	12 months
M E Gibbin	17 04 09	12 months
D J Meredith	30 12 92	12 months
A J Scrvin	15 03 05	12 months

(1) Mr A D H Black retired from the Board on 30th April 2009. No compensation for loss of office was made on his retirement.

The service contract of Mr M E Vernon was amended on 4th March 2009. Pursuant to the amendment, the Company agreed to pay on behalf of Mr M E Vernon any UK or US tax liabilities which arise on his earnings under his service contract over and above the amount of UK tax liabilities which would have been payable had Mr M E Vernon only been liable to pay UK tax on such earnings. The Company also agreed to pay the reasonable costs incurred by Mr M E Vernon of obtaining full tax advice in respect of his employment with the Company for the duration of his employment and, save in certain bad leaver circumstances, for a period of two years after termination of employment.

Termination payments reflect the circumstances leading to termination of employment and excessive compensation will not be paid. Professional advice will be obtained by the Committee to ensure legal obligations and good practice are followed.

Executive directors' contracts may be terminated without notice and without payment of compensation on the occurrence of certain events, such as gross misconduct. If, however, the Company were to terminate an executive director's contract without cause and without due notice, it would pay a sum equal to the value of the salary and benefits to be received during the notice period, but taking into account the director's duty to mitigate his loss. Any rights to pensions would be dealt with under the rules of the pension scheme applicable to the director and any rights under the Company's share plans would be dealt with in accordance with the rules of each plan.

The directors' remuneration report

continued

The executive directors' contracts contain no provisions regarding material non-statutory redundancy payments, rights to compensation on change of control of the Company or entitlement to early retirement benefits

The non-executive directors, including the Chairman, Mr W H Whiteley, do not have service contracts. They have appointment letters for three-year periods, and re-appointment is not automatic. No compensation for loss of office is payable to non-executive directors under their appointment letters

	Date of Appointment Letter	Notice Period
W H Whiteley	04 03 09	1 month
G Bullock	05 03 08	1 month
K Rajagopal	21 01 09	1 month
M Townsend ⁽¹⁾	11 04 06	1 month
C G Watson	16 07 09	1 month

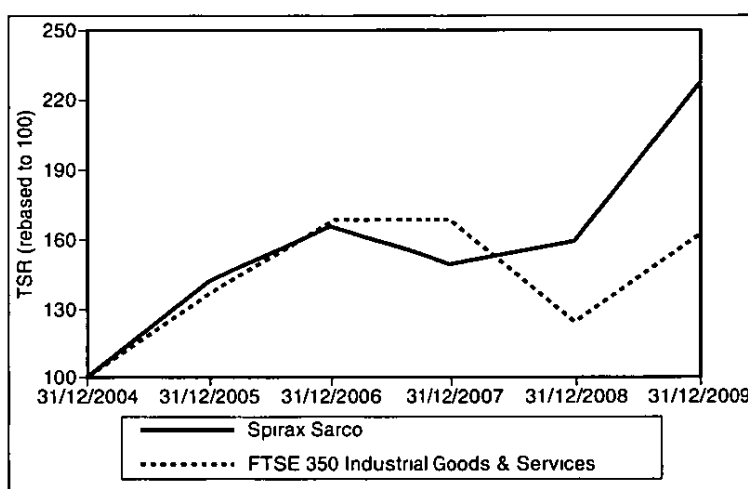
(1) Mr M Townsend retired from the Board on 30th June 2009. No compensation for loss of office was made on his retirement

Policy on senior executive remuneration

The Committee determines the philosophy, principles and policy of remuneration which shall apply to the Group's senior executives. The responsibility for determining the precise package to meet local practice and performance lies with the Chief Executive and the responsible executive director

Total shareholder return

The performance graph illustrated shows the Company's total cumulative shareholder return for the five-year period ended 31st December 2009 compared with the total cumulative shareholder return for the FTSE 350 Industrial Goods and Services super sector. This comparison is selected as being the most appropriate sector for the Company's operations



Information subject to audit

The auditors are required to report on the information contained in the remaining sections of the Report

Directors' emoluments

No directors have waived, or agreed to waive in future, any emoluments

	Basic Salary/ Fees	Benefits ⁽¹⁾	Annual performance related bonus	Total emoluments excluding pension	
	£	£	£	2009 Total	2008 Total
W H Whiteley ⁽²⁾	88,500	-	-	88,500	52,000
M E Vernon	420,000	17,514	155,400	592,914	676,010
A D H Black ⁽⁴⁾	78,333	4,602	28,983	111,918	435,163
N H Daws	229,000	13,066	84,730	326,796	419,277
M E Gibbin ⁽²⁾	126,000	4,641	46,620	177,261	-
D J Meredith	261,000	16,991	96,570	374,561	485,321
A J Scrvin	229,000	12,057	84,730	325,787	414,205
G Bullock ⁽²⁾	44,000	-	-	44,000	36,000
K Rajagopal ^{(2) (3)}	35,169	-	-	35,169	-
M Townsend ^{(2) (4)}	50,000	-	-	50,000	100,000
C G Watson ^{(2) (3)}	22,949	-	-	22,949	-
	1,583,951	68,871	497,033	2,149,855	2,617,976

(1) Benefits arising from employment by the Company relate mainly to the provision of a company car, private health insurance and provision of telecommunications equipment

(2) Non-executive director

(3) Dr K Rajagopal and Mr C G Watson were appointed to the Board on 10th February 2009 and 17th July 2009 respectively and their emoluments in the above table for 2009 were calculated from these dates

Mr M E Gibbin was appointed to the Board on 1st May 2009 and his emoluments in the above table are calculated from this date. Total emoluments for the full year 2009 were £227,650

(4) Mr A D H Black and Mr M Townsend retired from the Board on 30th April 2009 and 30th June 2009 respectively. No compensation for loss of office was made on their retirements

Long term incentives

- (i) Spirax-Sarco Engineering 1992 UK and Global Share Option Schemes
Spirax-Sarco Engineering Approved and Global Share Option Schemes

The interests of directors are set out below

	01.01.09		Exercised in year ⁽²⁾	31.12.09	Exercise price per share ⁽³⁾ pence	Date from which exercisable ⁽⁴⁾	Expiry date ⁽⁴⁾
	⁽¹⁾	No.	No.	No.			
M E Vernon		-	-	-	-	-	-
A D H Black ⁽⁵⁾		-	-	-	-	-	-
N H Daws	A	20,000	-	20,000	541.9	25 03 07	25 03 14
	B	15,000	-	15,000	394.5	14 03 06	14 03 13
		35,000	-	35,000			
M E Gibbin ⁽⁶⁾	B	6,000	-	6,000	959.0	12 03 11	12 03 18
		6,000	-	6,000			
D J Meredith	A	15,000	15,000	0	-	-	-
	A	17,500	-	17,500	436.0	22 03 05	22 03 12
	A	20,000	-	20,000	394.5	14 03 06	14 03 13
	A	20,000	-	20,000	541.9	25 03 07	25 03 14
		72,500	15,000	57,500			
A J Scrvin	B	7,000	-	7,000	394.5	14 03 06	16 06 12
	B	7,000	-	7,000	541.9	25 03 07	16 06 12
		14,000	-	14,000			

- (1) Options shown on line A relate to options granted to members of the Board, whereas options shown on line B relate to options granted to individuals prior to their appointment to the Board

(2)	2009 Options exercised	Option exercise price	Mid market price on the date options exercised	2009 Gain arising on exercise	2008 Gain arising on exercise
	No.	pence	pence	£	£
M E Vernon	-	-	-	-	18,396
A D H Black ⁽⁵⁾	-	-	-	-	-
N H Daws	-	-	-	-	-
M E Gibbin	-	-	-	-	-
D J Meredith	15,000	525.0	1047.0	78,300	-
A J Scrvin	-	-	-	-	-
Aggregate of gains arising on exercise				78,300	18,396

- (3) These are the exercise prices for ordinary shares under option at 31st December 2009. The exercise prices for all options shown are lower than the mid-market price of the Company's ordinary shares on 31st December 2009.

- (4) These are the ranges of dates between which options may be exercised.

- (5) Mr A D H Black retired from the Board on 30th April 2009.

- (6) Mr M E Gibbin was appointed to the Board on 1st May 2009.

No options were granted to directors during the year and no options held by directors lapsed during the year.

The mid-market price of the ordinary shares on 31st December 2009 was 1240p. During the period from 1st January 2009 to 31st December 2009 the ordinary mid-market share price ranged between 758p and 1309p.

The performance conditions are described on page 40.

Some amendments were made to the rules of the schemes during the financial year as part of a general review and update of the rules (including to take account of legislative changes).

- (ii) Performance share plan

The interests of directors are set out below

	Date of award				Total awards as at 01.01.09	Vested ⁽¹⁾	Expired	Awarded 11.03.09 ⁽²⁾	Total awards as at 31.12.09 (or date of retirement if earlier ⁽³⁾)
	24.03.06 ⁽¹⁾	26.03.07 ⁽²⁾	10.09.07 ⁽³⁾	12.03.08 ⁽⁴⁾					
M E Vernon	12,567	11,288	17,538	36,757	78,150	12,567	0	41,176	106,759
A D H Black ⁽⁵⁾	12,500	12,416	0	23,461	48,377	12,500	0	0	35,877
N H Daws	11,375	11,887	0	22,627	45,889	11,375	0	22,450	56,964
M E Gibbin ⁽⁷⁾	0	0	0	0	0	0	0	16,482	16,482
D J Meredith	14,000	13,887	0	26,068	53,955	14,000	0	25,588	65,543
A J Scrvin	10,250	10,886	0	22,627	43,763	10,250	0	22,450	55,963

The directors' remuneration report

continued

- (1) The mid-market price of the shares on 24th March 2006 was 972 5p. 100% of the award has vested as the performance conditions applicable to that award were met, namely that the TSR performance of the Company during the period 1st January 2006 to 31st December 2008 placed the Company within the upper quartile of the TSR performance of the companies in the FT250 All-Share Industrial Engineering Index over the performance period. The award vested on 4th March 2009 and the mid-market price of the shares on that date was 808 0p.
- (2) The mid-market price of the shares on 26th March 2007 was 1020 0p. The period over which performance conditions are measured is 1st January 2007 to 31st December 2009.
- (3) The mid-market price of the shares on 10th September 2007 was 1013 0p. The period over which performance conditions are measured is 1st January 2007 to 31st December 2009.
- (4) The mid-market price of the shares on 12th March 2008 was 994 5p. The period over which performance conditions are measured is 1st January 2008 to 31st December 2010.
- (5) The mid-market price on 10th March 2009 was 765 0p. This was applied in determining the number of shares subject to the award granted on 11th March 2009. The mid-market price of the shares on that date was 758 0p. The period over which performance conditions are measured is 1st January 2009 to 31st December 2011.
- (6) Mr A D H Black retired from the Board on 30th April 2009. 100% of the awards made on 26th March 2007 and 12th March 2008 have vested as the performance conditions applicable at that date were met. The 2007 award was reduced by applying a factor of 28/36 due to the shortened performance period of 28 months from 1st January 2007 to 30th April 2009. The 2008 award was reduced by applying a factor of 16/36 due to the shortened performance period of 16 months from 1st January 2008 to 30th April 2009. The awards vested on 8th May 2009 and the mid-market price of the shares on that date was 862 0p. Mr A D H Black requested that the awards be satisfied in shares. Mr A D H Black sold sufficient shares to cover the basic rate tax and National Insurance liability and retained the remaining shares as follows:

	Date of award 26.03.07	Date of award 12.03.08	Shares vested	Shares sold
	12,416	23,461	20,084	6,563

- (7) Mr M E Gibbin was appointed to the Board on 1st May 2009.

The performance conditions are described on page 40.

(iii) Spirax-Sarco Engineering plc employee share ownership plan (the plan)

The Company operates the plan in which all the executive directors, with the exception of Mr M E Vernon, are eligible to participate on the same basis as all other eligible UK employees. For the plan period the individual director's contributions are limited to a maximum of £1,500 per annum under HMRC rules. The trustee of the plan provides a matching share for each share purchased under the plan on behalf of the director which is the same basis as for other participating employees. Dividends paid on the partnership and matching shares, up to a maximum of £1,500 per tax year, are reinvested and held by the trustee as dividend shares. Matching shares and dividend shares may generally only be released three years after they were purchased by the trustee.

