

Delivering value everyday

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Financial highlights

Revenue

£589.7m +14%

- Sales up 14% including organic sales growth of 9%
- Growth led by emerging markets and Watson-Marlow
- End markets recovering but mixed across Europe
- Sales up 5% due to acquisitions and favourable exchange, split equally

Operating profit

£119.1m +32%

- Adjusted operating profit up 32% and 26% at constant currency
- Profit increase from all reporting segments – 75% increase from the Americas
- Adjusted operating profit margin increased to record 20.2%
- Ninth consecutive year of operating profit margin improvement

Dividend

43.0p +19%

- Final proposed dividend up 17% to 30.0p
- Special dividend of 25.0p per share
- Dividend growth averaged 9% pa over past ten years
- 43rd year of dividend growth

Adjusted*

Year to 31st December	2010	2009	Change
Revenue	£589.7m	£518.7m	+14%
Operating profit	£119.1m	£89.9m	+32%
Operating profit %	20.2%	17.3%	
Profit before taxation	£121.6m	£90.2m	+35%
Earnings per share	109.5p	82.2p	+33%
Dividends per share	43.0p	36.1p	+19%
Special dividend	25.0p	–	–

All profit measures exclude the exceptional revaluation gain in Mexico of £8.2 million (2009: nil) and the amortisation and impairment of acquisition-related intangible assets of £6.1 million (2009: £2.4 million), of which £0.4 million (2009: £0.4 million) relates to Associates. 2010 excludes professional costs of £0.2 million in relation to acquisitions and 2009 excluded exceptional headcount reduction costs of £11.4 million. The tax effect of these items was £0.4 million (2009: £4.1 million).

Statutory

Year to 31st December	2010	2009	Change
Revenue	£589.7m	£518.7m	+14%
Operating profit	£121.4m	£76.5m	+59%
Profit before taxation	£123.5m	£76.4m	+62%
Earnings per share	112.5p	69.6p	+62%
Dividends per share	43.0p	36.1p	+19%
Special dividend	25.0p	–	–

Group overview

Spirax Sarco

Our Spirax Sarco steam business is the global leader in the supply of engineered solutions for the design, maintenance and operation of efficient 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 and services, 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 operating efficiency and capacity of existing processes and the need to comply with increasingly stringent health, safety and environmental legislation. Our direct sales force is highly trained 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.

Watson-Marlow

Watson-Marlow is the global leader in peristaltic and selective niche pumps and systems, specialising not only in the design and manufacture of the most advanced pumps and tubing, but also in the application of those pumps to our 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 and tubing 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.

EMEA

Europe, Middle East and Africa

Revenue

£230.0m

Operating profit

£36.8m

Operating margin

16.0%

Highlights of the year

- Mixed market conditions
- Good performances from Germany, Russia and M&M Italy
- Higher second half sales in the UK domestic market
- Challenging markets in Italy and France
- Higher volumes at manufacturing plants contributed to profit increase
- Cheltenham manufacturing consolidation largely complete by mid 2011
- Product rationalisation costs in South Africa.

% of Group revenue

39%

Asia Pacific	Americas	Watson-Marlow
Revenue £131.5m Operating profit £34.3m Operating margin 26.0%	Revenue £125.2m Operating profit £24.3m Operating margin 19.4%	Revenue £103.0m Operating profit £30.8m Operating margin 29.9%
Highlights of the year End markets recovering Higher levels of project and maintenance spending Overall sales up strongly across region Exceptional second half project shipment from backlog New China plant in production (£2 million profit on sale of previous premises) Favourable exchange benefits from stronger Korean won and Australian dollar Restructured Japan management.	Highlights of the year • Operating profit up 75% • Sharply higher profits in Brazil from improved gross margins, cost/pricing management • Sales and profits growth from all operations • Improving second half market conditions in Canada • Favourable exchange benefits from stronger Brazilian real • Sales and profit benefit from inclusion of Mexico shareholding acquisition • Outstanding operating profit margin of 19.4% versus 13.2% in 2009.	Highlights of the year • End markets recovering • Good growth from all geographic regions and product segments • Benefits from full year of MasoSine acquisition • Good demand from OEM customers in EMEA • Bredel shipments recovered from weak 2009 • Strong sales growth in Asia.
% of Group revenue 23%	% of Group revenue 21%	% of Group revenue 17%
83%		17%

Delivering value everyday

We are a multi-national industrial engineering group headquartered in Cheltenham. We comprise two world-leading niche businesses: Spirax Sarco for steam specialties and Watson-Marlow for peristaltic and niche pumps. We assist our customers to achieve environmentally friendly solutions for energy savings, process efficiency improvements and plant health, safety and regulatory compliance. Our prime financial objective is to provide enhanced value to shareholders through consistent growth in earnings and dividends per share, which we have proudly achieved for more than 40 years.

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Main highlights of 2010

The Board is pleased with the outstanding results in 2010 as the global economy emerged from recession and we benefited from our continued efforts and investments to improve the operating performance of the business

- 14% higher sales
- 35% increase in adjusted pre-tax profit
- 19% increase in the dividend
- Net cash balance of £34 million
- Special dividend 25 Op per share

The Board is recommending a 17% increase in the final dividend of 30 Op per share payable on 18th May 2011 to shareholders on the register at the close of business on 15th April 2011. This, together with the interim dividend of 13 Op per share paid in November 2010, makes a total dividend for the year of 43 Op per share. This compares with a total dividend of 36 1p per share last year, an increase of 19%. The cost of the interim and final dividends is £33.2 million which is covered 2.5 times by earnings.

We continue to operate with a strong balance sheet. Generally, where net cash resources exceed our expected future requirements, we will look to return cash to shareholders. Therefore, in addition, the Board is proposing a special dividend of 25 Op per share to be paid on 8th July 2011 to shareholders on the register at the close of business on 10th June 2011. No scrip alternative to the cash dividends is being offered.

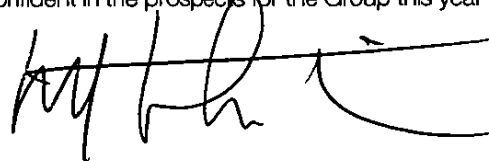
Prospects

As the global economy emerged from recession, industrial production rebounded briskly in the early months of 2010 in most geographic regions and average industrial production grew across the world at nearly a double-digit pace in 2010, although the pace of growth expectedly slowed in the latter months of the year. Market conditions for our business reflect general global economic activity and the movements in industrial production, although we continue to see considerable variability from market to market. We anticipate that rates of growth in industrial production will return to more normal levels in 2011, but we note a degree of uncertainty due to persistent financial issues, including government deficits, potentially impacting the economies of North America and Europe.

Energy prices have increased substantially in the recent period with crude oil prices now running at historically high levels. We remain encouraged that our energy-saving initiatives, and the companion emission reductions that are achieved through improved steam system efficiency, continue to be of value to our customers.

We invested in the business through the recession in 2009 to improve manufacturing efficiency, accelerate new product development and increase penetration of our markets and continued to do so in 2010, stepping up our investments in market development. We also reinvested some of the 2009 cost reductions to enhance future growth and margin prospects and will do so again in 2011. We also note that material costs, having increased in the second half of 2010, are continuing to rise.

2011 has started well, with good organic sales growth in the first two months, although this compares with a relatively slow start to 2010 and we anticipate the sales comparisons becoming more challenging as the year progresses. The Group's consistent financial performance and good growth opportunities benefit from our fundamental strengths and resilient business model. Given no renewed market weakness or significant negative currency movements, the Board is confident in the prospects for the Group this year.



Bill Whiteley BSc, FCMA
Chairman

Unless otherwise stated, all profit measures quoted in the above text exclude the exceptional revaluation gain in Mexico of £8.2 million (2009: nil) and the amortisation and impairment of acquisition-related intangible assets of £6.1 million (2009: £2.4 million), of which £0.4 million (2009: £0.4 million) relates to Associates. 2010 also excludes professional costs in relation to acquisitions of £0.2 million and 2009 excluded exceptional headcount reduction costs of £11.4 million. The tax effect of these items was £0.4 million (2009: £4.1 million).

Chairman's statement

I am pleased to report outstanding results for 2010, with record sales and profits that not only demonstrate the quality of our business but also reflect the continued investments and improvements we have made in recent years. We generated a significant underlying cash inflow and the dividend has again been increased with an additional special dividend proposed.

Sales at £589.7 million were up 14% from £518.7 million in 2009, in spite of more challenging year-on-year comparisons in the last few months of the year. Growth was led by emerging markets and Watson-Marlow. Sales included a 5% contribution split equally between acquisitions and favourable average exchange rates.

Operating profit at £119.1 million increased by 32% (26% at constant currency) from £89.9 million in 2009 due to operational gearing on higher sales volumes, lower material costs, pricing, acquisitions and favourable currency movements, and also due to increased manufacturing efficiencies and actions taken to reduce costs in 2009. These factors were reflected in a significant improvement in the operating profit margin to 20.2% (2009: 17.3%).

Net finance charges were £0.6 million compared with net charges of £2.5 million in 2009, largely due to an improvement in the net finance expense related to defined benefit pension funds. The Group's share of the after-tax profits of our Associate companies edged up to £3.1 million (2009: £2.8 million), despite only a partial contribution from our Mexican operation which became a wholly-owned subsidiary from May 2010.

Pre-tax profit increased to £121.6 million (2009: £90.2 million) and earnings per share were 109.5p (2009: 82.2p), both increasing by over 30%.

The statutory pre-tax profit after including the exceptional revaluation gain in Mexico and after charging the amortisation and impairment of acquisition-related intangible assets and professional costs related to acquisitions, was £123.5 million (2009: £76.4 million which also included exceptional headcount reduction costs).

Sales in 2010 benefited from the full year inclusion of the MasoSine business that was acquired on 27th August 2009 and its integration into our Watson-Marlow sales channels is progressing well. Sales and profit also benefited from the acquisition of 100% shareholding in our Mexico operation on 25th May 2010.

Track record of growth

Chief Executive Mark Vernon reviews the strategy delivering long-term growth

The Group has delivered a remarkable record of consistent sales growth over a long period of time – sales revenues over the past 30 years have increased by more than 9% per annum. Over the last five years our annual sales growth was 7% (at constant currency), despite the severe global recession in 2009, with acquisitions contributing about one percentage point to the annual growth. This consistent growth has resulted from a resilient and robust business model characterised by a direct sales approach, global economic activity augmented by market share gains, geographic market penetration, new product contributions and expansion of our addressable markets. We serve a broad range of industrial and commercial markets and therefore are not subject to the spending cycle of any one industry – no single end-user industry represents more than about 10% of sales.

Looking back at the past five years, we have managed the business to achieve more diversity in our geographic sources of revenue, resulting in higher growth from investments made in emerging markets. In constant currency, the sales contribution from the Asia Pacific reporting segment increased from 20% of total sales in 2005 to 23% in 2010 as a result of 9% annual sales growth for the five year period. The sales contribution from the Americas decreased from 22% of sales in 2005 to 21% in 2010, despite 6% annual sales growth in the five year period and even higher growth from Latin America. Our faster sales growth in Asia and Latin America benefited from the steady investments in our direct sales approach. This gives us the ability to increase market penetration, take maximum advantage of the higher underlying economic growth and build long-term brand equity. The sales contribution from our largest reporting segment for the steam business, Europe, Middle East and Africa (EMEA), declined from 45% of total sales in 2005 to 39% in 2010, with average annual sales growth of 4% in the five year period.

Our Watson-Marlow pumps segment has achieved excellent growth over the last five years, increasing at the fastest rate of all our reporting segments, and raising its contribution from 13% of sales in 2005 to 17% in 2010, or annual growth of 14% at constant currency, including acquisitions.

New products have contributed importantly to the organic sales growth. For the steam business, new products in areas such as automatic control valves, pre-fabricated heat transfer and recovery packages, flow meters and steam system site services have resulted in these product families growing collectively at more than double the rate of overall sales growth over the past five years and contributing about 20% to the overall steam business sales growth in the period. For Watson-Marlow, the story is similar, as our pumps product range was progressively widened and developed making use of improved electronics and tubing materials to broaden the addressable markets. For Watson-Marlow, new products also contributed about 20% to the overall organic growth of this business segment since 2005.

Higher growth	Lower growth
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Investments in new product development have increased by 50% since 2007 and recent acquisition activity is focused on higher growth product opportunities. This is resulting in a widening of our range of products, prefabricated engineered packages, pump systems and services – these product areas have higher growth potential and we are realising the benefits.

A large majority of our revenues are derived from maintenance and operating expenditure budgets, this also requires that we make steady long-term investments in trained selling resources to increase our market penetration and develop emerging markets. Our core expertise lies in our ability to improve the operating and energy efficiency of existing steam systems, to increase the throughput of our customers' processes and to improve their product quality. This demands that our sales and service people are intimate with the operating issues of individual customers' manufacturing plants and facilities. In the past few years we have accelerated the development of emerging markets by adding direct sales and service people, for example, in Romania, Ukraine, Turkey, Egypt, Saudi Arabia and Jordan as well as in our established businesses in China, India, Brazil, Argentina, Mexico and Russia.

Future growth

We are the market leaders in both our business segments and we see good growth opportunities. Our steam specialties markets are highly fragmented. We believe several underlying industry drivers are favourable for long-term growth. For example, energy prices are at historic highs, costs are rising for the purchase and disposal of water and the emphasis on reducing emissions into the environment is becoming increasingly important around the globe, all these factors provide a nice tailwind for our steam business. We see greater potential from our solutions approach to problem solving as customers increase operational outsourcing and look for simple, single-source transactions with competent full-service suppliers to solve their local maintenance, operations, product quality and capacity expansion issues.

At Watson-Marlow, we continue to educate customers concerning the intrinsic advantages of peristaltic pumps so that they will increasingly be used to solve difficult pumping problems. Through product developments and acquisitions, our product and application range is being progressively widened, increasing our addressable market and as a result, we see more opportunities, particularly in hygienic applications in pharmaceuticals, biotechnology and the food industries. For these reasons, peristaltic pumping is one of the fastest growing sectors of the global positive displacement pump market.

The Group considers its commitment to new product development to be critical to its long-term success. Since 2007, we have stepped up our gross R&D investment by 50% in order to accelerate the flow of exciting new products that extend our current range of products and applications. We will shortly complete our new technology centre in the UK which will considerably increase our testing capability. Our technically-expert direct sales force also 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 lie at the heart of our business.

We are also investing in moving more of our manufacturing closer to the point of sale in developing markets, thus reducing delivery times for a broader range of our products and increasing our operational flexibility. We are towards the end of a four-year £50 million capital investment programme to consolidate our manufacturing in the UK and Europe and relocate more capacity into Asia and other emerging markets, which will also reduce our carbon footprint.

We believe the Group is well positioned to maximise its growth opportunities, taking advantage of our good exposure to higher growth emerging markets, introducing new products and providing our customers with a wide range of comprehensive solutions to respond to their efficiency and sustainability objectives.



Mark Vernon
Chief Executive Officer

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Strategic overview continued

Steady investments in our direct sales approach in Asia Pacific, Latin America and Watson-Marlow have resulted in our being able to increase our penetration in these important growth markets, take maximum advantage of the higher underlying economic growth and build long-term brand equity. The impact of these investments in our emerging markets can be more clearly seen in the chart above right.

Direct sales approach

At the heart of our customer value proposition is our direct sales approach that accounts for about 70% of total revenues and is fundamental to our growth strategies. Working directly with customers in strong, long-term relationships, our sales engineers apply our deep applications and systems knowledge, breadth of products and services, experience and global presence to enable us to offer the most extensive range of engineered solutions. Our customers highly value the opportunity to source their system needs from a competent single source, and rely increasingly on Spirax Sarco. Today we employ about 1,300 local sales and service engineers that are singularly focused on assisting steam and pump users to meet their challenges of improving process quality and efficiency, increasing throughput and reducing energy consumption and plant emissions.

Higher growth

Lower growth

The Group's sales growth of its emerging markets for the steam business (including Asia Pacific – except Japan, Eastern Europe, the Middle East, Africa and Latin America) and Watson-Marlow combined represent 52% of the Group's 2010 revenues and comprise the fastest growing geographic areas and segments of the Group's business.