	Interest at 01.01.09 (or date of appointment if later ⁽¹⁾)	Partnership shares purchased ⁽²⁾	Matching shares awarded ⁽²⁾	Dividend shares awarded ⁽³⁾	Interest at 31.12.09 (or date of retirement if earlier ⁽⁴⁾)	Period of qualifying conditions ⁽⁵⁾
A D H Black ⁽⁴⁾	4,253	0	0	0	4,253	3 years
N H Daws	4,365	165	165	165	4,860	3 years
M E Gibbin ⁽¹⁾	0	165	165	3	333	3 years
D J Meredith	4,365	165	165	165	4,860	3 years
A J Scrvin	1,621	165	165	64	2,015	3 years

- (1) Mr M E Gibbin was appointed to the Board on 1st May 2009.
- (2) Partnership shares were purchased, at a price of 908 8p, and matching shares were awarded on 8th October 2009. The mid-market price of the shares on that date was 1118 0p.
- (3) 289 dividend shares were awarded on 18th May 2009, on which date the mid-market price of the shares was 833 5p, and 108 dividend shares were awarded on 6th November 2009, on which date the mid-market price of the shares was 1114 0p.
- (4) Mr A D H Black retired from the Board on 30th April 2009. The mid-market price of the shares on that date was 858 5p.
- (5) Partnership shares are not subject to qualifying conditions. In accordance with the rules of the plan matching shares and dividend shares were released to Mr A D H Black following his retirement. No other matching shares or dividend shares were released from the plan or forfeited during the year.

Directors' pensions

The UK executive directors, other than Mr M E Vernon and Mr M E Gibbin, are members of UK defined benefit pension arrangements. Mr M E Vernon is a member of a defined benefit scheme provided by Spirax Sarco Inc. Mr M E Gibbin is a member of the UK defined contributions pension scheme. The following information is consistent with the presentation used last year and sets out the disclosures under the Stock Exchange Listing Rules and the Companies Act 2006.

	Age attained at 31.12.09	Accrued pension at 31.12.08 £pa	Accrued pension at 31.12.09 £pa	Change in accrued pension during the year £pa	Change in accrued pension during the year ⁽¹⁾ £pa	Transfer value of change in accrued pension ⁽¹⁾ £	Transfer value of accrued pension at 31.12.08 £	Transfer value of accrued pension at 31.12.09 £	Change in total transfer value £
A D H Black ⁽²⁾⁽³⁾	52	80,388	83,434	3,046	1,120	28,664	926,000	1,364,000	438,000
N H Daws	47	94,248	104,118	9,870	7,612	96,004	883,000	1,263,000	380,000
D J Meredith	50	101,372	110,600	9,228	6,799	95,643	1,095,000	1,515,000	420,000
A J Scrvin	62	144,667	152,667	8,000	4,534	89,769	2,287,000	2,730,000	443,000

- (1) Net of deferred revaluation at a rate of 2.4% per annum
(2) Benefits shown net of pensions sharing order, currently worth £28,897 per annum
(3) Mr A D H Black retired on 30th April 2009 and is now receiving pension payments

The following is additional information relating to UK executive directors' pensions

(i) Dependant's pension

On the death of a director in service, a spouse's pension equal to one-half of the director's pension based on pensionable service to the date of death is payable. On the death of a director after payment of the pension commences, a spouse's pension of one-half of the director's pension entitlement at the date of death, ignoring commutation and any early retirement actuarial reduction, is payable, in addition directors' pensions are guaranteed to be paid for five years from retirement

(ii) Early retirement rights

After leaving the service of the Company, a director has the right to draw his accrued pension at any time after his 60th birthday with no reduction, with the exception of Mr A J Scrvin

(iii) Pension increases

Pensions are subject to annual increases in line with the annual rise in the retail prices index subject to a maximum of 5% per annum. The Trustees and the Company have the discretion to apply a greater increase

(iv) Other discretionary benefits

There are no discretionary practices which are taken into account in calculating transfer values on leaving service

Mr M E Vernon's defined benefit pension arrangements are as follows

	Age attained at 31.12.09	Accrued pension at 31.12.08 £pa	Accrued pension at 31.12.09 £pa	Change in accrued pension during the year £pa	Change in accrued pension during the year ⁽¹⁾ £pa	Transfer value of change in accrued pension ⁽¹⁾ £	Transfer value of accrued pension at 31.12.08 £	Transfer value of accrued pension at 31.12.09 £	Change in total transfer value £
M E Vernon	56	11,049	12,078	1,029	1,171	9,260	82,388	95,509	13,121

- (1) Net of inflation at a rate of -1.3% per annum

The following is additional information relating to Mr M E Vernon's pension

(i) Dependant's pension

On the death of Mr M E Vernon in service, a spouse's pension equal to one-half of his pension based on pensionable service to the date of death is payable. After payment of the pension commences the accrued pension shown has no attaching spouse's pension. However at retirement Mr M E Vernon has the option to reduce his own pension to provide for a spouse's pension after death

(ii) Early retirement rights

After leaving the service of the Company, Mr M E Vernon has the right to draw his accrued pension at any time after his 65th birthday with no reduction

Mr M E Vernon has the right to commence his pension upon retirement (for which he now meets the age and service requirements), with the pension being reduced. The annual reductions for early retirement are 3% for each year from age 65 to age 60 and 5% for each year from age 60 to earliest retirement age

(iii) Pension increases

The pension has no guaranteed increases. Spirax Sarco Inc has the discretion to provide increases

(iv) Other discretionary benefits

Additionally, Mr M E Vernon benefited from contributions made into a UK defined contributions pension scheme. The total contributions made by the Group were £96,833

The following is additional information relating to Mr M E Gibbin's pension

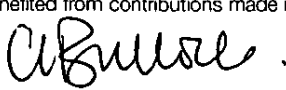
(i) Dependant's pension

On the death of Mr M E Gibbin in service, the total plan value of his UK defined contributions pension scheme will become payable

(ii) Other discretionary benefits

Mr M E Gibbin benefited from contributions made into a UK defined contributions pension scheme. The total contributions made by the Group were £21,008

Signed by


G. Bullock Chairman of Remuneration Committee
on behalf of the Board

Statement of directors' responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRS as adopted by the EU
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website www.SpiraxSarcoEngineering.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge

- (1) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- (2) the Business Review and Financial Review, which are incorporated into the Directors' Report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board

D.J. Meredith
Finance Director
4th March 2010



Report of the independent auditor

To the members of Spirax-Sarco Engineering plc

We have audited the financial statements of Spirax-Sarco Engineering plc for the year ended 31 December 2009 set out on pages 48 to 81. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at <http://www.frc.org.uk/apb/scope/UKP>.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- information given in the Corporate Governance Statement set out on pages 35 to 38 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 34, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 35 to 38 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

John D Cain (Senior Statutory Auditor)
for and on behalf of **KPMG Audit Plc, Statutory Auditor**
Chartered Accountants

London

4th March 2010



Balance sheets

at 31st December 2009

	notes	The Group		Parent Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Assets					
Non-current assets					
Property, plant and equipment	12	135,383	122,897	-	-
Goodwill	13	38,150	29,908	-	-
Other intangible assets	13	35,233	22,921	-	-
Prepayments		1,124	900	-	-
Loans to subsidiaries	14	-	-	31,368	27,674
Investment in subsidiaries	15	-	-	46,567	47,846
Investment in associates	16	9,794	9,396	220	220
Deferred tax	17	38,181	33,180	450	156
		257,865	219,202	78,605	75,896
Current assets					
Inventories	18	86,479	102,382	-	-
Trade receivables		118,835	124,595	-	-
Due from subsidiaries		-	-	61,963	45,816
Other current assets	19	11,592	12,874	50	97
Taxation recoverable		1,896	1,118	823	-
Cash and cash equivalents	29	62,194	54,140	12,740	7,984
		280,996	295,109	75,576	53,897
Total assets		538,861	514,311	154,181	129,793
Equity and liabilities					
Current liabilities					
Trade and other payables	20	79,335	81,010	1,287	1,992
Bank overdrafts	29	559	2,045	-	-
Short term borrowing	29	9,284	9,008	-	-
Current portion of long term borrowings	29	63	176	-	-
Current tax payable	21	8,138	11,932	-	615
		97,379	104,171	1,287	2,607
Net current assets		183,617	190,938	74,289	51,290
Non-current liabilities					
Long term borrowings	29	44,255	25,521	-	-
Deferred tax	17	14,659	13,714	-	-
Post-retirement benefits	28	73,763	73,717	11,207	11,266
Provisions	23	1,441	1,182	-	-
Due to subsidiaries		-	-	941	941
		134,118	114,134	12,148	12,207
Total liabilities		231,497	218,305	13,435	14,814
Net assets	2	307,364	296,006	140,746	114,979
Equity					
Share capital	24	19,310	19,307	19,310	19,307
Share premium account		47,601	47,559	47,601	47,559
Other reserves		43,327	56,802	4,879	4,206
Retained earnings		196,481	171,645	68,956	43,907
Equity attributable to equity holders of the parent		306,719	295,313	140,746	114,979
Minority interest		645	693	-	-
Total equity		307,364	296,006	140,746	114,979
Total equity and liabilities		538,861	514,311	154,181	129,793

These accounts were approved by the Board of Directors on 4th March 2010 and signed on its behalf by

Directors

M E Vernon

D J Meredith



Group income statement

for the year ended 31st December 2009

		Before		Total	Before		Total
	notes	Adjustment	Adjustment*	2009	Adjustment	Adjustment*	2008
		2009	2009	2009	2008	2008	2008
		£000	£000	£000	£000	£000	£000
Revenue	2	518,705	-	518,705	502,316	-	502,316
Operating costs	3	(428,767)	(13,416)	(442,183)	(416,647)	(4,641)	(421,288)
Operating profit	2	89,938	(13,416)	76,522	85,669	(4,641)	81,028
Financial expenses		(16,072)	-	(16,072)	(14,805)	-	(14,805)
Financial income		13,558	-	13,558	16,541	-	16,541
	5	(2,514)	-	(2,514)	1,736	-	1,736
Share of profit of associates		2,772	(365)	2,407	2,741	(343)	2,398
Profit before taxation	6	90,196	(13,781)	76,415	90,146	(4,984)	85,162
Taxation	8	(27,472)	4,148	(23,324)	(26,257)	883	(25,374)
Profit for the period		62,724	(9,633)	53,091	63,889	(4,101)	59,788
Attributable to							
Equity holders of the parent		62,596	(9,633)	52,963	63,648	(4,101)	59,547
Minority interest		128	-	128	241	-	241
Profit for the period		62,724	(9,633)	53,091	63,889	(4,101)	59,788
Earnings per share	10						
Basic earnings per share				69.6p			78.0p
Diluted earnings per share				69.3p			77.7p
Dividends	11						
Dividends per share				36.1p			33.3p
Dividends paid during the year (per share)				33.8p			31.6p

* Adjustments in 2009 relate to exceptional headcount reduction costs and amortisation of acquisition-related intangibles (see note 2) In 2008 adjustments include amortisation of acquisition-related intangibles and impairment of goodwill and intangible assets (see note 2) Earnings per share before these adjustments are shown in note 10

All amounts relate to continuing operations

The notes on pages 53 to 81 form an integral part of the accounts

Group statement of comprehensive income

for the year ended 31st December 2009

	The Group	
	2009 £000	2008 £000
Profit for the period	53,091	59,788
Actuarial loss on post-retirement benefits	(7,800)	(50,088)
Deferred tax on actuarial loss on post-retirement benefits	2,106	17,708
Foreign exchange translation differences	(14,051)	51,521
Gain/(loss) on cash flow hedges	576	(438)
Total comprehensive income for the period	33,922	78,491
Attributable to		
Equity holders of the parent	33,794	78,250
Minority interest	128	241
Total comprehensive income for the period	33,922	78,491

Statements of changes in equity

for the year ended 31st December 2009

Group

	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1st January 2009	19,307	47,559	55,371	(401)	1,832	171,645	295,313
Total comprehensive income for the period	-	-	(14,051)	576	-	47,269	33,794
Dividends paid	-	-	-	-	-	(25,733)	(25,733)
Equity settled share plans net of tax	-	-	-	-	-	1,379	1,379
Issue of share capital	3	42	-	-	-	-	45
Treasury shares reissued	-	-	-	-	-	3,711	3,711
Loss on the reissue of treasury shares	-	-	-	-	-	(1,790)	(1,790)
Equity attributable to equity holders of the parent	19,310	47,601	41,320	175	1,832	196,481	306,719

for the year ended 31st December 2008

Group

	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1st January 2008	19,299	47,267	3,850	37	1,832	169,866	242,151
Total comprehensive income for the period	-	-	51,521	(438)	-	27,167	78,250
Dividends paid	-	-	-	-	-	(24,159)	(24,159)
Equity settled share plans net of tax	-	-	-	-	-	1,645	1,645
Issue of share capital	8	292	-	-	-	-	300
Treasury shares purchased	-	-	-	-	-	(6,762)	(6,762)
Treasury shares reissued	-	-	-	-	-	7,679	7,679
Loss on the reissue of treasury shares	-	-	-	-	-	(3,791)	(3,791)
Equity attributable to equity holders of the parent	19,307	47,559	55,371	(401)	1,832	171,645	295,313