Our sales people are highly skilled in both product applications and, even more importantly, in systems understanding and troubleshooting for unique customer applications and industrial processes. We train our sales engineers in our 38 training centres located around the world which are also used to train our customers' technical and maintenance staff. Most of these centres are equipped with live steam or pumping installations that facilitate hands-on training.

Over many years the Group has steadily expanded its international presence and benefits today from being first to market in many territories around the world. We have direct sales people in over 50 countries around the world. Amongst our competitors, we have generally been first to build a direct sales or trading company in emerging markets and we continue to do so, evidenced by the acquisition of our distributor in Turkey in 2009. We also acquired our Watson-Marlow pump distributors in Australia and New Zealand in 2010.

Business review

Current environment

As the global economy emerged from recession, industrial production rebounded briskly in the early months of 2010 in most geographic regions and average industrial production grew across the world at nearly a double-digit pace in 2010, although the pace of growth expectedly slowed in the latter months of the year. Market conditions for our business reflect general global economic activity and the movements in industrial production, although we continue to see considerable variability from market to market. We anticipate that rates of growth in industrial production will return to more normal levels in 2011, although we note a degree of uncertainty due to persistent financial issues, including government deficits, potentially impacting the economies of North America and Europe.

Energy prices have increased substantially in the recent period with crude oil prices now running at historically high levels. We remain encouraged that our energy-saving initiatives and the companion emission reductions that are achieved through improved system efficiency, continue to be of value to our customers.

Trading

Total Group sales increased by 14% in 2010 to £589.7 million (2009: £518.7 million). Organic sales grew by 9% with widespread growth across all geographic regions as the world emerged from recession. Favourable currency movements and acquisitions contributed equally to the remaining 5% sales increase.

For the Spirax Sarco steam business, sales increased by 12% comprising organic sales growth of 8% with a 1% contribution from the acquisition of the remaining shareholding in our Mexican Company and the balance from favourable exchange. Sales increased in all geographic regions and nearly all product segments, although growth overall in Europe was subdued. Sales of our core steam specialties products increased from higher maintenance spending. Watson-Marlow pumps sales increased 23% for the year, comprising organic sales growth of 15% and benefiting from a 7% full year contribution from the acquisition of MasoSine in late August 2009, favourable exchange rates added less than 1%.

The Group's operating profit increased to a record £119.1 million (2009: £89.9 million), giving an increase of 32% in sterling and 26% at constant currency. The increase in operating profit arose from operational gearing on higher sales volumes, increased manufacturing efficiencies, cost reduction actions taken in 2009, pricing, acquisitions and favourable exchange rates. Material prices, although lower in the first half year, started to rise again in the second half, but material prices were favourable for the full year. All this resulted in the operating profit margin improving to a record 20.2%, up from 17.3% in 2009.

Delivering value everyday

Our specialised state-of-the-art training facility is leading the way



Spirax Sarco China run courses at their state-of-the-art training facility in Shanghai. Courses are led by product managers and specialist engineers and are attended by internal personnel as well as customers and partners.

Practical demonstrations are held in the demo room giving the delegates a chance to gain a better understanding of products and processes by actually seeing them in operation.

The aim is to help the delegates achieve maximum efficiency and safety in their plant operations by understanding proper steam system design. Each delegate is supplied with handouts, including technical publications, to support each course, and is issued with a certificate on completion of the course.

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Business review continued

Europe, Middle East and Africa (EMEA)

	2010	2009	Change	Constant currency
Revenue	£230.0m	£225.5m	+2%	+3%
Operating profit	£36.8m	£35.6m	+3%	+5%
Operating margin	16.0%	15.8%		

Sales increased modestly to £230.0 million (up 3% at constant currency) as the region benefited from the overall economic recovery but markets in Europe remain mixed and we saw large individual variations in performance year-on-year, both positive and negative. There was a small negative impact to sales on translation due to the weaker euro. In line with the first half year, sales and profit continued well ahead in Germany for the full year. Our business in Russia performed superbly, with sales and profits well up on 2009 – we anticipate that Russia will become one of our larger operations within the region over the next few years. We also saw a nice rebound in our M&M valve business in Italy as OEM activity recovered from a steep decline in 2009. Trading conditions were challenging for our larger companies in Italy and France and sales and profits were down, although we saw some improvement in demand in the fourth quarter. Sales in the UK domestic market were higher in the second half and up marginally for the full year but profits were down.

The overall financial performance from our factories in the UK and France improved markedly from 2009, which had been impacted by some internal destocking particularly in the first half year. We benefited from much higher volumes and achieved good operating efficiencies, despite the expense of equipment relocations associated with the consolidation of our manufacturing sites in Cheltenham. We also benefited from lower overall material costs but, as expected, saw the benefits start to erode in the second half year. We expect to complete most of the consolidation activities in Cheltenham by mid 2011 and anticipate incremental cost benefits of approaching £2 million in 2011, followed by a further £2 million in 2012, from all our manufacturing investments, including relocation of capacity to China.

Operating profit of £36.8 million was up 3% from £35.6 million in 2009. At constant currency the operating profit was up 5%, driven largely by increased profitability from our UK factories, the success of our Russia and Germany businesses, the recovery in our M&M business and the full year benefit of the acquisition of our distributor in Turkey. The segment result includes an asset write down charge of £1.2 million following a decision to rationalise the product ranges manufactured in South Africa. The operating margin improved to 16.0% (2009 15.8%).

Delivering value everyday in the UK

Spirax Sarco steam system audit helps Dairy Crest achieve energy target

Dairy Crest reduced gas consumption at its Kirkby, England, factory by 18%, thanks to a combination of energy saving measures, including steam system improvements recommended by Spirax Sarco. One of the major improvements was raising the temperature in the boiler feedtank from 80°C to 96°C through more efficient condensate recovery, which resulted in increasing the proportion of hot, treated water recycled back to the boiler from 76% to 94%.

In addition, the steam system audit performed by Spirax Sarco highlighted a number of other energy saving measures, such as repairing and installing pipeline insulation, improving the blowdown control on the boiler and repairing or replacing any malfunctioning steam traps. As part of the system audit, Spirax Sarco engineers compiled an asset list of all steam traps on the site and Dairy Crest has now engaged Spirax Sarco to carry out annual inspections and servicing of their entire steam trap population.

Dairy Crest noted that since the initial savings from the first system audit, they saw a further 8% energy saving last year. This has been made possible by the annual Spirax Sarco steam surveys that identify potential problems and ensure consistent energy savings.

Business review continued

Asia Pacific

	2010	2009	Change	Constant currency
Revenue	£131.5m	£104.7m	+26%	+16%
Operating profit	£34.3m	£23.1m	+48%	+27%
Operating margin	26.0%	22.1%		

Sales increased in Asia Pacific by 26% to £131.5 million (2009: £104.7 million) as most of our markets recovered and overall volumes were up sharply, although some weakness remains in parts of South East Asia. Favourable exchange rates had a positive effect on sales, as the Korean won and the Australian dollar strengthened against sterling. At constant exchange, Asia Pacific sales were up by 16%. We saw good sales and profit growth in most of our markets and product segments within the region and benefited from higher levels of maintenance spending by our customers as well as exceptional project sales in Korea, China and Singapore, at this time we are not expecting the same level of project activity in Korea in 2011. We continued to invest in the region by adding sales people and restructured our management team in Japan to drive improved performance. Our new premises in China were opened in June 2010 and production is being ramped up to better serve the expanding markets in China and South East Asia.

The operating profit increased from £23.1 million in 2009 to £34.3 million, an increase of 48%, including a £2.0 million gain on the disposal of our old premises in China. At constant currency operating profit increased by 27%. We saw widespread profit gains from most operations. As expected, we had a very strong second half year in Korea as we shipped several large projects, we also saw a strong second half in China. The overall operating profit margin in Asia Pacific improved to 26.0% in 2010 (2009: 22.1%). Both sales and profit were well ahead at our India operation (reported as an Associate).

Delivering value everyday in Australia

Solving a steam production problem reduced costs and improved sterilisation for a hospital in Western Australia

The St John of God Hospital in Western Australia, like many hospitals, has a central sterile supply department with up-to-date sterilisers and a boiler to supply steam to the sterilisers. Despite being a modern hospital, St John's had major problems with 'wet loads' in their sterilisers from an improperly designed steam system. This meant, in extreme cases, a shortage of sterile supplies

in consultation with the customer's sterilisation team, Sprax Sarco engineer Phil Hopkins and his team determined that a properly sized steam accumulator could supply the four sterilisers at peak demand with high volumes of steam as required in short, sharp bursts. The normal boiler capacity and previous system design could not provide the instantaneous flow rates required during peak loads.

A 'wet load' costs the hospital approximately A\$1,500 (£1,000) as well as delays in supplies and lost staff time. The Sprax Sarco solution has eliminated entirely the 'wet loads', whilst being able to supply peak steam demand from the customer's existing boiler. This has restored confidence in the customer's sterilisation department and ensured timely provision of sterile supplies to all areas of the hospital.

Business review continued

Amencas

	2010	2009	Change	Constant currency
Revenue	£125.2m	£104.6m	+20%	+15%
Operating profit	£24.3m	£13.9m	+75%	+67%
Operating margin	19.4%	13.2%		

Sales in the Amencas increased in sterling by 20% to £125.2 million from £104.6 million in 2009. Sales on translation benefited from stronger currencies in Brazil, Canada and Mexico. At constant currency, sales increased 15% with growth from every operation in the region and in particular Latin America, where sales in each of our operations were up 30% or more in sterling as our markets recovered from a challenging 2009. Inflation is at a high level in Argentina and the economic recovery remains fragile. In the USA, the rate of sales growth slowed in the second half year due to the absence of restocking, which benefited 2009, and sales rebounded in Canada in the second half as our markets recovered. Acquisitions contributed 4% from the full year benefit of the acquisition of the outstanding shareholding of our Mexican company, which became a wholly-owned subsidiary in May 2010.

The Group's largest overall profit improvement in 2010 came from the significant increase in operating profit in the Amencas region, up by 75% to £24.3 million, which compares with £13.9 million in 2009, at constant exchange the operating profit was up 67%. Year-on-year operating profit was buoyed by higher volumes, favourable exchange transaction benefits on imports into Latin America, cost reduction actions taken in 2009, the benefit of the Mexican acquisition and particularly strong profit improvement in Brazil from higher gross margins and good management of costs and pricing. For the region, the operating profit margin improved to 19.4% as against 13.2% in 2009.

Delivering value everyday in Brazil

Spirax Sarco help soap manufacturer save water and energy

Liquid soap manufacturer Colgate Jaguaré in Brazil were visited by Spirax Sarco sales engineer Rodrigo Pascoal to help with the company's important initiatives to save energy and improve production efficiency.

After surveying the plant and identifying the improvements that could be made to improve the heat recovery in the production process, Spirax Sarco installed an 'Easi-Heat' prefabricated system, an extremely compact heat transfer solution for delivering instantaneous hot water.

The installation of the improved technology in the 'Easi-Heat' resulted in significant improvements in condensate return of around 370 cubic metres per month. In addition to the hot condensate saved, there were also substantial annual energy savings of R\$111,000 (£41,000).

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Watson-Marlow

	2010	2009	Change	Constant currency
Revenue	£103.0m	£83.8m	+23%	+22%
Operating profit	£30.8m	£22.3m	+38%	+36%
Operating margin	29.9%	26.6%		

Sales increased at Watson-Marlow by 23% to £103.0 million (2009: £83.8 million). Sales benefited from a full year of MasoSine acquired in August 2009 which added 7% to the sales growth, and a small gain from the acquisition of Watson-Marlow's distributors in Australia and New Zealand. The robust sales growth of 27% in the first half year eased somewhat as the comparisons in the second half became more challenging.

Sales in Watson-Marlow's EMEA region were well ahead with good increases spread across the UK and Continental Europe due to much higher demand from OEM customers. Shipments of Bredel products rebounded well in 2010 against a weak 2009. Sales in the Americas were also well ahead, with good growth in the USA from a recovery in the general industrial and water treatment markets. Sales growth was robust in the Asia Pacific region, albeit from a relatively small base. We continued to add direct sales people for the acquired Flexicon and MasoSine businesses.

The operating profit was £30.8 million, which compares with £22.3 million in 2009, an increase of 38%. At constant currency, operating profit was up by a similar 36%, including the benefit of the full year contribution from the MasoSine acquisition. The operating profit margin climbed to 29.9% in 2010 (2009: 26.6%) as we realised the benefits of higher volumes, increased manufacturing plant efficiencies and a rebound in the Bredel business.

Delivering value everyday in the UK

Watson-Marlow MasoSine pumps are faster, quieter and more efficient for Pukka Pies

MasoSine pumping technology from Watson-Marlow has solved a number of pump-related problems at leading UK pie manufacturer, Pukka Pies Ltd. Aiming to reduce high noise (decibel) levels, reduce cycle times and cut energy consumption, Pukka Pies recently replaced older technology air-operated diaphragm pumps with MasoSine's SPS 2.5 pumps to transfer meat fillings.

With the installation of the first MasoSine SPS 2.5 sinusoidal pump, Pukka Pies managed to lower peak noise from 94 decibels to 74 decibels and achieve 20% faster pumping times. Further, since the installation of the first MasoSine pump, the pie manufacturing process now uses far less compressed air – saving 660 litres per minute, a significant saving in energy consumption.

The customer also noted that the MasoSine pumps have become a key part of their process and that the benefits gained have made the project a great success.

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2010 was a good year with sales and adjusted pre-tax profit well ahead and at record levels. The operating profit margin improved sharply and there was another good cash flow performance. Uncertainty caused by the economic recession eased considerably.

Spirax Sarco uses adjusted figures as key performance measures in addition to those reported under IFRS, as the Directors believe that these are more representative of the underlying performance. Adjusted figures are used unless otherwise stated and they exclude the exceptional non-cash revaluation gain in 2010, the amortisation and impairment of acquisition-related intangible assets and exceptional headcount reduction costs in 2009, including their associated tax effects. From 2010, professional costs in relation to acquisitions and contingent consideration fair value adjustments are also excluded.

Operating profit at £119.1 million was a record and was 32% ahead of the £89.9 million in 2009. We benefited from operational gearing on the higher sales, pricing, the full year effect of the cost reduction measures taken in 2009 and lower material costs, although material costs started to increase again in the second half of the year. Currency movements were favourable on translation and also on transaction, where our sales companies benefited from lower landed costs, with the gains weighted towards emerging markets. The profit also increased due to a full year contribution from MasoSine acquired in late August 2009 and from the inclusion of Mexico from May 2010, at which time we increased our shareholding from 49% to 100%. The profit includes a £2.0 million gain on the disposal of our old premises in China and a charge of £1.2 million in relation to the decision to rationalise the product ranges manufactured in South Africa. The operating profit margin rose strongly from 17.3% to 20.2%, making this the ninth year of consecutive margin improvement.

Interest

Net finance charges were £0.6 million compared with net charges of £2.5 million in 2009, due largely to the improvement in the net finance expense related to defined benefit pension funds following the increase in scheme asset values in 2009.

Associates

The Group's share of the after-tax profits of our Associate companies edged up to £3.1 million (2009: £2.8 million) despite only a partial contribution from our Mexican operation which became wholly-owned from May 2010. Our Indian Associate performed well and sales and profit were well ahead of the previous year.

Profit before tax

The profit before tax increased from £90.2 million to £121.6 million, an increase of 35%.

The statutory profit before tax includes the amortisation of acquisition-related intangible assets, which increased to £4.0 million (2009: £2.4 million) due to the acquisitions in 2010 and full year effect of those in 2009. Also included is the impairment of acquisition-related intangible assets of £2.1 million (2009: nil). The Group recognised an exceptional non-cash revaluation gain of £8.2 million (2009: nil) on the 49% investment in our former Mexican Associate company following our acquisition on 25th May 2010 of the remaining 51% of the company and also incurred professional costs of £0.2 million in relation to acquisitions. The statutory profit before tax including the revaluation gain, the amortisation and impairment charges and acquisition costs was £123.5 million compared with £76.4 million in 2009, which also included exceptional headcount reduction costs of £11.4 million not repeated in 2010. We are implementing the results of a strategic review of the products manufactured in our steam specialties business in South Africa. The impairment charge of £2.1 million in respect of intangible assets, including goodwill, was recognised to reflect realisable values, in addition to the £1.2 million charge included in the EMEA adjusted operating profit.