Statements of changes in equity

continued

for the year ended 31st December 2009

Parent company

	Share capital	Share premium account	Share based payments	Capital redemption reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1st January 2009	19,307	47,559	2,374	1,832	43,907	114,979
Total comprehensive income for the period	-	-	-	-	48,492	48,492
Dividends paid	-	-	-	-	(25,733)	(25,733)
Equity settled share plans net of tax	-	-	-	-	369	369
Issue of new share capital	3	42	-	-	-	45
Treasury shares reissued	-	-	-	-	3,711	3,711
Loss on the reissue of treasury shares	-	-	-	-	(1,790)	(1,790)
Investment in subsidiaries in relation to share options granted	-	-	673	-	-	673
Balance at 31st December 2009	19,310	47,601	3,047	1,832	68,956	140,746

for the year ended 31st December 2008

Parent company

	Share capital	Share premium account	Share based payments	Capital redemption reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1st January 2008	19,299	47,267	1,583	1,832	22,058	92,039
Total comprehensive income for the period	-	-	-	-	48,882	48,882
Dividends paid	-	-	-	-	(24,159)	(24,159)
Issue of new share capital	8	292	-	-	-	300
Treasury shares purchased	-	-	-	-	(6,762)	(6,762)
Treasury shares reissued	-	-	-	-	7,679	7,679
Loss on the reissue of treasury shares	-	-	-	-	(3,791)	(3,791)
Investment in subsidiaries in relation to share options granted	-	-	791	-	-	791
Balance at 31st December 2008	19,307	47,559	2,374	1,832	43,907	114,979

Cash flow statements

for the year ended 31st December 2009

	notes	The Group		Parent Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Cash flows from operating activities					
Profit before taxation		76,415	85,162	47,359	61,235
Depreciation and amortisation		18,550	19,859	-	-
Dividends received		-	-	(50,343)	(63,239)
Share of profit of associates		(2,407)	(2,398)	-	-
Equity settled share plans		1,929	1,519	513	624
Net finance expense		2,514	(1,736)	(341)	(1,424)
Exchange adjustments		-	-	(594)	(79)
Operating cash flow before changes in working capital and provisions		97,001	102,406	(3,406)	(2,883)
Change in trade and other receivables		(74)	(4,029)	46	95
Change in amounts due from subsidiaries		-	-	(19,453)	(36,795)
Change in inventories		11,057	(12,143)	-	-
Change in provisions and post-retirement benefits		(7,072)	(3,236)	(1,840)	(789)
Change in trade and other payables		2,008	4,819	338	491
Cash generated from operations		102,920	87,817	(24,315)	(39,881)
Interest paid		(1,366)	(1,480)	(22)	(45)
Income taxes paid		(29,877)	(22,087)	-	99
Net cash from operating activities		71,677	64,250	(24,337)	(39,827)
Cash flows from investing activities					
Purchase of property, plant and equipment		(33,397)	(22,881)	-	-
Proceeds from sale of property, plant and equipment		1,898	879	-	-
Purchase of software and other intangibles		(1,056)	(2,999)	-	-
Development expenditure capitalised		(2,099)	(1,542)	-	-
Acquisition of businesses		(27,192)	(13,939)	1,952	-
Interest received		630	1,291	565	850
Dividends received		1,498	1,063	50,343	63,239
Net cash used in investing activities		(59,718)	(38,128)	52,860	64,089
Cash flows from financing activities					
Proceeds from issue of share capital		45	62	45	62
Proceeds from reissue of treasury shares		1,921	3,888	1,921	3,888
Treasury shares purchased		-	(6,762)	-	(6,762)
Proceeds from borrowings	29	20,614	9,396	-	-
Payment of finance lease liabilities	29	(67)	(66)	-	-
Dividends paid (including minorities)		(25,763)	(24,252)	(25,733)	(24,159)
Net cash used in financing activities		(3,250)	(17,734)	(23,767)	(26,971)
Net increase in cash and cash equivalents	29	8,709	8,388	4,756	(2,709)
Cash and cash equivalents at beginning of period		52,095	37,857	7,984	10,693
Exchange movement		831	5,850	-	-
Cash and cash equivalents at end of period	29	61,635	52,095	12,740	7,984
Borrowings and finance leases		(53,602)	(34,705)	-	-
Net cash	29	8,033	17,390	12,740	7,984

Notes to the accounts

1 ACCOUNTING POLICIES

Basis of preparation

The parent company and consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that have been adopted by the European Union (EU)

The preparation of accounts in conformity with IFRS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The most significant effect on the financial statements from accounting policies requiring judgement are in the areas of research and development, and revenue.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas where estimates have been used and assumptions applied are in provisions, impairment testing of goodwill and in assessing the defined benefit pension scheme liabilities.

The Group has considerable financial resources together with a diverse range of products and customers across wide geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Further information on the Group's business activities, performance and position, together with the financial position of the Group, its capital structure and cash flow are included in the Business Review and Finance Review on pages 10 to 21. In addition, note 32 to the financial statements discloses details of the Group's financial risk management and credit facilities.

Amendments to IAS 1, Presentation of financial statements and IFRS 8, Operating segments were adopted in the period. IAS 1 has resulted in format changes to the primary statements and IFRS 8 has resulted in a change in segmental analysis, which is further described in note 2.

The following adopted IFRS were available for early application but have not been applied by the Group in these accounts:

- Amendment to IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements
The revised standards introduce changes to acquisition accounting, notably in respect of treatment of acquisition costs, step and partial acquisitions, minority interests and contingent consideration.

The consolidated accounts are presented in pounds sterling, which is the Company's functional currency, rounded to the nearest thousand.

Basis of accounting

(i) Subsidiaries

The Group accounts include the results of the Company and all its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The accounts of subsidiaries are included in the consolidated accounts from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The accounts include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the accounts. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity.

(iv) Company

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement.

Notes to the accounts continued

1 ACCOUNTING POLICIES (continued)

Foreign currency

(i) On consolidation

The assets and liabilities of foreign operations are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average rates of exchange ruling during the year.

Exchange differences arising from the translation of the net investment in foreign operations are taken to a separate translation reserve within equity. They are recycled and recognised in the income statement upon disposal of the operation. In respect of all foreign operations, any differences that have arisen before 1st January 2004, the date of transition to IFRS, are not presented as a separate component of equity.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective currencies of the Group entities at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities at the balance sheet date denominated in a currency other than the functional currency of the entity are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates fair value was determined.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The associated gain or loss is removed from equity and recognised in the income statement in the period in which the transaction to which it relates occurs.

Hedge of net investment in foreign operations

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in a separate translation reserve within equity. The ineffective portion is recognised immediately in the income statement.

Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost, less accumulated depreciation.

Certain items of property, plant and equipment that had been revalued to fair value prior to 1st January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Depreciation is charged to the income statement on a straight-line basis at rates which write down the value of assets to their residual values over their estimated useful lives. Land is not depreciated. The principal rates are as follows:

Freehold buildings	1 - 5%	Office furniture and fittings	10%	Motor vehicles	20%
Plant and machinery	10 - 12.5%	Office equipment	12.5 - 33.3%	Tooling and patterns	10%

The depreciation rates are reassessed annually.

Intangible assets

(i) Goodwill

All business combinations after 1st January 2004 are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of acquisitions prior to 1st January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous UK GAAP.

(ii) Research and development

Expenditure on research and development is charged to the income statement in the period in which it is incurred except that, development expenditure is capitalised where the development costs relate to new or substantially improved products that are subsequently to be released for sale and will generate future economic benefits. The expenditure capitalised includes staff costs and related expenses. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and any impairment losses.

(iii) Other intangible assets

Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation (see below) and any impairment losses.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date they are available for use. Goodwill and intangible assets are tested for impairment annually. The principal amortisation rates are as follows:

Capitalised development costs	20%	Manufacturing designs and	
ERP systems and software	12.5 - 20%	core technology	10%
Customer relationships	20%	Non compete undertaking	50%
Brand names and trademarks	10 - 20%		

Inventories

Inventories are valued at the lower of cost, including overheads where appropriate, and estimated net realisable value. Provision is made for slow-moving and obsolete items based on an assessment of technological and market developments and on an analysis of usage.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statements.

Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The costs of providing pensions under defined benefit schemes are calculated in accordance with the advice of qualified actuaries and spread over the period during which benefit is expected to be derived from the employees' services. The Group's net obligation in respect of defined benefit pensions is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted at rates reflecting the yields on AA credit rated corporate bonds that have maturity dates approximating the terms of the Group's obligations to determine its present value. Pension scheme assets are measured at fair value at the balance sheet date. Actuarial gains and losses, differences between the expected and actual returns, and the effect of changes in actuarial assumptions are recognised in the Statement of Comprehensive Income in the year they arise. Any scheme surplus (to the extent it is considered recoverable) or deficit is recognised in full in the balance sheet.

The cost of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

(iii) Employee share plans

Incentives in the form of shares are provided to employees under share option and share award schemes. The fair value of these options and awards at their date of grant is charged to the income statement over the relevant vesting periods with a corresponding increase in equity. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

(iv) Long term share incentive plans

The fair value of awards is measured at the date of grant and the cost spread over the vesting period. The amount recognised as an expense is not adjusted to reflect market based performance conditions, but is adjusted for non-market based performance conditions.

Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from projects or service contracts is recognised as income in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed depending on the specific circumstances of each case. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs, or there is the possibility of return of the goods. No revenue is recognised if there is significant continuing management involvement with the goods.

As soon as the outcome of a project or service contract can be estimated reliably, revenue and expenses are recognised in the income statement in proportion to the stage of completion of the project or service contract. An expected loss on a project or service contract is recognised immediately in the income statement.

Leases

(i) Operating leases

Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

(ii) Finance leases

Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases as if the asset had been purchased outright. Assets acquired under finance leases are recognised as assets of the Group and the capital elements of the leasing commitments are shown as obligations to creditors. Depreciation is charged on a consistent basis with similar owned assets or over the lease term if shorter. The interest element of the lease payment is charged to the income statement on a basis which produces a consistent rate of charge over the period of the liability.

Notes to the accounts continued

1 ACCOUNTING POLICIES (continued)

Taxation

The tax charge comprises current and deferred tax. Income tax expense is recognised in the Income Statement unless it relates to items recognised directly in equity, when it is also recognised in equity. Current tax is the expected tax payable on the profit for the year and any adjustments in respect of previous years using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised using the balance sheet liability method, providing for temporary differences arising between the tax base of assets and liabilities, and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted at the balance sheet date or the date that the temporary differences are expected to reverse. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Share options granted to subsidiary employees

The Parent company grants share options over its own ordinary shares directly to employees of subsidiary companies. These employees provide services to the subsidiary companies. The cost of these shares is not recharged and therefore the fair value of the share options granted is recognised as a capital contribution to the subsidiary companies. This is accounted for as an increase in investments with a corresponding increase in a non-distributable component of equity.

2 SEGMENTAL REPORTING

As a result of the introduction of IFRS 8, Operating Segments, which introduced a management approach to segment reporting, the Group's segments have been changed to disclose information that is more consistent with management reporting. All 2008 figures previously presented in old segmental format have been restated to reflect the new presentation.