Taxation

The tax charge, on the adjusted pre-tax profit, excluding Associates, at 31.5% was in line with the previous year. The tax rate in 2011 is expected to be broadly in line with 2010.

Earnings 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 basic earnings per share at 109.5p were up 33% from 82.2p in 2009. The statutory basic earnings per share were 112.5p (2009: 69.6p).

Dividends

The post-retirement benefits increased by 17% to 30 Op per share, together with the interim dividend of 13 Op per share paid in November 2010, makes total dividends for the year of 43 Op. This is an increase of 19% over the prior year total dividends of 36 1p per share and continues the very long history of increasing dividends with a compound annual growth of 11% over the last 43 years.

We continue to operate with a strong balance sheet to protect the business and provide resources for future investment. Generally, where resources exceed our expected future requirements, we will look to return cash to shareholders. We are, therefore, in addition to the proposed final dividend, also proposing a special dividend of 25 Op per share to be paid to shareholders on 8th July 2011 at a cash cost of nearly £20 million.

Acquisitions

As previously announced, on 25th May 2010 the Group acquired from its former local partners the remaining 51% of our Mexican operation for a purchase consideration of £11.0 million which will be settled in instalments over an expected five year period. The business has traded well with a good increase in sales and profits, and a modest contribution to the Group's earnings per share and operating profit margin for the year. On 30th June 2010 the Group also completed the acquisition of the business assets and goodwill relating to the distribution of Watson-Marlow and Bredel pumps in Australia and New Zealand for a purchase consideration of £2.0 million. We are pleased with the performance of these businesses since acquisition.

Intangible assets amounting to £11.6 million were recognised in respect of acquisitions during the year, largely relating to Mexico. Goodwill amounting to £7.3 million was also recognised.

Research and development

We again increased our investment in R&D and total spending in the year of £8.9 million showed an 11% rise over the previous year and an increase of over 50% since 2007. Capitalised development costs, included in this figure, were £1.8 million (2009: £2.1 million).

Capital employed

Capital employed at £298.7 million increased by 8% during the year, at constant currency and excluding acquisitions. Investment in fixed assets at £35 million continued at a high level as we completed the new plant in China, which opened in June 2010, and progressed the significant project in Cheltenham to consolidate onto one expanded manufacturing site with realigned and more efficient processes. Working capital increased 4% at constant currency and excluding acquisitions. The ratio of working capital to sales improved from 25.5% to 24.3%. Acquisitions in the year added £3.7 million to capital employed.

Return on capital employed

The return on capital employed rose sharply from 33.3% to 42.1%. Adjusted operating profit was ahead by 32% but average capital employed (using the average of the opening and closing sterling balance sheets for the year) increased by only 5%. Capital investment is expected to continue at a relatively high level in 2011 as we complete the major investment in Cheltenham and expand production at the new China plant. These investments are expected to provide good returns in future years, including a progressive improvement in stock weeks.

	2010 £'000	2009 £'000
Capital employed		
Property, plant and equipment	155,553	135,383
Inventories	96,115	86,479
Trade receivables	137,350	118,835
Prepayments and other current assets/(liabilities)	(90,275)	(72,861)
Capital employed	298,743	267,836
Intangibles and investments in associates	95,317	83,177
Post-retirement benefits	(63,428)	(73,763)
Deferred tax	21,524	23,522
Provisions and long term payables	(7,024)	(1,441)
Net cash/(borrowings)	34,392	8,033
Net assets	379,524	307,364
Return on capital employed		
Operating profit	121,396	76,522
Adjustments	(2,271)	13,416
Adjusted operating profit	119,125	89,938
Average capital employed	283,290	269,830
Return on capital employed	42.1%	33.3%

The Risk Management Committee has identified 19 specific principal risks and uncertainties, which have been broadly grouped under the headings of 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. 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 pages 24 and 25. Appropriate measures are implemented locally, particularly in the manufacturing companies, and we made further improvements in health and safety processes in 2010. The environmental benefits from the use of Group products are more fully described on pages 22 to 25. General managers of our operating companies are responsible for local compliance with the Group's policy and with local legislation, and are required to report twice yearly on compliance with these issues.

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 Management and Business Code (which is reviewed at least annually) 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.

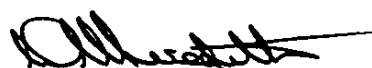
In addition, the Group has been taking steps to ensure that the Directors and all Group businesses are fully briefed on the details of the UK Bribery Act 2010 and that all necessary steps are taken to comply with the terms of the Act.

Briefings have been, and will continue to be, issued to Group businesses to ensure awareness of the Act's provisions and various steps are being taken to ensure compliance with the terms of the Act.

Also, as described on page 34, the Group has a well-established risk management programme. The general managers of all Group companies are required to answer a detailed risk management questionnaire twice each year and the replies to these questionnaires are reviewed by the Board's Risk Management Committee and the full Board and, where necessary, followed up by Group Management. A review of the Group's risk management programme and of the various risks faced by Group companies was conducted in 2010 and facilitated by Willis, the Group's insurance broker and risk adviser.

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 minimise and mitigate such risks.

David Meredith FCMA
Finance Director



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Post-retirement benefits

The net post-retirement benefits liability shown on the balance sheet reduced to £63.4 million (£45.5 million net of deferred tax) at 31st December 2010 compared with £73.8 million (£53.2 million net of deferred tax) a year earlier and was significantly lower than the £89.6 million (£64.6 million net of deferred tax) at 30th June 2010. The improvement was due to the good performance in equity markets during the year and the payment of special deficit reduction contributions. Liability values did increase due to a small fall in bond yields which pushed up the discounted present value of liabilities.

Most of the asset and liability values relate to the main UK defined benefit pension schemes which were closed to new entrants in 2001. Changes were made in the year to reduce accrual rates or increase member contributions, with a second stage taking effect in 2011. The triennial valuations of these schemes were carried out as at 31st December 2007 with interim actuarial valuations as at 31st December 2008 and 31st December 2009. These valuations resulted in agreed additional cash contributions of £8 million in 2010 which will continue until 2013 before reducing in stages until 2021. The triennial valuations as at 31st December 2010 are currently in process, the results of which will be reported in due course.

Cash flow

	2010 £'000	2009 £'000
Adjusted cash flow		
Operating profit	119,125	89,938
Depreciation and amortisation	16,661	16,528
Equity settled share plans	2,229	1,929
Working capital changes	(12,448)	9,554
Cash from operations	125,567	117,949
Net interest paid	(319)	(736)
Income taxes paid	(30,362)	(29,877)
Net capital expenditure, (including software and development)	(32,868)	(34,654)
Free cash flow	62,018	52,682
Net dividends paid	(27,988)	(24,265)
Exceptional headcount reduction costs	(959)	(7,957)
Post-retirement deficit reduction payments and provisions	(11,445)	(7,072)
Proceeds from issue of shares	6,215	1,966
Acquisitions	(3,526)	(27,192)
Cash flow for the year	24,315	(11,838)
Exchange movement	2,044	2,481
Opening net cash	8,033	17,390
Closing net cash at 31st December	34,392	8,033

There was a good cash flow performance for the year. Cash from operations increased to £125.6 million (2009 £117.9 million) including an outflow of £12.4 million for working capital following the £9.6 million inflow in 2009. Taxation payments were £30.4 million (2009 £29.9 million) and net capital investment, including capitalised development costs, was £32.9 million (2009 £34.7 million). Free cash flow (before dividends, acquisitions, pensions and share capital changes) increased to £62.0 million compared with £52.7 million in 2009.

Dividend payments increased by 15% to £28.0 million and there was an outflow of £3.5 million for acquisitions. Special pension contributions increased to £11.4 million including a one-off settlement of our Korean defined benefit liabilities. There was an inflow of £6.2 million in relation to shares issued (mostly Treasury shares) under the Group's various share schemes. Overall the net cash balance increased to £34.4 million at 31st December 2010 compared with £8.0 million a year earlier. Exchange movements on net cash balances were overall small.

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 £30.6 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.

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 31 to 35. 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, with tens of thousands of customers across most industrial and commercial sectors. This means that we do not rely excessively on any one customer, product application or industrial sector.

Corporate social responsibility

Spirax Sarco's two main businesses are associated with providing steam users and users of peristaltic and sinusoidal pumps with energy-efficient, safe, environmentally friendly and cost-effective solutions for their fluid handling applications

Steam usage today is widespread. Virtually everything we eat, wear, build or drive has had steam used during the production process. It remains a significant and flexible industrial fluid. An increasing interest in sustainability from virtually all customer segments is being witnessed and with energy, water and effluent costs continuing to rise, the Group is well placed to offer customers its expertise and suitable solutions to make steam systems safe, help minimise consumption and reduce cost. As an example, our operating company in the USA is involved in the Department of Energy's Save Energy Now programme, being one of the 32 founding members.

This growing interest in sustainability makes the special features of the peristaltic and sinusoidal pump ranges produced by Watson-Marlow even more appropriate today. They are ideal for handling the fluids associated with treating waste, so conserving water and recovering energy. With the pump ranges designed to ensure controllability, reduced energy consumption in use is one of their key features.

Despite the widespread use of steam, knowledge of its application and steam system design is diminishing. In recognition of this, the Group is focusing on universities and colleges to help build this knowledge, as well as participating with schools to encourage an interest in science and engineering as careers.

Product developments are carried out with customer sustainability needs in mind. New products released in 2010 included an accurate means of measuring the performance of steam traps (and hence identifying costly leaks early), a new design of vent head that reduces water and energy loss from vent pipes and an improved range of valve positioners with one of the lowest energy consumptions on the market.

The Group continues to monitor the potential savings in CO₂ based on customers' use of a selected range of our products. In 2010, based on the same methodology used in previous years and assessed externally by the AEA Group, an estimated 3.3 million tonnes of CO₂ were potentially saved, a figure that remains significantly higher than the CO₂ produced during manufacture and distribution.

Energy, water and effluent savings can be made through the direct use of some of our products, but there are indirect savings to be made as well. The US Department of Veteran Affairs (VA) recognised this and instigated a programme to install steam meters in VA hospitals where the information the meters produce helps deliver reductions in consumption.

"An increasing interest in sustainability from virtually all customer segments is being witnessed."

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 Management and Business Code which is regularly reviewed and 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 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 Management and 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 page 34, 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 Management and Business Code in the following areas:

(i) Employment policies

The Group has developed five 'Core Values' which define the culture for our business and the behaviours we expect of our people. The Core Values have been communicated to all employees and managers have been asked to integrate them into all their people management activities and day-to-day work. The Core Values are Respect, Accountability, Passion, Integrity and Delivery. They define our desired behaviours and the qualities that we should all live and work by.

The Group supports and applies the principles of human rights in its operations including equal opportunities for employees regardless of gender, race, religion, age, disability or sexual orientation. 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 £111,500 in 2010 to registered charities and other good causes, including the National Star College, Crack Cancer Campaign (Cobalt), Cheltenham Festivals (Science and Literature), Everyman Theatre Restoration, Cheltenham Open Door, Winston's Wish and UNICEF.

"In the UK the Group donated £111,500 in 2010 to registered charities and other good causes."

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“In 2010... an estimated 3.3 million tonnes of CO₂ were potentially saved... significantly higher than the CO₂ produced during manufacture...”

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 has paid 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 subcontractor when the company requires installation work to be carried out and a class of underprivileged grade one school children by providing stationery. Furthermore, small donations were made to a cancer association and a school catering for boys with challenging backgrounds
- Spirax Sarco Engineering (China) Ltd donated RMB100,000 to the Red Cross (Shanghai Charity Foundation) for the victims of the flooding in Southern China
- Spirax Sarco Ltd in New Zealand donated NZ\$10,000 to the 2010 Christchurch earthquake fund
- 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
- Watson-Marlow Ltd is a sponsor of Falmouth Maritime Museum and The Cornwall 100 Club, a charitable foundation supporting the community, 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 (a member of the International Association of Firefighters), the Dana Farber Cancer Institute and Lazarus House (a local food pantry and homeless shelter)
- In the Netherlands, Watson-Marlow donated to the Red Cross for the Haiti disaster, supported the KWF Cancer Foundation and continued to support the Annual International Wheelchair Games in Delden

(iii) Supplier relations

The Group policy is to use suppliers of goods and services which maintain appropriate quality standards in their operations and avoid employment of underage staff. 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 is dealt with in detail in the technical literature made freely available by the Group

(v) Corruption

The Group'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. Detailed briefings on the UK Bribery Act 2010 have been given, and will continue to be given, to staff throughout the Group

(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. Further e-learning training modules have been rolled out including manual handling, fire safety and VDU use. Spirax Sarco in Italy and Châtelleraut, France gained certification for the international Health and Safety standard OHSAS 18001.

In the UK, Spirax Sarco strengthened its management of health and safety on its main manufacturing sites as we progress the construction phase of the consolidation of these sites onto a single site. Specific actions have included:

- Full-time dedicated Construction Design and Management supervision for the site
- Development of building and machinery handover processes for relocation of machines
- Pre-risk assessment and post relocation support for equipment moving between countries as we develop our manufacturing sites worldwide

(vii) Environmental

The Group continues to refine and improve the robustness of its carbon reporting. Since 2007, the Group has reported its carbon footprint to the Carbon Disclosure Project and has been awarded a carbon disclosure leadership index of 60, demonstrating a year-on-year improvement. The total for scope 1 and scope 2 emissions for 2010 is 29,868 tonnes of CO₂e showing a slight reduction, despite an increase in business volume. The Group continues to improve its management of scope 3 emissions specifically in the areas of logistics. A breakdown of the emissions is shown in the pie chart below.

“The Group... has been awarded a carbon disclosure leadership index of 60, demonstrating a year-on-year improvement.”

Spirax Sarco has been ranked within the top ten UK companies for ecology. The Observer newspaper published the Good Company Guide showing results from independent research carried out by The Co-operative Asset Management. The assessment considered how the UK's leading companies might be affected by five key sustainability issues: resource depletion, climate change, pollution, demographics and resource distribution. The Good Company Guide concluded that Spirax Sarco was helped by ecological sustainability factors.

Investing in energy-saving technologies within the most energy intensive areas of its operations, the Group is focused on improving the environmental and operational efficiency of its manufacturing base.

The Group's commitment to UK manufacturing, consolidating three manufacturing sites onto a single site, provides both economies of scale and offers opportunity to better manage and reduce our environmental impacts. This project makes use of existing buildings, all of which have been upgraded to surpass regulatory requirements, reduce exposure to the CRC Energy Efficiency Scheme (previously known as the Carbon Reduction Commitment) and help improve long-term environmental performance.

Other, complementary, strategic projects are underway that focus on optimising the Group's global manufacturing network. The aim of these projects is to shorten our supply chain to improve responsiveness. Two key outputs should result in making our operations more sustainable: the first through a reduced requirement for inter-company freight and the second manufacturing products closer to the customer reducing the transport requirements and related emissions.

Environmental risks are identified across the business and reviewed by the senior management team. The progressive adoption of an environmental management system across the Group continues. Early in 2011 our operations in Cheltenham successfully achieved ISO 14001 accreditation. The target is to have all Group operations ISO 14001 accredited by the end of 2012.

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Board of Directors

Bill Whiteley BSc, FCMA
Chairman

Committees

Finance Committee (Chairman),
Nomination Committee (Chairman)

Experience

Joined the Group as an independent Non-Executive Director in 2002 and was appointed Chairman in July 2009. Until his retirement in 2008 Mr Whiteley was Chief Executive of Rotork plc, where he had been a Director since 1984. He is a Non-Executive Director of Brammer plc and is Senior Independent Director of Renishaw plc. Mr Whiteley also serves as Chairman of Hill & Smith Holdings plc and the British Valve and Actuator Association. He has been awarded an honorary Doctorate of Engineering at the University of Bath.