Analysis by location of operation 2009

	Gross Revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Before adjustment operating profit £000	Before adjustment operating margin %
Europe, Middle East & Africa	257,736	32,232	225,504	25,848	35,623	15.8%
Americas	109,911	5,301	104,610	11,974	13,854	13.2%
Asia Pacific	107,475	2,733	104,742	22,691	23,099	22.1%
Steam Specialties business	475,122	40,266	434,856	60,513	72,576	16.7%
Watson-Marlow Pumps business	84,008	159	83,849	20,964	22,317	26.6%
Corporate Expenses				(4,955)	(4,955)	
	559,130	40,425	518,705	76,522	89,938	17.3%
Intra Group	(40,425)	(40,425)				
Net Revenue	518,705	-	518,705	76,522	89,938	17.3%

2008

	Gross Revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Before adjustment operating profit £000	Before adjustment operating margin %
Europe, Middle East & Africa	260,638	34,547	226,091	38,880	39,180	17.3%
Americas	108,015	6,102	101,913	8,840	12,119	11.9%
Asia Pacific	102,829	3,898	98,931	21,136	21,136	21.4%
Steam Specialties business	471,482	44,547	426,935	68,856	72,435	17.0%
Watson-Marlow Pumps business	75,448	67	75,381	17,347	18,409	24.4%
Corporate Expenses				(5,175)	(5,175)	
	546,930	44,614	502,316	81,028	85,669	17.1%
Intra Group	(44,614)	(44,614)				
Net Revenue	502,316	-	502,316	81,028	85,669	17.1%

Net revenue split between the UK and rest of the world is, UK £59,755,000 (2008 £62,768,000), rest of the world £458,950,000 (2008 £439,548,000)

The total operating profit for each period is after charging the expenses analysed below

2009

	Exceptional Headcount reduction costs £000	Amortisation of acquisition-related intangible assets £000	Total £000
Europe, Middle East & Africa	9,142	633	9,775
Americas	1,741	138	1,879
Asia Pacific	409	-	409
Steam Specialties business	11,292	771	12,063
Watson-Marlow Pumps business	102	1,251	1,353
	11,394	2,022	13,416

2008

	Impairment of goodwill & intangible assets £000	Amortisation of acquisition related intangible assets £000	Total £000
Europe, Middle East & Africa	-	300	300
Americas	3,100	179	3,279
Asia Pacific	-	-	-
Steam Specialties business	3,100	479	3,579
Watson-Marlow Pumps business	-	1,062	1,062
	3,100	1,541	4,641

Share of profit of associates

	2009 Before adjustment £000	2009 Total £000	2008 Before adjustment £000	2008 Total £000
Europe, Middle East & Africa	-	-	-	-
Americas	763	763	851	851
Asia Pacific	2,009	1,644	1,890	1,547
Steam Specialties business	2,772	2,407	2,741	2,398
Watson-Marlow Pumps business	-	-	-	-
	2,772	2,407	2,741	2,398

Net financing income and expense

	2009 £000	2008 £000
Europe, Middle East & Africa	(1,452)	525
Americas	(192)	679
Asia Pacific	(475)	(180)
Steam Specialties business	(2,119)	1,024
Watson-Marlow Pumps business	(94)	306
Corporate	(301)	406
	(2,514)	1,736

Net assets

	2009 Assets £000	2009 Liabilities £000	2008 Assets £000	2008 Liabilities £000
Europe, Middle East & Africa	194,394	(105,487)	202,333	(107,634)
Americas	65,703	(21,400)	72,558	(25,600)
Asia Pacific	86,724	(14,373)	81,437	(11,694)
Watson-Marlow Pumps business	89,769	(13,279)	69,545	(10,981)
	436,590	(154,539)	425,873	(155,909)
Liabilities	(154,539)		(155,909)	
Deferred Tax	23,522		19,466	
Current Tax payable	(6,242)		(10,814)	
Net Cash	8,033		17,390	
Net assets	307,364		296,006	

Notes to the accounts continued

2 SEGMENTAL REPORTING (continued)

Capital additions and depreciation and amortisation

	2009 Capital Additions £000	Depreciation and amortisation £000	2008 Capital Additions £000	Depreciation and amortisation £000
Europe, Middle East & Africa	17,597	9,652	15,283	10,920
Americas	2,879	2,839	4,218	5,594
Asia Pacific	11,595	2,261	8,928	1,960
Watson-Marlow Pumps business	20,045	3,798	15,540	1,385
	52,116	18,550	43,969	19,859

Capital additions include property, plant and equipment of £33,824,000 (2008 £27,296,000) and other intangible assets of £18,292,000 (2008 £16,673,000) of which £15,143,000 (2008 £11,853,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are, UK £13,490,000 (2008 £11,559,000), rest of the world £38,626,000 (2008 £32,410,000)

3 OPERATING COSTS

	2009 £000	2008 £000
Change in stocks of finished goods and work in progress	5,491	(6,341)
Raw materials and consumables	144,801	153,939
Staff costs (note 4)	191,393	173,792
Depreciation and amortisation	18,550	19,859
Other operating charges	81,948	80,039
	442,183	421,288

Staff costs include exceptional headcount reduction costs of £11,394,000 (2008 £nil)

Depreciation and amortisation includes amortisation of acquisition-related intangible assets of £2,022,000 (2008 £1,541,000), goodwill and intangible asset impairment of £Nil (2008 £3,100,000) and amortisation of capitalised development costs of £1,274,000 (2008 £1,104,000)

4 STAFF COSTS AND NUMBERS

The aggregate payroll costs of persons employed by the Group were as follows

	2009 £000	2008 £000
Wages and salaries	152,092	138,094
Social security costs	26,058	23,495
Other pension costs	13,243	12,203
	191,393	173,792

The average number of persons employed by the Group (including directors) during the year was as follows

	2009 Number	2008 Number
United Kingdom	1,168	1,205
Overseas	3,209	3,213
	4,377	4,418

5 NET FINANCING INCOME AND EXPENSE

	2009 £000	2008 £000
Financial expenses		
Bank and other borrowing interest payable	(1,369)	(1,480)
Interest on pension scheme liabilities	(14,703)	(13,325)
	(16,072)	(14,805)

Financial income		
Bank interest receivable	631	1,291
Expected return on pension scheme assets	12,927	15,250
	13,558	16,541
Net financing income/(expense)	(2,514)	1,736

Net pension scheme financial income	(1,776)	1,925
Net bank interest	(738)	(189)
Net financing income/(expense)	(2,514)	1,736

6 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging

	2009 £000	2008 £000
Depreciation of tangible fixed assets held under finance leases	71	175
Hire of plant and machinery	553	598
Other operating leases	4,472	3,762
Research and development	5,936	4,889
Auditor's remuneration	£000	£000
Fees payable to the company's auditor for the audit of the company's annual accounts	148	144
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	1,040	903
Tax services	402	363
Other services	173	97
	1,763	1,507

7 DIRECTORS' EMOLUMENTS

Details of directors' emoluments, share plans and long term share incentive plan, and pension benefits are shown in the Directors' Remuneration Report on pages 39 to 45. Directors represent the key management personnel of the Group under the terms of IAS 24 Related Party Disclosures.

8 TAXATION

	2009 £000	2008 £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	18,932	20,350
Adjustments in respect of prior periods	(102)	(434)
	18,830	19,916
Double taxation relief	(18,593)	(16,493)
	237	3,423
Foreign tax		
Current tax on income for the period	25,796	20,730
Adjustments in respect of prior periods	(7)	-
	25,789	20,730
Total current tax charge	26,026	24,153
Deferred tax - UK	111	(536)
Deferred tax - Foreign	(2,813)	1,757
Tax on profit on ordinary activities	23,324	25,374

Reconciliation of effective tax rate

	2009 £000	2008 £000
Profit before tax	76,415	85,162
Tax using the UK corporation tax rate of 28% (2008: 28.5%)	21,396	24,271
Effect of higher/(lower) overseas tax rates	1,451	(184)
Associated companies	(674)	(683)
Non-deductible expenditure	1,248	918
Overprovided in prior years	(109)	(1,151)
Other reconciling items	12	2,203
Total tax in income statement	23,324	25,374

Notes to the accounts continued

8 TAXATION (continued)

Factors that may affect the future tax charges

The Group's tax charge in future years is likely to be affected by the proportion of profits arising and the effective tax rates in the various territories in which the Group operates. No UK tax (after double tax relief for underlying tax) is expected to be payable on the future remittance of the retained earnings of overseas subsidiaries.

Taxation recognised directly in equity

	2009 £000	2008 £000
Relating to		
Equity settled transactions	(550)	(460)
On actuarial gains and losses	2,106	17,708
	1,556	17,248

9 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £48,586,000 (2008 £61,464,296). Included in this amount are dividends from subsidiary undertakings of £49,500,000 (2008 £62,900,000).

10 EARNINGS PER SHARE

	2009 £000	2008 £000
Profit attributable to equity holders of the parent	52,963	59,547
Weighted average shares in issue	76,132,486	76,359,740
Dilution	242,642	303,354
Diluted weighted average shares in issue	76,375,128	76,663,094
Basic earnings per share	69.6p	78.0p
Diluted earnings per share	69.3p	77.7p
Adjusted profit attributable to equity holders of the parent	62,596	63,648
Basic adjusted earnings per share	82.2p	83.4p

The dilution is in respect of unexercised share options and the performance share plan.

11 DIVIDENDS

	2009 £000	2008 £000
Amounts paid in the year		
Final dividend for the year ended 31st December 2008 of 23.3p (2007 21.6p) per share	17,720	16,485
Interim dividend for the year ended 31st December 2009 of 10.5p (2008 10.0p) per share	8,013	7,674
	25,733	24,159
Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2009 of 10.5p (2008 10.0p) per share	8,013	7,674
Proposed final dividend for the year ended 31st December 2009 of 25.6p (2008 23.3p) per share	19,556	17,994
	27,569	25,668

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these accounts.

12 PROPERTY, PLANT AND EQUIPMENT

	THE GROUP				
	Land and buildings			Fixtures, fittings, tools and equipment £000	Total £000
	Freehold £000	Leasehold £000	Plant and machinery £000		
Cost or deemed cost					
At 1st January 2008	60,567	1,166	102,844	48,666	213,243
Exchange adjustments	11,303	507	15,271	7,013	34,094
	71,870	1,673	118,115	55,679	247,337
Additions	6,916	3,739	12,388	4,253	27,296
Disposals	(46)	(37)	(4,260)	(4,720)	(9,063)
At 31st December 2008	78,740	5,375	126,243	55,212	265,570
Depreciation					
At 1st January 2008	11,833	247	68,344	38,886	119,310
Exchange adjustments	2,597	83	8,709	5,451	16,840
	14,430	330	77,053	44,337	136,150
Charged in year	1,385	64	9,506	3,850	14,805
Disposals	(46)	(25)	(3,549)	(4,662)	(8,282)
At 31st December 2008	15,769	369	83,010	43,525	142,673
Net book value					
At 31st December 2008	62,971	5,006	43,233	11,687	122,897
Cost or deemed cost					
At 1st January 2009	78,740	5,375	126,243	55,212	265,570
Exchange adjustments	(2,997)	(567)	(5,365)	(2,564)	(11,493)
	75,743	4,808	120,878	52,648	254,077
Additions	11,362	8,692	8,632	5,138	33,824
Disposals	(1,052)	(9)	(4,338)	(3,610)	(9,009)
At 31st December 2009	86,053	13,491	125,172	54,176	278,892
Depreciation					
At 1st January 2009	15,769	369	83,010	43,525	142,673
Exchange adjustments	(569)	(22)	(3,203)	(2,084)	(5,878)
	15,200	347	79,807	41,441	136,795
Charged in year	1,349	80	9,102	3,328	13,859
Disposals	(54)	(3)	(3,624)	(3,464)	(7,145)
At 31st December 2009	16,495	424	85,285	41,305	143,509
Net book value					
At 31st December 2009	69,558	13,067	39,887	12,871	135,383

Included in the above are finance leases with a net book value of £465,542 (2008 £590,542)

Included in additions are £703,000 (2008 £274,000) of assets acquired on purchase of businesses

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	THE GROUP				
	Acquired intangibles £000	Development £000	Software and other intangibles £000	Total intangibles £000	Goodwill £000
	Cost or valuation				
At 1st January 2008	2,935	7,440	15,710	26,085	18,697
Exchange adjustments	774	695	2,464	3,933	4,862
	3,709	8,135	18,174	30,018	23,559
Additions	11,853	1,640	3,180	16,673	10,002
Disposals/Impairment	-	-	(44)	(44)	(3,653)
At 31st December 2008	15,562	9,775	21,310	46,647	29,908
Amortisation					
At 1st January 2008	903	4,209	11,310	16,422	-
Exchange adjustments	210	311	1,887	2,408	-
	1,113	4,520	13,197	18,830	-
Charged in year	1,889	1,166	1,884	4,939	-
Disposals	-	-	(43)	(43)	-
At 31st December 2008	3,002	5,686	15,038	23,726	-
Net book value					
At 31st December 2008	12,560	4,089	6,272	22,921	29,908

Notes to the accounts continued

13 GOODWILL AND OTHER INTANGIBLE ASSETS

THE GROUP

	Acquired intangibles £000	Development £000	Software and other intangibles £000	Total intangibles £000	Goodwill £000
Cost or valuation					
At 1st January 2009	15,562	9,775	21,310	46,647	29,908
Exchange adjustments	(838)	(278)	(864)	(1,980)	(1,615)
	14,724	9,497	20,446	44,667	28,293
Additions	15,143	2,082	1,067	18,292	9,857
Disposals/Impairment	–	–	(45)	(45)	–
At 31st December 2009	29,867	11,579	21,468	62,914	38,150
Amortisation					
At 1st January 2009	3,002	5,686	15,038	23,726	–
Exchange adjustments	(149)	(147)	(484)	(780)	–
	2,853	5,539	14,554	22,946	–
Charged in year	2,030	1,269	1,481	4,780	–
Disposals	–	–	(45)	(45)	–
At 31st December 2009	4,883	6,808	15,990	27,681	–
Net book value					
At 31st December 2009	24,984	4,771	5,478	35,233	38,150