Mark E Vernon BSc (Hons)
Chief Executive Officer

Committees

Finance Committee, Nomination Committee,
Risk Management Committee (Chairman)

Experience

Joined the Group in 2003 as President of the Group's steam business in the USA. Mr Vernon was appointed to the Board in 2006, with director responsibilities for operations in North and South America. He became Chief Operating Officer in 2007 and was subsequently appointed as Group Chief Executive in April 2008. Mr Vernon has had a long career in the industrial engineering industry, serving previously as Group Vice-president of Flowserve's Flow Control Business Unit, Group Vice-president of Durco International and President of Valtek International, a global controls business.

Gareth Bullock MA
Independent Non-Executive Director
Senior Independent Director

Committees

Audit Committee, Nomination Committee,
Remuneration Committee (Chairman)

Experience

Joined the Group as an independent Non-Executive Director in 2005. Mr Bullock has had a varied career in banking, recently retiring from the board of Standard Chartered plc where, following roles in Technology and Operations, Strategy and Northeast Asia, he was most recently responsible for Africa, Middle-East, Europe and the Americas as well as for the Risk function. Mr Bullock also currently serves as a Non-Executive Director of Tesco plc.

Neil Daws CEng, FIMechE
Executive Director Asia Pacific
and Latin America

Committees

Risk Management Committee

Experience

Joined the Group in the UK in 1978. Mr Daws has wide manufacturing experience within the Group, having held positions in production and design engineering prior to being named as UK Supply Director. Mr Daws was appointed to the Board as Group Supply Director in 2003, including responsibility for the research and development activities of the Group's steam business. In 2009 he was appointed Divisional Director for Asia Pacific and Latin America.

Mike Gibbin BSc (Eng), CEng, IMechE
Executive Director Supply
and North America

Committees

Risk Management Committee

Experience

Joined the Group in 2007 as UK Supply Director and was appointed to the Board in 2009 as Group Supply Director with additional responsibility for the North America steam business operations and the Group's health, safety and environmental matters. He started his career at Nissan, prior to joining Honda UK Manufacturing as Senior UK Manager. Mr Gibbin joined Comau Systems AB as UK Engineering Director and was subsequently appointed Business Development Director in Sweden before being named as Chief Executive of Comau Sweden AB in 2005.

David Meredith FCMA
Finance Director

Committees

Finance Committee,
Risk Management Committee

Experience

Joined the Group in 1988 as Group Accountant. Mr Meredith was appointed to the Board as Finance Director in 1992 and is also responsible for the Group's Watson-Marlow business. He trained as an Accountant with Redman Heenan International, a specialist engineering group, and was appointed Accountant at their Heenan Drives Limited subsidiary. Mr Meredith later joined English & American Reinsurance Company where he held finance positions prior to joining the Group.

Krishnamurthy Rajagopal FREng, CEng, FIET, FIMechE, FIE, FCMI, PhD
Independent Non-Executive Director

Committees

Audit Committee, Nomination Committee, Remuneration Committee

Experience

Joined the Group as an independent Non-Executive Director in 2009. Dr Rajagopal is a Non-Executive Director of W S Atkins plc, Bodycote plc and a2v technologies plc. He also serves as Chairman of UMIP Ltd. On completing his Doctorate in 1980, he became Manufacturing Systems Manager for Edwards High Vacuum (part of the BOC Group plc) before being appointed a UK General Manager and then Operations Director. Dr Rajagopal was later appointed Managing Director of the Vacuum Technology Division, prior to being named Chief Executive of BOC Edwards and Executive Director of the BOC Group plc in 1998. He retired from BOC Edwards plc in 2006.

Tony Scrvin
Executive Director EMEA

Committees

Risk Management Committee

Experience

Joined the Group in the UK in 1963. Mr Scrvin was appointed to the Board in 2005 and is now responsible for the Group's steam business operations in Europe, the Middle East and Africa. He has held a number of sales and operations roles within the Group, including Export Manager and head of Group Information Systems. Mr Scrvin was named President and General Manager of Spirax Sarco, Inc. in the USA in 2000, and later returned to the UK as General Manager of one of the Group's largest manufacturing and engineering centres in Cheltenham.

Clive Watson B Comm (Acc), ACA, CTA
Independent Non-Executive Director

Committees

Audit Committee (Chairman), Nomination Committee, Remuneration Committee

Experience

Joined the Group as an independent Non-Executive Director in 2009. Mr Watson is an Executive Director and Group Finance Director of Spectris plc. He held several tax and finance roles before joining Black & Decker in 1988 as Director of Tax and Treasury Europe, and was later appointed Vice-president of Business Planning and Analysis in the USA. He then joined Thorn Lighting as Group Finance Director before working for Borealis as Chief Financial Officer and Executive Vice-president of Business Support. Mr Watson joined Spectris plc in 2006 as Chief Financial Officer.

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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 2010

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 and 3 and pages 8 to 21 and are set out in the Group income statement on page 47

Dividend

An interim cash dividend of 13 Op per share (2009 10 5p) was paid in November 2010. The Directors now recommend the payment of a final dividend of 30 Op per share (2009 25 6p) if approved at the Annual General Meeting the final dividend will be paid on 18th May 2011 to shareholders on the register on 15th April 2011. The total distribution for the year will be 43 Op per share (2009 36 1p)

Special dividend

The Directors also recommend the payment of a special final dividend of 25 Op per share (2009 nil) if approved at the Annual General Meeting the special final dividend will be paid on 8th July 2011 to shareholders on the register on 10th June 2011

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 8 to 21

The following cautionary statement applies to the Business Review and Financial Review which are set out on pages 8 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. No part of the Annual Report constitutes or shall be taken to constitute an invitation or inducement to invest in the Company or any other entity, and must not be relied upon in any way in connection with any investment decision

Corporate governance

The Board's corporate governance assessment is set out on pages 31 to 35. All information detailed in pages 31 to 35 is incorporated into this Directors' Report by reference

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 and its brands, which also include Bredel, Altea, 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 8 to 17

Board of Directors

Biographical details of the Directors of the Company are set out on pages 26 and 27. The UK Corporate Governance Code (Governance Code) (which has replaced the Combined Code on Corporate Governance) provides for all directors of FTSE 350 companies to be subject to re-election by their shareholders every year. The Governance Code applies on a 'comply or explain' basis and relates to financial years beginning on or after 29th June 2010. Accordingly, in keeping with the Board's aim of following best corporate governance practice, all the Directors shall retire and, being eligible, offer themselves for re-election annually. Mr M E Vernon, Mr N H Daws, Mr M E Gibbin, Mr D J Meredith and Mr A J Scrvin each have a service contract determinable on 12 months' notice. Mr W H Whiteley, as Chairman, and Mr G Bullock, Dr K Rajagopal and Mr C G Watson, as independent Non-Executive Directors, each have a letter of appointment

Directors' interests and remuneration

The interests of the Directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2010 are set out below. The number of shares over which Directors hold options and awards, together with their remuneration, is detailed in the Directors' Remuneration Report on pages 36 to 43.

	Ordinary Shares of 25p each		
	01 01 10	31 12 10	08 03 11 ¹
W H Whiteley	10,434	11,884	11,884
M E Vernon	34,615	57,478	94,235
N H Daws	19,776	14,988	37,615
M E Gibbin	4,890	9,377	9,377
D J Meredith	52,507	52,895	78,963
A J Scrvin	33,380	40,428	63,055
G Bullock	1,250	1,250	1,250
K Rajagopal	1,000	1,000	1,000
C G Watson	0	1,000	1,000

¹ The increase in the Executive Directors' shareholding is as a result of the vesting of the 2008 Performance Share Plan award. Mr M E Gibbin and Mr A J Scrvin each purchased motor cars from the Company at the then current market value of £13,100 and £21,000 respectively.

Employment policies

Details of the Group's employment policies are set out on pages 23 to 25. The appointment and replacement of Directors is governed by the Company's articles of association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation.

Annual General Meeting

The notice of meeting and an explanation of resolutions 15 to 19 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 £211,712, was 846,847, which represented 1.1% of the called up share capital at that time.

Details of shares issued during the year are set out in note 24 on page 65.

As at 31st December 2010 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.

The Company's articles of association may be amended by special resolution at a general meeting of the shareholders.

Powers of the Directors and purchase of own shares

The Directors may exercise all the powers of the Company subject to the Company's articles of association. There was no purchase of shares by the Company during the year. As at 31st December 2010 the number of shares which may be purchased under the shareholders' authority given at the Annual General Meeting in 2010 was 7,644,609 and the total number of shares in issue was 77,318,628.

Shareholdings of 3% or more

As at 28th February 2011, the Company had an issued share capital of 77,325,128 shares of which 144,537 shares were held in treasury. Of the 77,180,591 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	%
Blackrock Investment Management	12,566,795	16.28
Schroders Investment Management Ltd	6,111,896	7.92
Sprucegrove Investment Management Ltd	4,411,187	5.72
Baillie Gifford & Co	3,166,385	4.10
Legal & General Investment Management	2,490,881	3.23
Standard Life Investments Ltd	2,436,720	3.16

Directors' report continued

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 2010 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 2010 on research and development amounted to £8,909,000 (2009 £8,018,000), of which £1,795,000 (2009 £2,082,000) is capitalised, as explained in note 1 on page 52. During the year the Group has increased its research and development capability, consisting 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 2010 by approximately £12,000,000 (2009 £12,000,000).

Group charitable and political donations

Charitable donations during the year amounted to £111,500 divided amongst 64 organisations (2009 £86,250). There were no political donations (2009 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 ought to 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. For these purposes, relevant audit information means information needed by the Company's auditors in connection with preparing their report set out on page 45. 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 35.

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

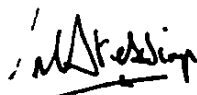
Further information on the Company is available on the Group website www.SpiraxSarcoEngineering.com.

By order of the Board

W G Stebbings

Company Secretary and Solicitor

8th March 2011



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 2010 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, the Company met the requirements of the Combined Code throughout the year ended 31st December 2010. The Board assesses on an ongoing 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 four major shareholders availed themselves of the opportunity to meet the Chairman.

Disclosures required under DTR 7.2.6 can be found on page 29.

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 26 and 27. 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 seven 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 2010, with the exception of Mr G Bullock who was unavailable for one meeting. 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
 - 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

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(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

(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 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, the performance of the Chairman of the Company, and the performance of the Chairman of each of the Audit, Nomination and Remuneration 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. Where necessary, 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.

In accordance with the UK Corporate Governance Code published in May 2010 all Directors will be subject to re-election by shareholders at the first opportunity after their appointment and thereafter annually.

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

During the year Mr G Bullock was the Senior Independent Director.

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. Additionally, the five Executive Directors and the Company Secretary comprised the Risk Management Committee and Mr W H Whiteley (Chairman), Mr M E Vernon and Mr D J Meredith comprised the Finance Committee.

(i) Audit Committee

The Audit Committee comprised Mr C G Watson (Chairman), Mr G Bullock and Dr K Rajagopal. There were three meetings of the Audit Committee during the year and all members attended all meetings, with the exception of Mr G Bullock 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 35.

(ii) Nomination Committee

The Nomination Committee comprised Mr W H Whiteley (Chairman), Mr G Bullock, Dr K Rajagopal and Mr C G Watson. There was one meeting of the Nomination Committee and all members attended the 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 a recommendation for appointment is made to the Board.

(iii) Remuneration Committee

The Committee comprised Mr G Bullock (Chairman), Dr K Rajagopal and Mr C G Watson.

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 Watson.

The Directors' Remuneration Report presented by the Board of Directors is set out on pages 36 to 43.

(iv) Risk Management Committee

The Risk Management Committee comprised Mr M E Vernon (Chairman), Mr N H Daws, Mr M E Gibbin, Mr D J Meredith, Mr A J Scrvin and Mr W G Stebbings.

There were two meetings of the Risk Management Committee and all members attended both meetings with the exception of Mr N H Daws who was unavailable for one meeting. In addition to reviewing the risk management returns provided by Group companies as at 30th June 2010 and 31st December 2010 and reporting on the results of these returns to the Board, the Committee also conducted a review of the Group's risk register to ensure the continuing applicability and relevance of the register. This review was facilitated by Willis, who are the Group's insurance broker and risk adviser.

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.

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

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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.

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 Group website.

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 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, Willis, 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 identifying any additional new risks which could involve a significant risk to the Group's business. This exercise was completed early in 2011 and consisted of a review of the risk magnitude and risk likelihood. Significant potential new risks were assessed and countermeasures established. The Board, on Willis's advice, is satisfied that the system of management for significant risks is appropriate for the Group and is properly executed. 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.

(ii) 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.

(iii) 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. 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 fees
- Recommending the appointment, re-appointment or removal of external auditors
- 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 57. 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 Management and Business 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 International. Reports are made to the Audit Committee and the Board as a whole. No significant matters were raised in the reports made in the 14 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 8 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 44.

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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

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 Watson to ensure that the Company's remuneration policy is appropriate and competitive. Mr W H Whiteley, the Company Chairman, 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 Watson in arriving at the remuneration packages paid to Directors during 2010.

The Company has throughout the year complied with the provisions of the Combined Code on Corporate Governance published in June 2008 (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. Consideration is also given to the benefits of senior management and other employees throughout the Group to ensure a common sense of purpose and sharing of success. 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 Watson 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 2010, maximum available bonus remained at 100% of salary (as in prior years).

The bonus for Mr M E Vernon and Mr D J Meredith 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 company in India 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 bonus for Mr N H Daws, Mr M E Gibbin and Mr A J Scriven was made up as follows:

- (i) A component of up to 65% of salary, split so that 35% of salary was paid based on Group operating profit and 30% of salary was paid based on their respective divisional profit performances 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 this formulae for 2010 resulted in a bonus equal to 100% of salary being payable to Mr M E Vernon, Mr D J Meredith and Mr N H Daws. A bonus equal to 93% of salary was payable to Mr M E Gibbin and a bonus equal to 98% of salary was payable to Mr A J Scrvin. The auditors confirmed the calculations were made in line with the rules of the bonus scheme.

For 2011, the Committee plans to base the bonus for Executive Directors on the same measures with the same relative weight as in 2010 and the maximum bonus payable will remain a sum equal to 100% of base salary.

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 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 any such scheme.

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 are granted awards under that plan rather than be granted options.

Executive Directors, senior executives and management hold options granted in previous years. 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 65. 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 41.

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 2010 was limited to 100% of base salary. Details are set out on page 42. 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. Options which are granted to satisfy vested awards will lapse if not exercised within seven years of grant.

The performance target applied to awards granted in 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 2007 and 1st January 2008. For awards made in 2009 and 2010, 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 2008, the Company's relative TSR performance resulted in 100% of the TSR element of the awards vesting.

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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. In respect of the awards made in 2008, the Company's EPS growth resulted in 100% of the EPS element of the awards vesting.

Specifically, for awards made in 2010, 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 60% of salary, will be based on the TSR measure as described above and
- (ii) Vesting of the second part, amounting to 40% of salary, will be subject to achievement of a target based on aggregate EPS growth 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 2010, 25% of this element of the award will vest if the compound annual growth in EPS over the three-year period 2010 to 2012 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 Watson. The method of assessment is considered appropriate to confirm compliance with the condition.

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.

The Committee reviews the measures annually and is maintaining the same measures and the same performance standards for awards made in 2011.

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 42. 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 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, eg 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, 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 was 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. This additional service provision does not apply to Mr A J Scrvin who has a normal retirement age of 65.

Mr M E Vernon and Mr M E Gibbin both have a normal retirement age of 65.

In April 2010 the terms of the defined benefit pension scheme changed in that the scheme was no longer non-contributory. The change allowed 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 retained the 1/60th rate of accrual and contributed 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 43. 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 43. From 1st January 2010 to 30th November 2010, contributions at the rate of 25% of pensionable pay were payable. With effect from 1st December 2010 Mr M E Gibbin received a cash alternative payment equivalent to 25% of pensionable pay. 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
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

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.

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.

Any additional termination payments will 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.

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	30 06 09	1 month
G Bullock	30 06 09	1 month
K Rajagopal	21 01 09	1 month
C G Watson	16 07 09	1 month

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.