Impairment

In accordance with the requirements of IAS 36, Impairment of Assets, goodwill is allocated to the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as analysed in the table below

	2009 Goodwill £000	2008 Goodwill £000
Flexicon A/S, Denmark	8,222	8,913
MasoSine	7,457	–
M & M product unit	3,243	3,558
Spirax Sarco, Inc USA	3,168	3,515
Alitea product unit	2,570	2,607
UK Supply product unit	2,100	2,304
Spirax Intervalf, Turkey	2,070	–
Spirax-Sarco S A S France	1,417	1,551
Watson-Marlow, South Africa	1,263	1,130
Mitech product unit	1,135	1,016
Other cash-generating units	5,505	5,314
	38,150	29,908

The goodwill balance has been tested for annual impairment on the following basis

- The carrying values of goodwill have been assessed by reference to value in use. These have been estimated using cash flows based on forecast information for the next financial year which has been approved by the Board and in the case of recent acquisitions on detailed annual forecasts
- The key assumptions on which the impairment tests are based are the discount and growth rates and the forecast cash flows
- Pre-tax discount rates range from 13-25%
- Growth rates vary between 1-5% depending on detailed forecasts. These rates of growth are conservative when compared to the annualised profit growth of the group over the last few years
- No impairments were identified as a result of this exercise

The principal value in use assumptions for the Flexicon A/S Denmark goodwill balance were as follows

- Annual monetary growth of 5%
- Pre-tax discount rate of 13%

The principal value in use assumptions for the MasoSine goodwill balance were as follows

- Long term revenue growth of 2.5-3.5%
- Pre-tax discount rate of 18%

As expected there is little headroom in the case of recently acquired businesses, which have not yet had time to develop under the management of the Group. The businesses are performing in accordance with expectations and the key assumptions used above are appropriate at the year-end. As an indication of the headroom limits, the impairment charge that would be required if the discount rate were increased by 1% is £900,000 and that required if long-term revenue growth were decreased by 1% is £700,000.

14 LOANS TO SUBSIDIARIES

	PARENT COMPANY	
	2009 £000	2008 £000
Cost		
At 1st January	28,716	17,055
Exchange adjustments	595	79
	29,311	17,134
Loans	3,099	11,582
At 31st December	32,410	28,716
Amounts written off		
At 1st January and 31st December	(1,042)	(1,042)
Net book value		
At 31st December	31,368	27,674

15 INVESTMENT IN SUBSIDIARIES

	PARENT COMPANY	
	2009 £000	2008 £000
Cost		
At 1st January	48,840	48,049
Share options issued to subsidiary company employees	673	791
Holding transferred to other Group company	(1,952)	
At 31st December	47,561	48,840
Amounts written off		
At 1st January and 31st December	(994)	(994)
Net book value		
At 31st December	46,567	47,846

Investments are stated at cost less provisions for any impairment in value

Details relating to subsidiary undertakings are given on the inside back cover. Except where stated all classes of shares were 100% owned by the Group at 31st December 2009. The country of incorporation of the principal Group companies is the same as the country of operation with the exception of companies operating in the United Kingdom which are incorporated in Great Britain. Eirdata Environmental Services Ltd is incorporated in the Republic of Ireland. All are in the fluid control business except Spirax-Sarco Investments Ltd, Spirax-Sarco Overseas Ltd, Sarco International Corp, Watson-Marlow Bredel Holdings B V, Spirax-Sarco Engineering S L, Spirax-Sarco Engineering B V and Spirax-Sarco Investments B V which are investment holding companies.

16 INVESTMENT IN ASSOCIATES

	THE GROUP	
	2009 £000	2008 £000
Cost of investment	5,212	5,212
Share of total equity	4,582	4,184
	9,794	9,396

Summarised aggregated financial information (total business)

Revenue	25,863	25,281
Profit for the period	5,634	5,574
Assets	17,612	16,346
Liabilities	4,469	4,750

Details of the Group's associates at 31st December 2009 are as follows

Name of associate	Country of incorporation and operation	Proportion of ownership interest and voting power held	Principal activity
Spirax-Marshall Ltd	India	49.3%	Manufacturing and Selling
Spirax-Sarco Mexicana S A	Mexico	49.0%	Manufacturing and Selling

Notes to the accounts continued

17 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	THE GROUP					
	Assets		Liabilities		Net	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Accelerated capital allowances	1,561	214	(5,505)	(4,137)	(3,944)	(3,923)
Provisions	9,033	5,827	(375)	(33)	8,658	5,794
Losses	1,151	2,221	-	-	1,151	2,221
Inventory	933	611	(1,505)	(1,984)	(572)	(1,373)
Pensions	22,596	23,269	(2,363)	(2,798)	20,233	20,471
Other temporary differences	2,907	1,038	(4,911)	(4,762)	(2,004)	(3,724)
Tax assets/(liabilities)	38,181	33,180	(14,659)	(13,714)	23,522	19,466

Movement in deferred tax during the year

2008

	THE GROUP			
	1 January 2008 £000	Recognised in income £000	Recognised in equity £000	31 December 2008 £000
Accelerated capital allowances	(2,711)	(269)	(943)	(3,923)
Provisions	4,607	721	466	5,794
Losses	810	1,348	63	2,221
Inventory	(1,208)	265	(430)	(1,373)
Pensions	2,798	(923)	18,596	20,471
Other temporary differences	(944)	(2,363)	(417)	(3,724)
	3,352	(1,221)	17,335	19,466

2009

	THE GROUP			
	1 January 2009 £000	Recognised in income £000	Recognised in equity £000	31 December 2009 £000
Accelerated capital allowances	(3,923)	(153)	132	(3,944)
Provisions	5,794	3,059	(195)	8,658
Losses	2,221	(1,066)	(4)	1,151
Inventory	(1,373)	546	255	(572)
Pensions	20,471	(2,305)	2,067	20,233
Other temporary differences	(3,724)	2,621	(901)	(2,004)
	19,466	2,702	1,354	23,522

Amounts recognised in equity include items arising from acquisitions

Movement in deferred tax during the year

2008

	PARENT COMPANY			
	1 January 2008 £000	Recognised in income £000	Recognised in equity £000	31 December 2008 £000
Other temporary differences	433	(42)	(235)	156
	433	(42)	(235)	156

2009

	PARENT COMPANY			
	1 January 2009 £000	Recognised in income £000	Recognised in equity £000	31 December 2009 £000
Other temporary differences	156	232	62	450
	156	232	62	450

18 INVENTORIES

	THE GROUP	
	2009 £000	2008 £000
Raw materials and consumables	30,476	38,321
Work in progress	14,063	16,213
Finished goods and goods for resale	41,940	47,848
	86,479	102,382

19 OTHER CURRENT ASSETS

	THE GROUP		PARENT COMPANY	
	2009 £000	2008 £000	2009 £000	2008 £000
Other receivables	6,834	7,334	-	-
Prepayments and accrued income	4,758	5,540	50	97
	11,592	12,874	50	97

20 TRADE AND OTHER PAYABLES

	THE GROUP		PARENT COMPANY	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade payables	25,510	28,686	-	-
Bills of exchange payable	774	2,364	-	-
Social security	3,831	4,051	-	-
Other payables	22,543	21,035	318	256
Accruals	26,677	24,874	969	1,736
	79,335	81,010	1,287	1,992

21 CURRENT TAX PAYABLE

	THE GROUP		PARENT COMPANY	
	2009 £000	2008 £000	2009 £000	2008 £000
UK Corporation tax	327	1,136	-	615
Foreign tax payable	7,811	10,796	-	-
	8,138	11,932	-	615

22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value lease payments	
	2009 £000	2008 £000	2009 £000	2008 £000
Amount payable				
Within 1 year	69	98	50	67
1-5 years inclusive	215	269	191	221
After 5 years	-	19	-	19
	284	386	241	307
Add future finance charges			43	79
Minimum lease payments	284	386	284	386
Less Due for settlement in <1 year			50	67
Due for settlement in >1 year			234	319

Notes to the accounts continued

23 PROVISIONS

	THE GROUP	
	2009 £000	2008 £000
Provisions at 1st January	1,182	1,343
Exchange adjustments	(66)	147
	1,116	1,490
Net charge for the year	-	-
Increase in the year	325	(308)
Provisions at 31st December	1,441	1,182

24 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2009 £000	2008 £000	2009 £000	2008 £000
Ordinary shares of 25p each				
Authorised 120,000,000	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 77,238,516 (2008 77,227,516)	19,310	19,307	19,310	19,307

11,000 shares were issued pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £44,774 received by the Company

At 31st December 846,847 treasury shares were available for use in connection with the Group's Employee Share Schemes

Directors and 125 other senior employees and former employees of the Group have been granted options to purchase 1,419,345 ordinary shares with an aggregate nominal value of £354,836 (Note 28)

25 RETURN ON CAPITAL EMPLOYED

	THE GROUP	
	2009 £000	2008 £000
Capital employed		
Property, plant and equipment	135,383	122,897
Prepayments	1,124	900
Inventories	86,479	102,382
Trade receivables	118,835	124,595
Other current assets	11,592	12,874
Tax recoverable	1,896	1,118
Trade and other payables	(79,335)	(81,010)
Current tax payable	(8,138)	(11,932)
Capital employed	267,836	271,824
Average capital employed	269,830	241,093
Operating profit	76,522	81,028
Exceptional headcount reduction, and amortisation and impairment of acquisition-related intangibles	13,416	4,641
	89,938	85,669
Return on capital employed	33.3%	35.5%

26 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2009 £000	2008 £000	2009 £000	2008 £000
Capital expenditure contracted for but not provided	3,456	3,615	-	-

27 OPERATING LEASE OBLIGATIONS

	THE GROUP	
	2009 £000	2008 £000
Commitments under non-cancellable leases due as follows		
Within 1 year	3,168	2,846
1-5 years inclusive	4,851	4,673
After 5 years	1,063	884
	9,082	8,403

Operating leases are primarily in respect of property, plant and equipment

28 EMPLOYEE BENEFITS

Pension plans - The Group

The Group is accounting for pension costs in accordance with International Accounting Standard 19

The disclosures shown here are in respect of the Group's Defined Benefit Obligations. Other plans operated by the Group were either Defined Contribution plans or were deemed immaterial for the purposes of IAS 19 reporting

The total expense relating to the Group's Defined Contribution pension plans in the current year was £5,215,000 (2008 £4,485,000)

Of the Defined Benefit plans, the plans in the UK and USA hold most of the liability. The post-retirement mortality assumptions in respect of these plans may therefore be considered material. The UK schemes assume that post-retirement mortality follows the PA00 series tables, with medium cohort improvements subject to minimum improvements of 1% per annum, and depending on a member's year of birth. An adjustment is then made for each plan to reflect the profile of membership. This basis gives a life expectancy of 20 years and 22 years respectively for a male and female currently aged 65. These figures reflect the generally recognised trend of increased longevity. The USA schemes use the RP-2000 mortality table with AA scale projected through 2010. Life expectancy under this table is 19 years and 21 years respectively for a male and female currently aged 65. These assumptions are regularly reviewed in light of scheme specific experience and more widely available statistics.