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Total shareholder return

The performance graph illustrated shows the Company's total cumulative shareholder return for the five-year period ended 31st December 2010 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 2010 Total £	2009 Total £
W H Whiteley ²	125,000	–	–	125,000	88,500
M E Vernon	428,000	18,615	428,000	874,615	592,914
N H Daws	233,400	17,113	233,400	483,913	326,796
M E Gibbin	205,000	15,509	190,671	411,180	177,261
D J Meredith	266,000	17,554	266,000	549,554	374,561
A J Scrvin	233,400	14,897	228,008	476,305	325,787
G Bullock ²	52,000	–	–	52,000	44,000
K Rajagopal ²	42,000	–	–	42,000	35,169
C G Watson ²	50,000	–	–	50,000	22,949
	1,634,800	83,688	1,346,079	3,064,567	1,987,937

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. Mr N H Daws, Mr M E Gibbin, Mr A J Scrvin and Mr M E Vernon received a cash allowance in lieu of a company car with effect from 1st January 2010, 15th March 2010, 1st August 2010 and 13th December 2010 respectively.

Mr M E Gibbin received a cash allowance in lieu of a pension contribution with effect from 1st December 2010 as described on page 43.

² Non-Executive Director

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 10 No	Exercised in year ² No	31 12 10 No	Exercise price per share ³ pence	Date from which exercisable ⁴	Expiry date ⁴
N H Daws	A	20,000	20,000	0	-	-	-
	B	15,000	15,000	0	-	-	-
		35,000	35,000	0			
M E Gibbin	B	6,000	-	6,000	959 0	12 03 11	12 03 18
		6,000	-	6,000			
D J Meredith	A	17,500	17,500	0	-	-	-
	A	20,000	20,000	0	-	-	-
	A	20,000	20,000	0	-	-	-
		57,500	57,500	0			
A J Scrvin	B	7,000	7,000	0	-	-	-
	B	7,000	7,000	0	-	-	-
		14,000	14,000	0			

There is no interest to disclose in relation to Mr M E Vernon

- 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

	2010 Options exercised No	Option exercise price pence	Mid market price on the date options exercised pence	2010 Gain arising on exercise £	2009 Gain arising on exercise £
N H Daws	20,000	541 9	1345 0	160,620	-
	15,000	394 5	1345 0	142,575	-
D J Meredith	17,500	436 0	1345 0	159,075	78,300
	20,000	394 5	1345 0	190,100	-
	20,000	541 9	1345 0	160,620	-
A J Scrvin	7,000	394 5	1367 0	68,075	-
	7,000	541 9	1367 0	57,757	-
Aggregate of gains arising on exercise				938,822	78,300

There are no interests to disclose in relation to Mr M E Vernon and Mr M E Gibbin

- ³ This is the exercise price for the ordinary shares under option at 31st December 2010. The exercise price shown is lower than the mid-market price of the Company's ordinary shares on 31st December 2010

- ⁴ This is the range of dates between which the option may be exercised

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 2010 was 1934 0p. During the period from 1st January 2010 to 31st December 2010 the ordinary mid-market share price ranged between 1224 0p and 1987 0p

The performance conditions are described on page 37

Directors' remuneration report continued

(ii) Performance share plan

The interests of Directors are set out below

	Date of award				Total awards as at 01 01 10	Vested ¹	Expired	Awarded 26 03 10 ⁴	Total awards as at 31 12 10
	26 03 07 ¹	10 09 07 ¹	12 03 08 ²	11 03 09 ³					
M E Vernon	11,288	17,538	36,757	41,176	106,759	28,826	0	31,332	109,265
N H Daws	11,887	0	22,627	22,450	56,964	11,887	0	17,086	62,163
M E Gibbin	0	0	0	16,482	16,482	0	0	15,007	31,489
D J Meredith	13,887	0	26,068	25,588	65,543	13,887	0	19,472	71,128
A J Scrvin	10,886	0	22,627	22,450	55,963	10,886	0	17,086	62,163

¹ The mid-market price of the shares on 26th March 2007 and 10th September 2007 was 1020 0p and 1013 0p respectively 100% of the awards has vested as the performance conditions applicable to those awards were met, namely that the TSR performance of the Company during the period 1st January 2007 to 31st December 2009 placed the Company within the upper quartile of the TSR performance of the companies in the FT 250 All-Share Industrial Engineering Index over the performance period The awards vested on 2nd March 2010 and the mid-market price of the shares on that date was 1315 0p

² 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

³ The mid-market price of the shares on 11th March 2009 was 758 0p The period over which performance conditions are measured is 1st January 2009 to 31st December 2011

⁴ The average mid-market price of the shares on the three days from 23rd to 25th March 2010 was 1366 0p This was applied in determining the number of shares subject to the award granted on 26th March 2010 The mid-market price of the shares on that date was 1390 0p The period over which performance conditions are measured is 1st January 2010 to 31st December 2012 The performance conditions are described on pages 37 and 38

(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, 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 10	Partnership shares purchased ¹	Matching shares awarded ¹	Dividend shares awarded ²	Interest at 31 12 10	Period of qualifying conditions ³
N H Daws	4,860	144	144	100	5,248	3 years
M E Gibbin	333	144	144	10	631	3 years
D J Meredith	4,860	144	144	100	5,248	3 years
A J Scrvin	2,015	144	144	53	2,356	3 years

¹ Partnership shares were purchased, at a price of 908 8p, and matching shares were awarded on 8th October 2010 The mid-market price of the shares on that date was 1816 0p

² A total of 216 dividend shares were awarded on 21st May 2010, on which date the mid-market price of the shares was 1372 0p, and a total of 47 dividend shares were awarded on 12th November 2010, on which date the mid-market price of the shares was 1731 0p

³ Partnership shares are not subject to qualifying conditions No 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 a UK defined benefit pension scheme 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 UKLA Listing Rules and the Companies Act 2006

	Age attained at 31 12 10	Accrued pension at 31 12 09 £pa	Accrued pension at 31 12 10 £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 09 £	Transfer value of accrued pension at 31 12 10 £	Change in total transfer value £
N H Daws	48	104,118	110,544	6,426	1,459	18,000	1,263,000	1,398,000	135,000
D J Meredith	51	110,600	117,577	6,977	1,700	24,000	1,515,000	1,680,000	165,000
A J Scrvin	63	152,667	158,518	5,851	(1,433)	(27,700)	2,730,000	2,874,000	144,000

¹ Net of deferred revaluation at a rate of 4.8% per annum

The following is additional information relating to UK Executive Directors' defined benefit 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 10	Accrued pension at 31 12 09 £ pa	Accrued pension at 31 12 10 £ 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 09 £	Transfer value of accrued pension at 31 12 10 £	Change in total transfer value £
M E Vernon	57	12,078	14,779	2,701	2,563	19,574	95,509	112,870	17,361

¹ Net of inflation at a rate of 1.1% 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 an amount in lieu of contributions to a UK defined contributions pension scheme. The total amount made by the Group was £98,014

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 for the period 1st January 2010 to 30th November 2010. The total made by the Group was £39,292. With effect from 1st December 2010 Mr M E Gibbin benefited from a payment in lieu of contributions to a UK defined contributions pension scheme. The total amount paid by the Group was £4,270

Signed by

G Bullock
Chairman of Remuneration Committee
on behalf of the Board
8th March 2011



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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
8th March 2011



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 31st December 2010 set out on pages 46 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 44, 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, and express an opinion on, 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 www.frc.org.uk/apb/scope/private.cfm

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 31st December 2010 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 31 to 35 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 35, in relation to going concern
- The part of the Corporate Governance Statement on pages 31 to 35 relating to the company's compliance with the nine provisions of the Combined Code on Corporate Governance published in June 2008 specified for our review and
- Certain elements of the report to shareholders by the Board on Directors' remuneration

John D Cain

(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

London

8th March 2011

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at 31st December 2010

		The Group		Parent Company	
	notes	2010 £000	2009 £000	2010 £000	2009 £000
Assets					
Non-current assets					
Property, plant and equipment	12	155,553	135,383	–	–
Goodwill	13	43,985	38,150	–	–
Other intangible assets	13	42,097	35,233	–	–
Prepayments		76	1,124	–	–
Loans to subsidiaries	14	–	–	31,151	31,368
Investment in subsidiaries	15	–	–	47,248	46,567
Investment in associates	16	9,235	9,794	220	220
Deferred tax	17	37,741	38,181	424	450
		288,687	257,865	79,043	78,605
Current assets					
Inventories	18	96,115	86,479	–	–
Trade receivables		137,350	118,835	–	–
Due from subsidiaries		–	–	103,262	61,963
Other current assets	19	15,227	11,592	44	50
Taxation recoverable		1,627	1,896	–	823
Cash and cash equivalents	29	74,481	62,194	2,000	12,740
		324,800	280,996	105,306	75,576
Total assets		613,487	538,861	184,349	154,181
Equity and liabilities					
Current liabilities					
Trade and other payables	20	95,544	79,335	2,431	1,287
Bank overdrafts	29	985	559	111	–
Short-term borrowing	29	1,126	9,284	–	–
Current portion of long-term borrowings	29	12,799	63	–	–
Current tax payable	21	11,661	8,138	73	–
		122,115	97,379	2,615	1,287
Net current assets		202,685	183,617	102,691	74,289
Non-current liabilities					
Long-term borrowings	29	25,179	44,255	–	–
Deferred tax	17	16,217	14,659	–	–
Post-retirement benefits	28	63,428	73,763	7,539	11,207
Provisions	23	912	1,441	–	–
Long-term payables		6,112	–	–	–
Due to subsidiaries		–	–	941	941
		111,848	134,118	8,480	12,148
Total liabilities		233,963	231,497	11,095	13,435
Net assets	2	379,524	307,364	173,254	140,746
Equity					
Share capital	24	19,329	19,310	19,329	19,310
Share premium account		48,276	47,601	48,276	47,601
Other reserves		50,772	43,327	5,560	4,879
Retained earnings		260,351	196,481	100,089	68,956
Equity attributable to equity holders of the parent		378,728	306,719	173,254	140,746
Minority interest		796	645	–	–
Total equity		379,524	307,364	173,254	140,746
Total equity and liabilities		613,487	538,861	184,349	154,181

These accounts were approved by the Board of Directors on 8th March 2011 and signed on its behalf by

Directors

M E Vernon D J Meredith



Group income statement

for the year ended 31st December 2010

	notes	Adjusted 2010 £000	Adjustments* 2010 £000	Total 2010 £000	Adjusted 2009 £000	Adjustments* 2009 £000	Total 2009 £000
Revenue	2	589,746	–	589,746	518,705	–	518,705
Operating costs	3	(470,621)	2,271	(468,350)	(428,767)	(13,416)	(442,183)
Operating profit	2	119,125	2,271	121,396	89,938	(13,416)	76,522
Financial expenses		(17,206)	–	(17,206)	(16,072)	–	(16,072)
Financial income		16,613	–	16,613	13,558	–	13,558
	5	(593)	–	(593)	(2,514)	–	(2,514)
Share of profit of associates		3,081	(391)	2,690	2,772	(365)	2,407
Profit before taxation	6	121,613	1,880	123,493	90,196	(13,781)	76,415
Taxation	8	(37,280)	441	(36,839)	(27,472)	4,148	(23,324)
Profit for the period		84,333	2,321	86,654	62,724	(9,633)	53,091
Attributable to							
Equity holders of the parent		84,134	2,321	86,455	62,596	(9,633)	52,963
Minority interest		199	–	199	128	–	128
Profit for the period		84,333	2,321	86,654	62,724	(9,633)	53,091
Earnings per share	10						
Basic earnings per share				112 5p			69 6p
Diluted earnings per share				111 2p			69 3p
Dividends	11						
Dividends per share				43 0p			36 1p
Special dividend per share				25 0p			–
Dividends paid during the year (per share)				38 6p			33 8p

* Adjustments in 2010 relate to amortisation of acquisition-related intangibles, impairment of goodwill and intangible assets and the gain on revaluation of investment arising from the acquisition of a company previously treated as an Associate net of acquisition costs (see note 2). In 2009 adjustments include exceptional headcount reduction costs and amortisation of acquisition-related intangibles (see note 2). Earnings per share before these adjustments are shown in note 10.

All amounts relate to continuing operations

The notes on pages 51 to 81 form an integral part of the accounts

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Group statement of comprehensive income

for the year ended 31st December 2010

	The Group	
	2010 £000	2009 £000
Profit for the period	86,654	53,091
Actuarial loss on post-retirement benefits	(230)	(7,800)
Deferred tax on actuarial loss on post-retirement benefits	220	2,106
Foreign exchange translation differences	7,703	(14,051)
(Loss)/gain on cash flow hedges net of tax	(258)	576
Total comprehensive income for the period	94,089	33,922
Attributable to		
Equity holders of the parent	93,890	33,794
Minority interest	199	128
Total comprehensive income for the period	94,089	33,922

Statements of changes in equity

for the year ended 31st December 2010

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 2010	19,310	47,601	41,320	175	1,832	196,481	306,719
Total comprehensive income for the period	–	–	7,703	(258)	–	86,445	93,890
Dividends paid	–	–	–	–	–	(29,701)	(29,701)
Equity settled share plans net of tax	–	–	–	–	–	1,605	1,605
Issue of share capital	19	675	–	–	–	–	694
Treasury shares reissued	–	–	–	–	–	10,453	10,453
Loss on the reissue of treasury shares	–	–	–	–	–	(4,932)	(4,932)
Equity attributable to equity holders of the parent	19,329	48,276	49,023	(83)	1,832	260,351	378,728

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

Statements of changes in equity continued

for the year ended 31st December 2010

Parent company

	Share capital £000	Share premium account £000	Share based payments £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1st January 2010	19,310	47,601	3,047	1,832	68,956	140,746
Total comprehensive income for the period	–	–	–	–	54,751	54,751
Dividends paid	–	–	–	–	(29,701)	(29,701)
Equity settled share plans net of tax	–	–	–	–	562	562
Issue of new share capital	19	675	–	–	–	694
Treasury shares reissued	–	–	–	–	10,453	10,453
Loss on the reissue of treasury shares	–	–	–	–	(4,932)	(4,932)
Investment in subsidiaries in relation to share options granted	–	–	681	–	–	681
Balance at 31st December 2010	19,329	48,276	3,728	1,832	100,089	173,254

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Statements of changes in equity

for the year ended 31st December 2009

Parent company

	Share capital £000	Share premium account £000	Share based payments £000	Capital redemption reserve £000	Retained earnings £000	Total equity £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

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for the year ended 31st December 2010

	notes	The Group		Parent Company	
		2010 £000	2009 £000	2010 £000	2009 £000
Cash flows from operating activities					
Profit before taxation		123,493	76,415	52,867	47,359
Depreciation, amortisation and impairment		22,565	18,550	–	–
Dividends received		–	–	(57,940)	(50,343)
Share of profit of associates		(2,690)	(2,407)	–	–
Gain on revaluation of investment on acquisition		(8,175)	–	–	–
Equity settled share plans		2,229	1,929	781	513
Net finance expense		593	2,514	(173)	(341)
Exchange adjustments		–	–	(160)	(594)
Operating cash flow before changes in working capital and provisions		138,015	97,001	(4,625)	(3,406)
Change in trade and other receivables		(14,321)	(74)	6	46
Change in amounts due from subsidiaries		–	–	(40,756)	(19,453)
Change in inventories		(7,188)	11,057	–	–
Change in provisions and post-retirement benefits		(11,445)	(7,072)	(2,553)	(1,840)
Change in trade and other payables		8,102	2,008	1,144	338
Cash generated from operations		113,163	102,920	(46,784)	(24,315)
Interest paid		(1,315)	(1,366)	–	(22)
Income taxes paid		(30,362)	(29,877)	1,387	–
Net cash from operating activities		81,486	71,677	(45,397)	(24,337)
Cash flows from investing activities					
Purchase of property, plant and equipment		(33,338)	(33,397)	–	–
Proceeds from sale of property, plant and equipment		3,423	1,898	–	–
Purchase of software and other intangibles		(1,148)	(1,056)	–	–
Development expenditure capitalised		(1,805)	(2,099)	–	–
Acquisition of businesses		(3,526)	(27,192)	–	1,952
Interest received		996	630	92	565
Dividends received		1,779	1,498	57,940	50,343
Net cash used in investing activities		(33,619)	(59,718)	58,032	52,860
Cash flows from financing activities					
Proceeds from issue of share capital		694	45	694	45
Proceeds from reissue of treasury shares		5,521	1,921	5,521	1,921
Change in borrowings	29	(15,194)	20,614	–	–
Payment of finance lease liabilities	29	(42)	(67)	–	–
Dividends paid (including minorities)		(29,767)	(25,763)	(29,701)	(25,733)
Net cash used in financing activities		(38,788)	(3,250)	(23,486)	(23,767)
Net change in cash and cash equivalents	29	9,079	8,709	(10,851)	4,756
Cash and cash equivalents at beginning of period		61,635	52,095	12,740	7,984
Exchange movement		2,782	831	–	–
Cash and cash equivalents at end of period	29	73,496	61,635	1,889	12,740
Borrowings and finance leases		(39,104)	(53,602)	–	–
Net cash	29	34,392	8,033	1,889	12,740

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 Financial Review on pages 8 to 21. In addition, note 32 to the financial statements discloses details of the Group's financial risk management and credit facilities

IFRS 3 (revised), Business combinations was adopted in the year. This has resulted in a gain on the acquisition of the remaining 51% of Spirax-Sarco Mexicana S A to reflect the increase in value of the existing 49% share. In addition acquisition related expenses are now expensed as incurred

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

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

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1 Accounting policies continued

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 in other comprehensive income and presented in the hedging reserve. 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 in other comprehensive income and presented in a separate translation reserve. 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 core technology	10%
ERP systems and software	12.5-20%	Non compete undertakings	50%
Customer relationships	20%		
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.