The financial assumptions used at 31st December were

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2009	2008	2009	2008
Rate of increase in salaries	4.0	4.1	3.5	3.7
Rate of increase in pensions	3.4	3.1	1.8	2.0
Rate of price inflation	3.5	3.0	2.6	2.7
Discount rate	5.7	6.3	5.6	6.2
Medical trend rate			5.0	5.0

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice

	Assumptions weighted by value of assets % per annum			
	UK pensions		Overseas pensions and medical	
	2009	2008	2009	2008
Expected rate of return on assets (weighted average)	7.6	7.6	7.3	7.5
Equities	8.4	8.4	8.2	8.2
Bonds	4.9	5.1	5.2	5.1
Other	5.7	6.5	3.8	4.9

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

The market value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, at 31st December 2009 were

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Equities	144,239	112,461	17,279	12,616	161,518	125,077
Bonds	35,719	28,702	5,231	6,555	40,950	35,257
Other	5,189	6,653	3,490	3,455	8,679	10,108
Total market value in aggregate	185,147	147,816	26,000	22,626	211,147	170,442

The actual return on plan assets was £38.9 million (2008 £45.1 million loss)

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical trend rates is as follows

	1% increase £000	Overseas 1% decrease £000	1% increase £000	Total 1% decrease £000
Aggregate of service cost & interest cost components of post-retirement medical plans	4	(3)	4	(3)
Accumulated post-employment benefit obligation for medical costs	19	(16)	19	(16)

The amounts recognised in the consolidated balance sheet are determined as follows

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Fair value of schemes' assets	185,147	147,816	26,000	22,626	211,147	170,442
Present value of funded schemes' liabilities	(234,657)	(194,890)	(35,592)	(33,447)	(270,249)	(228,337)
(Deficit) in the funded schemes	(49,510)	(47,074)	(9,592)	(10,821)	(59,102)	(57,895)
Present value of unfunded schemes' liabilities	-	-	(14,661)	(15,822)	(14,661)	(15,822)
Retirement benefit liability recognised in the balance sheet	(49,510)	(47,074)	(24,253)	(26,643)	(73,763)	(73,717)
Related deferred tax asset	13,863	13,181	6,653	11,347	20,516	24,528
Net pension liability	(35,647)	(33,893)	(17,600)	(15,296)	(53,247)	(49,189)

The movements in the Defined Benefit Obligation (DBO) recognised in the balance sheet during the year were

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Defined benefit obligation at beginning of year	(194,890)	(192,612)	(49,269)	(37,441)	(244,159)	(230,053)
Current service cost	(5,738)	(6,422)	(2,180)	(1,579)	(7,918)	(8,001)
Interest cost	(11,994)	(11,189)	(2,672)	(2,642)	(14,666)	(13,831)
Contributions by members	(114)	(102)	-	-	(114)	(102)
Actuarial gain/(loss)	(29,536)	18,978	(2,196)	702	(31,732)	19,680
Actual benefit payments	8,558	6,605	2,793	2,675	11,351	9,280
Settlement, curtailment	-	-	(101)	1,508	(101)	1,508
Experience gain/(loss)	(943)	(10,148)	(752)	(992)	(1,695)	(11,140)
Currency gain/(loss)	-	-	4,124	(11,500)	4,124	(11,500)
Defined benefit obligation at end of year	(234,657)	(194,890)	(50,253)	(49,269)	(284,910)	(244,159)

The movements in the fair value of plan assets during the year were

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Value of assets at beginning of year	147,816	184,588	22,626	23,932	170,442	208,520
Expected return on assets	11,361	13,438	1,541	2,272	12,902	15,710
Actuarial gain/(loss)	22,761	(51,249)	3,251	(9,522)	26,012	(60,771)
Contributions paid by employer	11,653	7,542	3,118	2,971	14,771	10,513
Contributions paid by members	114	102	-	-	114	102
Actual benefit payments	(8,558)	(6,605)	(2,793)	(2,675)	(11,351)	(9,280)
Settlement, curtailment	-	-	-	(1,616)	-	(1,616)
Currency gain/(loss)	-	-	(1,743)	7,264	(1,743)	7,264
Value of assets at end of year	185,147	147,816	26,000	22,626	211,147	170,442

The estimated employer contributions to be made in 2010 are £15,189,000

The history of experience adjustments is as follows

	2009 £000	2008 £000	2007 £000	2006 £000
Defined benefit obligation at end of year	(284,910)	(244,159)	(230,053)	(228,274)
Fair value of schemes' assets	211,147	170,442	208,520	198,682
Retirement benefit liability recognised in the balance sheet	(73,763)	(73,717)	(21,533)	(29,592)
Experience adjustment on schemes' liabilities	(1,695)	(11,140)	(6,913)	481
As a percentage of schemes' liabilities	0.6%	4.6%	3.0%	0.2%
Experience adjustment on schemes' assets	26,012	(60,771)	(11,095)	2,663
As a percentage of schemes' assets	12.3%	35.7%	5.3%	1.3%

The expense recognised in the income statement was as follows

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Current service cost	(5,738)	(6,422)	(2,186)	(1,296)	(7,924)	(7,718)
Settlement curtailment and termination benefits	-	-	(104)	-	(104)	-
Interest on schemes' liabilities	(11,994)	(11,189)	(2,709)	(2,136)	(14,703)	(13,325)
Expected return on schemes' assets	11,361	13,438	1,566	1,812	12,927	15,250
Total expense recognised in income statement	(6,371)	(4,173)	(3,433)	(1,620)	(9,804)	(5,793)

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

The expense is recognised in the following line items in the income statement

	2009 £000	2008 £000
Operating costs	(8,028)	(7,718)
Financial expenses	(14,703)	(13,325)
Financial income	12,927	15,250
Total expense recognised in income statement	(9,804)	(5,793)

Statement of comprehensive income (OCI)

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Actuarial loss recognised in OCI	(7,718)	(42,419)	(82)	(7,669)	(7,800)	(50,088)
Deferred tax on actuarial amount recognised in OCI	2,161	11,565	(55)	6,143	2,106	17,708
Cumulative loss recognised in OCI at beginning of year	(34,620)	(3,766)	(3,258)	(1,732)	(37,878)	(5,498)
Cumulative loss recognised in OCI at end of year	(40,177)	(34,620)	(3,395)	(3,258)	(43,572)	(37,878)

Pension plans - Parent company

The parent company is accounting for pension costs in accordance with International Accounting Standard 19

The disclosures shown here are in respect of the parent company's Defined Benefit Obligations. Other plans operated by the parent company were Defined Contribution plans

The total expense relating to the parent company's Defined Contribution pension plans in the current year was £91,894 (2008 £94,143)

The post-retirement mortality assumptions in respect of the parent company Defined Benefit Scheme follows the PA00 series tables, with medium cohort improvements subject to minimum improvements of 1% per annum, and depending on a member's year of birth. This basis gives a life expectancy of 20 years and 22 years respectively for a male and female currently aged 65. These figures reflect the generally recognised trend of increased longevity. These assumptions are regularly reviewed in light of scheme specific experience and more widely available statistics.

The financial assumptions used at 31st December were

	Assumptions weighted by value of liabilities % per annum	
	2009	UK pensions 2008
Rate of increase in salaries	4.5	4.5
Rate of increase in pensions	3.4	3.1
Rate of price inflation	3.5	3.0
Discount rate	5.7	6.3

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

	Assumptions weighted by value of liabilities % per annum	
	2009	UK pensions 2008
Expected rate of return on assets (weighted average)	7.6	7.6
Equities	8.4	8.4
Bonds	4.9	5.1
Other	5.7	6.5

The market value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, at 31st December 2009 were

	2009 £000	UK pensions 2008 £000
Equities	30,823	24,001
Bonds	7,748	6,439
Other	1,222	1,494
Total market value in aggregate	39,793	31,934

The actual return on plan assets was £7.1 million (2008 £8.1 million loss)

The amounts recognised in the consolidated balance sheet are determined as follows

	2009 £000	UK pensions 2008 £000
Fair value of scheme's assets	39,793	31,934
Present value of funded scheme's liabilities	(51,000)	(43,200)
Retirement benefit (liability)/asset recognised in the balance sheet	(11,207)	(11,266)
Related deferred tax	-	-
Net pension (liability)/asset	(11,207)	(11,266)

The movements in the Defined Benefit Obligation (DBO) recognised in the balance sheet during the year were

	2009 £000	UK pensions 2008 £000
Defined benefit obligation at beginning of year	(43,200)	(40,700)
Current service cost	(806)	(949)
Interest cost	(2,641)	(2,323)
Change in assumptions on DBO	(6,200)	2,300
Actual benefit payments	1,815	2,656
Experience (loss)/gain	32	(4,184)
Defined benefit obligation at end of year	(51,000)	(43,200)

The movements in the fair value of plan assets during the year were

	2009 £000	UK pensions 2008 £000
Value of assets at beginning of year	31,934	41,238
Expected return on assets	2,439	2,942
Actuarial (loss)/gain	4,611	(11,031)
Contributions paid by employer	2,624	1,441
Actual benefit payments	(1,815)	(2,656)
Value of assets at end of year	39,793	31,934

The estimated employer contributions to be made in 2010 are £3,473,000

The history of experience adjustments is as follows

	2009 £000	2008 £000	2007 £000	2006 £000
Defined benefit obligation at end of year	(51,000)	(43,200)	(40,700)	(41,319)
Fair value of scheme's assets	39,793	31,934	41,238	38,223
Retirement benefit asset/(liability) recognised in the balance sheet	(11,207)	(11,266)	538	(3,096)
Experience adjustment on scheme's liabilities	32	(4,184)	(32)	115
As a percentage of scheme's liabilities	0.1%	9.7%	0.1%	0.3%
Experience adjustment on scheme's assets	4,611	(11,031)	(2,366)	459
As a percentage of scheme's assets	11.6%	34.5%	5.7%	1.2%

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

The expense recognised in the income statement was as follows

	2009 £000	UK pensions 2008 £000
Current service cost	(806)	(949)
Interest on schemes' liabilities	(2,641)	(2,323)
Expected return on schemes' assets	2,439	2,942
Total expense recognised in income statement	(1,008)	(330)

Statement of comprehensive income (OCI)

	2009 £000	UK pensions 2008 £000
Actuarial loss recognised in OCI	(1,557)	(12,915)
Deferred tax on actuarial amount recognised in OCI	-	-
Cumulative loss recognised in OCI at beginning of year	(14,829)	(1,914)
Cumulative loss recognised in OCI at end of year	(16,386)	(14,829)

Share-based payments - The Group

Disclosures of the share-based payments offered to employees are set out below. More detail on each scheme is given in the Directors' Remuneration report on pages 39 to 45. The charge to the income statement in respect of share-based payments is made up as follows:

	2009 £000	2008 £000
Share Option Scheme	686	809
Performance Share Plan	500	605
Employee Share Ownership Plan	743	691
Total expense recognised in income statement	1,929	2,105

a) Share Option Scheme

The Group operates equity settled share option schemes for employees. Awards are determined by the Remuneration Committee whose objective is to align the interests of employees with those of shareholders by giving an incentive linked to added shareholder value. Options are subject to performance conditions, which if met make the options exercisable between the third and tenth anniversary of the date of grant. For options granted from 1995 to 2001 the performance condition is an increase in EPS of more than 6% greater than the increase in the UK retail prices index over a consecutive three year period between grant and ten years from date of grant. From and including the 2002 options the increase in EPS was revised to 9% greater than the increase in the UK retail price index over a three year consecutive period and from 2007 the performance condition needs to be met over the three year period from 1st January prior to the date of the grant. If the condition is not met at the end of the three year period the option will lapse.

The share options granted have been measured by Towers Watson LLP, Actuaries and Consultants, using the Present Economic Value (PEV) valuation methodology. The relevant disclosures in respect of the share option scheme grants are set out below:

	2005 Grant	2006 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	21st April	24th March	26th March	12th March	11th March
Exercise price	686 0p	960 0p	1019 6p	959 0p	765.0p
Number of employees	66	67	67	71	70
Shares under option	359,600	340,600	337,400	311,700	223,500
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	20%	20%	25%
Risk-free interest rate	4.6%	4.4%	5.1%	4.3%	2.5%
Expected dividend yield	4.0%	2.5%	2.5%	3.0%	3.5%
Fair value	121 5p	209 3p	236 8p	211 7p	145.5p

The number and weighted average exercise prices of share options are as follows

Option (exercise price)	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
1999 grant (525p)	25,000		(25,000)		
2000 grant (319 2p)	14,000		(8,500)		5,500
2001 grant (397 7p)	14,000		(7,500)		6,500
2002 grant (436p)	36,000		(9,500)		26,500
2003 grant (394 5p)	79,224		(19,224)		60,000
2004 grant (541 9p)	101,123		(22,340)		78,783
2005 grant (686p)	192,255		(62,893)		129,362
2006 grant (960p)	307,400		(14,000)	(17,800)	275,600
2007 grant (1019 6p)	322,500			(10,500)	312,000
2008 grant (959 0p)	311,700			(8,600)	303,100
2009 grant (765 0p)		223,500		(1,500)	222,000
	1,403,202	223,500	(168,957)	(38,400)	1,419,345
Weighted average exercise price	£8 41	£7 65	£5 87	£9 68	£8 55
Weighted average contractual life remaining					6 9 years

Performance conditions in respect of all exercisable shares have been met

b) Performance Share Plan

Awards under the Performance Share Plan are made to executive directors and take the form of contingent rights to acquire shares, subject to the satisfaction of a performance target. To the extent that they vest, awards may be satisfied in cash, in shares or an option over shares. For awards granted up to 2007 the performance target is based on the Company's total shareholder return (TSR) relative to the TSR of other companies included in the FTSE All-Share Industrial Engineering Sector over a three year performance period where awards will vest on a sliding scale. All shares within an award will vest if the Company's TSR is at or above the upper quartile. 25% will vest if the TSR is at the median and the number of shares that will vest will be calculated pro-rata on a straight line basis between 25% and 100% if the Company's TSR falls between the median and the upper quartile. No shares will vest if the Company's TSR is below the median. The performance criteria for awards from 2008 onwards are split into two separate parts. The vesting of the first part, amounting to 60% of the award, is based on the existing TSR measure. The vesting of the second part, amounting to 40% of the award, is subject to achievement of a target based on aggregate EPS over a three year performance period. 25% will vest if the compound growth in EPS is equal to 5% and 100% will vest if the compound growth in EPS is equal to or exceeds 11%, there is pro-rata vesting for actual growth between these two rates.