Going concern

The statement on the going concern assumption is included within Corporate Governance on page 35.

1 Accounting policies continued

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 in 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.

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.

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2 Segmental reporting

As required by IFRS 8, Operating Segments, the following segmental information is presented in a consistent format with management information considered by the Board

Analysis by location of operation

2010

	Gross Revenue £000	Inter- segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East & Africa	266,646	36,646	230,000	33,712	36,834	16.0%
Asia Pacific	135,454	3,940	131,514	34,252	34,252	26.0%
Americas	131,221	6,036	125,185	31,317	24,263	19.4%
Steam Specialties business	533,321	46,622	486,699	99,281	95,349	19.6%
Watson-Marlow	103,475	428	103,047	29,143	30,804	29.9%
Corporate expenses				(7,028)	(7,028)	
	636,796	47,050	589,746	121,396	119,125	20.2%
Intra Group	(47,050)	(47,050)				
Net revenue	589,746	-	589,746	121,396	119,125	20.2%

2009

	Gross Revenue £000	Inter- segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East & Africa	257,736	32,232	225,504	25,848	35,623	15.8%
Asia Pacific	107,475	2,733	104,742	22,691	23,099	22.1%
Americas	109,911	5,301	104,610	11,974	13,854	13.2%
Steam Specialties business	475,122	40,266	434,856	60,513	72,576	16.7%
Watson-Marlow	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%

Net revenue split between the UK and rest of the world is, UK £58,949,000 (2009 £59,755,000), rest of the world £530,797,000 (2009 £458,950,000).

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

2010

	Gain on revaluation of Associate £000	Impairment of acquisition- related intangible assets £000	Amortisation of acquisition- related intangible assets £000	Acquisition costs £000	Total £000
Europe, Middle East & Africa	-	(2,144)	(780)	(198)	(3,122)
Asia Pacific	-	-	-	-	-
Americas	8,175	-	(1,121)	-	7,054
Steam Specialties business	8,175	(2,144)	(1,901)	(198)	3,932
Watson-Marlow	-	-	(1,661)	-	(1,661)
	8,175	(2,144)	(3,562)	(198)	2,271

2 Segmental reporting continued 2009

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

Share of profit of associates

	2010 Adjusted £000	2010 Total £000	2009 Adjusted £000	2009 Total £000
Europe, Middle East & Africa	-	-	-	-
Asia Pacific	2,755	2,364	2,009	1,644
Americas	326	326	763	763
Steam Specialties business	3,081	2,690	2,772	2,407
Watson-Marlow	-	-	-	-
	3,081	2,690	2,772	2,407

Net financing income and expense

	2010 £000	2009 £000
Europe, Middle East & Africa	(124)	(1,452)
Asia Pacific	152	(475)
Americas	(232)	(192)
Steam Specialties business	(204)	(2,119)
Watson-Marlow	(562)	(94)
Corporate	173	(301)
	(593)	(2,514)

Net assets

	2010 Assets £000	Liabilities £000	2009 Assets £000	Liabilities £000
Europe, Middle East & Africa	205,006	(106,154)	194,394	(105,487)
Asia Pacific	102,178	(18,267)	86,724	(14,373)
Americas	99,537	(26,949)	65,703	(21,400)
Watson-Marlow	92,919	(14,628)	89,769	(13,279)
	499,640	(165,998)	436,590	(154,539)
Liabilities	(165,998)		(154,539)	
Deferred tax	21,524		23,522	
Current tax payable	(10,034)		(6,242)	
Net Cash	34,392		8,033	
Net assets	379,524		307,364	

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2 Segmental reporting continued

Capital additions and depreciation, amortisation and impairment

	2010		2009	
	Capital additions £000	Depreciation, amortisation and impairment £000	Capital additions £000	Depreciation amortisation and impairment £000
Europe, Middle East & Africa	19,249	13,206	17,597	9,652
Asia Pacific	8,938	774	11,595	2,261
Americas	17,968	3,953	2,879	2,839
Watson-Marlow	3,330	4,632	20,045	3,798
	49,485	22,565	52,116	18,550

Capital additions include property, plant and equipment of £34,892,000 (2009 £33,824,000) and other intangible assets of £14,593,000 (2009 £18,292,000) of which £11,588,000 (2009 £15,143,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are, UK £15,805,000 (2009 £13,490,000), rest of the world £33,680,000 (2009 £38,626,000)

3 Operating costs

	2010 £000	2009 £000
Change in stocks of finished goods and work in progress	(6,641)	5,491
Raw materials and consumables	166,404	144,801
Staff costs (note 4)	201,707	191,393
Depreciation and amortisation	22,565	18,550
Other operating charges	84,315	81,948
	468,350	442,183

Staff costs include exceptional headcount reduction costs of £Nil (2009 £11,394,000)

Depreciation and amortisation includes amortisation of acquisition-related intangible assets of £3,562,000 (2009 £2,022,000), goodwill and intangible asset impairment of £2,144,000 (2009 £Nil) and amortisation of capitalised development costs of £1,522,000 (2009 £1,274,000)

4 Staff costs and numbers

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

	2010 £000	2009 £000
Wages and salaries	160,880	152,092
Social security costs	28,454	26,058
Other pension costs	12,373	13,243
	201,707	191,393

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

	2010 Number	2009 Number
United Kingdom	1,178	1,168
Overseas	3,252	3,209
	4,430	4,377

5 Net financing income and expense

	2010 £000	2009 £000
Financial expenses		
Bank and other borrowing interest payable	(1,315)	(1,369)
Interest on pension scheme liabilities	(15,891)	(14,703)
	(17,206)	(16,072)
Financial income		
Bank interest receivable	996	631
Expected return on pension scheme assets	15,617	12,927
	16,613	13,558
Net financing income/(expense)	(593)	(2,514)
Net pension scheme financial expense	(274)	(1,776)
Net bank interest	(319)	(738)
Net financing income/(expense)	(593)	(2,514)

6 Profit before taxation

Profit before taxation is shown after charging

	2010 £000	2009 £000
Depreciation of tangible fixed assets held under finance leases	40	71
Hire of plant and machinery	604	553
Other operating leases	4,957	4,472
Research and development	7,114	5,936
Auditor's remuneration	£000	£000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	144	148
Fees payable to the Company's auditor and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	1,115	1,040
Tax services	485	402
Other services	197	173
	1,941	1,763

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 36 to 43. Directors represent the key management personnel of the Group under the terms of IAS 24 Related Party Disclosures.

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8 Taxation

	2010 £000	2009 £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	583	18,932
Adjustments in respect of prior periods	(74)	(102)
	509	18,830
Double taxation relief	(499)	(18,593)
	10	237
Foreign tax		
Current tax on income for the period	33,206	25,796
Adjustments in respect of prior periods	(18)	(7)
	33,188	25,789
Total current tax charge	33,198	26,026
Deferred tax – UK	2,173	111
Deferred tax – Foreign	1,468	(2,813)
Tax on profit on ordinary activities	36,839	23,324

Reconciliation of effective tax rate

	2010 £000	2009 £000
Profit before tax	123,493	76,415
Tax using the UK corporation tax rate of 28% (2009 28%)	34,578	21,396
Effect of higher/(lower) overseas tax rates	3,005	1,451
Associated companies	(771)	(674)
Non-deductible expenditure	132	1,248
Overprovided in prior years	(92)	(109)
Other reconciling items	(13)	12
Total tax in income statement	36,839	23,324

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

	2010 £000	2009 £000
Relating to		
Equity settled transactions	(624)	(550)
On actuarial gains and losses	220	2,106
	404	1,556

9 Profit for the financial year attributable to shareholders

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £53,131,000 (2009 £48,586,000). Included in this amount are dividends from subsidiary undertakings of £56,500,000 (2009 £49,500,000).

10 Earnings per share

	2010 £000	2009 £000
Profit attributable to equity holders of the parent	86,455	52,963
Weighted average shares in issue	76,869,249	76,132,486
Dilution	865,396	242,642
Diluted weighted average shares in issue	77,734,645	76,375,128
Basic earnings per share	112.5p	69.6p
Diluted earnings per share	111.2p	69.3p
Adjusted profit attributable to equity holders of the parent	84,134	62,596
Basic adjusted earnings per share	109.5p	82.2p

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

11 Dividends

	2010 £000	2009 £000
Amounts paid in the year		
Final dividend for the year ended 31st December 2009 of 25 6p (2008 23 3p) per share	19,673	17,720
Interim dividend for the year ended 31st December 2010 of 13 0p (2009 10 5p) per share	10,028	8,013
	29,701	25,733
Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2010 of 13 0p (2009 10 5p) per share	10,028	8,013
Proposed final dividend for the year ended 31st December 2010 of 30 0p (2009 25 6p) per share	23,154	19,556
Proposed special dividend for the year ended 31st December 2010 of 25 0p (2009 nil) per share	19,295	-
	52,477	27,569

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

12 Property, plant and equipment

	The Group				
	Land and buildings		Plant and machinery	Fixtures, fittings, tools and equipment	Total
	Freehold £000	Leasehold £000			
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

Notes to the accounts continued

12 Property, plant and equipment continued

	The Group				
	Land and buildings		Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
	Freehold £000	Leasehold £000			
Cost or deemed cost					
At 1st January 2010	86,053	13,491	125,172	54,176	278,892
Exchange adjustments	1,376	933	876	701	3,886
	87,429	14,424	126,048	54,877	282,778
Additions	10,454	3,325	12,908	8,205	34,892
Disposals	(73)	(1,384)	(5,399)	(1,536)	(8,392)
At 31st December 2010	97,810	16,365	133,557	61,546	309,278
Depreciation					
At 1st January 2010	16,495	422	85,285	41,305	143,507
Exchange adjustments	100	42	354	507	1,003
	16,595	464	85,639	41,812	144,510
Charged in year	1,575	237	9,803	4,085	15,700
Disposals	–	(250)	(4,703)	(1,532)	(6,485)
At 31st December 2010	18,170	451	90,739	44,365	153,725
Net book value					
At 31st December 2010	79,640	15,914	42,818	17,181	155,553

Included in the above are finance leases with a net book value of £430,635 (2009 £465,542)

Included in additions are £1,105,000 (2009 £703,000) 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 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

13 Goodwill and other intangible assets continued

	The Group				
	Acquired intangibles £000	Development £000	Software and other intangibles £000	Total intangibles £000	Goodwill £000
Cost or valuation					
At 1st January 2010	29,867	11,579	21,468	62,914	38,150
Exchange adjustments	(569)	21	32	(516)	(227)
	29,298	11,600	21,500	62,398	37,923
Additions	11,588	1,795	1,210	14,593	7,307
Disposals/Impairment	–	–	(29)	(29)	(1,245)
At 31st December 2010	40,886	13,395	22,681	76,962	43,985
Amortisation					
At 1st January 2010	4,883	6,808	15,990	27,681	
Exchange adjustments	60	(29)	(83)	(52)	
	4,943	6,779	15,907	27,629	
Amortisation and impairment	4,206	1,520	1,539	7,265	
Disposals	–	–	(29)	(29)	
At 31st December 2010	9,149	8,299	17,417	34,865	
Net book value					
At 31st December 2010	31,737	5,096	5,264	42,097	

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

	2010 Goodwill £000	2009 Goodwill £000
Flexicon A/S Denmark	8,033	8,222
MasoSine	7,202	7,457
Spirax-Sarco Mexicana S A	6,593	–
Spirax Sarco Inc USA	3,282	3,168
M & M product unit	3,124	3,243
Alitea product unit	2,624	2,570
Spirax Inter Valf Turkey	2,095	2,070
UK Supply product unit	2,028	2,100
Watson-Marlow South Africa	1,461	1,263
Spirax-Sarco S A S France	1,368	1,417
Mitech product unit	–	1,135
Other cash-generating units	6,175	5,505
	43,985	38,150

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 11-14%
- Growth rates vary between 3-10% 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

- Short-term revenue growth of 10%, trending to 4%
- 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 14%

The principal value in use assumptions for the Spirax-Sarco Mexicana S A goodwill balance were as follows

- Long-term revenue growth of 5-6%
- Pre-tax discount rate of 13%

Notes to the accounts continued

14 Loans to subsidiaries

	Parent Company	
	2010 £000	2009 £000
Cost		
At 1st January	32,410	28,716
Exchange adjustments	–	595
	32,410	29,311
Loans	(217)	3,099
At 31st December	32,193	32,410
Amounts written off		
At 1st January and 31st December	(1,042)	(1,042)
Net book value		
At 31st December	31,151	31,368

15 Investment in subsidiaries

	Parent Company	
	2010 £000	2009 £000
Cost		
At 1st January	47,561	48,840
Share options issued to subsidiary company employees	681	673
Holding transferred to other Group company	–	(1,952)
At 31st December	48,242	47,561
Amounts written off		
At 1st January and 31st December	(994)	(994)
Net book value		
At 31st December	47,248	46,567

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 2010. 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	
	2010 £000	2009 £000
Cost of investment	3,194	5,212
Share of total equity	6,041	4,582
	9,235	9,794

Summarised aggregated financial information (total business)

Revenue	25,102	25,863
Profit for the period	5,591	5,634
Assets	16,048	17,612
Liabilities	3,264	4,469

Details of the Group's associates at 31st December 2010 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

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	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Accelerated capital allowances	550	1,561	(5,424)	(5,505)	(4,874)	(3,944)
Provisions	9,118	9,033	(328)	(375)	8,790	8,658
Losses	1,510	1,151	–	–	1,510	1,151
Inventory	907	933	(1,510)	(1,505)	(603)	(572)
Pensions	19,399	22,596	(2,705)	(2,363)	16,694	20,233
Other temporary differences	6,257	2,907	(6,250)	(4,911)	7	(2,004)
Tax assets/(liabilities)	37,741	38,181	(16,217)	(14,659)	21,524	23,522

Movement in deferred tax during the year

2009

	The Group			
	1st January 2009 £000	Recognised in income £000	Recognised in equity £000	31st 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

2010

	The Group			
	1st January 2010 £000	Recognised in income £000	Recognised in equity £000	31st December 2010 £000
Accelerated capital allowances	(3,944)	(1,542)	163	(5,323)
Provisions	8,658	(248)	65	8,475
Losses	1,151	194	165	1,510
Inventory	(572)	(42)	12	(602)
Pensions	20,233	(2,606)	(43)	17,584
Other temporary differences	(2,004)	1,867	17	(120)
	23,522	(2,377)	379	21,524

Amounts recognised in equity include items arising from acquisitions

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17 Deferred tax assets and liabilities continued

Movement in deferred tax during the year

2009

	Parent Company			
	1st January 2009 £000	Recognised in income £000	Recognised in equity £000	31st December 2009 £000
Other temporary differences	156	232	62	450
	156	232	62	450

2010

	Parent Company			
	1st January 2010 £000	Recognised in income £000	Recognised in equity £000	31st December 2010 £000
Other temporary differences	450	385	(411)	424
	450	385	(411)	424

18 Inventories

	The Group	
	2010 £000	2009 £000
Raw materials and consumables	31,199	30,476
Work in progress	17,523	14,063
Finished goods and goods for resale	47,393	41,940
	96,115	86,479

19 Other current assets

	The Group		Parent Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Other receivables	8,288	6,834	–	–
Prepayments and accrued income	6,939	4,758	44	50
	15,227	11,592	44	50

20 Trade and other payables

	The Group		Parent Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade payables	31,629	25,510	–	–
Bills of exchange payable	1,078	774	–	–
Social security	4,281	3,831	–	–
Other payables	26,940	22,543	321	318
Accruals	31,616	26,677	2,110	969
	95,544	79,335	2,431	1,287

21 Current tax payable

	The Group		Parent Company	
	2010 £000	2009 £000	2010 £000	2009 £000
UK Corporation tax	15	327	73	–
Foreign tax payable	11,646	7,811	–	–
	11,661	8,138	73	–

22 Obligations under finance leases

	The Group			
	Minimum lease payments		Present value lease payments	
	2010 £000	2009 £000	2010 £000	2009 £000
Amount payable				
Within 1 year	63	69	61	50
1-5 years inclusive	172	215	148	191
After 5 years	-	-	-	-
	235	284	209	241
Add future finance charges			26	43
Minimum lease payments	235	284	235	284
Less Due for settlement in <1 year			59	50
Due for settlement in >1 year			176	234

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23 Provisions

	The Group	
	Warranty and other provisions	
	2010 £000	2009 £000
Provisions at 1st January	1,441	1,182
Exchange adjustments	(183)	(66)
	1,258	1,116
Net charge for the year	-	-
Change in the year	(346)	325
Provisions at 31st December	912	1,441

Business review

24 Called up share capital

	The Group		Parent Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Ordinary shares of 25p each				
Authorised 120,000,000	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 77,318,628 (2009 77,238,516)	19,329	19,310	19,329	19,310

80,112 shares were issued pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £694,525 received by the Company

At 31st December 150,537 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 1,112,100 ordinary shares with an aggregate nominal value of £278,025 (note 28)

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25 Return on capital employed

	The Group	
	2010 £000	2009 £000
Capital employed		
Property, plant and equipment	155,553	135,383
Prepayments	76	1,124
Inventories	96,115	86,479
Trade receivables	137,350	118,835
Other current assets	15,227	11,592
Tax recoverable	1,627	1,896
Trade and other payables	(95,544)	(79,335)
Current tax payable	(11,661)	(8,138)
Capital employed	298,743	267,836
Average capital employed	283,290	269,830
Operating profit	121,396	76,522
Adjustments (note 2)	(2,271)	13,416
	119,125	89,938
Return on capital employed	42.1%	33.3%

26 Capital commitments

	The Group		Parent Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Capital expenditure contracted for but not provided	3,834	3,456	-	-

27 Operating lease obligations

	The Group	
	2010 £000	2009 £000
Commitments under non-cancellable leases due as follows		
Within 1 year	3,656	3,168
1-5 years inclusive	5,735	4,851
After 5 years	1,159	1,063
	10,550	9,082

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 £4,796,000 (2009 £5,215,000)

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 2011. 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	
	2010	2009	2010	2009
Rate of increase in salaries	4.1	4.0	3.1	3.5
Rate of increase in pensions	3.4	3.4	1.7	1.8
Rate of price inflation	3.5	3.5	2.0	2.6
Discount rate	5.5	5.7	5.2	5.6
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 liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2010	2009	2010	2009
Expected rate of return on assets (weighted average)	7.3	7.6	7.4	7.3
Equities	7.9	8.4	8.3	8.2
Bonds	4.6	4.9	4.5	5.2
Other	6.5	5.7	3.5	3.8

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 2010 were

	UK pensions		Overseas pensions and medical		Total	
	2010	2009	2010	2009	2010	2009
	£000	£000	£000	£000	£000	£000
Equities	165,746	144,239	17,249	17,279	182,995	161,518
Bonds	41,713	35,719	4,530	5,231	46,243	40,950
Other	5,145	5,189	5,527	3,490	10,672	8,679
Total market value in aggregate	212,604	185,147	27,306	26,000	239,910	211,147

The actual return on plan assets was £26.1 million (2009 £38.9 million)

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28 Employee benefits continued

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

	Overseas pensions and medical		Total	
	1% increase £000	Overseas 1% decrease £000	1% increase £000	Total 1% decrease £000
Aggregate of service cost and interest cost components of post-retirement medical plans	5	(4)	5	(4)
Accumulated post-employment benefit obligation for medical costs	20	(17)	20	(17)

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

	UK pensions		Overseas pensions and medical		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Fair value of schemes' assets	212,604	185,147	27,306	26,000	239,910	211,147
Present value of funded schemes' liabilities	(250,918)	(234,657)	(37,811)	(35,592)	(288,729)	(270,249)
(Deficit) in the funded schemes	(38,314)	(49,510)	(10,505)	(9,592)	(48,819)	(59,102)
Present value of unfunded schemes' liabilities	–	–	(14,609)	(14,661)	(14,609)	(14,661)
Retirement benefit liability recognised in the balance sheet	(38,314)	(49,510)	(25,114)	(24,253)	(63,428)	(73,763)
Related deferred tax asset	10,345	13,863	7,541	6,653	17,886	20,516
Net pension liability	(27,969)	(35,647)	(17,573)	(17,600)	(45,542)	(53,247)

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

	UK pensions		Overseas pensions and medical		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Defined benefit obligation at beginning of year	(234,657)	(194,890)	(50,253)	(49,269)	(284,910)	(244,159)
Current service cost	(5,269)	(5,738)	(1,753)	(2,180)	(7,022)	(7,918)
Interest cost	(13,134)	(11,994)	(2,744)	(2,672)	(15,878)	(14,666)
Contributions by members	(334)	(114)	–	–	(334)	(114)
Actuarial gain/(loss)	(6,342)	(29,536)	(3,105)	(2,196)	(9,447)	(31,732)
Actual benefit payments	8,818	8,558	2,931	2,793	11,749	11,351
Settlement, curtailment	–	–	4,366	(101)	4,366	(101)
Experience gain/(loss)	–	(943)	(959)	(752)	(959)	(1,695)
Currency gain/(loss)	–	–	(903)	4,124	(903)	4,124
Defined benefit obligation at end of year	(250,918)	(234,657)	(52,420)	(50,253)	(303,338)	(284,910)

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

	UK pensions		Overseas pensions and medical		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Value of assets at beginning of year	185,147	147,816	26,000	22,626	211,147	170,442
Expected return on assets	13,626	11,361	1,978	1,541	15,604	12,902
Actuarial gain/(loss)	9,573	22,761	871	3,251	10,444	26,012
Contributions paid by employer	12,742	11,653	4,847	3,118	17,589	14,771
Contributions paid by members	334	114	–	–	334	114
Actual benefit payments	(8,818)	(8,558)	(2,931)	(2,793)	(11,749)	(11,351)
Settlement, curtailment	–	–	(4,366)	–	(4,366)	–
Currency gain/(loss)	–	–	907	(1,743)	907	(1,743)
Value of assets at end of year	212,604	185,147	27,306	26,000	239,910	211,147

The estimated employer contributions to be made in 2011 are £15,385,000

28 Employee benefits continued

The history of experience adjustments is as follows

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Defined benefit obligation at end of year	(303,338)	(284,910)	(244,159)	(230,053)	(228,274)
Fair value of schemes' assets	239,910	211,147	170,442	208,520	198,682
Retirement benefit liability recognised in the balance sheet	(63,428)	(73,763)	(73,717)	(21,533)	(29,592)
Experience adjustment on schemes' liabilities	(959)	(1,695)	(11,140)	(6,913)	481
As a percentage of schemes' liabilities	0.3%	0.6%	4.6%	3.0%	0.2%
Experience adjustment on schemes' assets	10,444	26,012	(60,771)	(11,095)	2,663
As a percentage of schemes' assets	4.4%	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	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Current service cost	(5,269)	(5,738)	(1,755)	(2,186)	(7,024)	(7,924)
Settlement curtailment and termination benefits	-	-	(553)	(104)	(553)	(104)
Interest on schemes' liabilities	(13,134)	(11,994)	(2,757)	(2,709)	(15,891)	(14,703)
Expected return on schemes' assets	13,626	11,361	1,991	1,566	15,617	12,927
Total expense recognised in income statement	(4,777)	(6,371)	(3,074)	(3,433)	(7,851)	(9,804)

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

	2010 £000	2009 £000
Operating costs	(7,577)	(8,028)
Financial expenses	(15,891)	(14,703)
Financial income	15,617	12,927
Total expense recognised in income statement	(7,851)	(9,804)

Statement of comprehensive income (OCI)

	UK pensions		Overseas pensions and medical		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Actuarial amount recognised in OCI	3,231	(7,718)	(3,461)	(82)	(230)	(7,800)
Deferred tax on actuarial amount recognised in OCI	(872)	2,161	1,092	(55)	220	2,106
Cumulative loss recognised in OCI at beginning of year	(40,177)	(34,620)	(3,395)	(3,258)	(43,572)	(37,878)
Cumulative loss recognised in OCI at end of year	(37,818)	(40,177)	(5,764)	(3,395)	(43,582)	(43,572)

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 £73,774 (2009 £91,894)

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	
	UK pensions	
	2010	2009
Rate of increase in salaries	4.5	4.5
Rate of increase in pensions	3.4	3.4
Rate of price inflation	3.5	3.5
Discount rate	5.5	5.7

Notes to the accounts continued

28 Employee benefits continued

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	
	UK pensions	
	2010	2009
Expected rate of return on assets (weighted average)	7.3	7.6
Equities	7.9	8.4
Bonds	4.6	4.9
Other	7.1	5.7

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 2010 were

	UK pensions	
	2010 £000	2009 £000
Equities	35,341	30,823
Bonds	8,682	7,748
Other	1,032	1,222
Total market value in aggregate	45,055	39,793

The actual return on plan assets was £5.2 million (2009 £7.1 million)

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

	UK pensions	
	2010 £000	2009 £000
Fair value of scheme's assets	45,055	39,793
Present value of funded scheme's liabilities	(52,594)	(51,000)
Retirement benefit (liability)/asset recognised in the balance sheet	(7,539)	(11,207)
Related deferred tax	-	-
Net pension (liability)/asset	(7,539)	(11,207)

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

	UK pensions	
	2010 £000	2009 £000
Defined benefit obligation at beginning of year	(51,000)	(43,200)
Current service cost	(506)	(806)
Interest cost	(2,821)	(2,641)
Contributions from members	(27)	-
Change in assumptions on DBO	(1,261)	(6,200)
Actual benefit payments	3,022	1,815
Experience (loss)/gain	(1)	32
Defined benefit obligation at end of year	(52,594)	(51,000)

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

	UK pensions	
	2010 £000	2009 £000
Value of assets at beginning of year	39,793	31,934
Expected return on assets	2,902	2,439
Actuarial (loss)/gain	2,320	4,611
Contributions paid by employer	3,035	2,624
Contributions from members	27	-
Actual benefit payments	(3,022)	(1,815)
Value of assets at end of year	45,055	39,793

The estimated employer contributions to be made in 2011 are £3,000,000

28 Employee benefits continued

The history of experience adjustments is as follows

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Defined benefit obligation at end of year	(52,594)	(51,000)	(43,200)	(40,700)	(41,319)
Fair value of scheme's assets	45,055	39,793	31,934	41,238	38,223
Retirement benefit asset/(liability) recognised in the balance sheet	(7,539)	(11,207)	(11,266)	538	(3,096)
Experience adjustment on scheme's liabilities	(1)	32	(4,184)	(32)	115
As a percentage of scheme's liabilities	0.0%	0.1%	9.7%	0.1%	0.3%
Experience adjustment on scheme's assets	2,320	4,611	(11,031)	(2,366)	459
As a percentage of scheme's assets	5.1%	11.6%	34.5%	5.7%	1.2%

The expense recognised in the income statement was as follows

	UK pensions	
	2010 £000	2009 £000
Current service cost	(506)	(806)
Interest on scheme's liabilities	(2,821)	(2,641)
Expected return on scheme's assets	2,902	2,439
Total expense recognised in income statement	(425)	(1,008)

Statement of comprehensive income (OCI)

	UK pensions	
	2010 £000	2009 £000
Actuarial gain recognised in OCI	1,058	(1,557)
Deferred tax on actuarial amount recognised in OCI	-	-
Cumulative loss recognised in OCI at beginning of year	(16,386)	(14,829)
Cumulative loss recognised in OCI at end of year	(15,328)	(16,386)

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 36 to 43. The charge to the income statement in respect of share-based payments is made up as follows

	2010 £000	2009 £000
Share Option Scheme	695	686
Performance Share Plan	767	500
Employee Share Ownership Plan	767	743
Total expense recognised in income statement	2,229	1,929

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 price 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.

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28 Employee benefits continued

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

	2006 Grant	2007 Grant	2008 Grant	2009 Grant	2010 Grant
Grant date	24th March	26th March	12th March	11th March	26th March
Exercise price	960 Op	1019 6p	959 Op	765 Op	1366 Op
Number of employees	67	67	71	70	75
Shares under option	340,600	337,400	311,700	223,500	290,000
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	20%	25%	25%
Risk-free interest rate	4.4%	5.1%	4.3%	2.5%	3.5%
Expected dividend yield	2.5%	2.5%	3.0%	3.5%	2.5%
Fair value	209.3p	236.8p	211.7p	145.5p	341.7p

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
2000 grant (319.2p)	5,500		(5,500)		
2001 grant (397.7p)	6,500				6,500
2002 grant (436p)	26,500		(23,000)		3,500
2003 grant (394.5p)	60,000		(45,000)		15,000
2004 grant (541.9p)	78,783		(60,000)		18,783
2005 grant (686p)	129,362		(80,400)		48,962
2006 grant (960p)	275,600		(179,494)	(4,000)	92,106
2007 grant (1019.6p)	312,000		(163,730)	(8,400)	139,870
2008 grant (959 Op)	303,100		(3,000)	(7,800)	292,300
2009 grant (765 Op)	222,000		(5,421)	(9,500)	207,079
2010 grant (1366 Op)		290,000		(2,000)	288,000
	1,419,345	290,000	(565,545)	(31,700)	1,112,100
Weighted average exercise price	£8.55	£13.66	£8.20	£9.43	£10.04
Weighted average contractual life remaining					7.3 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.

28 Employee benefits continued

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	2010 Grant
Grant date	26th March	10th September	12th March	11th March	26th March
Mid market share price at grant date	1019 6p	975 0p	959 0p	765 0p	1366 0p
Number of employees	7	1	5	5	5
Shares under scheme	93,200	17,538	131,540	128,146	99,983
Vesting period	3 years	3 years	3 years	3 years	3 years
Probability of vesting	48%	47%	65 4%	69 1%	69 5%
Probability of ceasing employment before vesting	–	–	–	–	–
Fair value	489 4p	458 3p	627 2p	528 6p	949 4p

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c) Employee Share Ownership Plan

UK employees are eligible to participate in the Employee Share Ownership Plan (the Plan). 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, using the Present Economic Value (PEV) valuation methodology. The relevant disclosures in respect of the Employee Share Ownership Plans are set out below.

	2006 Grant	2007 Grant	2008 Grant	2009 Grant	2010 Grant
Grant date	1st October	1st October	1st October	1st October	1st October
Exercise price	923 3p	1019 3p	908 8p	1039 7p	1808 7p
Number of employees	910	946	985	944	955
Shares under scheme	67,380	66,525	80,087	69,788	41,584
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20 0%	20 0%	20 0%	25 0%	25 0%
Risk free interest rate	5 0%	5 2%	3 8%	0 6%	0 6%
Expected dividend yield	2 5%	2 5%	3 0%	3 5%	2 5%
Fair value	982 4p	1086 6p	953 3p	1093 7p	1922 6p

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The accumulation period for the 2010 Plan ends in September 2011, 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.