Shares awarded under the Performance Share Plan have been valued by Towers Watson using the Monte Carlo simulation valuation methodology. The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2007 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	26th March	10th September	12th March	11th March
Mid market share price at grant date	1019 6p	975 0p	959 0p	765 0p
Number of employees	7	1	5	5
Shares under scheme	93,200	17,538	131,540	128,146
Vesting period	3 years	3 years	3 years	3 years
Probability of vesting	48%	47%	65 4%	69 1%
Probability of ceasing employment before vesting	zero	zero	zero	zero
Fair value	489 4p	458 3p	627 2p	528 6p

c) Employee Share Ownership Plan

UK employees are eligible to participate in the Employee Share Ownership Plan (ESOP). The aim of the Plan is to encourage increased shareholding in the Company by all UK employees and so there are no performance conditions. Employees are invited to join the Plan when an offer is made each year. Individuals save for 12 months during the accumulation period and subscribe for shares at the lower of the price at the beginning and the end of the accumulation period under HMRC rules. The Company provides a matching share for each share purchased by the individual.

Shares issued under the Employee Share Ownership Plan have been measured by Towers Watson LLP, Actuaries and Consultants, using the Present Economic Value (PEV) valuation methodology. The relevant disclosures in respect of the Employee Share Ownership Plans are set out below.

	2005 ESOP	2006 ESOP	2007 ESOP	2008 ESOP	2009 ESOP
Grant date	1st October	1st October	1st October	1st October	1st October
Exercise price	785 7p	923 3p	1019 3p	908 8p	1039 7p
Number of employees	847	910	946	985	944
Shares under scheme	70,227	67,380	66,525	80,087	69,788
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20 0%	20 0%	20 0%	20 0%	25 0%
Risk free interest rate	4 3%	5 0%	5 2%	3 8%	0 6%
Expected dividend yield	3 0%	2 5%	2 5%	3 0%	3 5%
Fair value	827 3p	982 4p	1086 6p	953 3p	1093 7p

The accumulation period for the 2009 Plan ends in September 2010, therefore some figures are projections.

Share-based payments - Parent Company

Disclosures of the share-based payments offered to employees of the parent company are set out below. The description and operation of each scheme is the same as outlined in the Group disclosure set out above.

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

a) Share Option Scheme

The equity settled share options issued to employees of the parent company are charged in the parent company's income statement. The relevant disclosures in respect of the share option scheme grants are set out below.

	2005 Grant	2006 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	21st April	24th March	26th March	12th March	11th March
Exercise price	686 0p	960 0p	1019 6p	959 0p	765.0p
Number of employees	2	2	2	1	1
Shares under option	8,400	9,500	8,500	3,500	2,500
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	20%	20%	25%
Risk-free interest rate	4.6%	4.4%	5.1%	4.3%	2.5%
Expected dividend yield	4.0%	2.5%	2.5%	3.0%	3.5%
Fair value	121 5p	209 3p	236 8p	211 7p	145.5p

The number and weighted average exercise prices of share options are as follows:

Option (exercise price)	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
1999 grant (525p)	15,000		(15,000)		
2002 grant (436p)	17,500				17,500
2003 grant (394 5p)	35,000				35,000
2004 grant (541 9p)	39,253				39,253
2005 grant (686p)	6,062				6,062
2006 grant (960p)	6,000				6,000
2007 grant (1019 6p)	8,500				8,500
2008 grant (959 0p)	3,500				3,500
2009 grant (765 0p)		2,500			2,500
	130,815	2,500	(15,000)		118,315
Weighted average exercise price	£5 54	£7 65	£5 25		£5 63
Weighted average contractual life remaining					4.2 years

Performance conditions in respect of all exercisable shares have been met.

b) Performance Share Plan

The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2007 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	26th March	10th September	12th March	11th March
Mid market share price at grant date	1019 6p	975 0p	959 0p	765.0p
Number of employees	7	1	5	5
Shares under scheme	93,200	17,538	131,540	128,146
Vesting period	3 years	3 years	3 years	3 years
Probability of vesting	48%	47%	65.4%	69.1%
Probability of ceasing employment before vesting	zero	zero	zero	zero
Fair value	489 4p	458 3p	627 2p	528.6p

29 ANALYSIS OF CHANGES IN NET CASH

	THE GROUP			At 31st December 2009 £000
	At 1st January 2009 £000	Cash flow £000	Exchange movement £000	
Current portion of long term borrowings	(176)			(63)
Non-current portion of long term borrowings	(25,521)			(44,255)
Short term borrowings	(9,008)			(9,284)
Total borrowings	(34,705)			(53,602)
Comprising				
Borrowings	(34,319)	(20,614)	1,615	(53,318)
Finance Leases	(386)	67	35	(284)
	(34,705)	(20,547)	1,650	(53,602)
Cash and cash equivalents	54,140	7,390	664	62,194
Bank overdrafts	(2,045)	1,319	167	(559)
Net cash and cash equivalents	52,095	8,709	831	61,635
Net cash	17,390	(11,838)	2,481	8,033

30 RELATED PARTY TRANSACTIONS

THE GROUP	2009	2008
	£000	£000
Sales to associated companies	1,259	1,266
Dividends from associated companies	1,498	1,063
Amounts due from associated companies at 31st December	237	310

PARENT COMPANY	2009	2008
	£000	£000
Dividends received from subsidiaries	49,500	62,900
Loans and amounts due from subsidiaries at 31st December	93,331	73,490
Amounts due to subsidiaries at 31st December	941	941

The transactions above were priced on an arm's length basis and on standard business terms

31 PURCHASE OF BUSINESSES

2009

	MasoSine			Other acquisitions			Total
	Book value £000	FV adj £000	Fair value £000	Book value £000	FV adj £000	Fair value £000	Fair value £000
Fixed assets							
Property, plant and equipment	485	–	485	218	–	218	703
Intangibles	–	13,214	13,214	–	1,605	1,605	14,819
	485	13,214	13,699	218	1,605	1,823	15,522
Current assets							
Inventories	283	–	283	473	(105)	368	651
Trade receivables	1,585	–	1,585	–	–	–	1,585
	1,868	–	1,868	473	(105)	368	2,236
Total assets	2,353	13,214	15,567	691	1,500	2,191	17,758
Current liabilities	–	–	–	–	–	–	–
Long term liabilities	–	–	–	–	–	–	–
Total liabilities	–	–	–	–	–	–	–
Total net assets	2,353	13,214	15,567	691	1,500	2,191	17,758
Goodwill			7,392			2,436	9,828
Purchase consideration			22,959			4,627	27,586
Satisfied by							
Cash paid			21,930			2,408	24,338
Deferred consideration			–			1,766	1,766
Expenses			1,029			453	1,482
			22,959			4,627	27,586

Analysis of net flow of cash and cash equivalents in respect of purchase of subsidiaries

Cash consideration	25,710
Expenses	1,482
Net cash outflow	27,192

1 The acquisition of the trade and assets of the Maso and Sine businesses, based in Germany was completed on 27th August 2009. The acquisition method of accounting has been used. Consideration of £21,930,000 was paid on completion. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.

2 The acquisition of the trade and assets of Intervalf business, based in Turkey was completed on 1st October 2009. The acquisition method of accounting has been used. Consideration of £2,077,000 was paid on completion. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at fair value.

3 The acquisition of the Watson-Marlow Swiss distributor was completed on 31st January 2009. The acquisition method of accounting has been used. Consideration of £331,000 was paid on completion.

Had the acquisitions all taken place on 1st January 2009, rather than the actual acquisition dates, the effect on Group revenue and profit after tax would have been approximately, revenue £8,500,000 and profit after tax £1,500,000.

Notes to the accounts

continued

31 PURCHASE OF BUSINESSES (continued)

2008

	Flexicon A/S			Other acquisitions			Total
	Book value £000	FV adj £000	Fair value £000	Book value £000	FV adj £000	Fair value £000	Fair value £000
Fixed assets							
Property, plant and equipment	100	–	100	154	20	174	274
Intangibles	–	8,437	8,437	177	773	950	9,387
	100	8,437	8,537	331	793	1,124	9,661
Current assets							
Inventories	744	–	744	265	(26)	239	983
Trade receivables	1,518	–	1,518	1,036	(4)	1,032	2,550
Other receivables	–	–	–	24	–	24	24
Cash	55	–	55	100	–	100	155
	2,317	–	2,317	1,425	(30)	1,395	3,712
Total assets	2,417	8,437	10,854	1,756	763	2,519	13,373
Current liabilities							
Trade payables	–	–	–	538	–	538	538
Other payables and accruals	45	–	45	184	60	244	289
Deferred tax	–	2,109	2,109	–	–	–	2,109
Short term borrowing	849	–	849	215	–	215	1,064
	894	2,109	3,003	937	60	997	4,000
Long term liabilities	125	–	125	–	–	–	125
Total liabilities	1,019	2,109	3,128	937	60	997	4,125
Total net assets	1,398	6,328	7,726	819	703	1,522	9,248
Goodwill			6,856			1,010	7,866
Purchase consideration			14,582			2,532	17,114
Satisfied by	Cash paid		11,422			2,110	13,532
	Deferred consideration		2,817			223	3,040
	Expenses		343			199	542
			14,582			2,532	17,114

Analysis of net flow of cash and cash equivalents in respect of purchase of subsidiaries

Cash consideration	13,398
Expenses	541
Net cash outflow	13,939

1 The acquisition of Flexicon A/S, based in Denmark was completed on 11th February 2008. The transaction also resulted in the Group obtaining full ownership of Flexicon's distribution company for the USA, Flexicon America Inc. The acquisition method of accounting has been used. Consideration of £11,422,000 was paid on completion. Separately identifiable intangibles are recorded as part of the fair value adjustment. Goodwill reflects the significant synergies in market coverage and cost savings that can be achieved by being part of a larger group.

2 The acquisition of Colima S r l, based in Italy was completed on 31st March 2008. The acquisition method of accounting has been used. Consideration of £480,000 was paid on completion. Intangibles, inventory, trade receivables and other payables and accruals has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at fair value.

3 The acquisition of the assets and business of Distant Star CC based in South Africa was completed on 30th June 2008. The acquisition method of accounting has been used. Consideration of £90,000 was paid on completion. Separately identifiable intangibles are recorded as part of the fair value adjustment.

4 The acquisition of PAK Machinery Limited based in the UK was completed on 3rd November 2008. The acquisition method of accounting has been used. Consideration of £450,000 was paid on completion. Separately identifiable intangibles are recorded as part of the fair value adjustment.

5 The acquisition of the 4.89% minority share of Spirax Sarco S A based in Spain was completed on 19th December 2008. The acquisition method of accounting has been used. Consideration of £777,000 was paid on completion.

Had the acquisitions all taken place on 1st January 2008, rather than the actual acquisition dates, the effect on Group revenue and profit after tax would not have been significant.

32 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged since the beginning of 2000.

Credit risk

The Group sells products and services to customers around the world and its customer base is varied in size and industry sector. The Group operates credit control policies to assess customers' credit ratings and provides for any debt that is identified as non collectable. Historically losses from trade receivables have been low.

Interest rate risk

The Group borrows in desired currencies at both fixed and floating rates of interest as appropriate to the purposes of the borrowing depending on which gives best value.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and finance leases as appropriate.

Foreign currency risk

The Group has operations around the world and therefore its balance sheet can be affected significantly by movements in the rate of exchange between sterling and various other currencies particularly the US dollar and euro. The Group seeks to mitigate the effect of this structural currency exposure by borrowing in these currencies where appropriate while maintaining a low cost of debt.