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.

	2006 Grant	2007 Grant	2008 Grant	2009 Grant	2010 Grant
Grant date	24th March	26th March	12th March	11th March	26th March
Exercise price	960 0p	1019 6p	959 0p	765 0p	1366 0p
Number of employees	2	2	1	1	1
Shares under option	9,500	8,500	3,500	2,500	4,000
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	20%	25%	25%
Risk-free interest rate	4 4%	5 1%	4 3%	2 5%	3 5%
Expected dividend yield	2 5%	2 5%	3 0%	3 5%	2 5%
Fair value	209 3p	236 8p	211 7p	145 5p	341 7p

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28 Employee benefits continued

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
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		(4,200)		1,862
2006 grant (960p)	6,000		(6,000)		
2007 grant (1019 6p)	8,500		(6,369)		2,131
2008 grant (959 0p)	3,500				3,500
2009 grant (765 0p)	2,500				2,500
2010 grant (1366 0p)		4,000			4,000
	118,315	4,000	(108,322)		13,993
Weighted average exercise price	£5 63	£13 66	£5 34		£10 14
Weighted average contractual life remaining					7.4 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	2010 Grant
Grant date	26th March	10th September	12th March	11th March	26th March
Mid market share price at grant date	1019 6p	975 0p	959 0p	765 0p	1366 0p
Number of employees	7	1	5	5	5
Shares under scheme	93,200	17,538	131,540	128,146	99,983
Vesting period	3 years	3 years	3 years	3 years	3 years
Probability of vesting	48%	47%	65.4%	69.1%	69.5%
Probability of ceasing employment before vesting	-	-	-	-	-
Fair value	489 4p	458 3p	627 2p	528 6p	949 4p

29 Analysis of changes in net cash

	The Group			At 31st December 2010 £000
	At 1st January 2010 £000	Cash flow £000	Exchange movement £000	
Current portion of long-term borrowings	(63)			(12,799)
Non-current portion of long-term borrowings	(44,255)			(25,179)
Short-term borrowings	(9,284)			(1,126)
Total borrowings	(53,602)			(39,104)
Comprising				
Borrowings	(53,318)	15,194	(745)	(38,869)
Finance leases	(284)	42	7	(235)
	(53,602)	15,236	(738)	(39,104)
Cash and cash equivalents	62,194	9,525	2,762	74,481
Bank overdrafts	(559)	(446)	20	(985)
Net cash and cash equivalents	61,635	9,079	2,782	73,496
Net cash	8,033	24,315	2,044	34,392

30 Related party transactions

	2010 £000	2009 £000
The Group		
Sales to associated companies	1,164	1,259
Dividends from associated companies	1,779	1,498
Amounts due from associated companies at 31st December	189	237

	2010 £000	2009 £000
Parent Company		
Dividends received from subsidiaries	56,500	49,500
Loans and amounts due from subsidiaries at 31st December	134,413	93,331
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 2010

	Mexico (Based on 100%)			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	1,081	–	1,081	24	–	24	1,105
Intangibles	–	10,645	10,645	–	1,074	1,074	11,719
	1,081	10,645	11,726	24	1,074	1,098	12,824
Current assets							
Inventories	1,042	–	1,042	948	(315)	633	1,675
Trade receivables	1,492	–	1,492	–	–	–	1,492
Other receivables	193	–	193	–	–	–	193
Cash	1,684	–	1,684	–	–	–	1,684
	4,411	–	4,411	948	(315)	633	5,044
Total assets	5,492	10,645	16,137	972	759	1,731	17,868
Current liabilities							
Trade payables	1,136	–	1,136	210	–	210	1,346
Other payables and accruals	237	–	237	–	–	–	237
Total liabilities	1,373	–	1,373	210	–	210	1,583
Total net assets	4,119	10,645	14,764	762	759	1,521	16,285
Goodwill	–	–	6,776	–	–	728	7,504
Total	–	–	21,540	–	–	2,249	23,789

Satisfied by

Cash paid	1,778	2,249	4,027
Deferred consideration	9,207	–	9,207

Accounting adjustments

Associate investment eliminated	2,018	2,018
Gain on revaluation of existing share	8,537	8,537
	21,540	2,249

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

Cash consideration (including deferred consideration on previous years' acquisitions)	5,139
Mexican cash acquired	(1,613)
Net cash outflow	3,526

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31 Purchase of businesses continued

- On 25th May 2010 the Group acquired from its local partners the remaining 51% of Spirax-Sarco Mexicana S A , which was previously 49% owned by the Group and treated as an Associate company in the Group Accounts. The acquisition method of accounting has been used. Consideration of £1,778,000 was paid on completion. Separately identified intangibles for the entire business are recorded as part of the fair value adjustment. Goodwill recognised in the Group Accounts is also based on the business as a whole.
- The acquisition of the distribution rights of Watson-Marlow and Bredel products in Australia and New Zealand was made on 30th June 2010. Inventories, plant and equipment and trade and other payables were also purchased as part of the transaction. The acquisition method of accounting has been used. Consideration of £2,021,000 was paid following completion. Separately identified intangibles are recorded as part of the fair value adjustment.
- The acquisition of the distribution rights of Watson-Marlow and Bredel products in the Rustenburg area of South Africa was made on 30th April 2010. Inventories were also purchased as part of the transaction. The acquisition method of accounting has been used. Consideration of £228,000 was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment.

Had the acquisitions all taken place on 1st January 2010 rather than the actual acquisition dates, the effect on the Group revenue and profit after tax would have been an increase of approximately £3,000,000 and £400,000 respectively.

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

- 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.
- The acquisition of the trade and assets of Inter Valf 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.
- 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 an increase of approximately £8,500,000 and £1,500,000 respectively.

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 £1 million per annum would not usually be considered sufficiently material to warrant forward cover. Forward cover is not taken out more than 12 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:

2009

	The Group			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which 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

2010

	The Group			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	30,909	851	13,248	16,810
US dollar	15,377	–	12,739	2,638
Other	52,372	1,276	11,975	39,121
	98,658	2,127	37,962	58,569

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 2.55% fixed for four years. The interest rate for Korean won financial liabilities is 4.9% fixed for 0.3 years.

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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

2010

	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)	432	111	-	321
	432	111	-	321

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	2010 Carrying value £000	2009 Carrying value £000
Unsecured bank facility	CZK	LIBOR + 0.5%	2012	785	774
Unsecured bank facility	€	-	2010	-	67
Unsecured bank facility	€	1.85%	2011	657	493
Unsecured bank facility	€	LIBOR + 2%	2012	13,248	17,699
Unsecured bank facility	RMB	4.89%	2010	-	3,630
Unsecured bank facility	Won	4.88%	2011	1,126	337
Unsecured bank facility	Won	3.51%	2012	5,065	5,316
Unsecured bank facility	Won	3.64%	2010	-	4,786
Unsecured bank facility	ZAR	PRIME-1.94%	2010	-	3,364
Unsecured bank facility	£	2%	2011	111	-
Unsecured bank facility	\$	0.75%	2011	12,739	12,422
Unsecured bank facility	DKK	5.04%	-	218	-
Unsecured bank facility	Yen	1.47%	2013	5,906	4,989
Finance leases	RMB	-	2011-2016	25	-
Finance leases	€	4.10%	2011-2014	194	255
Finance leases	Roubles	-	2011-2014	15	29
				40,089	54,161

32 Derivatives and other financial instruments continued

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

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

2010

	The Group		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	16,144	2,148	13,996
Other	203,975	58,055	145,920
	220,119	60,203	159,916

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

2010

	The Parent		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	2,000	2,000	-
Other	-	-	-
	2,000	2,000	-

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 0.90% (2009 0.33%)

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 asset of £227,000 (2009 £372,000) and in respect of the US dollar a net monetary asset of £9,185,000 (2009 £2,441,000).

At 31st December the percentage of debt to net assets, excluding debt was 6.5% (2009 22.5%) for the euro and 19.3% (2009 34.6%) for the US dollar.

Notes to the accounts continued

32 Derivatives and other financial instruments continued

Maturity of financial liabilities

The Group's financial liabilities at 31st December mature in the following periods

2009

	The Group					Total £000
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	
In six months or less, or on demand	48,053	559	5,123	9	–	53,744
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	12,422	12,498
In more than two years but no more than three	–	–	–	61	26,623	26,684
In more than three years but no more than four	–	–	–	65	4,989	5,054
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

2010

	The Group					Total £000
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	
In six months or less, or on demand	58,569	985	1,126	26	5,065	65,771
In more than six months but no more than twelve	–	–	–	64	12,739	12,803
In more than one year but no more than two	–	–	–	66	14,033	14,099
In more than two years but no more than three	–	–	–	63	5,906	5,969
In more than three years but no more than four	–	–	–	16	–	16
In more than four years but no more than five	–	–	–	–	–	–
In more than five years	–	–	–	–	–	–
	58,569	985	1,126	235	37,743	98,658

2009

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

2010

	The Parent					Total £000
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	
In six months or less, or on demand	321	111	–	–	–	432
	321	111	–	–	–	432

Cash flow hedge

At 31st December the Group had contracts outstanding to purchase £1,500,000 with South Korean won, £1,260,000 with Japanese yen, €1,200,000 with Swiss CHF, £666,000 with US dollars, £2,663,000 with euros, £591,000 with Danish DKK and £400,000 Polish PLN

32 Derivatives and other financial instruments continued

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	
	2010 £000	2009 £000
Expiring in one year or less	30,605	28,597

	The Parent	
	2010 £000	2009 £000
Expiring in one year or less	19,889	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 £220,000 (2009: £50,000).

At the year-end borrowings totalled £40,089,000 consequently, in respect of financial liabilities, the Group is not significantly at risk from increases in interest rates.

For the year ended 31st December 2010, 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 £1,500,000 (2009: £1,200,000). 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 ageing of trade receivables at the reporting date was

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due date	107,219	(280)	97,447	(271)
0-30 days past due date	15,043	(354)	10,904	(239)
30 days-1 year past due date	19,977	(4,255)	15,434	(4,440)
More than one year	5,229	(5,229)	3,171	(3,171)
	147,468	(10,118)	126,956	(8,121)

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

	2010	2009
Balance at 1st January	8,121	6,083
Movement in impairment	1,997	2,038
Balance at 31st December	10,118	8,121

Financial summary 2001–2010

	2001 £000	2002 £000	2003 £000	2004 £000
Revenue	291,942	296,363	314,087	325,833
Operating profit	40,803	42,674	45,750	51,100
Operating profit (adjusted)	–	–	–	–
Operating profit margin (adjusted)	14.0%	14.4%	14.6%	15.7%
Profit before taxation	38,641	40,693	44,564	50,836
Profit before taxation (adjusted)	–	–	–	–
Profit after taxation	26,625	26,807	29,426	33,682
Dividends in respect of the year	13,752	14,350	15,028	16,102
Net assets	145,115	149,293	163,816	182,013
Earnings per share (basic)	35.3p	35.3p	38.5p	43.4p
Earnings per share (adjusted)	–	–	–	–
Dividends in respect of the year (per share)	18.6p	19.3p	20.1p	21.4p
Special dividend (per share)	–	–	–	–
Return on capital employed	23.6%	25.6%	28.3%	31.0%

* The results for 2004 to 2010 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 adjustments. For details of 2010 and 2009 see note 2.

Return on capital employed is based on adjusted operating profit and average net assets excluding net goodwill and net debt. For 2010 and 2009 see note 25.

Prepared under IFRS*

	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000
Revenue	315,991	349,100	384,249	417,317	502,316	518,705	589,746
Operating profit	47,956	55,170	61,941	68,336	81,028	76,522	121,396
Operating profit (adjusted)	47,956	55,345	62,291	68,720	85,669	89,938	119,125
Operating profit margin (adjusted)	15.2%	15.9%	16.2%	16.5%	17.1%	17.3%	20.2%
Profit before taxation	48,704	56,959	65,344	72,163	85,162	76,415	123,493
Profit before taxation (adjusted)	48,704	57,134	65,694	72,796	90,146	90,196	121,613
Profit after taxation	32,442	38,187	44,066	49,190	59,788	53,091	86,654
Dividends in respect of the year	16,196	18,318	20,038	22,754	25,668	27,569	52,477
Net assets	166,286	198,246	199,722	242,965	296,006	307,364	379,524
Earnings per share (basic)	43.1p	50.0p	57.7p	64.7p	78.0p	69.6p	112.5p
Earnings per share (adjusted)	43.1p	50.2p	58.1p	65.5p	83.4p	82.2p	109.5p
Dividends in respect of the year (per share)	21.4p	23.8p	26.5p	29.9p	33.3p	36.1p	43.0p
Special dividend (per share)	–	–	–	–	–	–	25.0p
Return on capital employed	27.2%	30.4%	32.2%	33.6%	35.5%	33.3%	42.1%

Overview

Business review

Finance review

CSR

Governance

Financial statements

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Lines open 8.30 am to 5.30 pm Monday to Friday

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Solicitors

Herbert Smith LLP
Willans LLP

Important dates

Annual General Meeting	10th May 2011
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Final dividend

Ordinary shares quoted ex-dividend	13th April 2011
Record date for final dividend	15th April 2011
Final dividend payable	18th May 2011

Special final dividend

Ordinary shares quoted ex-dividend	8th June 2011
Record date for special final dividend	10th June 2011
Special final dividend payable	8th July 2011

Spirax Sarco worldwide

Steam specialties

EMEA

Belgium

Spirax-Sarco N V

Czech Republic

Spirax Sarco spol s r o

Denmark

Spirax-Sarco Ltd (Branch)

Finland

Spirax Oy

France

Spirax-Sarco S A S

Germany

Spirax-Sarco GmbH

Hygromatik GmbH

Ireland

Eirdata Environmental Services Ltd

Italy

Spirax-Sarco S r l

M & M International S r l

Colima S r l

Netherlands

Spirax-Sarco Engineering B V

Spirax-Sarco Investments B V

Norway

Spirax-Sarco A S

Poland

Spirax Sarco Sp z o o

Portugal

Spirax Sarco Equip Ind Lda

Russia

Spirax-Sarco Engineering LLC

South Africa

Spirax-Sarco South Africa (Pty) Ltd

Spain

Spirax Sarco S A

Spirax-Sarco Engineering S L

M & M Iberica S L (67%)

Sweden

Spirax-Sarco A B

Switzerland

Spirax-Sarco A G

Turkey

Spirax Inter Valf Sanayi ve Ticaret
Ltd Sirketi

United Kingdom

Spirax-Sarco Ltd

Spirax-Sarco Investments Ltd

Spirax-Sarco Overseas Ltd

Americas

Argentina

Spirax Sarco S A

Brazil

Spirax Sarco Ind e Com Ltda

Canada

Spirax Sarco Canada Ltd

Mexico

Spirax-Sarco Mexicana S A

USA

Spirax Sarco Inc

Sarco International Corp

Asia Pacific

Australia

Spirax-Sarco Pty Ltd

China

Spirax Sarco Engineering (China) Ltd

India

Spirax-Marshall Ltd (49.3%)

Japan

Spirax-Sarco Ltd (Branch)

Malaysia

Spirax-Sarco Sdn Bhd

New Zealand

Spirax Sarco Ltd

Singapore

Spirax-Sarco (Private) Ltd

South Korea

Spirax-Sarco (Korea) Ltd (97.5%)

Taiwan

Spirax Sarco Co Ltd

Thailand

Spirax Sarco (Thailand) Ltd

Watson-Marlow pumps

Australia

Watson-Marlow Pty Ltd

Belgium

Watson-Marlow N V

Brazil

Watson-Marlow Bredel Ind
e Com de Bombas

Denmark

Watson-Marlow Flexicon A/S

France

Watson-Marlow S A S

Germany

Watson-Marlow GmbH

Italy

Watson-Marlow S r l

Mexico

Watson-Marlow S de R l de C V

Netherlands

Bredel Hose Pumps B V

Watson-Marlow Bredel Holdings B V

Watson-Marlow B V

New Zealand

Watson-Marlow Ltd

South Africa

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