The Group also has transactional currency exposures principally as a result of trading between Group companies. Such exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. Net cash flows between any two currencies of less than £1m per annum would not usually be considered sufficiently material to warrant forward cover. Forward cover is not taken out more than twelve months in advance or for more than 80% of the forecast exposure.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31st December was as follows:

2008

	THE GROUP			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	21,696	1,003	-	20,693
US dollar	17,261	-	15,267	1,994
Other	47,514	1,133	19,347	27,034
	86,471	2,136	34,614	49,721

2009

	THE GROUP			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	35,163	748	17,766	16,649
US dollar	14,518	-	12,422	2,096
Other	52,533	3,995	19,230	29,308
	102,214	4,743	49,418	48,053

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 1% fixed for 0.1 years. The interest rate for Korean Won financial liabilities is 4.9% fixed for 0.4 years, and the interest rate for Chinese RMB financial liabilities is 4.9% fixed for 0.9 years.

2008

	THE PARENT			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	-	-	-	-
US dollar	-	-	-	-
Other (Sterling)	256	-	-	256
	256	-	-	256

Notes to the accounts

continued

32 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

2009

THE PARENT

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	-	-	-	-
US dollar	-	-	-	-
Other (Sterling)	318	-	-	318
	318	-	-	318

The benchmark rates for the floating rate financial liabilities are as follows

US dollar	}	LIBOR
Euro		LIBOR/EURIBOR

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows

	Currency	Nominal interest rate	Year of maturity	2009 Carrying value £000	2008 Carrying value £000
Unsecured Bank Facility	CZK	LIBOR + 0.5%	2012	774	828
Unsecured Bank Facility	€	-	2010	67	7
Unsecured Bank Facility	€	1%	2010	493	659
Unsecured Bank Facility	€	LIBOR + 2%	2012	17,699	-
Unsecured Bank Facility	RMB	4.89%	2010	3,630	510
Unsecured Bank Facility	WON	4.93%	2010	337	4,749
Unsecured Bank Facility	WON	4.76 - 6.05%	2010	5,316	5,323
Unsecured Bank Facility	WON	3.64%	2012	4,786	-
Unsecured Bank Facility	ZAR	PRIME - 1.94%	2012	3,364	3,100
Unsecured Bank Facility	\$	-	-	-	1,378
Unsecured Bank Facility	\$	0.79%	2011	12,422	13,889
Unsecured Bank Facility	DKK	-	-	-	166
Unsecured Bank Facility	Yen	1.47%	2013	4,989	5,755
Finance Leases	€	4.10%	2010-2014	255	336
Finance Leases	Roubles	-	2010-2014	29	50
				54,161	36,750

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 31st December was as follows

2008

THE GROUP

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	20,211	6,193	14,018
Other	165,858	30,754	135,104
	186,069	36,947	149,122

2009

THE GROUP

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	23,962	10,830	13,132
Other	163,901	34,380	129,521
	187,863	45,210	142,653

2008

	THE PARENT		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	7,984	6,092	1,892
Other	-	-	-
	7,984	6,092	1,892

2009

	THE PARENT		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	12,740	10,514	2,226
Other	-	-	-
	12,740	10,514	2,226

Financial assets on which no interest is earned comprise trade and other receivables and cash at bank and in hand

Floating rate financial assets comprise cash placed on money market deposit mainly at call and three month rates. The average rate of interest received on sterling deposits during the year was 0.33% (2008 3.7%)

Currency exposures

As explained above, the Group's objectives in managing the currency exposures arising from its net investment overseas (in other words, its structural currency exposures) are to maintain a low cost of debt while partially hedging against currency depreciation. All gains and losses arising from these structural currency exposures are dealt with in the statement of total comprehensive income.

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the income statement. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or 'functional') currency of the operating unit involved. At 31st December the currency exposures in respect of the euro was a net monetary liability of £372,000 (2008 £3,000) and in respect of the US dollar a net monetary asset of £2,441,000 (2008 £1,015,000).

At 31st December the percentage of debt to net assets, excluding debt was 22.5% (2008 1%) for the euro and 34.6% (2008 38%) for the US dollar.

Maturity of financial liabilities

The Group's financial liabilities at 31st December reprice (or mature if earlier) in the following periods:

2008

	THE GROUP					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	49,721	2,045	8,498	28	25,311	85,603
In more than six months but no more than twelve	-	-	510	58	-	568
In more than one year but no more than two	-	-	-	69	-	69
In more than two years but no more than three	-	-	-	68	-	68
In more than three years but no more than four	-	-	-	71	-	71
In more than four years but no more than five	-	-	-	73	-	73
In more than five years	-	-	-	19	-	19
	49,721	2,045	9,008	386	25,311	86,471

2009

	THE GROUP					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	48,053	559	5,123	9	44,034	97,778
In more than six months but no more than twelve	-	-	4,161	54	-	4,215
In more than one year but no more than two	-	-	-	76	-	76
In more than two years but no more than three	-	-	-	61	-	61
In more than three years but no more than four	-	-	-	65	-	65
In more than four years but no more than five	-	-	-	19	-	19
In more than five years	-	-	-	-	-	-
	48,053	559	9,284	284	44,034	102,214

Notes to the accounts

continued

32 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

2008

THE PARENT

	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	256	–	–	–	–	256
	256	–	–	–	–	256

2009

THE PARENT

	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	318	–	–	–	–	318
	318	–	–	–	–	318

Cash flow hedge

At 31st December the Group had contracts outstanding to purchase £1,200,000 with South Korean won, £1,080,000 with Japanese yen, €132,000 with US dollars, £183,000 with US dollars, £6,688,000 with Euros, \$63,000 with Swedish SEK, £373,500 with Danish DKK, £617,000 with Norwegian NOK, £694,000 with South African Rand, £600,000 with Chinese RMB, £270,000 with Swedish SEK, £322,100 with Czech CZK, £400,000 Polish PLN and €120,000 with Chinese RMB

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31st December in respect of which all conditions precedent had been met at that date were as follows

	THE GROUP	
	2009 £000	2008 £000
Expiring in one year or less	28,597	32,486

	THE PARENT	
	2009 £000	2008 £000
Expiring in one year or less	20,000	20,000

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 31st December are not materially different from book values due to their size or the fact that they were at short term rates of interest. Fair values have been assessed as follows

- Derivatives
Forward exchange contracts are marked to market using year end exchange rates
- Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows
- Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates
- Trade and other receivables / payables
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31st December, it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit after tax and equity by approximately £50,000 (2008: £120,000)

At the year end borrowings totalled £54,161,000 consequently, in respect of financial liabilities, the Group is not significantly at risk from increases in interest rates

For the year ended 31st December 2009, it is estimated that a decrease of one percentage point in the value of sterling weighted in relation to the Group's profit and trading flows has increased the Group's profit before tax by approximately £1,200,000 (2008 £1,000,000). The effect can be very different between years due to the weighting of different currency movements. Forward exchange contracts have been included in this calculation.

The credit risk profile of trade receivables

The aging of trade receivables at the reporting date was

	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due date	97,447	(271)	97,608	(310)
0-30 days past due date	10,904	(239)	15,588	(390)
30 days-1 year past due date	15,434	(4,440)	14,704	(2,605)
More than one year	3,171	(3,171)	2,778	(2,778)
	126,956	(8,121)	130,678	(6,083)

Based on past experience the Group believes no further impairment allowance is required for receivables that are past their due date.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows

	2009	2008
Balance at 1 January	6,083	2,806
Movement in Impairment	2,038	3,277
Balance at 31 December	8,121	6,083

Financial summary 2000 - 2009

	2000 £000	2001 £000	2002 £000	2003 £000
Revenue	278,148	291,942	296,363	314,087
Operating profit †	43,370	40,803	42,674	45,750
Operating profit (adjusted)	-	-	-	-
Operating profit margin (adjusted) †	15.6%	14.0%	14.4%	14.6%
Profit before taxation †	41,157	38,025	40,693	44,564
Profit before taxation (adjusted)	-	-	-	-
Profit before taxation ††	40,167	38,641	40,693	44,564
Profit after taxation ††	27,300	26,625	26,807	29,426
Dividends in respect of the year	13,301	13,752	14,350	15,028
Net assets	138,264	145,115	149,293	163,816
Earnings per share (basic) †	37.4p	34.4p	35.3p	38.5p
Earnings per share (adjusted) †	-	-	-	-
Earnings per share (basic) ††	35.4p	35.3p	35.3p	38.5p
Dividends in respect of the year (per share)	18.0p	18.6p	19.3p	20.1p
Return on capital employed	26.2%	23.6%	25.6%	28.3%

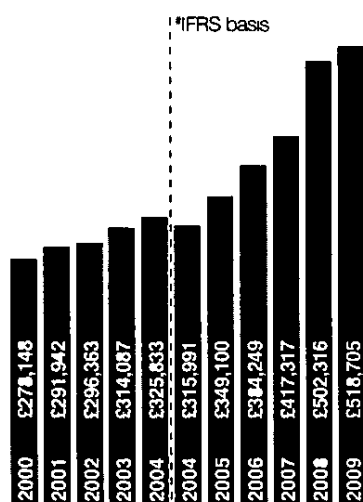
The results for 2004 to 2009 have been prepared under International Financial Reporting Standards prior year figures are shown as originally reported including 2004 for reference. Adjusted operating profit, profit before tax and earnings per share exclude the amortisation and impairment of acquired intangibles

† excluding non-operating items

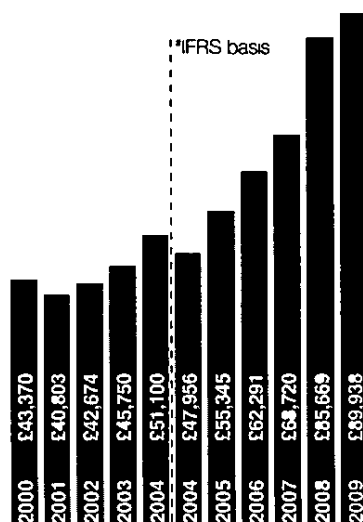
†† including non-operating items

Return on capital employed prior to 2007 is based on operating profit excluding non-operating items and amortisation and impairment of acquired intangibles and average net assets excluding net goodwill and net debt. For 2009 and 2008 see note 25

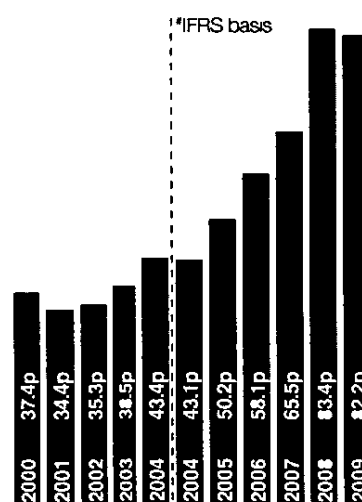
Revenue £'000



Operating profit (adjusted) £'000

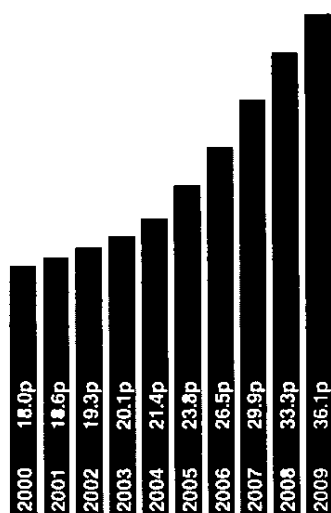


Earnings per share (adjusted)



2004 £000	# Prepared under IFRS					
	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000
325,833	315,991	349,100	384,249	417,317	502,316	518,705
51,100	47,956	55,170	61,941	68,336	81,028	76,522
-	47,956	55,345	62,291	68,720	85,669	89,938
15.7%	15.2%	15.9%	16.2%	16.5%	17.1%	17.3%
50,836	48,704	56,959	65,344	72,163	85,162	76,415
-	48,704	57,134	65,694	72,796	90,146	90,196
50,836	48,704	56,959	65,344	72,163	85,162	76,415
33,682	32,442	38,187	44,066	49,190	59,788	53,091
16,102	16,196	18,318	20,038	22,754	25,668	27,569
182,013	166,286	198,246	199,722	242,965	296,006	307,364
43.4p	43.1p	50.0p	57.7p	64.7p	78.0p	69.6p
-	43.1p	50.2p	58.1p	65.5p	83.4p	82.2p
43.4p	43.1p	50.0p	57.7p	64.7p	78.0p	69.6p
21.4p	21.4p	23.8p	26.5p	29.9p	33.3p	36.1p
31.0%	27.2%	30.4%	32.2%	33.6%	35.5%	33.3%

Dividends per share



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IMPORTANT DATES

Ordinary shares quoted ex-dividend	14th April 2010
Record date for final dividend	16th April 2010
Annual general meeting	11th May 2010
Final dividend payable	21st May 2010